THE 2014 EURO PLUS MONITOR
LEADERS AND LAGGARDS

BERENBERG
PARTNERSHIP SINCE 1590

the Lisbon council
think tank for the 21st century

Policy brief

The 2014 Euro Plus Monitor Leaders and Laggards

By Dr Holger Schmieding and Dr Christian Schulz
Project team: Dr Sergey Filippov and Paul Hofheinz

Holger Schmieding

Dr Holger Schmieding is chief economist of Berenberg, Germany's oldest private bank, founded in 1590. Previously Dr Schmieding was an economist at the International Monetary Fund, head of research on Central and Eastern Europe at the Kiel Institute of World Economics and chief economist Europe at Bank of America-Merrill Lynch.

Dr Christian Schulz is senior economist at Berenberg. Previously, Dr Schulz worked as an economist at the European Central Bank and as a consultant at the Boston Consulting Group.

The 2014 EURO PLUS MONITOR

LEADERS AND LAGGARDS

Contents

BERENBERG
PARTNERSHIP SINCE 1590

theLisboncouncil
think tank for the 21st century

Highlights at a glance

Reforms are paying off. Thanks to major adjustment progress at the periphery and a reliable safety net, the systemic euro crisis is over. Countries that have implemented serious reforms are now reaping the first rewards of their painful efforts.

Tough love is working. The four euro members that had been granted external assistance by early 2013 – Greece, Ireland, Portugal and Spain – maintained or even strengthened their reform efforts in 2014. As a result, they are now among the fastest growing economies in the eurozone (see Chart 1 for an overview).

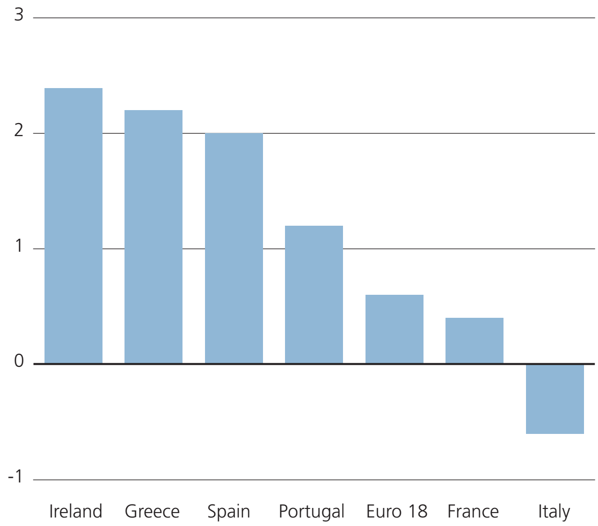
Shifting risks. Correcting past excesses while building the basis for a brighter economic future has been difficult. As a result, the risks ahead are now mostly political. A major reform reversal, possibly following an upset victory for populist protest parties, could still undo much of the progress achieved so far. Any country that chooses to do so could fall back into a deep crisis instead of enjoying the gains from its recent adjustment efforts. The cyclical setback in core Europe adds to the political risks.

Tracking the progress. The 2014 Euro Plus Monitor examines the fundamental health and measures the adjustment progress of the 18 countries that make up the eurozone as well as Poland, Sweden and the United Kingdom. This year, we again find further significant improvements. But the pattern is very uneven.

The reform gap. Our results show a clear division. Countries that have reformed their labour markets are now surging ahead after a painful transition period. The two major countries that so far have failed to reform their ossified labour markets – France and Italy – are falling behind.

Chart 1. Leaders and Laggards

GDP growth Q2-Q3 2014, annualised in percent



Source: Eurostat

Can Matteo Renzi do it? Italy's labour market reform of December 2014 offers hope for the future. It is not yet included in our analysis, though, as crucial details are still missing.

Still the sick man of Europe. Like last year, France remains the biggest concern. It is still failing to address its serious structural problems. Austria and Finland also need to change course. Otherwise, they could soon be at risk of succumbing to the French malaise.

Success breeds complacency. While still in good fundamental health, Germany and Sweden are showing signs of complacency.

From austerity to growth. After serious fiscal progress, the challenge for most countries now lies in a lack of growth so that stronger underlying fiscal position can show up in lower actual deficits.

Table 1. Adjustment Progress Indicator

Rank		Country	Total Score			External adjustment			Fiscal adjustment			Labour cost adjustment			Reform drive		
2014	2013		2014	*Change*	2013	2014	*Change*	2013	2014	*Change*	2013	2014	*Change*	2013	2014	*Change*	2013
1	1	Greece	8.9	*0.1*	8.8	7.5	*0.5*	7.0	9.7	*-0.2*	9.9	8.3	*0.1*	8.3	10.0	*0.0*	10.0
2	2	Ireland	8.0	*0.3*	7.7	8.4	*0.7*	7.7	6.9	*0.6*	6.3	8.0	*-0.4*	8.4	8.5	*0.3*	8.2
3	n.a.	Latvia	7.0	*n.a.*	n.a.	9.0	*n.a.*	n.a.	4.4	*n.a.*	4.7	7.6	*n.a.*	n.a.	n.a.	*n.a.*	n.a.
4	4	Spain	7.0	*0.1*	6.8	6.8	*-0.2*	7.0	7.1	*0.2*	6.9	6.0	*0.3*	5.7	7.9	*0.2*	7.7
5	5	Portugal	6.7	*0.0*	6.7	6.0	*-0.4*	6.4	7.9	*0.5*	7.3	5.2	*-0.1*	5.3	7.8	*0.1*	7.7
6	7	Cyprus	6.0	*0.0*	6.1	5.2	*-0.6*	5.8	6.2	*0.9*	5.2	6.8	*-0.5*	7.2	n.a.	*n.a.*	n.a.
7	6	Slovakia	5.9	*-0.2*	6.1	6.1	*-0.2*	6.4	6.9	*-0.8*	7.7	5.2	*0.3*	4.9	5.5	*0.0*	5.5
8	8	Estonia	5.8	*-0.2*	6.0	7.6	*0.3*	7.3	1.7	*0.3*	1.4	5.7	*-0.9*	6.6	8.3	*-0.5*	8.8
9	12	Slovenia	4.7	*0.7*	4.0	6.5	*0.9*	5.6	5.1	*0.1*	5.0	3.7	*0.3*	3.3	3.6	*1.4*	2.2
10	9	Poland	4.4	*-0.3*	4.8	4.3	*-0.4*	4.7	6.2	*0.3*	5.9	1.8	*-0.6*	2.4	5.4	*-0.6*	6.1
11	10	Italy	4.2	0.0	4.2	*4.2*	*0.3*	*3.9*	5.1	-0.2	5.3	2.7	*0.2*	2.5	5.0	*-0.3*	5.2
		Euro 18	4.1	0.1	4.0	*4.0*	*0.1*	*3.9*	4.5	0.0	4.5	2.6	*0.0*	2.5	5.2	*0.2*	5.0
12	11	UK	3.9	*-0.3*	4.2	2.8	*-0.2*	3.0	4.8	*-0.6*	5.4	1.9	*-0.9*	2.7	6.1	*0.3*	5.8
13	13	Malta	3.6	*-0.2*	3.8	6.2	*-0.4*	6.6	2.0	*-0.1*	2.1	2.5	*-0.1*	2.7	n.a.	*n.a.*	n.a.
14	14	Netherlands	3.3	*-0.1*	3.3	4.7	*0.5*	4.1	4.0	*0.1*	3.9	2.1	*-0.8*	2.9	2.4	*0.0*	2.4
15	16	France	3.1	*0.1*	3.0	2.8	*-0.2*	3.0	3.7	*0.1*	3.6	2.2	*0.1*	2.0	3.7	*0.2*	3.5
16	17	Luxembourg	2.8	*0.3*	2.5	5.0	*1.5*	3.4	1.1	*-0.7*	1.8	3.9	*-0.3*	4.2	1.2	*0.6*	0.6
17	15	Austria	2.8	*-0.3*	3.1	2.7	*-0.5*	3.2	1.9	*0.1*	1.8	1.4	*0.1*	1.2	5.1	*-0.9*	6.1
18	18	Germany	2.6	*0.3*	2.4	3.2	*0.3*	2.9	4.0	*0.0*	4.0	1.0	*-0.1*	1.1	2.4	*0.9*	1.5
19	19	Finland	2.4	*0.1*	2.3	1.3	*-0.1*	1.5	0.1	*-0.1*	0.2	2.9	*0.1*	2.8	5.1	*0.4*	4.7
20	20	Belgium	2.3	0.3	1.9	*3.8*	*0.6*	*3.3*	1.4	-0.1	1.5	2.0	*0.6*	1.4	1.8	*0.2*	1.6
21	21	Sweden	1.8	-0.1	1.9	*2.0*	*-0.4*	*2.4*	0.0	0.0	0.0	1.2	*0.3*	0.9	4.0	*-0.2*	4.3

Table 2. Fundamental Health Indicator

Rank		Country	Total Score			Trend growth			Competitiveness			Fiscal sustainability			Resilience		
2014	2013		2014	*Change*	2013	2014	*Change*	2013	2014	*Change*	2013	2014	*Change*	2013	2014	*Change*	2013
1	3	Luxembourg	7.6	*0.3*	7.3	7.0	*0.0*	7.0	7.7	*0.9*	6.8	9.5	*-0.2*	9.7	6.3	*0.5*	5.8
2	1	Estonia	7.5	*0.0*	7.5	7.1	*0.2*	6.9	6.1	*-0.3*	6.4	9.2	*0.1*	9.1	7.5	*0.1*	7.4
3	2	Germany	7.4	*0.0*	7.4	6.2	*0.0*	6.1	8.3	*-0.1*	8.3	7.7	*0.1*	7.7	7.5	*0.0*	7.5
4	4	Slovakia	7.0	*-0.2*	7.1	5.8	*-0.1*	5.9	7.7	*0.2*	7.5	7.3	*-0.3*	7.6	7.1	*-0.4*	7.6
5	5	Netherlands	6.9	*-0.1*	7.0	7.4	*-0.1*	7.4	7.9	-0.2	8.1	6.6	*0.0*	6.6	5.7	*-0.2*	5.9
6	6	Poland	6.8	*0.1*	6.7	6.4	*0.2*	6.3	7.4	*-0.3*	7.7	6.5	*0.3*	6.2	6.9	*0.2*	6.7
7	n.a.	Latvia	6.5	*n.a.*	n.a.	6.2	*n.a.*	n.a.	5.3	*n.a.*	n.a.	8.1	*n.a.*	n.a.	6.5	*n.a.*	n.a.
8	7	Sweden	6.4	-0.3	6.7	7.1	-0.1	7.2	4.7	-0.7	5.3	6.7	-0.6	7.3	7.1	0.1	7.0
9	9	Slovenia	6.2	*0.0*	6.2	6.0	*0.2*	5.8	5.9	*0.5*	5.4	5.7	*-0.3*	6.0	7.3	*-0.3*	7.7
10	10	Malta	6.2	*0.2*	6.0	5.4	*0.1*	5.3	7.4	*-0.2*	7.6	6.5	*-0.1*	6.6	5.5	*0.8*	4.6
		Euro 18	5.8	*0.0*	5.8	4.9	*0.0*	5.0	6.2	*0.2*	6.0	6.3	0.0	6.3	6.0	*0.0*	5.9
11	11	Austria	5.7	*0.0*	5.7	6.0	*0.1*	6.0	5.0	*-0.2*	5.2	5.4	*-0.1*	5.5	6.3	*0.1*	6.2
12	14	Ireland	5.6	0.2	5.4	5.2	*0.2*	5.1	6.8	*-0.1*	6.9	6.4	*0.6*	5.8	4.1	*0.3*	3.8
13	12	UK	5.5	*-0.1*	5.6	5.4	*0.0*	5.4	6.2	*-0.2*	6.4	5.4	*-0.3*	5.7	5.0	*0.1*	5.0
14	13	Belgium	5.3	*-0.1*	5.5	5.2	*0.0*	5.2	6.7	*-0.1*	6.8	4.1	*-0.1*	4.2	5.4	*-0.3*	5.7
15	16	Spain	5.2	*0.1*	5.1	3.7	*-0.1*	3.8	5.4	*0.5*	4.9	6.3	*0.0*	6.3	5.2	*0.0*	5.3
16	15	Finland	4.9	*-0.3*	5.2	5.5	*-0.1*	5.6	2.4	*-0.7*	3.1	6.0	*-0.3*	6.3	5.8	-0.1	5.9
17	17	France	4.9	*0.1*	4.8	5.0	*0.0*	5.0	4.8	*0.3*	4.5	4.3	*0.0*	4.3	5.5	*0.0*	5.5
18	18	Portugal	4.6	*0.1*	4.5	3.5	-0.2	3.7	5.6	*0.3*	5.3	4.9	*0.2*	4.7	4.4	*0.2*	4.3
19	19	Italy	4.6	*0.1*	4.5	3.2	*0.0*	3.2	3.9	*0.3*	3.6	5.4	*-0.2*	5.6	5.7	*0.2*	5.5
20	21	Cyprus	4.4	*0.1*	4.3	3.2	*-0.4*	3.6	3.5	*0.1*	3.4	6.9	*0.2*	6.7	4.0	*0.4*	3.6
21	20	Greece	4.3	*0.0*	4.3	2.6	*-0.3*	2.9	5.5	*0.6*	5.0	5.1	*-0.2*	5.3	4.2	*-0.1*	4.2

Scores: For the scores, we rank all sub-indicators on a linear scale of 10 (best) to 0 (worst). Having calculated the results of the sub-indicators, we aggregate them into an overall score for each country, separately for the Adjustment Progress Indicator and the Fundamental Health Indicator.
Change refers to the change in score relative to *The 2013 Euro Plus Monitor*.
Ranks: Based on the scores, we calculate the relative ranking of each country, with the No. 1 rank to the country with the highest and the No. 21 rank to the one with the lowest score.

I. Key findings

The worst is over. Thanks to impressive progress at the periphery, major parts of the eurozone have emerged from their painful adjustment crisis. They have started to enjoy the rewards of reform with significant gains in growth dynamics and major falls in unemployment. The bitter but necessary medicine, which had also cured the United Kingdom in the early 1980s, the Scandinavian countries in the early 1990s and Germany after 2003, is now working at the eurozone periphery as well. Unfortunately, reform laggards France and Italy have not yet taken the medicine. They are paying the price for it in terms of lost growth and lost employment.

In **The 2014 Euro Plus Monitor**, produced by Berenberg and the Lisbon Council, we answer two separate questions. First, we ask whether the 21 economies surveyed have risen to the challenge of the recent crisis. Whatever their starting situation, are they reforming themselves with visible results or are they failing to adjust? We examine four key aspects of adjustment: 1) the change in the fiscal position, 2) the swing in the external accounts, 3) the change in unit labour costs, and 4) supply-side reforms. We aggregate the results into an **Adjustment Progress Indicator**, which measures the speed of progress that individual countries are making.

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

The 2014 Euro Plus Monitor is the fourth edition of this annual survey which covers the 18 members of the eurozone as well as three key non-eurozone economies – Poland, Sweden and the United Kingdom.

Three years ago, we found "progress amid the turmoil," as the sub-title of *The 2011 Euro Plus Monitor* suggested.[1] Under the pressure of extreme market turbulence, the countries hit hardest by the euro crisis had started to seriously correct their imbalances. Last year, we outlined the way "from pain to gain," suggesting that the reform countries could finally leave their harsh adjustment crisis and start to reap the rewards of their efforts in 2014.[2]

1. Holger Schmieding (principal author), Paul Hofheinz, Jörn Quitzau, Anja Rossen and Christian Schulz, *The 2011 Euro Plus Monitor: Progress Amid the Turmoil* (London/Brussels: Berenberg/Lisbon Council. 15 November 2011).
2. Holger Schmieding and Christian Schulz (principal authors), Paul Hofheinz and Ann Mettler, *The 2013 Euro Plus Monitor: From Pain to Gain* (London/Brussels: Berenberg/Lisbon Council, 03 December 2013).

‘The eurozone has advanced further on the reform and adjustment track.’

Chart 2. Adjustment Progress and Fundamental Health

Twenty-one European countries ranked by the Adjustment Progress Indicator

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

‘Economic risks have receded for the reform countries; the major risks are now political.’

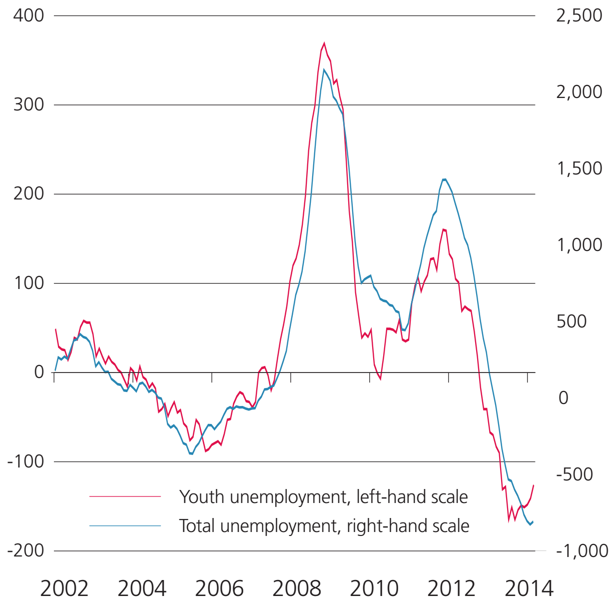
This year, the main findings are:

1. The **eurozone** has advanced further on the reform and adjustment track. The brutal front-loaded adjustment which the euro confidence crisis forced on the economies at the southern and western periphery of the eurozone is largely over. One by one, the reform countries are starting to reap the rewards of their efforts. **Greece, Ireland, Portugal** and **Spain** are now among the fastest-growing eurozone members.

2. After surging to record levels, unemployment has started to come down noticeably in the reform countries (see Chart 3 for more). If they stay the course and do not give in to the political temptations of reform reversal, they could be at the beginning of a long-term surge in employment comparable to the one which started in **Germany** some two years after its 2004 labour market reforms.

Chart 3. The Worst is Over: Unemployment is Falling

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



Source: Eurostat

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

4. The risks ahead are still serious. But they have shifted in nature. Whereas the economic risks have receded for the reform countries, **the major risks are now political in nature.** The pain of adjustment and – in some cases – old or new corruption scandals have caused a popular backlash against some of the mainstream political parties that pushed through the necessary reforms. If the reform countries stay the course without succumbing to the temptation of reform reversal, they can look forward to further rapid growth and significant declines in unemployment from still very high levels. But if they were to reverse their reforms now, they might end up in a new crisis. Having already endured years of pain, they would be in for more pain instead of enjoying the economic upturn that is the result of their recent efforts.

‘The pace of adjustment continued to quicken slightly further in the erstwhile crisis countries.’

5. Beyond safeguarding the progress in those countries which had been granted external assistance, the eurozone faces another serious challenge: how to nudge the reform laggards **France** and **Italy** to finally follow the examples of the successful reform countries such as **Spain**.

6. In *The 2013 Euro Plus Monitor*, we argued that “if the eurozone and its member countries stay the course, the region’s systemic crisis could be over by mid-2014.” The data available suggest that the eurozone reached this stage in early 2014 already. However, our additional call that “the eurozone could begin to reap the rewards of reform amid a firming cyclical recovery” was only partly successful. While the reform countries at the euro periphery did emerge nicely from their adjustment recession, growth in core Europe hit the rocks in the spring of 2014 when Russia’s war against Ukraine caused a sudden fall in business confidence and investment in **Austria, Finland, Germany** and a few other countries. Fortunately, such external confidence shocks tend to fade over time as businesses get used to the new state of the world. If the geopolitical risks, which had interrupted the economic upturn in core Europe in the last two quarters, do not escalate again, the eurozone’s cyclical recovery can gain momentum again in early 2015.

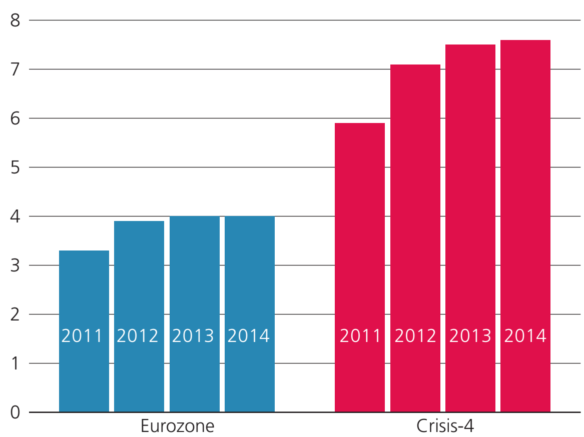
7. However, the situation remains fragile. The policy focus needs to shift decisively away from extra austerity to **pro-growth structural reforms.** For example, the French fiscal problems are a mere reflection of the fact that, because of its excessive labour market regulations and its equally excessive tax burden, France is not utilising its potential well. To improve its fiscal outlook, France urgently needs supply-side reforms, not a compression of demand through even higher taxes.

8. 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, no country should tighten its fiscal policy, or be asked to do so, by more than 2% of its annual gross domestic product in any year, except if the country had relaxed its fiscal stance in the previous year by more than 1% of its GDP.

9. The pace of adjustment continued to quicken slightly further in the erstwhile crisis countries in 2014, as it had done in the previous two years. However, the aggregate score for adjustment progress for the eurozone as a whole advanced very little in 2014 (see Chart 4 below). As in the last three years, the aggregate score for the eurozone is held back by countries such as **Germany** and **The Netherlands** which have only a limited need to adjust and have indeed done very little to further improve their outlook.

Chart 4. A Fast Pace of Adjustment

Adjustment Progress Indicator 2011, 2012, 2013 and 2014. Scale 0 (worst) to 10 (best)



Crisis-4: Spain, Greece, Ireland and Portugal
Source: Berenberg calculations

‘Our award for the most impressive rise in the adjustment ranking goes to Slovenia.’

10. Looking at individual countries, we find that the four eurozone countries that had been granted external assistance by early 2013 – **Greece, Ireland, Portugal** and **Spain** – have maintained or even strengthened their adjustment efforts further over the last 12 months. Like last year, they take four of the top five places in our adjustment progress ranking. **Greece** again ranks No. 1 on adjustment progress, followed by **Ireland** as No. 2. **Latvia**, which we had not yet included in our analysis last year, takes the No. 3 slot just ahead of **Spain** (No. 4) and **Portugal** (No. 5). In other words, the countries that needed to shape up fast have done so under the pressure of crisis. The results reveal no trace of a “moral hazard,” that is of a hypothetical risk that outside support could blunt the readiness to adjust. Chart 4 on page 8 shows the pace of adjustment progress for these four countries as well as for the eurozone as a whole.

11. Our award for the most impressive rise in the adjustment ranking goes to **Slovenia** (No. 9) this year with a rise in its score by 0.7 points. Having managed to escape troika scrutiny, it has nonetheless embarked on an impressive course of adjustment and reform. The once sluggish pace of change has quickened significantly. However, the pace remains well below the progress seen in troika-supervised economies. While the external adjustment is proceeding well, the fiscal adjustment falls short of that seen in countries such as Greece, Ireland, Portugal and Spain at the euro periphery.

12. **Italy** (No. 11 on adjustment progress, down from No. 10 last year and No. 8 in 2012) continues to reform itself at a rate that is slightly above average. But relative to the five countries that have been under some troika supervision, its progress remains patchy. On the positive side, Italy has improved its external balance, increased its underlying primary fiscal surplus and delivered some useful structural reforms. However, the pace of progress has not yet quickened sufficiently. This may soon change, though. Having granted itself a small fiscal stimulus in 2014, Italy finally used this political opportunity to pass a sweeping labour market reform in December 2014. As the crucial details of this reform are still to be fixed by decrees, it is not yet included in our analysis. If Italy’s energetic new Prime Minister Matteo Renzi gets the details right and pushes further reforms thorugh parliament, Italy could soon move up substantially in the rankings and join countries such as Ireland, Portugal and Spain that are already reaping the rewards of their earlier reforms.

13. Under adverse cyclical circumstances, the **eurozone** as a whole did not improve its overall health during the last year. The aggregate score in our Fundamental Health Check stayed unchanged at 5.8 in 2014 on a scale of 0 to 10. Small declines in **Finland** (No. 16 in the ranking for fundamental health), **Slovakia** (No. 4), **The Netherlands** (No. 5) and **Belgium** (No. 14) offset the small gains in countries such as **Ireland** (No. 12), **Spain** (No. 15), **Portugal** (No. 18), **Italy** (No. 19) and **Cyprus** (No. 20) (see Table 2 on page 4).

14. In *The 2011 Euro Plus Monitor*, we concluded that “alarm bells should be ringing for **France.**” Since then, not much has changed. Today, France ranks No. 17 out of the 21 countries in our expanded sample on overall economic health, slightly behind **Spain** (No. 15) and

‘While its macroeconomics are questionable, Britain gets top marks for its microeconomics.’

just ahead of **Portugal** (No. 18) and **Italy** (No. 19) in our Fundamental Health Indicator. In terms of adjustment progress, France finds itself at No. 15, well behind **Italy** (No. 11) and far behind **Spain** (No. 4). France remains the only major European economy which is beset by serious health problems and has not yet done much about it. To be fair, France has modestly improved its scores for fundamental health (to 4.9, up from 4.8) and for adjustment progress (to 3.1, up from 3.0). But the French progress remains below the eurozone average and falls far short of what the country needs. France still has one of the most bloated shares 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 46 and 54 for more).

15. Three other countries show some traits of the French malaise. **Belgium**, **Austria** and **Finland** also score below average for both fundamental health and for adjustment progress. For the latter two, the weak results for adjustment progress this year (with Austria at No. 17 and Finland at No. 19) may have been affected by the Putin shock as both are more exposed to Russian risks and the resulting fall in exports to Russia than other countries in the sample. Still, the below-average reading for longer-term fundamental health for both countries indicates that their problems go beyond a temporary Putin shock.

16. **Germany** is showing signs of complacency. While it is still reaping the rewards of its post-2003 Agenda 2010 reforms, the country is doing very little to strengthen its position further. In terms of fundamental health, it has fallen back one notch to the No. 3 position behind **Estonia** (No. 2) and **Luxembourg** (No. 1). More importantly, Germany’s adjustment effort remains very timid. A slight rise in the German score to 2.6, up from 2.4, did not suffice to lift Germany from the No. 18 position for adjustment progress which it held last year. As the government has started to roll back some earlier reforms, introducing an excessive minimum wage as well as a scheme to allow some workers to retire with a full pension at the age of 63 already, Germany will probably fall back in coming years.

17. Judging by the tone of its domestic debate, the **United Kingdom** sees itself as a place apart, different and aloof from the crisis-stricken eurozone. The results presented here do not back up this view. Instead, hardly any other country in the survey has overall results that are closer to the eurozone average than the non-euro UK. In terms of fundamental economic health, the UK scores 5.5, somewhat below the eurozone average of 5.8. In terms of fiscal sustainability, the UK with a score of 5.4 still faces much bigger challenges than the eurozone average with a 6.3 score. While its macroeconomics are somewhat questionable, Britain gets top marks for its microeconomics, notably for its growth-friendly rules in product, services and labour markets. This year, the UK has fallen back slightly in our two rankings. Due to some pre-election relaxation of the fiscal reins in 2014 and a stronger exchange rate, it has dropped to No. 12, down from No. 11, for adjustment progress. On long-term fundamental health, the lack of fiscal progress has let the UK slip to No. 13, down from No. 12.

‘Greece, Ireland, Italy, Portugal and Spain are no longer living beyond their means.’

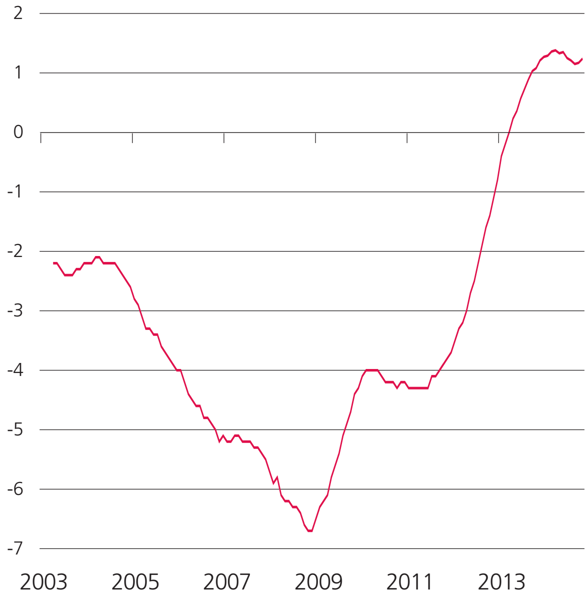
18. Sweden remains one of the stronger economies in Europe. Despite some significant slippage in its scores for competitiveness and fiscal sustainability, Sweden still ranks No. 8 for fundamental health after No. 7 last year. However, it is now well behind **Germany** (No. 3) and **The Netherlands** (No. 5). More importantly, Sweden stays at the bottom of the adjustment progress league (No. 21) due to some further loss in reform momentum and export dynamics. The fact that Sweden's fundamental health is no longer as robust as it was two years ago when it had been No. 4 in the 2012 ranking should serve as a warning: success can breed complacency. If Sweden's pause in adjustment and reform efforts lasts much longer, the situation could eventually get dangerous.

19. All in all, **Poland** continues to do well. It still excels 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 sample of 21 countries, Poland ranks No. 10 on the Adjustment Progress Indicator (down from No. 9 in 2013) and No. 6 on the Fundamental Health Indicator, unchanged from last year.

20. The 2014 Euro Plus Monitor shows that external imbalances are diminishing and that wage pressures are converging rapidly within the eurozone. As part and parcel of this adjustment progress, the reform countries as well as Italy have managed to turn their erstwhile major current account deficits into a small surplus (see Chart 5 above). Greece, Ireland, Italy, Portugal and Spain are no longer living beyond their means. More than anything else, this shows that serious adjustments have happened and continue to happen within the confines of the monetary union. This result, which we already saw in the first three editions of *The Euro Plus Monitor*, is seen clearly again in the 2014 report.

Chart 5. Rapid External Adjustment at the Periphery

Current account balance of Italy, Spain, Portugal, Greece and Ireland, in percent of GDP



Source: Eurostat, national statistical offices, Berenberg calculations

II. Adjustment Progress Indicator

II.1 Overall adjustment

Success at last. The brutal front-loaded adjustment which the euro confidence crisis had forced on the economies at the southern and western periphery of the eurozone is largely over. One by one, the reform countries are starting to reap the rewards of their efforts. Greece, Ireland, Portugal and Spain have been among the fastest-growing eurozone members since spring 2014. After surging to record levels, unemployment has started to come down noticeably in these countries.

Getting there was tough. The reform countries had to correct past excesses in public and private spending, governments and households had to curtail what they consume relative to what they produce and earn. In addition, they had to raise their long-term growth potential through serious structural reforms.

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

In **The 2014 Euro Plus Monitor**, we update the results presented in the last three years. We first calculate these four sub-indicators for each country on a scale of 0 (worst) to 10 (best). Then, we aggregate them to assign an overall **Adjustment Progress Indicator score**. We subsequently calculate the relative ranking of each country, with the No. 1 rank going to the country with the highest score and the No. 21 rank to the one with the lowest.

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) finds itself at the top again, as in 2012 and 2013, followed by **Ireland** (No. 2). **Spain** (No. 4) and **Portugal** (No. 5) come right after **Latvia** (No. 3), which debuts in the survey this year after joining the euro on 01 January 2014. **Cyprus** (No. 6) improves its position despite a marginal decline in its score.

