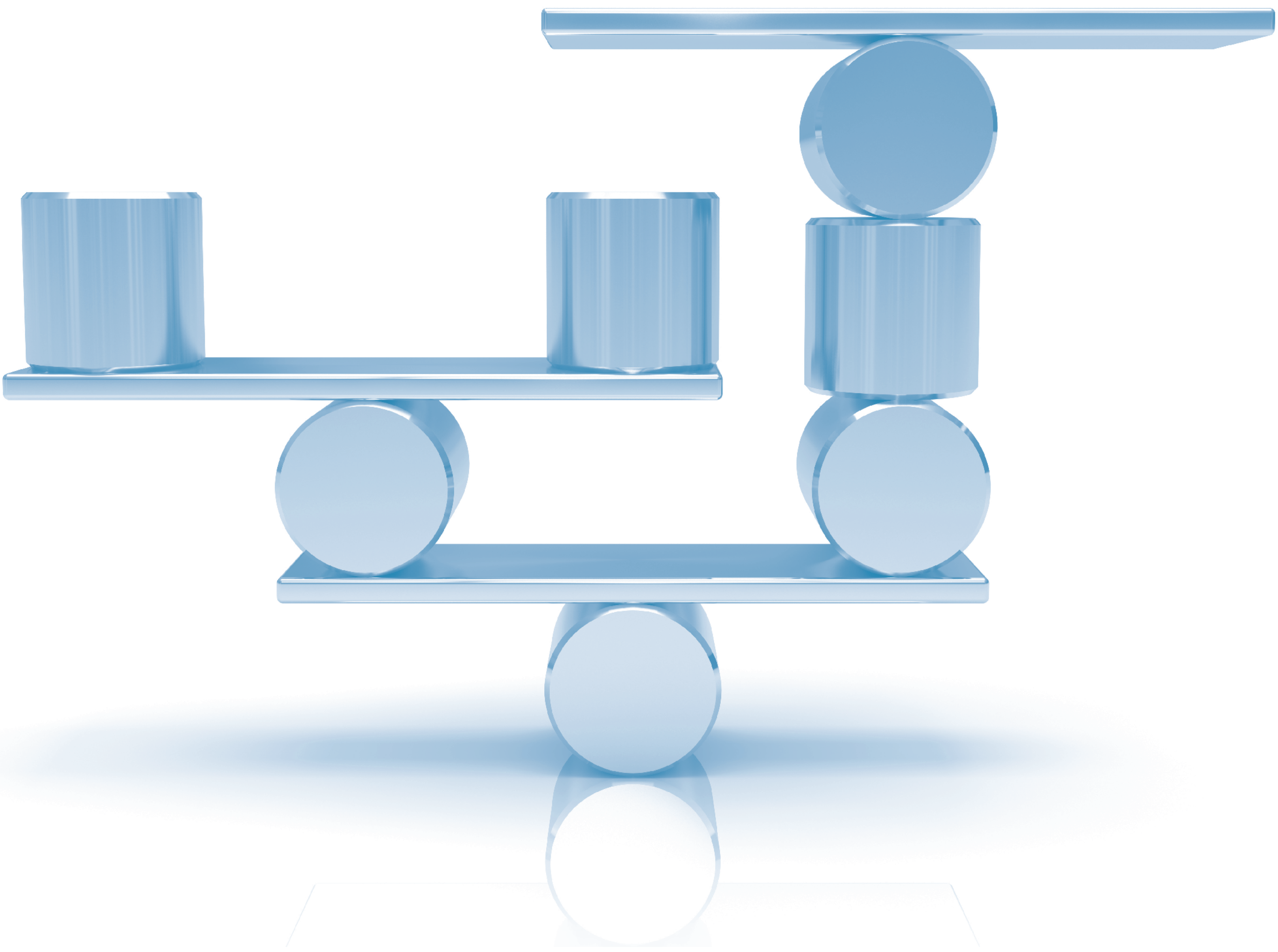
The 2012

EURO PLUS MONITOR

THE ROCKY ROAD TO BALANCED GROWTH



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Policy Brief

The 2012 Euro Plus Monitor: The Rocky Road to Balanced Growth

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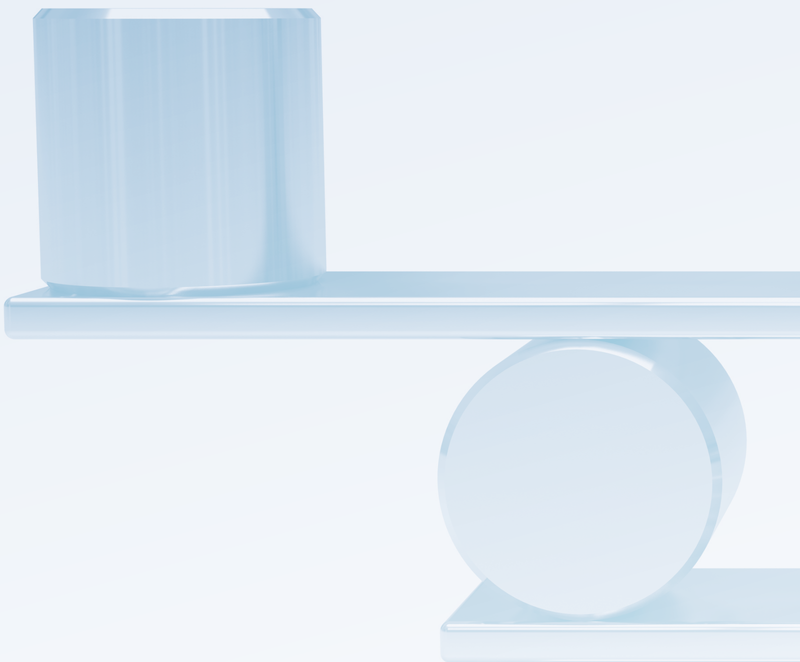

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Table 1: Adjustment Progress Indicator

Rank 2012	Rank 2011	Country	Total Score 2012	Total Score Change	External adj. 2012	External adj. Change	Fiscal adj. 2012	Fiscal adj. Change	Labour Cost Adj. 2012	Labour Cost Adj. Change	Reform drive 2012	Reform drive Change
1	2	Greece	8.2	*1.6*	6.6	*0.2*	8.6	*0.3*	7.7	*2.5*	10.0	-
2	3	Ireland	7.4	*0.9*	8.8	*1.7*	4.5	*0.1*	8.4	*0.5*	7.7	-
3	1	Estonia	6.5	*-1.9*	8.9	*-1.0*	2.4	*-3.2*	8.3	*-1.4*	n.a.	-
4	5	Spain	6.5	*0.8*	7.1	*0.6*	4.2	*-3.3*	5.7	*2.5*	9.0	-
5	7	Portugal	6.5	*1.6*	6.7	*1.6*	6.5	*0.2*	5.7	*2.6*	7.0	-
6	6	Slovakia	5.0	*-0.1*	6.2	*1.2*	4.5	*-1.2*	6.4	*2.0*	2.8	-
7	12	Italy	4.6	*1.3*	3.8	*1.5*	7.2	*2.5*	2.9	*0.0*	4.7	-
8	4	Malta	4.4	*-2.0*	6.4	*-1.5*	2.1	*-2.3*	4.8	*-2.2*	n.a.	-
9	13	Cyprus	4.3	*1.4*	5.5	*1.4*	4.1	*0.7*	3.4	*2.1*	n.a.	-
10	11	Slovenia	4.3	*0.7*	5.8	*1.2*	4.4	*0.8*	2.7	*0.1*	n.a.	-
-	-	Euro 17	4.0	0.7	4.1	1.1	4.3	-0.2	2.6	0.4	4.9	-
11	8	Netherlands	3.6	*-0.4*	4.8	*1.6*	2.8	*-2.3*	2.5	*-1.3*	4.3	-
12	15	France	3.2	*0.7*	2.9	*0.5*	4.3	*0.4*	2.0	*0.8*	3.6	-
13	10	Finland	2.7	*-1.1*	1.0	*0.5*	0.2	*-3.3*	3.6	*-4.0*	6.1	-
14	17	Austria	2.5	*0.4*	2.6	*-0.5*	0.9	*-0.7*	1.8	*0.2*	4.7	-
15	14	Belgium	2.3	*-0.3*	3.0	*0.2*	2.0	*0.4*	1.8	*-1.5*	2.3	-
16	16	Germany	2.0	*-0.2*	3.4	*1.8*	3.6	*-0.1*	1.0	*-0.2*	0.0	-
17	9	Luxembourg	1.6	*-2.4*	1.1	*-2.1*	0.2	*-1.7*	3.7	*-3.1*	1.3	-
(6)		Poland	5.4		4.5		8.3		1.8		6.9	
(9)		United Kingdom	4.4		3.8		4.5		2.6		6.9	
(14)		Sweden	3.5		2.9		3.7		1.7		5.8	

Table 2: Fundamental Health Indicator

Rank 2012	Rank 2011	Country	Total Score 2012	Total Score Change	Growth 2012	Growth Change	Competitiveness 2012	Competitiveness Change	Fiscal sustainability 2012	Fiscal sustainability Change	Resilience 2012	Resilience Change
1	1	Estonia	7.4	*0.1*	6.5	*0.9*	6.6	*0.2*	9.2	*0.0*	7.4	*-0.9*
2	2	Luxembourg	7.2	*-0.1*	6.8	*-0.2*	6.8	*0.4*	9.5	*0.3*	5.5	*-1.0*
3	3	Germany	7.0	*0.1*	6.3	*-0.4*	7.9	*0.0*	6.9	*0.8*	6.8	*0.0*
4	4	Netherlands	6.6	*-0.2*	7.3	*-0.1*	8.0	*-0.2*	5.2	*-0.6*	6.0	*0.2*
5	6	Slovakia	6.5	*0.2*	5.6	*0.4*	6.9	*0.2*	6.3	*-0.4*	7.2	*0.4*
6	5	Slovenia	6.1	*-0.4*	6.0	*-0.2*	5.6	*-1.0*	5.6	*0.0*	7.3	*-0.4*
7	8	Austria	5.9	*0.3*	6.0	*-0.1*	5.8	*0.5*	6.1	*1.1*	5.8	*-0.3*
-	-	Euro 17	5.6	0.1	5.0	0.0	6.1	0.0	5.6	0.1	5.6	0.3
8	7	Finland	5.5	*-0.7*	5.9	*-0.3*	4.3	*-0.2*	6.4	*-0.7*	5.5	*-1.7*
9	9	Belgium	5.5	*-0.1*	5.4	*-0.1*	6.6	*0.0*	4.8	*-0.2*	5.0	*-0.2*
10	11	Malta	5.0	*0.4*	4.1	*-0.1*	6.8	*0.4*	6.0	*0.6*	3.2	*0.8*
11	10	Ireland	4.9	*0.2*	5.5	*0.7*	7.6	*0.7*	3.8	*0.3*	2.7	*-1.0*
12	12	Spain	4.6	*0.1*	3.9	*0.5*	4.7	*0.9*	4.4	*-1.4*	5.3	*0.2*
13	14	Italy	4.5	*0.1*	3.3	*0.1*	3.9	*-0.2*	5.3	*0.5*	5.4	*0.1*
14	13	France	4.5	*0.0*	4.7	*0.0*	4.0	*0.3*	3.9	*-0.2*	5.3	*0.0*
15	15	Portugal	3.9	*0.1*	3.6	*0.4*	5.1	*0.3*	3.7	*-0.1*	3.4	*-0.2*
16	16	Cyprus	3.6	*-0.2*	3.9	*0.1*	2.7	*0.3*	5.6	*-0.6*	2.4	*-0.4*
17	17	Greece	3.6	*0.6*	4.0	*0.0*	3.7	*1.0*	2.8	*0.6*	4.0	*1.0*
(4)		Sweden	7.0		7.2		6.3		7.4		6.9	
(7)		Poland	6.4		5.9		6.9		6.1		6.7	
(12)		United Kingdom	5.1		5.4		6.5		3.8		4.9	

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 The 2011 Euro Plus Monitor. Based on the scores, we calculate the relative ranking of each country, with the No. 1 rank to the eurozone member with the highest and the No. 17 rank to the one with the lowest score. To allow an easy comparison with the results from last year, this ranking refers to the 17 euro members, as it did last year. For the three non-euro countries, which we only added this year, Poland, Sweden and the United Kingdom, we give in brackets their ranking among the expanded sample of 20 countries (euro 17 plus the three non-euro members). On page 75, we add tables showing a complete ranking from No. 1 to No. 20 for all 20 countries in our expanded sample. The rankings in the country pages starting after page 77 also refer to the 1-20 ranking for the full sample.

I. Key Findings

Is Europe on the right track – or heading for disaster? While the eurozone economy is sliding into a deepening recession, the European Central Bank has managed to calm markets somewhat. Is this just a brief respite, or is the eurozone using the time which the ECB has bought to address its fundamental problems and lay the groundwork for a return to balanced growth?

In **The 2012 Euro Plus Monitor**, produced by Berenberg Bank and the Lisbon Council, we answer these questions from two different angles. First, we ask whether the economies surveyed are rising to the challenge of the immediate 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 it has recently reformed itself deeply.

The 2012 Euro Plus Monitor is the second edition of this annual survey. In 2011, we confined the exercise to the 17 members of the eurozone, analysing their relative performance vis-à-vis one another. In 2012, we have taken a broader approach, adding three key non-eurozone economies – **Poland, Sweden** and the **United Kingdom** – to our comparison. In the expanded sample of 20 countries, Sweden, Poland and the UK would rank No. 4, No. 7 and No. 12 out of 20, respectively, on the key measure of fundamental economic health – and No. 14, No. 6 and No. 9 out of 20, respectively, on the Adjustment Progress Indicator.[1] See Tables 1 and 2 on page 4.

A year ago, we found "progress amid the turmoil", as the sub-title of The 2011 Euro Plus Monitor suggested.[2] Under the pressure of extreme market turbulence, the countries hit hardest by the euro crisis had started seriously to correct their imbalances. This time, we find that the eurozone has advanced significantly further on the rocky road to balanced growth in the future. However, this underlying structural progress is largely obscured by the recession – and it remains uneven and subject to serious risks.

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1. Throughout The 2012 Euro Plus Monitor, all rankings for euro members will refer to the eurozone-17 rankings, summarised in Tables 1 and 2 on page 4, unless otherwise specified. All rankings for the three non-euro members will refer to rankings out of the expanded sample of 20. See Tables 27 and 28 on page 75 for rankings of 1 to 20 for all 20 countries within the expanded sample.
2. 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).

‘The eurozone is turning into a much more balanced and potentially more dynamic economy.’

Chart 1: Twenty European Countries Ranked by the Adjustment Progress Indicator

Source: Berenberg calculations

This year, the main conclusions are:

1. The **eurozone** as a whole is turning into a much more balanced and potentially more dynamic economy. Almost all countries in need of adjustment – the ones with low rankings in the Fundamental Health Indicator – are slashing their underlying fiscal deficits and improving their external competitiveness at an impressive speed, as shown by their relatively high rankings in the Adjustment Progress Indicator. See Tables 1 and 2 on page 4 and Chart 1 above for a more detailed summary.

2. All of the four eurozone countries that have been granted external assistance – **Greece, Ireland, Portugal** and **Spain** – have strengthened their adjustment efforts over the last 12 months. As a result, all four have moved up in the adjustment progress ranking since 2011. Greece now ranks

‘Countries with serious fundamental health problems are changing their ways rapidly.’

No. 1 on adjustment progress (having come in at No. 2 last year, behind Estonia). Ireland rose to No. 2, up from No. 3 last year. Portugal rose to No. 5 (up from No. 7), and Spain to No. 4, up from No. 5 (see Table 1 on page 4). In other words, under the pressure of crisis, the countries that need to shape up fast are doing so. The results reveal no trace of a "moral hazard," that is of a hypothetical risk that outside support could blunt the readiness to adjust.

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

4. To overcome the euro crisis, the eurozone needs to return to growth. In August 2012, the ECB finally took the most important step. As we and some other observers had already proposed one year earlier, the ECB moved to cap sovereign yield spreads for fiscally compliant euro members. This has started to improve financing conditions for households and companies at the euro periphery, allowing the ECB's monetary policy to actually reach these parts of the eurozone. But Europe must do more. Specifically, it should 1) end the constant concerns about an imminent Greek disaster and the contagion caused by these concerns by providing a clear vision for keeping Greece in the euro, 2) avoid any overdose of austerity [No country should be asked to tighten policy even more in response to fiscal shortfalls caused by recession], and 3) shift the policy focus decisively away from extra austerity to pro-growth structural reforms. For example, the fiscal problems in **France** are a mere reflection of the fact that, because of its heavy labour market regulation and its excessive tax burden, France is not utilising its potential well. To improve its fiscal outlook, France urgently needs supply-side reforms, not a compression of demand through even higher taxes.

5. Under adverse cyclical circumstances, the eurozone as a whole has slightly improved its overall health during the last year, lifting its aggregate score in our Fundamental Health Indicator to 5.6, up from 5.5 last year, on a scale of 0 to 10 (see Table 2 on page 4). More importantly, the quickening pace of adjustment at the euro periphery has raised the aggregate score for the region in our Adjustment Progress Indicator substantially to 4.0, up from 3.2. As in 2011, the aggregate score is held back by countries such as **Austria, Finland, Germany** and the **Netherlands** which have only a limited need to adjust and have indeed done very little to further improve their outlook.

6. By and large, we find major rebalancing within the eurozone: almost all countries with serious fundamental health problems are changing their ways rapidly, achieving good results in our Adjustment Progress Indicator. Conversely, most comparatively healthy economies with above-average results in the Fundamental Health Indicator are doing very little to further enhance their fiscal position or their external competitiveness. They thus attain very low results in our Adjustment Progress Indicator.

‘For the sake of Spain and Portugal, Europe urgently needs to learn the lesson.’

Europe is converging, in other words. And the result, should the process continue as it is unfolding now, will be a healthier, better-balanced economy with stronger economic fundamentals.

7. The serious recession into which heavy, front-loaded austerity and some policy mistakes have pushed major parts of the eurozone obscures the underlying fundamental progress. With the possible exception of **Greece**, all eurozone crisis countries are either close to the point where they have achieved the major adjustment (**Ireland** and **Italy**) or are likely to get there over the course of 2013 (**Portugal** and **Spain**). In the absence of additional policy mistakes, the euro crisis could thus fade somewhat in 2013. But as the success of frontloaded fiscal adjustment depends on the opportunity to raise exports amid depressed domestic demand, the eurozone remains hostage to the global business cycle.

8. In 2011, we warned that an overdose of austerity could push **Greece** into a death spiral and urged policymakers to refocus the debate about Greece away from imposing ever more short-term austerity towards enforcing long-term pro-growth reforms. While the debate has indeed shifted somewhat towards much needed labour-market and other reforms, harsh additional austerity programmes – combined with the insufficient speed of structural reforms and escalating uncertainty about the future of Greece within the euro – have contributed to a further collapse in Greek gross domestic product. As a result of this prolonged economic depression, the exceptional progress which Greece has made in slashing its structural fiscal deficit as well as its unit labour costs has not prevented an additional dramatic surge in Greece’s debt-to-GDP ratio. For the sake of Spain and Portugal, Europe urgently needs to learn the lesson that fiscal shortfalls caused by an unexpectedly deep recession need to be tolerated and should not trigger further rounds of austerity. We address these issues in a special box on lessons of the crisis, which begins on page 68.

9. In The 2011 Euro Plus Monitor, we concluded that “alarm bells should be ringing for **France**.” Since then, the government and president have changed, but not much else. Today, France ranks No. 14 out of 17 euro members on overall economic health, slightly behind **Spain** (No. 12) and **Italy** (No. 13) in our Fundamental Health Indicator. In terms of adjustment progress, France finds itself at No. 12, well behind Italy (No. 7) and far behind Spain (No. 4). France remains the only major European economy which is beset by serious health problems and has yet to do anything about it. Arguably, the higher taxes which France imposed on its most entrepreneurial citizens in summer 2012 are exactly the wrong way to improve the long-term economic and fiscal outlook for a country that takes the “Leviathan award” for the most bloated share of public spending in GDP in this survey and suffers from a pronounced lack of competitiveness (see the chapters on competitiveness and fiscal sustainability which begin on pages 40 and 49 for more). With the recent initiative to shift the tax burden somewhat away from payroll taxes and onto consumption taxes, it remains to be seen if France is really changing tack and responding adequately to the immense challenges it faces. See Case Study: France on page 73 for more.

‘Hardly any country has overall results closer to the eurozone average than the UK.’

10. One of our key results carries a grave warning: most of the eurozone members who slashed their structural fiscal deficits aggressively in 2012 did not improve their rankings for **fiscal sustainability**. In the case of **Spain**, this is partly because European Commission (and IMF) estimates of the overall adjustment needed have gone up. But in other cases including Portugal and Greece, the rapid progress in reducing the structural primary deficit has been offset by a rise in the debt-to-GDP ratio caused by a drop in the GDP. To some extent, this is temporary. Once austerity eases, a snap-back of the temporarily repressed domestic demand will likely raise GDP and hence reduce the debt-to-GDP ratio nicely.

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

12. Judging by the tone of its domestic debate, the **UK** sees itself as a place apart, different and aloof from the crisis-stricken eurozone. The results presented here do not back up this view. Instead, hardly any other country in the survey has overall results that are closer to the eurozone average than the non-euro UK. In terms of fundamental economic health, the UK scores 5.1, somewhat below the eurozone average of 5.6 on a scale of 10 (best possible) to 0 (worst). As befits a country with above-average health problems, the UK earns a score for its current adjustment efforts of 4.4, somewhat above the eurozone average of 4.0. Britain’s major problem stems from the precarious state of its public finances. In terms of fiscal sustainability, only **Greece** and **Portugal** do worse than the UK among the countries surveyed in this study. While its macroeconomics are highly questionable, Britain gets top marks for its microeconomics, notably for its growth-friendly rules for its product, services and labour markets. See Case Study: United Kingdom on page 71 for more.

13. After one year of Mario Monti, **Italy** has started to move up in the ranking, rising to No. 13, up from No. 14 last year, in the Fundamental Health Indicator, and to No. 7, up from No. 12, in the Adjustment Progress Indicator. Italy has improved its external balance and increased its underlying primary fiscal surplus. Italy still suffers from a high share of government spending in GDP and excessive market regulations. However, many of the Monti reforms are too recent to show up fully in the Euro Plus Monitor rankings yet. One of the key reasons why Italy is still only slightly ahead of the eurozone average – and far behind **Greece**, **Ireland**, **Portugal** and **Spain** – in our Adjustment Progress Indicator is probably that Italy fell into a crisis only last Autumn whereas the other peripheral countries had been forced to start reforming themselves much earlier.

‘Despite a series of harsh austerity programmes, Spain’s fiscal position has deteriorated.’

Chart 2: Spanish Net Exports

Net exports of goods and services, % of GDP

Source: Eurostat

14. For the most part, **Spain** is adjusting well. Helped by strong gains in exports and subdued imports, it has shifted its external balance to a small net export surplus in 2Q 2012, up from a deficit of more than 10% of GDP in 2008 (see Chart 2 above). It has also slashed its unit labour costs, partly through the relentless shedding of its least productive workers, especially in the low-productivity construction sector. But despite a series of harsh austerity programmes, Spain’s fiscal position has deteriorated. Because of a surging debt-to-GDP ratio, estimates of how much Spain will have to tighten in the future have crept up. With a much less desperate starting position and a much more competitive economy, Spain is very different from Greece. But if Spain reacts to further fiscal shortfalls caused by a deepening recession with additional austerity, markets might still worry that Spain could fall victim to a Greek-style downward spiral. Avoiding this is one of the key tasks for 2013 for all policymakers dealing with the euro crisis. See the box on the lessons of the crisis on page 68 for a more detailed discussion.

15. Sweden comes across as one of the strongest economies in Europe, in many respects quite similar to Germany. In terms of fundamental health, Sweden ranks No. 4, almost on par with **Germany** (No. 3) and just below **Luxembourg** (No. 2) and **Estonia** (No. 1) in a full ranking

‘Serious structural adjustments can happen within the confines of the monetary union.’

of all 20 countries in our expanded sample. As Sweden has little need to reform itself, its score for recent adjustment progress of 3.5 is somewhat below the eurozone average of 4.0. But Sweden is not as complacent as Germany and **France**, which attain even lower adjustment scores of 2.0 and 3.2, respectively.

16. All in all, **Poland** is doing well. It shines as one of the few countries in the survey with scores well above average for both its fundamental health and its recent adjustment progress. Within the enlarged sample of 20 countries, Poland achieves a No. 6 rank on our Adjustment Progress Indicator and a No. 7 rank on the Fundamental Health Indicator.

17. In 2011, we identified **Cyprus** as a “potential problem” with a dismal result for its overall economic health (ranking No. 16, just ahead of **Greece**) and a very poor No. 13 ranking for its adjustment progress. Since then, Cyprus has failed to improve its fundamental health, staying at No. 16 with a slightly reduced score caused by mounting fiscal problems. But as people in the country have finally started to tighten their collective belts, Cyprus has surged in our ranking for recent adjustment progress to No. 9, up from No. 13, driven by a correction in labour costs and significant gains in net exports. **Slovenia** – which some reports say could soon be a candidate for outside support – has also moved up in our adjustment ranking, to No. 10, up from No. 11.

18. The 2012 Euro Plus Monitor shows that external imbalances are diminishing and that wage pressures are converging rapidly within the eurozone. Real unit labour costs are falling sharply in **Greece, Ireland, Portugal** and **Spain**. Conversely, wage moderation has ended in **Germany**. More than anything else, this shows that serious structural adjustments can happen – and are happening – within the confines of the monetary union. This result, which we had already emphasised in The 2011 Euro Plus Monitor, is seen even more clearly in the 2012 report. Although the euro and its governance structure still need to be improved further, they already provide an important framework in which countries can successfully reform themselves.

II. Adjustment Progress Indicator

II.1 Overall Results

The euro confidence crisis has forced a brutal front-loaded adjustment on the economies at the southern and western periphery of the eurozone. To correct past excesses in public and private spending, governments and households need to consume less relative to what they produce and earn. In economic statistics, this should show up in three major ways: 1) a reduced fiscal deficit at home, 2) a rise in exports relative to imports in the external accounts, and 3) a correction in real unit labour costs forced by the crisis and the fiscal squeeze.

The Adjustment Progress Indicator (Table 1 on page 4) tracks the progress countries are making on the most important short- to medium-term adjustment criteria. To calculate this, we focus on three measures of adjustment: 1) a reduction (or increase) in the fiscal deficit, adjusted for interest payments and cyclical factors, 2) the rise (or fall) in exports relative to imports in the external accounts, and 3) changes in unit labour costs relative to other eurozone members. Those three adjustment criteria measure changes that are almost immediately visible in hard economic data.

In The 2012 Euro Plus Monitor, we update the results we presented a year ago. In addition, we now include a fourth criterion, which looks at whether countries are implementing the structural reforms needed to raise their long-term growth potential.[3] Whereas fiscal tightening affects economic statistics almost instantaneously – repressing domestic demand and thus steering resources towards export-oriented activities – structural reforms often work with a significant time lag. They may not show up in hard economic data for a year or two after they have been implemented, but they are a crucial element of the repair process.

Once we have calculated these four sub-indicators for each country on a scale of 0 (worst) to 10 (best), we 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 eurozone member with the highest and the No. 17 rank to the eurozone member with the lowest score. To allow an easy comparison with the results from last year, the ranking refers to the 17 eurozone members. The three EU countries that are not members of the eurozone, which we added this year, are not part of this ranking. However, we show their relative positions separately in a complete ranking for all 20 countries on page 75.

3. OECD, *Economic Policy Reforms: Going for Growth 2012* (Paris: OECD, 2012).

‘Countries in need of support work hard to make sure that they deserve it.’

A good score on the Adjustment Progress Indicator shows that countries are changing rapidly and getting results in the key areas that their fiscal repair and structural reforms are meant to address.

Greece (No. 1) comes out on top, followed by **Ireland** (No. 2), **Estonia** (No. 3), **Spain** (No. 4) and **Portugal** (No. 5), with the scores for the latter three being very close to each other and well above **Slovakia** (No. 6). The four peripheral countries that have received some support from European facilities (bilateral loans, EFSF or ESM credits) often topped up by the IMF, are all among the top five performers in the adjustment ranking. This flatly contradicts the occasional assertion that such support could tempt the recipients to slow down their adjustment. We find no trace of such “moral hazard.” Indeed, the opposite is true: countries in need of support are working hard to make sure that they deserve such support and can get back onto their own feet again fast.

A low score on the Adjustment Progress Indicator can mean two different things. It can show that countries are not adjusting because they simply do not want to. This seems to be the case in **France** (No. 12). But it can also signal that some countries do not adjust much because they do not need to. This is the case with **Luxembourg** (No. 17), **Germany** (No. 16), **Austria** (No. 14) and the **Netherlands** (No. 11). These countries score well in the separate Fundamental Health Indicator, where **Luxembourg**, **Germany** and the **Netherlands** take the No. 2, No. 3 and No. 4 slots, respectively, with **Austria** on No. 7. This indicator will be discussed in the next section.

An above-average result in the overall health ranking indicates that these countries can afford a relatively relaxed fiscal stance, an above-average rise in real unit labour costs and a faster rise in imports than exports. They also have a less pronounced need for immediate structural reforms than countries with lower scores. Low German and Dutch scores for recent adjustment progress are part of the convergence within the eurozone towards best practice. These countries do not need to adjust much. For **France**, however, its low ranking (No. 12) in the Adjustment Progress Indicator is not offset by a similarly high performance in Fundamental Health Indicator (where it ranks No. 14). Unlike **Germany** and the **Netherlands**, **France** looks rather shaky on its long-term fundamentals. In **France**, the lack of major adjustment progress is a genuine concern.

Comparing our results now with those of last year strengthens the key conclusion even further: the countries hit hardest by the eurozone confidence crisis are adjusting most rapidly. All four crisis countries – **Greece, Ireland, Spain** and **Portugal** – had been among the top seven last year already, with ranks of No. 2, No. 3, No. 5 and No. 7, respectively. This year, all four of them have improved their scores and ranks noticeably.

‘Estonia has completed a remarkable turn-around from its own wrenching crisis.’

Conversely, our top adjustment performer from The 2011 Euro Plus Monitor, **Estonia**, has fallen back to No. 3. Having completed a remarkable turnaround from its own wrenching crisis of 2008-2009, the Baltic champion has now allowed itself some modest fiscal slippage and a slight rebound in labour costs.

Of the three non-euro countries which we included this year, the **United Kingdom** and **Poland** show adjustment efforts that are above the eurozone average while **Sweden** lags behind. In a full ranking of all 20 countries in our expanded sample, the **United Kingdom** would attain rank No. 9, **Poland** would be No. 6 and Sweden No. 14 (see Table 27 on page 75 for the expanded ranking). These results fit into the general pattern observed for the eurozone. The non-euro country with the best overall fundamentals among the three, Sweden, has the least need to adjust and is not showing much adjustment progress whereas the one with the least-flattering overall fundamentals, the UK, is adjusting faster than the other two.

However, the comparatively favourable **UK** score for adjustment progress largely reflects an excellent result in one of the four sub-indicators: according to the OECD, the UK is implementing structural reforms rather diligently. Within the sample, only **Greece**, **Ireland**, **Portugal** and **Spain** get better results for this sub-indicator. If we took only the three other sub-indicators, which do not look at policy changes but at actual results visible in economic statistics, the UK would slip to No. 12, down from No. 7. With a score of 3.6, that would put the UK roughly on par with the eurozone average score of 3.7 in this category.

The **UK** is the only country whose relative position in the overall adjustment ranking is affected significantly by our inclusion of the readiness to implement structural reforms as the fourth sub-indicator. For the other countries, the reform drive is highly correlated with the actual economic changes as measured in the fiscal, external and labour costs statistics.

‘The adjustment after the party should show up most visibly in the external accounts.’

II.2 External Adjustment

If a country has lived beyond its means, the adjustment after the party should show up most visibly in its external accounts. To assess the situation and track progress, we examine two different aspects of external adjustment, namely 1) the shift in the balance of exports and imports (net exports), and 2) the rise in the share of exports in a country’s GDP. On top of looking at the absolute shifts, we also assess them relative to the starting position of each country as measured by the share of exports in GDP in the second half of 2007.

Table 3: External Adjustment (2009-2012)

Rank					Growth								Rise in Export Ratio % of GDP		
							Relative to GDP			Relative to starting level					
2012	2011	Country	Score	*Change*	Score	*Change*	Value	Score	*Change*	Value	Score	*Change*	Value	Score	*Change*
1	1	Estonia	8.9	*-1.0*	8.3	*-1.5*	19.1	9.1	*-0.6*	23.5	7.5	*-2.3*	29.1	10.0	*0.0*
2	3	Ireland	8.8	*1.7*	8.4	*1.3*	21.2	9.7	*2.2*	20.9	7.0	*0.5*	16.0	9.6	*0.9*
3	4	Spain	7.1	*0.6*	8.3	*1.0*	10.8	6.5	*1.1*	35.2	10.0	*0.9*	3.9	4.8	*0.9*
4	6	Portugal	6.7	*1.6*	7.4	*1.9*	10.2	6.3	*1.7*	27.8	8.5	*2.1*	5.2	5.3	*1.5*
5	5	Greece	6.6	*0.2*	8.1	*0.5*	9.6	6.1	*1.0*	39.9	10.0	*0.0*	1.4	3.7	*1.0*
6	2	Malta	6.4	*-1.5*	5.3	*-2.2*	9.3	6.0	*-1.8*	9.0	4.5	*-2.6*	13.5	8.6	*1.5*
7	7	Slovakia	6.2	*1.2*	5.9	*1.2*	11.4	6.7	*1.8*	11.7	5.0	*0.5*	9.3	6.9	*2.8*
8	8	Slovenia	5.8	*1.2*	5.9	*1.0*	10.4	6.4	*1.5*	13.9	5.5	*0.5*	6.0	5.6	*2.0*
9	9	Cyprus	5.5	*1.4*	7.2	*3.1*	12.4	7.0	*3.1*	23.1	7.5	*3.1*	-3.2	1.9	*1.7*
10	12	Netherlands	4.8	*1.6*	3.4	*0.4*	2.0	3.7	*0.7*	2.4	3.1	*0.1*	10.9	7.6	*2.0*
-	-	Euro 17	4.1	*1.1*	3.8	*0.8*	2.4	3.9	*0.9*	5.3	3.7	*0.8*	3.5	4.6	*1.0*
11	15	Italy	3.8	*1.5*	4.0	*1.7*	2.2	3.8	*1.2*	7.3	4.1	*2.2*	0.5	3.4	*1.0*
12	16	Germany	3.4	*1.8*	2.6	*0.4*	-0.6	2.9	*0.5*	-1.1	2.3	*0.2*	4.5	5.0	*0.8*
13	13	Belgium	3.0	*0.2*	2.7	*-0.1*	-0.3	3.0	*0.1*	-0.4	2.5	*-0.4*	1.1	3.6	*0.1*
14	14	France	2.9	*0.5*	2.6	*0.0*	-0.5	3.0	*0.2*	-1.7	2.2	*-0.2*	0.9	3.6	*0.5*
15	11	Austria	2.6	*-0.5*	2.7	*-0.3*	-0.4	3.0	*0.0*	-0.6	2.4	*-0.6*	-1.7	2.5	*0.2*
16	10	Luxembourg	1.1	*-2.1*	0.7	*-2.4*	-10.1	0.0	*-3.2*	-5.4	1.4	*-1.6*	-2.9	2.0	*-3.0*
17	17	Finland	1.0	*0.5*	1.0	*0.4*	-5.2	1.5	*0.4*	-10.1	0.4	*0.4*	-5.3	1.1	*0.8*
(11)		Poland	4.5		4.8		4.6	4.6		11.8	5.1		1.6	3.8	
(13)		United Kingdom	3.8		3.7		1.7	3.7		5.7	3.8		1.7	3.9	
(16)		Sweden	2.9		2.8		-0.2	3.1		-0.3	2.5		0.0	3.2	

Ranks, scores and score changes for external adjustment indicator and sub-indicators. Values: (1) Q2 2012 over H2 2007 change of net exports as % of GDP, (2) as % of the starting level and (3) rise in the export ratio in percentage points of GDP. Like last year, the ranks for the 17 euro members give their relative position among these 17 countries. The ranks in brackets for the three non-euro members show their relative position in a ranking of 1 to 20 for the extended sample. For further explanations see notes under Table 2 on page 4.

'It is still not good enough, but the direction is clear: Italy is rising to the challenge.'

The overall results of our analysis reveal a clear pattern. All economies that were running excessive external deficits until 2007 (or 2009) have turned their external balance around convincingly. **Estonia** (No. 1) maintains the top spot, followed by **Ireland** (No. 2, up from No. 3), **Spain** (No. 3, up from No. 4), **Portugal** (No. 4, up from No. 6) and **Greece** (No. 5 again). **Italy**, which came under market pressure only in mid-2011, has also started to shape up, rising to No. 11, up from a dismal No. 15 a year ago. This is still not good enough, but the direction is clear: Italy is rising to the challenge.

All of the smaller economies that were importing much more than they could afford until 2007 (or 2009) have turned their external balance around convincingly. **Ireland** managed the most impressive shift to its net exports by a total of 21.2% of its GDP from 2H 2007 to Q2 2012 followed by **Estonia** (19.1%), **Cyprus** (12.4%), **Slovakia** (11.4%), **Spain** (10.8%), **Slovenia** (10.4%), **Portugal** (10.2%) and **Greece** (9.6%). At the other end of the spectrum, the net export balance has deteriorated in many core European economies, notably **Luxembourg** (-10.1%), **Finland** (-5.2%), **Germany** (-0.6%), **France** (-0.5%), **Austria** (-0.4%) and **Belgium** (-0.3%). See the column "Change in Net Exports Relative to GDP, Value" in Table 3 on page 15.

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 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.

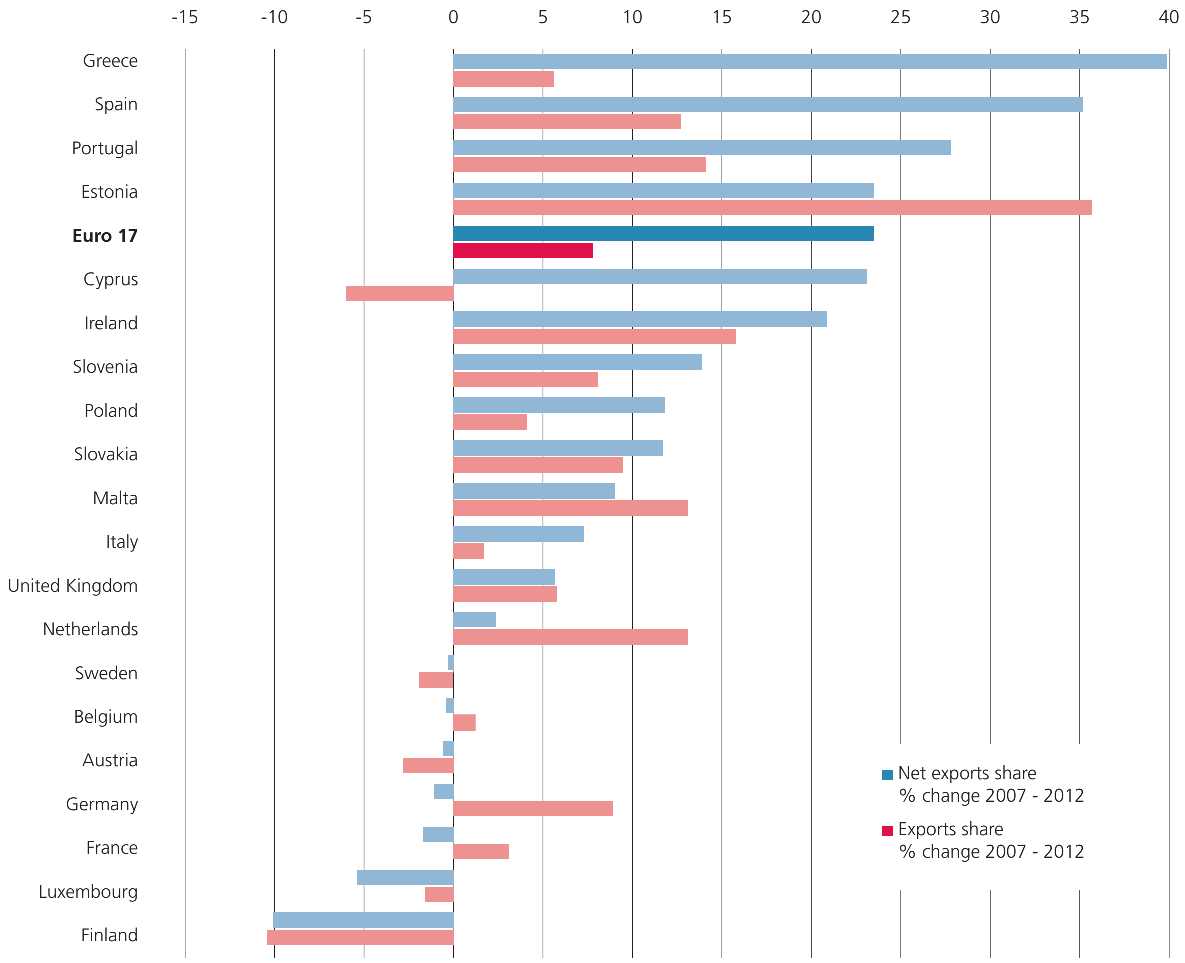
To some extent, the results are similar: **Estonia** and **Ireland** stay close to the top and **Germany** close to the bottom of the list, confirming a major rebalancing, with Estonia and Ireland moving from deficit to surplus and Germany reducing its external surplus in a meaningful way. But the big news is that, adjusted for their comparatively low starting level, three of the eurozone crisis economies, namely **Greece**, **Portugal** and **Spain**, have achieved even more impressive shifts than Estonia (see Chart 3 on page 17).

A closer look at the drivers of adjustment reveals a dark side to the external adjustment story: in some countries, the net export position improved largely through a collapse in imports and less through an actual rise in exports (see the column on "Rise in Export Ratio" in Table 3 on page 15). The prime example is **Greece** which achieved the bulk of its estimated 9.6% turnaround in net exports through a fall in its import ratio, with the export ratio rising only by an estimated 1.4% of its GDP. **Spain** and **Portugal** fared much better, raising their export ratio by the equivalent of 3.9% and 5.2% of GDP, respectively. This once again shows that, for the

‘All economies that were running excessive external deficits have turned around convincingly.’

Chart 3: Rapid External Adjustment

Change of exports/net exports Q2 2012 to H2 2007, as % of H2 2007 export ratio



Source: Eurostat, Berenberg calculations

‘In terms of external adjustment, Sweden and the UK lag behind the eurozone average.’

comparatively closed and inflexible Greek economy, the adjustment is more painful than for other countries. Of course, a negative image effect hitting tourism especially in Athens as well as pervasive uncertainty hampering investment into export-oriented activities may also help to explain why Greek export gains are lagging behind those of other crisis countries.