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

The five peripheral countries that have received some support from European facilities (bilateral loans, European Financial Stability Facility or European Stability Mechanism credits), mostly topped up by the International Monetary Fund, are all among the six star performers in the adjustment ranking. This flatly contradicts the occasional assertion that such support could tempt the recipients to slow down their adjustment. We find no trace of such “moral hazard.” Indeed, the opposite is true: countries in need of support are working hard to make sure that they deserve such support and can get back onto their own feet again fast.

Comparing the results now with those of last year strengthens the key conclusion even further: the countries hit hardest by the eurozone confidence crisis are adjusting most rapidly. All four countries that had been the initial focus of the euro crisis – **Greece, Ireland, Spain** and **Portugal** – had been among the top five last year already, with ranks of No. 1, No. 2, No. 3 and No. 5, respectively. This year, all four of them have improved their scores again slightly. Note that the score measures roughly the pace of adjustment. A constant score would not signal a lack of progress. Instead, it would mean that the economy continued to adjust at the same speed as in the previous year.

For **Greece** (No. 1), the fiscal adjustment is now 85% complete. With the fiscal challenge largely met and many vital reforms in place, the key task now is to prevent any backsliding.

Italy (No. 11) continues to make some progress. But its speed of adjustment is barely above that of the eurozone average. For a country with serious structural problems, this is not good enough. While Italy continued to raise its exports, it allowed itself a modest fiscal slippage in 2014. More importantly, the political uncertainty that prevailed in much of 2013 and early 2014 caused some slowdown in the pace of structural reforms. Judging by the sweeping labour market reform that Prime Minister Matteo Renzi pushed through parliament in December 2014, Italy could start to rise in the rankings soon. However, a high and rising debt burden still makes the country vulnerable to potential bouts of market anxiety.

A low score on the Adjustment Progress Indicator can mean two different things. It can show that countries do not adjust because they do not want to. This seems to be the case in **France** (No. 15). But it can also signal that countries do not adjust much because they do not need to. This is the case with **Luxembourg** (No. 16), **Germany** (No. 18) and **The Netherlands** (No. 14). These countries score well in the separate Fundamental Health Indicator, where **Luxembourg, Germany** and **The Netherlands** take the No. 1, No. 3 and No. 5 slots, respectively. This indicator will be discussed in the next section.

To some extent, low German and Dutch scores for recent adjustment progress are part of the convergence within the eurozone towards best practice. These countries do not need to adjust much. Their above-average results in the overall health ranking indicate that they can afford a relatively relaxed fiscal stance and an above-average rise in real unit labour costs. They also have a less pronounced need for immediate structural reforms than countries with lower scores. For **France,** however, its low ranking (No. 15) in the

‘In France, the lack of major adjustment progress is a genuine concern.’

Adjustment Progress Indicator is not offset by a suitably high performance in the Fundamental Health Indicator (where it ranks No. 17). Unlike **Germany** and **The Netherlands**, France looks rather shaky on its long-term fundamentals. In France, the lack of major adjustment progress is a genuine concern.

Of the three non-euro countries in our sample, **Poland** (No. 10, down from No. 9 in 2013) continues to show adjustment efforts that are slightly above the eurozone average while **Sweden** stays at the bottom position (No. 21) largely because it has granted itself some fiscal stimulus in recent years instead of adjusting its stance.

The **United Kingdom** (No. 12, down from No. 11 in 2013) has slipped slightly in the adjustment ranking this year for two reasons. First, instead of continuing with the necessary fiscal repair, the UK granted itself a small fiscal stimulus worth 0.7% of GDP in 2014. Second, the rise in the sterling exchange rate has raised labour costs in the UK relative to its competitors in the eurozone. This affects one of the various components that go into our assessment of labour cost adjustment. As a result, the overall UK score for adjustment progress has fallen from marginally above to marginally below the eurozone average. That the UK has not fallen back further largely results from one of our four sub-indicators: according to the OECD, the UK is still implementing structural reforms rather diligently. This re-affirms one of our major findings on the UK. In terms of microeconomics, common European Union regulations still give sufficient room for the UK to set its own polices and shine despite the occasional gripes about meddling from Brussels. The UK’s problems lie in the macroeconomic sphere, especially on the fiscal side, on which Brussels has virtually no influence at all.

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

II.2 External adjustment

Table 3. External Adjustment 2007-2014

					Change in net exports 2H 2007 - 3Q 2014									Rise in export ratio % of GDP		
Rank							Relative to GDP			Relative to starting level				2H 2007 - 3Q 2014		
2014	2013	Country	Score	*Change*	Score	*Change*	%	Score	*Change*	%	Score	*Change*	%	Score	*Change*
1	n.a.	Latvia	9.0	*n.a.*	9.6	*n.a.*	17.6	9.2	*n.a.*	41.2	10.0	*n.a.*	14.1	7.8	*n.a.*
2	2	Ireland	8.4	*0.7*	7.6	*0.6*	17.2	9.0	*0.7*	19.8	6.2	*0.5*	23.8	10.0	*0.8*
3	3	Estonia	7.6	*0.3*	6.3	*0.4*	11.0	6.9	*0.4*	17.9	5.8	*0.4*	27.7	10.0	*0.0*
4	4	Greece	7.5	*0.5*	8.7	*0.2*	12.6	7.4	*0.5*	53.7	10.0	*0.0*	7.3	5.2	*1.0*
5	5	Spain	6.8	*-0.2*	7.9	*-0.5*	9.4	6.3	*-0.4*	36.3	9.5	*-0.5*	5.7	4.6	*0.4*
6	10	Slovenia	6.5	*0.9*	6.5	*0.8*	11.8	7.2	*0.8*	18.1	5.8	*0.7*	10.9	6.6	*1.3*
7	6	Malta	6.2	*-0.4*	4.9	*0.1*	9.0	6.2	*0.1*	6.9	3.6	*0.1*	16.9	8.8	*-1.3*
8	7	Slovakia	6.1	*-0.2*	5.6	*-0.3*	10.0	6.6	*-0.4*	12.5	4.7	*-0.3*	12.4	7.1	*-0.1*
9	8	Portugal	6.0	*-0.4*	6.2	*-0.7*	7.0	5.5	*-0.5*	23.1	6.8	*-1.0*	8.1	5.5	*0.2*
10	9	Cyprus	5.2	*-0.6*	7.1	*-1.0*	12.4	7.4	*-0.9*	23.1	6.8	*-1.0*	-2.7	1.4	*0.2*
11	14	Luxembourg	5.0	*1.5*	2.9	*1.5*	1.1	3.5	*2.3*	0.6	2.3	*0.7*	17.6	9.1	*1.6*
12	12	Netherlands	4.7	*0.5*	3.5	*0.2*	2.8	4.1	*0.2*	4.0	3.0	*0.1*	11.8	6.9	*1.2*
13	11	Poland	4.3	*-0.4*	4.4	*-0.8*	4.1	4.5	*-0.7*	10.1	4.2	*-0.9*	4.6	4.2	*0.3*
14	13	Italy	4.2	*0.3*	4.7	*0.2*	3.8	4.4	*0.1*	14.2	5.0	*0.3*	1.9	3.2	*0.3*
		Euro 18	4.0	*0.1*	3.8	*0.0*	2.8	4.1	*0.0*	7.1	3.6	*0.0*	5.0	4.3	*0.4*
15	15	Belgium	3.8	*0.6*	2.6	*0.2*	0.0	3.1	*0.3*	0.0	2.2	*0.2*	10.1	6.3	*1.2*
16	19	Germany	3.2	*0.3*	2.6	*0.1*	0.0	3.1	*0.1*	-0.1	2.2	*0.1*	5.1	4.4	*0.7*
17	17	France	2.8	*-0.2*	2.6	*-0.4*	-0.1	3.1	*-0.2*	-0.2	2.2	*-0.5*	1.9	3.2	*0.1*
18	18	UK	2.8	*-0.2*	3.0	*0.0*	0.7	3.4	*0.0*	2.6	2.7	*0.1*	-0.6	2.2	*-0.8*
19	16	Austria	2.7	*-0.5*	2.7	*-0.7*	0.0	3.1	*-0.6*	0.1	2.2	*-0.7*	1.0	2.8	*-0.2*
20	20	Sweden	2.0	*-0.4*	1.8	*-0.5*	-2.3	2.3	*-0.5*	-4.9	1.2	*-0.6*	0.3	2.6	*0.0*
21	21	Finland	1.3	*-0.1*	1.1	*-0.3*	-3.7	1.8	*-0.2*	-9.0	0.4	*-0.3*	-1.7	1.8	*0.2*

Ranks, scores and score changes for external adjustment indicator and sub-indicators. Values: (1) Q3 2014 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. For further explanations see notes under Table 2 on page 4. For Estonia, Finland, Ireland, Luxembourg, Malta and the Euro 18, the scores are based on adjustment up to Q2 2014 as Q3 2014 data are not yet available. For Cyprus, the data refer to the Q2/Q3 2013 average as more recent data are not yet available.

If a country has lived beyond its means, the adjustment after the party should show up most visibly in its external accounts. To track the progress, we examine two different aspects of external adjustment, namely 1) the shift in the balance of exports and imports (net exports), and 2) the rise in the share of exports in a country’s GDP. In addition to looking at the absolute shifts, we also assess the changes relative to the starting position of each country as measured by the pre-crisis share of exports in GDP in 2H 2007. This year, we add one extra year of data to the previous analysis.

‘Import demand has started to recover somewhat. We view this as a sign of success.’

The overall results of the analysis confirm the pattern we already detected in the last three years. The eurozone as a whole is improving its external position largely because the crisis countries are shaping up. All economies that were running excessive external deficits until 2007 (or 2009) have turned their external balance around convincingly. **Ireland** (No. 2) maintains its position as the best of the 20 countries which we analysed a year ago, slightly behind newcomer **Latvia** (No. 1) which makes its debut in the survey this year after joining the euro in January 2014. **Spain** (No. 5, unchanged from 2013), **Greece** (No. 4 again) and **Portugal** (No. 9) remain among the top nine performers.[3] While **Italy** (No. 14 after No. 13 last year) continues to improve its external position, it does so at a speed which is barely above the eurozone average.

All in all, the external adjustment continues at a satisfactory pace. But the pace is no longer quickening very much. While the reform countries continue to raise their exports rapidly, import demand has started to recover somewhat as well, roughly in line with the rebound in overall GDP. We view this as a sign of success: the reform countries have concluded their external adjustment. The exception remains Greece where the continuing improvement in the external accounts is still driven more by a further fall in imports than by the still modest rise in exports, with industrial exports lagging far behind the more dynamic exports of shipping and other services.

Relative to last year, we find significant gains in the scores for **Luxembourg** (up 1.5 points), **Slovenia**, (+0.9 points), **Ireland** (+0.7 points) and **Belgium** (+0.6 points). While the gains for Luxembourg and Belgium come from a rather low base, the further improvement for Ireland from a very strong base is more remarkable. In **Spain** and **Portugal**, the modest slippage the in scores is no reason for concern. The scores remain very high. Following a successful boost to exports, imports have started to rebound modestly in what looks like a healthy development for countries that have left the worst of their adjustment crises behind. However, the slippage in **Austria** (with a drop in the score by 0.5 points from what already was a below-average base) may point to more significant underlying problems.

Looking at the first of our sub-criteria, the share of net exports in GDP, **Latvia** with its small and very open economy managed the most impressive shift to its external balance by a total of 17.6 percentage points of its GDP from 2H 2007 to 3Q 2014. It is followed by **Ireland** (a 17.2 point shift until the end of 2003), **Estonia** (12.4 points), **Greece** (12.1 points) and **Cyprus** (11.0 points). The result is also very encouraging for **Spain** with a shift of 9.4 percentage points as it is a much bigger and hence less open economy than the other five.

At the other end of the spectrum, the net export balance has deteriorated significantly in **Finland** (-3.7 percentage points of GDP from 2H 2007 to 2Q 2014), **Sweden** (-2.3 points to 3Q 2014) and,

3. The calculations have been affected by the switch in the national accounts to the ESA 2010 standard. To make sure that the results reflect the actual progress achieved in the last year rather than changes in accounting practices, we have re-calculated the results for previous years using the national accounts data based on the ESA 2010 standard. In this report, we compare the 2014 results to the re-calculated scores and ranks for 2013. These can differ slightly from those we published last year on the basis of the old national accounts data. For example, the new accounting standard has led to an upward revision of domestic demand for most countries but not to a similar upward revision for exports, resulting in slightly lower export-to-GDP ratios than those published before under the old methodology.

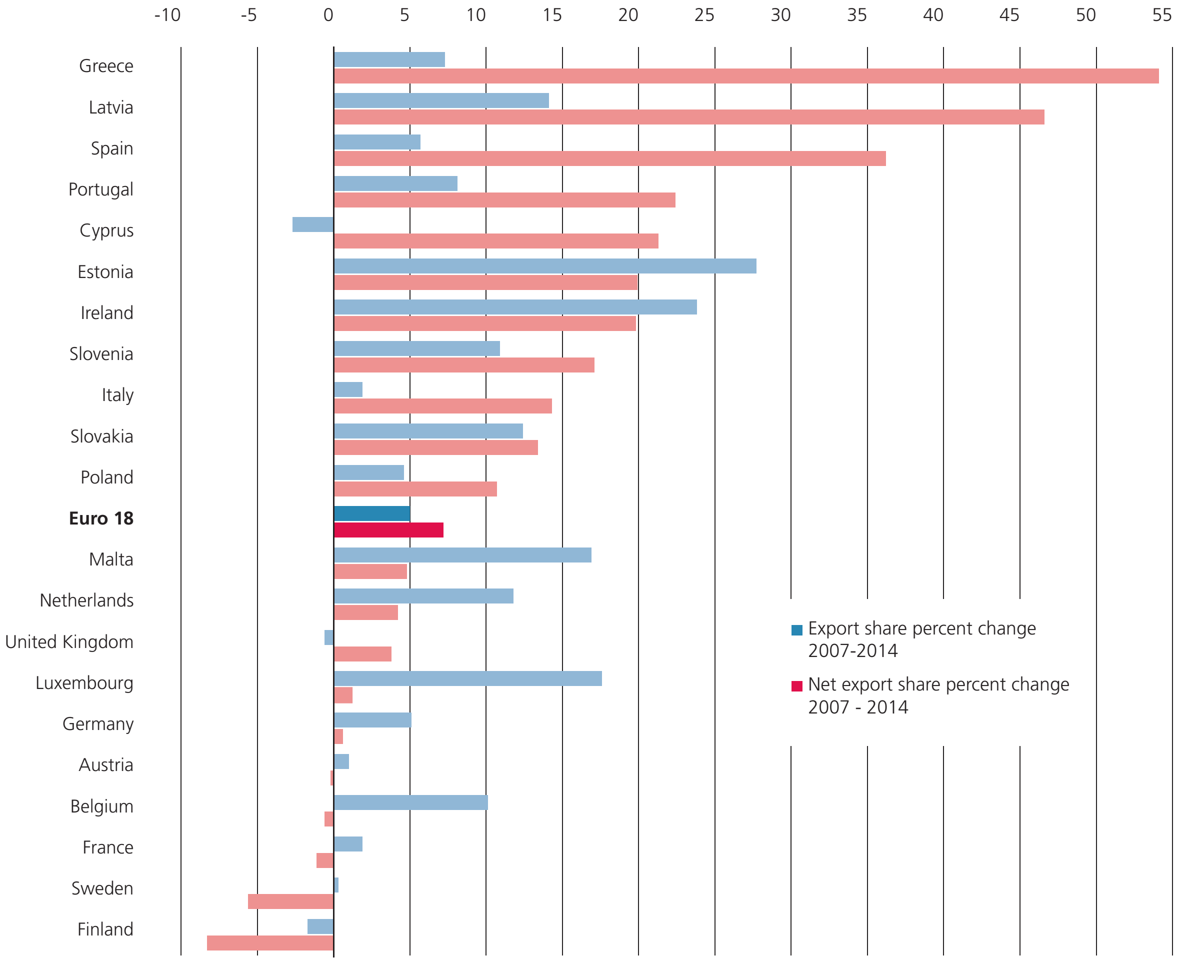
‘For Sweden and Finland, the net export deterioration is too pronounced for comfort.’

to a lesser extent, in **France** (-0.1). For Sweden and Finland, the shift is too pronounced for comfort; for France, the shift adds to the signs that it is on an unsustainable track. See the Table 3 on page 15 for more, and particularly the column on “Change in net exports relative to GDP, Value” in that table.

Relative to last year, **Luxembourg, Ireland, Greece, Slovenia, Estonia** and **Germany** have raised the share of net exports in GDP significantly whereas the rebound in imports outpaced the gain in exports in **Spain**, **Portugal** and a number of other countries such as **France** and **Sweden**.

Chart 6. Rapid External Adjustment

Change in share of exports and net exports in GDP 2H 2007 - 3Q 2014, in percent of H2 2007 export ratio



Source: Eurostat

‘Greece, Portugal and Spain achieved more impressive shifts than all countries except Latvia.’

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

To some extent, the results are similar: **Latvia, Cyprus, Ireland** and **Estonia** stay at or close to the top and **Finland**, **Sweden** and **Germany** close to the bottom of the list, confirming a major rebalancing within Europe. But the big news is that, adjusted for their comparatively low starting level, three of the eurozone crisis economies, namely **Greece**, **Portugal** and **Spain**, have achieved even more impressive shifts than all other countries except **Latvia**. On this criterion, even **Italy** looks good as, relative to its weakish starting level, it has turned around its external balance quite decisively.

In the last three years, a closer look at the drivers of adjustment had revealed a dark side to the external adjustment story: in some countries, the net export position had improved largely through a collapse in imports and less through an actual rise in exports (see the column on “rise in export ratio” in Table 3 on page 15). This is no longer the case. As the worst of the domestic fiscal squeeze is over, imports are rebounding modestly in most reform countries while the share of exports in GDP continues to grow (see Chart 7 on the next page).

Even in **Greece,** the gain in the export share in GDP (+7.3 points from 23.4% of GDP in 2H 2007 to 30.6% in 2Q 2014) now accounts for the bulk of the overall turnaround in net exports (+12.6 points) over that period. This year, Greece has been helped by some rebound in receipts from shipping and other transport services, its major export revenue earner, and its tourism. However, growth in industrial exports has been held back by a major drop in exports to Turkey, which is Greece’s top market for these goods. Pervasive political uncertainty hampering investment into export-oriented activities may also help to explain why Greek export gains for manufactured goods are lagging behind those of other crisis countries.

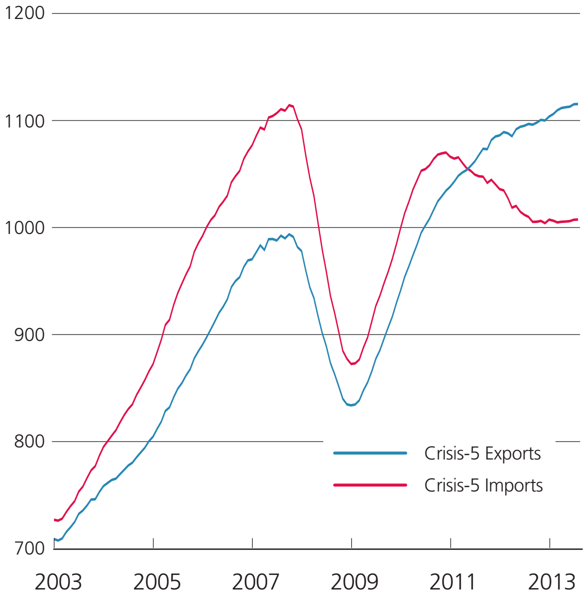
While **Spain** and **Portugal** have done well, raising their export ratio by 5.7% and 8.1% of their GDP, respectively, some of the small open economies in the eurozone have managed even more spectacular improvements. This holds especially true for **Estonia** (+27.7 points), **Ireland** (+23.8 points), **Luxembourg** (+17.6 points), **Malta** (+16.9 points), **The Netherlands** (+11.8 points), **Slovakia** (+12.4 points) and **Slovenia** (+10.9).

On the opposite side of the spectrum, **Cyprus, Finland** and the **United Kingdom** have not yet recouped the post-Lehman Brothers drop in their export ratios. The result is also very weak for **Sweden** and **Austria** which managed to boost the ratio of exports in GDP by a mere 0.3 and 1.0 percentage points, respectively, since the second half of 2007. With overall gains in the export ratio by 2.1 and 1.9 percentage points. **Italy** and **France** also lag well behind the **eurozone** average of 5.0 points.

‘Estonia and Latvia had started their own wrenching adjustment earlier.’

Chart 7. More Exports, Less Imports – the Periphery Adjusts

Nominal exports and imports of goods and services of the Crisis-5 countries in billions of euros



12-month rolling sum of nominal exports and imports for Italy, Spain, Greece, Portugal and Ireland in billions of euros.
Source: Eurostat, national statistical offices

Combining the findings from the shift in net exports and the rise in the export ratio into one ranking yields the results shown in Table 3 on page 15. **Latvia** (No. 1), **Ireland** (No. 2), **Estonia** (No. 3), **Greece** (No. 4) and **Spain** (No. 5) are now the best performers in terms of the overall external adjustment, followed by **Slovenia** (No. 6), **Malta** (No. 7), **Slovakia** (No. 8) and **Portugal** (No. 9). However, comparing the countries that recently suffered from the euro confidence crisis to Estonia and Latvia can be misleading. Suffering from the bursting of domestic bubbles, Estonia and Latvia had started their own wrenching adjustment earlier than most of the countries hit by the euro confidence crisis in the last four years.

Going forward, we expect the pace of external adjustment to slow down on the euro periphery, with stronger exports to be offset by a similar rebound in imports as domestic demand continues to recover.

In terms of the overall external adjustment, **Finland** (No. 21, as in 2013), **Sweden** (No. 20 again) and the **United Kingdom** (No. 18 again) lag behind the eurozone average while **Poland’s** score of 4.3 (down from 4.7 last year) remains modestly above the **eurozone** average of 4.0, up from 3.9 in 2013 (see Table 3 on page 15).

‘Countries most in need of reining in excessive fiscal deficits ago made serious progress.’

II.3 Fiscal adjustment

Table 4. Fiscal Adjustment 2009-2014

Rank					2009-14 in % of GDP			in % of required shift		
2014	2013	Country	Score	*Change*	%	Score	*Change*	%	Score	*Change*
1	1	Greece	9.7	*-0.2*	15.9	10.0	*0.0*	85.9	9.3	*-0.5*
2	3	Portugal	7.9	*0.5*	9.4	8.8	*0.5*	64.3	7.0	*0.5*
3	4	Spain	7.1	*0.2*	8.0	7.7	*0.2*	60.4	6.6	*0.2*
4	5	Ireland	6.9	*0.6*	7.5	7.3	*0.5*	59.7	6.5	*0.6*
5	2	Slovakia	6.9	*-0.8*	5.9	6.1	*-0.6*	70.5	7.7	*-1.0*
6	6	Poland	6.2	*0.3*	4.7	5.2	*0.2*	66.8	7.3	*0.5*
7	9	Cyprus	6.2	*0.9*	6.0	6.2	*0.9*	n.a.	n.a.	*n.a*
8	8	Italy	5.1	*-0.2*	3.6	4.3	*-0.2*	53.9	5.9	*-0.3*
9	10	Slovenia	5.1	*0.1*	4.0	4.6	*0.1*	50.9	5.5	*0.1*
10	7	UK	4.8	*-0.6*	4.5	5.0	*-0.5*	42.3	4.6	*-0.7*
		Euro 18	4.5	*0.0*	3.2	4.0	*0.0*	46.0	5.0	*0.0*
11	n.a.	Latvia	4.4	*n.a.*	3.7	4.4	*n.a.*	n.a.	n.a.	*n.a.*
12	13	Netherlands	4.0	*0.1*	3.2	4.0	*0.1*	36.7	4.0	*0.1*
13	12	Germany	4.0	*0.0*	0.7	2.1	*0.0*	54.0	5.9	*0.0*
14	14	France	3.7	*0.1*	2.7	3.6	*0.1*	34.0	3.7	*0.1*
15	15	Malta	2.0	*-0.1*	0.6	2.0	*-0.1*	n.a.	n.a.	*n.a*
16	17	Austria	1.9	*0.1*	0.9	2.2	*0.1*	14.1	1.5	*0.2*
17	19	Estonia	1.7	*0.3*	0.2	1.7	*0.3*	n.a.	n.a.	*n.a*
18	18	Belgium	1.4	*-0.1*	0.7	2.1	*-0.1*	7.3	0.8	*-0.1*
19	16	Luxembourg	1.1	*-0.7*	-0.6	1.1	*-0.7*	n.a.	n.a.	*n.a*
20	20	Finland	0.1	*-0.1*	-1.7	0.2	*-0.2*	0.0	0.0	*0.0*
21	21	Sweden	0.0	*0.0*	-4.6	0.0	*0.0*	0.0	0.0	*0.0*

Ranks, scores and score changes for Fiscal Adjustment Indicator and sub-indicators. Values: (1) 2009-2014 change in structural primary balance in percent of GDP and (2) as a share of the required fiscal shift, adjusted for age-related spending. For further explanations see notes under Table 2 on page 4.

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

Taking the changes from 2010 to 2013 and the latest European Commission estimates of the likely result for 2014 together, we find major progress in many countries in two key areas:[4]

- Countries that were most in need of reining in their excessive deficits five years ago have made serious progress, with **Greece** (No. 1) well ahead of **Portugal** (No. 2), **Spain** (No. 3), and

4. European Commission, *European Economic Forecast: Autumn 2014, European Economy 7/2014* (Brussels: European Commission, 2014).

‘Fiscal repair was less dramatic than in Greece but still breathtaking in Portugal.’

Ireland (No. 4). **Cyprus** has moved up to No. 7, up from No. 9 last year (see Table 4 on page 20 for more).The five eurozone countries which had to ask for external help have tightened their belts quite dramatically.
- A number of countries with a fairly comfortable fiscal starting position, including **Austria** (No. 16), **Estonia** (No. 17) and **Germany** (No. 13), have hardly changed their fiscal stance over these five years while **Luxembourg** (No. 19), **Finland** (No. 20), and **Sweden** (No. 21) have even relaxed their fiscal reins a little over this period.

Serious tightening in the fiscally challenged periphery and a virtual standstill in major parts of the core have resulted in a significant convergence of fiscal policy in the **eurozone** as a whole. As required, the overall underlying primary balance for the eurozone improved by 3.2% of GDP over this period, rising to a surplus of 1.6% of GDP in 2014 from a deficit of 1.6% in 2009. Relative to last year, however, the fiscal stance of the eurozone as a whole has not changed. As expected, the years of austerity with significant shifts in the underlying fiscal position came to an end in 2014. While some countries tightened their belts further in 2014, notably **Cyprus** (by 1.2 percentage points of GDP), **Ireland** (0.7 points), **Portugal** (0.7) and **Spain** (0.3), **Greece** relaxed its extremely tight fiscal stance a little in 2014 after four years of unprecedented adjustment. As a result, the overall score for Greece fell slightly. But because of its harsh tax hikes and expenditure cuts in the years before, Greece continues to lead our overall fiscal adjustment ranking by a wide margin.

Despite some small slippage in 2014, **Greece** has improved its underlying primary balance by a whopping 15.9 percentage points of GDP relative 2009 starting. With a less dismal starting point and a less-frontloaded approach, the fiscal repair has been less dramatic than in Greece but still quite breathtaking in **Portugal** (9.4 percentage points of GDP), **Spain** (8.0) and **Ireland** (7.5). Even **Cyprus**, which fell into a crisis only in 2013, has managed a total fiscal correction of 6.0% of its GDP so far.

Of course, the size of the fiscal squeeze tells only half the story. We have to relate it to the actual adjustment need. The International Monetary Fund has estimated how much countries have to shift their underlying primary balance between 2014 and 2020 to get to a debt-to-GDP ratio of 60% by 2030, also adding an adjustment for age-related spending.[5] We take these numbers – including their underlying assumptions – and add the actual adjustment progress in 2014 over 2009 according to the European Commission’s November 2014 estimates. We then relate the overall required shift in stance between 2009 and 2020 to get to a 60% debt-to-GDP ratio in 2030 to what has already been achieved from 2009 to 2014.

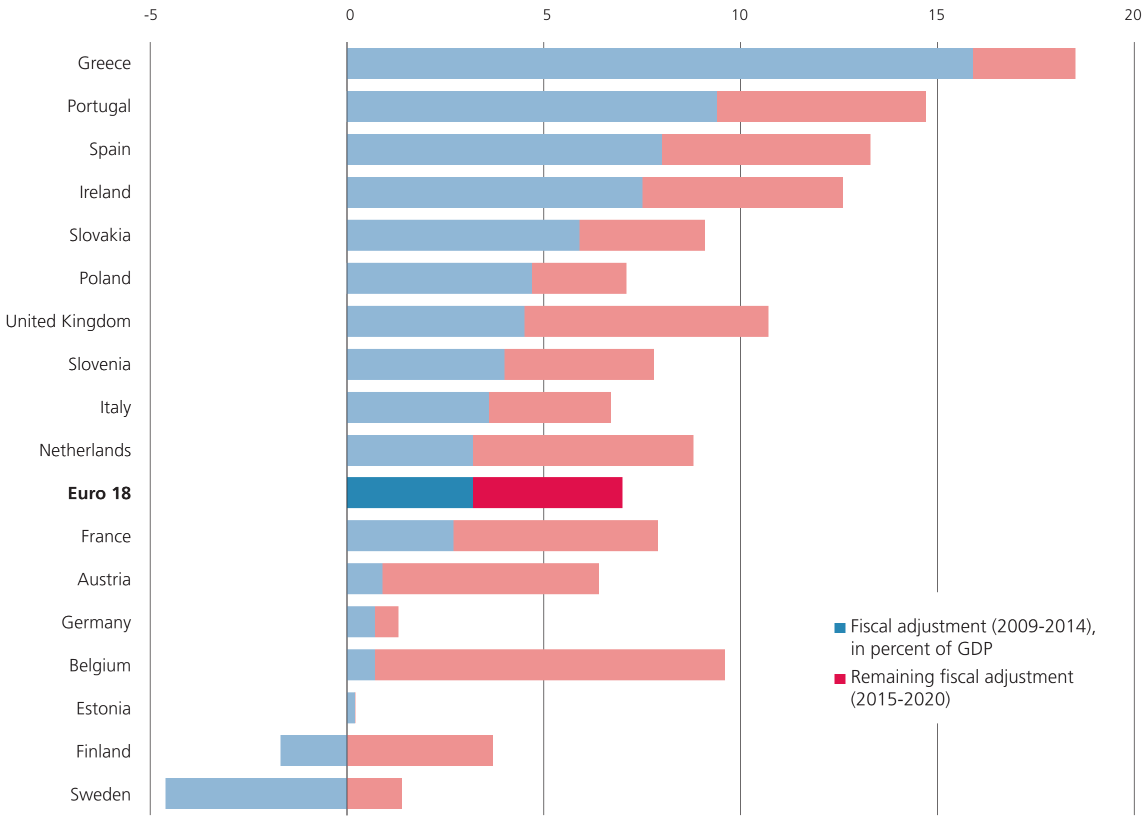
On this measure, **Greece** has also made the most progress in the eurozone, as shown in the column on “Fiscal adjustment in percent of required shift” in Table 4 on page 20. It is followed by **Poland, Slovakia, Portugal, Spain** and **Ireland**. On the other side of the spectrum, **Finland** and **Sweden** have developed their own – albeit still modest – sustainability gaps. For them, the challenges are too small to be a major worry yet. The same cannot be said of **Austria** and **Belgium.** Both have done very little fiscal adjustment yet despite a clear need for action.

5. International Monetary Fund, *Fiscal Monitor October 2014* (Washington DC: IMF, 2014). 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. However, the EU and IMF estimates of how much countries are shifting their cyclically adjusted primary balances tend to be similar. As the IMF has not updated its estimates for the overall adjustment need for Greece, we use the IMF’s 2013 estimates for Greece.

‘Finland and Sweden have developed their own – albeit still modest – sustainability gaps.’

Chart 8. Fiscal Adjustment (2009-2014)

Cumulative change in underlying primary fiscal balance 2014 over 2009 and remaining tightening need 2015-2020, in percent of annual GDP



Source: IMF Fiscal Monitor October 2014 (adjustment need), European Commission Autumn 2014 Forecasts (adjustment completed), Berenberg calculations

‘Italy needs to strengthen potential growth and hence the outlook for future tax revenues.’

Bringing the debt-to-GDP ratio down to 60% by 2030 would be a quite ambitious target. We use it here partly to make the future fiscal challenges comparable across countries. Even if countries only achieve most but not all of the required shift in their fiscal stance until 2020 to be on track for that target, they would already be making major progress.

We combine both fiscal adjustment measures, namely the estimated total shift in 2010-2014 in absolute terms, and the adjustment so far relative to the total adjustment need until 2020, for the overall fiscal score. In the resulting relative ranking, **Greece** (No. 1, unchanged from last year) comes top again, followed by **Portugal** (No. 2, up from No. 3 last year and No. 4 in 2012) and **Spain** (No. 3, up from No. 4 in 2013 and No. 10 two years ago).

Italy (No. 8 again) still attains an above-average score (see Table 4 on page 20). While recent and previous reforms have also put its pension system on a solid base, Italy needs to do more to strengthen its growth potential and hence the outlook for future tax revenues. The modest slippage in the score results from two factors. First, Italy has made hardly any further fiscal progress since the fall of Mario Monti’s government. Second, estimates for its overall adjustment need, while still rather small, have gone up slightly with the rise in its debt-to-GDP ratio during the unexpectedly protracted recession.

The mediocre ranking for **Germany** (No. 13) needs to be seen in context: Germany has gone through hardly any austerity since 2009, its sustainability gap remains so small that it is no reason for concern for the time being. For **France** (No. 14), the below-average fiscal adjustment is a far greater concern because the country has an above-average need to adjust.

Outside the eurozone, the **United Kingdom** (No. 10, down from No. 7 last year) has allowed itself some fiscal slippage. Ahead of the May 2015 election, the UK let its structural primary deficit rise from 1.6% of GDP in 2013 to 2.3% in 2014. Jointly with **Luxembourg** and **Slovakia**, the UK thus has the most significant drop in its score for fiscal adjustment this year within our survey of 21 countries.

‘Changes in labour costs do provide useful insights into the near-term adjustment dynamics.’

II.4 Swing in labour cost dynamics

Table 5. Labour Cost Adjustment 2009-2014

Rank					RULC 2009-2014			RULC shift from 2000-2009 relative to Euro 18			NULC 2009-2014 absolute			NULC shift from 2000-2009 relative to Euro 18		
2014	2013	Country	Score	*Change*	%	Score	*Change*	%	Score	*Change*	%	Score	*Change*	%	Score	*Change*
1	2	Greece	8.3	*0.1*	-14.9	10.0	*0.0*	12.8	6.4	*0.3*	-15.6	10.0	*0.0*	29.6	6.9	*0.0*
2	1	Ireland	8.0	*-0.4*	-9.6	7.6	*-0.2*	23.3	9.8	*-0.2*	-8.6	7.9	*-0.7*	29.5	6.9	*-0.4*
3	n.a.	Latvia	7.6	*n.a.*	-11.3	8.8	*n.a.*	16.8	7.7	*n.a.*	-0.2	4.7	*n.a.*	46.0	9.2	*n.a.*
4	4	Cyprus	6.8	*-0.5*	-11.8	9.1	*-0.9*	8.5	5.0	*-0.5*	-7.5	7.5	*-0.3*	18.6	5.4	*-0.2*
5	6	Spain	6.0	*0.3*	-8.4	6.6	*1.0*	4.9	3.8	*0.3*	-7.5	7.5	*0.1*	23.9	6.1	*-0.1*
6	5	Estonia	5.7	*-0.9*	-5.3	4.3	*-1.2*	15.2	7.2	*-0.6*	9.1	1.1	*-1.8*	58.1	10.0	*0.0*
7	7	Portugal	5.2	*-0.1*	-7.3	5.8	*0.1*	5.5	4.0	*0.0*	-4.4	6.3	*-0.3*	13.5	4.7	*-0.2*
8	8	Slovakia	5.2	*0.3*	-3.7	3.2	*0.7*	2.9	3.2	*0.2*	0.7	4.3	*0.5*	71.1	10.0	*0.0*
9	9	Luxembourg	3.9	*-0.3*	-6.8	5.5	*-0.3*	12.4	6.2	*-0.2*	14.3	0.0	*-0.2*	7.8	3.9	*-0.6*
10	10	Slovenia	3.7	*0.3*	-2.4	2.3	*0.8*	2.5	3.1	*0.2*	-0.2	4.7	*0.3*	13.3	4.7	*0.0*
11	12	Finland	2.9	*0.1*	-1.5	1.6	*0.6*	10.2	5.6	*0.1*	8.3	1.4	*-0.1*	0.2	2.9	*-0.1*
12	15	Italy	2.7	*0.2*	-0.3	0.7	*0.7*	3.5	3.4	*0.1*	5.5	2.5	*0.0*	8.3	4.0	*-0.1*
		Euro 18	2.6	*0.0*	-1.9	1.9	*0.4*	0.0	2.3	*0.0*	3.7	3.2	*-0.2*	0.0	2.9	*-0.1*
13	14	Malta	2.5	*-0.1*	-2.6	2.4	*0.5*	6.5	4.4	*0.1*	10.0	0.8	*-0.7*	-1.9	2.6	*-0.3*
14	17	France	2.2	*0.1*	-0.6	0.9	*0.5*	1.0	2.6	*0.1*	5.8	2.4	*-0.1*	-1.0	2.7	*-0.1*
15	11	Netherlands	2.1	*-0.8*	0.1	0.4	*-1.1*	0.4	2.4	*-0.6*	5.9	2.3	*-1.0*	1.8	3.1	*-0.4*
16	18	Belgium	2.0	*0.6*	-1.2	1.4	*1.2*	0.9	2.5	*0.4*	7.6	1.7	*0.6*	-2.6	2.5	*0.2*
17	13	UK	1.9	*-0.9*	-2.0	2.0	*0.6*	2.8	3.1	*0.1*	6.0	2.3	*-1.9*	-23.9	0.0	*-2.3*
18	16	Poland	1.8	*-0.6*	-2.9	2.7	*0.6*	-13.4	0.0	*0.0*	3.8	3.2	*-0.6*	-10.2	1.5	*-2.4*
19	19	Austria	1.4	*0.1*	-1.2	1.4	*0.6*	-3.4	1.1	*0.1*	7.7	1.7	*-0.2*	-11.8	1.3	*0.0*
20	21	Sweden	1.2	*0.3*	-2.7	2.5	*1.1*	-0.3	2.2	*0.4*	17.0	0.0	*0.0*	-34.5	0.0	*-0.3*
21	20	Germany	1.0	*-0.1*	-0.8	1.1	*0.2*	-5.2	0.6	*-0.1*	7.0	1.9	*-0.5*	-19.0	0.3	*0.0*

Ranks, scores and score changes for Labour Cost Adjustment Indicator and sub-indicators. Values: (1) 2009-2014 cumulative change in real unit labour costs, in percent; (2) shift in cumulative real unit labour cost change between periods 2000-2009 and 2009-2014, relative to the eurozone average, in percent; (3) 2009-2014 cumulative change in euro nominal unit labour costs, 2007-2014 for non-eurozone countries, in percent; (4) shift in cumulative euro nominal unit labour cost change between periods 2000-2009 and 2009-2014, relative to the eurozone average, 2000-2007 to 2007-2014 for non-eurozone countries, in percent . For further explanations see notes under Table 2 on page 4.

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

‘France has risen a little largely because Poland, the UK and The Netherlands have fallen behind.’

To gauge adjustment progress, we examine how much changes in nominal and real unit labour costs are deviating from the eurozone average. We conduct the analysis in three steps. First, we calculate the cumulative change in real unit labour costs between 2009 and 2014 and rank countries according to their deviation from the eurozone average, awarding the highest score to the country with the biggest relative fall. Second, we relate this to what happened in the 2000-2009 period, assigning the best score to the country which has made the biggest shift from above-average in the earlier period to below-average in the crisis period. Third, we repeat the exercise for nominal unit labour costs. We then derive an overall score and ranking by combining these components.

Under the pressure of record unemployment and the lagged impact of a deep adjustment crisis that lasted until the end of 2013, **Greece** (No. 1) has moved up further in the ranking, replacing **Ireland** (No. 2) as the top performer. Three years ago, Greece had still been just No. 6. Beyond Greece, three small open and fairly flexible economies take the next positions, with **Ireland** (No. 2) followed by newcomer **Latvia** (No. 3) and **Cyprus** (No. 4). While **Spain** (No. 5, after No. 6 in 2013) has moved up, **Estonia** (No. 6, down from No. 5 in 2013) continues to slide in the ranking. This makes sense. Estonia successfully concluded its own post-bubble adjustment process two years ago and started to relax the reins somewhat. However, high Spanish unemployment is still putting serious adjustment pressure on the workers there. **Portugal** (No. 7) and **Slovakia** (No. 8) maintain their 2013 positions with a speed of labour-cost adjustment that remains far above the eurozone average.

At the bottom of the league table, **Germany** (No. 21), **Sweden** (No. 20) and **Austria** (No. 19) take the last three spots. Arguably, this is exactly the position which these countries, with their comparatively healthy labour markets, should be in.

The real problem in the eurozone remains **France** (No. 14), which, despite excessive labour cost to start with, has improved its score only marginally by 0.1 point. That France has nonetheless moved up in the labour cost adjustment ranking is largely the result of **Poland** (No. 18), the **United Kingdom** (No. 17) and **The Netherlands** (No. 15) falling back rather than of any significant progress in France itself. The inflexible French labour market has still not responded adequately to the challenge of high unemployment.

Overall, two results stand out:

1. Wage pressures have converging rapidly and decisively within the eurozone: most of the euro members with excessive wage increases until 2009 have gone through a big correction (see Chart 9 on page 26).[6]

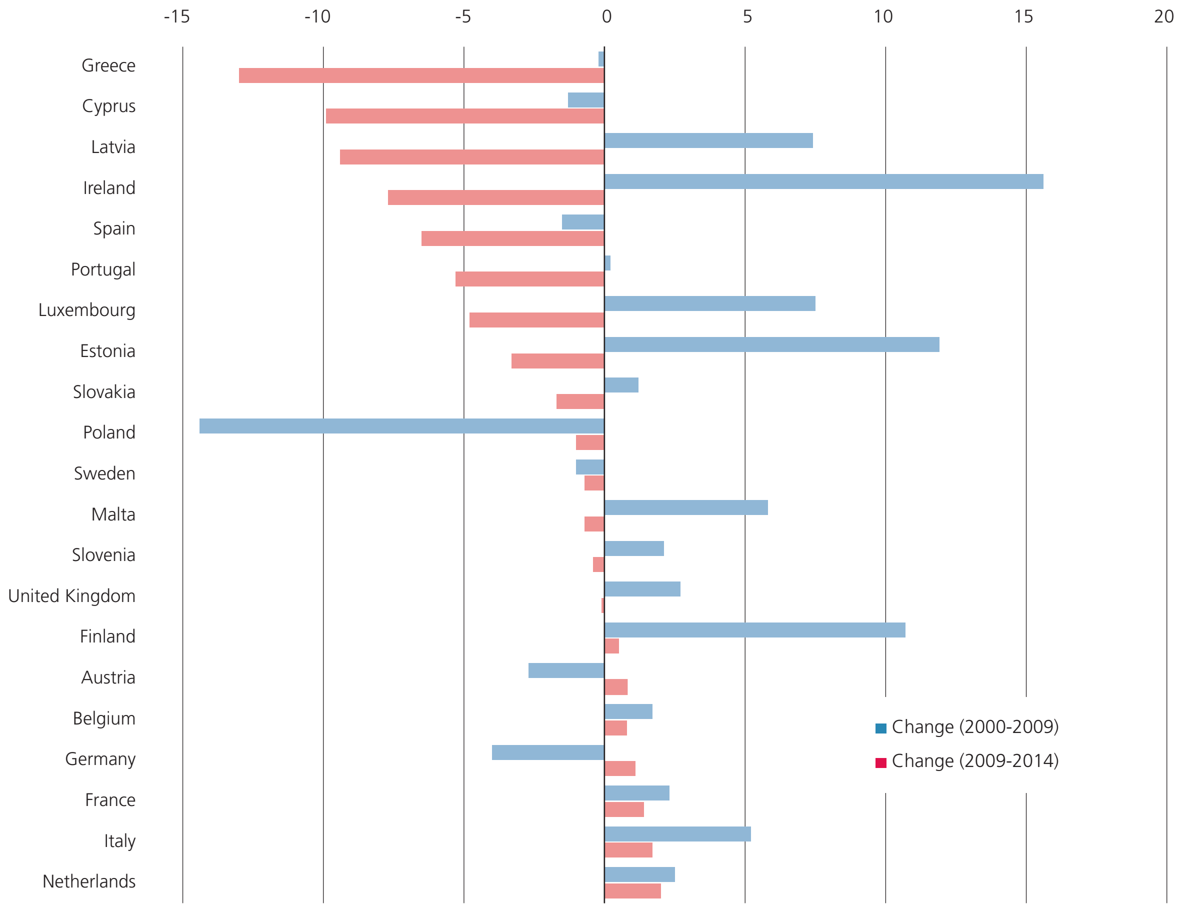
2. Whereas wage moderation has taken hold with a vengeance across the eurozone periphery, wage costs have risen significantly in many core countries such as **Austria, France, Germany** and **The Netherlands.**

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.

‘Greek workers have endured the most pain, followed by Cyprus.’

Chart 9. Labour Costs: the Great Convergence

Cumulative deviation of change in real unit labour cost from eurozone average, 2014 over 2009 vs. 2009 over 2000, in percentage points



Source: Eurostat, Berenberg calculations

Looking at the absolute changes in real unit labour costs in the five years leading up to 2014 (see the column on “Real Unit Labour Costs (2009-2014), cumulative in percent,” in Table 5 on page 24), workers in **Greece** have endured the most pain (-14.9%), followed by **Cyprus** (-11.8%), **Latvia** (-11.3%), **Ireland** (-9.6%), **Spain** (-8.4%) and **Portugal** (-7.3%). The only country with a cumulative rise in real unit labour costs is **The Netherlands** (0.1%).

‘The rise in the British pound has made the UK look less competitive.’

Comparing the data for the **United Kingdom**, **Sweden** and **Poland** to the results for eurozone members poses a challenge. Cross-country comparisons of nominal labour costs, which are part of the analysis, are affected heavily by exchange rate moves. The Swedish krona and sterling first devalued sharply after the collapse of Lehman Brothers, only to recover significant 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 that come about though the exchange rate.

For our analysis, we thus look at both nominal and real unit labour costs and then aggregate the results. The changes since last December, when we published *The 2013 Euro Plus Monitor*, are also significant for the **United Kingdom** (No 17, down from No. 13) and **Poland** (No. 18, after finishing No. 16 last year). The rise in the British pound versus the euro has made the UK look less competitive this year on the basis of nominal unit labour costs than it was last year. In terms of real unit labour costs, which are affected by exchange rate moves only indirectly and with substantial lags, it improved its scores slightly relative to last year.[7]

Exchange rate effects can be temporary. We are hence more concerned about the significant decline in the score for **The Netherlands** (No. 15, after ending No. 11 last year, with a drop in the score by 0.8 points) because it reflects a genuine rise in costs relative to its competitors in both real and nominal terms.

7. 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 the 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 the UK and Sweden on this count than if we had used 2009 with its low exchange rates for the three non-euro members as the base year for them as well. We have not made this exchange rate adjustment in the nominal unit labour costs measure in the Fundamental Health Indicator. Arguably, our approach for the UK is thus slightly biased to the upside for the Adjustment Progress Indicator and slightly biased to the downside for the Fundamental Health Indicator. But using the approach more favourable for the UK for the Fundamental Health Indicator as well would have improved the score only marginally.

‘Reforms matter more than the initial readiness to rein in public and private spending.’

II.5 Reform drive

Table 6. Reform Drive

Rank 2014	Rank 2013	Country	Score	Change	Value
1	1	Greece	10.0	*0.0*	0.84
2	3	Ireland	8.5	*0.3*	0.72
3	2	Estonia	8.3	*n.a.*	0.70
4	5	Spain	7.9	*0.2*	0.67
5	4	Portugal	7.8	*0.1*	0.66
6	8	United Kingdom	6.1	*0.3*	0.52
7	9	Slovakia	5.5	*n.a.*	0.47
8	6	Poland	5.4	*-0.6*	0.46
		Euro 18	5.2	*0.2*	0.44
9	6	Austria	5.1	*-0.9*	0.43
10	11	Finland	5.1	*0.4*	0.43
11	10	Italy	5.0	*-0.3*	0.42
12	12	Sweden	4.0	*-0.2*	0.34
13	13	France	3.7	*0.2*	0.31
14	15	Slovenia	3.6	*n.a.*	0.30
15	14	Netherlands	2.4	*0.0*	0.20
16	17	Germany	2.4	*0.9*	0.20
17	16	Belgium	1.8	*0.2*	0.15
18	18	Luxembourg	1.2	*0.6*	0.10
		Latvia	n.a.	*n.a.*	n.a.
		Cyprus	n.a.	*n.a.*	n.a.
		Malta	n.a.	*n.a.*	n.a.

Value: responsiveness to OECD reform recommendations 2010-2013.

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

To measure how much countries have done, we employ the expertise of the OECD: the OECD identifies five priority areas for reform for each member country every year. It makes a number of concrete recommendations in each area, and subsequently measures whether these recommendations have been followed up (Score 1) or not (Score 0). We aggregate the data for the last three years. The latest data comes from *Going for Growth 2014*, the latest edition of this flagship OECD study, with a data cut-off date of 31 December 2013.

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

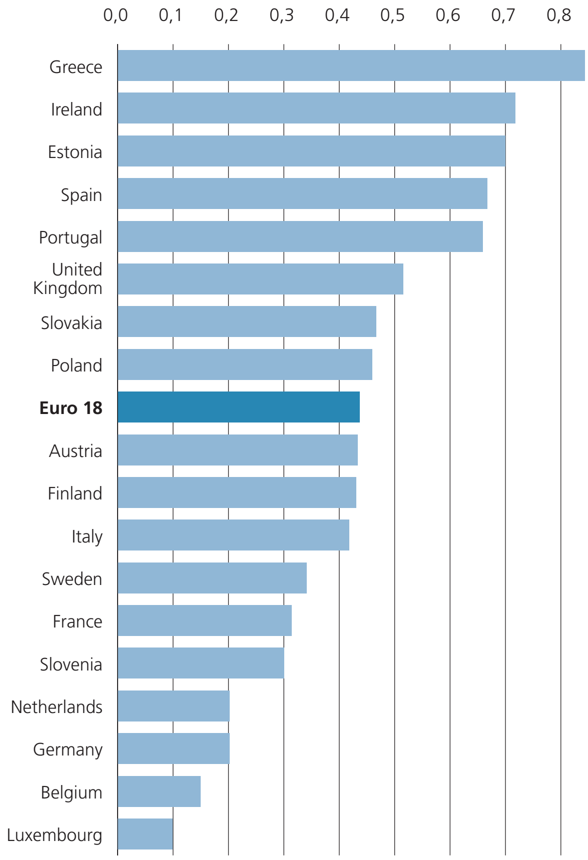
Under the pressure of crisis and due to the vigilance of the troika, the bailed-out countries feature at the top of the table, with **Greece** (No. 1) ahead of **Ireland** (No. 2), **Spain** (No. 4) and **Portugal** (No. 5) with **Estonia** (No. 3) in between. Reform efforts in **Italy** (No. 11) remain slightly below average. The score for Italy is even slightly worse than it was in *The 2013 Euro Plus Monitor* (see Table 1

‘Italian efforts stalled amid political uncertainty in late 2013.’

on page 4) as Italian efforts stalled amid political uncertainty in late 2013. Some comparatively healthy core eurozone countries which need few reforms feature at the bottom of the table with **The Netherlands** at No. 15, **Germany** at No. 16 and **Luxembourg** at No. 18. Because of its below-average ranking for fundamental health, the lack of serious reforms in **Belgium** (No. 17) looks more worrisome. Our biggest concern remains **France** (No. 13). Although it has advanced marginally with a gain in its score of 0.2 points, it still has the worst gap between a rather pronounced need for reforms and a very sluggish pace of reforms.

Chart 10. Reform Drive: Periphery in the Lead

OECD reform responsiveness indicator average (2010/11 - 2012/13)



Source: OECD

III. Fundamental Health Indicator

III. 1 Overall health

Table 7. Fundamental Health Overview

Rank		Country	Total Score			Trend growth			Competitiveness			Fiscal sustainability			Resilience		
2014	2013		2014	*Change*	2013	2014	*Change*	2013	2014	*Change*	2013	2014	*Change*	2013	2014	*Change*	2013
1	3	Luxembourg	7.6	0.3	7.3	7.0	0.0	7.0	7.7	0.9	6.8	9.5	-0.2	9.7	6.3	0.5	5.8
2	1	Estonia	7.5	0.0	7.5	7.1	0.2	6.9	6.1	-0.3	6.4	9.2	0.1	9.1	7.5	0.1	7.4
3	2	Germany	7.4	0.0	7.4	6.2	0.0	6.1	8.3	-0.1	8.3	7.7	0.1	7.7	7.5	0.0	7.5
4	4	Slovakia	7.0	-0.2	7.1	5.8	-0.1	5.9	7.7	0.2	7.5	7.3	-0.3	7.6	7.1	-0.4	7.6
5	5	Netherlands	6.9	-0.1	7.0	7.4	-0.1	7.4	7.9	-0.2	8.1	6.6	0.0	6.6	5.7	-0.2	5.9
6	6	Poland	6.8	0.1	6.7	6.4	0.2	6.3	7.4	-0.3	7.7	6.5	0.3	6.2	6.9	0.2	6.7
7	n.a.	Latvia	6.5	n.a.	n.a.	6.2	n.a.	n.a.	5.3	n.a.	n.a.	8.1	n.a.	n.a.	6.5	n.a.	n.a.
8	7	Sweden	6.4	-0.3	6.7	7.1	-0.1	7.2	4.7	-0.7	5.3	6.7	-0.6	7.3	7.1	0.1	7.0
9	9	Slovenia	6.2	0.0	6.2	6.0	0.2	5.8	5.9	0.5	5.4	5.7	-0.3	6.0	7.3	-0.3	7.7
10	10	Malta	6.2	0.2	6.0	5.4	0.1	5.3	7.4	-0.2	7.6	6.5	-0.1	6.6	5.5	0.8	4.6
		Euro 18	5.8	0.0	5.8	4.9	0.0	5.0	6.2	0.2	6.0	6.3	0.0	6.3	6.0	0.0	5.9
11	11	Austria	5.7	0.0	5.7	6.0	0.1	6.0	5.0	-0.2	5.2	5.4	-0.1	5.5	6.3	0.1	6.2
12	14	Ireland	5.6	0.2	5.4	5.2	0.2	5.1	6.8	-0.1	6.9	6.4	0.6	5.8	4.1	0.3	3.8
13	12	UK	5.5	-0.1	5.6	5.4	0.0	5.4	6.2	-0.2	6.4	5.4	-0.3	5.7	5.0	0.1	5.0
14	13	Belgium	5.3	-0.1	5.5	5.2	0.0	5.2	6.7	-0.1	6.8	4.1	-0.1	4.2	5.4	-0.3	5.7
15	16	Spain	5.2	0.1	5.1	3.7	-0.1	3.8	5.4	0.5	4.9	6.3	0.0	6.3	5.2	0.0	5.3
16	15	Finland	4.9	-0.3	5.2	5.5	-0.1	5.6	2.4	-0.7	3.1	6.0	-0.3	6.3	5.8	-0.1	5.9
17	17	France	4.9	0.1	4.8	5.0	0.0	5.0	4.8	0.3	4.5	4.3	0.0	4.3	5.5	0.0	5.5
18	18	Portugal	4.6	0.1	4.5	3.5	-0.2	3.7	5.6	0.3	5.3	4.9	0.2	4.7	4.4	0.2	4.3
19	19	Italy	4.6	0.1	4.5	3.2	0.0	3.2	3.9	0.3	3.6	5.4	-0.2	5.6	5.7	0.2	5.5
20	21	Cyprus	4.4	0.1	4.3	3.2	-0.4	3.6	3.5	0.1	3.4	6.9	0.2	6.7	4.0	0.4	3.6
21	20	Greece	4.3	0.0	4.3	2.6	-0.3	2.9	5.5	0.6	5.0	5.1	-0.2	5.3	4.2	-0.1	4.2

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

The **Fundamental Health Indicator** is designed to identify underlying strengths and weaknesses of European countries. Ideally, countries with below-average scores should be reforming and feature above average in our separate adjustment scores. While the criteria to assess the health of countries are inspired by the EU's Euro Plus Pact, agreed at the March 2011 European Council, their selection owes as much to the factors that contributed to the European and global financial crises since 2007.[8]

Since we look at long-run averages or slow-moving aggregates like debt levels, changes from year to year tend to be small, even for those countries with deep economic crises and fast adjustment processes. But since the 2013 issue, the fundamental health ranking has begun to showcase some of the improvements due to reforms in the eurozone periphery. It does so in 2014 again, while continuing to highlight the challenges and the long road to the full restoration of fundamental health

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

‘The fundamental health ranking has begun to showcase some of the improvements.’

ahead. Our primary purpose is to focus on longer-term issues that will shape the economic outlook for European economies well beyond the current crisis.

To assess the fundamental health of the 21 European countries in the sample, we look at four sub-indicators: 1) long-term growth potential, 2) competitiveness, 3) fiscal sustainability, and 4) fundamental resilience to financial shocks. We assess countries on each of these four sub-indicators, and assign a score from 0 (the worst possible) to 10 (the best possible). Then we bring the four sub-indicators together in one overall score and rank the countries according to that.

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

The global financial and eurozone crises have left deep scars in many countries. Public and private sector deleveraging and internal devaluation to regain competitiveness triggered long recessions, which only ended in the course of 2013 in most countries. But the adjustment also sets the scene of an improvement in economic fundamentals. Further structural reforms and the eurozone’s belated revamping of the banking sector, building on national efforts, further improve the underlying strength of the economies.

While the changes in the overall ranking are mostly incremental, we can detect three clear patterns:

1. The former crisis countries continue to improve their competitiveness and in most cases their fiscal sustainability and financial resilience. However, they suffer in the growth category as the crisis has eroded human and physical capital.

2. Most other eurozone countries maintain their scores from the previous year.

3. The trend towards substantial overall deterioration in northern Europe continued. Success can breed complacency.

Looking at the results in more detail, we find

- Big jumps in competitiveness and financial resilience catapult small **Luxembourg** (No. 1) to the top of our ranking, where it replaces **Estonia** (No. 2) for the first time since we started the Euro Plus Monitor in 2011. Estonia’s score was unchanged.

- **Germany** (No. 3) was also nearly stable in all subcategories, leaving it as the strongest large economy by some distance. Germany leads the competitiveness and resilience indicators.

- The gap between **Germany** and next-placed **Slovakia** (No. 4) widened this year, as the Slovak score fell due to fiscal and financial deterioration. But Slovakia remained just ahead of **The Netherlands** (No. 5), where the score also declined slightly due to a fall in competitiveness.

9. Ibid..

‘Big jumps in competitiveness and financial resilience catapult Luxembourg to the top.’

- **Greece** (No. 21) had won the prize for most improved country in the fundamental ranking in the two previous years. This year, its score is stable, which means it swaps positions with **Cyprus** (No. 20) and falls to the bottom of the table. While Greek competitiveness improved markedly again due to better exports and less regulation, years of economic depression have eroded Greece’s human and physical capital and thus its growth potential. That comes through for instance in much worse education results, but also a negative household saving rate and poor integration of immigrants.

- **Spain** (No. 15) and **Portugal** (No. 18) improve modestly and continue to rise in the rankings. Spain overtakes **Finland** (No. 16), Portugal stays ahead of **Italy** (No. 19) behind. Both countries have improved their competitiveness significantly, although they remain below the eurozone average. Portugal has additionally made more progress on the fiscal side and in terms of financial resilience. However, both countries show scars of the crisis as the long recession has eroded some of their growth potential via a lack of investment.

- The fundamental health scores of **Italy** (No. 19) and **France** (No. 17) are only marginally better this year compared to last. France achieves a significant improvement in competitiveness, but both countries remain in the bottom third of the league table and need serious reforms, particularly to boost competitiveness. A bit ahead of them, **Belgium** (No. 14) weakens slightly and remains a bit below the eurozone average.

- You would not guess it from the UK finance minister’s comportment, but the weak spot of the **United Kingdom** (No. 13) – fiscal sustainability – is getting worse again. After a strong start, the coalition government’s fiscal adjustment efforts have faded as tax cuts have cost more than expected. Competitiveness has also suffered due to the exchange rate appreciation.

- **Sweden** (No. 8) and **Finland** (No. 16) continue to slide down the table, as their scores for competitiveness and fiscal sustainability erode. Both countries are fundamentally healthy, but given that Finland started at No. 8 out of 17 eurozone countries when we first published *The Euro Plus Monitor* in 2011, and Sweden at No. 4 when we added it to the analysis in 2012, the downtrend is significant enough to be a warning signal against complacency.

For *The 2014 Euro Plus Monitor*, we have updated the data, mostly to include 2013 and in some cases 2014 data, where last year we only had 2012 data. In most instances, this meant extending the analysis period from 2002-2012 or 2002-2013 by one year to 2002-2013 or 2002-2014.

'Years of economic depression have eroded Greece's human and physical capital.'

But to some extent, the new results are not fully comparable to those published last year for two technical reasons:

1. **Revised data:** The new GDP accounting standard ESA2010 has brought about major revisions to GDP levels and growth rates, as well as its components. We have recalculated the back data, which eliminates the effect of this change on our data this year. However, this also means that the rankings of *The 2013 Euro Plus Monitor* cannot be directly compared to this year's study anymore.

2. **Better indicators:** The data for two of the sub-criteria we had used in previous editions, namely the service-sector regulation index and the immigrant-integration index, have not been updated for years, forcing us to explore new data. For the new immigrant integration index, which we constructed ourselves from Eurostat data, we can recalculate the previous data. However, the services regulation index change leads to distortions we cannot control for. With very few exceptions, the changes are modest, though.

‘ESA2010 has brought about major revisions to GDP levels and growth rates.’