But relative to last year, all crisis countries managed to boost their export ratio. Taking **Greece, Ireland, Portugal** and **Spain** together, they raised their export ratio from a combined average of 38.8% in 2H 2007 to 41.9% in 2Q 2011 and 44.0% in 2Q 2012. More than anything else, this shows the rapid pace of external adjustment over the last few quarters.

On the opposite side of the spectrum, **Austria, Cyprus, Finland** and **Luxembourg** have not yet recouped the post-Lehman drop in their export ratios. The result are also very mediocre for **France** and **Italy** which managed to boost the ratio of exports in GDP by a mere 0.7 and 0.5 percentage points, respectively, since the second half of 2007. Combining our findings from the shift in net exports and the rise in the export ratio into one ranking yields the results as presented above and shown in Table 3 on page 15. **Estonia** (No. 1) is still the star performer in terms of the overall external adjustment, as it was last year, followed by **Ireland** (No. 2), **Spain** (No. 3), **Portugal** (No. 4) and **Greece** (No. 5). However, comparing the countries currently suffering from the euro confidence crisis to Estonia can be misleading. Estonia started its own wrenching adjustment much earlier. In Estonia, imports also fell sharply in the first phase of the crisis (by 41% over two years) before recovering equally rapidly thereafter. The initial import adjustment for Estonia was merely the prelude to a major export boom. Going forward, we expect stronger exports rather than a fall in imports to dominate the further improvement in the net export positions of the euro crisis countries.

In terms of the overall external adjustment, **Sweden** and the **UK** lag behind the eurozone average while **Poland’s** score of 4.5 is slightly ahead of the eurozone average of 4.1 (see Table 3 on page 15).

‘Greece has undergone the most wrenching fiscal squeeze.’

II.3 Fiscal Adjustment

Shifts in the fiscal policy stance usually show up clearly in the underlying primary balance of the general government accounts. To avoid distortion, we use data that adjust the actual fiscal balance for the impact of the short-term business cycle, interest payments and some one-off factors. Taking the changes in 2010, 2011 and the latest European Commission estimates for the likely result for 2012

Table 4: Fiscal Adjustment (2009-2012)

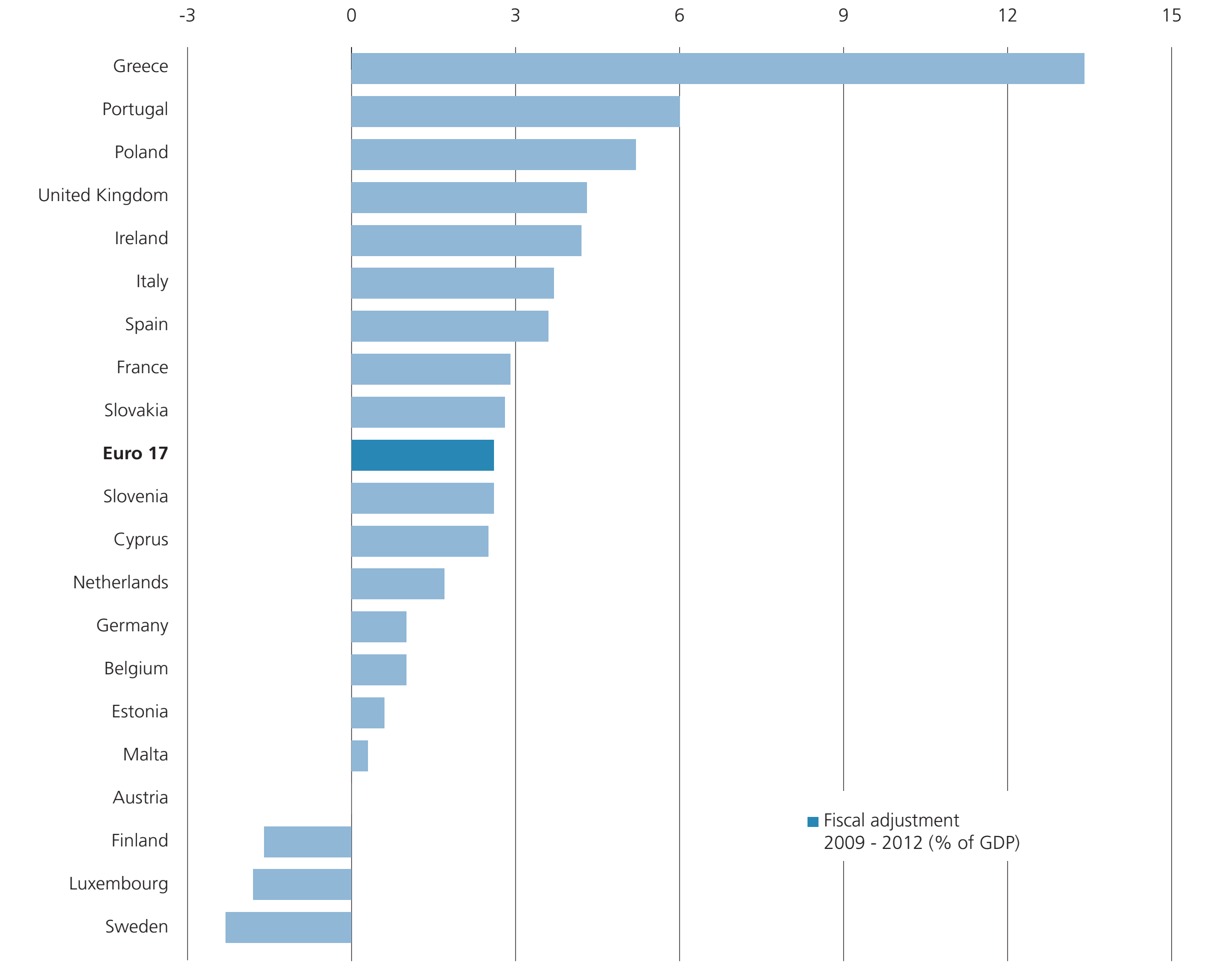
Rank					in % of GDP			% of required shift		
2012	2011	Country	Score	*Change*	Value	Score	*Change*	Value	Score	*Change*
1	1	Greece	8.6	*0.3*	13.4	10.0	*0.3*	53.4	7.1	*0.4*
2	7	Italy	7.2	*2.5*	3.7	5.2	*2.0*	68.5	9.1	*2.9*
3	3	Portugal	6.5	*0.2*	6.0	7.3	*0.9*	43.5	5.8	*n.a.*
4	8	Ireland	4.5	*0.1*	4.2	5.6	*1.6*	25.6	3.4	*-1.5*
5	4	Slovakia	4.5	*-1.2*	2.8	4.4	*-0.2*	34.6	4.6	*-2.3*
6	12	Slovenia	4.4	*0.8*	2.6	4.2	*1.2*	34.7	4.6	*0.3*
7	10	France	4.3	*0.4*	2.9	4.5	*0.7*	31.5	4.2	*0.1*
-	-	Euro 17	4.3	*-0.2*	2.6	4.2	*1.0*	33.3	4.4	*-1.4*
8	2	Spain	4.2	*-3.3*	3.6	5.1	*-1.3*	24.8	3.3	*-5.2*
9	14	Cyprus	4.1	*0.7*	2.5	4.1	*1.0*	n.a.	n.a.	*n.a.*
10	11	Germany	3.6	*-0.1*	1.0	2.7	*1.7*	33.3	4.4	*-2.0*
11	6	Netherlands	2.8	*-2.3*	1.7	3.4	*0.5*	16.8	2.2	*-5.0*
12	5	Estonia	2.4	*-3.2*	0.6	2.4	*1.2*	n.a.	n.a.	*n.a.*
13	9	Malta	2.1	*-2.3*	0.3	2.1	*0.0*	n.a.	n.a.	*n.a.*
14	16	Belgium	2.0	*0.4*	1.0	2.7	*0.3*	9.8	1.3	*0.6*
15	17	Austria	0.9	*-0.7*	0.0	1.8	*0.2*	0.0	0.0	*-1.5*
16	15	Luxembourg	0.2	*-1.7*	-1.8	0.2	*-0.7*	n.a.	n.a.	*n.a.*
17	13	Finland	0.2	*-3.3*	-1.6	0.4	*-1.6*	0.0	0.0	*-5.0*
(2)		Poland	8.3		5.2	6.5		76.5	10.0	
(5)		United Kingdom	4.5		4.3	5.7		25.0	3.3	
(12)		Sweden	3.7		-2.3	0.0		56.1	7.5	

Ranks, scores and score changes for Fiscal Adjustment Indicator and sub-indicators. Values: (1) 2009-2012 change in structural primary balance in % of GDP and (2) as a share of the required fiscal shift, adjusted for age-related spending. Like last year, the ranks for the 17 euro members give their relative position among these 17 countries. The ranks in brackets for the three non-euro members show their relative position in a ranking of 1 to 20 for the extended sample. For further explanations see notes under Table 2 on page 4.

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

Chart 4: Fiscal Adjustment 2009-2012

Cumulative change in underlying primary fiscal balance 2012 over 2009, in % of annual GDP



Source: European Commission, European Economy, Autumn 2012, Berenberg calculations

‘Finland, Luxembourg and Sweden have granted themselves a fiscal stimulus.’

together, we find major progress in many countries in two key areas:[4]

- The countries most in need of reining in their excessive deficits have made serious progress, with **Greece** well ahead of **Portugal, Poland, the United Kingdom**, **Ireland**, **Italy** and **Spain** (see Chart 4 on page 20).
- A number of countries with a fairly comfortable fiscal starting position, including **Austria**, **Estonia** and **Germany**, have hardly changed their fiscal stance over these three years while **Finland, Luxembourg** and **Sweden** have even granted themselves a fiscal stimulus.

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 deficit for the eurozone as a whole declined by 2.6% of GDP over this period, rising to a surplus of 0.9% of GDP from a deficit of 1.7%.

Looking at individual results, **Greece** (No. 1) has undergone the most wrenching fiscal squeeze, with an improvement in the underlying primary deficit by 13.4% of its GDP within three years (see Chart 4 on page 20), followed by **Portugal** with a significantly less harsh 6.0%, **Ireland** with 4.2% and **Spain** with 3.6%. No wonder Greece has fallen into a deep depression while Ireland has managed to stabilise its economy.

Of course, the size of the fiscal squeeze tells only half the story. We have to relate it to the actual adjustment need. For this, we use a slightly different calculation this year. The International Monetary Fund has estimated how much countries have to shift their underlying primary balance between 2011 and 2020 to get to a deficit-to-GDP ratio of 60% by 2030, also adding an adjustment for age-related spending.[5] We take these numbers – including their underlying assumptions – and add two features, namely the actual adjustment progress in 2011 over 2009 and the European Commission’s November 2012 estimates of the additional progress in 2012. We then relate the overall required shift in stance between 2009 and 2020 to get to a 60% debt-to-GDP ratio in 2030 to what has already been achieved from 2009 to 2012.

4. European Commission, *European Economic Forecast: Autumn 2012, European Economy 7/2012* (Brussels: European Commission, 2012).
5. International Monetary Fund, *Fiscal Monitor October 2012* (Washington DC: IMF, 2012). These estimates are subject to change, they also deviate somewhat from those of the European Commission which we use in other parts of our fiscal analysis. But the EU and IMF estimates of how much countries are shifting their cyclically adjusted primary balances tend to be similar. Updating the IMF estimates for the 2011-2020 adjustment need by European Commission estimates of actual adjustment progress in 2012 is thus unlikely to invalidate the major conclusions.

‘The efforts of the Monti government pay off. Italy’s fiscal challenge is two-thirds addressed.’

On this measure, **Italy** has made the most progress in the eurozone, as shown in the column on “Fiscal Adjustment in % of Required Shift” in Table 4 on page 19 shows. The efforts of the Monti government in the last 12 months paid off. The relatively limited fiscal challenge is two-thirds addressed. Recent and previous reforms have also put Italy’s pension system on a solid base. **Greece** scores pretty well, ahead of **Portugal**. Both have tightened fiscal policy dramatically but also have a much bigger adjustment need. **Austria** and **Finland** have not addressed their sustainability gaps yet. However, the challenges are too small for that to be a major worry yet.

We combine both fiscal adjustment measures, namely the estimated total shift in 2010-2012 in absolute terms, and the adjustment so far relative to the total adjustment need until 2020, for our overall fiscal score: In the resulting relative ranking for the 17 euro members, **Greece** (No. 1) comes top, followed by **Italy** (No. 2), **Portugal** (No. 3), and **Ireland** (No. 4). See Table 4 on page 19.

The mediocre ranking for **Germany** (No. 10) needs to be seen in context: Germany has not gone through a lot of tightening since 2009, but its sustainability gap is hardly worrying. For **France** (No. 7), the average fiscal adjustment is a greater concern because the country has an above-average need to adjust.

Comparing the 2012 results to 2011 reveals one alarming feature: some countries’ fiscal challenge increased despite serious austerity. **Spain** has tightened its fiscal stance aggressively in 2012, by 2.2% of its GDP, but it has slipped in our ranking to No. 8, down from No. 2. This partly reflects the fact that some other countries, such as **Italy** (at No. 2, up from No. 7), **Ireland** (at No. 4, up from No. 8), **Slovenia** (No. 6, up from 12) and **France** (No. 7, up from 10) have moved ahead. But another factor also plays a major role: for Spain, the estimate of the required adjustment need until 2020 has surged substantially despite the harsh fiscal repair. Lower GDP and the de-facto transfer of bank debt onto the books of the government have raised the estimates of the required adjustment need until 2020 substantially. This more than offsets the actual progress made in 2012. As the Greek example has shown, an overzealous fiscal adjustment can push a country into a debt trap in which the collapse of GDP caused by austerity more than offsets the impact of fiscal repair on the debt-to-GDP ratio.

'Wage pressures are converging rapidly within the eurozone.'

II.4 Swing in Labour Cost Dynamics

Labour costs are a very imperfect gauge of competitiveness. The ultimate yardstick of competitiveness is whether or not a company or country can profitably sell its wares. But as other factors such as changes in product quality, brand value, consumer tastes and in the mix of goods and services offered by a company or a country are often longer-term processes, changes in nominal and real unit labour costs do provide insights into the near-term adjustment dynamics of a country. This holds

Table 5: Labour Cost Adjustment

Rank					Relative Unit Labour Costs (2009-2012)			Relative Unit Labour Costs (Shift from 2000-2009			Nominal Unit Labour Costs (2009-2012)			Nominal Unit Labour Costs (shift from 2000-2009		
2012	2011	Country	Score	*Change*	Value	Score	*Change*	Value	Score	*Change*	Value	Score	*Change*	Value	Score	*Change*
1	2	Ireland	8.4	*0.5*	-9.9	8.3	*1.8*	23.8	9.9	*0.6*	-10.3	9.0	-	25.3	6.5	-
2	1	Estonia	8.3	*-1.4*	-9.7	8.1	*-1.4*	21.6	9.2	*-0.8*	-3.5	6.0	-	68.8	10.0	-
3	6	Greece	7.7	*2.5*	-12.0	10.0	*5.2*	10.1	5.5	*0.0*	-10.5	9.1	-	22.5	6.1	-
4	7	Slovakia	6.4	*2.0*	-6.9	5.8	*1.3*	6.5	4.3	*0.1*	-2.3	5.5	-	72.0	10.0	-
5	10	Portugal	5.7	*2.6*	-7.9	6.7	*3.2*	6.6	4.4	*1.6*	-6.1	7.1	-	13.3	4.8	-
6	11	Spain	5.7	*2.5*	-7.4	6.2	*1.5*	4.1	3.6	*2.1*	-6.0	7.1	-	20.2	5.7	-
7	4	Malta	4.8	*-2.2*	-6.7	5.6	*-2.8*	11.2	5.9	*0.4*	1.0	4.0	-	6.4	3.8	-
8	5	Lux.	3.7	*-3.1*	-5.5	4.6	*-4.8*	10.2	5.6	*1.3*	8.9	0.5	-	9.3	4.2	-
9	3	Finland	3.6	*-4.0*	-2.5	2.2	*-4.8*	11.6	6.0	*-2.1*	3.7	2.8	-	2.9	3.3	-
10	15	Cyprus	3.4	*2.1*	-4.2	3.6	*2.2*	1.0	2.6	*1.3*	2.0	3.6	-	6.9	3.8	-
11	12	Italy	2.9	*0.0*	-0.4	0.5	*-1.2*	4.0	3.5	*-0.5*	2.7	3.3	-	9.1	4.2	-
12	13	Slovenia	2.7	*0.1*	0.0	0.1	*-2.2*	0.0	2.2	*-0.6*	1.0	4.0	-	10.2	4.3	-
-	-	Euro 17	2.6	*0.4*	-1.8	1.6	*-0.8*	0.0	2.3	*0.2*	1.5	3.8	-	0.0	2.9	-
13	8	Neth.	2.5	*-1.3*	-0.8	0.8	*-3.1*	1.7	2.8	*-0.9*	3.0	3.1	-	2.9	3.3	-
14	16	France	2.0	*0.8*	-0.2	0.3	*-0.3*	0.8	2.5	*0.5*	3.9	2.7	-	-1.1	2.7	-
15	14	Austria	1.8	*0.2*	-1.9	1.7	*-0.4*	-2.4	1.5	*0.4*	4.0	2.7	-	-10.0	1.4	-
16	9	Belgium	1.8	*-1.5*	-0.5	0.5	*-2.6*	0.5	2.4	*-1.0*	5.8	1.9	-	-2.7	2.5	-
17	17	Germany	1.0	*-0.2*	0.1	0.0	*-1.8*	-5.8	0.4	*-0.1*	3.1	3.1	-	-17.0	0.4	-
(13)		United Kingdom	2.6		-1.5	1.4		2.6	3.1		-1.2	5.0		-14.6	0.8	
(18)		Poland	1.8		-3.2	2.8		-12.7	0.0		1.8	3.7		-15.0	0.7	
(19)		Sweden	1.7		-3.8	3.2		1.1	2.6		7.9	0.9		-28.0	0.0	

Ranks, scores and score changes for Labour Cost Adjustment Indicator and sub-indicators. Values: (1) 2009-2012 cumulative change in real unit labour costs, in %; (2) shift in cumulative real unit labour cost change between periods 2000-2009 and 2009-2012, relative to the Eurozone, in %; (3) 2009-2012 cumulative change in euro nominal unit labour costs, 2007-2012 for non-eurozone countries, in %; (4) shift in cumulative euro nominal unit labour cost change between periods 2000-2009 and 2009-2012, relative to the eurozone, 2000-2007 to 2007-2012 for non-eurozone countries, in % . Like last year, the ranks for the 17 euro members give their relative position among these 17 countries. The ranks in brackets for the three non-euro members show their relative position in a ranking of 1 to 20 for the extended sample. For further explanations see notes under Table 2 on page 4.

‘Ireland and Estonia had to undergo some of the most wrenching adjustment.’

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 much changes in nominal and real unit labour costs are deviating from the eurozone average. We conduct our analysis in three steps. First, we calculate the cumulative change in real unit labour costs between 2009 and 2012 and rank countries according to their deviation from the eurozone average, awarding the highest ranking to the country with the biggest relative fall. Second, we relate this to what happened in the 2000-2009 period, awarding the highest ranking 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 ranking by combining these components.

Unsurprisingly, **Ireland** (No. 1) and **Estonia** (No. 2) – two small open and highly flexible economies which had granted themselves by far the highest rise in nominal and real unit labour costs on the back of a credit-fuelled boom in the years 2000 to 2009 – also had to undergo some of the most wrenching adjustment thereafter. Note that Ireland and Estonia swapped places this time as Estonia has successfully concluded its adjustment process and started to relax the reins somewhat. However, high Irish unemployment is still putting serious adjustment pressure on the workers of the Emerald Isle.

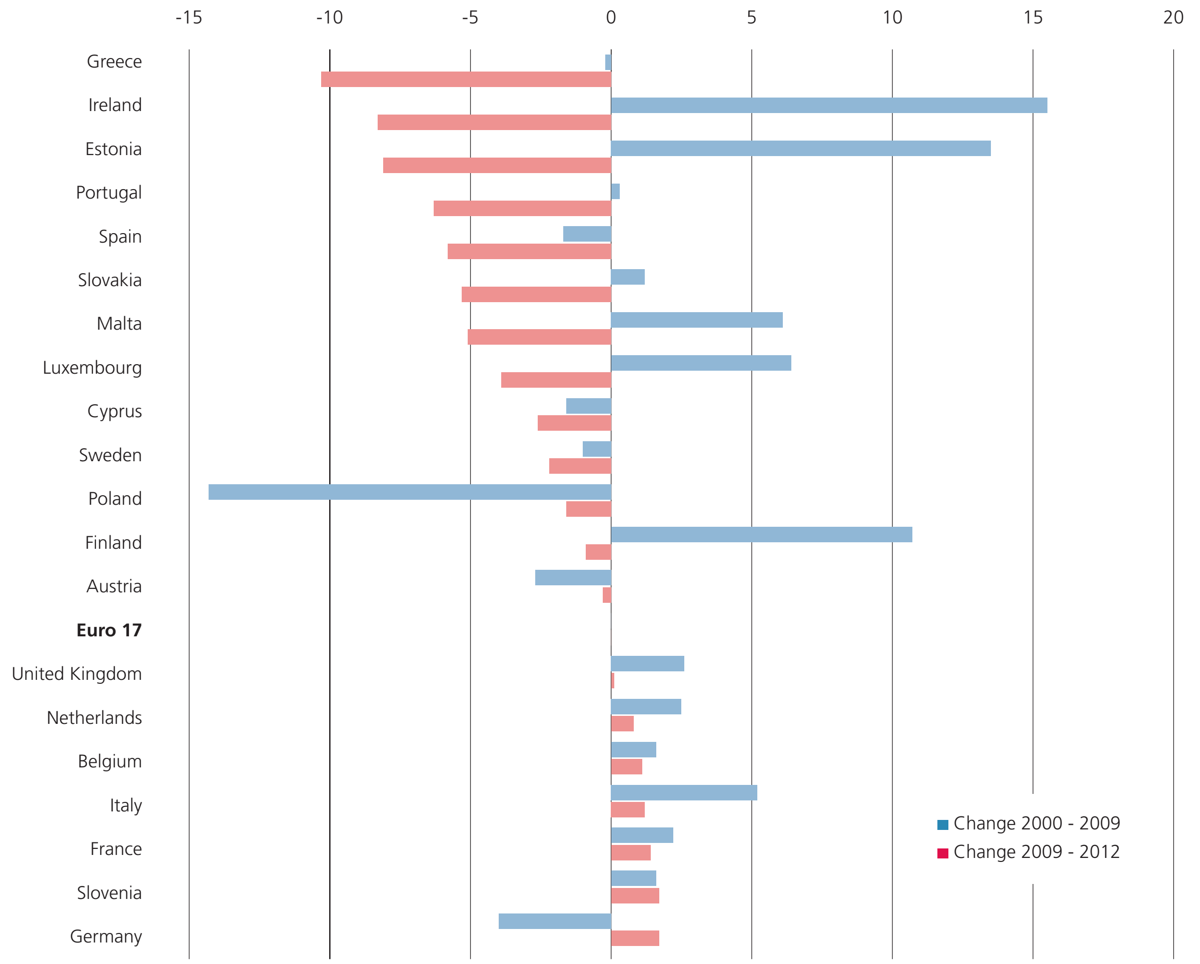
The changes since November 2011, when The 2011 Euro Plus Monitor was published, are even more startling for other euro crisis countries: **Greece** surges to No. 3, up from No. 6. **Spain** rises to No. 6, up from No. 11; and **Portugal** moves to No. 5, up from No. 10 in the ranking for the 17 euro members.

Looking at the absolute changes in real unit labour costs in the three years leading up to 2012 (see the column on “Real Unit Labour Costs 2009-2012, Cumulative in %” in Table 5 on page 23), workers in **Greece** have endured the most pain (-12.0%), followed by **Ireland** (-9.9%), **Estonia** (-9.7%), **Portugal** (-7.9%) and **Spain** (-7.4%). The only country with a cumulative rise in its real unit labour costs is **Germany** (0.1%).

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

Chart 5: Labour Costs – the Great Convergence - Real Unit Labour Cost Adjustment 2009-2012

Cumulative deviation of change in real unit labour cost from Eurozone average, 2012 over 2009 vs. 2009 over 2000, in %



Source: Eurostat, Berenberg calculations

‘Wage moderation has ended in Germany and Austria.’

Overall, three results stand out:

1. Wage pressures are converging rapidly within the eurozone: most of the euro members with excessive wage increases until 2009 are now going through a big correction (see Chart 5 on page 25).[6]
2. Whereas wage moderation has ended in **Germany** and **Austria**, it has taken hold with a vengeance across the euro periphery.
3. Among the less open economies which did not have a private-sector credit bubble beforehand, **Greece** has endured the most pronounced decline in real unit labour costs.

A comparison of the 2012 results with The 2011 Euro Plus Monitor shows the extent to which plunging domestic demand and surging unemployment have depressed wage costs in crisis countries on the euro periphery, with a clear acceleration of the process over the last 12 months. In **Greece**, the cumulative fall in real unit labour costs by 12% within the last three years is far above the 4.0% drop we had recorded in November 2011 for the first two years of adjustment. The same holds for **Spain** and **Portugal** where we now record cumulative three-year drops in real unit labour costs by 7.4% and 7.9% after much smaller declines of 3.9% and 2.9%, respectively, for the first two years. Incorporating Poland, Sweden and the UK into our analysis poses a challenge. Cross-country comparisons of nominal labour costs which are part of our analysis are affected heavily by exchange rate moves. The Swedish krona and British sterling first devalued sharply after Lehman, only to recover some ground since 2009 (UK) or even appreciate (Sweden). 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 abstracted from exchange rates, we would miss the changes in competitiveness which come about though the exchange rate.

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

Nonetheless, all three non-euro members score poorly in terms of labour cost adjustment, with notional ranks of No. 13 for the **UK**, No. 18 for **Poland** and No. 19 for **Sweden** in a full ranking of 1 to 20 in the expanded sample of 20 countries. See Table 27 on page 75.

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

III. Fundamental Health Indicator

III.1 Overall Results

The rankings in the Fundamental Health Indicator help explain why some countries have fallen victim to the eurozone confidence crisis while others have not. But our primary purpose is to focus on longer-term issues that will shape the economic outlook for European economies well beyond the current crisis.

To assess the fundamental health of European countries and their potential vulnerability to serious financial contagion, we look at four underlying 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. We then bring the four sub-indicators together in one overall score and give the countries a ranking relative to other eurozone members.

The four pillars of our analysis largely overlap with the four goals of the Euro Plus Pact: 1) to foster employment, 2) foster competitiveness, 3) contribute

Table 6: Fundamental Health Overview

Rank		Country	Total Score		Growth		Competitiveness		Fiscal sustainability		Resilience	
2012	2011		2012	*Change*	2012	*Change*	2012	*Change*	2012	*Change*	2012	*Change*
1	1	Estonia	7.4	*0.1*	6.5	*0.9*	6.6	*0.2*	9.2	*0.0*	7.4	*-0.9*
2	2	Luxembourg	7.2	*-0.1*	6.8	*-0.2*	6.8	*0.4*	9.5	*0.3*	5.5	*-1.0*
3	3	Germany	7.0	*0.1*	6.3	*-0.4*	7.9	*0.0*	6.9	*0.8*	6.8	*0.0*
4	4	Netherlands	6.6	*-0.2*	7.3	*-0.1*	8.0	*-0.2*	5.2	*-0.6*	6.0	*0.2*
5	6	Slovakia	6.5	*0.2*	5.6	*0.4*	6.9	*0.2*	6.3	*-0.4*	7.2	*0.4*
6	5	Slovenia	6.1	*-0.4*	6.0	*-0.2*	5.6	*-1.0*	5.6	*0.0*	7.3	*-0.4*
7	8	Austria	5.9	*0.3*	6.0	*-0.1*	5.8	*0.5*	6.1	*1.1*	5.8	*-0.3*
-	-	Euro 17	5.6	*0.1*	5.0	*0.0*	6.1	*0.0*	5.6	*0.1*	5.6	*0.3*
8	7	Finland	5.5	*-0.7*	5.9	*-0.3*	4.3	*-0.2*	6.4	*-0.7*	5.5	*-1.7*
9	9	Belgium	5.5	*-0.1*	5.4	*-0.1*	6.6	*0.0*	4.8	*-0.2*	5.0	*-0.2*
10	11	Malta	5.0	*0.4*	4.1	*-0.1*	6.8	*0.4*	6.0	*0.6*	3.2	*0.8*
11	10	Ireland	4.9	*0.2*	5.5	*0.7*	7.6	*0.7*	3.8	*0.3*	2.7	*-1.0*
12	12	Spain	4.6	*0.1*	3.9	*0.5*	4.7	*0.9*	4.4	*-1.4*	5.3	*0.2*
13	14	Italy	4.5	*0.1*	3.3	*0.1*	3.9	*-0.2*	5.3	*0.5*	5.4	*0.1*
14	13	France	4.5	*0.0*	4.7	*0.0*	4.0	*0.3*	3.9	*-0.2*	5.3	*0.0*
15	15	Portugal	3.9	*0.1*	3.6	*0.4*	5.1	*0.3*	3.7	*-0.1*	3.4	*-0.2*
16	16	Cyprus	3.6	*-0.2*	3.9	*0.1*	2.7	*0.3*	5.6	*-0.6*	2.4	*-0.4*
17	17	Greece	3.6	*0.6*	4.0	*0.0*	3.7	*1.0*	2.8	*0.6*	4.0	*1.0*
(4)		Sweden	7.0		7.2		6.3		7.4		6.9	
(7)		Poland	6.4		5.9		6.9		6.1		6.7	
(12)		United Kingdom	5.1		5.4		6.5		3.8		4.9	

Ranks, scores and score changes for the Fundamental Health Indicator and sub-indicators. Like last year, the ranks for the 17 euro members give their relative position among these 17 countries. The ranks in brackets for the three non-euro members show their relative position in a ranking of 1 to 20 for the extended sample. For further explanations see notes under Table 2 on page 4.

‘The current speed of reform and the depth of the recession have profoundly affected fundamental characteristics.’

further to the sustainability of public finances and 4) reinforce financial stability.[8] The guiding ideas of the Pact make fundamental sense. More importantly, many eurozone members are making great strides towards putting them into practice.

The past year has been one of considerable upheaval, but also considerable reforms. While fundamentals normally do not change drastically from one year to another, the current speed of reform and the depth of recession in parts of the currency area have profoundly affected the fundamental characteristics of some eurozone economies.

The recent changes enter The 2012 Euro Plus Monitor’s calculations in two ways: (1) **Updated data**: We have updated the data, mostly to include 2011 data where last year we only had 2010 data. Usually, this means extending 2002-2010 by one year to 2002-2011. The effect on the scores is usually relatively small. (2) **Better data**: In a few cases, better data has become available, which can change scores more substantially. In the following chapters, we will describe the ranking changes that result.

The overall ranking for fundamental health, however, has hardly moved. In fact, with the exception of four place swaps, it remains exactly the same as last year:

- **Estonia** (No.1) and **Luxembourg** (No. 2) top the list. Due to better growth figures, Estonia increases the distance between the two leading minnows somewhat. Both countries improve their competitiveness further, but lost a bit in resilience – Estonia because of a deteriorating current account and Luxembourg because of rising private sector debt.

- At the bottom of the ranking, **Greece** (No. 17) and **Portugal** (No. 15) lift their scores slightly, while **Cyprus** (No. 16) got more embroiled in crisis this year and shed a few tenths of a point.

- Among the large eurozone countries, **Germany** (No. 3) defends its position ahead of the **Netherlands** (No. 4) thanks to another fiscal improvement. The other three heavyweights remain in the bottom half of the table. **Spain** (No. 12) is ahead of **Italy** (No. 13) and **France** (No. 14), which swapped places. Spain’s export gains reflect improved competitiveness, while Italy has made headway in fiscal adjustment. France stagnated in its election year. What had been apparent in last year’s ranking is even more accentuated this year: the French position within the eurozone looks set to deteriorate further if it continues to delay necessary reforms.

- **Slovakia** (No. 5) and **Slovenia** (No. 6) swap places. As do **Austria** (No. 7) and **Finland** (No. 8). Their fundamental situations remain broadly healthy.

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

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

III.2 Long-Term Growth Potential

Growth does not cure all economic and financial ills. But it helps. To gauge the fundamental health of eurozone members and assess how vulnerable they are to future financial crises, we look at four major factors that shape the long-term ability of an economy to expand: 1) recent trend growth, 2) human resources, 3) the labour market, and 4) the propensity to save rather than consume. Once we have measured and analysed countries based on their performance in each of these four sub-sub-indicators, we award them an overall score and ranking for Long-Term Growth Potential.

This year, we update the database with 2011 data. However, due to the nature of the data in this category, the update yields only limited change.

Table 7: Growth Potential

Rank		Country	Total Score		Recent growth		Human Capital		Employment		Consumption	
2012	2011		2012	*Change*	2012	*Change*	2012	*Change*	2012	*Change*	2012	*Change*
1	1	Netherlands	7.3	*-0.1*	6.8	*-0.7*	6.8	*0.0*	8.1	*0.1*	7.6	*0.1*
2	2	Luxembourg	6.8	*-0.2*	6.4	*-0.8*	4.3	*0.0*	6.6	*-0.2*	10.0	*0.0*
3	7	Estonia	6.5	*0.9*	7.5	*0.6*	4.5	*-0.1*	4.9	*2.5*	8.9	*0.5*
4	3	Germany	6.3	*-0.4*	7.1	*-0.5*	4.2	*0.0*	7.1	*-0.9*	6.7	*-0.1*
5	4	Slovenia	6.0	*-0.2*	7.7	*0.0*	4.0	*0.1*	6.6	*0.0*	5.8	*-0.8*
6	6	Austria	6.0	*-0.1*	5.8	*-0.6*	2.7	*0.1*	8.0	*-0.2*	7.3	*0.1*
7	5	Finland	5.9	*-0.3*	5.3	*-1.3*	8.0	*0.0*	6.2	*0.2*	4.0	*-0.1*
8	9	Slovakia	5.6	*0.4*	9.9	*0.5*	2.4	*0.0*	2.7	*0.3*	7.5	*0.7*
9	10	Ireland	5.5	*0.7*	4.3	*-1.0*	6.1	*0.0*	4.9	*2.8*	6.5	*1.2*
10	8	Belgium	5.4	*-0.1*	3.6	*-0.5*	6.8	*0.0*	5.2	*0.1*	6.2	*-0.1*
-	-	Euro 17	5.0	*0.0*	4.0	*-0.5*	4.7	*0.1*	5.6	*0.2*	5.6	*0.1*
11	11	France	4.7	*0.0*	2.9	*-0.4*	6.1	*0.1*	5.3	*0.2*	4.6	*0.2*
12	12	Malta	4.1	*-0.1*	n.a.	*0.0*	2.4	*-0.1*	5.1	*-0.3*	5.0	*0.2*
13	13	Greece	4.0	*0.0*	5.9	*-0.6*	3.0	*-0.1*	4.0	*0.5*	3.0	*0.1*
14	14	Cyprus	3.9	*0.1*	2.6	*0.4*	2.4	*-0.4*	7.3	*0.4*	3.2	*0.0*
15	15	Spain	3.9	*0.5*	2.3	*0.0*	3.7	*-0.1*	4.2	*2.0*	5.1	*-0.1*
16	17	Portugal	3.6	*0.4*	2.3	*0.1*	4.5	*0.1*	4.7	*0.7*	2.9	*0.8*
17	16	Italy	3.3	*0.1*	0.8	*0.3*	3.8	*0.0*	4.3	*0.4*	4.3	*-0.1*
(2)		Sweden	7.2		7.6		7.2		6.6		7.5	
(8)		Poland	5.9		9.8		2.9		3.9		7.2	
(13)		United Kingdom	5.4		5.0		6.2		6.6		3.8	

Ranks, scores and score changes from last year for the Growth Potential Indicator and sub-indicators. Like last year, the ranks for the 17 euro members give their relative position among these 17 countries. The ranks in brackets for the three non-euro members show their relative position in a ranking of 1 to 20 for the extended sample. For further explanations see notes under Table 2 on page 4.

‘The actual disappointment [with France] is in the human-capital category.’

- The **Netherlands** (No. 1) and **Luxembourg** (No. 2) defend their top positions.

- **Estonia** (No. 3) records the biggest jump, improving in almost all subcategories. Reaping the fruits of its quick and harsh dealing with its 2007 financial crisis, Estonia advances beyond **Germany**, which hence falls back to position No. 4, down from No. 3 last year.

- **Spain** (No. 15), **Portugal** (No. 16) and **Italy** (No. 17) stay at the bottom of the pile in our ranking for the 17 euro members. All three improve their scores slightly, with Portugal and **Ireland** (No. 9) getting some credit for their lower consumption ratios. But as Italy makes smaller gains than the other two, it falls back one spot to No. 17, down from No. 16, swapping places with Portugal.

- **Slovakia** (No. 8) gains a few tenths of a point due to improvements across the board.

- For the remaining countries, scores are broadly unchanged. **Belgium** (No. 10) scores just above the eurozone average, **France** (No. 11) just below. France scores weakly on recent growth and consumption, but the actual disappointment is in the human-capital category, where France could score much better given its high fertility rate.

- The three non-eurozone countries brought into the survey this year do relatively well. In a full ranking of 1 to 20 in the expanded sample of the eurozone plus three, **Sweden** (No. 2) scores well across the board and trails the **Netherlands**. **Poland** (No. 8) trails only **Slovakia** in recent growth, but still has catch-up to do in terms of human capital and employment. The **UK** (No. 13 out of 20) is almost the mirror-image of Poland with weaker growth and consumption data but above-average human capital and employment performance.

III.2.a Recent Trend Growth

Table 8: Recent Growth

Rank 2012	Rank 2011	Country	Score	*Change*
1	1	Slovakia	9.9	*0.5*
2	2	Slovenia	7.7	*0.0*
3	6	Estonia	7.5	*0.6*
4	3	Germany	7.1	*-0.5*
5	4	Netherlands	6.8	*-0.7*
6	5	Luxembourg	6.4	*-0.8*
7	8	Greece	5.9	*-0.6*
8	9	Austria	5.8	*-0.6*
9	7	Finland	5.3	*-1.3*
10	10	Ireland	4.3	*-1.0*
-	-	Euro 17	4.0	*-0.5*
11	11	Belgium	3.6	*-0.5*
12	12	France	2.9	*-0.4*
13	15	Cyprus	2.6	*0.4*
14	13	Spain	2.3	*0.0*
15	14	Portugal	2.3	*0.1*
16	16	Italy	0.8	*0.3*
n.a.	n.a.	Malta	n.a.	-
(2)	-	Poland	9.8	-
(4)	-	Sweden	7.6	-
(12)	-	United Kingdom	5.0	-

Ranks, scores and score changes from last year for the Recent Trend Growth sub-indicator. Like last year, the ranks for the 17 euro members give their relative position among these 17 countries. The ranks in brackets for the three non-euro members show their relative position in a ranking of 1 to 20 for the extended sample. For further explanations see notes under Table 2 on page 4.

‘The UK does better than the eurozone periphery but trails most of the eurozone core.’

The obvious starting point to analyse the long-term growth potential of a country is the actual recent performance. To correct for boom-bust cycles in real estate – a common problem in the pre-2008 economic data for some economies inside and outside the eurozone – we look at the trend in gross value added (GVA) outside the construction sector.[9] We also adjust the data for increases in labour supply. By relating a measure of actual output to a measure of potential input, we calculate a variant of productivity. But this variant takes the available pool of labour (the potential) rather than actual use of labour as its base. We deal with the way a country actually utilises its human resources in the separate employment pillar in chapter III.2.c on page 35.

For the overall ranking of recent trend growth, we combine two sub-indices, namely 1) the actual average annual increase in GVA as defined in footnote 9, and 2) the deviation of that growth from our model estimate of how fast a European country with that starting level should expand. Simply comparing growth rates can be misleading. Mature economies with high levels of productivity typically find it more difficult to grow fast than less mature economies, which are exploiting their potential to catch up. As economies mature, they naturally lose some of their initial youthful dynamism.

Updating the dataset with 2011 data would distort the results with the impact of the current recession. So we did not change the 2002-2010 timeframe for measuring potential growth this year. However, GVA and labour-force data has been revised considerably in some cases, especially for the time around the Lehman crisis. Almost always these revisions led to lower long-term growth rates.

- The strongest downward revisions in GVA per capita came in **Finland** (No. 9) and **Ireland** (No. 10). **Finland** drops two places, while Ireland falls further behind the top half of the table in our ranking for the 17 euro members.
- At the top, the East European growth stars **Slovakia** (No. 1) and **Slovenia** (No. 2) are joined by **Estonia** (No. 3, up from No. 6). Behind them, all economies from **Germany** (No. 4) to **France** (No. 12) shed at least a few tenths of a point due to revisions.
- The crisis economies **Cyprus** (No. 13), **Spain** (No. 14), **Portugal** (No. 15) and **Italy** (No. 16) sit at the bottom end of the table as they recorded relatively little non-construction gross value-added growth over the last cycle.
- Among the three non-eurozone countries, **Poland** (No. 2) and **Sweden** (No. 4) score very well in the ranking of 1 to 20 in the expanded sample of 20 countries. The **UK** (No. 12) does better than the eurozone periphery but trails most of the eurozone core significantly in terms of growth 2002-2010.

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

‘Austria, Germany, Italy, Portugal, Slovakia and Spain reach only two-thirds of the replacement ratio.’

III.2.b Human Capital

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

Little changed compared to 2011, as the data base is unchanged this year, except for the fertility rate, where to smooth short-term variations, we use the 2009-2011 average as opposed to 2010 data only.

The overall fertility trends in Europe are well known (see Chart 6 on page 33). Women in **France** and **Ireland** have the most babies, with the fertility rate close to the 2.1 threshold needed to fully replace the current generation by a new generation over time. **Austria, Germany, Italy, Portugal, Slovakia** and **Spain** have the lowest fertility rates, reaching only roughly two thirds of the replacement ratio. Among non-eurozone countries, the **Sweden** and the **UK** feature near the top and **Poland** near the bottom of the table.