III.2 Long-term growth potential

Table 8. Growth Potential

Rank		Country	Total score			Recent growth			Human capital			Employment			Consumption		
2014	2013		2014	*Change*	2013	2014	*Change*	2013	2014	*Change*	2013	2014	*Change*	2013	2014	*Change*	2013
1	1	Netherlands	7.4	-0.1	7.4	7.6	0.0	7.6	5.8	-0.1	5.9	7.9	-0.2	8.1	8.1	0.0	8.1
2	2	Sweden	7.1	-0.1	7.2	8.7	0.0	8.7	5.4	-0.2	5.6	6.8	0.1	6.8	7.5	-0.1	7.7
3	4	Estonia	7.1	0.2	6.9	7.7	0.0	7.7	5.9	0.8	5.2	6.2	0.3	5.9	8.6	-0.3	8.9
4	3	Luxembourg	7.0	0.0	7.0	7.1	0.0	7.1	4.4	0.0	4.4	6.6	0.0	6.6	10.0	0.0	10.0
5	5	Poland	6.4	0.2	6.3	9.1	0.0	9.1	5.4	0.5	4.9	4.1	0.0	4.0	7.1	0.1	7.0
6	n.a.	Latvia	6.2	n.a.	n.a.	9.8	n.a.	n.a.	3.2	n.a.	n.a.	5.2	n.a.	n.a.	6.7	n.a.	n.a.
7	7	Germany	6.2	0.0	6.1	6.2	0.0	6.2	4.1	0.2	3.9	7.5	0.1	7.4	7.0	-0.1	7.1
8	8	Austria	6.0	0.1	6.0	5.6	0.0	5.6	3.5	0.5	3.0	8.1	-0.1	8.2	7.0	0.0	7.0
9	10	Slovenia	6.0	0.2	5.8	6.8	0.0	6.8	4.3	0.2	4.1	5.8	-0.2	6.0	7.1	0.6	6.4
10	9	Slovakia	5.8	-0.1	5.9	9.7	0.0	9.7	3.4	-0.4	3.8	2.7	-0.1	2.8	7.2	0.1	7.1
11	11	Finland	5.5	-0.1	5.6	5.3	0.0	5.3	6.3	-0.3	6.6	6.3	0.2	6.1	4.1	-0.1	4.2
12	13	Malta	5.4	0.1	5.3	3.9	0.0	3.9	5.2	-0.3	5.5	5.9	0.4	5.5	6.8	0.4	6.5
13	12	UK	5.4	0.0	5.4	4.4	0.0	4.4	6.5	-0.1	6.6	6.7	0.0	6.7	4.0	0.2	3.8
14	15	Ireland	5.2	0.2	5.1	1.4	0.0	1.4	7.3	0.5	6.8	4.6	0.1	4.5	7.6	0.1	7.5
15	14	Belgium	5.2	0.0	5.2	4.1	0.0	4.1	5.2	0.1	5.1	5.1	-0.1	5.2	6.5	0.0	6.5
16	16	France	5.0	0.0	5.0	3.5	0.0	3.5	6.1	0.0	6.1	5.2	0.0	5.3	5.3	0.0	5.3
		Euro 18	4.9	0.0	5.0	4.0	0.0	4.0	4.4	0.0	4.4	5.3	-0.2	5.4	6.1	0.0	6.1
17	17	Spain	3.7	-0.1	3.8	3.5	0.0	3.5	2.9	-0.1	3.0	2.7	-0.5	3.2	5.9	0.3	5.6
18	18	Portugal	3.5	-0.2	3.7	2.4	0.0	2.4	4.1	-0.3	4.4	3.5	-0.6	4.1	4.1	0.2	3.9
19	20	Italy	3.2	0.0	3.2	0.6	0.0	0.6	3.5	0.2	3.3	3.7	-0.3	4.1	5.2	0.2	4.9
20	19	Cyprus	3.2	-0.4	3.6	1.7	0.0	1.7	2.8	-1.1	3.9	5.5	-0.8	6.2	2.8	0.2	2.6
21	21	Greece	2.6	-0.3	2.9	4.6	0.0	4.6	2.2	-0.3	2.6	1.3	-0.7	2.0	2.1	-0.1	2.3

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

Growth does not cure all economic and financial ills. But it helps. To gauge the long-term ability of an economy to expand, we assess four major factors: 1) recent trend growth, 2) human resources, 3) the labour market, and 4) a country’s propensity to save rather than consume.

This year, we update much of the data to include 2013 results and – in many cases – first estimates for 2014. We also use the new GDP accounting standard ESA2010 where applicable, drawing on the new accounting standard to recalculate the 2013 results for the trend growth and consumption sub-indicators. In addition, we introduce a new indicator for immigrant integration within the human resources sub-indicator, also using the new methodology to recalculate the 2013 result.

'The Netherlands and Sweden retain their top positions for growth potential.'

The remaining changes in a few fields are largely minor. First, as in previous years, the crisis countries weaken in the employment category as labour markets continue to suffer the effects of the crises, even though the deterioration has slowed and in some cases already started to reverse in the 2013 data. A long period of high (or low) unemployment has a negative (positive) impact on the skill set of a country. Second, in the consumption indicator, the development is the inverse. Trend growth does not change, but within the sub-indicator for human capital, a new education score as well as a more timely immigrant integration indicator lead to a number of significant changes.

- **The Netherlands (**No. 1) and **Sweden** (No. 2) retain their top positions despite small declines in their scores for employment (Netherlands) and human resources (Sweden). They are followed by **Estonia** (No. 3) and **Luxembourg** (No. 4), which swap places.

- Newcomer **Latvia** (No. 6) slots into a very good position.

- Small **Estonia** (No. 3), **Poland** (No. 5), **Slovenia** (No. 9) and **Ireland** (No. 14) report the biggest improvements. Most of these gains come from better education and immigrant integration scores. In the case of Slovenia, the propensity to save rather than consume rose sharply in 2013.

- The scores deteriorated most in **Cyprus** (No. 20) and **Greece** (No. 21), which incidentally also form the bottom of the ranking. Besides a weak employment performance, both suffer from very feeble education test results and a very low score for integrating immigrants, which may well be a reflection of their high rates of unemployment. Both are tackling budget deficits and structural reforms, but still have serious work to do. Fortunately, the scores for human capital are likely to rebound in the wake of future gains in employment. In Greece, this seems to be finally starting.

- The three biggest economies in the sample – **Germany** (No. 7), the **United Kingdom** (No. 13) and **France** (No. 16) – stay unchanged overall. Germany gains a little in employment and education but loses on the consumption sub-indicator. The UK gains in consumption but loses in education.

- **Spain** (No. 17), **Portugal** (No. 18) and **Italy** (No. 19) predictably continue to lose on the employment indicator, offset by gains on the propensity to save rather than consume. But while Spain and Italy improved their education scores, Portugal's fell back in the latest OECD study. Immigrants suffer disproportionately from the economic crisis in all three countries, although Portugal remains one of the best countries at integrating migrants in Europe.

‘Immigrants suffer disproportionately from the economic crisis.’

III.2.a Recent trend growth

Table 9. Trend Growth

2014	2013	Country	Score	Change	%
1	n.a.	Latvia	9.8	*n.a.*	5.2
2	2	Slovakia	9.7	*0.0*	4.5
3	3	Poland	9.1	*0.0*	4.7
4	4	Sweden	8.7	*0.0*	1.6
5	5	Estonia	7.7	*0.0*	3.5
6	6	Netherlands	7.6	*0.0*	1.7
7	7	Luxembourg	7.1	*0.0*	0.9
8	8	Slovenia	6.8	*0.0*	2.5
9	9	Germany	6.2	*0.0*	1.4
10	10	Austria	5.6	*0.0*	1.2
11	11	Finland	5.3	*0.0*	1.1
12	12	Greece	4.6	*0.0*	1.5
13	13	United Kingdom	4.4	*0.0*	1.0
14	14	Belgium	4.1	*0.0*	0.7
		Euro 18	4.0	*0.0*	0.9
15	15	Malta	3.9	*0.0*	1.5
16	16	Spain	3.5	*0.0*	1.0
17	17	France	3.5	*0.0*	0.5
18	18	Portugal	2.4	*0.0*	1.1
19	19	Cyprus	1.7	*0.0*	0.5
20	20	Ireland	1.4	*0.0*	-0.2
21	21	Italy	0.6	*0.0*	-0.1

Ranks, scores and score changes from last year for the Recent Trend Growth sub-indicator. Percentage refers to average non-construction GVA rate of growth 2002-2010. For further explanations see notes under Table 2 on page 4.

The obvious starting point to analyse the long-term growth potential of a country is the actual recent performance. To correct for boom-bust cycles in real estate – a common problem in the pre-2008 economic data for some economies inside and outside the eurozone – we look at the trend in real gross value added (GVA) outside the construction sector.[10] We also adjust the data for increases in labour supply. By relating a measure of actual output to a measure of potential input, we calculate a variant of productivity. But this variant takes the available pool of labour (total number of 15-64 year-olds, the potential) rather than actual use of labour (number of employed) 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 41.

For the overall ranking of recent trend growth, we combine two sub-indices, namely 1) the actual average annual increase in GVA per 15-64 year old as defined in footnote 10 below, and 2) the deviation of that growth from our model estimate of how fast a European country with that starting level should expand. Simply comparing growth rates can be misleading. Mature economies with high levels of productivity typically find it more difficult to grow fast than less mature economies, which are exploiting their potential to catch up.

As in previous years, we stick with the 2002-2010 time frame for measuring potential growth. However, we use the new GDP accounting standard ESA2010, which considerably changes the data compared to last year. A back-calculation of the old data is not possible, as ESA2010 data was not available last year, so that the scores are assumed to have remained constant.

- The top of the ranking is firmly in the hands of EU accession countries. **Latvia** (No. 1), the newcomer to the study this year, tops the ranking with average growth in per capita GVA excluding construction of 5.2% from 2002 to 2010.

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

‘Latvia, the newcomer this year, tops the ranking of average growth.’

Slovakia (No. 2) and **Poland** (No. 3) follow. **Estonia** (No. 5) and **Slovenia** (No. 8) also had very high growth rates of 3.5% and 2.5%.

- Among old EU members, **Sweden** (No. 4), **The Netherlands** (No. 6) and **Luxembourg** (No. 7) lead the pack. Despite already extremely high starting points, these three small open economies managed to eke out decent growth rates through the 2002-2010 cycle.

- **Germany** (No. 9) had the best trend growth rate among large countries in the 2002-2010 cycle. It managed on average 1.4% growth in per capita GVA excluding construction. It helps that Germany enjoyed the benefits of its 2004 structural reforms for a large part of the relevant period. The **United Kingdom** (No. 13) also outperformed the eurozone average over the period. **Spain** (No. 16) and **France** (No. 17) feature just below the average. Spain’s trend growth rate was double that of France (0.5%), but the weaker starting point adjusts for the difference. Confirming common wisdom, **Italy** (No. 21) forms the bottom of the pile, by some distance.

- Small **Portugal** (No. 18), **Cyprus** (No. 19) and **Ireland** (No. 20) also feature near the bottom of the table. Portugal’s growth rate of 1.1% was above the eurozone average, but given its low starting point in terms of per capita output, that was disappointing. Cyprus also had a weak starting point but even lower growth, while Ireland gets punished for a much deeper and longer recession during the global financial crisis 2008-2010 than most other countries and thus the absence of a recovery in the relevant time period. The figure probably understates Irish trend growth, but whichever realistic period we choose between 2002 and 2013, Irish trend growth will be below average.

Table 10 reports the 2002-2010 GVA growth rates excluding construction under the new ESA2010 methodology compared with the unrevised rates underlying the calculations for *The 2013 Euro Plus Monitor*.

Table 10. New and Old Trend Growth Rates

Country	2014	2013	*Change*
Latvia	5.2	n.a.	*n.a.*
Poland	4.7	4.4	*0.2*
Slovakia	4.5	4.4	*0.1*
Estonia	3.5	2.9	*0.6*
Slovenia	2.5	2.5	*0.0*
Netherlands	1.7	1.5	*0.1*
Sweden	1.6	1.6	*-0.1*
Malta	1.5	1.2	*0.3*
Greece	1.5	1.8	*-0.3*
Germany	1.4	1.6	*-0.2*
Austria	1.2	1.2	*0.0*
Finland	1.1	1.2	*-0.1*
Portugal	1.1	0.9	*0.2*
Spain	1.0	0.7	*0.3*
United Kingdom	1.0	0.9	*0.1*
Luxembourg	0.9	0.7	*0.2*
Euro 18	0.9	0.9	*0.0*
Belgium	0.7	0.6	*0.1*
France	0.5	0.4	*0.1*
Cyprus	0.5	0.2	*0.2*
Italy	-0.1	-0.1	*0.0*
Ireland	-0.2	0.4	*-0.7*

2002-2010 compound annual growth rate of gross value added excluding construction per population aged 15-64 years, in percent. Comparison of rate calculated for the 2014 Euro Plus Monitor based on ESA2010 methodology with data published in *the 2013 Euro Plus Monitor.*
Source: Eurostat, Berenberg calculations

‘Germany had the best trend growth rate among large countries.’

- Under the ESA2010 methodology, GVA in **Ireland** excluding construction per capita shrank by 0.2% per year from 2002-2010, instead of growing by 0.4% as the old ESA95 data had suggested last year. Conversely, **Estonia’s** trend growth rate was 0.6 percentage points higher under the new methodology.

- The down revisions for **Greece** and **Germany** were also significant, while **Malta, Spain, Poland, Portugal, Luxembourg** and **Cyprus** had significantly higher trend growth rates.

- For all other countries as well as the eurozone average, the difference in trend growth rates was minor.

III.2.b Human capital

Table 11. Human Capital

2014	2013	Country	Score	*Change*
1	1	Ireland	7.3	*0.5*
2	3	United Kingdom	6.5	*-0.1*
3	2	Finland	6.3	*-0.3*
4	4	France	6.1	*0.0*
5	8	Estonia	5.9	*0.8*
6	5	Netherlands	5.8	*-0.1*
7	6	Sweden	5.4	*-0.2*
8	10	Poland	5.4	*0.5*
9	9	Belgium	5.2	*0.1*
10	7	Malta	5.2	*-0.3*
11	12	Luxembourg	4.4	*0.0*
		Euro 18	4.4	*0.0*
12	13	Slovenia	4.3	*0.2*
13	11	Portugal	4.1	*-0.3*
14	14	Germany	4.1	*0.2*
15	20	Austria	3.5	*0.5*
16	17	Italy	3.5	*0.2*
17	16	Slovakia	3.4	*-0.4*
18	n.a.	Latvia	3.2	*n.a.*
19	19	Spain	2.9	*-0.1*
20	15	Cyprus	2.8	*-1.1*
21	21	Greece	2.2	*-0.3*

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

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

Changing a country’s human potential takes time and effort. Our scores therefore hardly change from year to year in this category. But boosting

‘Changing a country’s human potential takes time and effort.’

the number of babies, improving the job chances of immigrants and raising education standards are crucial to a country’s growth outlook. This year, we update fertility rates with 2012 Eurostat data and include the 2012 Programme for International Student Assessment (PISA) scores for education achievement from the OECD for the first time. Crucially, we also replace the MIPEX immigration integration index we had been using. Since it has not been updated since 2010, we replace it with a self-constructed index based on a range of data on the relative economic performance of migrants collected by Eurostat. We have recalculated last year’s scores on that basis to ensure comparability.

The overall fertility trends in Europe are well known. 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**, **Poland**, **Portugal**, **Slovakia** and **Spain** have the lowest fertility rates, reaching only roughly two-thirds of the replacement ratio.

The more the domestically-born population is set to contract, the more important it is for a society to attract and integrate skilled immigrants. This year, we replace the MIPEX index for immigrant integration, which has not been updated comprehensively since 2010, with a new proprietary indicator based on immigrant integration data collected by Eurostat on an annual basis. The new index combines scores from 0 (worst) to 10 (best) for

1. **Employment equality:** difference between employment rates of foreign-born and native population.

2. **Education equality:** comparison of the change in attainment rates between primary and tertiary education, and the equality in early school leaver rates.

3. **Social inclusion:** income differences between foreign-born and native population, the risk of poverty and differences in property ownership rates.

4. The share of foreigners resident who have acquired **citizenship.**

The results in this subcategory are striking (see Chart 11 on page 40). **Poland** (No. 8) leads by a significant margin as the employment rate of immigrants is only marginally lower than the one for natives. Immigrants in Poland have much better tertiary education rates, higher incomes, less risk of poverty and are much more likely to own property than natives. While immigration may be small in Poland, the data suggests that Poland could boost its future growth significantly by attracting more immigrants of the same kind. But Poland’s human potential goes beyond immigration: its education was the third-best in our sample in the OECD’s PISA education test. Only a very low fertility rate prevented Poland from featuring even higher in the overall human resources table. Put simply, Poland is great at improving the quality of its human resources, but it needs more of them.

In last year’s human resources ranking, **Finland** (No. 3) had taken the top spot due to a good immigrant integration score, the best education system and an above-average fertility rate. Finland is below average in our new immigrant integration score, however, as immigrants’ education attainment rates drop sharply from primary to tertiary education and relatively few obtained citizenship. **Ireland** (No. 1) now tops the ranking with the joint-highest fertility rate and above-average performances on education and immigrant integration.

Portugal (at No. 13 overall) and the **United Kingdom** (No. 2) had already scored well in the

‘Poland could boost its future growth significantly by attracting more immigrants.’

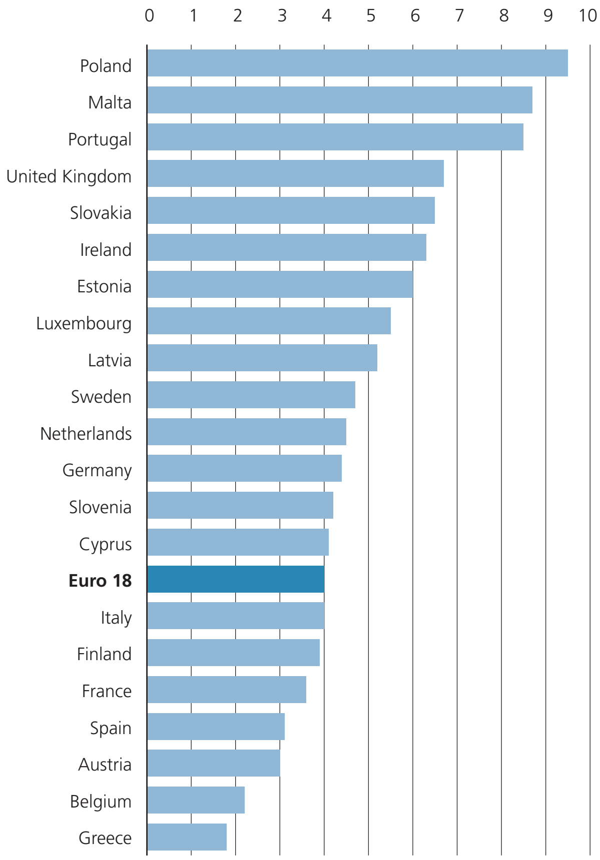
old MIPEX index and stay near the top in the new immigration ranking. Portugal’s good immigration score is offset by the lowest fertility rate (2012: 1.28 versus eurozone average 1.55) and below-average scores in the OECD’s PISA education ranking. The UK’s overall score is held back by an average score for its education system, but boosted by a high fertility rate.

At the other end of the immigration and overall ranking, **Greece** (No. 21) had a poor record in the MIPEX score and confirms this in the Eurostat data. Immigrants face lower employment rates than natives, much worse education outcomes, are socially excluded and unlikely to gain citizenship. The poor immigration scores compound the problems of the second worst education system in our sample – only **Cyprus** (No. 20) scored worse – on the OECD’s PISA measure as well as a below-average fertility rate.

Among the large countries, **France** (No. 4) defends a relatively good overall score, thanks exclusively to its high fertility rate. However, it receives one of the lowest scores for immigrant integration and reported below-average scores in the 2012 PISA test. **Germany** (No. 14), **Italy** (No. 16) and **Spain** (No. 19) all feature below the eurozone average, largely because of weak fertility rates paired with poor integration of foreigners. However, Germany was at least improving in 2014 contrary to the large Mediterranean countries. In Germany, the strong labour market seems to have benefitted immigrants at least as much as the native population. Germany also benefits from an above-average and improving education system, but still has plenty of work to do in order to catch up with the best in class on education, which were **Finland** (No. 3 in our overall ranking for human capital), **Estonia** (No. 5) and **Poland** (No. 8).

Chart 11. Immigration: Opportunity or Problem?

New index of immigrant integration (0 worst – 10 best)



Source: Eurostat, Berenberg calculations

‘In Greece, immigrants face lower employment rates and much worse education outcomes.’

III.2.c Employment

The employment indicator investigates the question of how well a country uses its labour resources. To calculate this, we aggregate results for the following four sub-indicators for the 2002-2013 period: 1) the average employment rate, 2) the rise in the employment rate, 3) average youth unemployment, and 4) average long-term unemployment.
We combine the four separate aspects of the employment performance into an overall ranking. The only novelty this year is the addition of 2013 data to the sample.

Table 12. Employment

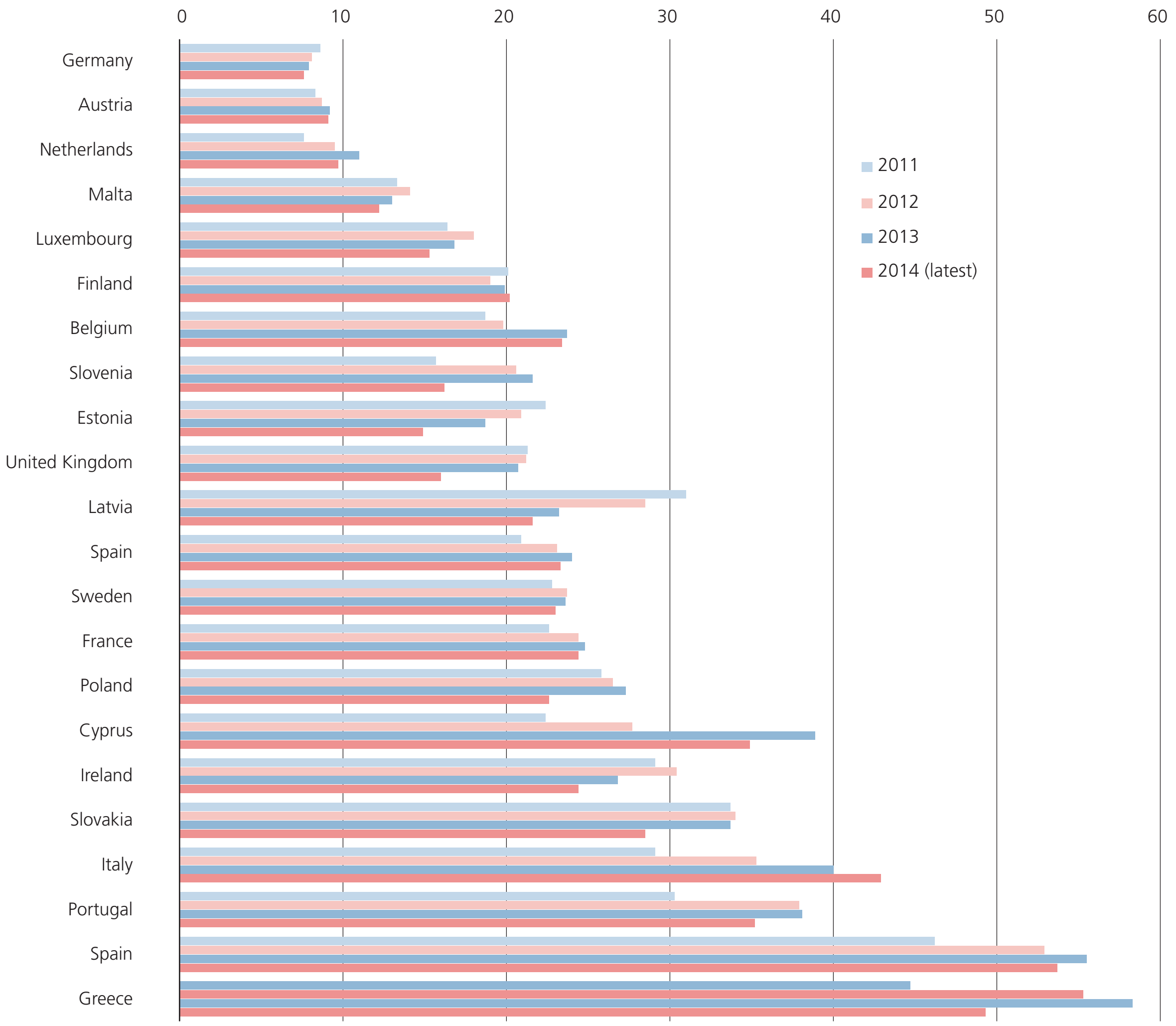
2014	2013	Country	Score	*Change*	%
1	1	Austria	8.1	*-0.1*	72.3
2	2	Netherlands	7.9	*-0.2*	74.3
3	3	Germany	7.5	*0.1*	73.3
4	4	Sweden	6.8	*0.1*	74.4
5	5	United Kingdom	6.7	*0.0*	70.8
6	6	Luxembourg	6.6	*0.0*	65.7
7	8	Finland	6.3	*0.2*	68.9
8	10	Estonia	6.2	*0.3*	68.5
9	11	Malta	5.9	*0.4*	60.8
10	9	Slovenia	5.8	*-0.2*	63.3
11	7	Cyprus	5.5	*-0.8*	61.7
		Euro 18	5.3	*-0.2*	63.5
12	12	France	5.2	*0.0*	64.1
13	n.a.	Latvia	5.2	*n.a.*	65.0
14	13	Belgium	5.1	*-0.1*	61.8
15	15	Ireland	4.6	*0.1*	60.5
16	18	Poland	4.1	*0.0*	60.0
17	17	Italy	3.7	*-0.3*	55.6
18	16	Portugal	3.5	*-0.6*	60.6
19	20	Slovakia	2.7	*-0.1*	59.9
20	19	Spain	2.7	*-0.5*	54.8
21	21	Greece	1.3	*-0.7*	48.8

Ranks, scores and score changes from last year for the Employment sub-indicator. Percentage refers to employment rate 2013. For further explanations see notes under Table 2 on page 4.

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

Chart 12. Reforms Best to Combat Youth Unemployment

Unemployment rates of 15-24 year-olds (2011-2014) in percent



Unemployment rate of 15-24 year-olds, 2011 - September 2014 (or latest available) in %. Source: Eurostat

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

Since the labour market lags the economic cycle, the gap between the top and the bottom countries continued to widen in 2013, although the rate of deterioration in the crisis countries slowed and in some cases even started to reverse. Once we can add full-year data for 2014, this will likely become more visible in the results.

- Parts of core Europe have found the key to unlock their human potential. The top of the ranking remains unchanged: Felix **Austria** (No. 1), followed by **The Netherlands** (No. 2). However, both leaders experienced a deterioration of their scores. Because the Dutch employment rate fell to 74.3% in 2013, down from 75.1%, the Netherlands lost the top spot on that measure to **Sweden** (No. 4). On the other hand, Sweden continues to suffer in the ranking from relatively high unemployment, which makes **Germany** (No. 3) the most likely contender to replace the Top-2 over time. Germany’s employment rate reached a new record of 73.3% in 2013 and has continued to rise. Its youth unemployment fell to 7.9% in 2013, the lowest in our sample by some distance. Germany continues to reap the rewards of its 2014 labour market reforms. The Top-3 remain benchmarks for labour market reform: the Netherlands and Austria define what to achieve and Germany shows how to get there.

- The reform economies on the periphery feature at the other end of the scale. Their rigid labour markets have caused structurally high unemployment, especially for young people (see Chart 12 on page 42). The adjustment crisis initially compounded structural unemployment with a strong rise in cyclical unemployment. But where tough labour market reforms were adopted, this has now started to reverse at an encouraging speed. **Spain** (No. 20) and **Portugal** (No. 18), where these reforms were adopted in 2012, are demonstrating their effects. Jobs growth returned at a much slower pace of GDP growth than usual as companies are more likely to hire at an early recovery stage if they know they can lay off workers if recovery hopes are dashed.

- To some degree, that also applies to **Greece** (No. 21), although the stop-start nature of its reform process and recovery amid political uncertainty has delayed the end of recession until 2014. In the fundamental health score, which looks at long-term averages of employment and unemployment rates, the recent improvements in Spain and Portugal do not quite come through yet. In fact, **Spain’s**, **Greece’s** and **Portugal’s** employment rates, 54.8%. 48.8% and 60.6% in 2013, respectively, continued to decline in 2013, albeit at a much slower pace than in previous years. When looking at youth unemployment rates in Spain (53.8% in October 2014) and Greece (49.3% in August 2014), however, one should keep in mind that 15-24 year-olds are mostly in school or university in southern Europe, meaning their labour force participation rates are very low. The share of unemployed youngsters in their total age cohort is far lower than the scary headline figures would suggest.

- As we had anticipated last year, **Ireland** (No. 15) improved its score a bit this year, with unemployment falling by nearly 2 percentage points in 2013. Ireland’s recovery, which

'Spectacular fall in unemployment in 2014 heralds the UK challenging for top performer.'

culminated in the clean exit from the bail-out arrangements in late 2013, was the trailblazer for the rest of the periphery. Ireland, with its flexible labour market, could emulate **Estonia** (No. 8), which reported a sharp rise in the employment ratio to 68.5% in 2012, up from 61% in 2010, as well as substantial declines in youth and long-term unemployment as the country enjoys the fruits of its previous adjustment efforts.

- Outside the eurozone, the **United Kingdom** (No. 5) is another country which is enjoying the benefits of a flexible labour market. It did not quite come through in the 2013 data yet, but a spectacular fall in unemployment and a sharp rise in employment in 2014 herald the UK challenging for top performer in the employment ranking in coming years again.

III.2.d Total consumption

Table 13. Total Consumption

2014	2013	Country	Score	*Change*	%
1	1	Luxembourg	10.0	*0.0*	48.3
2	2	Estonia	8.6	*-0.3*	70.6
3	3	Netherlands	8.1	*0.0*	71.4
4	5	Ireland	7.6	*0.1*	62.5
5	4	Sweden	7.5	*-0.1*	72.9
6	7	Slovakia	7.2	*0.1*	74.8
7	9	Poland	7.1	*0.1*	79.0
8	13	Slovenia	7.1	*0.6*	74.5
9	8	Austria	7.0	*0.0*	73.7
10	6	Germany	7.0	*-0.1*	75.2
11	11	Malta	6.8	*0.4*	76.2
12	n.a.	Latvia	6.7	*n.a.*	78.2
13	12	Belgium	6.5	*0.0*	76.0
		Euro 18	6.1	*0.0*	77.2
14	14	Spain	5.9	*0.3*	77.6
15	15	France	5.3	*0.0*	79.5
16	16	Italy	5.2	*0.2*	79.9
17	18	Portugal	4.1	*0.2*	83.6
18	17	Finland	4.1	*-0.1*	80.1
19	19	United Kingdom	4.0	*0.2*	85.1
20	20	Cyprus	2.8	*0.2*	85.4
21	21	Greece	2.1	*-0.1*	91.2

Ranks, scores and score changes from last year for the Total Consumption sub-indicator. Percentage refers to total final consumption ratio 2013, in percent of real GDP. For further explanations see notes under Table 2 on page 4.

We round off the analysis of long-term growth potential with a look at total final consumption. The smaller the share of total consumption in GDP, the more a country saves, allowing it to invest its savings either at home or abroad. We aggregate household and government consumption and examine both the share of total final consumption in GDP and the change in this share. We combine these scores into one joint ranking (see Table 13 above).