The more the domestically-born population is set to contract, the more important it is for a society to attract and integrate immigrants. As a proxy for how well countries do this, we use the Migration Integration Policy Index (MIPEX).[10]

Table 9: Human Capital

Rank		Country	Score	*Change*
2012	2011			
1	1	Finland	8.0	*0.0*
2	2	Netherlands	6.8	*0.0*
3	3	Belgium	6.8	*0.0*
4	4	Ireland	6.1	*0.0*
5	5	France	6.1	*0.1*
-	-	Euro 17	4.7	*0.1*
6	7	Portugal	4.5	*0.1*
7	6	Estonia	4.5	*-0.1*
8	8	Luxembourg	4.3	*0.0*
9	9	Germany	4.2	*0.0*
10	10	Slovenia	4.0	*0.1*
11	11	Italy	3.8	*0.0*
12	12	Spain	3.7	*-0.1*
13	13	Greece	3.0	*-0.1*
14	15	Austria	2.7	*0.1*
15	14	Cyprus	2.4	*-0.4*
16	16	Malta	2.4	*-0.1*
17	17	Slovakia	2.4	*0.0*
(2)	-	Sweden	7.2	-
(5)	-	United Kingdom	6.2	-
(16)	-	Poland	2.9	-

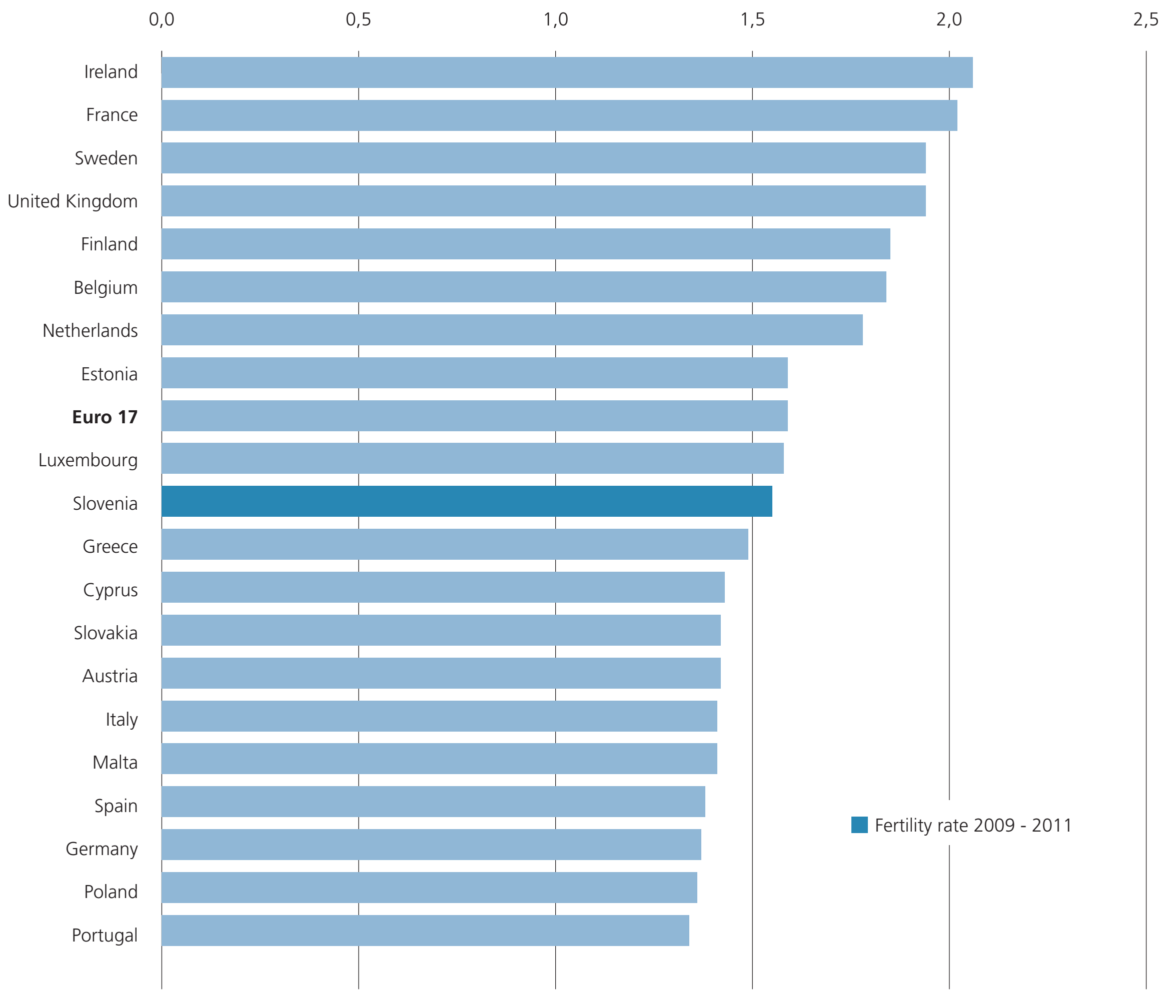
Ranks, scores and score changes for the Human Capital sub-indicator. Like last year, the ranks for the 17 euro members give their relative position among these 17 countries. The ranks in brackets for the three non-euro members show their relative position in a ranking of 1 to 20 for the extended sample. For further explanations see notes under Table 2 on page 4.

10. The MIPEX project is led by the British Council and the Migration Policy Group. The MIPEX index evaluates 148 indicators from seven different areas: labour market mobility, family reunion for third-country nationals, education, political participation, long-term residence, ease of being accepted as a national and anti-discrimination measures. For further details, see http://www.mipex.eu.

‘Women in France and Ireland have the most babies.’

Chart 6: Where are the Babies? Fertility Rates

Fertility rates 2009-2011 average



Source: Eurostat

‘France may well replace Germany as the economic powerhouse – if it utilises its potential.’

On access to education, the internationally comparable Programme for International Student Assessment (PISA) scores, compiled by the OECD, can serve as a rough proxy for the quality of the education system.[11] The PISA results reveal a rough North-South pattern. Whereas **Finland** comes top and the **Netherlands** and **Estonia** also do well, **Italy**, **Spain** and **Greece** have some of the lowest scores. In core Europe, **Germany** and **Belgium** score well ahead of **France**.

We combine these three aspects into one aggregate indicator for human capital (see Table 9 on page 32). **Finland** comes in at No. 1, topping the list with a comparatively high birth rate, a good record of integrating immigrants and an excellent PISA score. By contrast, **Greece** (No. 13), **Austria** (No. 14), **Cyprus** (No. 15), **Malta** (No. 16) and **Slovakia** (No. 17) do badly in our ranking of the 17 euro members.

For human capital, the overall result for **France** (No. 5) is above the eurozone average – and above that for **Germany** (No. 9) – because of the much higher fertility rate of French women. This is despite a relatively low French ranking for the integration of immigrants and a mediocre PISA score. This illustrates a key point: France has a lot of potential that needs to be unleashed. If France could get its act together, educate pupils and integrate immigrants better than it does today, its high fertility rate could enable it to move up considerably in the overall growth ranking. In the longer term, France (and the **UK**) may well replace Germany as the top economic powerhouse of Europe – if they utilise their potential.

The performance of the non-eurozone countries surveyed diverges. **Sweden** (No.2) trails **Finland** only in the extended ranking of 20 countries. It has a high birth rate and the second-best integration of immigrants after **Portugal**. The sub-par school performance lets Sweden down. The **UK** (No. 5) has an even higher birth-rate but struggles somewhat with immigrant integration and its schools. **Poland** (No. 16) looks weak on all three counts in our ranking of 1 to 20 for the extended sample of 20 countries.

11. Organisation for Economic Co-operation and Development (OECD), *PISA 2009 Results: What Students Know and Can Do: Student Performance in Reading Mathematics and Science Vol. 1* (Paris: OECD, 2010). Graduation rates for the most recent age cohort are available for only 10 out of 17 eurozone members, making contemporary comparison difficult.

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

III.2.c Employment

The look at human resources leaves the question of how well a country uses its labour resources. To calculate this, we aggregate results for the following four sub-sub-indicators into an overall ranking for employment: 1) the average employment rate in 2002-2011, 2) the rise in the employment rate 2002-2010, 3) average youth unemployment 2002-2011, and 4) average long-term unemployment 2002-2011. We combine the four separate aspects of the employment performance into an overall ranking.

This year, we update and change the data a bit. To reflect structural strengths and weaknesses rather than the cyclical situation, we use longer-period averages for the employment and unemployment rates. Last year, we had used the most recent data point, 2010, instead of the average since 2002. If we had now used the most recent data point, the 2011 data, the adjustment recession would have had an undue impact on our long-run ranking. The recent labour market data should impact this rating, as the newly unemployed may lose skills over time, but it should not dominate the assessment of the longer-term employment situation.[12]

Table 10: Employment

Rank		Country	Score	*Change*
2012	2011			
1	3	Netherlands	8.1	*0.1*
2	1	Austria	8.0	*-0.2*
3	4	Cyprus	7.3	*0.4*
4	2	Germany	7.1	*-0.9*
5	5	Luxembourg	6.6	*-0.2*
6	6	Slovenia	6.6	*0.0*
7	7	Finland	6.2	*0.2*
-	-	Euro 17	5.6	*0.2*
8	10	France	5.3	*0.2*
9	9	Belgium	5.2	*0.1*
10	8	Malta	5.1	*-0.3*
11	17	Ireland	4.9	*2.8*
12	14	Estonia	4.9	*2.5*
13	11	Portugal	4.7	*0.7*
14	12	Italy	4.3	*0.4*
15	16	Spain	4.2	*2.0*
16	13	Greece	4.0	*0.5*
17	15	Slovakia	2.7	*0.3*
(6)	-	Sweden	6.6	-
(7)	-	United Kingdom	6.6	-
(19)	-	Poland	3.9	-

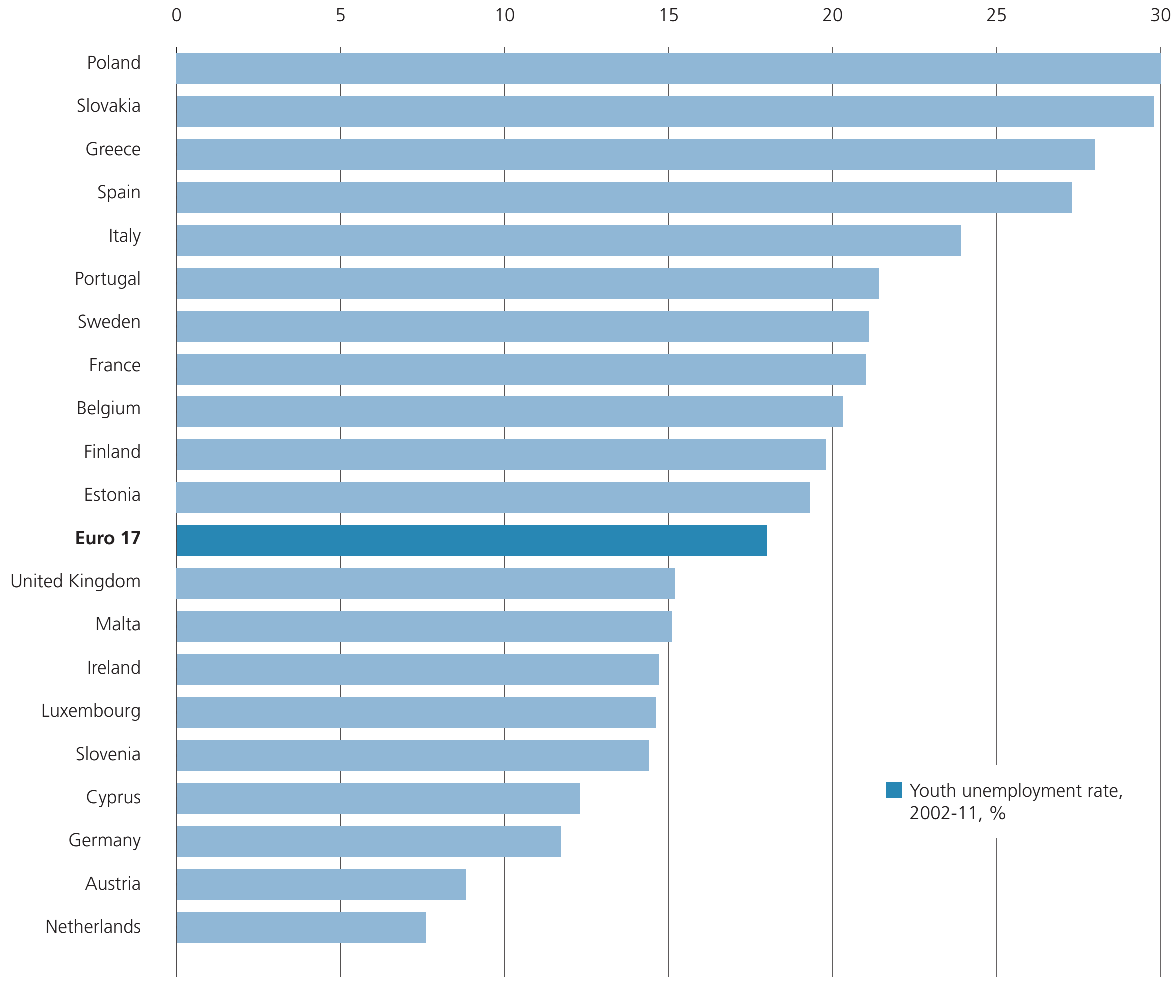
Ranks, scores and score changes from last year for the Employment sub-indicator. Like last year, the ranks for the 17 euro members give their relative position among these 17 countries. The ranks in brackets for the three non-euro members show their relative position in a ranking of 1 to 20 for the extended sample. For further explanations see notes under Table 2 on page 4.

12. For the calculation of the change in employment rates, we stick with 2010 over 2002, the same as last year. Here we intend to show how the situation evolved over the last cycle.

‘Rigid labour markets have caused structurally high unemployment for young people.’

Chart 7: Not Enough Jobs for the Young - Youth Unemployment Rates

Unemployment rate of 15-24 year-olds, 2002-2011 average in %



Source: Eurostat

‘The current crisis compounds structural unemployment with a strong rise in cyclical unemployment.’

The broad lines of the analysis remain the same:

- Parts of core Europe have found the key to unlock human potential: The **Netherlands** (No. 1), **Austria** (No. 2) lead the field by a wide margin, followed by **Germany** (No. 4) in our ranking of the 17 euro members (see Table 10 on page 35). Institutional factors such as the system of vocational training in Austria and Germany as well as the ease of finding temporary or part-time employment in the Netherlands probably play a major role. Together with **Cyprus** (No. 3), which continued to do surprisingly well in the employment ranking based on 2011 data, these countries are also best in class in the youth unemployment category (see Chart 7 on page 36).

- The **Netherlands** and **Germany** also dominate in two important subcategories. The Netherlands has the highest employment rate in the eurozone (74.8% on average 2002-2011), while Germany created a jobs miracle with the employment rate rising by an average 0.7 percentage points per year from 2002-2010. Both remain benchmarks for labour market reform: the Netherlands defines what to achieve and Germany shows how to get there.

- The crisis economies feature at the other end of the scale. Their often rigid labour markets have caused structurally high unemployment, especially for young people. The current adjustment crisis only compounds structural unemployment with a strong rise in cyclical unemployment. The other crisis economies saw their scores improve by more. The sometimes sweeping (as in **Spain** at No. 15 and **Portugal** at No. 13), sometimes more timid (as in **Italy** at No. 14) labour market reforms will take some time to make a difference, as the experience in **Germany** in the previous decade shows.

- Countries in the middle of the table had largely stable scores, with the exception of **Ireland** (No. 11) and **Estonia** (No. 12) which benefitted strongly from the methodological change. However, Estonia is likely to improve further in the rankings in coming years due to its continued strong growth in output and employment.

- Outside the eurozone, **Sweden** and the **UK** would attain ranks No. 6 and No. 7, respectively, in the ranking of 1 to 20 for the extended sample of 20 countries. **Sweden** has one of the highest employment rates (73.2%) which – similar to the Netherlands – would be difficult to improve much further. A better score is also prevented by a relatively high and until 2010 rising rate of youth unemployment. The UK benefits from a still-high employment rate, but recent developments are negative. The employment rate has fallen and youth and long-term unemployment are rising. **Poland** (No. 17) has the second-worst score in this category, largely because of high youth and long-term unemployment. On the other hand, the development goes mostly in the right direction. No country has increased its employment rate by more than Poland between 2002 and 2011. It rose to 59.7%, up from 51.5%

‘France and Italy are much more inclined to eat their cake than Germany.’

III.2.d Total Consumption

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

Table 11: Total Consumption

Rank 2012	Rank 2011	Country	Score	*Change*
1	1	Luxembourg	10.0	*0.0*
2	2	Estonia	8.9	*0.5*
3	3	Netherlands	7.6	*0.1*
4	5	Slovakia	7.5	*0.7*
5	4	Austria	7.3	*0.1*
6	6	Germany	6.7	*-0.1*
7	9	Ireland	6.5	*1.2*
8	8	Belgium	6.2	*-0.1*
9	7	Slovenia	5.8	*-0.8*
-	-	Euro 17	5.6	*0.1*
10	10	Spain	5.1	*-0.1*
11	11	Malta	5.0	*0.2*
12	13	France	4.6	*0.2*
13	12	Italy	4.3	*-0.1*
14	14	Finland	4.0	*-0.1*
15	15	Cyprus	3.2	*0.0*
16	16	Greece	3.0	*0.1*
17	17	Portugal	2.9	*0.8*
(4)	-	Sweden	7.5	-
(7)	-	Poland	7.2	-
(17)	-	United Kingdom	3.8	-

Ranks, scores and score changes from last year for the Total Consumption sub-indicator. Like last year, the ranks for the 17 euro members give their relative position among these 17 countries. The ranks in brackets for the three non-euro members show their relative position in a ranking of 1 to 20 for the extended sample. For further explanations see notes under Table 2 on page 4.

For The 2012 Euro Plus Monitor, we added 2011 consumption data (see Chart 8 on page 39). For most countries, this implies only minor changes. However, some crisis countries with significant austerity in 2011 reported strongly falling shares of consumption in GDP. As a result, **Portugal** (No. 17) and **Ireland** (No. 7) saw their scores rising (see Table 11 below).

Nonetheless, the verdict remains the same as last year. Improvement means **Portugal** (No. 17 on the consumption criterion) has closed the gap with **Greece** (No. 16) and **Cyprus** (No. 15), but all three remain at the distant bottom of the league table for the 17 euro members.

Luxembourg (No. 1) gets by far the best score, with a low consumption ratio and a significant decline in that ratio over the 2002 to 2011 period. **Estonia** (No. 2) comes second with a comparatively modest and declining propensity to consume.

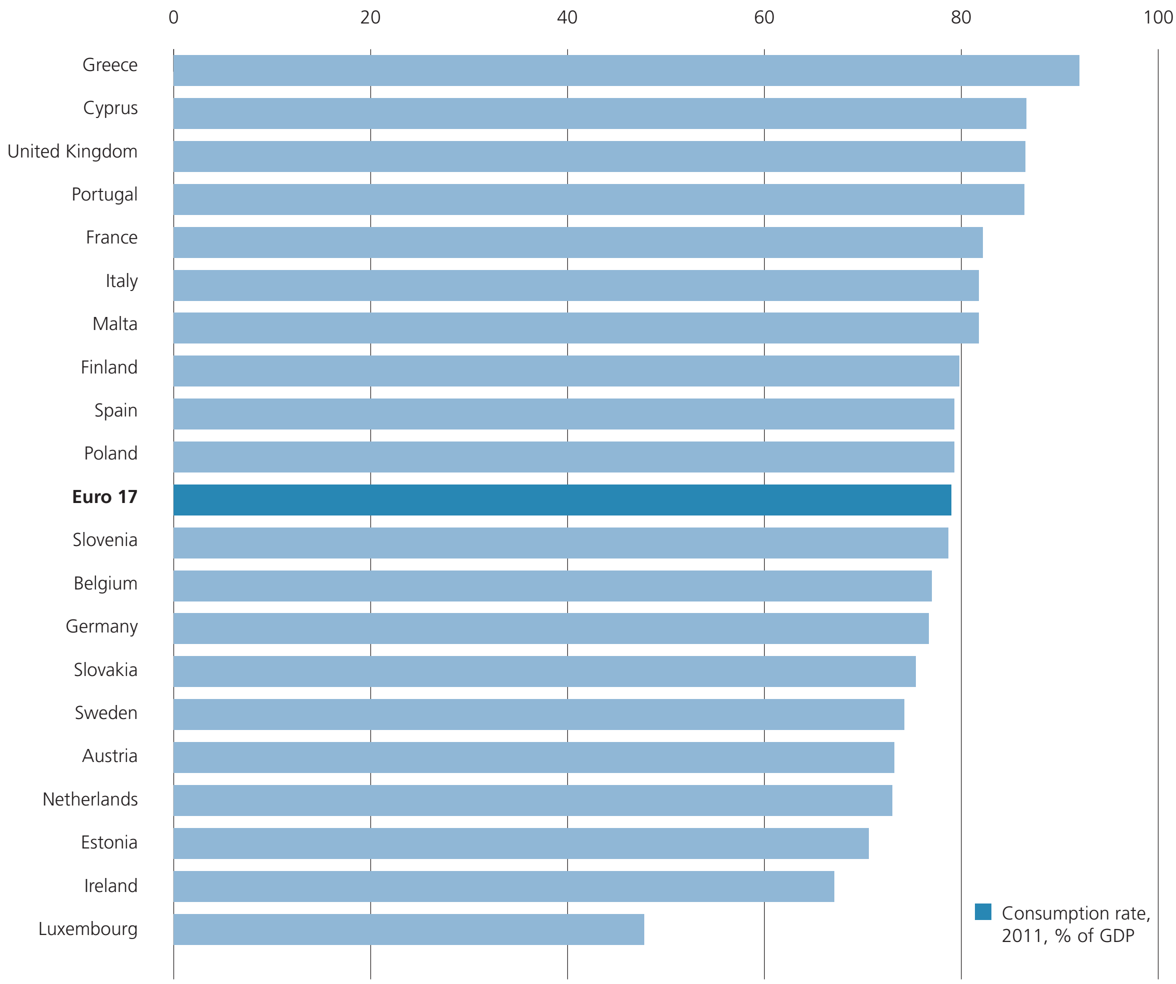
Among the largest eurozone countries, **Germany** (No. 6) has a comparatively low propensity to consume while **France** (No. 12) and **Italy** (13) are much more inclined to eat their cake.

Outside the eurozone, **Sweden** (No. 4) and **Poland** (No. 7) score well in the separate ranking 1 to 20 in the expanded sample of 20 countries. Poland’s consumption ratio is high (81.1% of GDP) but was gradually falling over the period, while Sweden’s is below average and falling somewhat, too. The **UK** (No. 17), on the other hand, has the second-highest consumption ratio in Europe after **Greece**, and it continues to rise.

‘Poland’s consumption ratio is high but gradually falling.’

Chart 8: Total Consumption – Share in GDP

Total private and public consumption 2011 as % of GDP



Source: Eurostat

‘The ultimate proof of competitiveness: does a country find buyers for its exports?’

III.3 Competitiveness

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

We analyse the competitiveness of a country in a similar way: does the country find buyers for its exports? Whether or not wages or unit labour costs are high plays a role. But only a secondary role. Wages and other factors influence the price that needs to be charged. Many other aspects, ranging from the perceived quality of a product to the value

Table 12: Competitiveness

Rank		Country	Total Score		Export ratio		Export rise		Labour		Regulation	
2012	2011		2012	*Change*	2012	*Change*	2012	*Change*	2012	*Change*	2012	*Change*
1	1	Netherlands	8.0	*-0.2*	10.0	*2.0*	8.1	*-1.5*	4.9	*-1.4*	8.8	*0.0*
2	2	Germany	7.9	*0.0*	9.2	*0.9*	10.0	*0.0*	6.9	*-0.9*	5.6	*0.1*
3	3	Ireland	7.6	*0.7*	9.6	*3.3*	5.9	*-1.4*	5.4	*0.8*	9.4	*0.0*
4	5	Slovakia	6.9	*0.2*	10.0	*0.3*	6.6	*0.5*	5.1	*-0.1*	5.7	*0.0*
5	8	Luxembourg	6.8	*0.4*	10.0	*2.0*	7.5	*-1.0*	5.5	*0.6*	4.3	*0.1*
6	9	Malta	6.8	*0.4*	7.1	*0.9*	7.3	*1.5*	6.6	*-0.4*	6.1	*n.a.*
7	4	Belgium	6.6	*0.0*	10.0	*1.2*	4.7	*-0.4*	5.1	*-1.1*	6.8	*0.1*
8	7	Estonia	6.6	*0.2*	7.1	*-2.5*	8.2	*1.1*	3.9	*2.2*	7.3	*0.1*
-	-	Euro 17	6.1	*0.0*	6.0	*0.1*	6.8	*-0.5*	5.6	*0.0*	6.1	*0.2*
9	10	Austria	5.8	*0.5*	5.9	*2.2*	5.9	*-0.6*	6.7	*0.4*	4.8	*0.1*
10	6	Slovenia	5.6	*-1.0*	5.6	*-4.4*	8.6	*-0.3*	2.7	*0.5*	5.7	*0.2*
11	11	Portugal	5.1	*0.3*	0.0	*-2.2*	7.8	*1.2*	6.1	*1.9*	6.6	*0.5*
12	14	Spain	4.7	*0.9*	1.5	*-1.0*	4.9	*2.2*	5.9	*1.3*	6.5	*1.1*
13	12	Finland	4.3	*-0.2*	1.0	*-0.4*	3.0	*-0.8*	4.6	*0.5*	8.7	*0.0*
14	15	France	4.0	*0.3*	2.4	*0.3*	2.7	*0.7*	4.0	*0.0*	7.0	*0.1*
15	13	Italy	3.9	*-0.2*	2.4	*-0.1*	5.4	*0.2*	3.4	*-0.9*	4.4	*0.1*
16	16	Greece	3.7	*1.0*	0.0	*-0.1*	6.6	*2.0*	5.6	*1.4*	2.4	*0.7*
17	17	Cyprus	2.7	*0.3*	0.0	*-1.3*	0.0	*0.0*	4.7	*-1.2*	6.0	*0.0*
(4)		Poland	6.9		7.8		10.0		8.2		1.7	
(10)		United Kingdom	6.5		3.2		7.0		6.2		9.4	
(11)		Sweden	6.3		4.7		5.0		7.2		8.5	

Ranks, scores and score changes from last year for the Competitiveness Indicator and sub-indicators. Like last year, the ranks for the 17 euro members give their relative position among these 17 countries. The ranks in brackets for the three non-euro members show their relative position in a ranking of 1 to 20 for the extended sample. For further explanations see notes under Table 2 on page 4.

‘Impressive export performances are partly driven by a relative fall in unit labour costs.’

of a brand, also determine whether the good or the service finds a willing buyer. In our analysis of competitiveness, we thus focus on two measures of export success: 1) the share of exports and net exports in a country’s GDP, and 2) the rise of these shares over time. Later, we add two other aspects – labour costs dynamics and the level of product and service market regulation – for an overall assessment.

In The 2012 Euro Plus Monitor, we update our results with full 2011 data. This affects the export-related sub-categories, as export ratios have changed quite dramatically in the last year. But labour costs have also changed substantially with pronounced falls in the euro periphery. Furthermore, we have strived to improve our method, for example by removing an outlier in the regressions (affects export ratio category) and by using a more comprehensive indicator for the extent of market regulations. However, most of the broad interpretations remain roughly the same.

- The **Netherlands** (No. 1) and **Germany** (No. 2) remain at the top. However, the Dutch score edges down as the deterioration in unit labour cost score is aggravated by a lower score in the new labour market regulation indicator. Germany’s scores are broadly stable.

- **Ireland** holds the No. 3 position. Because of continued labour cost improvement, it gets closer to the two top spots.

- Ireland is followed by a group of small open economies with similar scores, including **Luxembourg** (No. 5) and **Estonia** (No. 8).

- The bottom of the table, the list of countries with competitiveness issues, largely coincides with the list of crisis countries. The two non-crisis countries in that list are **France** (No. 14) and **Finland** (No. 13). France suffers from a long and continuing loss in competitiveness while Finland seems to be negatively affected by the firm-specific problems of its largest single exporter.

- **Portugal** (No. 11) and **Spain** (No. 12) are rising, and well on their way to join the middle group. Their impressive export performances are partly driven by a relative fall in unit labour costs. Structural reforms have also started to improve their regulation scores. This process is likely to continue and to propel both countries further up the rankings in coming years.

- The reform process in **Italy** (No. 15) began later and does not yet show up in better scores this year. **Greece** (No. 16) did improve its competitiveness markedly, but from such a low level that it will take much more time to catch up to the rest of the currency zone. **Cyprus** (No. 17) lost further ground in our ranking of the 17 euro members, despite a relatively good performance on the new regulation indicators.

- The non-eurozone countries score relatively well on competitiveness and join the group of small open economies behind the top three. **Poland** (No. 4 out of 10) does well on both export scores and, unsurprisingly, on unit labour costs as productivity still has a lot of room to catch up. The **UK** and **Sweden** at No. 10 and No. 11, respectively in our ranking of 1 to 20 for the extended sample of 20 countries, get most of their points from their highly flexible, de-regulated economies, with extra points for Sweden for its labour cost control and for the UK for the rise in the export ratio.

'Cyprus, Greece, Finland, France, Italy, Portugal and Spain have export ratios below the norm.'

III.3.a. Export Performance

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

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

In addition, we look at the rise in the actual export share from 2002 to 2011 relative to the 2002 starting level. Although **Germany** had a comparatively high starting level, it also managed to raise its export share rapidly on this relative basis. We combine these various ways of assessing the export prowess of a country into one score (see Table 13 below).

Table 13: Export Prowess

Rank 2012	Rank 2011	Country	Score	*Change*
1	2	Germany	9.6	*0.5*
2	3	Netherlands	9.1	*0.3*
3	5	Luxembourg	8.8	*0.5*
4	6	Slovakia	8.3	*0.4*
5	8	Ireland	7.8	*0.9*
6	4	Estonia	7.6	*-0.7*
7	7	Belgium	7.4	*0.4*
8	9	Malta	7.2	*1.2*
9	1	Slovenia	7.1	*-2.4*
-	-	Euro 17	6.4	*-0.2*
10	10	Austria	5.9	*0.8*
11	12	Italy	3.9	*0.0*
12	11	Portugal	3.9	*-0.5*
13	15	Greece	3.3	*0.9*
14	13	Spain	3.2	*0.6*
15	16	France	2.5	*0.5*
16	14	Finland	2.0	*-0.6*
17	17	Cyprus	0.0	*-0.6*
(3)	-	Poland	8.9	-
(12)	-	United Kingdom	5.1	-
(13)	-	Sweden	4.8	-

Ranks, scores and score changes from last year for the Export Prowess sub-indicator. Export prowess combines the shift in net exports and the rise in the export ratio. Like last year, the ranks for the 17 euro members give their relative position among these 17 countries. The ranks in brackets for the three non-euro members show their relative position in a ranking of 1 to 20 for the extended sample. For further explanations see notes under Table 2 on page 4.

‘Germany and the Netherlands again top the league table for export prowess.’

For The 2012 Euro Plus Monitor, we add 2011 data, which significantly impacts the outcome. Furthermore, we remove one extreme outlier, Luxembourg, from the regression to calculate the normalised export ratio for the various countries.[13]

Despite these changes, the overall 2012 scores still tell a similar story to 2011:

- **Germany** (No. 1) now tops the ranking ahead of the **Netherlands** (No. 2). Both countries have very high export ratios, even adjusting for their high incomes and their size. The two are followed by the group of small, open economies including **Luxembourg** (No. 3) and **Slovenia** (No. 9). **Austria** (No. 10) sitting in the middle of our ranking for the 17 euro members.

- **Italy** (No. 11) leads the bottom part of the table because **Portugal** (No. 12) slips, while **Greece** (No. 13) and **France** (No. 15) improve their scores. **Finland** (No. 16) continues on its way to the bottom, where **Cyprus** (No. 17) remains stuck. The Mediterranean island state has a relatively closed economy for such a small country and is the only one in the eurozone with a falling export ratio in 2002-2011.

- In terms of export prowess, the **UK** (No. 12 out of 20) and **Sweden** (No. 13) join the middle group with Austria in the extended ranking of 1 to 20. Both have rising, but still-too-low export ratios for the size and income of their economies. **Poland** (No. 3) positions itself between the **Netherlands** and **Luxembourg** near the top with its relatively high and rising export ratio.

13. We also correct an error. Last year, we had swapped Slovakia’s and Slovenia’s per capita GDP in the regression to calculate the normalised export ratio. Slovenia is twice as rich as Slovakia, it should thus have a higher export ratio. Using the correct per-capita GDP means that Slovenia’s export ratio is less impressive than we had erroneously reported last year. We apologise for the error which partly explains the less elevated prowess score for Slovenia this time.

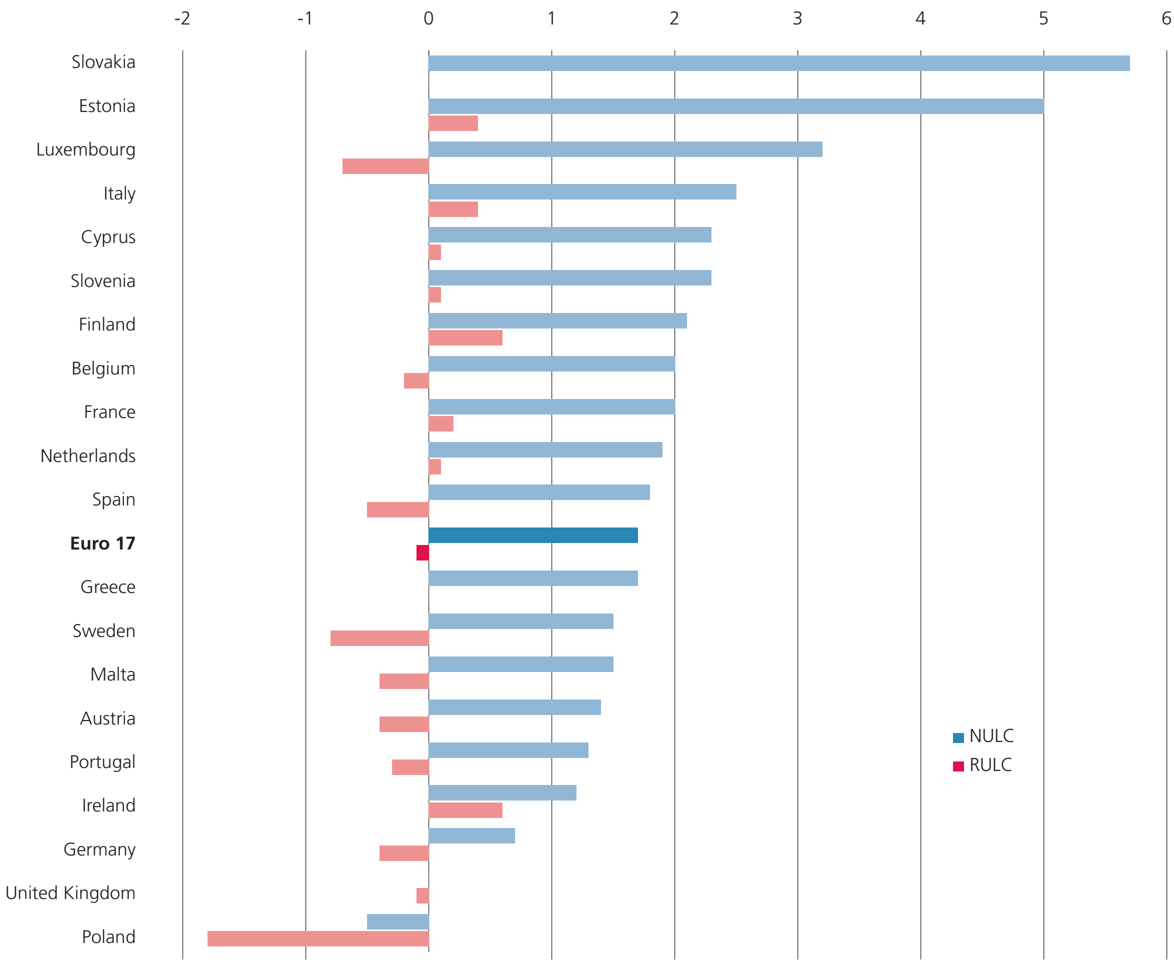
‘Unit labour costs are a very imperfect gauge of competitiveness.’

III.3.b Labour Costs

Unit labour costs are a very imperfect gauge of competitiveness. But they do matter. Over the 10 years from 2002 to 2012, real unit labour costs declined in eight eurozone countries and increased in nine. Similar developments can mask very different drivers, though. German companies benefited from genuine wage moderation, allowing them to raise employment significantly, whereas the Spanish data are distorted by the post-2007 bust in the labour-intensive construction industry. With less productive construction workers laid off in droves, the average productivity of the workers still employed rose, hence reducing average unit labour costs.

Chart 9: Change in Labour Costs

Cumulative change in real and nominal (euro) unit labour cost 2002-2012, %



Source: Eurostat

'Rising nominal unit labour cost in catch-up economies may not be a cause for concern.'

In a currency union with no internal exchange rates that could move, nominal unit labour costs are arguably a better gauge of competitiveness than real unit labour costs. Looking at nominal rather than real unit labour costs, the overall picture changes only modestly: **Germany** still has the most subdued and **Estonia** the strongest increase in labour costs. But for some of the peripheral European economies, the difference matters. Because they had significantly more inflation than most other euro members, **Spain** and **Greece** also had above-average increases in nominal unit labour costs despite modest declines in real unit labour costs.

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

In addition, unit labour costs are only one labour-related aspect that can shape the decision of companies where to invest and create jobs. Employment protection, including the implicit costs of such regulations and the legal uncertainty created by the regulatory regime, also play a major role. In addition, the flexibility of companies to adjust their labour force, in particular downwards, matters a lot for hiring decisions. To quantify this flexibility, we add the hiring and firing practices survey of the World Economic Forum 2012/2013 Global Competitiveness Report.[14]

Table 14: Labour Costs

Rank		Country	Score	*Change*
2012	2011			
1	1	Germany	6.9	*-0.9*
2	3	Austria	6.7	*0.4*
3	2	Malta	6.6	*-0.4*
4	13	Portugal	6.1	*1.9*
5	10	Spain	5.9	*1.3*
6	12	Greece	5.6	*1.4*
-	-	Euro 17	5.6	*0.0*
7	8	Luxembourg	5.5	*0.6*
8	9	Ireland	5.4	*0.8*
9	7	Slovakia	5.1	*-0.1*
10	5	Belgium	5.1	*-1.1*
11	4	Netherlands	4.9	*-1.4*
12	6	Cyprus	4.7	*-1.2*
13	14	Finland	4.6	*0.5*
14	15	France	4.0	*0.0*
15	17	Estonia	3.9	*2.2*
16	11	Italy	3.4	*-0.9*
17	16	Slovenia	2.7	*0.5*
(1)	-	Poland	8.2	-
(2)	-	Sweden	7.2	-
(6)	-	United Kingdom	6.2	-

Ranks, scores and score changes from last year for the Labour Cost sub-indicator. Like last year, the ranks for the 17 euro members give their relative position among these 17 countries. The ranks in brackets for the three non-euro members show their relative position in a ranking of 1 to 20 for the extended sample. For further explanations see notes under Table 2 on page 4.

Just like the other sub-categories in the competitiveness ranking, the labour cost ranking changes substantially due to data updates. As we add the 2011 data, the marked swing in labour cost dynamics since the post-Lehman recession now influences the scores more than before. Furthermore, the replacement of the OECD employment protection score with the WEF's hiring and firing practices survey also changes some of the relative positions.

14. World Economic Forum, *The Global Competitiveness Report 2012-2013* (Geneva: WEF, 2012).

'Portugal, Spain and Greece make huge jumps in the rankings as unit labour costs fell.'

Germany (No. 1) defends its place in the sun in our ranking of the 17 euro members despite dropping a few tenths of a point as real unit labour costs rose in 2011 (see Table 14 on page 45). Behind the eurozone powerhouse, **Austria** (No. 2) and **Malta** (No. 3) swap places. Both had falling real and only modestly rising nominal unit labour costs. But the first-time inclusion of a labour market regulation indicator for Malta leads to a deterioration in the Mediterranean island's overall score.

Portugal (No. 4, up from 13), **Spain** (No. 5, up from 10) and **Greece** (No. 6, up from 12) make huge jumps in the ranking as unit labour costs improved markedly in 2011 and 2012. Wage restraint complements the positive effect of rising unemployment on productivity. The **Netherlands** (No. 11) and **Belgium** (No. 10) experience the opposite effect, although the key driver for the Dutch is the weaker performance on the WEF's regulation indicator than on the OECD index we used previously.

Ireland (No. 8), and **Finland** (No. 13) improve their scores somewhat and join the **Netherlands** and **Belgium** to form the middle group, which is complemented by **Slovakia** (No. 9) despite some deterioration of its score.

The bottom of the table is made up of countries with rising unit labour costs across most of the 2002-2012 period. But while **Estonia** (No. 15) sees an improvement on previous years, **Italy** (No. 16) falls. **France** (No. 14) and **Slovenia** (No. 17) are almost unchanged in our ranking of the 17 euro members.

Outside the eurozone, **Poland** (No. 1 out of 20) and **Sweden** (No. 2) do very well on the labour cost criteria in the expanded ranking of 1 to 20 for the full 20 countries of our sample. Poland had by far the largest fall in real unit labour cost 2002-2012 as it caught up with Western productivity levels. In nominal terms, they are surpassed only by **Germany**. In terms of labour regulation, both score worse. This is where the **UK** (No. 6) picks up most of its points, unsurprisingly, while it drops quite a few points especially in nominal unit labour cost, due to relatively high inflation.

‘To facilitate change, would-be entrepreneurs must be able to grow new companies easily.’

II.3.c Market Regulation

Overly regulated markets which protect incumbent business interests and deter new entrants and competition make it difficult to thrive for companies that are not yet well established. Such regulations also constrain the ability of an economy to grow. We take the OECD indices for the extent of product and service market regulations.[15]

To facilitate structural change in an economy, would-be entrepreneurs must be able to establish and grow new companies easily. We thus combine the World Bank surveys of what it costs and how many days it takes to register a new business as a third component for our comparison of market regulation and give all three sub-indices equal weight for the aggregate ranking.[16]

The ranking changes little from 2011. This is mainly because no new data from the OECD was available on product and service market regulations. We continue with the 2009 index of regulation, which clearly understates the progress made in several eurozone crisis countries in particular. A number of service professions were opened up to competition and bureaucratic processes shortened. The few changes we do report result from the update to the World Bank Doing Business report. We updated the data on cost and duration of opening a new business from 2011 to 2012 data. Three countries improved their score: **Spain** (No. 8, up from 13), which cut the duration of the process by half and reduced the cost. **Greece** (No. 17) and **Portugal** (No. 7, up from No. 8) also improved their scores considerably, albeit from a very low base in the case of Greece. Portugal is now one of the easiest countries in which to open a new business, which makes up for relatively regulated product and services markets.

Table 15: Market Regulation

Rank		Country	Score	*Change*
2012	2011			
1	1	Ireland	9.4	*0.0*
2	2	Netherlands	8.8	*0.0*
3	3	Finland	8.7	*0.0*
4	4	Estonia	7.3	*0.1*
5	5	France	7.0	*0.1*
6	6	Belgium	6.8	*0.1*
7	8	Portugal	6.6	*0.5*
8	13	Spain	6.5	*1.1*
9	7	Malta	6.1	*n.a.*
-	-	Euro 17	6.1	*0.2*
10	9	Cyprus	6.0	*0.0*
11	10	Slovakia	5.7	*0.0*
12	11	Slovenia	5.7	*0.2*
13	12	Germany	5.6	*0.1*
14	14	Austria	4.8	*0.1*
15	15	Italy	4.4	*0.1*
16	16	Luxembourg	4.3	*0.1*
17	17	Greece	2.4	*0.7*
(2)	-	United Kingdom	9.4	-
(5)	-	Sweden	8.5	-
(20)	-	Poland	1.7	-

Ranks, scores and score changes from last year for the Market Regulation sub-indicator. Like last year, the ranks for the 17 euro members give their relative position among these 17 countries. The ranks in brackets for the three non-euro members show their relative position in a ranking of 1 to 20 for the extended sample. For further explanations see notes under Table 2 on page 4.

15. OECD, Economics Department Working Paper No 695, *Ten Years of Product Market Reform in OECD Countries – Insights from a Revised PMR Indicator* (Paris: OECD, 2008).
16. World Bank, *Doing Business 2012: Doing Business in a More Transparent World* (Washington, DC: World Bank, 2011).

‘Ireland and Britain stand out as the countries with the least-regulated product and service markets.’

Ireland (No. 1) stands out as the eurozone economy with the least regulated product and service markets. Establishing a new business is also fairly easy on the Emerald Isle. Ireland thus gets the top spot in our ranking of the 17 euro members, followed by the **Netherlands** (No. 2) with very deregulated product markets and **Finland** (No. 3) with a very open regime for services.

Germany (No. 13) is a split economy with a fairly liberal market for goods but a heavily regulated market for services. This may explain the peculiar German bias towards producing goods instead of supplying services. As goods can often be exported more easily than services, Germany’s pronounced regulatory bias against services may be one of the less appealing reasons for the unusually large share of industrial exports in German GDP.

Italy (No. 15) has a regulatory profile very similar to that of **Germany** (fairly open markets for products, heavily regulated markets for services), except that Italy scores somewhat worse than Germany on all three counts (products, services and new business registration). Italy is likely to see an improvement in its score in future updates as several professions have been opened up to competition by the Monti government.

France (No. 5) gets a significantly better score on regulation than Germany. Although French product markets are slightly more regulated than the German ones, France has a much more liberal regime for services and makes it much easier to register new companies than its neighbour across the Rhine.

Unsurprisingly, the **UK** (No. 2 out of 20) and **Sweden** (No. 5) score very well in our ranking for the extended sample of 20 countries. The UK is best in class or near best in all categories except the length of the process of opening a new business. Sweden is almost the same, except it has somewhat tighter product market regulations. **Poland** (No. 20), on the other hand, burdens its economy with more red tape than any other country in our survey. It gets last place in product market regulation and business registration process. To fit into the club, if it decides to join, Poland should first embark on a serious round of deregulation.

‘In some cases, recessions triggered by excessive austerity have caused a setback.’

III.4 Fiscal Sustainability

Is the fiscal position of a European country sustainable? To assess the key issues, we look at 1) the share of government outlays in GDP, taking a high share of expenditures as a signal of potential fiscal overstretch, 2) the structural fiscal deficit as a share of GDP, 3) the ratio of public debt to GDP, and 4) the sustainability gap, i.e., the required amount of fiscal tightening in the years to 2020 to bring the debt ratio down to 60% by 2030. We then aggregate the four sub-indicators into a global score for fiscal sustainability, and rank the 17 eurozone countries accordingly on a scale of 1 to 17, as we had done last year, before adding ranks for the three non-euro countries in our newly extended sample of 20 countries.

Table 16: Fiscal Sustainability

Rank		Country	Total Score		Government outlays		Structural deficit		Debt		Sustainability gap	
2012	2011		2012	*Change*	2012	*Change*	2012	*Change*	2012	*Change*	2012	*Change*
1	2	Luxembourg	9.5	*0.3*	10.0	*0.0*	8.7	*0.5*	9.4	*0.0*	10.0	*0.6*
2	1	Estonia	9.2	*0.0*	9.7	*-0.3*	7.7	*0.1*	10.0	*0.0*	9.5	*0.1*
3	6	Germany	6.9	*0.8*	5.9	*0.5*	8.9	*1.5*	4.9	*0.2*	7.7	*1.0*
4	3	Finland	6.4	*-0.7*	3.4	*0.5*	9.0	*0.4*	7.2	*-0.1*	6.1	*-3.6*
5	4	Slovakia	6.3	*-0.4*	8.5	*-0.8*	4.2	*1.8*	7.2	*-0.6*	5.1	*-1.8*
6	11	Austria	6.1	*1.1*	3.5	*1.0*	7.5	*1.8*	5.5	*-0.1*	7.9	*1.6*
7	10	Malta	6.0	*0.6*	6.0	*0.3*	6.7	*1.1*	5.4	*-0.4*	n.a.	*n.a.*
8	5	Cyprus	5.6	*-0.6*	7.0	*0.0*	4.2	*-0.4*	4.9	*-1.4*	6.5	*-0.7*
9	9	Slovenia	5.6	*0.0*	4.6	*0.7*	5.0	*-1.1*	7.4	*-0.5*	5.4	*0.7*
-	-	Euro 17	5.6	*0.1*	5.7	*0.0*	6.6	*0.9*	4.4	*-0.2*	5.6	*-0.2*
10	13	Italy	5.3	*0.5*	4.2	*0.5*	7.4	*0.1*	1.9	*-0.4*	7.8	*2.0*
11	8	Netherlands	5.2	*-0.6*	5.7	*0.5*	6.3	*0.6*	6.0	*-0.2*	2.7	*-3.3*
12	12	Belgium	4.8	*-0.2*	3.5	*0.7*	6.9	*-0.1*	3.5	*-0.3*	5.2	*-1.1*
13	7	Spain	4.4	*-1.4*	8.7	*-0.1*	2.8	*-0.1*	5.4	*-0.9*	0.8	*-4.4*
14	14	France	3.9	*-0.2*	1.3	*0.4*	5.6	*0.7*	4.4	*-0.5*	4.3	*-1.4*
15	16	Ireland	3.8	*0.3*	9.7	*0.2*	2.9	*2.3*	2.8	*-1.2*	0.0	*0.0*
16	15	Portugal	3.7	*-0.1*	4.6	*-0.4*	4.7	*3.2*	2.4	*-1.7*	3.1	*-1.5*
17	17	Greece	2.8	*0.6*	3.9	*-0.4*	7.0	*3.8*	0.0	*-0.4*	0.1	*-0.8*
(3)		Sweden	7.4		2.3		9.0		8.1		10.0	
(8)		Poland	6.1		4.6		5.1		6.6		7.9	
(18)		United Kingdom	3.8		6.5		3.9		4.6		0.0	

Ranks, scores and score changes from last year for the Fiscal Sustainability Indicator and sub-indicators. Like last year, the ranks for the 17 euro members give their relative position among these 17 countries. The ranks in brackets for the three non-euro members show their relative position in a ranking of 1 to 20 for the extended sample. For further explanations see notes under Table 2 on page 4.

‘Spain and Portugal fall back despite their Herculean fiscal efforts.’

The fiscal situation has evolved markedly since 2011. Many countries are trying to improve their fiscal outlook. At the same time, the recessions triggered by the European financial crisis and in some cases by excessive austerity, have caused a setback. For The 2012 Euro Plus Monitor, we update the information with 2011 data for government outlays, the structural deficit and with 2Q 2012 data for debt ratios. For the sustainability gap, we also use the current estimate of fiscal adjustment in 2012 to measure the fiscal effort that is still required until 2020. Furthermore, we use IMF estimates for the sustainability gap that include adjustments for age-related spending. Many European countries face the demographic challenge of an ageing population and should make provisions for that.

These updates lead to some significant changes in the scores and the relative rankings of countries. Structural deficits have improved considerably in many crisis countries. At the same time, the sustainability gap has become even wider for some countries due to the recession, which drove up gross public debt. The latter effect often outweighs the earlier. As a result, the eurozone core countries rise in the rankings while **Spain** (No. 13, down from No. 7) and **Portugal** (No. 16, down from No. 15) fall back despite their Herculean fiscal efforts.

Tiny **Luxembourg** (No. 1) and **Estonia** (No. 2) lead the overall ranking for fiscal sustainability (see Table 16 on page 49). Both improved their sustainability further. Government outlays as a percentage of GDP are very low, even adjusted for their respective wealth. Debt levels are extremely low (Estonia) or well within the Maastricht range (Luxembourg). Both have little or no further adjustment need.

Germany (No. 3) makes a considerable leap this year with rising scores across all four sub-criteria courtesy of fiscal restraint and buoyant economic growth in 2011. As gross debt as a percentage of GDP probably peaked in 2011, gradual improvements in the fiscal sustainability ranking should be on the cards.

Behind Germany, **Finland** (No. 4) and **Slovakia** (No. 5) get lower scores this year. According to the IMF study, both have to ready their social security systems for the impact of their ageing societies and thus lose points on the sustainability gap.

‘France again gets the Leviathan award for the most bloated share of public spending in GDP.’

III.4.a Government Outlays

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

As a general rule, rich countries tend to have a greater share of government outlays in GDP, partly because the demand for education and health services – often provided by the public sector – and for welfare provisions rises with income levels. We thus adjust the raw data for the share of general government outlays in GDP (2002-2011 average) for differences in per capita income.

This year, we add 2011 data to the dataset. In addition, the European Commission, on whose Autumn 2012 economic forecast we base our analysis, has revised the back data slightly. Government expenditure as a share of GDP fell across most of the eurozone in 2011 because of the recovery of the private sector, a fading post-Lehman stimulus and in many cases fiscal austerity. As a general rule, outlays shrank faster in poorer countries than in richer ones.

Luxembourg (No. 1) and **Estonia** (No. 3), the poorest and the richest of the 17 euro members, have jointly with **Ireland** (No. 2) by far the leanest public sector relative to their respective income levels. They stay at the top of the ranking, but swap places. **Ireland** (No. 2), **Spain** (No. 4) and **Slovakia** (No. 5) also score exceptionally well.

Table 17: Government Outlays

Rank		Country	Score	*Change*
2012	2011			
1	2	Luxembourg	10.0	*0.0*
2	3	Ireland	9.7	*0.2*
3	1	Estonia	9.7	*-0.3*
4	5	Spain	8.7	*-0.1*
5	4	Slovakia	8.5	*-0.8*
6	6	Cyprus	7.0	*0.0*
7	7	Malta	6.0	*0.3*
8	8	Germany	5.9	*0.5*
-	-	Euro 17	5.7	*0.0*
9	9	Netherlands	5.7	*0.5*
10	12	Slovenia	4.6	*0.7*
11	10	Portugal	4.6	*-0.4*
12	13	Italy	4.2	*0.5*
13	11	Greece	3.9	*-0.4*
14	16	Austria	3.5	*1.0*
15	15	Belgium	3.5	*0.7*
16	14	Finland	3.4	*0.5*
17	17	France	1.3	*0.4*
(7)	-	United Kingdom	6.5	-
(12)	-	Poland	4.6	-
(19)	-	Sweden	2.3	-

Ranks, scores and score changes from last year for the Government Outlays sub-indicator. Like last year, the ranks for the 17 euro members give their relative position among these 17 countries. The ranks in brackets for the three non-euro members show their relative position in a ranking of 1 to 20 for the extended sample. For further explanations see notes under Table 2 on page 4.

As in 2011, **France** (No. 17) again gets the Leviathan award for the most bloated share of government spending of all eurozone members. With a 54.1% share in GDP for the average of the years 2002 to 2011 (and 56.0% in 2011), the French government sector exceeds the income-adjusted average for the eurozone by more than seven percentage points. This is the single most negative factor which keeps our overall ranking for France down.

‘Sweden has a typically Scandinavian high government outlays quota.’

If **France** had a share of government spending in GDP in line with the eurozone average, its overall score in our fundamental health check would move up from 4.5 to 4.7 and thus to No. 12, instead of No. 14, ahead of **Ireland**, **Italy** and **Spain**.

Among the richer eurozone members, **Finland** (No. 16), **Belgium** (No. 15) and **Austria** (No. 14) have comparatively outsized public sectors. In **Greece** (No. 13), **Slovenia** (No. 10), **Portugal** (No. 11) and **Italy** (No. 12) public spending has also been above the norm on average for the years 2002 to 2011.

Outside the eurozone, the **UK** (No. 7) scores relatively well in our extended ranking for 20 countries. For a rich European country, the UK had a relatively low government outlays quota of 45.6% on average 2002-2011. However, the rise of UK government spending over this period, which it has not yet started to correct in earnest, suggests that the UK will likely fall back in the ranking when we add additional years to our base period over time. **Sweden** (No. 19) has a typically Scandinavian high quota and **Poland** (No. 12) rank in the middle.

III.4.b Structural Fiscal Balance

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

Table 18: Structural Deficit

Rank		Country	Score	*Change*
2012	2011			
1	1	Finland	9.0	*0.4*
2	4	Germany	8.9	*1.5*
3	2	Luxembourg	8.7	*0.5*
4	3	Estonia	7.7	*0.1*
5	8	Austria	7.5	*1.8*
6	5	Italy	7.4	*0.1*
7	13	Greece	7.0	*3.8*
8	6	Belgium	6.9	*-0.1*
9	10	Malta	6.7	*1.1*
-	-	Euro 17	6.6	*0.9*
10	9	Netherlands	6.3	*0.6*
11	11	France	5.6	*0.7*
12	7	Slovenia	5.0	*-1.1*
13	16	Portugal	4.7	*3.2*
14	15	Slovakia	4.2	*1.8*
15	12	Cyprus	4.2	*-0.4*
16	17	Ireland	2.9	*2.3*
17	14	Spain	2.8	*-0.1*
(1)	-	Sweden	9.0	-
(13)	-	Poland	5.1	-
(18)	-	United Kingdom	3.9	-

Ranks, scores and score changes from last year for the Structural Fiscal Deficit sub-indicator. Like last year, the ranks for the 17 euro members give their relative position among these 17 countries. The ranks in brackets for the three non-euro members show their relative position in a ranking of 1 to 20 for the extended sample. For further explanations see notes under Table 2 on page 4.

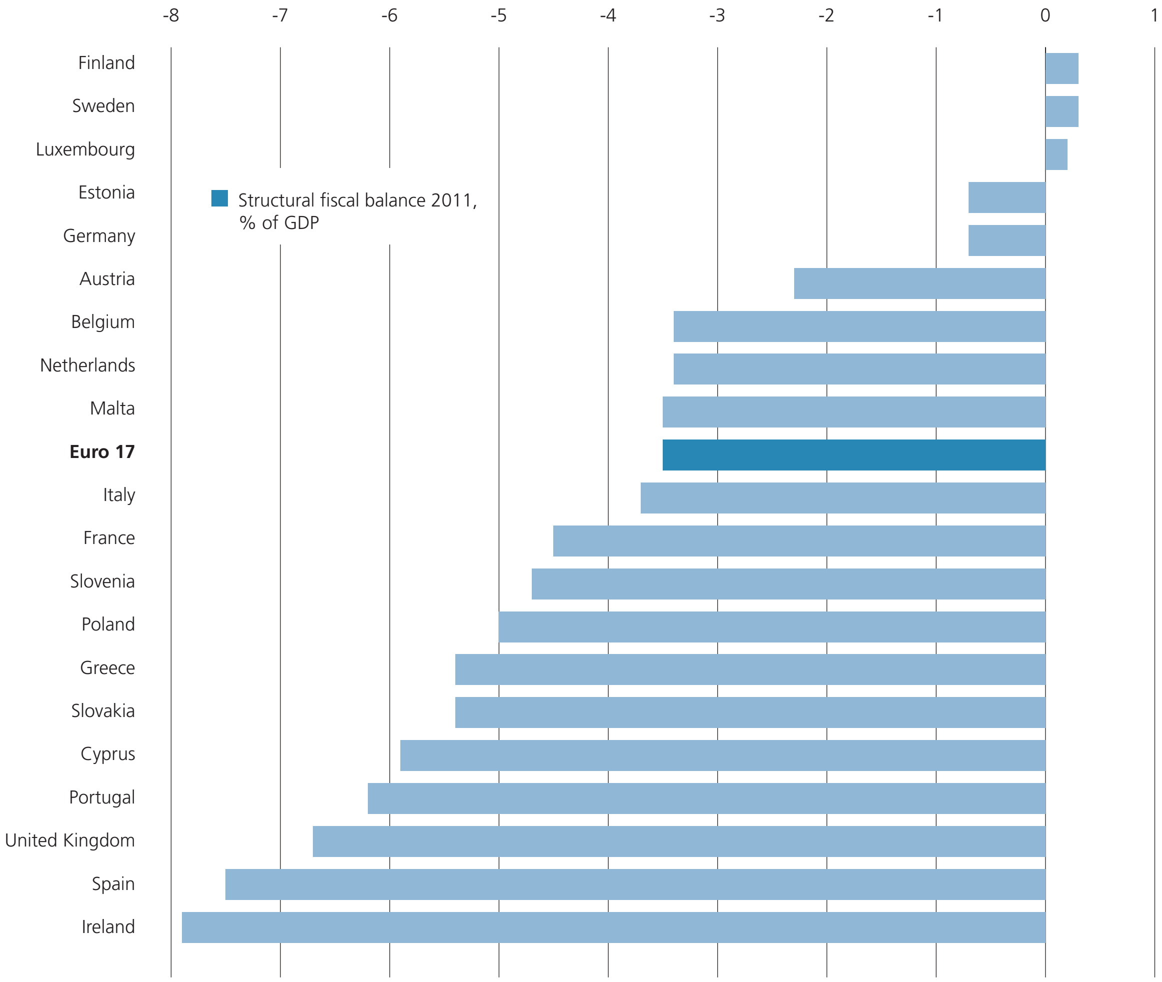
‘Some countries have used one-off measures to cut their deficits or had to rescue banks.’

The fiscal positions of many eurozone countries changed considerably in 2011. Incorporating the data for 2011 thus changes the results relative to those we presented a year ago based on data up to 2010. Moreover, we now use structural deficits rather than just cyclically adjusted ones. Some countries have used one-off measures to bring down their deficits (**Portugal**) or had to rescue banks (**Ireland**). This distorts the cyclically adjusted data but not the structural data which abstract from such one-off effects.

Broadly speaking, the eurozone made considerable progress in 2011. Overall the structural deficit fell to 3.5% of GDP, down from 4.4%, and the structural primary deficit reached 0.5%, down

Chart 10: Structural Primary Fiscal Balance

Structural fiscal balance 2011



Source: European Commission Autumn 2012 forecast, Berenberg calculations

‘The Troika programmes for Greece and Portugal show a strong positive effect.’

from 1.6%. The countries with limited or no fiscal problems improved their score further, as governments phased out the post-Lehman stimulus programmes. **Finland** (No. 1) retains the top spot, now followed by **Germany** (No. 2, up from No. 4), which has overtaken Luxembourg (No. 3) and **Estonia** (No. 4). **Austria** (No. 5, up from No. 8) also improved strongly, overtaking **Italy** (No. 6). Among challenged countries, the Troika programmes for **Greece** (No. 7, up from No. 13) and **Portugal** (No. 13, up from No. 16) show a strong positive effect. **France** (No. 11) and **Slovakia** (No. 14) also reported material improvement in their score, while the score of **Slovenia** (No. 12, down from No. 7) deteriorated sharply. Slovenia and **Belgium** (No. 8, down from No. 6) were the only eurozone countries where the structural deficit increased slightly in 2011. **Ireland** (No. 16) and **Spain** (No. 17) retain the red lantern with the highest structural deficits among the 17 euro members (see Table 18 on page 52).

Outside the eurozone, **Sweden** (No. 1) joins Finland at the top of the ranking with a positive structural balance. **Poland** (No. 13) and the **UK** (No. 18 in the extended ranking of 20 countries) face significant challenges in structurally balancing their governments’ budgets. In the extended sample of 20 countries, only **Ireland** and **Spain** perform worse than the UK.

III.4.c Public Debt

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

Table 19: Public Debt

Rank 2012	Rank 2011	Country	Value	Score	*Change*
1	1	Estonia	7.0	10.0	*0.0*
2	2	Luxembourg	18.9	9.4	*0.0*
3	3	Slovenia	46.1	7.4	*-0.5*
4	5	Finland	49.7	7.2	*-0.1*
5	4	Slovakia	49.8	7.2	*-0.6*
6	8	Netherlands	66.2	6.0	*-0.2*
7	10	Austria	73.1	5.5	*-0.1*
8	6	Spain	74.0	5.4	*-0.9*
9	9	Malta	74.3	5.4	*-0.4*
10	12	Germany	80.8	4.9	*0.2*
11	7	Cyprus	81.3	4.9	*-1.4*
-	-	Euro 17	88.0	4.4	-0.2
12	11	France	89.0	4.4	*-0.5*
13	15	Belgium	100.5	3.5	*-0.3*
14	14	Ireland	111.5	2.8	*-1.2*
15	13	Portugal	116.8	2.4	*-1.7*
16	16	Italy	124.1	1.9	*-0.4*
17	17	Greece	150.3	0.0	*-0.4*
(3)	-	Sweden	37.3	8.1	-
(7)	-	Poland	57.0	6.6	-
(14)	-	United Kingdom	86.0	4.6	-

Ranks, scores and score changes from last year for the Public Debt sub-indicator. Value: public debt as a percentage share of GDP, 2Q 2012, adjusted for the debt taken on by donor countries for mutual support efforts. Like last year, the ranks for the 17 euro members give their relative position among these 17 countries. The ranks in brackets for the three non-euro members show their relative position in a ranking of 1 to 20 for the extended sample. For further explanations see notes under Table 2 on page 4.

'Reducing debt ratios can only be achieved gradually. Improvements were scarce.'

We update the debt level data to Eurostat's 2Q 2012 release.[17] Debt levels rose in most countries, in some cases considerably. The three crisis countries – **Ireland** (No. 14), **Portugal** (No. 15) and **Greece** (No. 17) – all reported significant increases, due to recession and one-off bank bail-outs. They are joined by **Italy** (No. 16) at the bottom of the table, which suffers from legacy public debt, even though it added relatively little extra debt in 2011 and early 2012.

Improvements were scarce. **Germany**'s (No. 10) debt level fell from 83.2% to 80.8% of GDP, **Estonia** (No. 1), **Luxembourg** (No. 2), **Finland** (No. 4) and **Austria** (No. 7) had broadly stable debt ratios (see Table 19 on page 54).

Outside the eurozone, **Sweden** (No. 3) joins the top group in this category, **Poland** (No. 7) the upper middle of the ranks, while the **UK** (No. 14 in the extended ranking of 20 countries) is still marginally better than the eurozone average.

III.4.d Sustainability Gap

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

Table 20: Sustainability Gap

Rank		Country	Value	Score	*Change*
2012	2011				
1	3	Luxembourg	-1.0	10.0	*0.6*
2	2	Estonia	-0.4	9.5	*0.1*
3	8	Austria	1.7	7.9	*1.6*
4	10	Italy	1.8	7.8	*2.0*
5	6	Germany	2.0	7.7	*1.0*
6	4	Cyprus	3.6	6.5	*-0.7*
7	1	Finland	4.1	6.1	*-3.6*
-	-	Euro 17	4.7	5.6	*-0.2*
8	13	Slovenia	5.0	5.4	*0.7*
9	7	Belgium	5.2	5.2	*-1.1*
10	5	Slovakia	5.3	5.1	*-1.8*
11	11	France	6.4	4.3	*-1.4*
12	13	Portugal	7.9	3.1	*-1.5*
13	9	Netherlands	8.5	2.7	*-3.3*
14	12	Spain	11.0	0.8	*-4.4*
15	15	Greece	11.8	0.1	*-0.8*
16	16	Ireland	12.2	0.0	*0.0*
n.a.	n.a.	Malta	n.a.	n.a.	*n.a.*
(1)	-	Sweden	-1.8	10.0	-
(5)	-	Poland	1.7	7.9	-
(18)	-	United Kingdom	12.9	0.0	-

Ranks, scores and score changes from last year for the Sustainability Gap sub-indicator. Value: sustainability gap in % of GDP. Like last year, the ranks for the 17 euro members give their relative position among these 17 countries. The ranks in brackets for the three non-euro members show their relative position in a ranking of 1 to 20 for the extended sample. For further explanations see notes under Table 2 on page 4.

17. We adjust these data for the extra debt taken on by most eurozone member states as part of the mutual support efforts, which we estimate to have been roughly 2% of GDP by mid-2012 for most countries that have provided guarantees.

'Italy's social security system is one of the best prepared for demographic change.'

The sustainability gap depends on current fiscal deficits and debt levels, interest rates and trend growth rates, all of which may have changed since The 2011 Euro Plus Monitor. In addition, we now use IMF projections for the amount of age-related spending not provided for in current social security arrangements. Europe's demographic challenge of an aging population will put increasing pressure on pension and health systems. Unsurprisingly, some scores in this category thus change significantly, too.

- Some countries benefit from stable debt levels, decent growth figures and some fiscal tightening. **Germany** (No. 5) and **Austria** (No. 3) fall into this group (see Table 20 on page 55). **Luxembourg** (No. 1) and **Estonia** (No. 2) did not tighten policy, because they do not need to, and stay at the top anyway.

- **Italy** (No. 4) is a special case. Although it went through a considerable recession this year, the sustainability gap improves because the country already closed most of the fiscal sustainability gap. In addition, the series of pension reforms in the last two decades has made Italy's social security system one of the best prepared for demographic change. Because we now include an adjustment for age-related spending, this helps to make Italy look better than it did in 2011.

- One group of losers in this category in 2012 is composed of countries which have yet to tackle the impact of an aging population. This includes **Finland** (No. 7), **Belgium** (No. 9), **Slovakia** (No. 10), **France** (No. 11) and the **Netherlands** (No. 13).

- The other group of losers includes the crisis countries which saw their debt levels rise substantially and thus automatically face tougher fiscal cuts to achieve the 60% target by 2030. **Portugal** (No. 12) and **Spain** (No. 14) are key members of this group. **Ireland** (No. 16) and **Greece** (No. 15) languish at the bottom of the table in our ranking of the 17 euro members.

- Outside the eurozone, divergence could not be more marked. While **Sweden** (No. 1 in the extended ranking of 20 countries) can serve as a role model of fiscal sanity and **Poland** (No. 5) scores well, too – although largely courtesy of low legacy debt – the **UK** (No. 18 out of the 19 countries for which the data is available) has brought itself into a very difficult situation. Debt levels and deficits are high and the pension system is not yet prepared for even the relatively mild demographic challenge the UK faces.

‘How much do countries – the sovereigns and the private sector – rely on continued access to finance?’

III.5 Resilience

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

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

To assess the vulnerability to sudden shifts in market sentiment, we look at five separate sub-indicators: 1) the current account deficit, 2) the average annual sovereign debt roll-over as a share of

Table 21: Resilience

Rank		Country	Total Score		Debt rollover		Debt held abroad		Savings rate		Current account		Bank assets		Private debt	
2012	2011		2012	*Change*	2012	*Change*	2012	*Change*	2012	*Change*	2012	*Change*	2012	*Change*	2012	*Change*
1	1	Estonia	7.4	*-0.9*	9.7	*0.0*	9.6	*0.2*	3.5	*-0.9*	5.9	*-1.9*	10.0	*0.1*	5.6	*n.a.*
2	2	Slovenia	7.3	*-0.4*	6.2	*-1.1*	7.4	*0.1*	6.8	*-1.8*	5.8	*0.4*	10.0	*0.0*	7.7	*n.a.*
3	4	Slovakia	7.2	*0.4*	5.1	*-0.8*	7.7	*-0.6*	5.7	*0.2*	4.5	*0.5*	10.0	*0.0*	10.0	*n.a.*
4	5	Germany	6.8	*0.0*	3.8	*1.2*	4.5	*-0.7*	9.2	*-0.4*	8.4	*-0.4*	6.8	*-0.2*	7.8	*0.7*
5	8	Netherlands	6.0	*0.2*	5.1	*0.3*	5.9	*0.4*	6.6	*-0.3*	9.7	*0.1*	5.4	*-0.3*	3.4	*0.9*
6	7	Austria	5.8	*-0.3*	5.3	*0.2*	3.3	*-0.2*	7.2	*-1.3*	6.2	*-1.0*	6.6	*0.8*	6.3	*-0.3*
-	-	Euro 17	5.6	*0.3*	3.2	*-0.2*	4.7	*-0.1*	7.5	*0.6*	5.9	*0.3*	6.3	*-0.4*	6.2	*1.4*
7	3	Finland	5.5	*-1.7*	5.9	*0.5*	5.0	*-0.2*	5.1	*-1.6*	5.2	*-2.2*	6.5	*-2.1*	5.6	*-4.3*
8	6	Luxembourg	5.5	*-1.0*	8.7	*0.0*	n.a.	*n.a.*	7.7	*0.0*	9.1	*-0.8*	0.0	*0.0*	2.1	*n.a.*
9	9	Italy	5.4	*0.1*	0.6	*-1.2*	5.1	*1.0*	6.8	*-0.7*	4.1	*0.1*	8.0	*-0.3*	7.8	*1.5*
10	10	France	5.3	*0.0*	3.6	*-0.6*	3.7	*-0.6*	8.8	*-0.1*	4.5	*-0.4*	5.1	*-0.8*	6.3	*2.4*
11	12	Spain	5.3	*0.2*	3.5	*-1.6*	7.7	*0.8*	6.3	*-1.1*	4.0	*0.6*	6.5	*-0.3*	3.8	*2.9*
12	11	Belgium	5.0	*-0.2*	2.5	*0.1*	3.5	*0.3*	8.1	*-1.4*	6.2	*-0.1*	6.8	*0.3*	2.9	*-0.1*
13	15	Greece	4.0	*1.0*	3.2	*3.2*	0.0	*-0.8*	n.a.	*n.a.*	0.1	*-0.1*	8.6	*-0.4*	8.0	*0.7*
14	14	Portugal	3.4	*-0.2*	0.0	*-2.3*	3.0	*-0.8*	5.8	*0.1*	2.6	*2.0*	6.6	*-0.5*	2.3	*0.1*
15	17	Malta	3.2	*0.8*	3.1	*-0.6*	n.a.	*n.a.*	n.a	*n.a.*	5.6	*2.0*	0.0	*0.0*	4.1	*n.a.*
16	13	Ireland	2.7	*-1.0*	1.3	*-1.1*	2.5	*-1.7*	6.1	*-4.0*	6.2	*0.8*	0.0	*0.0*	0.0	*0.0*
17	16	Cyprus	2.4	*-0.4*	2.3	*-1.9*	n.a	*n.a.*	5.3	*0.0*	3.7	*2.0*	0.0	*0.0*	0.6	*n.a.*
(4)		Sweden	6.9		6.6		8.1		7.3		8.8		7.4		3.1	
(6)		Poland	6.7		4.4		7.4		5.0		3.6		10		10.0	
(15)		United Kingdom	4.9		7.0		7.0		3.7		4.8		2.6		4.3	

Ranks, scores and score changes from last year for the Resilience Indicator and sub-indicators. Like last year, the ranks for the 17 euro members give their relative position among these 17 countries. The ranks in brackets for the three non-euro members show their relative position in a ranking of 1 to 20 for the extended sample. For further explanations see notes under Table 2 on page 4.

‘Financial fragmentation, recession and rising debt have weakened resilience to further shocks.’

GDP, 3) public debt held abroad as a share of GDP, 4) the household savings rate, and 5) the debt of households and non-financial corporations.

During the past 12 months, many countries have tried to improve their resilience, by slashing public borrowing needs, reducing the current account deficits and restructuring their financial sectors. However, 12 months of more or less intense financial turmoil have led to some considerable deterioration. Financial fragmentation in the eurozone, recession and rising debt levels have weakened resilience to further shocks. We update our analysis with the latest (mostly end of 2011) data and describe the main changes in the following chapters.

Cyprus (No. 17) has dropped to the bottom of the table because of rising public debt and a falling household savings rate (see Table 21 on page 57). The 2011 improvement in the current account may prove temporary if the European Commission’s forecasts for 2012 prove to be correct. No wonder the country now faces the prospect of a eurozone bail-out.

A severe decline in the household savings rate reduces the score of **Ireland** (No. 16, down from No. 13) as lower savings make Irish households more vulnerable to potential new shocks in the future.

Portugal (No. 14) hardly improved its scores despite all the fiscal and structural reform efforts. The country reduced the current account deficit, but higher overall debt increased annual financing needs. **Greece** (No. 13, up from No. 15) benefitted in this ranking from the March 2012 debt swap, which lengthened maturities and reduced overall debt. However, most of its debt is held abroad now, largely by sovereign creditors.

Estonia (No. 1) retains the top spot ahead of fellow East European growth stars **Slovenia** (No. 2) and **Slovakia** (No. 3) in our ranking of the 17 euro members. However, the distance to second-placed Slovakia shrank as Estonia’s current account surplus started receding in 2011.

A group of countries changed their places in this year’s resilience ranking because of large changes in the scores in the private sector debt category. **Italy** (No. 9), **France** (No. 10) and **Spain** (No. 11) improved, while **Finland** (No. 7, down from No. 3) dropped markedly. These changes reflect the use of a new unified Eurostat database and not necessarily genuine leveraging or deleveraging of the private sector.

Outside the eurozone, **Poland** (No. 6 in the extended ranking of 20 countries) exhibits the typical profile of Eastern European emerging economies. Legacy public and private sector debt and bank assets are low, but so are savings rates. **Sweden** (No. 4) scores well across the board except in private sector indebtedness. The **UK** (No. 15) does well in terms of the resilience of the public financing needs, but the position of London as a global financial centre in a relatively small country makes it vulnerable.

‘Many crisis countries improve their scores considerably.’

III.5.a Current Account

The most obvious gauge of a country’s vulnerability to shifts in market sentiment is its annual external financing need as expressed in its current account deficit. Updating with 2011 data, many of the crisis countries improve their scores considerably as a mix of import restraint and export expansion reduced their external deficits. As a mirror image of the positive development in the crisis countries, several northern European countries reported declining current account balances.

Portugal (No. 16) and **Cyprus** (No. 15) reported the largest shifts and almost closed the gap with the next-bad country, **Spain** (No. 14), which also reported some gain. **Ireland** and **Austria** (tied for No. 4), **Belgium** (No. 6), **Slovakia** (No. 11), **Slovenia** (No. 8) and **Malta** (No. 9) complete the group of countries with improvements in our ranking of the 17 euro members.

A number of the most resilient countries saw their score drop. The current account of **Finland** (No. 10) turned negative and **Estonia**’s (No. 6) current account surplus shrank, leaving both countries worse off in this category.

Poland (No. 18 in the extended ranking of 20 countries) and the **UK** (No. 12) both figure in the bottom half of the ranking, while **Sweden** (No. 3) – perhaps unsurprisingly given its export prowess – rank near the top.

TABLE 22: Current Account Balance in % of GDP

Rank		Country	Value	Score	*Change*
2012	2011				
1	2	Netherlands	8.3	9.7	*0.1*
2	1	Luxembourg	7.1	9.1	*-0.8*
3	3	Germany	5.6	8.4	*-0.4*
4	6	Austria	1.1	6.2	*-1.0*
4	8	Ireland	1.1	6.2	*0.8*
6	7	Belgium	1.0	6.2	*-0.1*
7	4	Estonia	0.3	5.9	*-1.9*
-	-	Euro 17	0.3	5.9	*0.3*
8	9	Slovenia	0.1	5.8	*0.4*
9	13	Malta	-0.3	5.6	*2.0*
10	5	Finland	-1.1	5.2	*-2.2*
11	12	Slovakia	-2.5	4.5	*0.5*
12	10	France	-2.6	4.5	*-0.4*
13	11	Italy	-3.3	4.1	*0.1*
14	14	Spain	-3.7	4.0	*0.6*
15	15	Cyprus	-4.2	3.7	*2.0*
16	16	Portugal	-6.6	2.6	*2.0*
17	17	Greece	-11.7	0.1	*-0.1*
(3)	-	Sweden	6.5	8.8	-
(12)	-	United Kingdom	-1.9	4.8	-
(18)	-	Poland	-4.5	3.6	-

Ranks, scores and score changes from last year for the Current Account sub-indicator. Value: 2011 current account balance, % of GDP. Like last year, the ranks for the 17 euro members give their relative position among these 17 countries. The ranks in brackets for the three non-euro members show their relative position in a ranking of 1 to 20 for the extended sample. For further explanations see notes under Table 2 on page 4.

‘The average debt maturities of several crisis countries shortened amid high borrowing costs.’

III.5.b Debt Profile

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

We thus look at two aspects of a country’s debt profile as a share of GDP:1) How much public debt matures on average per year?, and 2) How much public debt is held abroad?

For debt held abroad, we now use 2011 instead of 2010 data and for average maturities we now use mid-2012 instead of the 2010 data which had been the basis of our respective calculations in The 2011 Euro Plus Monitor.

Table 23: Debt Profile

Rank 2012	Rank 2011	Country	Score	*Change*
1	1	Estonia	9.6	*0.1*
2	2	Luxembourg	8.7	*0.0*
3	3	Slovenia	6.8	*-0.5*
4	4	Slovakia	6.4	*-0.7*
5	5	Spain	5.6	*-0.4*
6	7	Netherlands	5.5	*0.3*
7	6	Finland	5.4	*0.2*
8	8	Austria	4.3	*0.0*
9	11	Germany	4.1	*0.2*
-	-	Euro 17	4.0	*-0.1*
10	9	France	3.6	*-0.6*
11	12	Malta	3.1	*-0.6*
12	16	Belgium	3.0	*0.2*
13	15	Italy	2.9	*-0.1*
14	10	Cyprus	2.3	*-1.9*
15	13	Ireland	1.9	*-1.4*
16	17	Greece	1.6	*1.2*
17	14	Portugal	1.5	*-1.5*
(3)	-	Sweden	7.4	-
(4)	-	United Kingdom	7.0	-
(7)	-	Poland	5.9	-

Ranks, scores and score changes from last year for the Debt Profile sub-indicator. Like last year, the ranks for the 17 euro members give their relative position among these 17 countries. The ranks in brackets for the three non-euro members show their relative position in a ranking of 1 to 20 for the extended sample. For further explanations see notes under Table 2 on page 4.

The update leads to limited change in our ranking of 1 to 17 for the 17 euro members (see Table 23 above). The average debt maturities of several crisis countries shortened as high borrowing costs forced them to issue more short-term debt, aggravated by rising overall debt. This is the case for **Spain** (No. 5), **Cyprus** (No. 14) and **Portugal** (No. 17). The share of debt held abroad hardly changed in 2011, although Spain may improve here once the data is updated to include the 2012 figures, as domestic banks bought up a large part of the debt sold by foreign investors. **Ireland** (No. 15) is the only country where the share of public debt held by foreigners increased strongly, probably due to the consolidation of nationalised banks and reviving appetite of select foreign investors for Irish sovereign bonds.

'In severe financial crises, the lines between private and public debt can become blurred.'

Germany (No. 9) benefitted from its safe haven status and low long-term yields to extend the average maturity of its debt in 2011, improving its ranking in this category. **Greece** (No. 16 among the 17 euro members) scored better because its average debt maturity lengthened considerably through the March 2012 debt swap, although this was largely offset by an even worse score on the debt-held-abroad criterion.

The three non-eurozone countries are all performing very well in this category. The **UK** (No. 4 in the extended ranking of 20 countries) enjoys a very high average maturity of its debt (slightly compromised by the relatively high debt level) and a relatively low share of its public debt held by foreigners. Debt in **Sweden** (No. 3) is low and largely held at home. **Poland** (No. 7) benefits from its low overall debt level.

III.5.c Private Debt

In severe financial crises, the lines between private and public debt can become blurred. Most obviously, if an economic boom fuelled by private debt goes bust, sovereign debt often surges as tax revenues plunge while social outlays rise. In addition, the sovereign is often tempted to deliver an expensive fiscal stimulus and may have to spend money to bail out parts of the private sector. Ahead of the post-Lehman financial crises, the very

Table 24: Private Sector Debt

Rank 2012	Rank 2011	Country	Value	Score	*Change*
1	1	Slovakia	77	10.0	*n.a.*
2	4	Greece	125	8.0	*0.7*
3	5	Germany	128	7.8	*0.7*
4	7	Italy	129	7.8	*1.5*
5	3	Slovenia	131	7.7	*n.a.*
6	10	France	160	6.3	*2.4*
7	6	Austria	161	6.3	*-0.3*
-	-	Euro 17	164	6.2	*1.4*
8	8	Estonia	177	5.6	*n.a.*
9	2	Finland	178	5.6	*-4.3*
10	9	Malta	210	4.1	*n.a.*
11	15	Spain	216	3.8	*2.9*
12	12	Netherlands	225	3.4	*0.9*
13	11	Belgium	236	2.9	*-0.1*
14	13	Portugal	249	2.3	*0.1*
15	14	Luxembourg	254	2.1	*n.a.*
16	16	Cyprus	288	0.6	*n.a.*
17	17	Ireland	341	0.0	*0.0*
(2)	-	Poland	80	10.0	-
(11)	-	United Kingdom	205	4.3	-
(15)	-	Sweden	232	3.1	-

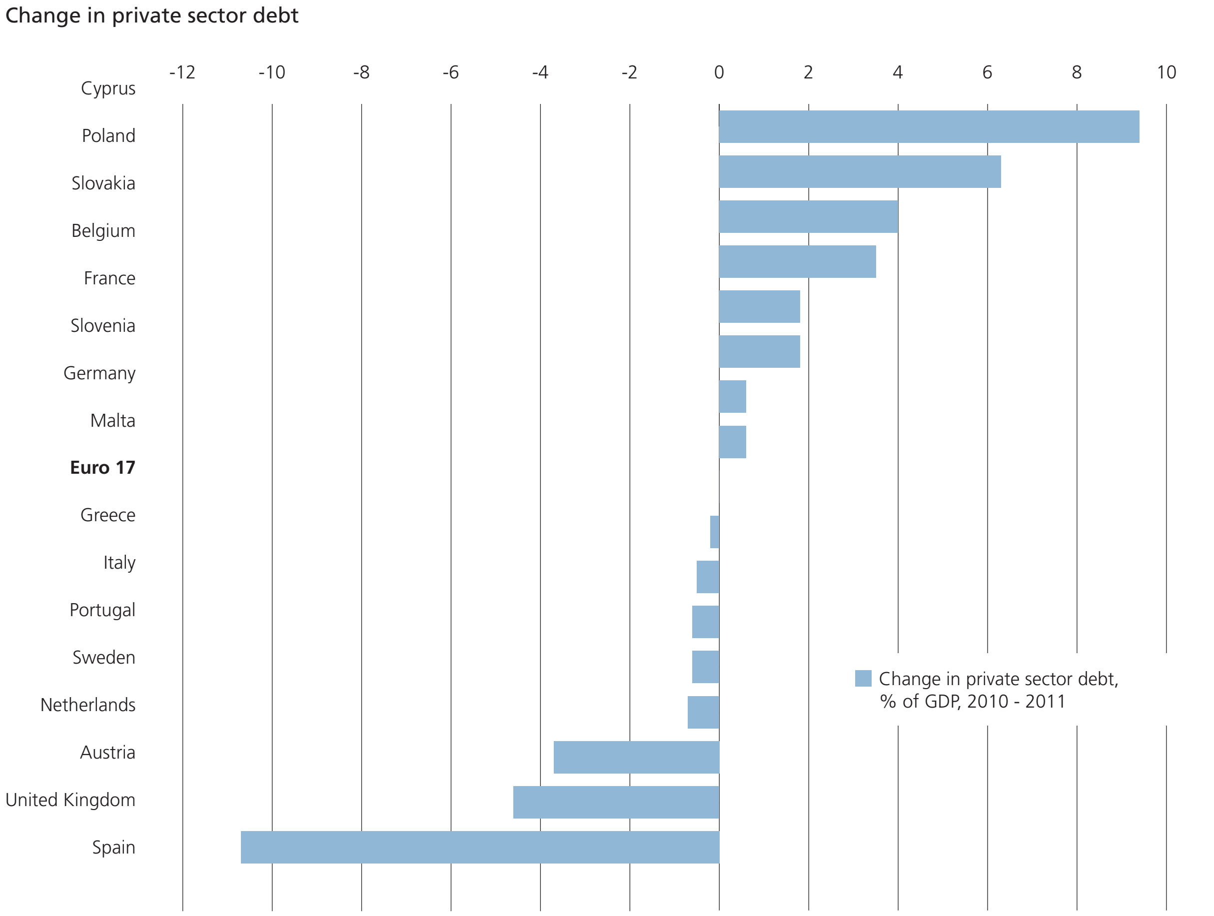
Ranks, scores and score changes from last year for the Private Debt sub-indicator. Value: 2011 private sector debt, % of GDP. Like last year, the ranks for the 17 euro members give their relative position among these 17 countries. The ranks in brackets for the three non-euro members show their relative position in a ranking of 1 to 20 for the extended sample. For further explanations see notes under Table 2 on page 4.