‘Consumption remained under pressure from private and public deleveraging.’

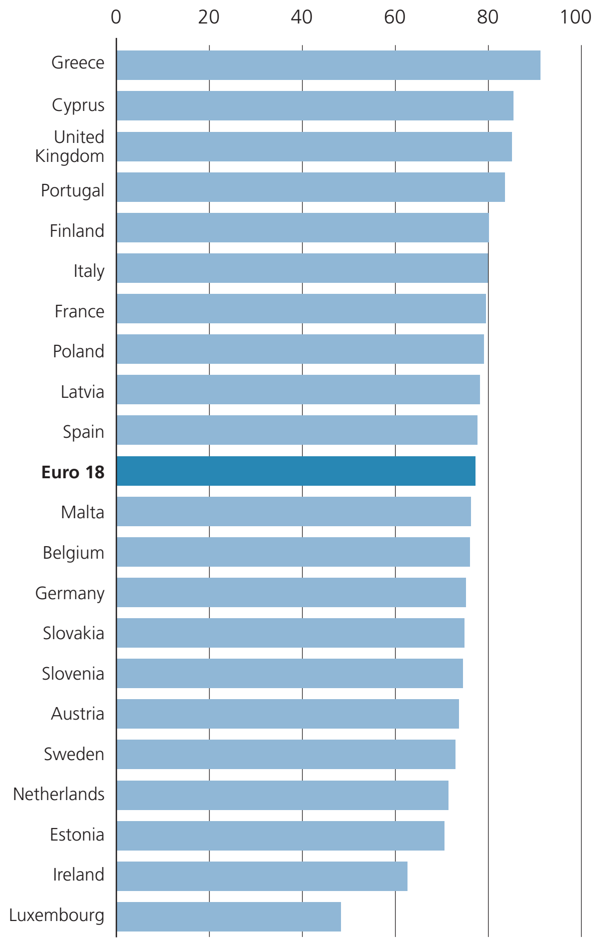
For *The 2014 Euro Plus Monitor*, we have added 2013 consumption data (see Chart 13), so that we are now analysing the share of consumption in the 2002-2013 period instead of 2002-2012. Since the introduction of the new GDP accounting standard ESA2010 has changed the back data significantly, we have recalculated last year’s scores to ensure comparability. Due to the long-term nature of the analysis, most changes are minor. But there are a few exceptions. **Slovenia’s** (No. 8) score improved markedly due to a big drop in its private consumption ratio to 54.1% of GDP in 2013, down from 56.2%. **Malta** (No. 11) also experienced a large drop in 2013 and thus improved its score.

We record gradual improvements for the former crisis countries **Portugal** (No. 17), **Spain** (No. 14) and **Ireland** (No. 4), where net exports and investment have recovered somewhat, while consumption remained under pressure from private and public deleveraging. **Greece** (No. 21) did not make progress in 2013, but will likely do so when we can incorporate data for the full year of 2014, given that Greece’s economic recovery finally started this year. The **United Kingdom** (No. 19) and **Italy** (no. 16) also saw improvements, the former due to more investment, the latter due to more net exports. Both remain firmly in the bottom third of the table, however.

Despite all these improvements, the eurozone’s total score remained stable as **France** (No. 15), **The Netherlands** (No. 3) and **Austria** (No. 9) reported unchanged scores, while **Germany’s** (No. 10) score deteriorated marginally. Its total final consumption share rose to 75.2%, up from 74.9%, driven by a second successive increase in the share of government consumption to 19.3% in 2013, up from 19.0%. Private consumption as a share of GDP was nearly stable at 55.9% in Germany, while the eurozone average fell by 0.3 percentage points to 56.0% in 2013.

Chart 13. Consuming Too Much?

Total private and public consumption 2013 as percent of GDP



Source: Eurostat

‘Germany and The Netherlands continue to enjoy a strong competitive position.’

III.3 Competitiveness

Table 14. Competitiveness

Rank		Country	Total score			Export ratio			Export rise			Labour costs			Regulation		
2014	2013		2014	*Change*	2013	2014	*Change*	2013	2014	*Change*	2013	2014	*Change*	2013	2014	*Change*	2013
1	1	Germany	8.3	-0.1	8.3	10.0	0.0	10.0	9.1	-0.9	10.0	6.9	0.0	6.9	7.0	0.7	6.3
2	2	Netherlands	7.9	-0.2	8.1	9.5	0.0	9.4	8.5	-0.1	8.6	4.7	-0.5	5.2	8.9	-0.2	9.1
3	5	Slovakia	7.7	0.2	7.5	9.3	0.0	9.3	10.0	0.0	10.0	4.6	0.0	4.6	7.0	0.9	6.1
4	7	Luxembourg	7.7	0.9	6.8	10.0	0.0	10.0	9.7	0.8	8.9	5.3	0.3	5.1	5.9	2.6	3.3
5	4	Malta	7.4	-0.2	7.6	9.7	0.0	9.7	9.3	-0.7	10.0	5.2	0.1	5.1	5.6	0.0	5.6
6	3	Poland	7.4	-0.3	7.7	9.5	0.0	9.5	10.0	0.0	10.0	8.0	0.0	8.0	2.0	-1.3	3.3
7	6	Ireland	6.8	-0.1	6.9	8.6	0.1	8.5	6.0	0.6	5.4	6.1	0.0	6.1	6.5	-1.3	7.8
8	8	Belgium	6.7	-0.1	6.8	9.3	0.0	9.3	5.4	0.1	5.3	4.8	0.1	4.6	7.3	-0.6	7.9
9	9	UK	6.2	-0.2	6.4	4.0	0.0	4.0	5.5	-0.5	6.0	6.4	0.1	6.3	9.0	-0.5	9.5
		Euro 18	6.2	0.2	6.0	5.3	0.0	5.3	7.1	0.0	7.1	6.1	0.4	5.7	6.2	0.3	5.9
10	10	Estonia	6.1	-0.3	6.4	4.8	0.1	4.8	10.0	0.0	10.0	3.7	0.0	3.7	5.7	-1.4	7.1
11	11	Slovenia	5.9	0.5	5.4	3.8	0.1	3.8	10.0	0.0	9.9	3.7	0.4	3.3	6.1	1.5	4.6
12	14	Portugal	5.6	0.3	5.3	0.0	0.0	0.0	10.0	0.4	9.6	7.0	0.1	6.9	5.4	0.7	4.6
13	16	Greece	5.5	0.6	5.0	0.0	0.0	0.0	10.0	0.1	9.9	8.0	0.3	7.7	4.1	1.8	2.2
14	17	Spain	5.4	0.5	4.9	2.6	0.1	2.5	5.8	1.0	4.8	7.0	0.3	6.8	6.2	0.5	5.6
15	n.a.	Latvia	5.3	n.a.	n.a.	0.0	n.a.	n.a.	10.0	n.a.	n.a.	4.3	n.a.	n.a.	6.9	n.a.	n.a.
16	15	Austria	5.0	-0.2	5.2	3.5	-0.1	3.5	5.4	-0.2	5.6	6.3	0.3	6.0	4.9	-0.9	5.8
17	18	France	4.8	0.3	4.5	4.1	-0.1	4.2	3.3	0.5	2.8	4.4	0.4	4.1	7.2	0.3	6.8
18	12	Sweden	4.7	-0.7	5.3	2.2	-0.3	2.4	2.9	-1.1	3.9	7.2	0.5	6.7	6.5	-1.8	8.3
19	19	Italy	3.9	0.3	3.6	3.4	0.0	3.4	5.4	0.3	5.1	3.2	0.1	3.1	3.7	0.9	2.8
20	20	Cyprus	3.5	0.1	3.4	0.0	0.0	0.0	0.0	0.0	0.0	8.8	0.1	8.7	5.1	0.2	4.9
21	21	Finland	2.4	-0.7	3.1	0.0	0.0	0.0	2.0	-0.3	2.2	4.1	0.0	4.0	3.4	-2.6	6.0

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

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

We analyse the competitiveness of a country in a similar way: does the country find buyers for its exports? Whether or not wages or unit labour costs are high plays a role. But only a secondary role. Wages and other factors influence the price that needs to be charged. Many other aspects, ranging from the perceived quality of a product to the value of a brand, also determine whether the good or the service finds a willing buyer. In our analysis of competitiveness, we thus focus on two measures of export success: 1) the share of exports in a country’s GDP and 2) the rise of this share over time. Subsequently, we add labour cost dynamics and the level of product and service market regulation for an overall assessment.

‘Raising competitiveness was at the heart of the adjustment programmes. The results suggest success.’

In *The 2014 Euro Plus Monitor*, we update our results with 2013 data for exports and 2014 data for labour costs and regulation. Furthermore, we have strived to further improve the methodology by using a new indicator for services-sector regulation. Where the new GDP accounting standard ESA2010 plays a role (export prowess), we have re-calculated last year’s score in order to avoid distortions to the comparison. The inclusion of the new service sector regulation index triggers significant changes in the market regulation scores and rankings, but the other indicators are slow moving, as befits a study of long-term fundamental economic health of nations.

- **Germany** (No. 1) and **The Netherlands** (No. 2) stay at the top, although their respective scores erode slightly. The rise in Germany’s export ratio has slowed, while Dutch labour costs have increased. Both countries have been extremely strong exporters in the past two decades and continue to enjoy a strong competitive position, despite, especially in Germany’s case, a highly regulated labour market.

- A group of mostly small open economies follows, ranging from **Slovakia** (No. 3) to **Malta** (No. 5). The high score of **Poland** (No. 6) stems from strong export growth as the country has become a strong manufacturing base for many Western European and international companies despite heavily regulated product and services markets.

- A selection of unreformed core countries and the Nordics feature at the bottom of the table. **Finland’s** (No. 21) dismal export performance over the past decade as well as below-average scores for labour costs and market regulation paint a concerning picture of competitiveness. **Sweden’s** (No. 18) export performance has also deteriorated markedly. **Italy** (No. 19) and **France** (No. 17) continue to be among the least competitive eurozone economies, but both countries made modest progress in 2014. Without serious structural reforms, they will continue to lag behind the best in class, however, not just in our ranking but also in terms of delivering growth, fiscal sustainability and jobs.

- The countries bailed-out between 2010 and 2012 now all feature in the middle of the table. **Portugal** (No. 12), **Greec**e (No. 13) and **Spain** (No. 14) improved their score markedly in 2014, thanks to strong export performances in 2013 for Portugal and Spain and improved regulation scores in the case of Greece. Raising competitiveness was at the heart of their adjustment programmes. The results suggest that the programmes have been successful on this count. They have also improved in other competitiveness rankings such as *Doing Business*, the World Bank’s flagship assessment of business regulation, and the World Economic Forum’s *Global Competitiveness Report*, with **Ireland** (No. 7) by and large maintaining its good score. **Cyprus** (No. 20) was a latecomer to the reform process. It still has the worst scores for export prowess. But the highly deregulated labour market suggests that competitiveness should improve quickly, aiding Cyprus in emulating the Baltic turn-around of 2009.

- The **United Kingdom** (No. 9) stayed in line with the eurozone average. A weak export performance is offset by the best score in Europe for market regulation, demonstrating that the EU allows countries to differentiate themselves in terms of the market-friendliness of their regulations and be among the best-regulated economies in the developed world.

‘A small decline in its export ratio in 2013 costs Germany its top spot.’

III.3.a Export performance

Table 15. Export Prowess

2014	2013	Country	Score	*Change*
1	5	Luxembourg	9.9	*0.4*
2	3	Poland	9.7	*0.0*
3	4	Slovakia	9.7	*0.0*
4	1	Germany	9.5	*-0.5*
5	2	Malta	9.5	*-0.4*
6	6	Netherlands	9.0	*0.0*
7	7	Estonia	7.4	*0.0*
8	8	Belgium	7.3	*0.0*
9	9	Ireland	7.3	*0.4*
10	10	Slovenia	6.9	*0.0*
		Euro 18	6.2	*0.0*
11	n.a.	Latvia	5.0	*n.a.*
11	14	Portugal	5.0	*0.2*
11	13	Greece	5.0	*0.0*
14	12	United Kingdom	4.7	*-0.3*
15	16	Italy	4.4	*0.2*
16	15	Austria	4.4	*-0.2*
17	17	Spain	4.2	*0.6*
18	18	France	3.7	*0.2*
19	19	Sweden	2.5	*-0.7*
20	20	Finland	1.0	*-0.1*
21	21	Cyprus	0.0	*0.0*

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

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

We therefore adjust the actual export ratios accordingly. We first estimate for all countries in our sample the impact of their overall GDP (as a proxy for the size of their domestic market) and their per capita GDP (as a proxy for how rich the countries are) on their ratio of exports in nominal GDP. We then compare the model estimates to the actual export ratios. As in previous years, we remove Luxembourg, an extreme outlier with an outsized financial services sector, from the regression. 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 2013 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 15).

The large GDP revisions due to the new ESA2010 accounting standard have a significant impact on absolute and relative levels. To avoid this revision distorting the comparison with previous years, we have recalculated last year’s score on the basis of the new data.

- A small decline in its export ratio in 2013 costs **Germany** (No. 4) its top spot. It is replaced by **Luxembourg** (No. 1), where the export ratio increased sharply. East European growth stars **Poland** (No. 2) and **Slovakia** (No. 3) remain near the top due the strong increase in their respective export ratios since 2002. A group of

‘Italy climbed as the domestic recession forced companies to look for new markets abroad.’

small- or medium-sized open economies follow the Top-4, ranging from **The Netherlands** (No. 6) all the way down to **Slovenia** (No. 10), all with high scores.

- **Cyprus** (No. 21) occupies the other end of the table. For a very small economy, its average export ratio of 53.1% in the 2002-2013 period is too low. The increase by 1.1 percentage points in 2013 is not enough to offset the gradual decline in the ratio since 2002/2003. That being said, the adjustment programme, which only began in earnest in 2013, is likely to improve Cyprus's score on this criterion in coming years.

- The Nordic countries **Finland** (No. 20) and **Sweden** (No. 19) also stay near the bottom of the table, reflecting the gradual erosion of their competitiveness score. Sweden's export ratio fell by 2.5 percentage points to 43.8% in 2013, making it the worst performer in this year's ranking in the export prowess subcategory. Finland's export ratio is now the same as it was in 2002/2003. Only **Cyprus** performed worse in that period. The **United Kingdom** (No. 14) is also falling further with a decline in its export ratio in 2013 to 29.8%, a lower share than **Spain** (No. 17) but still slightly ahead of **France** (No. 18) and **Italy** (No. 15).

- Once again, **Ireland** (No. 9), **Portugal** (No. 11) and **Spain** (No. 17) were among the most improved countries in the ranking. Italy also climbed a little as the domestic recession forced companies to look for new markets abroad. **Greece** (No. 11) managed to raise its export ratio in 2013 to 30.2% of GDP, up from 28.2%.

III.3.b Labour costs

Table 16. Labour Costs

2014	2013	Country	Score	*Change*
1	1	Cyprus	8.8	*0.1*
2	3	Greece	8.0	*0.3*
3	2	Poland	8.0	*0.0*
4	7	Sweden	7.2	*0.5*
5	6	Spain	7.0	*0.3*
6	4	Portugal	7.0	*0.1*
7	5	Germany	6.9	*0.0*
8	8	United Kingdom	6.4	*0.1*
9	10	Austria	6.3	*0.3*
10	9	Ireland	6.1	*0.0*
		Euro 18	6.1	*0.4*
11	13	Luxembourg	5.3	*0.3*
12	12	Malta	5.2	*0.1*
13	15	Belgium	4.8	*0.1*
14	11	Netherlands	4.7	*-0.5*
15	14	Slovakia	4.6	*0.0*
16	17	France	4.4	*0.4*
17	n.a.	Latvia	4.3	*n.a.*
18	18	Finland	4.1	*0.0*
19	19	Estonia	3.7	*0.0*
20	20	Slovenia	3.7	*0.4*
21	21	Italy	3.2	*0.1*

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

Unit labour costs are a very imperfect gauge of competitiveness. But they do matter. Over the 12 years from 2002 to 2014, real unit labour costs declined in ten eurozone countries and increased in six. Similar developments can mask very different drivers, though. German companies benefited from genuine wage moderation for a long period, 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.

‘Germany has the most subdued and Estonia the strongest increase in labour costs.’

In a currency union with no internal exchange rates, nominal unit labour costs are arguably a better gauge of competitiveness than real unit labour costs. Looking at nominal rather than real unit labour costs, the overall picture changes only modestly. **Germany** still has the most subdued and **Estonia** the strongest increase in labour costs on trend. In the peripheral countries, the last few years of mass lay-offs, wage restraint or cuts and sharply lower inflation have had a major impact. All bailed-out countries feature in the more competitive half of the wage-inflation chart this year (see Chart 14 on page 51).

But nominal units are also a problematic concept. As prices for domestic goods usually rise significantly in fast-growing catch-up countries, an apparent loss of competitiveness as measured in terms of rising nominal unit labour costs may just reflect this “Balassa-Samuelson” effect and not be a cause for concern.[11] We thus aggregate the results for both nominal and real unit labour costs, which both have their imperfections, 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. The flexibility of companies to adjust their labour force, in particular downwards, matters a lot for hiring decisions. To quantify this flexibility, we add the hiring and firing practices survey of the World Economic Forum *Global Competitiveness Report 2014/2015*.[12]

Just like the other sub-categories in the competitiveness ranking, the labour cost ranking changes substantially due to data updates. As we add the 2014 data, the marked swing in labour cost dynamics since the post-Lehman Brothers recession influences the long-term picture even more.

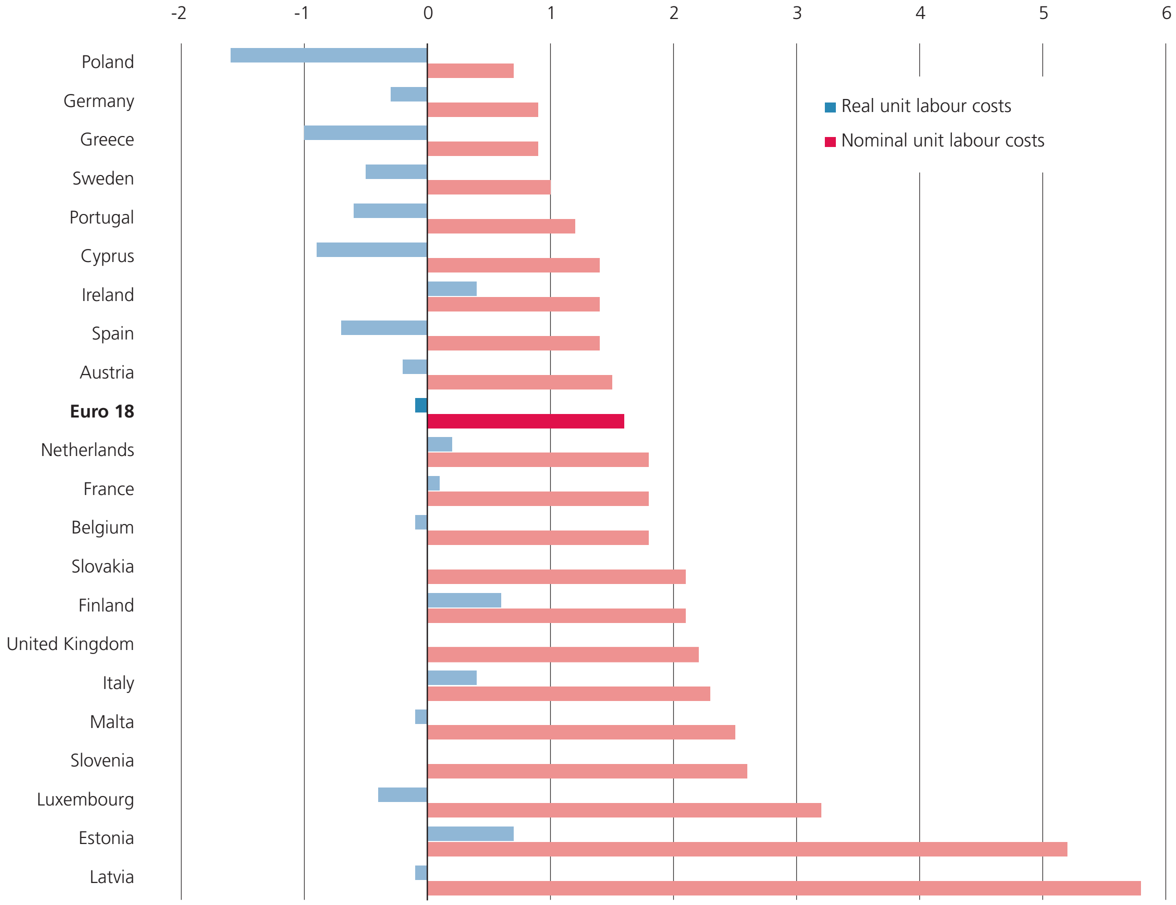
Cyprus (No. 1) maintains its top position in this category, the only sub-category in which it leads. Its labour market is one of the most flexible in the EU, according to the World Economic Forum survey. This is partly a legacy of former British influence, but also the result of successive substantial improvements in hiring and firing practices over recent years. This flexibility gives reason for optimism that Cyprus can emulate the relatively quick economic turn-arounds of the Baltic states after their 2007 crisis, or Ireland after 2008/2009.

11. In fast-growing economies, productivity usually rises faster in the tradable goods sector exposed to global competition than in the more sheltered non-tradables sector. Whereas wage increases in the tradable sector are thus mostly offset through stronger productivity gains and do not translate into higher prices for these goods, this is not the case in the non-tradables sector where unit labour costs and hence prices do go up. A rise in prices for non-tradables relative to tradables does not impair the international competitiveness of an economy. This effect has first been pointed out by Bela Balassa and Paul Samuelson. And is hence know as the Balassa-Samuelson effect.
12. World Economic Forum, *The Global Competitiveness Report 2014-2015* (Geneva: World Economic Forum, 2014).

‘In Spain, unit labour cost adjustment may have run its course.’

Chart 14. Labour Costs: Where are the Wage Pressures?

Compound annual growth rate in real and nominal unit labour cost 2002-2014, in percent; nominal unit labour costs expressed in local currency



Source: AMECO

The remaining reform countries on the periphery improved further. Another sharp drop in unit labour costs (-2.7% in 2014 in nominal unit labour costs) propels **Greece** (No. 2) just behind **Cyprus** in this year’s ranking. In **Spain** (No. 5), the recovery shows that unit labour cost adjustment may have run its course. That is not the case in **Portugal** (No. 6), where nominal unit labour costs fell by 1.1% in 2014 and hiring and firing practices improved for a second year running. Portugal has now improved to the No. 113 position in the 2014/15 World Economic Forum ranking for hiring and firing practices, up from No. 131 in 2012/13. Greece has improved to No. 92, up from No. 111; Spain to No. 116, up from No. 129. The low rankings reveal that a lot remains to be done, but the improvement is ongoing and significant.

‘The labour reform effort of Prime Minister Renzi does not come a minute too early.’

Germany’s (No. 7) nominal unit labour costs are rising by 1.7% this year, more than the eurozone average (0.6%), while real unit labour costs are stable (compared to decline by 0.5% in the eurozone). This modest deterioration in its competitive position vis-à-vis the eurozone average was offset by a small improvement in hiring and firing practices, which still left Germany at a weak No. 109 position in the 2014/15 World Economic Forum ranking.

France (No. 16) improves largely because of a rise in its hiring and firing practices score, while nominal unit labour costs rose in line with Germany’s despite a much weaker competitive position to start with. The fact that France ranks No. 134 in the world in the labour flexibility index in 2014/15 highlights the urgent need for labour-market reform. That is even more true for **Italy** (No. 21), which retained the red lantern despite a minor improvement. A further decline in its hiring and firing practices score means that it now has the worst score of all eurozone countries and ranks No. 141 out of 144 countries in the World Economic Forum’s ranking, ahead of only Zimbabwe, South Africa and Venezula. The ongoing labour reform effort of Prime Minister Matteo Renzi does not come a minute too early!

Outside the eurozone, unit labour costs in the **United Kingdom** (No. 8) increased in nominal terms but decreased in real terms in 2014. Fortunately, its labour market is the second most flexible in our sample after **Estonia** (No. 19) and the UK achieves an excellent No. 20 position in 2014/15 in the World Economic Forum ranking for hiring and firing practices.

III.3.c Market regulation

Table 17. Market Regulation

2014	2013	Country	Score	*Change*
1	1	United Kingdom	9.0	*-0.5*
2	2	Netherlands	8.9	*-0.2*
3	4	Belgium	7.3	*-0.6*
4	8	France	7.2	*0.3*
5	9	Germany	7.0	*0.7*
6	10	Slovakia	7.0	*0.9*
7	n.a.	Latvia	6.9	*n.a.*
8	5	Ireland	6.5	*-1.3*
9	3	Sweden	6.5	*-1.8*
		Euro 18	6.2	*0.3*
10	14	Spain	6.2	*0.5*
11	17	Slovenia	6.1	*1.5*
12	18	Luxembourg	5.9	*2.6*
13	6	Estonia	5.7	*-1.4*
14	13	Malta	5.6	*0.0*
15	16	Portugal	5.4	*0.7*
16	15	Cyprus	5.1	*0.2*
17	12	Austria	4.9	*-0.9*
18	21	Greece	4.1	*1.8*
19	20	Italy	3.7	*0.9*
20	11	Finland	3.4	*-2.6*
21	19	Poland	2.0	*-1.3*

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

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

‘The UK demonstrates that an EU member can feature among the world’s most-deregulated economies.’

- From the World Economic Forum, we take the survey value for competition intensity from the product market pillar.

- We replace the OECD’s service sector regulation index, which has not been updated since 2008, with the same organisation’s Service Trade Restrictiveness Indicator (STRI) for 2014. The change triggers significant score shifts. Unfortunately, we cannot recalculate last year’s score due to a lack of back data for the STRI. However, we assume that the more recent index reflects the international service sector regulation landscape better than the old 2008 indicator.

- From the World Bank, we combine the surveys of what it costs and how many days it takes to register a new business as a third component for our comparison of market regulation and give all three sub-indices equal weight for the aggregate ranking.[13]

The ranking inevitably changes strongly due to the new indicator for service- sector regulation. However, the gulf between the highly deregulated **United Kingdom** at the top-end and highly regulated **Poland** at the bottom survives the data changes. Most countries between these extremes remain in their respective brackets.

The **United Kingdom** (No. 1) retains the top spot, demonstrating that an EU member can feature among the most-deregulated economies in the developed world. It is joined by traditional free trade allies like **The Netherlands** (No. 2) and **Belgium** (No. 3). **Sweden** (No. 9), which had been part of the top group, falls behind, partly because of a decline in competition intensity but mainly because the OECD’s STRI gives it a worse relative score compared to the previous indicator.

The bottom of the table still features **Greece** (No. 18), **Italy** (No. 19) and **Poland** (No. 21). While Greece and Italy improved, not just because of the STRI but also because competition intensity rose and opening a new business became cheaper, Poland fell further behind due to the STRI. **Finland** (No. 20) joins the countries at the bottom due to the STRI and a further fall in competition intensity.

13. World Bank, *Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises* (Washington, DC: World Bank, 2014).

‘Low nominal growth rates make it more difficult to reverse rising debt trajectories.’

III.4 Fiscal sustainability

Table 18. Fiscal Sustainability

Rank		Country	Total score			Government outlays			Structural deficit			Debt			Sustainability gap		
2014	2013		2014	*Change*	2013	2014	*Change*	2013	2014	*Change*	2013	2014	*Change*	2013	2014	*Change*	2013
1	1	Luxembourg	9.5	*-0.2*	9.7	10.0	*0.0*	10.0	9.4	*-0.6*	10.0	9.1	*0.0*	9.0	n.a.	*n.a.*	n.a.
2	2	Estonia	9.2	*0.1*	9.1	9.0	*-0.1*	9.1	7.6	*0.3*	7.3	10.0	*0.0*	10.0	10.0	*0.0*	10.0
3	n.a.	Latvia	8.1	*n.a.*	n.a.	8.9	*n.a.*	n.a.	7.7	*n.a.*	n.a.	7.8	*n.a.*	n.a.	n.a.	*n.a.*	n.a.
4	4	Germany	7.7	*0.1*	7.7	6.5	*0.1*	6.5	9.5	*0.0*	9.5	5.4	*0.2*	5.2	9.5	*0.0*	9.5
5	5	Slovakia	7.3	*-0.3*	7.6	7.1	*0.0*	7.2	7.3	*-0.7*	7.9	6.9	*0.0*	6.8	7.9	*-0.7*	8.6
6	7	Cyprus	6.9	*0.2*	6.7	8.8	*-0.1*	8.9	8.9	*1.0*	7.9	3.0	*-0.4*	3.4	n.a.	*n.a.*	n.a.
7	6	Sweden	6.7	*-0.6*	7.3	2.9	*0.0*	2.9	7.3	*-1.1*	8.4	7.8	*-0.1*	8.0	8.8	*-1.1*	9.9
8	8	Netherlands	6.6	*0.0*	6.6	6.9	*-0.1*	7.0	8.5	*0.1*	8.5	5.7	*-0.1*	5.8	5.4	*0.1*	5.3
9	12	Poland	6.5	*0.3*	6.2	4.1	*0.1*	4.0	6.7	*0.4*	6.3	7.2	*0.5*	6.7	8.1	*0.2*	7.8
10	9	Malta	6.5	*-0.1*	6.6	6.6	*-0.1*	6.7	7.2	*0.0*	7.3	5.6	*-0.1*	5.7	n.a.	*n.a.*	n.a.
11	14	Ireland	6.4	*0.6*	5.8	*10.0*	*0.0*	*10.0*	6.9	0.7	6.2	2.8	*0.9*	1.9	5.8	*0.6*	5.2
12	10	Spain	6.3	*0.0*	6.3	*7.9*	*-0.1*	*8.0*	8.0	0.2	7.8	3.7	*-0.4*	4.1	5.6	*0.2*	5.4
		Euro 18	6.3	*0.0*	6.3	5.7	*0.0*	5.7	8.6	*0.0*	8.6	4.0	*-0.1*	4.1	6.9	*0.0*	6.9
13	11	Finland	6.0	*-0.3*	6.3	2.7	*-0.3*	3.1	7.9	*-0.3*	8.2	6.4	*-0.3*	6.7	6.9	*-0.2*	7.2
14	13	Slovenia	5.7	*-0.3*	6.0	3.6	*-0.1*	3.7	7.7	*-0.2*	7.9	4.8	*-0.8*	5.7	6.8	*0.1*	6.7
15	16	Italy	5.4	*-0.2*	5.6	4.2	*-0.1*	4.3	8.9	*0.0*	8.9	1.3	*-0.3*	1.6	7.4	*-0.2*	7.6
16	15	UK	5.4	*-0.3*	5.7	7.2	*0.0*	7.2	5.2	*-0.6*	5.7	4.4	*-0.1*	4.5	4.9	*-0.6*	5.5
17	17	Austria	5.4	*-0.1*	5.5	3.1	*-0.1*	3.2	8.5	*0.1*	8.4	4.5	*-0.4*	4.9	5.4	*0.1*	5.3
18	18	Greece	5.1	*-0.2*	5.3	2.6	*0.1*	2.6	10.0	*0.0*	10.0	0.0	*0.0*	0.0	7.8	*-0.7*	8.5
19	19	Portugal	4.9	*0.2*	4.7	3.5	*-0.1*	3.6	8.7	*0.2*	8.5	1.6	*0.0*	1.6	5.6	*0.6*	5.1
20	20	France	4.3	*0.0*	4.3	*0.9*	*-0.2*	*1.0*	6.6	*0.2*	6.5	3.9	*-0.2*	4.1	5.6	*0.1*	5.6
21	21	Belgium	4.1	*-0.1*	4.2	*3.1*	*-0.1*	*3.3*	7.4	*0.0*	7.4	3.2	*-0.1*	3.3	2.6	*-0.1*	2.7

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

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

For *The 2014 Euro Plus Monitor*, we update the information with 2014 data for government outlays, the structural deficit and debt ratios. Furthermore, we use the latest IMF estimates

‘Countries slowed the fiscal adjustment pace; this was a driver of their return to growth.’

of the necessary fiscal adjustment between now and 2020 to plug the fiscal gap including necessary adjustments for age-related spending. Most European countries face the demographic challenge of an ageing population and should make provisions for that. Due to the new GDP accounting standard ESA2010, the back data has changed so much that we had to recalculate last year’s scores for all four categories to ensure that our results reflect genuine changes rather than accounting novelties.