‘Greece had relatively low private sector debt in 2010 and has improved its position in 2011.’

comfortable fiscal positions of Ireland and Spain had obscured a serious underlying vulnerability stemming from the massive build-up of household debt.

Using a more complete Eurostat data set and the 2011 data for private sector debt (see Chart 11 below), individual results change quite a bit, although the overall trends remain unchanged from The 2011 Euro Plus Monitor. Most crisis countries figure towards the bottom of the table. The exception is **Greece** (No. 2) which already had relatively low private sector debt in 2010 and has improved its position in 2011 (see Table 24 on page 61). Another country which reports improvement is **Italy** (No. 4), which has the fourth-lowest private sector debt-level in the eurozone at 128.6% of GDP. For **Finland** (No. 9), the new data source has the opposite effect, private sector debt is much more in line with other countries than previous

Chart 11: Deleveraging in Action: Private Sector Debt Change 2010-2011



Source: Eurostat

‘Sweden figures close to the top, Poland and Britain close to the bottom of the thrift league table.’

data suggested. Private sector deleveraging is progressing fast in **Spain** (No. 11), where the level of debt declined by almost 10 percentage points of GDP to 216% in 2011.

Outside the eurozone, **Poland** (No. 2 in the extended ranking of 20 countries) has the second lowest private sector debt ratio in our full sample, at only 74% of GDP, while households and firms in **Sweden** (No. 15 out of 20 countries) feature among the most indebted at 232% of GDP and their **UK** (No. 11) counterparts above-average with 205% of GDP.

III.5.d Household Savings Rate

Having a high level of private sector debt can be mitigated by thrift, that is by a high propensity to save money out of current income. With the savings rate of households updated from 2010 to 2011 data, the order of countries remains similar, with the exception of **Ireland** (No. 10), where the savings rate fell markedly from 18% to 10.5% in 2011. A fall in disposable income due to austerity also affects savings rates in **Italy** (No. 6, at 12%) and **Spain** (No. 9, at 11%). In **Austria** (No. 5, at 12.6%) and **Finland** (No. 14, at 8.6%), on the other hand, households do not need to save more and reduced their savings rate. **Germany** (No. 1, at 16.5%), **France** (No. 2, at 15.7%) and **Belgium** (No. 3, at 14.4%) remain at the top of the ranking of the 17 euro members.

Households’ savings rates in **Sweden** (No. 5 out of 20 countries, at 12.9%) figure in a similar range as **Austria**’s while the traditionally more spendthrift **UK** (No. 17, at 6.0%) can be found near the bottom of the table. In **Poland** (No. 16, at 8.5%), the savings rate has risen considerably since the Lehman crisis in 2008, according to Eurostat. However, it still remains among the lowest in the EU.

Table 25: Savings Rate

Rank		Country	Value	Score	*Change*
2012	2011				
1	2	Germany	16.5	9.2	*-0.4*
2	4	France	15.7	8.8	*-0.1*
3	3	Belgium	14.4	8.1	*-1.4*
4	7	Luxembourg	13.6	7.7	*0.0*
-	-	Euro 17	13.2	7.5	*0.6*
5	6	Austria	12.6	7.2	*-1.3*
6	8	Italy	12.0	6.8	*-0.7*
7	5	Slovenia	11.9	6.8	*-1.8*
8	10	Netherlands	11.6	6.6	*-0.3*
9	9	Spain	11.0	6.3	*-1.1*
10	1	Ireland	10.5	6.1	*-4.0*
11	12	Portugal	10.0	5.8	*0.1*
12	13	Slovakia	9.9	5.7	*0.2*
13	14	Cyprus	9.0	5.3	*0.0*
14	11	Finland	8.6	5.1	*-1.6*
15	15	Estonia	5.6	3.5	*-0.9*
n.a.	n.a.	Malta	n.a.	n.a	*n.a.*
n.a.	n.a.	Greece	n.a.	n.a.	*n.a.*
(5)	-	Sweden	12.9	7.3	-
(16)	-	Poland	8.5	5.0	-
(17)	-	United Kingdom	6.0	3.7	-

Ranks, scores and score changes from last year for the Household Savings Rate sub-indicator. Value: 2011 household saving rate, % of disposable income. Like last year, the ranks for the 17 euro members give their relative position among these 17 countries. The ranks in brackets for the three non-euro members show their relative position in a ranking of 1 to 20 for the extended sample. For further explanations see notes under Table 2 on page 4.

'2012 has shown that sovereign and banking problems can reinforce each other.'

III.5.e Bank Assets

The past year has shown that sovereign and banking problems are often closely linked and can reinforce each other. The eurozone had to bail out Spanish and Greek banks in 2012 and may reportedly stand on the verge of doing the same for Cyprus and Slovenia. An oversized banking sector clearly makes countries more vulnerable to shocks of confidence. The ratio of bank assets to GDP thus features on our list of criteria to assess the resilience of a country to shocks.[18] This year, we update the data from 2009 to 2011, which leads to small changes.

The biggest change by far affects **Finland** (No. 10), where bank assets grew by 60% from 2009 to 2011 (see Chart 12 on page 65). Finland, as the only Scandinavian country in the eurozone, seems to serve as financing hub in the region. Finnish banks and subsidiaries apparently pass on the cheap financing from the ECB and southern European banks to non-eurozone Scandinavian banks.

In most countries, bank balance sheets have expanded further relative to GDP since 2009, although growth has slowed and in some cases reversed now. **Portugal** (No. 8) is a good example: banks assets expanded 10% from 2009 to 2011, but have fallen by 1% so far in 2012.

Austria (No. 10), **Belgium** (No. 6) and **Estonia** (No. 1) are the only countries where bank assets as a percentage of GDP fell from 2009 to 2011 and scores thus improved. In **Ireland** and **Cyprus**, assets also fell, but remained far too high to merit score points.

Among large countries, **Italy** (No. 5) and **Germany** (No. 7) have slightly lower scores, while French banks' assets expanded enough to lower the score and lead to a swap of places in the ranking between the **Netherlands** (No. 12) and **France** (No. 13).

No change at the bottom and the top (see Table 26 below): relative to the small size of their GDP, **Cyprus**, **Ireland**, **Luxembourg** and **Malta** (with

Table 26: Bank Assets

Rank 2012	Rank 2011	Country	Value	Score	*Change*
1	1	Slovakia	84	10.0	*0.0*
2	3	Estonia	119	10.0	*0.1*
3	2	Slovenia	145	10.0	*0.0*
4	4	Greece	229	8.6	*-0.4*
5	6	Italy	258	8.0	*-0.3*
6	8	Germany	324	6.8	*-0.2*
7	10	Belgium	325	6.8	*0.3*
8	7	Portugal	335	6.6	*-0.5*
9	11	Austria	336	6.6	*0.8*
10	5	Finland	340	6.5	*-2.1*
11	9	Spain	341	6.5	*-0.3*
-	-	Euro 17	356	6.3	*-0.4*
12	13	Netherlands	403	5.4	*-0.3*
13	12	France	421	5.1	*-0.8*
14	14	Cyprus	732	0.0	*0.0*
15	15	Malta	789	0.0	*0.0*
16	16	Ireland	826	0.0	*0.0*
17	17	Luxembourg	2579	0.0	*0.0*
(1)	-	Poland	84	10.0	-
(7)	-	Sweden	294	7.4	-
(16)	-	United Kingdom	556	2.6	-

Ranks, scores and score changes from last year for the Bank Asset sub-indicator. Value: end-2011 MFI total assets, % of GDP. Like last year, the ranks for the 17 euro members give their relative position among these 17 countries. The ranks in brackets for the three non-euro members show their relative position in a ranking of 1 to 20 for the extended sample. For further explanations see notes under Table 2 on page 4.

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

‘In most countries, bank balance sheets have expanded further since 2009.’

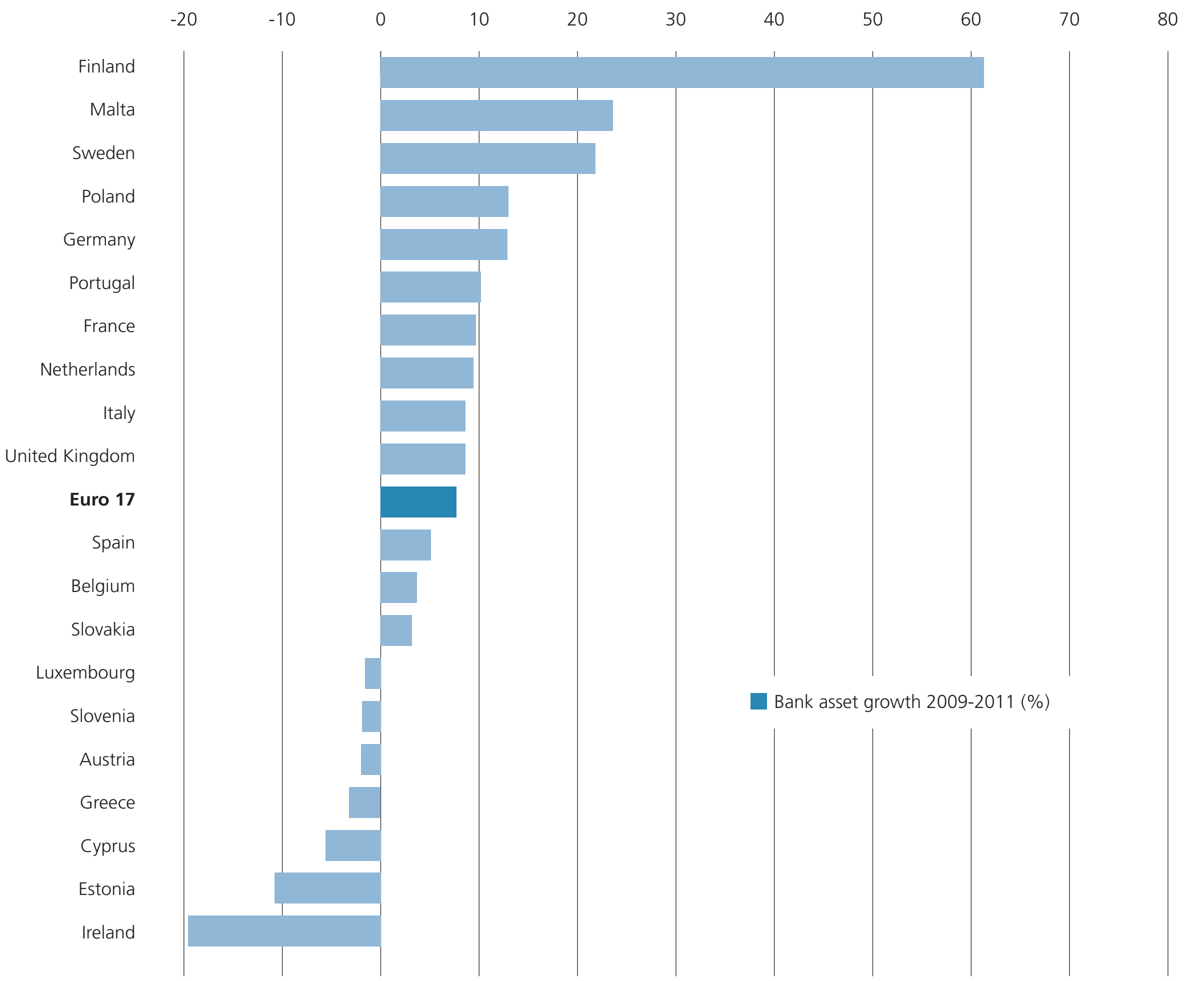
ranks of 14, 15, 16 and 17, respectively, in our ranking of the 17 euro members) are home to huge financial centres. They all remain the bottom with a score of 0 on this criterion in our ranking. Of course, the four are not the same. Luxembourg’s asset management business model is relatively safe for the government, while Cypriot banks’ exposure to Greece is hurting them now.

At the other end of the scale, **Slovakia** (No. 1), **Estonia** (No. 2) and **Slovenia** (No. 3) have very small banking sectors. However, the example of Slovenia shows that even a relatively small banking sector can get a country into trouble if banking supervision fails.

Poland (No. 1) has the smallest banking sector compared to its GDP in our group of countries, with **Sweden** (No. 7) also scoring well in this category. Unsurprisingly, given London’s role as Europe’s financial centre, the **UK** (No. 16) has by far the highest ratio of bank assets to GDP of large European economies and thus does not fare well in this ranking.

Chart 12: Change in Bank Assets in %

Total assets/liabilities of monetary financial institutions, 2011 over 2009 change in %



Source: ECB

'The eurozone is not a transfer union. But it has the world's most independent central bank.'

The Nature of the Euro Crisis

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

1. Its governments and banks have no automatic lender of last resort;
2. Instead, the eurozone is blessed with the most independent central bank in the world;
3. Unlike nation states, the eurozone is not a transfer union with major quasi-automatic and unconditional transfers within the region;

Standard nation states have their own central bank. As a result, the risk that the government of a developed country could not service the debt it has incurred in its national currency is virtually zero. If need be, the central bank could buy the debt, as the US Fed, the Bank of England and the Bank of Japan have done with abandon in the wake of the Lehman crisis.[20] In the eurozone, the multinational ECB is not the quasi-automatic lender of last resort for national governments. As a result, buyers of sovereign bonds of a member state incur a risk that the borrower may not be able to fully service its debt or may not service it in euros if the country were to leave the common currency.

Although the statutes of the ECB resemble those of the Bundesbank, which had defined "best practice" monetary policy in Europe before the advent of the euro, the ECB is far more independent than the Bundesbank ever was. The ECB faces not one but 17 finance ministers and can pretty much ignore each of them. Collusion between a finance minister and the central bank is virtually impossible in such a setting. In addition, nobody can credibly threaten the ECB with a change in its mandate. In a standard nation state, it would take one act of a national parliament to change the mandate of the central bank or the way its decision makers are appointed. In the case of the ECB, it would take a change to an international treaty which would have to be ratified by 27 countries to do so, possibly even by referenda in some countries such as Ireland and the UK. As that is a virtually impossible task, ECB decision makers have much more leeway to ignore political pressures than their counterparts anywhere else in the world.

The eurozone can best be understood as a close-knit family of nations – or separate nations kept together by strong long-term bonds. The bonds forged by history and mutual interest in long-term co-operation are not unbreakable. But they can withstand a lot. As in a family, or a group of individuals allowed to cooperate in potentially infinitely repeated games, the enlightened self-interest of each member underpins a basic solidarity within the group. But the resulting transfers are largely horizontal, from member to member, rather than vertical from a strong centre to subordinate parts of a nation. In the eurozone, the donors can and do set the terms at which they grant support to the recipients. Put simply, Germany (as a donor) can be much tougher on

19. For a more detailed exposition, see "Tough love: the true nature of the euro crisis," *Berenberg Bank,* 20 August 2012.
20. The stock of actual or announced central bank purchases of government and mortgage bonds stands at 25% of GDP in the United Kingdom, 17% in the US, 7% in Japan but merely at 3% in the eurozone. If the ECB had bought sovereign bonds as readily as the BoE, it would have purchased an additional €1.85 trillion, slightly more than the entire stock of outstanding Italian and Spanish sovereign bonds.

‘London as a donor could never be as tough on Glasgow as Germany on Spain.’

Spain (as a recipient) because Spaniards do not vote in the national election that counts for the government setting the conditions, the German election. Greater London as a donor could never be similarly tough on Greater Glasgow.

As a result, the support that eurozone members grant each other mostly takes the form of highly conditional credits rather than unconditional and non-refundable transfers. For this reason, there is much less risk of moral hazard in the mutual support system within the eurozone than in the usual transfer systems within nation states.

On static criteria of an optimum currency area, the lack of major automatic and unconditional transfers counts against the eurozone. But on the more important criterion as to whether the unique institutional setting of the eurozone is incentive-compatible, this counts as huge advantage: those who need support can only get it if they accept conditions for fiscal repair and supply-side reforms that promise to make their economies more dynamic and hence less likely to require further aid in the future.

The tough-love nature of the eurozone’s internal support system explains why peripheral euro members are correcting their fiscal imbalances in such a frontloaded way. The intense fiscal pain in the euro periphery also shows that the hard-nosed institutional set-up of the eurozone has one major potential drawback: donors setting the conditions may not always get it right. Under the unprecedented circumstances of the euro crisis, we have to guard against the risk of exceedingly tough conditions as well as against the risk of moral hazard that would flow from insufficient conditionality.

‘A key risk to watch is whether Spain falls victim to a Greek-style spiral of pain.’

Focus on Growth: the Lessons of 2012

With frontloaded fiscal repair and sweeping structural reforms across the eurozone periphery, the region is laying the basis for more dynamic and balanced growth in the future. We confidently expect the results to show up in stronger trend growth in the future. But to overcome the euro crisis, the eurozone also needs to end its current cyclical recession. In August 2012, the ECB finally took the most important step, moving to cap sovereign yield spreads for fiscally compliant euro members. This has started to improve financing conditions for households and companies at the euro periphery, allowing the ECB’s monetary policy to start working again.

But Europe must do more.

1) To rebuild the confidence needed for a rebound in business investment across the region, the eurozone needs to end the constant concerns about an imminent Greek disaster and the contagion caused by these concerns; to do this, the eurozone has to offer a clear and convincing vision for keeping Greece in the euro.
2) Europe needs to avoid any overdose of austerity. No country should be asked to tighten policy more in response to fiscal shortfalls caused by recession.
3) The policy focus needs to shift decisively away from extra austerity to pro-growth structural reforms.

These are the key lessons we can draw from the rather mixed experience of 2012.

After a comparatively smooth start to 2012, eurozone policy makers allowed the crisis to escalate again in the spring. Mounting concerns about Spain and Greece, a lack of adequate support from the European Central Bank[21] and a slowdown in demand growth in China and other major emerging markets as well as in the US darkened the economic outlook, pushing the eurozone as a whole into a new recession in mid-2012.

Largely as a result of recession, almost all peripheral countries missed their previous fiscal targets over the course of 2012. Although eurozone policymakers started to pay lip service to the principle that fiscal shortfalls caused by an unexpectedly pronounced recession should not lead to further austerity in order to avoid a Greek-style death spiral, their actions did not match their words. While countries were granted more time to meet nominal fiscal targets, all euro crisis countries ended up tightening fiscal policy in 2012 by much more than envisaged initially.

Roughly speaking, Europe seems to have gone for a 50:50 split. About half of recession-induced fiscal shortfalls were accepted by the guarantors of the eurozone (mainly Germany, the ECB and the IMF) as inevitable while countries were asked to cover the other half through additional austerity.

21. The ECB’s two three-year liquidity injections into the banking system on 21 December 2011 and 29 February 2012 had temporarily defused the crisis. But as the ECB gave peripheral banks more liquidity without addressing the concerns that Spain or Italy might eventually drop out of the euro, the ECB de facto augmented the capital flight from the periphery to the core instead of stopping it.

‘No country should be required to tighten its fiscal reins by more than 2% of GDP in one year.’

Take the case of Spain. In the autumn of 2011, the European Commission had projected that Spain would reduce its cyclically adjusted primary fiscal deficit by 0.6% of its GDP in 2012. In its November 2012 economic forecasts, the EU now sees a fiscal hit worth 2.2% of GDP for Spain this year. The IMF calculates an even bigger fiscal drain of 3.2% of Spanish GDP for 2012 in its Autumn 2012 Fiscal Monitor, up from an estimate of a mere 0.5% tightening in the Autumn 2011 Fiscal Monitor. These numbers for 2012 as a whole probably understate the full force of the fiscal hit that is currently weighing on Spain. Most importantly, Spain’s VAT hike from 18% to 21% came into force only in September 2012 and will thus show up only partly in the annual demand and revenue data for 2012.

Weak global demand, a decline in German business investment caused partly by concerns about the future of the euro and a savage credit crunch in much of the euro periphery exacerbated the economic contraction in the euro periphery in the summer and autumn of 2012. Against this backdrop, much of the additional austerity which Greece and Spain adopted – or had to adopt – in the autumn of 2012 was probably counterproductive.

One of the key risks to watch for the eurozone next year is whether Spain, despite its much better starting position and its serious adjustment progress, could fall victim to a Greek-style spiral of pain in which declining GDP leads to a rapid worsening of the debt-to-GDP ratio and hence potential demands for additional austerity in the midst of a recession. This could turn into a self-defeating attempt to close the yawning fiscal gap through ever harsher austerity.

Beyond the need for a reliable safety net, which the ECB finally delivered in August 2012 by announcing its readiness to do what it takes to restore the transmission channel of its monetary policy and keep all compliant countries in the euro, the experience of 2012 holds one clear lesson: countries should not be asked to tighten fiscal policy further if they miss fiscal targets due to an unexpectedly severe recession. Deviations from the prescribed path of fiscal repair should be tolerated if they are caused by cyclical factors. This should hold for countries in an Excessive Deficit Procedure as well as for those in an EFSF or ESM programme.

In addition we would stipulate a further rule: no country should ever be required to tighten the fiscal reins by more than 2% of its GDP in any given 12-month period, except if that country had relaxed its fiscal policy by more than 1% of its GDP in the previous year. A fiscal hit of 2% of GDP should allow a country to escape recession. As long as global demand is growing, some gain in net exports should allow a eurozone member to withstand such a fiscal hit without falling into outright recession.

‘Ireland has progressed to the turnaround stage. Portugal, Spain and Greece have not.’

Three Stages of Adjustment

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

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

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

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

Broadly speaking, Germany (which went through its own severe adjustment crisis after 2003) entered the second stage in 2006 and the third stage in 2007, only to be blown off course temporarily by the post-Lehman mega-recession in 2008. Small, open Estonia, which succumbed early to its home-made post-bubble bust in 2007, has now advanced to Stage 3, having been at the end of Stage 2 when we published The 2011 Euro Plus Monitor in November 2011. From the position of strength which Estonia reached through rapid and determined adjustment, it is now relaxing the reins again, granting itself a slight fiscal stimulus and some rebound in wages in 2012. While Estonia has maintained its top position for overall health, it has slipped to No. 3, down from No. 1, in The 2012 Euro Plus Monitor adjustment ranking as a result.

Of the four prime euro crisis countries, Ireland has progressed to the turnaround stage, with an excellent chance of reaching the final stage of success over the course of next year as long as global demand growth does not falter and abort the upturn in Irish exports and in business investment in its export-oriented activities.

Portugal, Spain and Greece are still stuck in the initial phase of pain. In late 2011, they were joined by Italy whose serious adjustment efforts only started after contagion spread from relatively small Greece (2.4% of eurozone GDP) to its much bigger neighbour (18% of eurozone GDP) in the Autumn of 2011. If demand from Germany, China and the US rebounds modestly next year, as we expect, Portugal and Italy will likely progress to the turnaround stage next spring, possibly followed by Spain next autumn. As before, the fate of Greece continues to hang in the balance.

IV. Case Studies

Case Study: United Kingdom

The United Kingdom tends to see itself as an economy apart. Blessed with its own currency and central bank – and its very own traditions – the UK has the freedom to run its economic policies to suit its own needs. If it weren't for the fallout of the euro crisis, Britain would be poised to do rather well – or so goes an argument oft heard north of the English Channel.

Our results do not back up this view of a UK that is largely an innocent victim of the euro crisis and very different from the eurozone. In fact, hardly any of the 17 euro members surveyed in this study has results closer to the eurozone average than the UK.

In terms of fundamental economic health, the UK comes slightly below the eurozone average with a score of 5.1 versus an average of 5.6. Among the 20 countries in our extended sample, the UK ranks No. 12 for overall economic health. As befits a country with above-average economic problems, the UK is adjusting slightly faster than the eurozone average, with a score for adjustment progress of 4.4 versus 3.9 for the eurozone as a whole. On this count, the UK takes position No. 9 out of 20 in the expanded survey.

The details of the UK case merit a closer look (see the UK Country Overview on page 96). The fundamental health is shaped by two extreme results.

1. The UK gets top marks for its microeconomic policies with the most growth-friendly set of rules for its product, service and labour markets.[22]
2. The UK's fiscal situation remains dire. Of the 20 countries we examine in the expanded survey, only Greece and Portugal look worse in terms of fiscal sustainability than Britain.[23]

In terms of its resilience to financial shocks, the UK falls below average with a score of 4.9 versus 5.6 for the eurozone as a whole. Within that category, three major weaknesses (an oversized financial sector, a low household savings rate and a serious current account deficit of 1.9% of GDP in 2011 versus a small 0.3% surplus for the eurozone) are only partly offset by a favourable maturity spectrum for the UK's public debt. Although the overall size of their public debt burdens is almost identical, the UK only has to roll over public debt worth 5.9% of its GDP per year whereas the eurozone needs to refinance public debt worth 13.2% of its GDP.

22. If we had included a reading for the regulation of the residential housing market, the UK would probably have done worse due to its very restrictive green belt regulation that prevent houses from being built in the regions where they are needed.
23 For the sake of simplicity, we use the terms Britain and the UK interchangeably. We apologise to Northern Ireland for this.

'Britain is heading for significantly more austerity than the eurozone from 2013 onwards.'

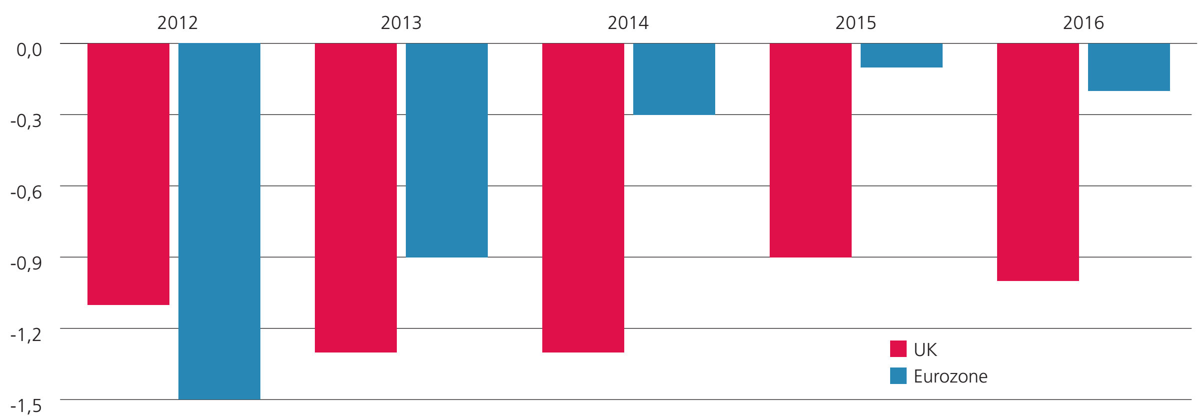
The contrast between the UK's admirable microeconomics and mediocre macroeconomics also comes out clearly in the components of the Adjustment Progress Indicator. Britain has a government that is pursing structural reforms. In the OECD survey of the readiness to reform, on which we base the ranking for this category, the UK takes the No. 5 spot after Greece, Spain, Portugal and Ireland. Although Britain is not under market pressure, the government is shaping up. But in terms of actual results that might be visible in economic statistics, Britain does not have all that much to show for its efforts. Its readings for external adjustment, fiscal adjustment and labour-cost adjustment are very close to the eurozone average. If we exclude the "reform drive" subcategory, which we added this year, Britain would come in exactly at the eurozone average with a score of 3.6.

To be sure, the UK has delivered an above-average fiscal squeeze over the last three years with a cumulative fiscal tightening of 4.3% of annual GDP versus a eurozone average of 2.6%. This is largely because the sample period includes two major increases in value added tax in 2010 and 2011 but not the initial cut in the rate during the Lehman recession in 2009. But the above average shift in the fiscal stance since the end of 2009 is almost fully offset by the fact that the UK had one of the most unsustainable fiscal positions within the European Union to start with. Put differently, the UK will need to tighten its fiscal position considerably more than the eurozone in coming years if it wants make its position as sustainable as that of the eurozone.

Chart 14 shows the coming fiscal squeeze for Britain and the eurozone based on current plans. Whereas the eurozone is having its peak fiscal pain in 2012, the UK is heading for significantly more austerity than the eurozone – and its own stance this year – from 2013 onwards. We would not be surprised if in the second half of 2013, eurozone GDP growth were to rebound beyond that of the UK.

Chart 14: Eurozone and UK Fiscal Hit

Change in primary structural fiscal balance, in % of annual GDP



Source: IMF

'In 2011, we warned that alarm bells should be ringing for France. Not much has changed.'

Case Study: France

In The 2011 Euro Plus Monitor, we warned that "alarm bells should be ringing for France." The comparison of the fundamental health of all eurozone economies revealed deep-seated problems for France. It came out as the only major economy in Europe which is stricken with such fundamental weaknesses without doing anything about it.[24]

Unfortunately, not much has changed since 2011:

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

No wonder trend growth in the French economy – measured as the average rise in gross value added outside construction per person of working age for the 2002-2010 base period – is extremely low with a mere 0.4% per year, giving France a rank of No. 18 in our sample of 20 countries. Only Italy does worse with 0.0%.

In terms of overall economic health, France has maintained a 4.5 score, which it had a year ago, whereas the eurozone average has improved marginally to 5.6, up from 5.5. In the Fundamental Health Indicator, France has thus fallen back to No. 14, down from No. 13, changing places with Italy (No. 13 this year) which has slightly augmented its overall fundamental health with a better reading for fiscal sustainability.

In terms of adjustment progress, France has moved up somewhat in the ranking. It is now No. 12 instead of No. 15 among the 17 eurozone countries. However, this largely reflects the fact that workers in Belgium and Luxembourg granted themselves excessive wage rises rather than any major progress in France.

In some respects, French policies have turned for the worse recently, with higher taxes likely to drive entrepreneurs out of the country. If France does not change course, it looks set to fall ever more behind Germany – and to also start trailing fast-reforming crisis economies such as Spain in a few years.

A day after the publication of the competitiveness report by Louis Gallois on 04 November 2012, the French government announced new measures to reduce the cost of labour. But in our view even these measures do not come close to what France would need to do to arrest its trend decline.

Raising taxes to reduce labour costs, sometimes called "de-fiscalisation," is a proven recipe to improve competitiveness. Germany and others have used it in the past and the EU/ECB/IMF troika has recommended it in all eurozone crisis countries.

24. In the meantime, a series of other reports including the report by Louis Gallois in early November 2012 and a separate IMF report of October 2012 have largely confirmed our findings.

‘It takes a major overhaul of the labour market to turn around an ailing economy.’

The measure aims at the labour market – one of France’s biggest problems besides the oversized public sector. Four months into his presidency and after a series of counterproductive tax hikes, President Hollande is finally starting to back away from some of his economically dangerous campaign promises. But he will need to go much further to end the *maladie française*.

One of the lessons to be learned from the German example, which we discussed in The 2011 Euro Plus Monitor, is that it takes a major overhaul of the labour market and serious cuts in entitlements to turn around an ailing economy with an oversized welfare state.

France needs serious economic reform. Fortunately, the risk that France could fall victim to a sudden loss of market confidence and shortly join the list of eurozone crisis countries is no more than a tiny tail risk, in our view. France has a chronic problem, not a red-hot fever rush.

To some extent, the emerging set of French policies, although insufficient to heal the problems, should mitigate the risk of an immediate crisis.

- France has ratified the fiscal pact. That could shore up confidence in its fiscal future.
- France is tightening fiscal policy only gradually. Markets are hence unlikely to worry that France may fall into a downward spiral in which an ever tighter fiscal policy causes an ever-deeper recession with additional fiscal shortfalls.
- The modest cut in labour costs may also help to keep the bond vigilantes away for the time being.

On current policies, France is probably heading for a severe crisis at some time in the future, just like Germany in the late 1990s was heading for a serious crisis – which then erupted in 2002-2003. President Hollande has the chance to turn himself into the French version of Gerhard Schröder, the centre-left chancellor, who, having started a first term with a series of economic mistakes, finally made a U-turn four years later and laid the basis for Germany’s economic revival through a series of reforms from 2003 onwards.

Table 27: Adjustment Progress Indicator (eurozone plus three)

Rank		Country	Total Score		External adj.		Fiscal adj.		Labour Cost Adj.		Reform drive	
2012	2011		2012	*Change*	2012	*Change*	2012	*Change*	2012	*Change*	2012	*Change*
1	2	Greece	8.2	*1.6*	6.6	*0.2*	8.6	*0.3*	7.7	*2.5*	10.0	-
2	3	Ireland	7.4	*0.9*	8.8	*1.7*	4.5	*0.1*	8.4	*0.5*	7.7	-
3	1	Estonia	6.5	*-1.9*	8.9	*-1.0*	2.4	*-3.2*	8.3	*-1.4*	n.a.	-
4	5	Spain	6.5	*0.8*	7.1	*0.6*	4.2	*-3.3*	5.7	*2.5*	9.0	-
5	7	Portugal	6.5	*1.6*	6.7	*1.6*	6.5	*0.2*	5.7	*2.6*	7.0	-
6	-	Poland	5.4	-	4.5	-	8.3	-	1.8	-	6.9	-
7	6	Slovakia	5.0	*-0.1*	6.2	*1.2*	4.5	*-1.2*	6.4	*2.0*	2.8	-
8	12	Italy	4.6	*1.3*	3.8	*1.5*	7.2	*2.5*	2.9	*0.0*	4.7	-
9	-	United Kingdom	4.4	-	3.8	-	4.5	-	2.6	-	6.9	-
10	4	Malta	4.4	*-2.0*	6.4	*-1.5*	2.1	*-2.3*	4.8	*-2.2*	n.a.	-
11	13	Cyprus	4.3	*1.4*	5.5	*1.4*	4.1	*0.7*	3.4	*2.1*	n.a.	-
12	11	Slovenia	4.3	*0.7*	5.8	*1.2*	4.4	*0.8*	2.7	*0.1*	n.a.	-
-	-	Euro 17	4.0	*0.7*	4.1	*1.1*	4.3	*-0.2*	2.6	*0.4*	4.9	-
13	8	Netherlands	3.6	*-0.4*	4.8	*1.6*	2.8	*-2.3*	2.5	*-1.3*	4.3	-
14	-	Sweden	3.5	-	2.9	-	3.7	-	1.7	-	5.8	-
15	15	France	3.2	*0.7*	2.9	*0.5*	4.3	*0.4*	2.0	*0.8*	3.6	-
16	10	Finland	2.7	*-1.1*	1.0	*0.5*	0.2	*-3.3*	3.6	*-4.0*	6.1	-
17	17	Austria	2.5	*0.4*	2.6	*-0.5*	0.9	*-0.7*	1.8	*0.2*	4.7	-
18	14	Belgium	2.3	*-0.3*	3.0	*0.2*	2.0	*0.4*	1.8	*-1.5*	2.3	-
19	16	Germany	2.0	*-0.2*	3.4	*1.8*	3.6	*-0.1*	1.0	*-0.2*	0.0	-
20	9	Luxembourg	1.6	*-2.4*	1.1	*-2.1*	0.2	*-1.7*	3.7	*-3.1*	1.3	-

Table 28: Fundamental Health Indicator (eurozone plus three)

Rank		Country	Total Score		Growth		Competitiveness		Fiscal sustainability		Resilience	
2012	2011		2012	*Change*	2012	*Change*	2012	*Change*	2012	*Change*	2012	*Change*
1	1	Estonia	7.4	*0.1*	6.5	*0.9*	6.6	*0.2*	9.2	*0.0*	7.4	*-0.9*
2	2	Luxembourg	7.2	*-0.1*	6.8	*-0.2*	6.8	*0.4*	9.5	*0.3*	5.5	*-1.0*
3	3	Germany	7.0	*0.1*	6.3	*-0.4*	7.9	*0.0*	6.9	*0.8*	6.8	*0.0*
4	-	Sweden	7.0	-	7.2	-	6.3	-	7.4	-	6.9	-
5	4	Netherlands	6.6	*-0.2*	7.3	*-0.1*	8.0	*-0.2*	5.2	*-0.6*	6.0	*0.2*
6	6	Slovakia	6.5	*0.2*	5.6	*0.4*	6.9	*0.2*	6.3	*-0.4*	7.2	*0.4*
7	-	Poland	6.4	-	5.9	-	6.9	-	6.1	-	6.7	-
8	5	Slovenia	6.1	*-0.4*	6.0	*-0.2*	5.6	*-1.0*	5.6	*0.0*	7.3	*-0.4*
9	8	Austria	5.9	*0.3*	6.0	*-0.1*	5.8	*0.5*	6.1	*1.1*	5.8	*-0.3*
-	-	Euro 17	5.6	*0.1*	5.0	*0.0*	6.1	*0.0*	5.6	*0.1*	5.6	*0.3*
10	7	Finland	5.5	*-0.7*	5.9	*-0.3*	4.3	*-0.2*	6.4	*-0.7*	5.5	*-1.7*
11	9	Belgium	5.5	*-0.1*	5.4	*-0.1*	6.6	*0.0*	4.8	*-0.2*	5.0	*-0.2*
12	-	United Kingdom	5.1	-	5.4	-	6.5	-	3.8	-	4.9	-
13	11	Malta	5.0	*0.4*	4.1	*-0.1*	6.8	*0.4*	6.0	*0.6*	3.2	*0.8*
14	10	Ireland	4.9	*0.2*	5.5	*0.7*	7.6	*0.7*	3.8	*0.3*	2.7	*-1.0*
15	12	Spain	4.6	*0.1*	3.9	*0.5*	4.7	*0.9*	4.4	*-1.4*	5.3	*0.2*
16	14	Italy	4.5	*0.1*	3.3	*0.1*	3.9	*-0.2*	5.3	*0.5*	5.4	*0.1*
17	13	France	4.5	*0.0*	4.7	*0.0*	4.0	*0.3*	3.9	*-0.2*	5.3	*0.0*
18	15	Portugal	3.9	*0.1*	3.6	*0.4*	5.1	*0.3*	3.7	*-0.1*	3.4	*-0.2*
19	16	Cyprus	3.6	*-0.2*	3.9	*0.1*	2.7	*0.3*	5.6	*-0.6*	2.4	*-0.4*
20	17	Greece	3.6	*0.6*	4.0	*0.0*	3.7	*1.0*	2.8	*0.6*	4.0	*1.0*

Tables 27 and 28 refer to the extended ranking for all 20 countries in our sample. In these tables, the ranks for the 17 euro members are also given on a scale of 1 to 20, not on a scale of 1 to 17 as in the tables 1 to 26. Tables 27 and 28 make the relative positions of the three non-euro members (Poland, Sweden and the United Kingdom) within our extended sample of 20 countries more easily visible than the tables 1 to 26 which given rankings for the 17 euro members on a scale of 1 to 17 and the rankings for the three non-euro members on an extended scale of 1 to 20. However, Tables 27 and 28 make it more difficult to compare the 2012 rankings to the 2011 rankings when we had not yet included the three non-euro members.

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 of the Adjustment Progress Indicator, we aggregate them into an overall score to each country. We then calculate the relative ranking of each country, with the No. 1 rank for the best and the No. 20 rank for the worst score. We do the same for the Fundamental Health Indicator.

V. Methodological Notes and Results by Country

Methodological Note

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.

Notes on Results by Country

I. Adjustment

1. External adjustment

1.1 Change in net exports as a % of GDP. Q2 2012 over H2 2007.
1.2 Change in net export Q2 2012 over H2 2007, as a % of starting level
1.3 Rise in export ratio, % of GDP, Q2 2012 over H2 2007

2. Fiscal adjustment

2.1 2009-2012 shift in structural primary fiscal balance
2.2 Fiscal shift 2009-2012 as % of shift required 2009-2020 to achieve 60% public debt-to-GDP ratio by 2030, adjusted for age-related spending

3. Labour cost adjustment

3.1 Cumulative change in real ULC, 2009-2012, %
3.2 Cumulative change in nominal ULC in euros, 2009-2012, % (non-eurozone countries 2007-2012)

4. OECD reform responsiveness indicator

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, %
    1.1.2 Deviation of annual average rise in GVA from income-adjusted norm, 2002-2010, percentage points
1.2 Human capital
    1.2.1 Fertility rate, 2009-2011 average
    1.2.2 Integration of immigrants: MIPEX index 2010
    1.2.3 Education: 2009 score in OECD's PISA study (average of reading, science and mathematics scores)
1.3 Employment
    1.3.1 Employment rate, average 2002-2011, in % of all 15-64 year-olds
    1.3.2 Average annual change in employment rate, 2002-2010, percentage points
    1.3.3 Youth unemployment rate, average 2002-2011, in %
    1.3.4 Long-term unemployment rate, average 2002-2011, in %
1.4 Consumption
    1.4.1 Total public and private consumption, average 2002-2011, % of GDP
    1.4.2 Average annual change in consumption rate, 2002-2011, percentage points

2. Competitiveness

2.1 Export ratio, average 2002-2011, % of GDP
2.2 Average annual rise in export ratio, 2002-2011, percentage points
2.3 Labour costs
    2.3.1 Real ULC, annual average change 2002-2012, %
    2.3.2 Nominal ULC, euros, annual average change 2002-2012, %
    2.3.3 World Economy Forum Global Competitiveness report Hiring and Firing Practices Survey, 2012/13
2.4 Market regulations
    2.4.1 OECD product market regulation index, 2009
    2.4.2 OECD service market regulation index, 2009
    2.4.3 World Bank Doing Business Report 2012, days to open a new business (score also includes cost of opening new businesses)

3. Fiscal sustainability

3.1 Government outlays, average 2002-2011, % of GDP
3.2 Structural fiscal balance
    3.2.1 Structural fiscal balance, 2011, % of GDP
    3.2.2 Structural primary fiscal balance, 2011, % of GDP
3.3 Public debt 2Q 2012, % of GDP
3.4 Sustainability gap until 2020, adjusted for age-related spending 2012, % of GDP

4. Resilience

4.1 Annual debt roll-over need, 2011, % of GDP
4.2 Share of public debt held by foreigners, 2011, % of GDP
4.3 Gross household savings rate, 2011, % of disposable income
4.4 Current account balance, 2011, % of GDP
4.5 Monetary Financial Institutions total assets/liabilities, 2011, % of GDP
4.6 Private sector debt, 2011, % of GDP

Austria

Overall Assessment

A mature economy with an overall health marginally above average, Austria is less dynamic than Germany but in better shape than France and Italy. It has made little adjustment effort.

Strengths

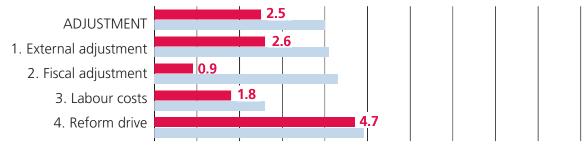
- Comparatively comfortable fiscal situation
- Subdued consumption rate
- High employment rate
- Current account surplus

Weaknesses

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

Fundamental Health

Adjustment



Detailed Scores (0-10 scale) and Ranks (1-20 ranking)

OVERALL RESULTS	AT Score	EZ17 Score	Rank
FUNDAMENTAL HEALTH	5.9	5.6	**9**
1. Growth potential	6.0	5.0	**7**
2. Competitiveness	5.8	6.1	**12**
3. Fiscal sustainability	6.1	5.6	**7**
4. Resilience	5.8	5.6	**8**
ADJUSTMENT PROGRESS	2.5	4.0	**17**
1. External adjustment	2.6	4.1	**18**
2. Fiscal adjustment	0.9	4.3	**18**
3. Labour costs	1.8	2.6	**16**
4. Reform drive	4.7	4.9	**9**

ADJUSTMENT	AT Value	EZ17 Value	Score 2.5	Rank 17
1. External adjustment			2.6	**18**
Change 2H07-2Q12				
1.1 Net exports, % points of GDP	-0.4	2.4	3.0	**16**
1.2 Net exports relative to 2H07 exports	-0.6	5.3	2.4	**16**
1.3 Rise in export ratio, % of GDP	-1.7	3.5	2.5	**17**
2. Shift in primary fiscal balance			0.9	**18**
2.1 2009 - 2012 in % of GDP	0.0	2.6	1.8	**17**
2.2 in % of required shift to 2020	0.0	33.3	0.0	**15**
3. Unit labour costs			1.8	**16**
3.1 Real ULC 2009-2012, % cumulative	-1.9	-1.8	1.6	**15**
3.2 Nominal ULC 2009-2012, % cumulative	4.0	1.5	2.0	**18**
4. Reform drive	0.2	0.2	4.7	**9**

FUNDAMENTAL HEALTH 1. Growth potential	AT Value	EZ17 Value	Score 6.0	Rank 7
1.1 Trend growth 2002-2010, in %			5.8	**10**
1.1.1 Rise in Gross value added	1.3	0.9	5.1	**9**
1.1.2 Deviation of GVA growth from norm	0.4	-0.2	6.6	**8**
1.2 Human resources			2.7	**17**
1.2.1 Fertility rate 2009-2011	1.4	1.6	3.5	**14**
1.2.2 Integration of Immigrants (MIPEX, 2010)	42.0	57.8	1.8	**16**
1.2.3 Pisa Scores 2009	487	498	2.1	**14**
1.3 Employment			8.0	**2**
1.3.1 Employment rate 2002-2011, in %	70.3	64.1	7.1	**4**
1.3.2 Change in ER 2002-2010, per year, pcp	0.3	0.2	6.9	**3**
1.3.3 Youth unemployment rate, 2002-2011, in %	8.8	18.0	9.4	**2**
1.3.4 Long-term unemployment 2002-2011, in %	1.2	3.9	8.7	**2**
1.4 Consumption rate 2002-2011			7.3	**6**
1.4.1 Total consumption, average, % of GDP	73.0	77.8	8.5	**3**
1.4.2 Change in CR 2002-2011, per year, pcp	0.0	0.2	6.0	**9**

FUNDAMENTAL HEALTH 3. Fiscal sustainability	AT Value	EZ17 Value	Score 6.1	Rank 7
3.1 Government outlays, % of GDP (2002-2011)	50.8	48.2	3.5	**16**
3.2 Structural fiscal balance 2011			7.5	**6**
3.2.1 Structural fiscal balance (% of GDP)	-2.3	-3.5	6.7	**6**
3.2.2 Structural primary fiscal balance (% of GDP)	0.3	-0.5	8.3	**7**
3.3 Debt ratio, % of GDP, 2Q 2012	73.1	88.0	5.5	**9**
3.4 Sustainability gap 2012, % of GDP	1.7	4.7	7.9	**4**

FUNDAMENTAL HEALTH 2. Competitiveness	AT Value	EZ17 Value	Score 5.8	Rank 12
2.1 Export Ratio, % of GDP, 2002-2011	53.8	39.5	5.9	**10**
2.2 Rise in export ratio, 2002-2011, pcp	1.0	0.9	5.9	**13**
2.3 Labour costs			6.7	**4**
2.3.1 Real unit labour cost, ann. change 2002-12 in %	-0.4	-0.1	7.8	**5**
2.3.2 Nominal unit labour cost, ann. ch. 2002-12 in %	1.4	1.7	7.4	**6**
2.3.3 Ease of hiring & firing	3.5	3.3	5.0	**7**
2.4 Market regulations			4.8	**16**
2.4.1 Product markets (index)	1.4	1.3	6.6	**13**
2.4.2 Service markets (index)	2.7	2.4	3.3	**12**
2.4.3 Opening new business (days)	28.0	12.4	4.4	**17**

FUNDAMENTAL HEALTH 4. Resilience	AT Value	EZ17 Value	Score 5.8	Rank 8
4.1 Annual debt roll-over, % of GDP, 2011	9.5	13.6	5.3	**7**
4.2 Debt held abroad, % of GDP, 2011	60.7	47.4	3.3	**14**
4.3 Gross household savings rate, in %, 2011	12.6	13.2	7.2	**6**
4.4 Current account, % of GDP, 2011	1.1	0.3	6.2	**5**
4.5 Bank assets, % of GDP, 2011	336	356	6.6	**11**
4.6 Private sector debt, % of GDP, 2011	161	164	6.3	**8**

Notes: The light-blue-shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone 17 for comparison. Scores range from 10 (the best possible) to 0 (the worst possible). The rankings indicate the country's relative position among the 20 countries surveyed in this study: the eurozone 17 plus Poland, Sweden and the UK: No. 1 is the top position; No. 20 is last. - Variables: for an explanation, see the separate notes to all country tables on page 76.

Belgium

Overall Assessment

A mature economy with scores in line with the eurozone average in fundamental health categories. After substantial fiscal progress since 1993, Belgium's political paralysis over the last few years has left it trailing behind in terms of adjustment effort.

Strengths

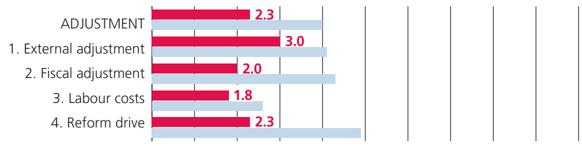
- Strong export orientation
- One of the highest fertility rates in Europe
- Comparatively open services markets
- High household savings rate

Weaknesses

- Below average trend growth rate
- Low employment rate
- Tight labour regulations
- High public and private sector debt levels

Fundamental Health

Adjustment



Detailed Scores (0-10 scale) and Ranks (1-20 ranking)

OVERALL RESULTS	BE Score	EZ17 Score	Rank
FUNDAMENTAL HEALTH	5.5	5.6	**11**
1. Growth potential	5.4	5.0	**12**
2. Competitiveness	6.6	6.1	**8**
3. Fiscal sustainability	4.8	5.6	**14**
4. Resilience	5.0	5.6	**14**
ADJUSTMENT PROGRESS	2.3	4.0	**18**
1. External adjustment	3.0	4.1	**15**
2. Fiscal adjustment	2.0	4.3	**17**
3. Labour costs	1.8	2.6	**17**
4. Reform drive	2.3	4.9	**14**

ADJUSTMENT	BE Value	EZ17 Value	Score 2.3	Rank 18
1. External adjustment			3.0	**15**
Change 2H07-2Q12				
1.1 Net exports, % points of GDP	-0.3	2.4	3.0	**15**
1.2 Net exports relative to 2H07 exports	-0.4	5.3	2.5	**15**
1.3 Rise in export ratio, % of GDP	1.1	3.5	3.6	**13**
2. Shift in primary fiscal balance			2.0	**17**
2.1 2009 - 2012 in % of GDP	1.0	2.6	2.7	**13**
2.2 in % of required shift to 2020	9.8	33.3	1.3	**14**
3. Unit labour costs			1.8	**17**
3.1 Real ULC 2009-2012, % cumulative	-0.5	-1.8	1.5	**16**
3.2 Nominal ULC 2009-2012, % cumulative	5.8	1.5	2.2	**17**
4. Reform drive	0.0	0.2	2.3	**14**

FUNDAMENTAL HEALTH 1. Growth potential	BE Value	EZ17 Value	Score 5.4	Rank 12
1.1 Trend growth 2002-2010, in %			3.6	**14**
1.1.1 Rise in Gross value added	0.6	0.9	3.3	**17**
1.1.2 Deviation of GVA growth from norm	-0.3	-0.2	3.9	**14**
1.2 Human resources			6.8	**4**
1.2.1 Fertility rate 2009-2011	1.8	1.6	7.0	**6**
1.2.2 Integration of Immigrants (MIPEX, 2010)	67.6	57.8	8.1	**5**
1.2.3 Pisa Scores 2009	509	498	4.9	**5**
1.3 Employment			5.2	**11**
1.3.1 Employment rate 2002-2011, in %	61.2	64.1	3.1	**15**
1.3.2 Change in ER 2002-2010, per year, pcp	0.2	0.2	6.2	**5**
1.3.3 Youth unemployment rate, 2002-2011, in %	20.3	18.0	5.6	**12**
1.3.4 Long-term unemployment 2002-2011, in %	3.8	3.9	5.7	**12**
1.4 Consumption rate 2002-2011			6.2	**10**
1.4.1 Total consumption, average, % of GDP	75.2	77.8	7.4	**8**
1.4.2 Change in CR 2002-2011, per year, pcp	0.2	0.2	4.9	**12**

FUNDAMENTAL HEALTH 2. Competitiveness	BE Value	EZ17 Value	Score 6.6	Rank 8
2.1 Export Ratio, % of GDP, 2002-2011	79.1	39.5	10.0	**1**
2.2 Rise in export ratio, 2002-2011, pcp	1.0	0.9	4.7	**17**
2.3 Labour costs			5.1	**13**
2.3.1 Real unit labour cost, ann. change 2002-12 in %	-0.2	-0.1	6.5	**9**
2.3.2 Nominal unit labour cost, ann. ch. 2002-12 in %	2.0	1.7	5.7	**11**
2.3.3 Ease of hiring & firing	2.9	3.3	3.0	**15**
2.4 Market regulations			6.8	**8**
2.4.1 Product markets (index)	1.4	1.3	6.7	**11**
2.4.2 Service markets (index)	2.2	2.4	5.1	**9**
2.4.3 Opening new business (days)	4.0	12.4	8.7	**5**

FUNDAMENTAL HEALTH 4. Resilience	BE Value	EZ17 Value	Score 5.0	Rank 14
4.1 Annual debt roll-over, % of GDP, 2011	15.0	13.6	2.5	**16**
4.2 Debt held abroad, % of GDP, 2011	58.2	47.4	3.5	**13**
4.3 Gross household savings rate, in %, 2011	14.4	13.2	8.1	**3**
4.4 Current account, % of GDP, 2011	1.0	0.3	6.2	**7**
4.5 Bank assets, % of GDP, 2011	325	356	6.8	**9**
4.6 Private sector debt, % of GDP, 2011	236	164	2.9	**16**

FUNDAMENTAL HEALTH 3. Fiscal sustainability	BE Value	EZ17 Value	Score 4.8	Rank 14
3.1 Government outlays, % of GDP (2002-2011)	50.7	48.2	3.5	**17**
3.2 Structural fiscal balance 2011			6.9	**9**
3.2.1 Structural fiscal balance (% of GDP)	-3.4	-3.5	5.8	**7**
3.2.2 Structural primary fiscal balance (% of GDP)	-0.1	-0.5	7.9	**8**
3.3 Debt ratio, % of GDP, 2Q 2012	100.5	88.0	3.5	**16**
3.4 Sustainability gap 2012, % of GDP	5.2	4.7	5.2	**11**

Notes: The light-blue-shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone 17 for comparison. Scores range from 10 (the best possible) to 0 (the worst possible). The rankings indicate the country's relative position among the 20 countries surveyed in this study: the eurozone 17 plus Poland, Sweden and the UK: No. 1 is the top position; No. 20 is last. - Variables: for an explanation, see the separate notes to all country tables on page 76.

Cyprus

Overall Assessment

A small economy in trouble, as witnessed by its low fundamental health score. This partly explains the request for a eurozone bail-out in 2012. However, some progress can be noted as Cyprus moves up the adjustment rankings. It began reforms later than Greece, Portugal or Spain.

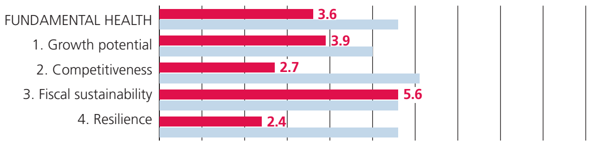
Strengths

- High employment rate
- Liberal labour laws

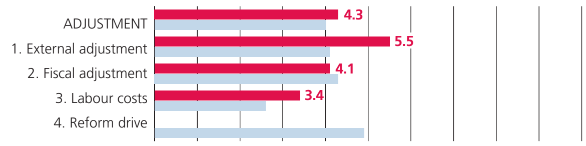
Weaknesses

- Weak export base
- Weak trend growth and failing integration of immigrants
- High structural fiscal deficit
- Very vulnerable to financial shocks due to current account deficit, high bank assets relative to GDP and high private sector indebtedness

Fundamental Health



Adjustment



Detailed Scores (0-10 scale) and Ranks (1-20 ranking)

OVERALL RESULTS	CY Score	EZ17 Score	Rank
FUNDAMENTAL HEALTH	3.6	5.6	**19**
1. Growth potential	3.9	5.0	**17**
2. Competitiveness	2.7	6.1	**20**
3. Fiscal sustainability	5.6	5.6	**10**
4. Resilience	2.4	5.6	**20**
ADJUSTMENT PROGRESS	4.3	4.0	**11**
1. External adjustment	5.5	4.1	**9**
2. Fiscal adjustment	4.1	4.3	**11**
3. Labour costs	3.4	2.6	**10**
4. Reform drive	n.a.	4.9	**n.a.**

ADJUSTMENT	CY Value	EZ17 Value	Score	Rank
			4.3	**11**
1. External adjustment Change 2H07-2Q12			5.5	**9**
1.1 Net exports, % points of GDP	12.4	2.4	7.0	**3**
1.2 Net exports relative to 2H07 exports	23.1	5.3	7.5	**5**
1.3 Rise in export ratio, % of GDP	-3.2	3.5	1.9	**19**
2. Shift in primary fiscal balance			4.1	**11**
2.1 2009 - 2012 in % of GDP	2.5	2.6	4.1	**11**
2.2 in % of required shift to 2020	n.a.	33.3	n.a.	**n.a.**
3. Unit labour costs			3.4	**10**
3.1 Real ULC 2009-2012, % cumulative	-4.2	-1.8	3.1	**10**
3.2 Nominal ULC 2009-2012, % cumulative	2.0	1.5	3.7	**10**
4. Reform drive	n.a.	0.2	n.a.	**n.a.**

FUNDAMENTAL HEALTH 1. Growth potential	CY Value	EZ17 Value	Score	Rank
			3.9	**17**
1.1 Trend growth 2002-2010, in %			2.6	**16**
1.1.1 Rise in Gross value added	0.7	0.9	3.5	**15**
1.1.2 Deviation of GVA growth from norm	-0.8	-0.2	1.6	**16**
1.2 Human resources			2.4	**18**
1.2.1 Fertility rate 2009-2011	1.4	1.6	3.6	**12**
1.2.2 Integration of Immigrants (MIPEX, 2010)	35.1	57.8	0.0	**20**
1.2.3 Pisa Scores 2009	n.a.	498	n.a.	**n.a.**
1.3 Employment			7.3	**3**
1.3.1 Employment rate 2002-2011, in %	69.4	64.1	6.7	**5**
1.3.2 Change in ER 2002-2010, per year, pcp	0.1	0.2	5.5	**11**
1.3.3 Youth unemployment rate, 2002-2011, in %	12.3	18.0	8.2	**4**
1.3.4 Long-term unemployment 2002-2011, in %	1.0	3.9	8.9	**1**
1.4 Consumption rate 2002-2011			3.2	**18**
1.4.1 Total consumption, average, % of GDP	84.8	77.8	2.6	**17**
1.4.2 Change in CR 2002-2011, per year, pcp	0.4	0.2	3.8	**14**

FUNDAMENTAL HEALTH 2. Competitiveness	CY Value	EZ17 Value	Score	Rank
			2.7	**20**
2.1 Export Ratio, % of GDP, 2002-2011	46.3	39.5	0.0	**18**
2.2 Rise in export ratio, 2002-2011, pcp	-0.7	0.9	0.0	**20**
2.3 Labour costs			4.7	**15**
2.3.1 Real unit labour cost, ann. change 2002-12 in %	0.1	-0.1	5.2	**13**
2.3.2 Nominal unit labour cost, ann. ch. 2002-12 in %	2.5	1.7	4.3	**16**
2.3.3 Ease of hiring & firing	3.8	3.3	6.0	**5**
2.4 Market regulations			6.0	**12**
2.4.1 Product markets (index)	n.a.	1.3	n.a.	**n.a.**
2.4.2 Service markets (index)	n.a.	2.4	n.a.	**n.a.**
2.4.3 Opening new business (days)	8.0	12.4	6.0	**14**

FUNDAMENTAL HEALTH 4. Resilience	CY Value	EZ17 Value	Score	Rank
			2.4	**20**
4.1 Annual debt roll-over, % of GDP, 2011	15.3	13.6	2.3	**17**
4.2 Debt held abroad, % of GDP, 2011	n.a.	47.4	n.a.	**n.a.**
4.3 Gross household savings rate, in %, 2011	9.0	13.2	5.3	**14**
4.4 Current account, % of GDP, 2011	-4.2	0.3	3.7	**17**
4.5 Bank assets, % of GDP, 2011	732	356	0.0	**17**
4.6 Private sector debt, % of GDP, 2011	288	164	0.6	**19**

FUNDAMENTAL HEALTH 3. Fiscal sustainability	CY Value	EZ17 Value	Score	Rank
			5.6	**10**
3.1 Government outlays, % of GDP (2002-2011)	43.5	48.2	7.0	**6**
3.2 Structural fiscal balance 2011			4.2	**17**
3.2.1 Structural fiscal balance (% of GDP)	-5.9	-3.5	3.9	**16**
3.2.2 Structural primary fiscal balance (% of GDP)	-3.6	-0.5	4.4	**17**
3.3 Debt ratio, % of GDP, 2Q 2012	81.3	88.0	4.9	**13**
3.4 Sustainability gap 2012, % of GDP	3.6	4.7	6.5	**8**

Notes: The light-blue-shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone 17 for comparison. Scores range from 10 (the best possible) to 0 (the worst possible). The rankings indicate the country's relative position among the 20 countries surveyed in this study: the eurozone 17 plus Poland, Sweden and the UK: No. 1 is the top position; No. 20 is last. - Variables: for an explanation, see the separate notes to all country tables on page 76.

Estonia

Overall Assessment

This small open and highly dynamic catching-up economy is top performer on fundamental health in the eurozone. Recovery after credit bubble recession in 2007 is mostly complete, and the adjustment effort is thus fading. Estonia is the most resilient economy in the eurozone.

Strengths

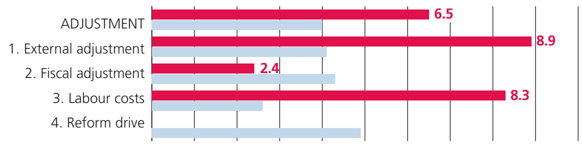
- Deregulated labour, product and services markets
- Very comfortable fiscal position
- Low consumption rate

Weaknesses

- High legacy long-term unemployment
- Fast-rising unit labour costs before crisis
- Low household savings rate

Fundamental Health

Adjustment



Detailed Scores (0-10 scale) and Ranks (1-20 ranking)

OVERALL RESULTS	EE Score	EZ17 Score	Rank
FUNDAMENTAL HEALTH	7.4	5.6	**1**
1. Growth potential	6.5	5.0	**4**
2. Competitiveness	6.6	6.1	**9**
3. Fiscal sustainability	9.2	5.6	**2**
4. Resilience	7.4	5.6	**1**
ADJUSTMENT PROGRESS	6.5	4.0	**3**
1. External adjustment	8.9	4.1	**1**
2. Fiscal adjustment	2.4	4.3	**15**
3. Labour costs	8.3	2.6	**2**
4. Reform drive	n.a.	4.9	**n.a.**

ADJUSTMENT	EE Value	EZ17 Value	Score 6.5	Rank 3
1. External adjustment			8.9	**1**
Change 2H07-2Q12				
1.1 Net exports, % points of GDP	19.1	2.4	9.1	**2**
1.2 Net exports relative to 2H07 exports	23.5	5.3	7.5	**4**
1.3 Rise in export ratio, % of GDP	29.1	3.5	10.0	**1**
2. Shift in primary fiscal balance			2.4	**15**
2.1 2009 - 2012 in % of GDP	0.6	2.6	2.4	**15**
2.2 in % of required shift to 2020	n.a.	33.3	n.a.	**n.a.**
3. Unit labour costs			8.3	**2**
3.1 Real ULC 2009-2012, % cumulative	-9.7	-1.8	8.7	**2**
3.2 Nominal ULC 2009-2012, % cumulative	-3.5	1.5	8.0	**1**
4. Reform drive	n.a.	0.2	n.a.	**n.a.**

FUNDAMENTAL HEALTH 1. Growth potential	EE Value	EZ17 Value	Score 6.5	Rank 4
1.1 Trend growth 2002-2010, in %			7.5	**5**
1.1.1 Rise in Gross value added	3.0	0.9	9.9	**3**
1.1.2 Deviation of GVA growth from norm	0.0	-0.2	5.1	**12**
1.2 Human resources			4.5	**9**
1.2.1 Fertility rate 2009-2011	1.6	1.6	4.9	**8**
1.2.2 Integration of Immigrants (MIPEX, 2010)	46.1	57.8	2.8	**15**
1.2.3 Pisa Scores 2009	514	498	5.5	**3**
1.3 Employment			4.9	**14**
1.3.1 Employment rate 2002-2011, in %	64.9	64.1	4.7	**11**
1.3.2 Change in ER 2002-2010, per year, pcp	-0.1	0.2	3.9	**17**
1.3.3 Youth unemployment rate, 2002-2011, in %	19.3	18.0	5.9	**10**
1.3.4 Long-term unemployment 2002-2011, in %	4.4	3.9	5.1	**16**
1.4 Consumption rate 2002-2011			8.9	**2**
1.4.1 Total consumption, average, % of GDP	73.3	77.8	8.4	**5**
1.4.2 Change in CR 2002-2011, per year, pcp	-0.5	0.2	9.4	**3**

FUNDAMENTAL HEALTH 2. Competitiveness	EE Value	EZ17 Value	Score 6.6	Rank 9
2.1 Export Ratio, % of GDP, 2002-2011	73.8	39.5	7.1	**8**
2.2 Rise in export ratio, 2002-2011, pcp	2.4	0.9	8.2	**4**
2.3 Labour costs			3.9	**18**
2.3.1 Real unit labour cost, ann. change 2002-12 in %	0.4	-0.1	3.5	**17**
2.3.2 Nominal unit labour cost, ann. ch. 2002-12 in %	5.0	1.7	0.0	**20**
2.3.3 Ease of hiring & firing	4.5	3.3	8.3	**1**
2.4 Market regulations			7.3	**6**
2.4.1 Product markets (index)	1.2	1.3	7.5	**7**
2.4.2 Service markets (index)	2.1	2.4	5.3	**8**
2.4.3 Opening new business (days)	7.0	12.4	9.0	**4**

FUNDAMENTAL HEALTH 3. Fiscal sustainability	EE Value	EZ17 Value	Score 9.2	Rank 2
3.1 Government outlays, % of GDP (2002-2011)	37.0	48.2	9.7	**3**
3.2 Structural fiscal balance 2011			7.7	**5**
3.2.1 Structural fiscal balance (% of GDP)	-0.7	-3.5	7.9	**4**
3.2.2 Structural primary fiscal balance (% of GDP)	-0.6	-0.5	7.4	**10**
3.3 Debt ratio, % of GDP, 2Q 2012	7.0	88.0	10.0	**1**
3.4 Sustainability gap 2012, % of GDP	-0.4	4.7	9.5	**3**

FUNDAMENTAL HEALTH 4. Resilience	EE Value	EZ17 Value	Score 7.4	Rank 1
4.1 Annual debt roll-over, % of GDP, 2011	0.7	13.6	9.7	**1**
4.2 Debt held abroad, % of GDP, 2011	3.7	47.4	9.6	**1**
4.3 Gross household savings rate, in %, 2011	5.6	13.2	3.5	**18**
4.4 Current account, % of GDP, 2011	0.3	0.3	5.9	**8**
4.5 Bank assets, % of GDP, 2011	119	356	10.0	**3**
4.6 Private sector debt, % of GDP, 2011	177	164	5.6	**9**

Notes: The light-blue-shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone 17 for comparison. Scores range from 10 (the best possible) to 0 (the worst possible). The rankings indicate the country's relative position among the 20 countries surveyed in this study: the eurozone 17 plus Poland, Sweden and the UK: No. 1 is the top position; No. 20 is last. - Variables: for an explanation, see the separate notes to all country tables on page 76.

Finland

Overall Assessment

Finland is still a good performer in terms of fundamental economic health, but one of the losers in this year's ranking. The issues of its largest exporting firm weigh on perceived overall competitivess. Fiscal sustainability and financial resilience remain strong points though.

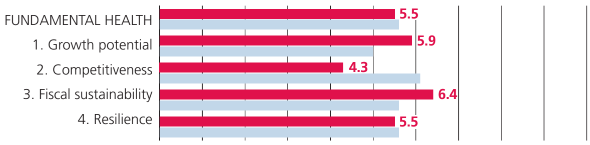
Strengths

- Virtually balanced budget
- Low government debt ratio
- Good score for reform drive

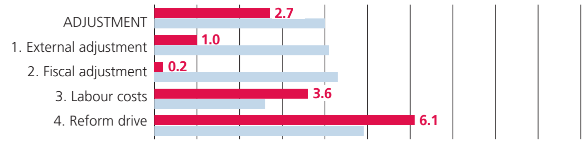
Weaknesses

- Export weakness hints at competitivess problems
- High share of government outlays in GDP
- Rising unit labour costs erode competitiveness further

Fundamental Health



Adjustment



Detailed Scores (0-10 scale) and Ranks (1-20 ranking)

OVERALL RESULTS	FL	EZ17	
	Score	Score	Rank
FUNDAMENTAL HEALTH	5.5	5.6	**10**
1. Growth potential	5.9	5.0	**9**
2. Competitiveness	4.3	6.1	**16**
3. Fiscal sustainability	6.4	5.6	**5**
4. Resilience	5.5	5.6	**9**
ADJUSTMENT PROGRESS	2.7	4.0	**16**
1. External adjustment	1.0	4.1	**20**
2. Fiscal adjustment	0.2	4.3	**20**
3. Labour costs	3.6	2.6	**9**
4. Reform drive	6.1	4.9	**7**

ADJUSTMENT	FL	EZ17	Score	Rank
	Value	Value	2.7	**16**
1. External adjustment			1.0	**20**
Change 2H07-2Q12				
1.1 Net exports, % points of GDP	-5.2	2.4	1.5	**19**
1.2 Net exports relative to 2H07 exports	-10.1	5.3	0.4	**20**
1.3 Rise in export ratio, % of GDP	-5.3	3.5	1.1	**20**
2. Shift in primary fiscal balance			0.2	**20**
2.1 2009 - 2012 in % of GDP	-1.6	2.6	0.4	**18**
2.2 in % of required shift to 2020	0.0	33.3	0.0	**15**
3. Unit labour costs			3.6	**9**
3.1 Real ULC 2009-2012, % cumulative	-2.5	-1.8	4.1	**9**
3.2 Nominal ULC 2009-2012, % cumulative	3.7	1.5	3.0	**12**
4. Reform drive	0.3	0.2	6.1	**7**

FUNDAMENTAL HEALTH	FL	EZ17	Score	Rank
1. Growth potential	Value	Value	5.9	**9**
1.1 Trend growth 2002-2010, in %			5.3	**11**
1.1.1 Rise in Gross value added	1.1	0.9	4.7	**10**
1.1.2 Deviation of GVA growth from norm	0.2	-0.2	6.0	**9**
1.2 Human resources			8.0	**1**
1.2.1 Fertility rate 2009-2011	1.9	1.6	7.1	**5**
1.2.2 Integration of Immigrants (MIPEX, 2010)	69.1	57.8	8.5	**3**
1.2.3 Pisa Scores 2009	544	498	9.2	**1**
1.3 Employment			6.2	**9**
1.3.1 Employment rate 2002-2011, in %	68.8	64.1	6.4	**6**
1.3.2 Change in ER 2002-2010, per year, pcp	0.0	0.2	4.7	**15**
1.3.3 Youth unemployment rate, 2002-2011, in %	19.8	18.0	5.7	**11**
1.3.4 Long-term unemployment 2002-2011, in %	1.9	3.9	7.9	**7**
1.4 Consumption rate 2002-2011			4.0	**16**
1.4.1 Total consumption, average, % of GDP	75.3	77.8	7.4	**9**
1.4.2 Change in CR 2002-2011, per year, pcp	0.9	0.2	0.6	**20**

FUNDAMENTAL HEALTH	FL	EZ17	Score	Rank
3. Fiscal sustainability	Value	Value	6.4	**5**
3.1 Government outlays, % of GDP (2002-2011)	51.1	48.2	3.4	**18**
3.2 Structural fiscal balance 2011			9.0	**1**
3.2.1 Structural fiscal balance (% of GDP)	0.3	-3.5	8.7	**1**
3.2.2 Structural primary fiscal balance (% of GDP)	1.4	-0.5	9.4	**3**
3.3 Debt ratio, % of GDP, 2Q 2012	49.7	88.0	7.2	**5**
3.4 Sustainability gap 2012, % of GDP	4.1	4.7	6.1	**9**

FUNDAMENTAL HEALTH	FL	EZ17	Score	Rank
2. Competitiveness	Value	Value	4.3	**16**
2.1 Export Ratio, % of GDP, 2002-2011	41.7	39.5	1.0	**17**
2.2 Rise in export ratio, 2002-2011, pcp	0.1	0.9	3.0	**18**
2.3 Labour costs			4.6	**16**
2.3.1 Real unit labour cost, ann. change 2002-12 in %	0.6	-0.1	2.2	**19**
2.3.2 Nominal unit labour cost, ann. ch. 2002-12 in %	2.1	1.7	5.3	**13**
2.3.3 Ease of hiring & firing	3.9	3.3	6.3	**3**
2.4 Market regulations			8.7	**4**
2.4.1 Product markets (index)	1.1	1.3	8.3	**5**
2.4.2 Service markets (index)	1.0	2.4	9.7	**4**
2.4.3 Opening new business (days)	14.0	12.4	8.0	**8**

FUNDAMENTAL HEALTH	FL	EZ17	Score	Rank
4. Resilience	Value	Value	5.5	**9**
4.1 Annual debt roll-over, % of GDP, 2011	8.3	13.6	5.9	**6**
4.2 Debt held abroad, % of GDP, 2011	45.0	47.4	5.0	**10**
4.3 Gross household savings rate, in %, 2011	8.6	13.2	5.1	**15**
4.4 Current account, % of GDP, 2011	-1.1	0.3	5.2	**11**
4.5 Bank assets, % of GDP, 2011	340	356	6.5	**12**
4.6 Private sector debt, % of GDP, 2011	178	164	5.6	**10**

Notes: The light-blue-shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone 17 for comparison. Scores range from 10 (the best possible) to 0 (the worst possible). The rankings indicate the country's relative position among the 20 countries surveyed in this study: the eurozone 17 plus Poland, Sweden and the UK: No. 1 is the top position; No. 20 is last. - Variables: for an explanation, see the separate notes to all country tables on page 76.

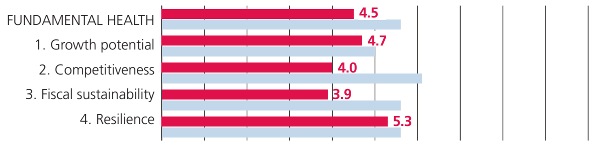
France

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

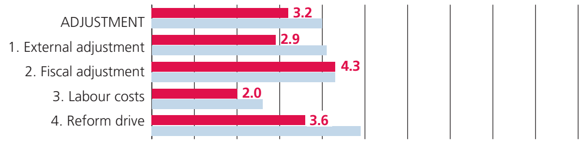
Strengths
- One of the highest fertility rates in Europe
- Easy to open new businesses
- High household savings rate

Weaknesses
- Low trend growth rate
- Highest share of government expenditure in GDP
- Rising labour costs erode competitiveness
- Weak exports
- High bank assets as percentage of GDP

Fundamental Health



Adjustment



Detailed Scores (0-10 scale) and Ranks (1-20 ranking)

OVERALL RESULTS	FR	EZ17	
	Score	Score	Rank
FUNDAMENTAL HEALTH	4.5	5.6	**17**
1. Growth potential	4.7	5.0	**14**
2. Competitiveness	4.0	6.1	**17**
3. Fiscal sustainability	3.9	5.6	**16**
4. Resilience	5.3	5.6	**12**
ADJUSTMENT PROGRESS	3.2	4.0	**15**
1. External adjustment	2.9	4.1	**17**
2. Fiscal adjustment	4.3	4.3	**9**
3. Labour costs	2.0	2.6	**15**
4. Reform drive	3.6	4.9	**12**

ADJUSTMENT	FR	EZ17	Score	Rank
	Value	Value	3.2	**15**
1. External adjustment			2.9	**17**
Change 2H07-2Q12				
1.1 Net exports, % points of GDP	-0.5	2.4	3.0	**17**
1.2 Net exports relative to 2H07 exports	-1.7	5.3	2.2	**18**
1.3 Rise in export ratio, % of GDP	0.9	3.5	3.6	**14**
2. Shift in primary fiscal balance			4.3	**9**
2.1 2009 - 2012 in % of GDP	2.9	2.6	4.5	**8**
2.2 in % of required shift to 2020	31.5	33.3	4.2	**9**
3. Unit labour costs			2.0	**15**
3.1 Real ULC 2009-2012, % cumulative	-0.2	-1.8	1.4	**17**
3.2 Nominal ULC 2009-2012, % cumulative	3.9	1.5	2.7	**14**
4. Reform drive	0.1	0.2	3.6	**12**

FUNDAMENTAL HEALTH	FR	EZ17	Score	Rank
1. Growth potential	Value	Value	4.7	**14**
1.1 Trend growth 2002-2010, in %			2.9	**15**
1.1.1 Rise in Gross value added	0.4	0.9	2.7	**18**
1.1.2 Deviation of GVA growth from norm	-0.5	-0.2	3.1	**15**
1.2 Human resources			6.1	**7**
1.2.1 Fertility rate 2009-2011	2.0	1.6	8.5	**2**
1.2.2 Integration of Immigrants (MIPEX, 2010)	50.9	57.8	4.0	**11**
1.2.3 Pisa Scores 2009	497	498	3.4	**9**
1.3 Employment			5.3	**10**
1.3.1 Employment rate 2002-2011, in %	63.9	64.1	4.3	**12**
1.3.2 Change in ER 2002-2010, per year, pcp	0.1	0.2	5.3	**12**
1.3.3 Youth unemployment rate, 2002-2011, in %	21.0	18.0	5.3	**13**
1.3.4 Long-term unemployment 2002-2011, in %	3.6	3.9	6.1	**11**
1.4 Consumption rate 2002-2011			4.6	**14**
1.4.1 Total consumption, average, % of GDP	81.0	77.8	4.5	**14**
1.4.2 Change in CR 2002-2011, per year, pcp	0.3	0.2	4.7	**13**

FUNDAMENTAL HEALTH	FR	EZ17	Score	Rank
2. Competitiveness	Value	Value	4.0	**17**
2.1 Export Ratio, % of GDP, 2002-2011	26.3	39.5	2.4	**15**
2.2 Rise in export ratio, 2002-2011, pcp	0.0	0.9	2.7	**19**
2.3 Labour costs			4.0	**17**
2.3.1 Real unit labour cost, ann. change 2002-12 in %	0.2	-0.1	4.5	**16**
2.3.2 Nominal unit labour cost, ann. ch. 2002-12 in %	2.0	1.7	5.7	**10**
2.3.3 Ease of hiring & firing	2.5	3.3	1.7	**19**
2.4 Market regulations			7.0	**7**
2.4.1 Product markets (index)	1.4	1.3	6.6	**14**
2.4.2 Service markets (index)	2.1	2.4	5.3	**7**
2.4.3 Opening new business (days)	7.0	12.4	9.2	**3**

FUNDAMENTAL HEALTH	FR	EZ17	Score	Rank
4. Resilience	Value	Value	5.3	**12**
4.1 Annual debt roll-over, % of GDP, 2011	12.9	13.6	3.6	**12**
4.2 Debt held abroad, % of GDP, 2011	57.0	47.4	3.7	**12**
4.3 Gross household savings rate, in %, 2011	15.7	13.2	8.8	**2**
4.4 Current account, % of GDP, 2011	-2.6	0.3	4.5	**14**
4.5 Bank assets, % of GDP, 2011	421	356	5.1	**15**
4.6 Private sector debt, % of GDP, 2011	160	164	6.3	**7**

FUNDAMENTAL HEALTH	FR	EZ17	Score	Rank
3. Fiscal sustainability	Value	Value	3.9	**16**
3.1 Government outlays, % of GDP (2002-2011)	54.1	48.2	1.3	**20**
3.2 Structural fiscal balance 2011			5.6	**12**
3.2.1 Structural fiscal balance (% of GDP)	-4.5	-3.5	5.0	**11**
3.2.2 Structural primary fiscal balance (% of GDP)	-1.9	-0.5	6.1	**12**
3.3 Debt ratio, % of GDP, 2Q 2012	89.0	88.0	4.4	**15**
3.4 Sustainability gap 2012, % of GDP	6.4	4.7	4.3	**13**

Notes: The light-blue-shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone 17 for comparison. Scores range from 10 (the best possible) to 0 (the worst possible). The rankings indicate the country's relative position among the 20 countries surveyed in this study: the eurozone 17 plus Poland, Sweden and the UK: No. 1 is the top position; No. 20 is last. - Variables: for an explanation, see the separate notes to all country tables on page 76.

Germany

Overall Assessment

Remains by far the most dynamic major mature Europan economy. Very competitive economy and with improving fiscal sustainability despite relatively high legacy public debt. Growth potential and resilience are also clearly above average. There is still room for improvment in terms of liberalisation. Has stopped reforms and started to backtrack.

Strengths

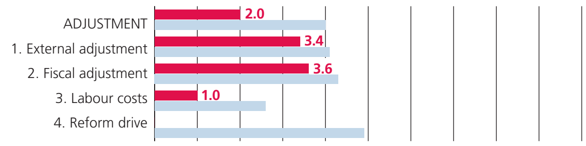
- Excellent fundamental health
- Very competitive economy
- Excellent employment situation
- High household savings rate

Weaknesses

- Demographic challenge: low fertility rate
- Highly regulated markets
- Relatively high legacy public debt

Fundamental Health

Adjustment



Detailed Scores (0-10 scale) and Ranks (1-20 ranking)

OVERALL RESULTS	DE	EZ17	
	Score	Score	Rank
FUNDAMENTAL HEALTH	7.0	5.6	**3**
1. Growth potential	6.3	5.0	**5**
2. Competitiveness	7.9	6.1	**2**
3. Fiscal sustainability	6.9	5.6	**4**
4. Resilience	6.8	5.6	**5**
ADJUSTMENT PROGRESS	2.0	4.0	**19**
1. External adjustment	3.4	4.1	**14**
2. Fiscal adjustment	3.6	4.3	**13**
3. Labour costs	1.0	2.6	**20**
4. Reform drive	0.0	4.9	**16**

ADJUSTMENT	DE	EZ17	Score	Rank
	Value	Value	2.0	**19**
1. External adjustment			3.4	**14**
Change 2H07-2Q12				
1.1 Net exports, % points of GDP	-0.6	2.4	2.9	**18**
1.2 Net exports relative to 2H07 exports	-1.1	5.3	2.3	**17**
1.3 Rise in export ratio, % of GDP	4.5	3.5	5.0	**8**
2. Shift in primary fiscal balance			3.6	**13**
2.1 2009 - 2012 in % of GDP	1.0	2.6	2.7	**13**
2.2 in % of required shift to 2020	33.3	33.3	4.4	**8**
3. Unit labour costs			1.0	**20**
3.1 Real ULC 2009-2012, % cumulative	0.1	-1.8	0.2	**20**
3.2 Nominal ULC 2009-2012, % cumulative	3.1	1.5	1.8	**19**
4. Reform drive	-0.2	0.2	0.0	**16**

FUNDAMENTAL HEALTH	DE	EZ17	Score	Rank
1. Growth potential	Value	Value	6.3	**5**
1.1 Trend growth 2002-2010, in %			7.1	**6**
1.1.1 Rise in Gross value added	1.6	0.9	6.1	**6**
1.1.2 Deviation of GVA growth from norm	0.7	-0.2	8.1	**5**
1.2 Human resources			4.2	**11**
1.2.1 Fertility rate 2009-2011	1.4	1.6	3.1	**18**
1.2.2 Integration of Immigrants (MIPEX, 2010)	57.3	57.8	5.6	**9**
1.2.3 Pisa Scores 2009	510	498	5.0	**4**
1.3 Employment			7.1	**4**
1.3.1 Employment rate 2002-2011, in %	68.1	64.1	6.1	**7**
1.3.2 Change in ER 2002-2010, per year, pcp	0.6	0.2	8.9	**2**
1.3.3 Youth unemployment rate, 2002-2011, in %	11.7	18.0	8.4	**3**
1.3.4 Long-term unemployment 2002-2011, in %	4.5	3.9	5.0	**17**
1.4 Consumption rate 2002-2011			6.7	**8**
1.4.1 Total consumption, average, % of GDP	76.7	77.8	6.7	**12**
1.4.2 Change in CR 2002-2011, per year, pcp	-0.1	0.2	6.7	**7**

FUNDAMENTAL HEALTH	DE	EZ17	Score	Rank
2. Competitiveness	Value	Value	7.9	**2**
2.1 Export Ratio, % of GDP, 2002-2011	43.2	39.5	9.2	**6**
2.2 Rise in export ratio, 2002-2011, pcp	1.6	0.9	10.0	**1**
2.3 Labour costs			6.9	**3**
2.3.1 Real unit labour cost, ann. change 2002-12 in %	-0.4	-0.1	7.8	**6**
2.3.2 Nominal unit labour cost, ann. ch. 2002-12 in %	0.7	1.7	9.3	**2**
2.3.3 Ease of hiring & firing	3.1	3.3	3.7	**12**
2.4 Market regulations			5.6	**15**
2.4.1 Product markets (index)	1.3	1.3	7.4	**8**
2.4.2 Service markets (index)	2.9	2.4	2.6	**15**
2.4.3 Opening new business (days)	15.0	12.4	6.9	**12**

FUNDAMENTAL HEALTH	DE	EZ17	Score	Rank
3. Fiscal sustainability	Value	Value	6.9	**4**
3.1 Government outlays, % of GDP (2002-2011)	46.5	48.2	5.9	**9**
3.2 Structural fiscal balance 2011			8.9	**3**
3.2.1 Structural fiscal balance (% of GDP)	-0.7	-3.5	7.9	**4**
3.2.2 Structural primary fiscal balance (% of GDP)	1.8	-0.5	9.8	**1**
3.3 Debt ratio, % of GDP, 2Q 2012	80.8	88.0	4.9	**12**
3.4 Sustainability gap 2012, % of GDP	2.0	4.7	7.7	**7**

FUNDAMENTAL HEALTH	DE	EZ17	Score	Rank
4. Resilience	Value	Value	6.8	**5**
4.1 Annual debt roll-over, % of GDP, 2011	12.4	13.6	3.8	**11**
4.2 Debt held abroad, % of GDP, 2011	49.9	47.4	4.5	**11**
4.3 Gross household savings rate, in %, 2011	16.5	13.2	9.2	**1**
4.4 Current account, % of GDP, 2011	5.6	0.3	8.4	**4**
4.5 Bank assets, % of GDP, 2011	324	356	6.8	**8**
4.6 Private sector debt, % of GDP, 2011	128	164	7.8	**4**

Notes: The light-blue-shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone 17 for comparison. Scores range from 10 (the best possible) to 0 (the worst possible). The rankings indicate the country's relative position among the 20 countries surveyed in this study: the eurozone 17 plus Poland, Sweden and the UK: No. 1 is the top position; No. 20 is last. - Variables: for an explanation, see the separate notes to all country tables on page 76.