Overall, the picture is more mixed than in 2013. While several of the peripheral countries have reduced deficits and sustainability gaps further, the still-high rates of unemployment keep government outlays elevated. Low nominal growth rates also make it more difficult to reverse rising debt trajectories. The fiscal challenge does not lie in excessive structural or even nominal deficits anymore, but in a lack of growth which makes it difficult to convert strong underlying fiscal positions into strong actual ones.

Small **Luxembourg** (No. 1) and **Estoni**a (No. 2) were the fiscally most sustainable countries in our sample with strong scores across the board. At the other end of the table, **Belgium** (No. 21) remains the weakest country, chiefly because fellow strugglers accomplished more change than this politically slow-moving founding member of the EU.

This year, the prize for the biggest fiscal improvement by far goes to **Ireland** (No. 11), succeeding **Greece** (No. 18), which improved most in last year’s ranking. However, Ireland’s apparent success is not the result of tough austerity. Instead, it is largely due to the winding down of the country’s bad bank, which reduced the ratio of gross public debt to GDP. Still, astute management of the country’s financial sector revamp is beginning to pay off in headline debt ratios. **Poland** (No. 9), which also improved markedly, benefits from an accounting trick: it renationalised the third pillar of its pension system and with it holdings of sovereign bonds of 8-9% of GDP.

We also find noteworthy improvements in **Portugal** (No. 19) and **Cyprus** (No. 6). Portugal’s sustainability gap has shrunk along with its structural deficit, while Cyprus’ EU/IMF adjustment programme follows the familiar path of front-loaded fiscal adjustment.

Elsewhere, we have to report slightly lower scores for many countries. **Sweden** (No. 7) gets punished for allowing itself another fiscal stimulus in 2014, even though it can still afford it. Equally, the **United Kingdom** (No. 16) worsened its position near the bottom of the pile for deficits and sustainability gaps by allowing itself a minor stimulus this year, while **Slovenia’s** (No. 14) debt pile rose sharply and **Finland** (No. 13) deteriorated in all four sub-categories.

Fiscal adjustment in the eurozone may not be over for good yet. But structural deficits are not the key issue anymore. As we had expected last year, countries have slowed the pace of fiscal adjustment. This has been one of the drivers of their return to growth in 2013 and 2014. The key issue now is how to boost nominal growth quickly, so that strong underlying fiscal positions can be converted into lower public debt levels. Structural reforms where they have not been adopted yet, and a more growth friendly composition of government budgets, are the way forward.

'Finland could over time challenge France for the "Leviathan Award."'

III.4.a Government outlays

Table 19. Government Outlays

2014	2013	Country	Score	Change	%
1	1	Luxembourg	10.0	*0.0*	42.1
1	1	Ireland	10.0	*0.0*	40.5
3	3	Estonia	9.0	*-0.1*	37.4
4	n.a.	Latvia	8.9	*n.a.*	36.8
5	4	Cyprus	8.8	*-0.1*	40.4
6	6	Spain	7.9	*-0.1*	41.9
7	7	United Kingdom	7.2	*0.0*	44.4
8	8	Slovakia	7.1	*0.0*	40.1
9	9	Netherlands	6.9	*-0.1*	45.4
10	10	Malta	6.6	*-0.1*	42.3
11	11	Germany	6.5	*0.1*	45.4
		Euro 18	5.7	*0.0*	48.4
12	12	Italy	4.2	*-0.1*	48.6
13	13	Poland	4.1	*0.1*	43.5
14	14	Slovenia	3.6	*-0.1*	47.5
15	15	Portugal	3.5	*-0.1*	47.5
16	17	Austria	3.1	*-0.1*	51.4
17	16	Belgium	3.1	*-0.1*	51.1
18	19	Sweden	2.9	*0.0*	52.4
19	18	Finland	2.7	*-0.3*	52.1
20	20	Greece	2.6	*0.1*	49.6
21	21	France	0.9	*-0.2*	54.5

Ranks, scores and score changes from last year for the Government Outlays sub-indicator. Value: %-share of government outlays in GDP, average 2002-2014. For further explanations see notes under Table 2 on page 4.

Excessive government spending can impair the sustainability of public finances. It constrains the room for 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 provision rises with income levels. We thus adjust the raw data for the share of general government outlays in GDP (the 2002-2014 average) for differences in per capita income.

This year, we add the European Commission's latest projections for 2014 data to the dataset. The new GDP accounting standard ESA2010 has changed the back data, so we have recalculated last year's scores on that basis. As in previous years, most scores deteriorate as government spending remains above its long-run averages because the recession has driven up unemployment and thus spending on benefits. But as we look at longer-term averages, these deteriorations are very small.

As in all previous editions of *The Euro Plus Monitor*, **France** (No. 21) graces the bottom of our ranking with the long-term share of government outlays in GDP at 54.5%. **Finland** (No. 19) continued to exceed France's government share in 2014 again, however, meaning it could over time challenge France for the "Leviathan Award" of the most bloated public sector. **Greece** (No. 20) slashed its share of government spending in GDP to 48.5% of GDP in 2014, down from 59.2% of GDP in 2013 and below its long-run average level. As a result, it became one of the few countries alongside **Poland** and **Germany**, where the score actually improved.

The leanest governments can be found mostly around the edges of the EU, with **Ireland** and **Luxembourg** (jointly No. 1), **Estonia** (No. 3), **Latvia** (No. 4), **Cyprus** (No. 5) and **Spain** (No. 6).

‘Fiscal one-off measures played a minor role in 2014 in most countries.’

III.4.b Structural fiscal balance

Table 20. Structural Fiscal Deficits

2014	2013	Country	Score	*Change*	%
1	1	Greece	10.0	*0.0*	6.3
2	3	Germany	9.5	*0.0*	2.6
3	1	Luxembourg	9.4	*-0.6*	1.5
4	11	Cyprus	8.9	*1.0*	2.2
5	4	Italy	8.9	*0.0*	3.8
6	5	Portugal	8.7	*0.2*	3.7
		Euro 18	8.6	*0.0*	
7	6	Netherlands	8.5	*0.1*	1.0
8	8	Austria	8.5	*0.1*	1.4
9	13	Spain	8.0	*0.2*	1.2
10	9	Finland	7.9	*-0.3*	0.2
11	12	Slovenia	7.7	*-0.2*	0.8
12	n.a.	Latvia	7.7	*n.a.*	0.0
13	16	Estonia	7.6	*0.3*	-0.6
14	15	Belgium	7.4	*0.0*	0.4
15	7	Sweden	7.3	*-1.1*	-0.7
16	10	Slovakia	7.3	*-0.7*	-0.3
17	17	Malta	7.2	*0.0*	0.1
18	20	Ireland	6.9	*0.7*	0.3
19	19	Poland	6.7	*0.4*	-0.8
20	18	France	6.6	*0.2*	-0.9
21	21	United Kingdom	5.2	*-0.6*	-2.3

Ranks, scores and score changes from last year for the Structural Fiscal Balance sub-indicator. Value: primary structural fiscal balance 2014 in percent of GDP. For further explanations see notes under Table 2 on page 4.

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

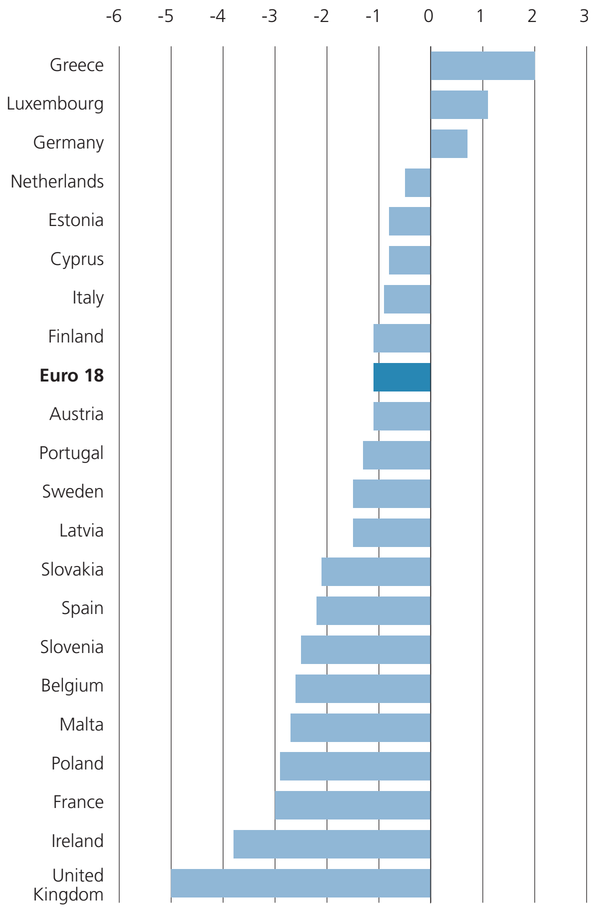
This year, we update the data with the latest available Eurostat projections for the structural deficits 2014 from the autumn forecasts of the European Commission, published in November 2014. Due to the changing GDP accounting standard ESA2010, the back data has changed considerably, so we have calculated last year’s scores for better comparison of genuine improvement.

Fiscal one-off measures played a minor role in 2014 in most countries, meaning the differences between structural and cyclically-adjusted deficits were small, generally-speaking. **Portugal** (No. 6) was the only country with a significant negative fiscal one-off due to the write-off of non-performing loans at a nationalised bank. In contrast, **Greece** (No .1) was the only country with a significant positive fiscal one-off, partly a reversal of the bank recapitalisation-related huge negative one-off in 2013.

'Lower borrowing costs in the periphery ended the increases in interest expenditure.'

Chart 15. Guess Who is Prudent Now

Structural fiscal balance 2014 in percent of GDP



Source: European Commission Autumn 2014 forecast, Berenberg calculations

Further progress in cutting primary expenditure and raising tax revenue sustained the trend towards improving structural primary balances in 2014. Structural overall deficits also fell as lower borrowing costs in the periphery ended the increases in interest expenditure as a percentage of GDP, for example in **Portugal** (No. 6), or **Spain** (No. 9) and even reduced them in **Italy** (No. 5) and **Ireland** (No. 18). Greek interest expenditure rebounded slightly after a big fall in 2013.

Greece (No. 1) remained the unlikely leader in this category. The European Commission projects Greece to report non-adjusted primary surplus of 2.7% of GDP in 2014 while it simultaneously suffers a deeply depressed output level. As a result, the structural primary balance reaches a surplus of 6.3% of GDP this year. That is 8.6% of GDP better than the worst performer, the **United Kingdom** (No. 21), which has a structural primary deficit of 2.3% of GDP. Thanks to cheap loans from the eurozone and the IMF as well as the 2012 debt swap for its private creditors, Greece's overall structural balance also remained in surplus of 2.0% of GDP, the highest in the eurozone (see Chart 15).

Behind **Greece**, the usual fiscally responsible suspects line up – **Germany** (No. 2) and **Luxembourg** (No. 3). Rounding off another impressive performance by the former crisis countries, they are joined now by **Cyprus** (No. 4), which has managed to reduce its structural deficit to merely 0.8% in 2014, down from -5.5% of GDP as recently as 2012. Despite some slippage in 2014, **Italy** (No. 5) would have fared even better had we only evaluated the primary balance, where Italy is running a structural surplus of 3.8% of GDP, marginally ahead of **Portugal** and second only to Greece. But its huge debt pile means public interest expenditure remains a huge wedge between the primary and the actual fiscal balance.

‘High scores show that structural fiscal positions are not the great worry anymore.’

The bottom of the pile is fast becoming almost a crisis-country-free-zone, as **Spain** (No. 9) became the latest country to leave the strugglers behind. With **Ireland** (No. 18) also rapidly improving, **France** (No. 20) joins the **United Kingdom** (No. 21) at the bottom. On our measure of fiscal sustainability, the UK easily retains the unwanted prize of most fiscally challenged country.

Noteworthy remain the continued fiscal deteriorations in **Sweden** (No. 15) and **Finland** (No. 10). Sweden in particular had featured among the fiscally strongest economies until last year, but due to a worse than expected performance in 2013 and further fiscal easing in 2014, it drops below the eurozone average for the first time since it joined the Euro Plus Monitor survey in 2012. This should be put into perspective, however: as the high scores throughout the table show, structural fiscal positions are not the great worry in the **eurozone** anymore, nor are they in the Nordics. Instead, the lack of growth in large parts of the eurozone makes it difficult for many euro members to turn the strong underlying fiscal positions into actual positions of strength. On this count, Sweden still beats most eurozone countries.

III.4.c Public debt

Table 21. Public Debt Ratio

2014	2013	Country	Score	*Change*	%
1	1	Estonia	10.0	*0.0*	9.9
2	2	Luxembourg	9.1	*0.0*	23.0
3	3	Sweden	7.8	*-0.1*	40.3
3	n.a.	Latvia	7.8	*n.a.*	40.3
5	6	Poland	7.2	*0.5*	49.1
6	5	Slovakia	6.9	*0.0*	54.1
7	7	Finland	6.4	*-0.3*	59.8
8	8	Netherlands	5.7	*-0.1*	69.7
9	9	Malta	5.6	*-0.1*	71.0
10	11	Germany	5.4	*0.2*	74.5
11	10	Slovenia	4.8	*-0.8*	82.2
12	12	Austria	4.5	*-0.4*	87.0
13	13	United Kingdom	4.4	*-0.1*	89.0
		Euro 18	4.0	*-0.1*	94.5
14	15	France	3.9	*-0.2*	95.5
15	14	Spain	3.7	*-0.4*	98.1
16	17	Belgium	3.2	*-0.1*	105.8
17	16	Cyprus	3.0	*-0.4*	107.5
18	18	Ireland	2.8	*0.9*	110.5
19	20	Portugal	1.6	*0.0*	127.7
20	19	Italy	1.3	*-0.3*	132.2
21	21	Greece	0.0	*0.0*	175.5

Ranks, scores and score changes from last year for the Public Debt Ratio sub-indicator. Value: public debt in percent of GDP, 2014.

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

This year, we update the debt level data to with the projections for 2014 from the European Commission’s autumn forecasts. Since the ratios change due to the

'The improvement of Germany is the only sizeable genuine advance in our sample.'

new GDP calculation standard ESA2010, we have recalculated last year's data accordingly. Debt levels rose in most countries, in some cases considerably, despite the adjustment efforts. But they rose more slowly than in previous years. Growth has returned in most countries, but very low inflation keeps nominal growth minimal, further complicating the task of reversing debt trajectories.

With an estimated debt ratio of 175.5% of GDP in 2014, **Greece** (No. 21) kept the red lantern at the bottom of the table. **Ireland's** (No. 18) marked improvement is the result of the liquidation of the Irish Banking Resolution Corporation, which was initiated in 2013. The European Commission expects Ireland's debt-to-GDP ratio to fall to 110.5% in 2014, down from 123.3% end-2013, as a result. Remarkably, **Portugal** (No. 19) likely managed to stabilise or even reduce its debt ratio slightly in 2014, despite building precautionary cash balances before the bail-out exit in May. Conversely, **Spain's** (No. 15) debt ratio is closing in on the 100% of GDP mark, which the European Commission expects it to cross in 2015.

Poland (No. 5) benefits from an accounting trick this year due to the reversal of an earlier pension reform. The renationalisation of the third pillar of the pension system including sizeable government bond holdings of the fund reduces the debt ratio to 49.1% of GDP in 2014, down from 55.7% in 2013. The improvement of **Germany** (No. 10) by 2.4% of GDP in 2014 is the only sizeable genuine advance in our sample. Conversely, **Slovenia** (No. 11) recorded the biggest rise in a debt ratio, partly due to the accumulation of precautionary cash balances. The top of the table features small eastern and northern European countries which have little legacy debt and largely avoided the euro crisis recession.

III.4.d Sustainability gap

Table 22. Sustainability Gap

2014	2013	Country	Score	*Change*	%
1	1	Estonia	10.0	*0.0*	0.0
2	3	Germany	9.5	*0.0*	0.6
3	2	Sweden	8.8	*-1.1*	1.4
4	6	Poland	8.1	*0.2*	2.3
5	4	Slovakia	7.9	*-0.7*	2.5
6	5	Greece	7.8	*-0.7*	2.6
7	7	Italy	7.4	*-0.2*	3.1
8	8	Finland	6.9	*-0.2*	3.7
		Euro 18	6.9	*0.0*	3.8
9	9	Slovenia	6.8	*0.1*	3.9
10	15	Ireland	5.8	*0.6*	5.1
11	16	Portugal	5.6	*0.6*	5.2
12	10	France	5.6	*0.1*	5.2
13	12	Spain	5.6	*0.2*	5.3
14	13	Austria	5.4	*0.1*	5.5
15	14	Netherlands	5.4	*0.1*	5.5
16	11	United Kingdom	4.9	*-0.6*	6.1
17	17	Belgium	2.6	*-0.1*	8.9
n.a.	n.a.	Latvia	n.a.	*n.a.*	n.a.
n.a.	n.a.	Luxembourg	n.a.	*n.a.*	n.a.
n.a.	n.a.	Cyprus	n.a.	*n.a.*	n.a.
n.a.	n.a.	Malta	n.a.	*n.a.*	n.a.

Ranks, scores and score changes from last year for the Sustainability Gap sub-indicator, based on the IMF's October 2014 Fiscal Monitor. Value: sustainability gap in percent of GDP. For further explanations see notes under Table 2 on page 4.

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

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

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

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

- The top of the table remains dominated by EU newcomers that have relatively little legacy debt like **Estonia** (No. 1), **Poland** (No. 4) and **Slovakia** (No. 5), as well as old members with a tradition of fiscal responsibility like **Germany** (No. 2), **Sweden** (No. 3) and **Italy** (No. 7). **Greece** (No. 6), which is now running a primary fiscal surplus and has completed more than 85% of the total necessary fiscal adjustment since 2009, is also in the top group.

- A strong fiscal position allows countries to try to stimulate the economy in adverse economic conditions. This explains why the top third of the table also includes most of the countries where the score deteriorated in 2014. **Sweden**, for example, continued to stimulate its economy during the post-crisis years, meaning that the country now has a small fiscal gap. Unless this turns into long-term complacency, this deterioration is no major reason for concern yet.

- **Greece** (No. 6) and **Italy** (No. 7) had improved significantly in previous years in this category, but slipped somewhat in 2014. Italy is now refocusing away from fiscal adjustment towards structural reforms which the Mario Monti government in 2012 had failed to implement. Greece had over-delivered on fiscal austerity in the years 2010 to 2013 and has used some of the leeway which has opened up to soothe the economic pain for its population in 2014.

- The bottom of the table is formed by a mix of West European countries which had less pressure than the crisis countries to adjust quickly. For **Belgium** (No. 17) and **The Netherlands** (No. 15), the challenge is more on the demographic side, with age-related spending on current trends expected to drive up the primary deficit by 6.2% of GDP each by 2030. According to IMF calculations, Belgium needs to tackle pension entitlements, while the Netherlands seem to need more healthcare reform.

- The **United Kingdom** (No. 16) keeps sliding towards the bottom of the table. Spending cuts were largely implemented as planned since 2010, but the economic recovery has so far failed to boost tax revenues. A series of tax cuts have not helped, leaving the next government after the election in 2015 with a mountain of austerity to do.

- **Ireland** (No. 10), **Portugal** (No. 11) and **Spain** (No. 13) still face huge fiscal adjustment needs, but all three are on the right track and have made significant progress in 2014.

‘How much do countries rely on continued access to finance?’

III.5 Resilience

Table 23. Indicators of Resilience to Financial Shocks

Rank		Country	Total score			Debt redemptions			Debt held abroad			Savings rate		
2014	2013		2014	*Change*	2013	2014	*Change*	2013	2014	*Change*	2013	2014	*Change*	2013
1	3	Germany	7.5	*0.0*	7.5	6.4	*0.3*	6.1	4.7	*-0.1*	4.7	9.1	*-0.1*	9.2
2	4	Estonia	7.5	*0.1*	7.4	10.0	*0.0*	10.0	9.1	*-0.3*	9.4	3.7	*0.8*	2.9
3	1	Slovenia	7.3	*-0.3*	7.7	4.6	*-1.8*	6.3	4.6	*-2.3*	6.9	7.9	*1.1*	6.8
4	2	Slovakia	7.1	*-0.4*	7.6	5.8	*0.0*	5.8	6.0	*-1.1*	7.1	4.4	*-0.5*	4.8
5	5	Sweden	7.1	*0.1*	7.0	7.2	*0.2*	7.0	8.0	*0.4*	7.6	8.3	*0.0*	8.3
6	6	Poland	6.9	*0.2*	6.7	6.2	*0.5*	5.7	6.5	*-0.1*	6.6	3.7	*0.7*	3.1
7	n.a.	Latvia	6.5	*n.a.*	n.a.	7.4	*n.a.*	n.a.	6.7	*n.a.*	n.a.	0.6	*n.a.*	n.a.
8	8	Austria	6.3	*0.1*	6.2	6.2	*0.5*	5.7	3.1	*-0.2*	3.3	6.9	*-0.3*	7.2
9	11	Luxembourg	6.3	*0.5*	5.8	10.0	*0.0*	10.0	8.9	*n.a.*	n.a.	10.0	*0.0*	10.0
		Euro 18	6.0	*0.0*	5.9	4.0	*0.1*	3.8	4.1	*-0.4*	4.5	7.4	*0.1*	7.3
10	9	Finland	5.8	*-0.1*	5.9	6.1	*-0.7*	6.8	4.8	*0.2*	4.6	5.2	*0.1*	5.1
11	10	Netherlands	5.7	*-0.2*	5.9	4.8	*-0.5*	5.3	5.6	*0.0*	5.6	6.6	*0.4*	6.2
12	13	Italy	5.7	*0.2*	5.5	0.0	*0.0*	0.0	4.9	*0.0*	4.9	7.3	*0.7*	6.6
13	17	Malta	5.5	*0.8*	4.6	5.6	*0.0*	5.6	9.1	*n.a.*	n.a.	n.a.	*n.a.*	n.a.
14	14	France	5.5	*0.0*	5.5	3.9	*0.3*	3.6	3.6	*-0.3*	3.9	8.6	*0.1*	8.5
15	12	Belgium	5.4	*-0.3*	5.7	3.2	*-0.1*	3.3	2.7	*-0.5*	3.2	7.8	*-0.7*	8.5
16	15	Spain	5.2	*0.0*	5.3	1.3	*-0.1*	1.4	5.6	*-0.9*	6.4	6.0	*0.0*	6.0
17	16	UK	5.0	*0.1*	5.0	6.3	*0.0*	6.3	7.3	*0.5*	6.8	3.2	*-1.2*	4.4
18	18	Portugal	4.4	*0.2*	4.3	2.4	*0.9*	1.5	0.0	*-0.8*	0.8	7.2	*0.3*	6.8
19	19	Greece	4.2	*-0.1*	4.2	5.2	*-0.2*	5.3	0.0	*0.0*	0.0	0.0	*0.0*	0.0
20	20	Ireland	4.1	*0.3*	3.8	6.1	*-0.9*	7.0	1.3	*0.4*	0.9	6.7	*0.8*	5.9
21	21	Cyprus	4.0	*0.4*	3.6	5.8	*2.7*	3.1	3.3	*n.a.*	n.a.	6.3	*-1.0*	7.3

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

How resilient are European countries to financial shocks? The financial storm of the eurozone crisis has provided some obvious answers. But current events are partly shaped by happenstance and peculiar political uncertainties. In our more fundamental analysis, we abstract from that particular chain of events in 2010-2012. Instead, we look at some of the factors that can make countries more or less prone to fall victim to such accidents. All the indicators we examine are variants of one theme: how much do countries – both the sovereigns and the private sector – rely on continued access to finance?

To assess the vulnerability to sudden shifts in market sentiment, we look at six separate sub-indicators: 1) the current account deficit, 2) debt redemptions over the next three years as a share of GDP, 3) public debt held abroad as a share of GDP, 4) the household savings rate, 5) the debt of households and non-financial corporations and 6) the size of the banking system as a multiple of GDP.

‘The former crisis countries remain at the bottom, but most of their scores improve.’

Table 23. (continued)

Rank		Country	Current account			Bank assets			Private debt		
2014	2013		2014	*Change*	2013	2014	*Change*	2013	2014	*Change*	2013
1	3	Germany	9.2	*0.1*	9.0	7.3	*-0.2*	7.4	8.4	*0.0*	8.4
2	4	Estonia	4.4	*-0.3*	4.7	10.0	*0.0*	10.0	7.6	*0.3*	7.3
3	1	Slovenia	8.6	*0.5*	8.1	10.0	*0.0*	10.0	8.5	*0.5*	8.0
4	2	Slovakia	6.9	*-0.9*	7.8	10.0	*0.0*	10.0	9.8	*-0.2*	9.9
5	5	Sweden	8.6	*0.1*	8.5	6.7	*-0.4*	7.1	3.8	*0.1*	3.7
6	6	Poland	4.9	*-0.1*	5.0	10.0	*0.0*	10.0	9.8	*0.0*	9.8
7	n.a.	Latvia	5.1	*n.a.*	n.a.	10.0	*n.a.*	n.a.	9.0	*n.a.*	n.a.
8	8	Austria	7.3	*0.4*	6.9	7.1	*0.0*	7.1	7.4	*0.1*	7.2
9	11	Luxembourg	8.8	*-0.1*	8.9	0.0	*0.0*	0.0	0.0	*0.0*	0.0
		Euro 18	7.1	*0.3*	6.8	6.6	*0.0*	6.6	6.7	*0.1*	6.6
10	9	Finland	5.5	*0.4*	5.1	7.1	*-0.5*	7.6	6.4	*0.0*	6.3
11	10	Netherlands	9.6	*-0.4*	10.0	5.4	*-0.4*	5.8	2.4	*0.0*	2.4
12	13	Italy	6.4	*0.2*	6.2	7.8	*0.0*	7.8	7.7	*0.1*	7.6
13	17	Malta	5.9	*-0.7*	6.6	0.0	*0.0*	0.0	6.8	*0.4*	6.4
14	14	France	4.9	*0.0*	4.9	5.2	*-0.2*	5.4	6.8	*0.0*	6.8
15	12	Belgium	5.9	*-0.3*	6.1	7.2	*-0.4*	7.6	5.6	*-0.1*	5.7
16	15	Spain	6.4	*0.0*	6.4	6.9	*0.1*	6.8	5.1	*0.6*	4.5
17	16	UK	3.9	*0.2*	3.7	4.5	*0.3*	4.3	5.0	*0.5*	4.4
18	18	Portugal	6.2	*0.0*	6.1	7.1	*0.4*	6.8	3.7	*0.2*	3.4
19	19	Greece	4.6	*0.0*	4.6	8.4	*0.1*	8.3	6.9	*-0.2*	7.1
20	20	Ireland	9.2	*1.6*	7.7	0.5	*-0.9*	1.3	0.7	*0.7*	0.0
21	21	Cyprus	5.7	*1.0*	4.8	2.9	*0.0*	2.9	0.0	*0.0*	0.0

To some degree, the adjustment efforts made over the past five years continue to shine through. While the former crisis countries remain at the bottom of the league table, most of their scores continue to improve. Current account deficits have turned into surpluses, the private sector is repairing its balance sheets, savings rates have risen and banks keep deleveraging. However, debt ratios have continued to increase, raising short-term government funding needs in many cases. The return of foreign investors to euro periphery bond markets, while welcome, increases the vulnerability to sudden reversals and confidence shocks again. The eurozone’s much more developed financial support system, banking union and the European Central Bank’s rescue shield provide strong safeguards. However, all depend on politically tricky conditionality, leaving eurozone member states vulnerable not just to economic and financial but also political shocks.

Despite significant improvement, **Cyprus** (No. 21) retains the red lantern behind **Ireland** (No. 20). For Cyprus, the initially chaotic 2013 bail-out, which included a serious bank restructuring, had

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

shown the risk that its oversized banking sector had always posed. With the clean-up process now well underway, this disaster will be far less likely to repeat itself. Ireland's improvement is helped by a buoyant economic recovery, which has allowed households, banks and companies to repair their balance sheets. **Greece** (No. 19) remains hampered by its enormous pile of public debt. In **Portugal** (No. 18), private sector deleveraging is finally well underway and it managed to exit the bail-out arrangements without any further assistance, but the failure of a major bank was a reminder of its vulnerabilities, which continues to be amplified by very high public sector debt.

Generally speaking, countries with oversized financial systems tend to feature at the end of the resilience table, especially if the exposure to banking is paired with fiscal and external vulnerabilities as in the case of the **United Kingdom** (No. 17). **Luxembourg** (No. 9) remains an important financial centre, but its public finances are among the soundest in the eurozone.

The eurozone's fiscal and economic backstop, **Germany** (No. 1), has climbed to the top of the ranking this year. With the exception of public debt-related indicators, where it suffers from still very high, albeit falling, legacy debt levels, Germany is among the leaders in almost all sub-categories. The East European growth stars as well as **Sweden** (No. 5) complete the top group in our resilience ranking. **Italy** (No. 12) and **France** (No. 14) remain near the eurozone average. Italy gained from a higher household savings rate and further improvements in its current account. French resilience changed hardly at all. Its high public debt will remain a theoretical vulnerability for a long time, but its private sector is in good shape with low debt and high savings.

III.5.a Current account

Table 24. Current Account Balance

2014	2013	Country	Score	*Change*	%
1	1	Netherlands	9.6	*-0.4*	8.2
2	7	Ireland	9.2	*1.6*	7.4
3	2	Germany	9.2	*0.1*	7.3
4	3	Luxembourg	8.8	*-0.1*	6.4
5	4	Sweden	8.6	*0.1*	6.1
6	5	Slovenia	8.6	*0.5*	6.0
7	8	Austria	7.3	*0.4*	3.4
		Euro 18	7.1	*0.3*	2.9
8	6	Slovakia	6.9	*-0.9*	2.4
9	11	Italy	6.4	*0.2*	1.5
10	10	Spain	6.4	*0.0*	1.4
11	12	Portugal	6.2	*0.0*	1.0
12	9	Malta	5.9	*-0.7*	0.3
12	12	Belgium	5.9	*-0.3*	0.3
14	18	Cyprus	5.7	*1.0*	0.0
15	14	Finland	5.5	*0.4*	-0.4
16	n.a.	Latvia	5.1	*n.a.*	-1.3
17	16	Poland	4.9	*-0.1*	-1.7
18	17	France	4.9	*0.0*	-1.8
19	20	Greece	4.6	*0.0*	-2.3
20	19	Estonia	4.4	*-0.3*	-2.7
21	21	United Kingdom	3.9	*0.2*	-3.8

Ranks, scores and score changes from last year for the Current Account sub-indicator. Value: 2014 current account balance, percent of GDP, as projected by the European Commission in November 2014. For further explanations see notes under Table 2 on page 4.