Greece

Overall Assessment

Despite serious improvement, Greece is still the most troubled economy in the eurozone. Fiscal, export and labour cost adjustment is happening, but the spectre of eurozone exit after two close elections and much-delayed adjustment programme implementation is still not fully averted. Uncertainty cloud hangs over the economy.

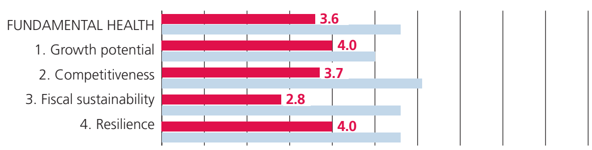
Strengths

- Top performer for adjustment efforts and reform drive
- Low private sector debt
- Low structural primary deficit

Weaknesses

- Worst debt ratio to GDP despite 2012 partial debt restructuring
- Still highly regulated economy despite some recent progress
- High propensity to consume
- Small export sector
- Very low labour force participation rate
- Still deeply negative current account

Fundamental Health



Adjustment

Detailed Scores (0-10 scale) and Ranks (1-20 ranking)

OVERALL RESULTS	GR	EZ17	
	Score	Score	Rank
FUNDAMENTAL HEALTH	3.6	5.6	**20**
1. Growth potential	4.0	5.0	**16**
2. Competitiveness	3.7	6.1	**19**
3. Fiscal sustainability	2.8	5.6	**20**
4. Resilience	4.0	5.6	**16**
ADJUSTMENT PROGRESS	8.2	4.0	**1**
1. External adjustment	6.6	4.1	**5**
2. Fiscal adjustment	8.6	4.3	**1**
3. Labour costs	7.7	2.6	**3**
4. Reform drive	10.0	4.9	**1**

ADJUSTMENT	GR	EZ17	Score	Rank
	Value	Value	8.2	**1**
1. External adjustment			6.6	**5**
Change 2H07-2Q12				
1.1 Net exports, % points of GDP	9.6	2.4	6.1	**8**
1.2 Net exports relative to 2H07 exports	39.9	5.3	10.0	**2**
1.3 Rise in export ratio, % of GDP	1.4	3.5	3.7	**12**
2. Shift in primary fiscal balance			8.6	**1**
2.1 2009 - 2012 in % of GDP	13.4	2.6	10.0	**1**
2.2 in % of required shift to 2020	53.4	33.3	7.1	**4**
3. Unit labour costs			7.7	**3**
3.1 Real ULC 2009-2012, % cumulative	-12.0	-1.8	7.7	**3**
3.2 Nominal ULC 2009-2012, % cumulative	-10.5	1.5	7.6	**4**
4. Reform drive	0.7	0.2	10.0	**1**

FUNDAMENTAL HEALTH	GR	EZ17	Score	Rank
1. Growth potential	Value	Value	4.0	**16**
1.1 Trend growth 2002-2010, in %			5.9	**9**
1.1.1 Rise in Gross value added	1.8	0.9	6.5	**5**
1.1.2 Deviation of GVA growth from norm	0.1	-0.2	5.3	**11**
1.2 Human resources			3.0	**15**
1.2.1 Fertility rate 2009-2011	1.5	1.6	4.1	**11**
1.2.2 Integration of Immigrants (MIPEX, 2010)	49.1	57.8	3.5	**12**
1.2.3 Pisa Scores 2009	473	498	0.4	**18**
1.3 Employment			4.0	**18**
1.3.1 Employment rate 2002-2011, in %	59.6	64.1	2.5	**16**
1.3.2 Change in ER 2002-2010, per year, pcp	0.2	0.2	6.2	**5**
1.3.3 Youth unemployment rate, 2002-2011, in %	28.0	18.0	3.0	**18**
1.3.4 Long-term unemployment 2002-2011, in %	5.2	3.9	4.2	**18**
1.4 Consumption rate 2002-2011			3.0	**19**
1.4.1 Total consumption, average, % of GDP	89.6	77.8	0.2	**20**
1.4.2 Change in CR 2002-2011, per year, pcp	0.1	0.2	5.7	**10**

FUNDAMENTAL HEALTH	GR	EZ17	Score	Rank
2. Competitiveness	Value	Value	3.7	**19**
2.1 Export Ratio, % of GDP, 2002-2011	22.5	39.5	0.0	**18**
2.2 Rise in export ratio, 2002-2011, pcp	0.5	0.9	6.6	**10**
2.3 Labour costs			5.6	**9**
2.3.1 Real unit labour cost, ann. change 2002-12 in %	0.0	-0.1	5.8	**11**
2.3.2 Nominal unit labour cost, ann. ch. 2002-12 in %	1.7	1.7	6.7	**7**
2.3.3 Ease of hiring & firing	3.3	3.3	4.3	**10**
2.4 Market regulations			2.4	**19**
2.4.1 Product markets (index)	2.3	1.3	0.7	**18**
2.4.2 Service markets (index)	2.8	2.4	2.7	**14**
2.4.3 Opening new business (days)	10.0	12.4	3.9	**18**

FUNDAMENTAL HEALTH	GR	EZ17	Score	Rank
3. Fiscal sustainability	Value	Value	2.8	**20**
3.1 Government outlays, % of GDP (2002-2011)	48.1	48.2	3.9	**15**
3.2 Structural fiscal balance 2011			7.0	**8**
3.2.1 Structural fiscal balance (% of GDP)	-5.4	-3.5	4.3	**14**
3.2.2 Structural primary fiscal balance (% of GDP)	1.7	-0.5	9.7	**2**
3.3 Debt ratio, % of GDP, 2Q 2012	150.3	88.0	0.0	**20**
3.4 Sustainability gap 2012, % of GDP	11.8	4.7	0.1	**17**

FUNDAMENTAL HEALTH	GR	EZ17	Score	Rank
4. Resilience	Value	Value	4.0	**16**
4.1 Annual debt roll-over, % of GDP, 2011	13.5	13.6	3.2	**14**
4.2 Debt held abroad, % of GDP, 2011	84.0	47.4	0.0	**17**
4.3 Gross household savings rate, in %, 2011	n.a.	13.2	n.a.	**n.a.**
4.4 Current account, % of GDP, 2011	-11.7	0.3	0.1	**20**
4.5 Bank assets, % of GDP, 2011	229	356	8.6	**5**
4.6 Private sector debt, % of GDP, 2011	125	164	8.0	**3**

Notes: The light-blue-shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone 17 for comparison. Scores range from 10 (the best possible) to 0 (the worst possible). The rankings indicate the country's relative position among the 20 countries surveyed in this study: the eurozone 17 plus Poland, Sweden and the UK: No. 1 is the top position; No. 20 is last. - Variables: for an explanation, see the separate notes to all country tables on page 76.

Ireland

Overall Assessment

Small, open and highly competitive economy that continues its rebalancing from credit-fuelled domestic consumption back to export-driven growth. Combining a solid fundamental outlook with a serious short-term adjustment effort, Ireland has already regained partial market access. It gets mostly extreme scores, either very good or very bad.

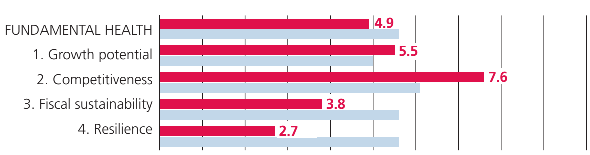
Strengths

- Very deregulated labour, product and services markets
- Highest fertility rates in our sample
- Very competitive economy
- Scores high on OECD's reform responsiveness indicator

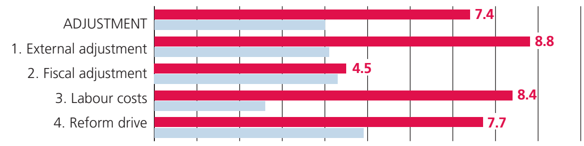
Weaknesses

- Extremely weak fiscal indicators: highest structural fiscal deficit in the eurozone
- Excessive rise in real unit labour costs before 2009
- Oversized banking system
- Highest private debt in the eurozone

Fundamental Health



Adjustment



Detailed Scores (0-10 scale) and Ranks (1-20 ranking)

OVERALL RESULTS	IE Score	EZ17 Score	Rank
FUNDAMENTAL HEALTH	4.9	5.6	**14**
1. Growth potential	5.5	5.0	**11**
2. Competitiveness	7.6	6.1	**3**
3. Fiscal sustainability	3.8	5.6	**17**
4. Resilience	2.7	5.6	**19**
ADJUSTMENT PROGRESS	7.4	4.0	**2**
1. External adjustment	8.8	4.1	**2**
2. Fiscal adjustment	4.5	4.3	**6**
3. Labour costs	8.4	2.6	**1**
4. Reform drive	7.7	4.9	**3**

ADJUSTMENT	IE Value	EZ17 Value	Score	Rank
			7.4	**2**
1. External adjustment			8.8	**2**
Change 2H07-2Q12				
1.1 Net exports, % points of GDP	21.2	2.4	9.7	**1**
1.2 Net exports relative to 2H07 exports	20.9	5.3	7.0	**6**
1.3 Rise in export ratio, % of GDP	16.0	3.5	9.6	**2**
2. Shift in primary fiscal balance			4.5	**6**
2.1 2009 - 2012 in % of GDP	4.2	2.6	5.6	**5**
2.2 in % of required shift to 2020	25.6	33.3	3.4	**10**
3. Unit labour costs			8.4	**1**
3.1 Real ULC 2009-2012, % cumulative	-9.9	-1.8	9.1	**1**
3.2 Nominal ULC 2009-2012, % cumulative	-10.3	1.5	7.8	**2**
4. Reform drive	0.5	0.2	7.7	**3**

FUNDAMENTAL HEALTH	IE	EZ17	Score	Rank
1. Growth potential	Value	Value	5.5	**11**
1.1 Trend growth 2002-2010, in %			4.3	**13**
1.1.1 Rise in Gross value added	0.8	0.9	3.6	**14**
1.1.2 Deviation of GVA growth from norm	0.0	-0.2	5.0	**13**
1.2 Human resources			6.1	**6**
1.2.1 Fertility rate 2009-2011	2.1	1.6	8.9	**1**
1.2.2 Integration of Immigrants (MIPEX, 2010)	48.7	57.8	3.4	**13**
1.2.3 Pisa Scores 2009	497	498	3.4	**9**
1.3 Employment			4.9	**13**
1.3.1 Employment rate 2002-2011, in %	65.2	64.1	4.9	**10**
1.3.2 Change in ER 2002-2010, per year, pcp	-0.6	0.2	0.7	**20**
1.3.3 Youth unemployment rate, 2002-2011, in %	14.7	18.0	7.4	**7**
1.3.4 Long-term unemployment 2002-2011, in %	2.9	3.9	6.8	**9**
1.4 Consumption rate 2002-2011			6.5	**9**
1.4.1 Total consumption, average, % of GDP	65.1	77.8	10.0	**1**
1.4.2 Change in CR 2002-2011, per year, pcp	0.5	0.2	2.9	**19**

FUNDAMENTAL HEALTH	IE	EZ17	Score	Rank
2. Competitiveness	Value	Value	7.6	**3**
2.1 Export Ratio, % of GDP, 2002-2011	88.2	39.5	9.6	**5**
2.2 Rise in export ratio, 2002-2011, pcp	1.8	0.9	5.9	**12**
2.3 Labour costs			5.4	**11**
2.3.1 Real unit labour cost, ann. change 2002-12 in %	0.6	-0.1	2.1	**20**
2.3.2 Nominal unit labour cost, ann. ch. 2002-12 in %	1.2	1.7	7.9	**4**
2.3.3 Ease of hiring & firing	3.9	3.3	6.3	**3**
2.4 Market regulations			9.4	**1**
2.4.1 Product markets (index)	0.9	1.3	10.0	**1**
2.4.2 Service markets (index)	0.9	2.4	10.0	**1**
2.4.3 Opening new business (days)	13.0	12.4	8.3	**6**

FUNDAMENTAL HEALTH	IE	EZ17	Score	Rank
3. Fiscal sustainability	Value	Value	3.8	**17**
3.1 Government outlays, % of GDP (2002-2011)	41.2	48.2	9.7	**2**
3.2 Structural fiscal balance 2011			2.9	**19**
3.2.1 Structural fiscal balance (% of GDP)	-7.9	-3.5	2.4	**20**
3.2.2 Structural primary fiscal balance (% of GDP)	-4.6	-0.5	3.4	**19**
3.3 Debt ratio, % of GDP, 2Q 2012	111.5	88.0	2.8	**17**
3.4 Sustainability gap 2012, % of GDP	12.2	4.7	0.0	**18**

FUNDAMENTAL HEALTH	IE	EZ17	Score	Rank
4. Resilience	Value	Value	2.7	**19**
4.1 Annual debt roll-over, % of GDP, 2011	17.4	13.6	1.3	**18**
4.2 Debt held abroad, % of GDP, 2011	67.5	47.4	2.5	**16**
4.3 Gross household savings rate, in %, 2011	10.5	13.2	6.1	**11**
4.4 Current account, % of GDP, 2011	1.1	0.3	6.2	**5**
4.5 Bank assets, % of GDP, 2011	826	356	0.0	**19**
4.6 Private sector debt, % of GDP, 2011	341	164	0.0	**20**

Notes: The light-blue-shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone 17 for comparison. Scores range from 10 (the best possible) to 0 (the worst possible). The rankings indicate the country's relative position among the 20 countries surveyed in this study: the eurozone 17 plus Poland, Sweden and the UK: No. 1 is the top position; No. 20 is last. - Variables: for an explanation, see the separate notes to all country tables on page 76.

Italy

Overall Assessment

A mature economy with a below-average score for overall health, Italy's fiscal situation looks roughly stable even at a very low trend growth rate. The Monti government has successfully steered Italy through the worst of the crisis so far. Austerity is likely to have peaked in 2012, but structural reforms has been too modest given the Italian challenge. There has been only a weak boost to potential growth.

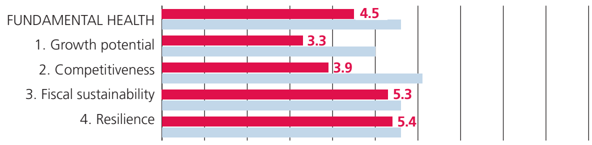
Strengths

- Successful fiscal adjustment
- Primary structural fiscal surplus
- Low private sector debt ratio

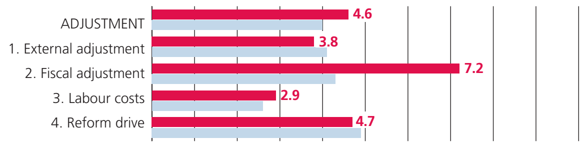
Weaknesses

- Weakest trend growth rate in the eurozone
- One of the most regulated economies in Europe
- Labour cost developments have not reversed as strongly as in other crisis countries
- Low labour force participation rate
- High public debt ratio
- Negative current account
- Relatively low average debt maturity makes Italy vulnerable to interest rate increases

Fundamental Health



Adjustment



Detailed Scores (0-10 scale) and Ranks (1-20 ranking)

OVERALL RESULTS	IT Score	EZ17 Score	Rank
FUNDAMENTAL HEALTH	4.5	5.6	**16**
1. Growth potential	3.3	5.0	**20**
2. Competitiveness	3.9	6.1	**18**
3. Fiscal sustainability	5.3	5.6	**12**
4. Resilience	5.4	5.6	**11**
ADJUSTMENT PROGRESS	4.6	4.0	**8**
1. External adjustment	3.8	4.1	**12**
2. Fiscal adjustment	7.2	4.3	**3**
3. Labour costs	2.9	2.6	**11**
4. Reform drive	4.7	4.9	**9**

ADJUSTMENT	IT Value	EZ17 Value	Score 4.6	Rank 8
1. External adjustment Change 2H07-2Q12			3.8	**12**
1.1 Net exports, % points of GDP	2.2	2.4	3.8	**11**
1.2 Net exports relative to 2H07 exports	7.3	5.3	4.1	**11**
1.3 Rise in export ratio, % of GDP	0.5	3.5	3.4	**15**
2. Shift in primary fiscal balance			7.2	**3**
2.1 2009 - 2012 in % of GDP	3.7	2.6	5.2	**6**
2.2 in % of required shift to 2020	68.5	33.3	9.1	**2**
3. Unit labour costs			2.9	**11**
3.1 Real ULC 2009-2012, % cumulative	-0.4	-1.8	2.0	**13**
3.2 Nominal ULC 2009-2012, % cumulative	2.7	1.5	3.7	**9**
4. Reform drive	0.2	0.2	4.7	**9**

FUNDAMENTAL HEALTH 1. Growth potential	IT Value	EZ17 Value	Score 3.3	Rank 20
1.1 Trend growth 2002-2010, in %			0.8	**19**
1.1.1 Rise in Gross value added	0.0	0.9	1.4	**19**
1.1.2 Deviation of GVA growth from norm	-1.2	-0.2	0.2	**19**
1.2 Human resources			3.8	**13**
1.2.1 Fertility rate 2009-2011	1.4	1.6	3.4	**15**
1.2.2 Integration of Immigrants (MIPEX, 2010)	60.7	57.8	6.4	**7**
1.2.3 Pisa Scores 2009	486	498	2.0	**15**
1.3 Employment			4.3	**16**
1.3.1 Employment rate 2002-2011, in %	57.4	64.1	1.5	**18**
1.3.2 Change in ER 2002-2010, per year, pcp	0.2	0.2	5.7	**10**
1.3.3 Youth unemployment rate, 2002-2011, in %	23.9	18.0	4.4	**16**
1.3.4 Long-term unemployment 2002-2011, in %	3.9	3.9	5.6	**13**
1.4 Consumption rate 2002-2011			4.3	**15**
1.4.1 Total consumption, average, % of GDP	79.5	77.8	5.2	**13**
1.4.2 Change in CR 2002-2011, per year, pcp	0.5	0.2	3.4	**18**

FUNDAMENTAL HEALTH 2. Competitiveness	IT Value	EZ17 Value	Score 3.9	Rank 18
2.1 Export Ratio, % of GDP, 2002-2011	26.5	39.5	2.4	**14**
2.2 Rise in export ratio, 2002-2011, pcp	0.4	0.9	5.4	**14**
2.3 Labour costs			3.4	**19**
2.3.1 Real unit labour cost, ann. change 2002-12 in %	0.4	-0.1	3.4	**18**
2.3.2 Nominal unit labour cost, ann. ch. 2002-12 in %	2.5	1.7	4.3	**17**
2.3.3 Ease of hiring & firing	2.8	3.3	2.7	**18**
2.4 Market regulations			4.4	**17**
2.4.1 Product markets (index)	1.3	1.3	7.0	**9**
2.4.2 Service markets (index)	3.2	2.4	1.1	**16**
2.4.3 Opening new business (days)	6.0	12.4	5.1	**15**

FUNDAMENTAL HEALTH 4. Resilience	IT Value	EZ17 Value	Score 5.4	Rank 11
4.1 Annual debt roll-over, % of GDP, 2011	18.8	13.6	0.6	**19**
4.2 Debt held abroad, % of GDP, 2011	43.7	47.4	5.1	**9**
4.3 Gross household savings rate, in %, 2011	12.0	13.2	6.8	**7**
4.4 Current account, % of GDP, 2011	-3.3	0.3	4.1	**15**
4.5 Bank assets, % of GDP, 2011	258	356	8.0	**6**
4.6 Private sector debt, % of GDP, 2011	129	164	7.8	**5**

FUNDAMENTAL HEALTH 3. Fiscal sustainability	IT Value	EZ17 Value	Score 5.3	Rank 12
3.1 Government outlays, % of GDP (2002-2011)	48.8	48.2	4.2	**14**
3.2 Structural fiscal balance 2011			7.4	**7**
3.2.1 Structural fiscal balance (% of GDP)	-3.7	-3.5	5.6	**10**
3.2.2 Structural primary fiscal balance (% of GDP)	1.2	-0.5	9.2	**5**
3.3 Debt ratio, % of GDP, 2Q 2012	124.1	88.0	1.9	**19**
3.4 Sustainability gap 2012, % of GDP	1.8	4.7	7.8	**6**

Notes: The light-blue-shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone 17 for comparison. Scores range from 10 (the best possible) to 0 (the worst possible). The rankings indicate the country's relative position among the 20 countries surveyed in this study: the eurozone 17 plus Poland, Sweden and the UK: No. 1 is the top position; No. 20 is last. - Variables: for an explanation, see the separate notes to all country tables on page 76.

Luxembourg

Overall Assessment

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

Strengths

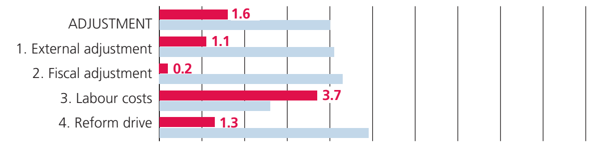
- Very high export ratio
- Strong growth potential
- Very comfortable fiscal outlook
- Very strong current account surplus

Weaknesses

- Highly regulated product, service and labour markets
- High private sector indebtedness
- Strong rise in nominal unit labour costs

Fundamental Health

Adjustment



Detailed Scores (0-10 scale) and Ranks (1-20 ranking)

OVERALL RESULTS	LU Score	EZ17 Score	Rank
FUNDAMENTAL HEALTH	7.2	5.6	**2**
1. Growth potential	6.8	5.0	**3**
2. Competitiveness	6.8	6.1	**6**
3. Fiscal sustainability	9.5	5.6	**1**
4. Resilience	5.5	5.6	**10**
ADJUSTMENT PROGRESS	1.6	4.0	**20**
1. External adjustment	1.1	4.1	**19**
2. Fiscal adjustment	0.2	4.3	**19**
3. Labour costs	3.7	2.6	**8**
4. Reform drive	1.3	4.9	**15**

ADJUSTMENT	LU Value	EZ17 Value	Score 1.6	Rank 20
1. External adjustment			1.1	**19**
Change 2H07-2Q12				
1.1 Net exports, % points of GDP	-10.1	2.4	0.0	**20**
1.2 Net exports relative to 2H07 exports	-5.4	5.3	1.4	**19**
1.3 Rise in export ratio, % of GDP	-2.9	3.5	2.0	**18**
2. Shift in primary fiscal balance			0.2	**19**
2.1 2009 - 2012 in % of GDP	-1.8	2.6	0.2	**19**
2.2 in % of required shift to 2020	n.a.	33.3	n.a.	**n.a.**
3. Unit labour costs			3.7	**8**
3.1 Real ULC 2009-2012, % cumulative	-5.5	-1.8	5.1	**6**
3.2 Nominal ULC 2009-2012, % cumulative	8.9	1.5	2.3	**15**
4. Reform drive	-0.1	0.2	1.3	**15**

FUNDAMENTAL HEALTH 1. Growth potential	LU Value	EZ17 Value	Score 6.8	Rank 3
1.1 Trend growth 2002-2010, in %			6.4	**8**
1.1.1 Rise in Gross value added	0.9	0.9	4.0	**12**
1.1.2 Deviation of GVA growth from norm	0.9	-0.2	8.7	**4**
1.2 Human resources			4.3	**10**
1.2.1 Fertility rate 2009-2011	1.6	1.6	4.8	**9**
1.2.2 Integration of Immigrants (MIPEX, 2010)	59.3	57.8	6.1	**8**
1.2.3 Pisa Scores 2009	482	498	1.5	**17**
1.3 Employment			6.6	**5**
1.3.1 Employment rate 2002-2011, in %	63.8	64.1	4.3	**13**
1.3.2 Change in ER 2002-2010, per year, pcp	0.2	0.2	6.0	**8**
1.3.3 Youth unemployment rate, 2002-2011, in %	14.6	18.0	7.5	**6**
1.3.4 Long-term unemployment 2002-2011, in %	1.2	3.9	8.7	**4**
1.4 Consumption rate 2002-2011			10.0	**1**
1.4.1 Total consumption, average, % of GDP	51.1	77.8	10.0	**1**
1.4.2 Change in CR 2002-2011, per year, pcp	-1.2	0.2	10.0	**1**

FUNDAMENTAL HEALTH 3. Fiscal sustainability	LU Value	EZ17 Value	Score 9.5	Rank 1
3.1 Government outlays, % of GDP (2002-2011)	41.1	48.2	10.0	**1**
3.2 Structural fiscal balance 2011			8.7	**4**
3.2.1 Structural fiscal balance (% of GDP)	0.2	-3.5	8.6	**3**
3.2.2 Structural primary fiscal balance (% of GDP)	0.7	-0.5	8.7	**6**
3.3 Debt ratio, % of GDP, 2Q 2012	18.9	88.0	9.4	**2**
3.4 Sustainability gap 2012, % of GDP	-1.0	4.7	10.0	**1**

FUNDAMENTAL HEALTH 2. Competitiveness	LU Value	EZ17 Value	Score 6.8	Rank 6
2.1 Export Ratio, % of GDP, 2002-2011	162.6	39.5	10.0	**1**
2.2 Rise in export ratio, 2002-2011, pcp	4.2	0.9	7.5	**7**
2.3 Labour costs			5.5	**10**
2.3.1 Real unit labour cost, ann. change 2002-12 in %	-0.7	-0.1	10.0	**1**
2.3.2 Nominal unit labour cost, ann. ch. 2002-12 in %	3.2	1.7	2.4	**19**
2.3.3 Ease of hiring & firing	3.2	3.3	4.0	**11**
2.4 Market regulations			4.3	**18**
2.4.1 Product markets (index)	1.5	1.3	5.9	**15**
2.4.2 Service markets (index)	3.5	2.4	0.0	**18**
2.4.3 Opening new business (days)	19.0	12.4	6.8	**13**

FUNDAMENTAL HEALTH 4. Resilience	LU Value	EZ17 Value	Score 5.5	Rank 10
4.1 Annual debt roll-over, % of GDP, 2011	2.6	13.6	8.7	**2**
4.2 Debt held abroad, % of GDP, 2011	n.a.	47.4	n.a.	**n.a.**
4.3 Gross household savings rate, in %, 2011	13.6	13.2	7.7	**4**
4.4 Current account, % of GDP, 2011	7.1	0.3	9.1	**2**
4.5 Bank assets, % of GDP, 2011	2579	356	0.0	**20**
4.6 Private sector debt, % of GDP, 2011	254	164	2.1	**18**

Notes: The light-blue-shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone 17 for comparison. Scores range from 10 (the best possible) to 0 (the worst possible). The rankings indicate the country's relative position among the 20 countries surveyed in this study: the eurozone 17 plus Poland, Sweden and the UK: No. 1 is the top position; No. 20 is last. - Variables: for an explanation, see the separate notes to all country tables on page 76.

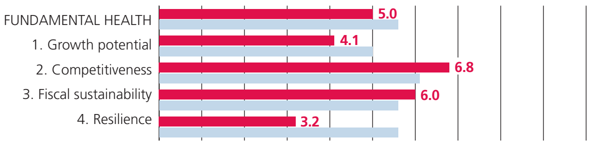
Malta

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

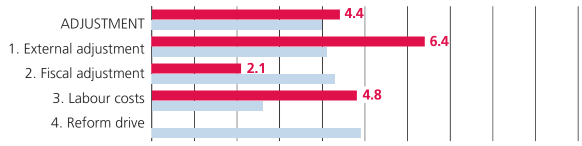
Strengths
- Competitiveness above average
- Comparatively liberal labour laws
- Subdued unit labour costs

Weaknesses
- Weak on human resources
- Low employment rate
- Weak fiscal adjustment even given moderate fiscal challenge
- High bank assets as percentage of GDP

Fundamental Health



Adjustment



Detailed Scores (0-10 scale) and Ranks (1-20 ranking)

OVERALL RESULTS	MT Score	EZ17 Score	Rank
FUNDAMENTAL HEALTH	5.0	5.6	**13**
1. Growth potential	4.1	5.0	**15**
2. Competitiveness	6.8	6.1	**7**
3. Fiscal sustainability	6.0	5.6	**9**
4. Resilience	3.2	5.6	**18**
ADJUSTMENT PROGRESS	4.4	4.0	**10**
1. External adjustment	6.4	4.1	**6**
2. Fiscal adjustment	2.1	4.3	**16**
3. Labour costs	4.8	2.6	**7**
4. Reform drive	n.a.	4.9	**n.a.**

ADJUSTMENT	MT Value	EZ17 Value	Score	Rank
			4.4	**10**
1. External adjustment			6.4	**6**
Change 2H07-2Q12				
1.1 Net exports, % points of GDP	9.3	2.4	6.0	**9**
1.2 Net exports relative to 2H07 exports	9.0	5.3	4.5	**10**
1.3 Rise in export ratio, % of GDP	13.5	3.5	8.6	**3**
2. Shift in primary fiscal balance			2.1	**16**
2.1 2009 - 2012 in % of GDP	0.3	2.6	2.1	**16**
2.2 in % of required shift to 2020	n.a.	33.3	n.a.	**n.a.**
3. Unit labour costs			4.8	**7**
3.1 Real ULC 2009-2012, % cumulative	-6.7	-1.8	5.8	**4**
3.2 Nominal ULC 2009-2012, % cumulative	1.0	1.5	3.9	**8**
4. Reform drive	n.a.	0.2	n.a.	**n.a.**

FUNDAMENTAL HEALTH 1. Growth potential	MT Value	EZ17 Value	Score	Rank
			4.1	**15**
1.1 Trend growth 2002-2010, in %			n.a.	**n.a.**
1.1.1 Rise in Gross value added	n.a.	0.9	n.a.	**n.a.**
1.1.2 Deviation of GVA growth from norm	n.a.	-0.2	n.a.	**n.a.**
1.2 Human resources			2.4	**19**
1.2.1 Fertility rate 2009-2011	1.4	1.6	3.4	**16**
1.2.2 Integration of Immigrants (MIPEX, 2010)	36.9	57.8	0.5	**18**
1.2.3 Pisa Scores 2009	n.a.	498	n.a	**n.a.**
1.3 Employment			5.1	**12**
1.3.1 Employment rate 2002-2011, in %	54.9	64.1	0.4	**20**
1.3.2 Change in ER 2002-2010, per year, pcp	0.2	0.2	5.9	**9**
1.3.3 Youth unemployment rate, 2002-2011, in %	15.1	18.0	7.3	**8**
1.3.4 Long-term unemployment 2002-2011, in %	3.1	3.9	6.6	**10**
1.4 Consumption rate 2002-2011			5.0	**13**
1.4.1 Total consumption, average, % of GDP	83.6	77.8	3.2	**16**
1.4.2 Change in CR 2002-2011, per year, pcp	-0.1	0.2	6.7	**7**

FUNDAMENTAL HEALTH 3. Fiscal sustainability	MT Value	EZ17 Value	Score	Rank
			6.0	**9**
3.1 Government outlays, % of GDP (2002-2011)	43.7	48.2	6.0	**8**
3.2 Structural fiscal balance 2011			6.7	**10**
3.2.1 Structural fiscal balance (% of GDP)	-3.5	-3.5	5.8	**9**
3.2.2 Structural primary fiscal balance (% of GDP)	-0.4	-0.5	7.6	**9**
3.3 Debt ratio, % of GDP, 2Q 2012	74.3	88.0	5.4	**11**
3.4 Sustainability gap 2012, % of GDP	n.a.	4.7	n.a.	**n.a.**

FUNDAMENTAL HEALTH 2. Competitiveness	MT Value	EZ17 Value	Score	Rank
			6.8	**7**
2.1 Export Ratio, % of GDP, 2002-2011	87.8	39.5	7.1	**9**
2.2 Rise in export ratio, 2002-2011, pcp	2.3	0.9	7.3	**8**
2.3 Labour costs			6.6	**5**
2.3.1 Real unit labour cost, ann. change 2002-12 in %	-0.4	-0.1	7.7	**7**
2.3.2 Nominal unit labour cost, ann. ch. 2002-12 in %	2.0	1.7	5.6	**12**
2.3.3 Ease of hiring & firing	3.6	3.3	5.3	**6**
2.4 Market regulations			6.1	**n.a.**
2.4.1 Product markets (index)	n.a.	1.3	n.a.	**n.a.**
2.4.2 Service markets (index)	n.a.	2.4	n.a.	**n.a.**
2.4.3 Opening new business (days)	n.a.	12.4	n.a.	**n.a.**

FUNDAMENTAL HEALTH 4. Resilience	MT Value	EZ17 Value	Score	Rank
			3.2	**18**
4.1 Annual debt roll-over, % of GDP, 2011	13.8	13.6	3.1	**15**
4.2 Debt held abroad, % of GDP, 2011	n.a.	47.4	n.a.	**n.a.**
4.3 Gross household savings rate, in %, 2011	n.a.	13.2	n.a.	**n.a.**
4.4 Current account, % of GDP, 2011	-0.3	0.3	5.6	**10**
4.5 Bank assets, % of GDP, 2011	789	356	0.0	**18**
4.6 Private sector debt, % of GDP, 2011	210	164	4.1	**12**

Notes: The light-blue-shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone 17 for comparison. Scores range from 10 (the best possible) to 0 (the worst possible). The rankings indicate the country's relative position among the 20 countries surveyed in this study: the eurozone 17 plus Poland, Sweden and the UK: No. 1 is the top position; No. 20 is last. - Variables: for an explanation, see the separate notes to all country tables on page 76.

Netherlands

Overall Assessment

The strongest major eurozone economy along with Germany, the Netherlands receives top scores for growth potential and competitiveness in the eurozone. Despite already a very high level of income, it still has exceptional potential for further growth. Nonetheless,the Netherlands face a considerable fiscal challenge.

Strengths

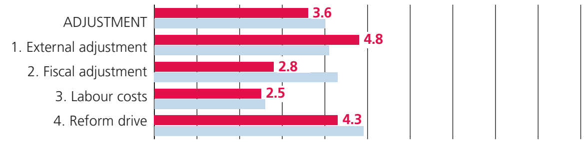
- Top performer for growth potential
- Very competitive economy
- High employment rate
- Strong current account surplus

Weaknesses

- Relatively large fiscal sustainability gap
- Large banking sector
- High private sector indebtedness
- Rising unit labour costs erode competitiveness

Fundamental Health

Adjustment



Detailed Scores (0-10 scale) and Ranks (1-20 ranking)

OVERALL RESULTS	NL Score	EZ17 Score	Rank
FUNDAMENTAL HEALTH	6.6	5.6	**5**
1. Growth potential	7.3	5.0	**1**
2. Competitiveness	8.0	6.1	**1**
3. Fiscal sustainability	5.2	5.6	**13**
4. Resilience	6.0	5.6	**7**
ADJUSTMENT PROGRESS	3.6	4.0	**13**
1. External adjustment	4.8	4.1	**10**
2. Fiscal adjustment	2.8	4.3	**14**
3. Labour costs	2.5	2.6	**14**
4. Reform drive	4.3	4.9	**11**

ADJUSTMENT	NL Value	EZ17 Value	Score	Rank
			3.6	**13**
1. External adjustment			4.8	**10**
Change 2H07-2Q12				
1.1 Net exports, % points of GDP	2.0	2.4	3.7	**12**
1.2 Net exports relative to 2H07 exports	2.4	5.3	3.1	**13**
1.3 Rise in export ratio, % of GDP	10.9	3.5	7.6	**4**
2. Shift in primary fiscal balance			2.8	**14**
2.1 2009 - 2012 in % of GDP	1.7	2.6	3.4	**12**
2.2 in % of required shift to 2020	16.8	33.3	2.2	**13**
3. Unit labour costs			2.5	**14**
3.1 Real ULC 2009-2012, % cumulative	-0.8	-1.8	1.8	**14**
3.2 Nominal ULC 2009-2012, % cumulative	3.0	1.5	3.2	**11**
4. Reform drive	0.2	0.2	4.3	**11**

FUNDAMENTAL HEALTH	NL	EZ17	Score	Rank
1. Growth potential	Value	Value	7.3	**1**
1.1 Trend growth 2002-2010, in %			6.8	**7**
1.1.1 Rise in Gross value added	1.6	0.9	5.9	**8**
1.1.2 Deviation of GVA growth from norm	0.7	-0.2	7.8	**6**
1.2 Human resources			6.8	**3**
1.2.1 Fertility rate 2009-2011	1.8	1.6	6.5	**7**
1.2.2 Integration of Immigrants (MIPEX, 2010)	67.9	57.8	8.2	**4**
1.2.3 Pisa Scores 2009	519	498	6.1	**2**
1.3 Employment			8.1	**1**
1.3.1 Employment rate 2002-2011, in %	74.8	64.1	9.1	**1**
1.3.2 Change in ER 2002-2010, per year, pcp	0.0	0.2	4.9	**13**
1.3.3 Youth unemployment rate, 2002-2011, in %	7.6	18.0	9.8	**1**
1.3.4 Long-term unemployment 2002-2011, in %	1.4	3.9	8.5	**5**
1.4 Consumption rate 2002-2011			7.6	**3**
1.4.1 Total consumption, average, % of GDP	73.1	77.8	8.5	**4**
1.4.2 Change in CR 2002-2011, per year, pcp	-0.1	0.2	6.8	**6**

FUNDAMENTAL HEALTH	NL	EZ17	Score	Rank
3. Fiscal sustainability	Value	Value	5.2	**13**
3.1 Government outlays, % of GDP (2002-2011)	47.4	48.2	5.7	**10**
3.2 Structural fiscal balance 2011			6.3	**11**
3.2.1 Structural fiscal balance (% of GDP)	-3.4	-3.5	5.8	**7**
3.2.2 Structural primary fiscal balance (% of GDP)	-1.3	-0.5	6.7	**11**
3.3 Debt ratio, % of GDP, 2Q 2012	66.2	88.0	6.0	**8**
3.4 Sustainability gap 2012, % of GDP	8.5	4.7	2.7	**15**

FUNDAMENTAL HEALTH	NL	EZ17	Score	Rank
2. Competitiveness	Value	Value	8.0	**1**
2.1 Export Ratio, % of GDP, 2002-2011	71.6	39.5	10.0	**1**
2.2 Rise in export ratio, 2002-2011, pcp	2.2	0.9	8.1	**5**
2.3 Labour costs			4.9	**14**
2.3.1 Real unit labour cost, ann. change 2002-12 in %	0.1	-0.1	5.0	**14**
2.3.2 Nominal unit labour cost, ann. ch. 2002-12 in %	1.9	1.7	6.0	**9**
2.3.3 Ease of hiring & firing	3.1	3.3	3.7	**12**
2.4 Market regulations			8.8	**3**
2.4.1 Product markets (index)	0.9	1.3	9.7	**3**
2.4.2 Service markets (index)	1.2	2.4	8.7	**5**
2.4.3 Opening new business (days)	8.0	12.4	7.9	**9**

FUNDAMENTAL HEALTH	NL	EZ17	Score	Rank
4. Resilience	Value	Value	6.0	**7**
4.1 Annual debt roll-over, % of GDP, 2011	9.7	13.6	5.1	**8**
4.2 Debt held abroad, % of GDP, 2011	37.1	47.4	5.9	**8**
4.3 Gross household savings rate, in %, 2011	11.6	13.2	6.6	**9**
4.4 Current account, % of GDP, 2011	8.3	0.3	9.7	**1**
4.5 Bank assets, % of GDP, 2011	403	356	5.4	**14**
4.6 Private sector debt, % of GDP, 2011	225	164	3.4	**14**

Notes: The light-blue-shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone 17 for comparison. Scores range from 10 (the best possible) to 0 (the worst possible). The rankings indicate the country's relative position among the 20 countries surveyed in this study: the eurozone 17 plus Poland, Sweden and the UK: No. 1 is the top position; No. 20 is last. - Variables: for an explanation, see the separate notes to all country tables on page 76.

Poland

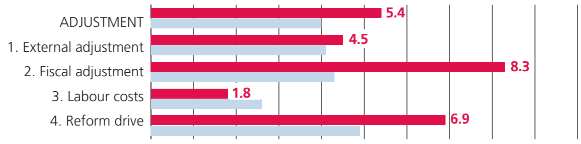
Overall Assessment
Dynamic catching-up economy with low labour costs. Demographically challenged, Poland will have to deregulate its markets and unleash other sources of growth once the current growth model hits its limits.