One 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 the database with the 2014 EU estimates for the current account balances confirms the big improvements in the former crisis countries in recent years. In fact, only five of the 18 eurozone countries are currently running a current account deficit and only **France's** (No. 18) and **Greece's** (No. 19) are substantial in the wider scheme of things. To a degree, this protects the eurozone against sudden

‘The UK with its flexible exchange rate continues to grace the bottom of the table by a mile.’

shifts in global portfolio flows such as those which hurt emerging markets in mid-2013 when the US Federal Reserve’s musings about not adding more stimulus triggered the “taper tantrums.”

After an impressive turn-around since the financial crisis, **Ireland** (No. 2) joins the top of the ranking between **The Netherlands** (No. 1) and **Germany** (No. 3). Germany’s huge trade surplus continues to draw ire in Washington, both at the IMF and in the US Treasury. But whatever the merits of those arguments, within the eurozone, Germany’s trade surplus has already more than halved since 2007.

Some of the more recent crisis countries like **Cyprus** (No. 14) and **Slovenia** (No. 6) have swung to, or respectively increased, a current account surplus this year, while the recoveries in **Spain** (No. 10) and **Portugal** (No. 11) have allowed domestic demand and thus imports to start growing again, preventing further progress for the current account. But given that these countries ran deficits of 5-10% of GDP as recently as 2010, the second successive years of surpluses highlights the progress.

The **United Kingdom** (No. 21) with its flexible exchange rate continues to grace the bottom of the table by a mile. The current account deficit decreased slightly to 3.8% of GDP in 2014, down from 4.4%. Still, such a high deficit may surprise some advocates of flexible exchange rates, given the competitive boost of a 25% sterling depreciation in 2009. But as the economy keeps expanding driven by domestic demand, while sterling has recovered a lot of lost ground versus the euro and other currencies, the trade deficit is unlikely to vanish any time soon.

III.5.b Debt profile

Table 25. Public Debt Profile

2014	2013	Country	Score	*Change*
1	1	Luxembourg	10.0	*0.0*
1	1	Estonia	10.0	*0.0*
3	n.a.	Latvia	7.4	*n.a.*
4	5	Sweden	7.2	*0.2*
5	9	Germany	6.4	*0.3*
6	8	United Kingdom	6.3	*0.0*
7	11	Poland	6.2	*0.5*
8	12	Austria	6.2	*0.5*
9	4	Ireland	6.1	*-0.9*
10	6	Finland	6.1	*-0.7*
11	18	Cyprus	5.8	*2.7*
12	10	Slovakia	5.8	*0.0*
13	13	Malta	5.6	*0.0*
14	14	Greece	5.2	*-0.2*
15	15	Netherlands	4.8	*-0.5*
16	7	Slovenia	4.6	*-1.8*
		Euro 18	4.0	*0.1*
17	16	France	3.9	*0.3*
18	17	Belgium	3.2	*-0.1*
19	19	Portugal	2.4	*0.9*
20	20	Spain	1.3	*-0.1*
21	21	Italy	0.0	*0.0*

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

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.

‘Foreign investors have flocked back to the bond markets of Spain and Portugal.’

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

- How much public debt has to be redeemed in 2015-2017?
- How much public debt is held abroad?

For debt held abroad, we now use 2014 instead of 2013 data. For debt redemptions, we have moved the corridor from 2014-2016 to 2015-2017.

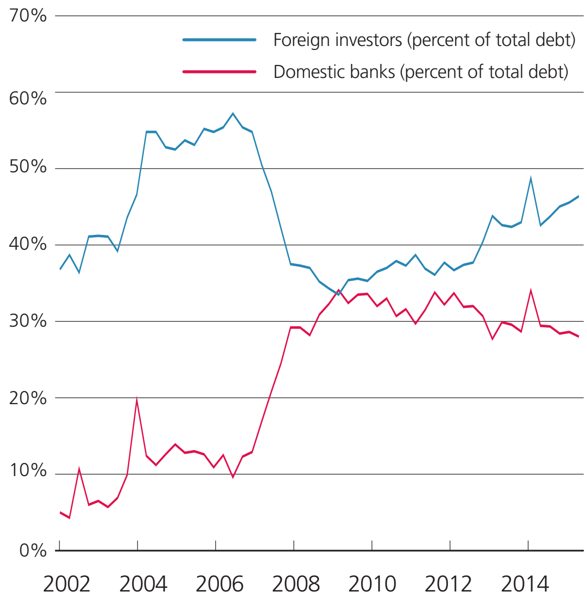
While the debt profile is only changing gradually in most countries, leaving the overall order mostly unchanged, the scores of the former crisis countries in particular change quite substantially.

Cyprus’ (No. 11) 2013 bail-out has lengthened the average maturity of Cypriot debt, meaning the country’s bond redemptions over the next three years amount to merely 17.7% of GDP. As 80% of these redemption are scheduled for 2015, further improvements in the debt profile score are on the cards for the coming years. **Slovenia** (No. 16) managed to avoid a bail-out, but its debt profile score suffers as foreign ownership of its public debt securities rises to 69.1% in 2014, up from 53.7%. That may be a vote of confidence by investors, but makes Slovenia more vulnerable for future swings in market confidence.

The price of success? Foreign investors have flocked back to the bond markets of **Spain** (No. 20) and **Portugal** (No. 19), raising their share from 37.5% to 43.4% in the case of the former and from 65.2% to 71.4% in the latter (see Chart 16 for more). This is a vote of confidence after both countries exited their EU/IMF bail-out arrangements, but together with very high levels of public sector debt, it makes them vulnerable to potential future bouts of market panic.

Chart 16. Spain: the Foreigners are Back

Share of investors in holdings of unstripped marketable Spanish government debt in percent



Source: Spanish Finance Ministry

‘Greece and Italy have many problems, but over-indebtedness of the private sector isn’t one.’

III.5.c Private debt

Table 26. Private Sector Debt

2014	2013	Country	Score	*Change*	%
1	1	Slovakia	9.8	*-0.2*	75
2	2	Poland	9.8	*0.0*	75
3	n.a.	Latvia	9.0	*n.a.*	91
4	5	Slovenia	8.5	*0.5*	102
5	4	Germany	8.4	*0.0*	104
6	6	Italy	7.7	*0.1*	119
7	7	Estonia	7.6	*0.3*	119
8	8	Austria	7.4	*0.1*	126
9	9	Greece	6.9	*-0.2*	136
10	11	Malta	6.8	*0.4*	137
11	10	France	6.8	*0.0*	137
		Euro 18	6.7	*0.1*	139
12	12	Finland	6.4	*0.0*	147
13	13	Belgium	5.6	*-0.1*	163
14	14	Spain	5.1	*0.6*	172
15	15	United Kingdom	5.0	*0.5*	175
16	16	Sweden	3.8	*0.1*	201
17	17	Portugal	3.7	*0.2*	203
18	18	Netherlands	2.4	*0.0*	230
19	19	Ireland	0.7	*0.7*	266
20	19	Cyprus	0.0	*0.0*	345
20	19	Luxembourg	0.0	*0.0*	356

Ranks, scores and score changes from last year for the Private Sector Debt sub-indicator. Value: 2013 private sector debt in percent of GDP. For further explanations see notes under Table 2 on page 4.

In severe financial crises, the lines between private and public debt can become blurred. Most obviously, if an economic boom fuelled by private debt turns to 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 Brothers financial crises, the very comfortable fiscal positions of Ireland and Spain had obscured a serious underlying vulnerability stemming from the massive build-up of household debt.

Updating *The 2014 Euro Plus Monitor* with 2013 data from Eurostat, the trend towards modest deleveraging in the eurozone as a whole and serious deleveraging in many of the most indebted countries becomes more pronounced.

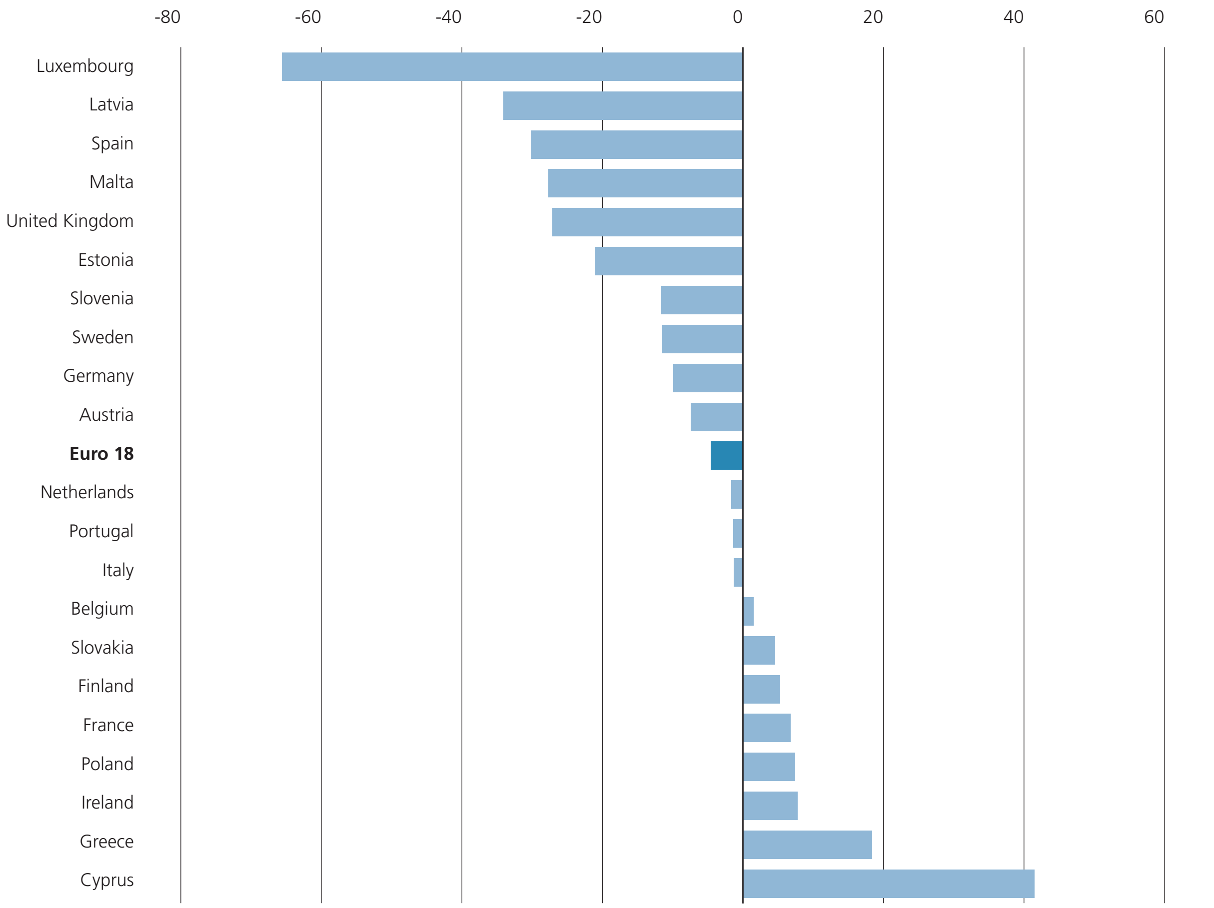
The lowest private sector debt ratios can be found in central and eastern Europe, with **Slovakia** (No. 1), **Poland** (No. 2), **Latvia** (No. 3), **Slovenia** (No. 4) and **Germany** (No. 5) leading the pack. The former two can easily sustain the modest growth rates in credit since 2009, while German household debt stabilised at low levels in 2013 after a period of modest deleveraging, probably as a result of diminishing uncertainty.

Greece (No. 9) and **Italy** (No. 6) have many problems, but over-indebtedness of the private sector is not one of them. Both easily remain in the top bracket of the table despite their sharp recessions and – in the case of Greece – the resulting increase in the ratio of private debt to GDP. The middle of the pack extends from **France** (No. 11) to the **United Kingdom** (No. 15), with indebtedness falling moderately in 2013 in the former, and sharply in the latter.

‘It is much easier to repay loans in a growing economy than in a shrinking one.’

Chart 17. Deleveraging in Action

Change in private sector debt 2009-2013 in percent of GDP



Source: Eurostat

Ireland (No. 19) has moved off the bottom of the table, leaving small countries **Luxembourg** (No. 21) and **Cyprus** (No. 20) at the bottom of the table with debt ratios of more than 300% of GDP each. However, while the prosperous households and companies in Luxembourg have reduced their leverage by 66% of GDP since 2009, Cypriot debt continued to rise sharply last year (see Chart 17). It is much easier to repay loans in a growing economy than in a shrinking one. The return to growth is also helping households in **Portugal** (No. 17) to finally join the other former crisis countries in reducing private sector debt.

‘Having a high level of private-sector debt can be mitigated by thrift.’

III.5.d Household savings rate

Table 27. Savings Rate

2014	2013	Country	Score	*Change*	%
1	1	Luxembourg	10.0	*0.0*	19.6
2	2	Germany	9.1	*-0.1*	16.2
3	3	France	8.6	*0.1*	15.3
4	5	Sweden	8.3	*0.0*	14.8
5	9	Slovenia	7.9	*1.1*	14.0
6	3	Belgium	7.8	*-0.7*	13.9
		Euro 18	7.4	*0.1*	13.1
7	10	Italy	7.3	*0.7*	12.9
8	8	Portugal	7.2	*0.3*	12.6
9	7	Austria	6.9	*-0.3*	12.1
10	13	Ireland	6.7	*0.8*	11.8
11	11	Netherlands	6.6	*0.4*	11.5
12	6	Cyprus	6.3	*-1.0*	10.9
13	12	Spain	6.0	*0.0*	10.4
14	14	Finland	5.2	*0.1*	8.8
15	15	Slovakia	4.4	*-0.5*	7.3
16	18	Estonia	3.7	*0.8*	6.1
16	17	Poland	3.7	*0.7*	6.1
18	16	United Kingdom	3.2	*-1.2*	5.1
19	n.a.	Latvia	0.6	*n.a.*	0.2
20	20	Greece	0.0	*0.0*	-7.6
		Malta	n.a.	*n.a.*	n.a.

Ranks, scores and score changes from last year for the Household Savings Rate sub-indicator. Value: 2013 household saving rate, percent of disposable income. For further explanations see notes under Table 2 on page 4.

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 2012 to 2013 data, the order of countries remains broadly similar, with some notable exceptions.

In **Cyprus** (No. 12), the savings rate had risen sharply in 2012 due to the beginning recession, but fell sharply again in 2013, probably a consequence of the bank bail-in as part of Cyprus's EU/IMF rescue package. In the **United Kingdom** (No. 18), the recovery has been carried in part by households reducing their savings rate from 7.3% to 5.1%, a result of diminishing uncertainty. That rate was undershot only by **Latvia** (No. 19, at 0.2%) and **Greece** (No. 20), where the savings rate remained distorted by the extraordinarily weak economy. At the other end of the scale, savings rates increased markedly in **Slovenia** (No. 5), **Italy** (No. 7), **The Netherlands** (No. 11) and **Portugal** (No. 8). The highest household savings rates continued to be run in **Luxembourg** (No. 1), **Germany** (No. 2) and **France** (No. 3).

‘Banking union is an important step for the reduction of vulnerability to financial shocks.’

III.5.e Bank assets

Table 28. Bank Assets

2014	2013	Country	Score	*Change*	%
1	1	Slovakia	10.0	*0.0*	86
1	1	Estonia	10.0	*0.0*	111
1	1	Slovenia	10.0	*0.0*	124
1	1	Poland	10.0	*0.0*	97
1	n.a.	Latvia	10.0	*n.a.*	127
6	6	Greece	8.4	*0.1*	216
7	7	Italy	7.8	*0.0*	248
8	10	Germany	7.3	*-0.2*	276
9	8	Belgium	7.2	*-0.4*	277
10	14	Portugal	7.1	*0.4*	282
11	11	Austria	7.1	*0.0*	283
12	9	Finland	7.1	*-0.5*	285
13	13	Spain	6.9	*0.1*	294
14	12	Sweden	6.7	*-0.4*	307
		Euro 18	6.6	*0.0*	308
15	15	Netherlands	5.4	*-0.4*	373
16	16	France	5.2	*-0.2*	385
17	17	United Kingdom	4.5	*0.3*	416
18	18	Cyprus	2.9	*0.0*	498
19	19	Ireland	0.5	*-0.9*	626
20	20	Malta	0.0	*0.0*	681
20	20	Luxembourg	0.0	*0.0*	2145

Ranks, scores and score changes from last year for the Bank Assets sub-indicator. Value: September 2014 MFI total assets in percent of GDP. For further explanations see notes under Table 2 on page 4.

In the Lehman Brothers and euro crises, the eurozone’s banking system was a transmitter of tensions. In several cases (e.g., **Ireland**, **Spain** and **Cyprus**), it even became a source of trouble. The eurozone left the cleaning up of the sector to national initiatives with varying success in the immediate aftermath of the Lehman Brothers crisis. More recently, the eurozone and the European Central Bank (ECB) have started to view fragile banks, which have tended to recapitalise slowly via a gradual deleveraging rather than swift action, as an obstacle to a quicker recovery. In 2012, the eurozone agreed to hand supervision of the eurozone’s largest banks to the ECB, which ran a great comprehensive assessment of bank balance sheets in 2014, culminating in the publication of the results and a stress test in October 2014. A flurry of write-downs and capital raisings has improved the viability of many banks, but the process is not completed. But that is not the focus of this criterion in the fundamental health score.

Banking union is also an important step to reduce the vulnerability of eurozone member states to financial shocks: new resolution rules largely exempt the taxpayer from having to bail-out banks in trouble. In case taxpayer money is needed to guarantee an orderly winding down of a stricken bank, a European bank resolution fund will be available from 2016 and fully mutualised from 2024. But despite banking union, small economies with large banks remain vulnerable, as the Cypriot example 2013 showed. An oversized banking sector makes countries more vulnerable to shocks of confidence. The ratio of bank assets to GDP thus features on our list of criteria to assess the resilience of a country to shocks. This year, we update the data from mid-2013 to mid-2014. As GDP figures have been revised considerably due to the new ESA2010 standard, we have recalculated last year’s result to make them comparable to the new scores for 2014.

The broad thrust of the ranking remains unchanged. Many East European countries with relatively undeveloped banking systems remain near the top of the ranking. In many cases, their banks are mostly in foreign hands, further reducing vulnerability. The bottom of the ranking is graced by countries with important financial centres, such as **Luxembourg**,

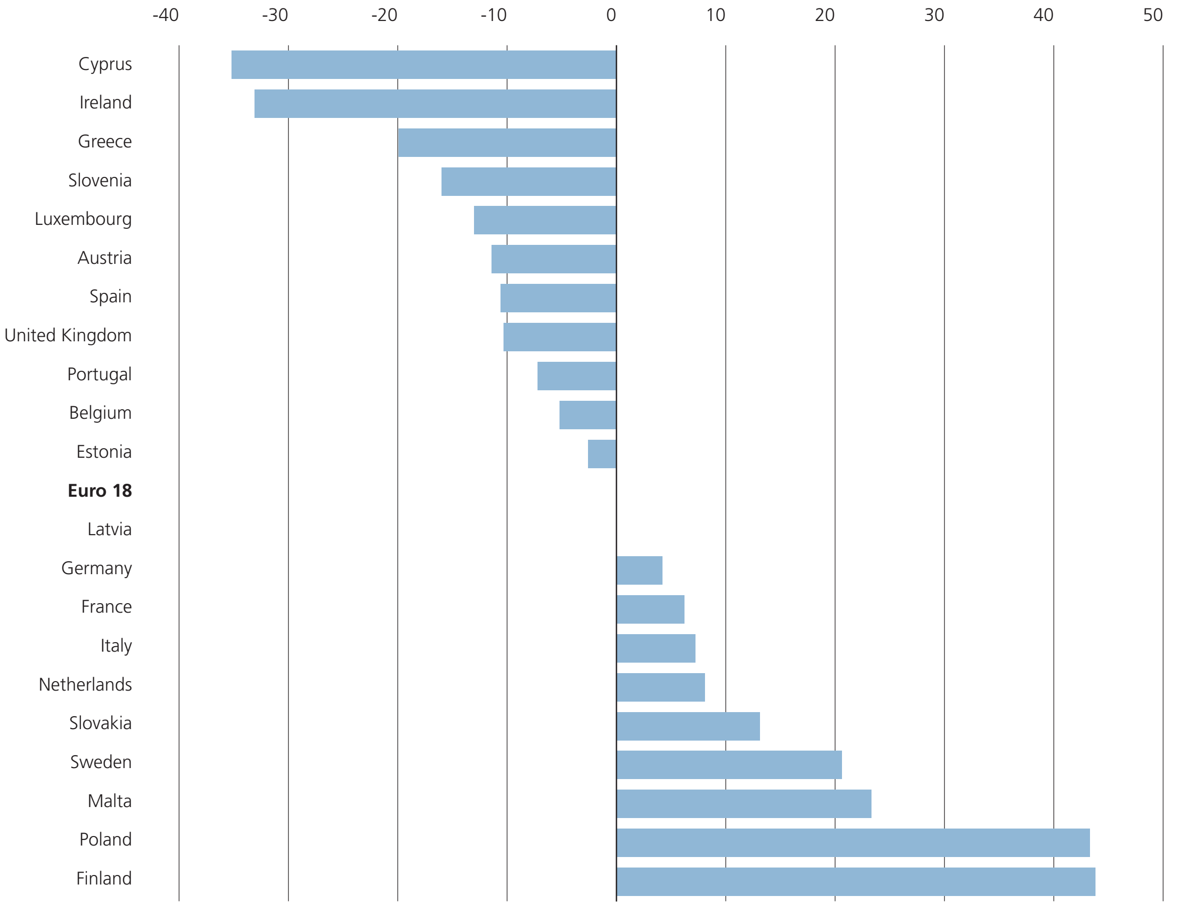
'Banks are increasingly successful at ridding themselves of problematic portfolios.'

Ireland, the **United Kingdom** and **France**, as well as special cases such as **Malta** and **Cyprus**.

Bank balance sheets are slow moving, so changes in the ranking are limited. But a new pattern emerges: in core Europe, bank balance sheets have expanded in 2014, while they continued to shrink in most of the former crisis countries (see Chart 18). Examples for the former are **Germany** (No. 8) and **France** (No. 16), where balance sheets expanded by roughly 3% so far this year, or **The Netherlands** (No. 15) and **Finland** (No. 12), where they rose by 6.5% and 9.3%, respectively. Very cheap borrowing costs and improving economic conditions may be helping. In **Portugal** (No. 10) bank balance sheets shrank by 6.2% so far in 2014, in **Greece** (No. 6) by 3.1% and in **Spain** (No. 13) by 2.3%, improving the scores of these countries. In these countries, banks are increasingly successfully ridding themselves of problematic portfolios by selling them or taking writedowns.

Chart 18. Revamping the Financial Sector

Total assets/liabilities of monetary financial institutions, 2014 over 2009 change in percent



Source: European Central Bank

Austria

Overall assessment

A mature economy with an overall health marginally below average. Far less dynamic than Germany but in better shape than France and Italy. Has made very little adjustment effort. Attains an almost average score on OECD reform responsiveness but trails far behind on all other adjustment criteria.

2014 key developments

Adjustment progress weakens
- Export weakness due to Russia/Eastern Europe
- Reform responsiveness falls

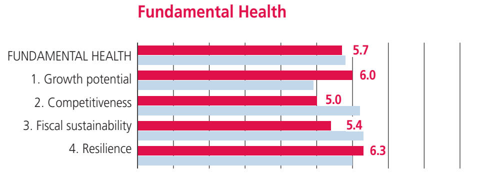
Fundamental health indicator unchanged

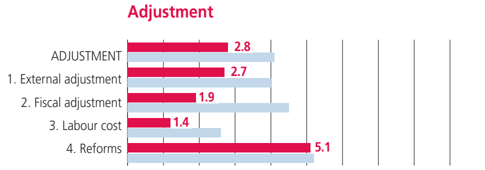
Strengths

- Fiscal deficit still fairly comfortable
- Low consumption rate
- Strong labour market
- Current account surplus

Weaknesses

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





Detailed Scores

OVERALL RESULTS	AT	EZ18	
	Score	Score	Rank
FUNDAMENTAL HEALTH	5.7	5.8	**11**
1. Growth potential	6.0	4.9	**8**
2. Competitiveness	5.0	6.2	**16**
3. Fiscal sustainability	5.4	6.3	**17**
4. Resilience	6.3	6.0	**8**
ADJUSTMENT	2.8	4.1	**17**
1. External adjustment	2.7	4.0	**19**
2. Fiscal adjustment	1.9	4.5	**16**
3. Labour cost	1.4	2.6	**19**
4. Reforms	5.1	5.2	**9**

FUNDAMENTAL HEALTH	AT	EZ18	Score	Rank
1. Growth potential	Value	Value	6.0	**8**
1.1 Trend growth 2002-2010, in %			5.6	**10**
1.1.1 Rise in gross value added	1.2	0.9	4.8	**11**
1.1.2 Deviation of GVA growth from norm	0.3	-0.2	6.4	**8**
1.2 Human resources			3.5	**15**
1.2.1 Fertility rate 2009-2012 average	1.4	1.6	3.5	**13**
1.2.2 Employment rate foreign vs. native, 2013	-12.9	-11.1	3.0	**19**
1.2.3 Pisa Scores 2012	501	502	3.8	**9**
1.3 Employment			8.1	**1**
1.3.1 Employment rate 2002-13, in %	70.7	64.0	7.2	**4**
1.3.2 Change in ER 2002-13, per year, pcp	0.3	0.1	6.8	**6**
1.3.3 Youth unemployment rate, 2002-2013, in %	8.8	19.0	9.4	**2**
1.3.4 Long-term unemployment 2002-2013, in %	1.2	4.2	8.7	**1**
1.4 Consumption rate			7.0	**9**
1.4.1 Total consumption, 2002-2013, % of GDP	73.0	76.5	8.5	**6**
1.4.2 Change in CR 2002-13, per year, %-points	0.1	0.1	5.5	**11**

FUNDAMENTAL HEALTH	AT	EZ18	Score	Rank
3. Fiscal sustainability	Value	Value	5.4	**17**
3.1 Government outlays, % of GDP (2002-2014)	51.4	48.4	3.1	**16**
3.2 Underlying fiscal balance 2014			8.5	**8**
3.2.1 Structural fiscal balance (% of GDP)	-1.1	-1.1	7.6	**8**
3.2.2 Structural primary fiscal balance (% of GDP)	1.4	1.6	9.4	**7**
3.3 Debt ratio, % of GDP, 2014 (EU estimate)	87.0	94.5	4.5	**12**
3.4 Sustainability gap 2015-2020 (% of GDP)	5.5	3.8	5.4	**14**

ADJUSTMENT	AT	EZ18	Score	Rank
	Value	Value	2.8	**17**
1. External adjustment			2.7	**19**
Change 2H07-3Q14				
1.1. Rise in net exports in % points of GDP	0.0	2.8	3.1	**16**
1.2 Rise in net exports relative to 2H07 exports	0.1	7.1	2.2	**16**
1.3 Rise in export ratio, % of GDP	1.0	5.0	2.8	**17**
2. Fiscal squeze: shift in primary balance			1.9	**16**
Change 2H07-3Q14	0.9	3.2	2.2	**14**
1.1. Rise in net exports in % points of GDP	14.1	46.0	1.5	**13**
3. Unit labour costs, 2009-14			1.4	**19**
3.1 Real ULC 2009-2014, %	-1.2	-1.9	1.3	**20**
3.2 Nominal ULC 2009-2014, %	7.7	3.7	1.5	**18**
4. Reform responsiveness, 2012/13	0.43	0.44	5.1	**9**

FUNDAMENTAL HEALTH	AT	EZ18	Score	Rank
2. Competitiveness	Value	Value	5.0	**16**
2.1 Export Ratio, % of GDP 2002-2013	49.9	38.2	3.5	**13**
2.2 Rise in export ratio, 2002-13, %-pts.	0.8	0.9	5.4	**17**
2.3 Labour costs			6.3	**9**
2.3.1 Real unit labour cost, change 2002-14 in %	-0.2	-0.1	6.7	**9**
2.3.2 Nominal unit labour cost, 2002-14 in %	1.5	1.6	7.2	**9**
2.3.3 Hiring & firing practice 2014 (index)	3.5	3.6	5.0	**9**
2.4 Market regulations			4.9	**17**
2.4.1 Product market compet. intensity index, 2014	5.8	5.6	8.0	**6**
2.4.2 OECD service trade restrictiveness index, 2014	0.24	0.16	0.0	**16**
2.4.3 Opening new business (days), 2014	22.0	12.0	6.8	**14**

FUNDAMENTAL HEALTH	AT	EZ18	Score	Rank
4. Resilience	Value	Value	6.3	**8**
4.1 Debt redemptions 2015-17, % of GDP	16.1	25.6	6.2	**8**
4.2 Debt held abroad, % of GDP, 2014	62.4	53.4	3.1	**17**
4.3 Gross household savings rate, in %, 2013	12.1	13.1	6.9	**9**
4.4 Current account, % of GDP, 2014	3.4	2.9	7.3	**7**
4.5 Bank assets, % of GDP, Sep 2014	283	308	7.1	**11**
4.6 Private sector debt, % of GDP, 2013	126	139	7.4	**8**

Notes: The light-blue shaded bars in the chart indicate the eurozone average for comparison. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 18 Eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 93.