Strengths
- Very strong trend growth
- Fiscal adjustment progressing
- Low ratio of private sector debt
- Scores high on OECD's reform responsiveness indicator

Weaknesses
- Very low fertility rate
- High youth- and long-term unemployment rates
- Low employment rate
- Significant fiscal challenge
- High current account deficit
- Highly regulated economy

Fundamental Health

Adjustment



Detailed Scores (0-10 scale) and Ranks (1-20 ranking)

OVERALL RESULTS	PL	EZ17	
	Score	Score	Rank
FUNDAMENTAL HEALTH	6.4	5.6	**7**
1. Growth potential	5.9	5.0	**8**
2. Competitiveness	6.9	6.1	**4**
3. Fiscal sustainability	6.1	5.6	**8**
4. Resilience	6.7	5.6	**6**
ADJUSTMENT PROGRESS	5.4	4.0	**6**
1. External adjustment	4.5	4.1	**11**
2. Fiscal adjustment	8.3	4.3	**2**
3. Labour costs	1.8	2.6	**18**
4. Reform drive	6.9	4.9	**5**

ADJUSTMENT	PL	EZ17	Score	Rank
	Value	Value	5.4	6
1. External adjustment			4.5	**11**
Change 2H07-2Q12				
1.1 Net exports, % points of GDP	4.6	2.4	4.6	**10**
1.2 Net exports relative to 2H07 exports	11.8	5.3	5.1	**8**
1.3 Rise in export ratio, % of GDP	1.6	3.5	3.8	**11**
2. Shift in primary fiscal balance			8.3	**2**
2.1 2009 - 2012 in % of GDP	5.2	2.6	6.5	**3**
2.2 in % of required shift to 2020	76.5	33.3	10.0	**1**
3. Unit labour costs			1.8	**18**
3.1 Real ULC 2009-2012, % cumulative	-3.2	-1.8	1.4	**18**
3.2 Nominal ULC 2007-2012, % cumulative	1.8	1.5	2.2	**16**
4. Reform drive	0.4	0.2	6.9	**5**

FUNDAMENTAL HEALTH	PL	EZ17	Score	Rank
1. Growth potential	Value	Value	5.9	8
1.1 Trend growth 2002-2010, in %			9.8	**2**
1.1.1 Rise in Gross value added	4.1	0.9	10.0	**1**
1.1.2 Deviation of GVA growth from norm	1.1	-0.2	9.5	**2**
1.2 Human resources			2.9	**16**
1.2.1 Fertility rate 2009-2011	1.4	1.6	3.0	**19**
1.2.2 Integration of Immigrants (MIPEX, 2010)	41.9	57.8	1.7	**17**
1.2.3 Pisa Scores 2009	501	498	3.9	**6**
1.3 Employment			3.9	**19**
1.3.1 Employment rate 2002-2011, in %	55.6	64.1	0.7	**19**
1.3.2 Change in ER 2002-2010, per year, pcp	0.9	0.2	10.0	**1**
1.3.3 Youth unemployment rate, 2002-2011, in %	30.0	18.0	2.3	**20**
1.3.4 Long-term unemployment 2002-2011, in %	6.7	3.9	2.6	**19**
1.4 Consumption rate 2002-2011			7.2	**7**
1.4.1 Total consumption, average, % of GDP	81.1	77.8	4.5	**15**
1.4.2 Change in CR 2002-2011, per year, pcp	-0.6	0.2	10.0	**1**

FUNDAMENTAL HEALTH	PL	EZ17	Score	Rank
3. Fiscal sustainability	Value	Value	6.1	8
3.1 Government outlays, % of GDP (2002-2011)	43.8	48.2	4.6	**12**
3.2 Structural fiscal balance 2011			5.1	**13**
3.2.1 Structural fiscal balance (% of GDP)	-5.0	-3.5	4.6	**13**
3.2.2 Structural primary fiscal balance (% of GDP)	-2.4	-0.5	5.6	**14**
3.3 Debt ratio, % of GDP, 2Q 2012	57.0	88.0	6.6	**7**
3.4 Sustainability gap 2012, % of GDP	1.7	4.7	7.9	**5**

FUNDAMENTAL HEALTH	PL	EZ17	Score	Rank
2. Competitiveness	Value	Value	6.9	4
2.1 Export Ratio, % of GDP, 2002-2011	38.4	39.5	7.8	**7**
2.2 Rise in export ratio, 2002-2011, pcp	1.6	0.9	10.0	**2**
2.3 Labour costs			8.2	**1**
2.3.1 Real unit labour cost, ann. change 2002-12 in %	-1.8	-0.1	10.0	**1**
2.3.2 Nominal unit labour cost, ann. ch. 2002-12 in %	0.6	1.7	9.6	**1**
2.3.3 Ease of hiring & firing	3.5	3.3	5.0	**7**
2.4 Market regulations			1.7	**20**
2.4.1 Product markets (index)	2.2	1.3	1.3	**17**
2.4.2 Service markets (index)	2.7	2.4	3.1	**13**
2.4.3 Opening new business (days)	32.0	12.4	0.7	**19**

FUNDAMENTAL HEALTH	PL	EZ17	Score	Rank
4. Resilience	Value	Value	6.7	6
4.1 Annual debt roll-over, % of GDP, 2011	11.2	13.6	4.4	**10**
4.2 Debt held abroad, % of GDP, 2011	23.4	47.4	7.4	**6**
4.3 Gross household savings rate, in %, 2011	8.5	13.2	5.0	**16**
4.4 Current account, % of GDP, 2011	-4.5	0.3	3.6	**18**
4.5 Bank assets, % of GDP, 2011	84	356	10.0	**1**
4.6 Private sector debt, % of GDP, 2011	80	164	10.0	**2**

Notes: The light-blue-shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone 17 for comparison. Scores range from 10 (the best possible) to 0 (the worst possible). The rankings indicate the country's relative position among the 20 countries surveyed in this study: the eurozone 17 plus Poland, Sweden and the UK: No. 1 is the top position; No. 20 is last. - Variables: for an explanation, see the separate notes to all country tables on page 76.

Portugal

Overall Assessment

Among the worst performers in the fundamental health check despite some improvements. The fiscal situation has improved from a very weak level, and structural reforms will yield benefits. Growth potential is still one of the weakest in the eurozone.

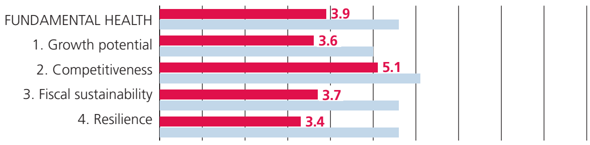
Strengths

- Major fiscal and external adjustment
- Good at integrating immigrants
- Easy to open new businesses
- Scores high on OECD's reform responsiveness indicator

Weaknesses

- Very weak growth potential due to low fertility and high propensity to consume
- Export ratio one of the lowest in the Eurozone
- Very high and rising debt ratio
- Very high private sector debt ratio
- Largest annual debt refinancing needs

Fundamental Health



Adjustment

Detailed Scores (0-10 scale) and Ranks (1-20 ranking)

OVERALL RESULTS	PT	EZ17	
	Score	Score	Rank
FUNDAMENTAL HEALTH	3.9	5.6	**18**
1. Growth potential	3.6	5.0	**19**
2. Competitiveness	5.1	6.1	**14**
3. Fiscal sustainability	3.7	5.6	**19**
4. Resilience	3.4	5.6	**17**
ADJUSTMENT PROGRESS	6.5	4.0	**5**
1. External adjustment	6.7	4.1	**4**
2. Fiscal adjustment	6.5	4.3	**4**
3. Labour costs	5.7	2.6	**5**
4. Reform drive	7.0	4.9	**4**

ADJUSTMENT	PT	EZ17	Score	Rank
	Value	Value	6.5	**5**
1. External adjustment			6.7	**4**
Change 2H07-2Q12				
1.1 Net exports, % points of GDP	10.2	2.4	6.3	**7**
1.2 Net exports relative to 2H07 exports	27.8	5.3	8.5	**3**
1.3 Rise in export ratio, % of GDP	5.2	3.5	5.3	**7**
2. Shift in primary fiscal balance			6.5	**4**
2.1 2009 - 2012 in % of GDP	6.0	2.6	7.3	**2**
2.2 in % of required shift to 2020	43.5	33.3	5.8	**5**
3. Unit labour costs			5.7	**5**
3.1 Real ULC 2009-2012, % cumulative	-7.9	-1.8	5.5	**5**
3.2 Nominal ULC 2009-2012, % cumulative	-6.1	1.5	6.0	**6**
4. Reform drive	0.4	0.2	7.0	**4**

FUNDAMENTAL HEALTH	PT	EZ17	Score	Rank
1. Growth potential	Value	Value	3.6	**19**
1.1 Trend growth 2002-2010, in %			2.3	**18**
1.1.1 Rise in Gross value added	0.8	0.9	3.8	**13**
1.1.2 Deviation of GVA growth from norm	-1.0	-0.2	0.7	**18**
1.2 Human resources			4.5	**8**
1.2.1 Fertility rate 2009-2011	1.3	1.6	2.9	**20**
1.2.2 Integration of Immigrants (MIPEX, 2010)	79.0	57.8	10.0	**1**
1.2.3 Pisa Scores 2009	490	498	2.5	**12**
1.3 Employment			4.7	**15**
1.3.1 Employment rate 2002-2011, in %	67.2	64.1	5.7	**8**
1.3.2 Change in ER 2002-2010, per year, pcp	-0.4	0.2	2.3	**19**
1.3.3 Youth unemployment rate, 2002-2011, in %	21.4	18.0	5.2	**15**
1.3.4 Long-term unemployment 2002-2011, in %	4.2	3.9	5.4	**15**
1.4 Consumption rate 2002-2011			2.9	**20**
1.4.1 Total consumption, average, % of GDP	85.5	77.8	2.2	**18**
1.4.2 Change in CR 2002-2011, per year, pcp	0.4	0.2	3.6	**17**

FUNDAMENTAL HEALTH	PT	EZ17	Score	Rank
2. Competitiveness	Value	Value	5.1	**14**
2.1 Export Ratio, % of GDP, 2002-2011	30.1	39.5	0.0	**18**
2.2 Rise in export ratio, 2002-2011, pcp	0.9	0.9	7.8	**6**
2.3 Labour costs			6.1	**7**
2.3.1 Real unit labour cost, ann. change 2002-12 in %	-0.3	-0.1	7.4	**8**
2.3.2 Nominal unit labour cost, ann. ch. 2002-12 in %	1.3	1.7	7.9	**5**
2.3.3 Ease of hiring & firing	2.9	3.3	3.0	**15**
2.4 Market regulations			6.6	**9**
2.4.1 Product markets (index)	1.4	1.3	6.8	**10**
2.4.2 Service markets (index)	2.5	2.4	3.8	**11**
2.4.3 Opening new business (days)	5.0	12.4	9.2	**2**

FUNDAMENTAL HEALTH	PT	EZ17	Score	Rank
3. Fiscal sustainability	Value	Value	3.7	**19**
3.1 Government outlays, % of GDP (2002-2011)	46.4	48.2	4.6	**13**
3.2 Structural fiscal balance 2011			4.7	**15**
3.2.1 Structural fiscal balance (% of GDP)	-6.2	-3.5	3.7	**17**
3.2.2 Structural primary fiscal balance (% of GDP)	-2.2	-0.5	5.8	**13**
3.3 Debt ratio, % of GDP, 2Q 2012	116.8	88.0	2.4	**18**
3.4 Sustainability gap 2012, % of GDP	7.9	4.7	3.1	**14**

FUNDAMENTAL HEALTH	PT	EZ17	Score	Rank
4. Resilience	Value	Value	3.4	**17**
4.1 Annual debt roll-over, % of GDP, 2011	20.5	13.6	0.0	**20**
4.2 Debt held abroad, % of GDP, 2011	63.3	47.4	3.0	**15**
4.3 Gross household savings rate, in %, 2011	10.0	13.2	5.8	**12**
4.4 Current account, % of GDP, 2011	-6.6	0.3	2.6	**19**
4.5 Bank assets, % of GDP, 2011	335	356	6.6	**10**
4.6 Private sector debt, % of GDP, 2011	249	164	2.3	**17**

Notes: The light-blue-shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone 17 for comparison. Scores range from 10 (the best possible) to 0 (the worst possible). The rankings indicate the country's relative position among the 20 countries surveyed in this study: the eurozone 17 plus Poland, Sweden and the UK: No. 1 is the top position; No. 20 is last. - Variables: for an explanation, see the separate notes to all country tables on page 76.

Slovakia

Overall Assessment

A dynamic catching-up economy with some pronounced stregths and weaknesses. The growth model of the past two decades based on low labour cost may expire. Weakness in human resources and employment pose considerable challenges. The fiscal situation remains manageable but adjustment becomes more and more necessary.

Strengths

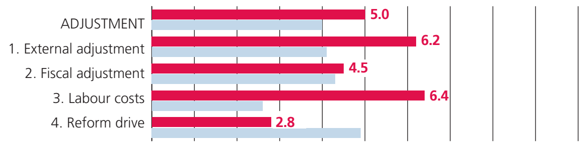
- Top performer for trend growth
- High export ratio
- Low private debt ratio
- Low ratio of bank assets to GDP

Weaknesses

- Weak human resources: difficult for immigrants to integrate, underachieving education system.
- Low employment rate, high long-term unemployment
- One of the highest structural fiscal deficits
- Relatively regulated economy, although not on the labour market
- Eroding labour cost advantage

Fundamental Health

Adjustment



Detailed Scores (0-10 scale) and Ranks (1-20 ranking)

OVERALL RESULTS	SK	EZ17	
	Score	Score	Rank
FUNDAMENTAL HEALTH	6.5	5.6	**6**
1. Growth potential	5.6	5.0	**10**
2. Competitiveness	6.9	6.1	**5**
3. Fiscal sustainability	6.3	5.6	**6**
4. Resilience	7.2	5.6	**3**
ADJUSTMENT PROGRESS	5.0	4.0	**7**
1. External adjustment	6.2	4.1	**7**
2. Fiscal adjustment	4.5	4.3	**7**
3. Labour costs	6.4	2.6	**4**
4. Reform drive	2.8	4.9	**13**

ADJUSTMENT	SK	EZ17	Score	Rank
	Value	Value	5.0	**7**
1. External adjustment			6.2	**7**
Change 2H07-2Q12				
1.1 Net exports, % points of GDP	11.4	2.4	6.7	**4**
1.2 Net exports relative to 2H07 exports	11.7	5.3	5.0	**9**
1.3 Rise in export ratio, % of GDP	9.3	3.5	6.9	**5**
2. Shift in primary fiscal balance			4.5	**7**
2.1 2009 - 2012 in % of GDP	2.8	2.6	4.4	**9**
2.2 in % of required shift to 2020	34.6	33.3	4.6	**7**
3. Unit labour costs			6.4	**4**
3.1 Real ULC 2009-2012, % cumulative	-6.9	-1.8	5.1	**7**
3.2 Nominal ULC 2009-2012, % cumulative	-2.3	1.5	7.7	**3**
4. Reform drive	0.0	0.2	2.8	**13**

FUNDAMENTAL HEALTH	SK	EZ17	Score	Rank
1. Growth potential	Value	Value	5.6	**10**
1.1 Trend growth 2002-2010, in %			9.9	**1**
1.1.1 Rise in Gross value added	4.3	0.9	10.0	**1**
1.1.2 Deviation of GVA growth from norm	1.1	-0.2	9.7	**1**
1.2 Human resources			2.4	**20**
1.2.1 Fertility rate 2009-2011	1.4	1.6	3.5	**13**
1.2.2 Integration of Immigrants (MIPEX, 2010)	36.4	57.8	0.4	**19**
1.2.3 Pisa Scores 2009	488	498	2.3	**13**
1.3 Employment			2.7	**20**
1.3.1 Employment rate 2002-2011, in %	59.0	64.1	2.2	**17**
1.3.2 Change in ER 2002-2010, per year, pcp	0.2	0.2	6.1	**7**
1.3.3 Youth unemployment rate, 2002-2011, in %	29.8	18.0	2.4	**19**
1.3.4 Long-term unemployment 2002-2011, in %	9.8	3.9	0.0	**20**
1.4 Consumption rate 2002-2011			7.5	**5**
1.4.1 Total consumption, average, % of GDP	76.6	77.8	6.7	**10**
1.4.2 Change in CR 2002-2011, per year, pcp	-0.3	0.2	8.2	**4**

FUNDAMENTAL HEALTH	SK	EZ17	Score	Rank
2. Competitiveness	Value	Value	6.9	**5**
2.1 Export Ratio, % of GDP, 2002-2011	79.3	39.5	10.0	**4**
2.2 Rise in export ratio, 2002-2011, pcp	1.8	0.9	6.6	**11**
2.3 Labour costs			5.1	**12**
2.3.1 Real unit labour cost, ann. change 2002-12 in %	0.0	-0.1	5.3	**12**
2.3.2 Nominal unit labour cost, ann. ch. 2002-12 in %	2.2	1.7	5.1	**14**
2.3.3 Ease of hiring & firing	3.5	3.3	5.0	**7**
2.4 Market regulations			5.7	**13**
2.4.1 Product markets (index)	1.5	1.3	5.6	**16**
2.4.2 Service markets (index)	2.3	2.4	4.6	**10**
2.4.3 Opening new business (days)	18.0	12.4	7.1	**11**

FUNDAMENTAL HEALTH	SK	EZ17	Score	Rank
4. Resilience	Value	Value	7.2	**3**
4.1 Annual debt roll-over, % of GDP, 2011	9.8	13.6	5.1	**9**
4.2 Debt held abroad, % of GDP, 2011	20.5	47.4	7.7	**3**
4.3 Gross household savings rate, in %, 2011	9.9	13.2	5.7	**13**
4.4 Current account, % of GDP, 2011	-2.5	0.3	4.5	**13**
4.5 Bank assets, % of GDP, 2011	84	356	10.0	**1**
4.6 Private sector debt, % of GDP, 2011	77	164	10.0	**1**

FUNDAMENTAL HEALTH	SK	EZ17	Score	Rank
3. Fiscal sustainability	Value	Value	6.3	**6**
3.1 Government outlays, % of GDP (2002-2011)	38.6	48.2	8.5	**5**
3.2 Structural fiscal balance 2011			4.2	**16**
3.2.1 Structural fiscal balance (% of GDP)	-5.4	-3.5	4.3	**14**
3.2.2 Structural primary fiscal balance (% of GDP)	-3.9	-0.5	4.1	**18**
3.3 Debt ratio, % of GDP, 2Q 2012	49.8	88.0	7.2	**6**
3.4 Sustainability gap 2012, % of GDP	5.3	4.7	5.1	**12**

Notes: The light-blue-shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone 17 for comparison. Scores range from 10 (the best possible) to 0 (the worst possible). The rankings indicate the country's relative position among the 20 countries surveyed in this study: the eurozone 17 plus Poland, Sweden and the UK: No. 1 is the top position; No. 20 is last. - Variables: for an explanation, see the separate notes to all country tables on page 76.

Slovenia

Overall Assessment

Small, dynamic catching-up economy with above-average scores on fundamental health. Fiscal and banking problems should be manageable once political consensus is found.

Strengths

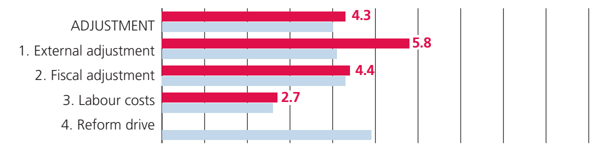
- Still low ratio of public debt
- Strong trend growth
- Easy to open new businesses
- Fairly resilient to financial shocks

Weaknesses

- Demographics: Below average for integration of immigrants
- Losing cost competitiveness fast due to rising unit labour cost
- Overregulated economy
- Fiscal challenge: too high structural deficit

Fundamental Health

Adjustment



Detailed Scores (0-10 scale) and Ranks (1-20 ranking)

OVERALL RESULTS	SI	EZ17	
	Score	Score	Rank
FUNDAMENTAL HEALTH	6.1	5.6	**8**
1. Growth potential	6.0	5.0	**6**
2. Competitiveness	5.6	6.1	**13**
3. Fiscal sustainability	5.6	5.6	**11**
4. Resilience	7.3	5.6	**2**
ADJUSTMENT PROGRESS	4.3	4.0	**12**
1. External adjustment	5.8	4.1	**8**
2. Fiscal adjustment	4.4	4.3	**8**
3. Labour costs	2.7	2.6	**12**
4. Reform drive	n.a.	4.9	**n.a.**

ADJUSTMENT	SI	EZ17	Score	Rank
	Value	Value	4.3	**12**
1. External adjustment			5.8	**8**
Change 2H07-2Q12				
1.1 Net exports, % points of GDP	10.4	2.4	6.4	**6**
1.2 Net exports relative to 2H07 exports	13.9	5.3	5.5	**7**
1.3 Rise in export ratio, % of GDP	6.0	3.5	5.6	**6**
2. Shift in primary fiscal balance			4.4	**8**
2.1 2009 - 2012 in % of GDP	2.6	2.6	4.2	**10**
2.2 in % of required shift to 2020	34.7	33.3	4.6	**6**
3. Unit labour costs			2.7	**12**
3.1 Real ULC 2009-2012, % cumulative	0.0	-1.8	1.2	**19**
3.2 Nominal ULC 2009-2012, % cumulative	1.0	1.5	4.2	**7**
4. Reform drive	n.a.	0.2	n.a.	**n.a.**

FUNDAMENTAL HEALTH	SI	EZ17	Score	Rank
1. Growth potential	Value	Value	6.0	**6**
1.1 Trend growth 2002-2010, in %			7.7	**3**
1.1.1 Rise in Gross value added	2.5	0.9	8.5	**4**
1.1.2 Deviation of GVA growth from norm	0.5	-0.2	6.9	**7**
1.2 Human resources			4.0	**12**
1.2.1 Fertility rate 2009-2011	1.6	1.6	4.6	**10**
1.2.2 Integration of Immigrants (MIPEX, 2010)	48.4	57.8	3.4	**14**
1.2.3 Pisa Scores 2009	499	498	3.6	**8**
1.3 Employment			6.6	**8**
1.3.1 Employment rate 2002-2011, in %	65.8	64.1	5.1	**9**
1.3.2 Change in ER 2002-2010, per year, pcp	0.3	0.2	6.7	**4**
1.3.3 Youth unemployment rate, 2002-2011, in %	14.4	18.0	7.5	**5**
1.3.4 Long-term unemployment 2002-2011, in %	2.9	3.9	6.8	**8**
1.4 Consumption rate 2002-2011			5.8	**11**
1.4.1 Total consumption, average, % of GDP	74.1	77.8	7.9	**6**
1.4.2 Change in CR 2002-2011, per year, pcp	0.4	0.2	3.6	**15**

FUNDAMENTAL HEALTH	SI	EZ17	Score	Rank
2. Competitiveness	Value	Value	5.6	**13**
2.1 Export Ratio, % of GDP, 2002-2011	63.0	39.5	5.6	**11**
2.2 Rise in export ratio, 2002-2011, pcp	2.0	0.9	8.6	**3**
2.3 Labour costs			2.7	**20**
2.3.1 Real unit labour cost, ann. change 2002-12 in %	0.1	-0.1	4.7	**15**
2.3.2 Nominal unit labour cost, ann. ch. 2002-12 in %	3.1	1.7	2.4	**18**
2.3.3 Ease of hiring & firing	2.3	3.3	1.0	**20**
2.4 Market regulations			5.7	**14**
2.4.1 Product markets (index)	1.4	1.3	6.6	**12**
2.4.2 Service markets (index)	3.3	2.4	0.8	**17**
2.4.3 Opening new business (days)	6.0	12.4	9.6	**1**

FUNDAMENTAL HEALTH	SI	EZ17	Score	Rank
3. Fiscal sustainability	Value	Value	5.6	**11**
3.1 Government outlays, % of GDP (2002-2011)	46.5	48.2	4.6	**11**
3.2 Structural fiscal balance 2011			5.0	**14**
3.2.1 Structural fiscal balance (% of GDP)	-4.7	-3.5	4.8	**12**
3.2.2 Structural primary fiscal balance (% of GDP)	-2.8	-0.5	5.2	**15**
3.3 Debt ratio, % of GDP, 2Q 2012	46.1	88.0	7.4	**4**
3.4 Sustainability gap 2012, % of GDP	5.0	4.7	5.4	**10**

FUNDAMENTAL HEALTH	SI	EZ17	Score	Rank
4. Resilience	Value	Value	7.3	**2**
4.1 Annual debt roll-over, % of GDP, 2011	7.6	13.6	6.2	**5**
4.2 Debt held abroad, % of GDP, 2011	23.2	47.4	7.4	**5**
4.3 Gross household savings rate, in %, 2011	11.9	13.2	6.8	**8**
4.4 Current account, % of GDP, 2011	0.1	0.3	5.8	**9**
4.5 Bank assets, % of GDP, 2011	145	356	10.0	**4**
4.6 Private sector debt, % of GDP, 2011	131	164	7.7	**6**

Notes: The light-blue-shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone 17 for comparison. Scores range from 10 (the best possible) to 0 (the worst possible). The rankings indicate the country's relative position among the 20 countries surveyed in this study: the eurozone 17 plus Poland, Sweden and the UK: No. 1 is the top position; No. 20 is last. - Variables: for an explanation, see the separate notes to all country tables on page 76.

Spain

Overall Assessment

A mostly mature economy forced to undergo major adjustment amidst a serious real estate and banking crisis, paired with very high unemployment. Structural reforms are on track with a major labour market reform in March 2012. But severe fiscal tightening has prolonged recession, which leads to ever-tougher fiscal challenges in combination with bank rescues.

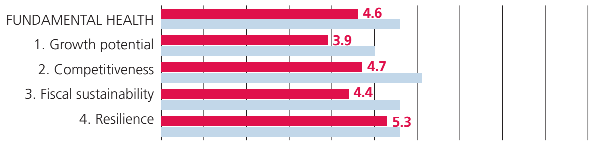
Strengths

- Strong reform and adjustment efforts
- Impressive turnaround in net exports
- Low share of government outlays in GDP
- Scores high on OECD's reform responsiveness indicator

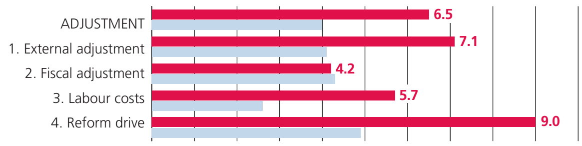
Weaknesses

- Low trend growth rate
- Demographic challenge due to low fertility rate
- Massive fiscal challenge with the highest underlying primary balance
- Relatively low, if improving share of exports in GDP
- Still room to improve in regulation

Fundamental Health



Adjustment



Detailed Scores (0-10 scale) and Ranks (1-20 ranking)

OVERALL RESULTS	ES Score	EZ17 Score	Rank
FUNDAMENTAL HEALTH	4.6	5.6	**15**
1. Growth potential	3.9	5.0	**18**
2. Competitiveness	4.7	6.1	**15**
3. Fiscal sustainability	4.4	5.6	**15**
4. Resilience	5.3	5.6	**13**
ADJUSTMENT PROGRESS	6.5	4.0	**4**
1. External adjustment	7.1	4.1	**3**
2. Fiscal adjustment	4.2	4.3	**10**
3. Labour costs	5.7	2.6	**6**
4. Reform drive	9.0	4.9	**2**

ADJUSTMENT	ES Value	EZ17 Value	Score	Rank
			6.5	**4**
1. External adjustment			7.1	**3**
Change 2H07-2Q12				
1.1 Net exports, % points of GDP	10.8	2.4	6.5	**5**
1.2 Net exports relative to 2H07 exports	35.2	5.3	10.0	**1**
1.3 Rise in export ratio, % of GDP	3.9	3.5	4.8	**9**
2. Shift in primary fiscal balance			4.2	**10**
2.1 2009 - 2012 in % of GDP	3.6	2.6	5.1	**7**
2.2 in % of required shift to 2020	24.8	33.3	3.3	**12**
3. Unit labour costs			5.7	**6**
3.1 Real ULC 2009-2012, % cumulative	-7.4	-1.8	4.9	**8**
3.2 Nominal ULC 2009-2012, % cumulative	-6.0	1.5	6.4	**5**
4. Reform drive	0.6	0.2	9.0	**2**

FUNDAMENTAL HEALTH	ES	EZ17	Score	Rank
1. Growth potential	Value	Value	3.9	**18**
1.1 Trend growth 2002-2010, in %			2.3	**17**
1.1.1 Rise in Gross value added	0.7	0.9	3.4	**16**
1.1.2 Deviation of GVA growth from norm	-0.9	-0.2	1.3	**17**
1.2 Human resources			3.7	**14**
1.2.1 Fertility rate 2009-2011	1.4	1.6	3.1	**17**
1.2.2 Integration of Immigrants (MIPEX, 2010)	62.7	57.8	6.9	**6**
1.2.3 Pisa Scores 2009	484	498	1.8	**16**
1.3 Employment			4.2	**17**
1.3.1 Employment rate 2002-2011, in %	61.4	64.1	3.2	**14**
1.3.2 Change in ER 2002-2010, per year, pcp	0.0	0.2	4.7	**14**
1.3.3 Youth unemployment rate, 2002-2011, in %	27.3	18.0	3.2	**17**
1.3.4 Long-term unemployment 2002-2011, in %	3.9	3.9	5.6	**14**
1.4 Consumption rate 2002-2011			5.1	**12**
1.4.1 Total consumption, average, % of GDP	76.6	77.8	6.7	**11**
1.4.2 Change in CR 2002-2011, per year, pcp	0.4	0.2	3.6	**15**

FUNDAMENTAL HEALTH	ES	EZ17	Score	Rank
3. Fiscal sustainability	Value	Value	4.4	**15**
3.1 Government outlays, % of GDP (2002-2011)	41.1	48.2	8.7	**4**
3.2 Structural fiscal balance 2011			2.8	**20**
3.2.1 Structural fiscal balance (% of GDP)	-7.5	-3.5	2.7	**19**
3.2.2 Structural primary fiscal balance (% of GDP)	-5.1	-0.5	2.9	**20**
3.3 Debt ratio, % of GDP, 2Q 2012	74.0	88.0	5.4	**10**
3.4 Sustainability gap 2012, % of GDP	11.0	4.7	0.8	**16**

FUNDAMENTAL HEALTH	ES	EZ17	Score	Rank
2. Competitiveness	Value	Value	4.7	**15**
2.1 Export Ratio, % of GDP, 2002-2011	26.6	39.5	1.5	**16**
2.2 Rise in export ratio, 2002-2011, pcp	0.4	0.9	4.9	**16**
2.3 Labour costs			5.9	**8**
2.3.1 Real unit labour cost, ann. change 2002-12 in %	-0.5	-0.1	8.1	**4**
2.3.2 Nominal unit labour cost, ann. ch. 2002-12 in %	1.8	1.7	6.2	**8**
2.3.3 Ease of hiring & firing	3.0	3.3	3.3	**14**
2.4 Market regulations			6.5	**10**
2.4.1 Product markets (index)	1.0	1.3	9.3	**4**
2.4.2 Service markets (index)	2.1	2.4	5.5	**6**
2.4.3 Opening new business (days)	28.0	12.4	4.5	**16**

FUNDAMENTAL HEALTH	ES	EZ17	Score	Rank
4. Resilience	Value	Value	5.3	**13**
4.1 Annual debt roll-over, % of GDP, 2011	13.0	13.6	3.5	**13**
4.2 Debt held abroad, % of GDP, 2011	20.7	47.4	7.7	**4**
4.3 Gross household savings rate, in %, 2011	11.0	13.2	6.3	**10**
4.4 Current account, % of GDP, 2011	-3.7	0.3	4.0	**16**
4.5 Bank assets, % of GDP, 2011	341	356	6.5	**13**
4.6 Private sector debt, % of GDP, 2011	216	164	3.8	**13**

Notes: The light-blue-shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone 17 for comparison. Scores range from 10 (the best possible) to 0 (the worst possible). The rankings indicate the country's relative position among the 20 countries surveyed in this study: the eurozone 17 plus Poland, Sweden and the UK: No. 1 is the top position; No. 20 is last. - Variables: for an explanation, see the separate notes to all country tables on page 76.

Sweden

Overall Assessment

A mature, highly competitive economy with still tremendous growth potential. Fiscally sustainable and resilient to shocks, Sweden's fundamental health is strong, similar to the Netherlands and Germany. It has no major weaknesses.

Strengths

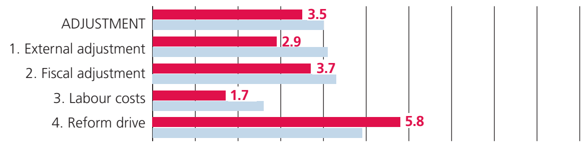
- Excellent growth potential
- Comfortable fiscal position
- Makes excellent use of its human resources
- Strong current account position

Weaknesses

- High private sector debt levels
- Cumbersome hiring and firing practices
- Relatively high youth unemployment

Fundamental Health

Adjustment



Detailed Scores (0-10 scale) and Ranks (1-20 ranking)

OVERALL RESULTS	SE Score	EZ17 Score	Rank
FUNDAMENTAL HEALTH	7.0	5.6	4
1. Growth potential	7.2	5.0	2
2. Competitiveness	6.3	6.1	11
3. Fiscal sustainability	7.4	5.6	3
4. Resilience	6.9	5.6	4
ADJUSTMENT PROGRESS	3.5	4.0	14
1. External adjustment	2.9	4.1	16
2. Fiscal adjustment	3.7	4.3	12
3. Labour costs	1.7	2.6	19
4. Reform drive	5.8	4.9	8

ADJUSTMENT	SE Value	EZ17 Value	Score	Rank
			3.5	14
1. External adjustment			2.9	16
Change 2H07-2Q12				
1.1 Net exports, % points of GDP	-0.2	2.4	3.1	14
1.2 Net exports relative to 2H07 exports	-0.3	5.3	2.5	14
1.3 Rise in export ratio, % of GDP	0.0	3.5	3.2	16
2. Shift in primary fiscal balance			3.7	12
2.1 2009 - 2012 in % of GDP	-2.3	2.6	0.0	20
2.2 in % of required shift to 2020	56.1	33.3	7.5	3
3. Unit labour costs			1.7	19
3.1 Real ULC 2009-2012, % cumulative	-3.8	-1.8	2.9	11
3.2 Nominal ULC 2007-2012, % cumulative	7.9	1.5	0.5	20
4. Reform drive	0.3	0.2	5.8	8

FUNDAMENTAL HEALTH	SE	EZ17	Score	Rank
1. Growth potential	Value	Value	7.2	2
1.1 Trend growth 2002-2010, in %			7.6	4
1.1.1 Rise in Gross value added	1.6	0.9	6.1	7
1.1.2 Deviation of GVA growth from norm	1.0	-0.2	9.1	3
1.2 Human resources			7.2	2
1.2.1 Fertility rate 2009-2011	1.9	1.6	7.8	3
1.2.2 Integration of Immigrants (MIPEX, 2010)	83.0	57.8	10.0	1
1.2.3 Pisa Scores 2009	495	498	3.2	11
1.3 Employment			6.6	6
1.3.1 Employment rate 2002-2011, in %	73.2	64.1	8.3	2
1.3.2 Change in ER 2002-2010, per year, pcp	-0.1	0.2	4.0	16
1.3.3 Youth unemployment rate, 2002-2011, in %	21.1	18.0	5.3	14
1.3.4 Long-term unemployment 2002-2011, in %	1.2	3.9	8.7	2
1.4 Consumption rate 2002-2011			7.5	4
1.4.1 Total consumption, average, % of GDP	74.6	77.8	7.7	7
1.4.2 Change in CR 2002-2011, per year, pcp	-0.2	0.2	7.4	5

FUNDAMENTAL HEALTH	SE	EZ17	Score	Rank
2. Competitiveness	Value	Value	6.3	11
2.1 Export Ratio, % of GDP, 2002-2011	48.6	39.5	4.7	12
2.2 Rise in export ratio, 2002-2011, pcp	0.7	0.9	5.0	15
2.3 Labour costs			7.2	2
2.3.1 Real unit labour cost, ann. change 2002-12 in %	-0.8	-0.1	9.7	3
2.3.2 Nominal unit labour cost, ann. ch. 2002-12 in %	0.9	1.7	8.8	3
2.3.3 Ease of hiring & firing	2.9	3.3	3.0	15
2.4 Market regulations			8.5	5
2.4.1 Product markets (index)	1.2	1.3	7.6	6
2.4.2 Service markets (index)	0.6	2.4	10.0	1
2.4.3 Opening new business (days)	15.0	12.4	7.9	10

FUNDAMENTAL HEALTH	SE	EZ17	Score	Rank
3. Fiscal sustainability	Value	Value	7.4	3
3.1 Government outlays, % of GDP (2002-2011)	53.1	48.2	2.3	19
3.2 Structural fiscal balance 2011			9.0	1
3.2.1 Structural fiscal balance (% of GDP)	0.3	-3.5	8.7	1
3.2.2 Structural primary fiscal balance (% of GDP)	1.4	-0.5	9.4	3
3.3 Debt ratio, % of GDP, 2Q 2012	37.3	88.0	8.1	3
3.4 Sustainability gap 2012, % of GDP	-1.8	4.7	10.0	1

FUNDAMENTAL HEALTH	SE	EZ17	Score	Rank
4. Resilience	Value	Value	6.9	4
4.1 Annual debt roll-over, % of GDP, 2011	6.8	13.6	6.6	4
4.2 Debt held abroad, % of GDP, 2011	17.1	47.4	8.1	2
4.3 Gross household savings rate, in %, 2011	12.9	13.2	7.3	5
4.4 Current account, % of GDP, 2011	6.5	0.3	8.8	3
4.5 Bank assets, % of GDP, 2011	294	356	7.4	7
4.6 Private sector debt, % of GDP, 2011	232	164	3.1	15

Notes: The light-blue-shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone 17 for comparison. Scores range from 10 (the best possible) to 0 (the worst possible). The rankings indicate the country's relative position among the 20 countries surveyed in this study: the eurozone 17 plus Poland, Sweden and the UK: No. 1 is the top position; No. 20 is last. - Variables: for an explanation, see the separate notes to all country tables on page 76.

United Kingdom

Overall Assessment

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

Strengths

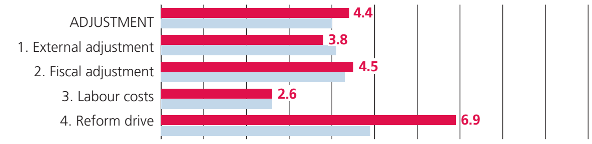
- Very deregulated labour, product and services markets
- One of the highest fertility rates in Europe
- Long average maturity of public debt limits annual roll-over
- Scores high on OECD's reform responsiveness indicator

Weaknesses

- Falling employment rate
- Extremely high share of public and private consumption in GDP
- Fiscal challenge third largest in sample after Ireland and Greece
- Very low savings rate for mature economy
- London as financial centre makes UK vulnerable in financial crises

Fundamental Health

Adjustment



Detailed Scores (0-10 scale) and Ranks (1-20 ranking)

OVERALL RESULTS	UK Score	EZ17 Score	Rank
FUNDAMENTAL HEALTH	5.1	5.6	**12**
1. Growth potential	5.4	5.0	**13**
2. Competitiveness	6.5	6.1	**10**
3. Fiscal sustainability	3.8	5.6	**18**
4. Resilience	4.9	5.6	**15**
ADJUSTMENT PROGRESS	4.4	4.0	**9**
1. External adjustment	3.8	4.1	**13**
2. Fiscal adjustment	4.5	4.3	**5**
3. Labour costs	2.6	2.6	**13**
4. Reform drive	6.9	4.9	**5**

ADJUSTMENT	UK Value	EZ17 Value	Score	Rank
			4.4	**9**
1. External adjustment			3.8	**13**
Change 2H07-2Q12				
1.1 Net exports, % points of GDP	1.7	2.4	3.7	**13**
1.2 Net exports relative to 2H07 exports	5.7	5.3	3.8	**12**
1.3 Rise in export ratio, % of GDP	1.7	3.5	3.9	**10**
2. Shift in primary fiscal balance			4.5	**5**
2.1 2009 - 2012 in % of GDP	4.3	2.6	5.7	**4**
2.2 in % of required shift to 2020	25.0	33.3	3.3	**11**
3. Unit labour costs			2.6	**13**
3.1 Real ULC 2009-2012, % cumulative	-1.5	-1.8	2.2	**12**
3.2 Nominal ULC 2007-2012, % cumulative	-1.2	1.5	2.9	**13**
4. Reform drive	0.4	0.2	6.9	**5**

FUNDAMENTAL HEALTH	UK Value	EZ17 Value	Score	Rank
1. Growth potential			5.4	**13**
1.1 Trend growth 2002-2010, in %			5.0	**12**
1.1.1 Rise in Gross value added	1.0	0.9	4.2	**11**
1.1.2 Deviation of GVA growth from norm	0.2	-0.2	5.8	**10**
1.2 Human resources			6.2	**5**
1.2.1 Fertility rate 2009-2011	1.9	1.6	7.8	**3**
1.2.2 Integration of Immigrants (MIPEX, 2010)	56.6	57.8	5.4	**10**
1.2.3 Pisa Scores 2009	500	498	3.8	**7**
1.3 Employment			6.6	**7**
1.3.1 Employment rate 2002-2011, in %	71.0	64.1	7.4	**3**
1.3.2 Change in ER 2002-2010, per year, pcp	-0.2	0.2	3.3	**18**
1.3.3 Youth unemployment rate, 2002-2011, in %	15.2	18.0	7.3	**9**
1.3.4 Long-term unemployment 2002-2011, in %	1.5	3.9	8.3	**6**
1.4 Consumption rate 2002-2011			3.8	**17**
1.4.1 Total consumption, average, % of GDP	85.8	77.8	2.1	**19**
1.4.2 Change in CR 2002-2011, per year, pcp	0.1	0.2	5.6	**11**

FUNDAMENTAL HEALTH	UK Value	EZ17 Value	Score	Rank
3. Fiscal sustainability			3.8	**18**
3.1 Government outlays, % of GDP (2002-2011)	45.6	48.2	6.5	**7**
3.2 Structural fiscal balance 2011			3.9	**18**
3.2.1 Structural fiscal balance (% of GDP)	-6.7	-3.5	3.3	**18**
3.2.2 Structural primary fiscal balance (% of GDP)	-3.5	-0.5	4.5	**16**
3.3 Debt ratio, % of GDP, 2Q 2012	86.0	88.0	4.6	**14**
3.4 Sustainability gap 2012, % of GDP	12.9	4.7	0.0	**18**

FUNDAMENTAL HEALTH	UK Value	EZ17 Value	Score	Rank
2. Competitiveness			6.5	**10**
2.1 Export Ratio, % of GDP, 2002-2011	28.2	39.5	3.2	**13**
2.2 Rise in export ratio, 2002-2011, pcp	0.7	0.9	7.0	**9**
2.3 Labour costs			6.2	**6**
2.3.1 Real unit labour cost, ann. change 2002-12 in %	-0.1	-0.1	6.1	**10**
2.3.2 Nominal unit labour cost, ann. ch. 2002-12 in %	2.5	1.7	4.3	**15**
2.3.3 Ease of hiring & firing	4.5	3.3	8.3	**1**
2.4 Market regulations			9.4	**2**
2.4.1 Product markets (index)	0.8	1.3	10.0	**1**
2.4.2 Service markets (index)	0.7	2.4	10.0	**1**
2.4.3 Opening new business (days)	13.0	12.4	8.2	**7**

FUNDAMENTAL HEALTH	UK Value	EZ17 Value	Score	Rank
4. Resilience			4.9	**15**
4.1 Annual debt roll-over, % of GDP, 2011	6.0	13.6	7.0	**3**
4.2 Debt held abroad, % of GDP, 2011	26.7	47.4	7.0	**7**
4.3 Gross household savings rate, in %, 2011	6.0	13.2	3.7	**17**
4.4 Current account, % of GDP, 2011	-1.9	0.3	4.8	**12**
4.5 Bank assets, % of GDP, 2011	556	356	2.6	**16**
4.6 Private sector debt, % of GDP, 2011	205	164	4.3	**11**

Notes: The light-blue-shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone 17 for comparison. Scores range from 10 (the best possible) to 0 (the worst possible). The rankings indicate the country's relative position among the 20 countries surveyed in this study: the eurozone 17 plus Poland, Sweden and the UK: No. 1 is the top position; No. 20 is last. - Variables: for an explanation, see the separate notes to all country tables on page 76.

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