Belgium

Overall assessment

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

2014 key developments

Adjustment progress improves from very low level
- External adjustment benefits from stronger export growth
- Fall in unit labour costs

Fundamental health score edges down
- Financial resilience weakens as household savings rate falls and bank assets grow

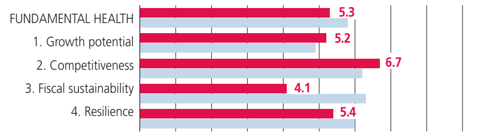
Strengths

- Strong export orientation
- Above-average education scores
- Relatively high fertility rate
- High competition intensity on product markets
- Thrifty households

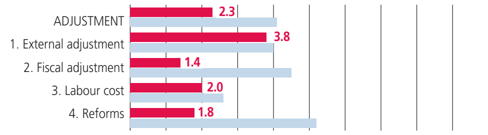
Weaknesses

- Below average trend growth rate
- Very weak integration of immigrants
- Fiscally very challenged due to high legacy public debt
- Low employment rate in a highly regulated labour market
- Losing labour cost competitiveness
- Excessive share of government spending in GDP
- High private sector debt

Fundamental Health



Adjustment



Detailed Scores

OVERALL RESULTS	BE	EZ18	
	Score	Score	Rank
FUNDAMENTAL HEALTH	5.3	5.8	**14**
1. Growth potential	5.2	4.9	**15**
2. Competitiveness	6.7	6.2	**8**
3. Fiscal sustainability	4.1	6.3	**21**
4. Resilience	5.4	6.0	**15**
ADJUSTMENT	2.3	4.1	**20**
1. External adjustment	3.8	4.0	**15**
2. Fiscal adjustment	1.4	4.5	**18**
3. Labour cost	2.0	2.6	**16**
4. Reforms	1.8	5.2	**17**

FUNDAMENTAL HEALTH	BE	EZ18	Score	Rank
1. Growth potential	Value	Value	5.2	**15**
1.1 Trend growth 2002-2010, in %			4.1	**14**
1.1.1 Rise in gross value added	0.7	0.9	3.5	**17**
1.1.2 Deviation of GVA growth from norm	-0.1	-0.2	4.6	**12**
1.2 Human resources			5.2	**9**
1.2.1 Fertility rate 2009-2012 average	1.8	1.6	6.9	**6**
1.2.2 Employment rate foreign vs. native, 2013	-21.8	-11.1	2.2	**20**
1.2.3 Pisa Scores 2012	510	502	5.0	**7**
1.3 Employment			5.1	**14**
1.3.1 Employment rate 2002-13, in %	61.3	64.0	3.2	**15**
1.3.2 Change in ER 2002-13, per year, pcp	0.2	0.1	5.8	**9**
1.3.3 Youth unemployment rate, 2002-2013, in %	20.5	19.0	5.5	**12**
1.3.4 Long-term unemployment 2002-2013, in %	3.8	4.2	5.8	**11**
1.4 Consumption rate			6.5	**13**
1.4.1 Total consumption, 2002-2013, % of GDP	74.0	76.5	8.0	**9**
1.4.2 Change in CR 2002-13, per year, %-points	0.2	0.1	4.9	**16**

FUNDAMENTAL HEALTH	BE	EZ18	Score	Rank
3. Fiscal sustainability	Value	Value	4.1	**21**
3.1 Government outlays, % of GDP (2002-2014)	51.1	48.4	3.1	**17**
3.2 Underlying fiscal balance 2014			7.4	**14**
3.2.1 Structural fiscal balance (% of GDP)	-2.6	-1.1	6.5	**16**
3.2.2 Structural primary fiscal balance (% of GDP)	0.4	1.6	8.4	**11**
3.3 Debt ratio, % of GDP, 2014 (EU estimate)	105.8	94.5	3.2	**16**
3.4 Sustainability gap 2015-2020 (% of GDP)	8.9	3.8	2.6	**17**

ADJUSTMENT	BE	EZ18	Score	Rank
	Value	Value	2.3	**20**
1. External adjustment			3.8	**15**
Change 2H07-3Q14				
1.1. Rise in net exports in % points of GDP	0.0	2.8	3.1	**18**
1.2 Rise in net exports relative to 2H07 exports	0.0	7.1	2.2	**17**
1.3 Rise in export ratio, % of GDP	10.1	5.0	6.3	**9**
2. Fiscal squeze: shift in primary balance			1.4	**18**
Change 2H07-3Q14	0.7	3.2	2.1	**16**
1.1. Rise in net exports in % points of GDP	7.3	46.0	0.8	**14**
3. Unit labour costs, 2009-14			2.0	**16**
3.1 Real ULC 2009-2014, %	-1.2	-1.9	1.9	**16**
3.2 Nominal ULC 2009-2014, %	7.6	3.7	2.1	**15**
4. Reform responsiveness, 2012/13	0.15	0.44	1.8	**17**

FUNDAMENTAL HEALTH	BE	EZ18	Score	Rank
2. Competitiveness	Value	Value	6.7	**8**
2.1 Export Ratio, % of GDP 2002-2013	75.7	38.2	9.3	**7**
2.2 Rise in export ratio, 2002-13, %-pts.	1.2	0.9	5.4	**16**
2.3 Labour costs			4.8	**13**
2.3.1 Real unit labour cost, change 2002-14 in %	-0.1	-0.1	6.1	**10**
2.3.2 Nominal unit labour cost, 2002-14 in %	1.8	1.6	6.2	**12**
2.3.3 Hiring & firing practice 2014 (index)	2.6	3.6	2.0	**19**
2.4 Market regulations			7.3	**3**
2.4.1 Product market compet. intensity index, 2014	6.0	5.6	9.3	**3**
2.4.2 OECD service trade restrictiveness index, 2014	0.18	0.16	4.5	**10**
2.4.3 Opening new business (days), 2014	4.0	12.0	8.0	**9**

FUNDAMENTAL HEALTH	BE	EZ18	Score	Rank
4. Resilience	Value	Value	5.4	**15**
4.1 Debt redemptions 2015-17, % of GDP	28.9	25.6	3.2	**18**
4.2 Debt held abroad, % of GDP, 2014	65.8	53.4	2.7	**18**
4.3 Gross household savings rate, in %, 2013	13.9	13.1	7.8	**6**
4.4 Current account, % of GDP, 2014	0.3	2.9	5.9	**12**
4.5 Bank assets, % of GDP, Sep 2014	277	308	7.2	**9**
4.6 Private sector debt, % of GDP, 2013	163	139	5.6	**13**

Notes: The light-blue shaded bars in the chart indicate the eurozone average for comparison. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 18 Eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 93.

Cyprus

Overall assessment

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

2014 key developments

Adjustment score virtually unchanged
- Deterioration in external adjustment as key markets soften
- Major fiscal improvement

Fundamental health score slightly better
- Sharp fall in debt redemptions after bail-out
- Growth potential weaker on education, employment deterioration

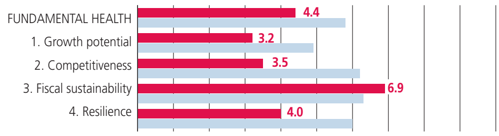
Strengths

- Liberal labour laws
- Sharp adjustment in unit labour costs improves competitiveness
- Second-highest structural primary surplus
- High employment rate
- Still low youth- and long-term unemployment rates
- Rapid fiscal improvement

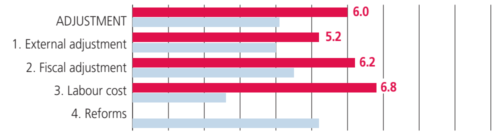
Weaknesses

- Weak export base relative to size of economy
- Weak trend growth and failing integration of immigrants
- Still high structural fiscal deficit and high public debt burden
- Very vulnerable due to still huge banking system and high private sector debt
- Worst education score in sample

Fundamental Health



Adjustment



Detailed Scores

OVERALL RESULTS	CY	EZ18	
	Score	Score	Rank
FUNDAMENTAL HEALTH	4.4	5.8	**20**
1. Growth potential	3.2	4.9	**20**
2. Competitiveness	3.5	6.2	**20**
3. Fiscal sustainability	6.9	6.3	**6**
4. Resilience	4.0	6.0	**21**
ADJUSTMENT	6.0	4.1	**6**
1. External adjustment	5.2	4.0	**10**
2. Fiscal adjustment	6.2	4.5	**7**
3. Labour cost	6.8	2.6	**4**
4. Reforms	n.a.	5.2	**n.a.**

FUNDAMENTAL HEALTH	CY	EZ18	Score	Rank
1. Growth potential	Value	Value	3.2	**20**
1.1 Trend growth 2002-2010, in %			1.7	**19**
1.1.1 Rise in gross value added	0.5	0.9	2.7	**19**
1.1.2 Deviation of GVA growth from norm	-1.1	-0.2	0.6	**19**
1.2 Human resources			2.8	**20**
1.2.1 Fertility rate 2009-2012 average	1.4	1.6	3.4	**16**
1.2.2 Employment rate foreign vs. native, 2013	-3.9	-11.1	4.1	**14**
1.2.3 Pisa Scores 2012	442	502	0.0	**19**
1.3 Employment			8.1	**1**
1.3.1 Employment rate 2002-13, in %			5.5	**11**
1.3.2 Change in ER 2002-13, per year, pcp	68.2	64.0	6.2	**7**
1.3.3 Youth unemployment rate, 2002-2013, in %	-0.6	0.1	0.5	**19**
1.3.4 Long-term unemployment 2002-2013, in %	15.8	19.0	7.1	**7**
1.4 Consumption rate			2.8	**20**
1.4.1 Total consumption, 2002-2013, % of GDP	81.2	76.5	4.4	**18**
1.4.2 Change in CR 2002-13, per year, %-points	0.8	0.1	1.2	**20**

FUNDAMENTAL HEALTH	CY	EZ18	Score	Rank
3. Fiscal sustainability	Value	Value	6.9	**6**
3.1 Government outlays, % of GDP (2002-2014)	40.4	48.4	8.8	**5**
3.2 Underlying fiscal balance 2014			8.9	**4**
3.2.1 Structural fiscal balance (% of GDP)	-0.8	-1.1	7.8	**5**
3.2.2 Structural primary fiscal balance (% of GDP)	2.2	1.6	10.0	**1**
3.3 Debt ratio, % of GDP, 2014 (EU estimate)	107.5	94.5	3.0	**17**
3.4 Sustainability gap 2015-2020 (% of GDP)	n.a.	3.8	n.a.	**n.a.**

ADJUSTMENT	CY	EZ18	Score	Rank
	Value	Value	6.0	**6**
1. External adjustment			5.2	**10**
Change 2H07-3Q14				
1.1. Rise in net exports in % points of GDP	12.4	2.8	7.4	**4**
1.2 Rise in net exports relative to 2H07 exports	23.1	7.1	6.8	**5**
1.3 Rise in export ratio, % of GDP	-2.7	5.0	1.4	**21**
2. Fiscal squeze: shift in primary balance			6.2	**7**
Change 2H07-3Q14	6.0	3.2	6.2	**5**
1.1. Rise in net exports in % points of GDP	n.a.	46.0	n.a.	**n.a.**
3. Unit labour costs, 2009-14			6.8	**4**
3.1 Real ULC 2009-2014, %	-11.8	-1.9	7.1	**4**
3.2 Nominal ULC 2009-2014, %	-7.5	3.7	6.5	**6**
4. Reform responsiveness, 2012/13	n.a.	0.44	n.a.	**n.a.**

FUNDAMENTAL HEALTH	CY	EZ18	Score	Rank
2. Competitiveness	Value	Value	3.5	**20**
2.1 Export Ratio, % of GDP 2002-2013	53.1	38.2	0.0	**17**
2.2 Rise in export ratio, 2002-13, %-pts.	-0.9	0.9	0.0	**21**
2.3 Labour costs			8.8	**1**
2.3.1 Real unit labour cost, change 2002-14 in %	-0.9	-0.1	10.0	**1**
2.3.2 Nominal unit labour cost, 2002-14 in %	1.4	1.6	7.6	**6**
2.3.3 Hiring & firing practice 2014 (index)	4.2	3.6	7.3	**3**
2.4 Market regulations			5.1	**16**
2.4.1 Product market compet. intensity index, 2014	5.4	5.6	5.3	**12**
2.4.2 OECD service trade restrictiveness index, 2014	n.a.	0.16	n.a.	**n.a.**
2.4.3 Opening new business (days), 2014	8.0	12.0	4.8	**18**

FUNDAMENTAL HEALTH	CY	EZ18	Score	Rank
4. Resilience	Value	Value	4.0	**21**
4.1 Debt redemptions 2015-17, % of GDP	17.7	25.6	5.8	**11**
4.2 Debt held abroad, % of GDP, 2014	60.1	53.4	3.3	**16**
4.3 Gross household savings rate, in %, 2013	10.9	13.1	6.3	**12**
4.4 Current account, % of GDP, 2014	0.0	2.9	5.7	**14**
4.5 Bank assets, % of GDP, Sep 2014	498	308	2.9	**18**
4.6 Private sector debt, % of GDP, 2013	345	139	0.0	**20**

Notes: The light-blue shaded bars in the chart indicate the eurozone average for comparison. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 18 Eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 93.

Estonia

Overall assessment

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

2014 key developments

Adjustment score continues to weaken as crisis behind
- Labour cost rising faster than Eurozone average
- Reform drive slowing

Fundamental health score unchanged at high level
- Strong performance in new PISA education study
- Weaker score for service sector regulation

Strengths

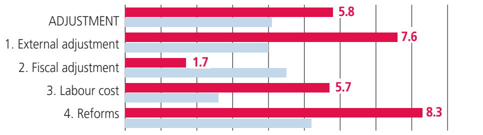
- Extremely comfortable fiscal position
- Deregulated product, services and labour markets
- Low and falling propensity to consume

Weaknesses

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

Fundamental Health

Adjustment



Detailed Scores

OVERALL RESULTS	EE Score	EZ18 Score	Rank
FUNDAMENTAL HEALTH	7.5	5.8	**2**
1. Growth potential	7.1	4.9	**3**
2. Competitiveness	6.1	6.2	**10**
3. Fiscal sustainability	9.2	6.3	**2**
4. Resilience	7.5	6.0	**2**
ADJUSTMENT	5.8	4.1	**8**
1. External adjustment	7.6	4.0	**3**
2. Fiscal adjustment	1.7	4.5	**17**
3. Labour cost	5.7	2.6	**6**
4. Reforms	8.3	5.2	**3**

FUNDAMENTAL HEALTH 1. Growth potential	EE Value	EZ18 Value	Score 7.1	Rank **3**
1.1 Trend growth 2002-2010, in %			7.7	**5**
1.1.1 Rise in gross value added	3.5	0.9	10.0	**1**
1.1.2 Deviation of GVA growth from norm	0.1	-0.2	5.4	**10**
1.2 Human resources			5.9	**5**
1.2.1 Fertility rate 2009-2012 average	1.6	1.6	5.4	**8**
1.2.2 Employment rate foreign vs. native, 2013	-3.4	-11.1	6.0	**7**
1.2.3 Pisa Scores 2012	526	502	7.0	**2**
1.3 Employment			6.2	**8**
1.3.1 Employment rate 2002-13, in %	65.5	64.0	5.0	**9**
1.3.2 Change in ER 2002-13, per year, pcp	0.7	0.1	9.0	**3**
1.3.3 Youth unemployment rate, 2002-2013, in %	19.5	19.0	5.8	**10**
1.3.4 Long-term unemployment 2002-2013, in %	4.6	4.2	4.9	**15**
1.4 Consumption rate			8.6	**2**
1.4.1 Total consumption, 2002-2013, % of GDP	71.8	76.5	9.1	**5**
1.4.2 Change in CR 2002-13, per year, %-points	-0.3	0.1	8.1	**5**

FUNDAMENTAL HEALTH 3. Fiscal sustainability	EE Value	EZ18 Value	Score 9.2	Rank **2**
3.1 Government outlays, % of GDP (2002-2014)	37.4	48.4	9.0	**3**
3.2 Underlying fiscal balance 2014			7.6	**13**
3.2.1 Structural fiscal balance (% of GDP)	-0.8	-1.1	7.8	**5**
3.2.2 Structural primary fiscal balance (% of GDP)	-0.6	1.6	7.4	**17**
3.3 Debt ratio, % of GDP, 2014 (EU estimate)	9.9	94.5	10.0	**1**
3.4 Sustainability gap 2015-2020 (% of GDP)	0.0	3.8	10.0	**1**

ADJUSTMENT	EE Value	EZ18 Value	Score 5.8	Rank **8**
1. External adjustment			7.6	**3**
Change 2H07-3Q14				
1.1. Rise in net exports in % points of GDP	11.0	2.8	6.9	**6**
1.2 Rise in net exports relative to 2H07 exports	17.9	7.1	5.8	**8**
1.3 Rise in export ratio, % of GDP	27.7	5.0	10.0	**1**
2. Fiscal squeze: shift in primary balance			1.7	**17**
Change 2H07-3Q14	0.2	3.2	1.7	**18**
1.1. Rise in net exports in % points of GDP	n.a.	46.0	n.a.	**n.a.**
3. Unit labour costs, 2009-14			5.7	**6**
3.1 Real ULC 2009-2014, %	-5.3	-1.9	5.8	**6**
3.2 Nominal ULC 2009-2014, %	9.1	3.7	5.6	**7**
4. Reform responsiveness, 2012/13	0.70	0.44	8.3	**3**

FUNDAMENTAL HEALTH 2. Competitiveness	EE Value	EZ18 Value	Score 6.1	Rank **10**
2.1 Export Ratio, % of GDP 2002-2013	69.4	38.2	4.8	**9**
2.2 Rise in export ratio, 2002-13, %-pts.	2.6	0.9	10.0	**1**
2.3 Labour costs			3.7	**19**
2.3.1 Real unit labour cost, change 2002-14 in %	0.7	-0.1	1.9	**21**
2.3.2 Nominal unit labour cost, 2002-14 in %	5.2	1.6	0.0	**20**
2.3.3 Hiring & firing practice 2014 (index)	4.8	3.6	9.3	**1**
2.4 Market regulations			5.7	**13**
2.4.1 Product market compet. intensity index, 2014	5.5	5.6	6.0	**8**
2.4.2 OECD service trade restrictiveness index, 2014	0.22	0.16	1.9	**14**
2.4.3 Opening new business (days), 2014	4.5	12.0	9.2	**7**

FUNDAMENTAL HEALTH 4. Resilience	EE Value	EZ18 Value	Score 7.5	Rank **2**
4.1 Debt redemptions 2015-17, % of GDP	0.0	25.6	10.0	**1**
4.2 Debt held abroad, % of GDP, 2014	8.1	53.4	9.1	**2**
4.3 Gross household savings rate, in %, 2013	6.1	13.1	3.7	**16**
4.4 Current account, % of GDP, 2014	-2.7	2.9	4.4	**20**
4.5 Bank assets, % of GDP, Sep 2014	111	308	10.0	**1**
4.6 Private sector debt, % of GDP, 2013	119	139	7.6	**7**

Notes: The light-blue shaded bars in the chart indicate the eurozone average for comparison. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 18 Eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 93.

Finland

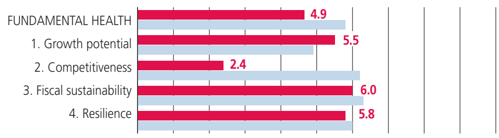
Overall assessment
Again one of the losers in terms of fundamental economic health ranking, for the third year running. At risk of becoming overly complacent. The issues of its largest exporting firm weigh on overall competitiveness. Growth potential, fiscal sustainability and financial resilience remain strong points though.

2014 key developments
- Adjustment score slightly improved
- Better reform drive
- Fundamental health: joint biggest drop (with Sweden)
- Much weaker on new service trade regulation score
- Further slippage in fiscal sustainability

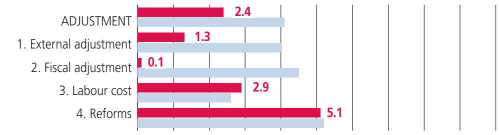
Strengths
- Strong human resources, especially education
- Decent employment score
- Low government debt ratio
- Relatively flexible labour market rules

Weaknesses
- Worst competitiveness score in sample
- Very weak export performance and high unit labour costs
- Fast-rising propensity to consume
- Low degree of product market competition
- Low employment rate for immigrants relative to natives
- Excessive role of governmetnt in GDP

Fundamental Health



Adjustment



Detailed Scores

OVERALL RESULTS	FI	EZ18	
	Score	Score	Rank
FUNDAMENTAL HEALTH	4.9	5.8	**16**
1. Growth potential	5.5	4.9	**11**
2. Competitiveness	2.4	6.2	**21**
3. Fiscal sustainability	6.0	6.3	**13**
4. Resilience	5.8	6.0	**10**
ADJUSTMENT	2.4	4.1	**19**
1. External adjustment	1.3	4.0	**21**
2. Fiscal adjustment	0.1	4.5	**20**
3. Labour cost	2.9	2.6	**11**
4. Reforms	5.1	5.2	**10**

FUNDAMENTAL HEALTH	FI	EZ18	Score	Rank
1. Growth potential	Value	Value	5.5	**11**
1.1 Trend growth 2002-2010, in %			5.3	**11**
1.1.1 Rise in gross value added	1.1	0.9	4.6	**12**
1.1.2 Deviation of GVA growth from norm	0.2	-0.2	6.0	**9**
1.2 Human resources			6.3	**3**
1.2.1 Fertility rate 2009-2012 average	1.8	1.6	7.0	**5**
1.2.2 Employment rate foreign vs. native, 2013	-13.9	-11.1	3.9	**16**
1.2.3 Pisa Scores 2012	529	502	7.4	**1**
1.3 Employment			6.3	**7**
1.3.1 Employment rate 2002-13, in %	68.9	64.0	6.5	**6**
1.3.2 Change in ER 2002-13, per year, pcp	0.1	0.1	5.2	**11**
1.3.3 Youth unemployment rate, 2002-2013, in %	19.8	19.0	5.7	**11**
1.3.4 Long-term unemployment 2002-2013, in %	1.8	4.2	8.0	**7**
1.4 Consumption rate			4.1	**18**
1.4.1 Total consumption, 2002-2013, % of GDP	73.8	76.5	8.1	**8**
1.4.2 Change in CR 2002-13, per year, %-points	1.0	0.1	0.0	**21**

FUNDAMENTAL HEALTH	FI	EZ18	Score	Rank
3. Fiscal sustainability	Value	Value	6.0	**13**
3.1 Government outlays, % of GDP (2002-2014)	52.1	48.4	2.7	**19**
3.2 Underlying fiscal balance 2014			7.9	**10**
3.2.1 Structural fiscal balance (% of GDP)	-1.1	-1.1	7.6	**8**
3.2.2 Structural primary fiscal balance (% of GDP)	0.2	1.6	8.2	**13**
3.3 Debt ratio, % of GDP, 2014 (EU estimate)	59.8	94.5	6.4	**7**
3.4 Sustainability gap 2015-2020 (% of GDP)	3.7	3.8	6.9	**8**

ADJUSTMENT	FI	EZ18	Score	Rank
	Value	Value	2.4	**19**
1. External adjustment			1.3	**21**
Change 2H07-3Q14				
1.1. Rise in net exports in % points of GDP	-3.7	2.8	1.8	**21**
1.2 Rise in net exports relative to 2H07 exports	-9.0	7.1	0.4	**21**
1.3 Rise in export ratio, % of GDP	-1.7	5.0	1.8	**20**
2. Fiscal squeze: shift in primary balance			0.1	**20**
Change 2H07-3Q14	-1.7	3.2	0.2	**20**
1.1. Rise in net exports in % points of GDP	0.0	46.0	0.0	**15**
3. Unit labour costs, 2009-14			2.9	**11**
3.1 Real ULC 2009-2014, %	-1.5	-1.9	3.6	**9**
3.2 Nominal ULC 2009-2014, %	8.3	3.7	2.2	**14**
4. Reform responsiveness, 2012/13	0.43	0.44	5.1	**10**

FUNDAMENTAL HEALTH	FI	EZ18	Score	Rank
2. Competitiveness	Value	Value	2.4	**21**
2.1 Export Ratio, % of GDP 2002-2013	40.0	38.2	0.0	**17**
2.2 Rise in export ratio, 2002-13, %-pts.	0.0	0.9	2.0	**20**
2.3 Labour costs			4.1	**18**
2.3.1 Real unit labour cost, change 2002-14 in %	0.6	-0.1	1.9	**20**
2.3.2 Nominal unit labour cost, 2002-14 in %	2.1	1.6	5.3	**14**
2.3.3 Hiring & firing practice 2014 (index)	3.5	3.6	5.0	**9**
2.4 Market regulations			3.4	**20**
2.4.1 Product market compet. intensity index, 2014	4.6	5.6	0.0	**21**
2.4.2 OECD service trade restrictiveness index, 2014	0.21	0.16	2.3	**13**
2.4.3 Opening new business (days), 2014	14.0	12.0	7.8	**11**

FUNDAMENTAL HEALTH	FI	EZ18	Score	Rank
4. Resilience	Value	Value	5.8	**10**
4.1 Debt redemptions 2015-17, % of GDP	16.4	25.6	6.1	**10**
4.2 Debt held abroad, % of GDP, 2014	47.1	53.4	4.8	**12**
4.3 Gross household savings rate, in %, 2013	8.8	13.1	5.2	**14**
4.4 Current account, % of GDP, 2014	-0.4	2.9	5.5	**15**
4.5 Bank assets, % of GDP, Sep 2014	285	308	7.1	**12**
4.6 Private sector debt, % of GDP, 2013	147	139	6.4	**12**

Notes: The light-blue shaded bars in the chart indicate the eurozone average for comparison. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 18 Eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 93.

France

Overall assessment

Below average on all indicators of fundamental health except its high fertility rate. Still little action to improve the situation and make better use of its human resources. France continues to fall behind Germany, but also behind many of the fast-reforming crisis countries. Losing the AAA credit rating may not have hurt France on the financial markets but reflects the lack of action to reverse the economic and financial deterioration.

2014 key developments

Adjustment score virtually unchanged at low level

- Better score from OECD for structural reforms

Fundamental health improves slightly

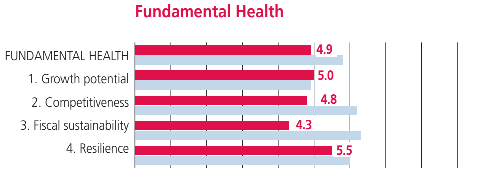
- Less bad export performance improves competitiveness score
- Labour costs rise less fast

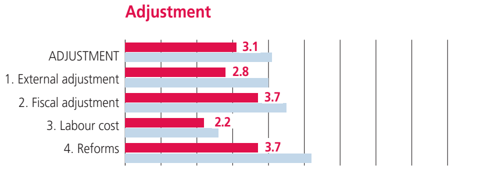
Strengths

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

Weaknesses

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





Detailed Scores

OVERALL RESULTS	FR Score	EZ18 Score	Rank
FUNDAMENTAL HEALTH	4.9	5.8	**17**
1. Growth potential	5.0	4.9	**16**
2. Competitiveness	4.8	6.2	**17**
3. Fiscal sustainability	4.3	6.3	**20**
4. Resilience	5.5	6.0	**14**
ADJUSTMENT	3.1	4.1	**15**
1. External adjustment	2.8	4.0	**17**
2. Fiscal adjustment	3.7	4.5	**14**
3. Labour cost	2.2	2.6	**14**
4. Reforms	3.7	5.2	**13**

FUNDAMENTAL HEALTH	FR	EZ18	Score	Rank
1. Growth potential	Value	Value	5.0	16
1.1 Trend growth 2002-2010, in %			3.5	**17**
1.1.1 Rise in gross value added	0.5	0.9	3.0	**18**
1.1.2 Deviation of GVA growth from norm	-0.3	-0.2	3.9	**14**
1.2 Human resources			6.1	**4**
1.2.1 Fertility rate 2009-2012 average	2.0	1.6	8.4	**2**
1.2.2 Employment rate foreign vs. native, 2013	-17.5	-11.1	3.6	**17**
1.2.3 Pisa Scores 2012	500	502	3.7	**10**
1.3 Employment			5.2	**12**
1.3.1 Employment rate 2002-13, in %	63.9	64.0	4.3	**13**
1.3.2 Change in ER 2002-13, per year, pcp	0.1	0.1	5.3	**10**
1.3.3 Youth unemployment rate, 2002-2013, in %	21.5	19.0	5.2	**14**
1.3.4 Long-term unemployment 2002-2013, in %	3.5	4.2	6.1	**10**
1.4 Consumption rate			5.3	**15**
1.4.1 Total consumption, 2002-2013, % of GDP	78.5	76.5	5.8	**13**
1.4.2 Change in CR 2002-13, per year, %-points	0.2	0.1	4.9	**17**

FUNDAMENTAL HEALTH	FR	EZ18	Score	Rank
3. Fiscal sustainability	Value	Value	4.3	20
3.1 Government outlays, % of GDP (2002-2014)	54.5	48.4	0.9	**21**
3.2 Underlying fiscal balance 2014			6.6	**20**
3.2.1 Structural fiscal balance (% of GDP)	-3.0	-1.1	6.2	**19**
3.2.2 Structural primary fiscal balance (% of GDP)	-0.9	1.6	7.1	**20**
3.3 Debt ratio, % of GDP, 2014 (EU estimate)	95.5	94.5	3.9	**14**
3.4 Sustainability gap 2015-2020 (% of GDP)	5.2	3.8	5.6	**12**

ADJUSTMENT	FR	EZ18	Score	Rank
	Value	Value	3.1	15
1. External adjustment			2.8	**17**
Change 2H07-3Q14				
1.1. Rise in net exports in % points of GDP	-0.1	2.8	3.1	**19**
1.2 Rise in net exports relative to 2H07 exports	-0.2	7.1	2.2	**19**
1.3 Rise in export ratio, % of GDP	1.9	5.0	3.2	**15**
2. Fiscal squeze: shift in primary balance			3.7	**14**
Change 2H07-3Q14	2.7	3.2	3.6	**13**
1.1. Rise in net exports in % points of GDP	34.0	46.0	3.7	**12**
3. Unit labour costs, 2009-14			2.2	**14**
3.1 Real ULC 2009-2014, %	-0.6	-1.9	1.8	**17**
3.2 Nominal ULC 2009-2014, %	5.8	3.7	2.6	**12**
4. Reform responsiveness, 2012/13	0.31	0.44	3.7	**13**

FUNDAMENTAL HEALTH	FR	EZ18	Score	Rank
2. Competitiveness	Value	Value	4.8	17
2.1 Export Ratio, % of GDP 2002-2013	26.7	38.2	4.1	**10**
2.2 Rise in export ratio, 2002-13, %-pts.	0.2	0.9	3.3	**18**
2.3 Labour costs			4.4	**16**
2.3.1 Real unit labour cost, change 2002-14 in %	0.1	-0.1	4.8	**16**
2.3.2 Nominal unit labour cost, 2002-14 in %	1.8	1.6	6.2	**11**
2.3.3 Hiring & firing practice 2014 (index)	2.7	3.6	2.3	**18**
2.4 Market regulations			7.2	**4**
2.4.1 Product market compet. intensity index, 2014	5.5	5.6	6.0	**8**
2.4.2 OECD service trade restrictiveness index, 2014	0.15	0.16	6.1	**6**
2.4.3 Opening new business (days), 2014	4.5	12.0	9.4	**2**

FUNDAMENTAL HEALTH	FR	EZ18	Score	Rank
4. Resilience	Value	Value	5.5	14
4.1 Debt redemptions 2015-17, % of GDP	25.9	25.6	3.9	**17**
4.2 Debt held abroad, % of GDP, 2014	58.0	53.4	3.6	**15**
4.3 Gross household savings rate, in %, 2013	15.3	13.1	8.6	**3**
4.4 Current account, % of GDP, 2014	-1.8	2.9	4.9	**18**
4.5 Bank assets, % of GDP, Sep 2014	385	308	5.2	**16**
4.6 Private sector debt, % of GDP, 2013	137	139	6.8	**11**

Notes: The light-blue shaded bars in the chart indicate the eurozone average for comparison. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 18 Eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 93.

Germany

Overall assessment

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

2014 key developments

Improved adjustment score
- Less bad OECD score for structural reforms

Largely unchanged score for fundamental health
- Improved education score helps growth potential
- Export performance weaker due to weakness in key emerging markets

Strengths

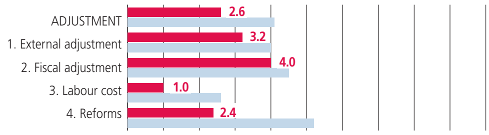
- Excellent fundamental health
- Very competitive economy
- Excellent employment situation
- No significant fiscal challenge
- Most financially resilient country: low private debt, high household savings rate

Weaknesses

- Demographic challenge: extremely low fertility rate
- Highly regulated markets
- Risk of reform reversals
- Below average on economic integration of immigrants

Fundamental Health

Adjustment



Detailed Scores

OVERALL RESULTS	DE	EZ18	
	Score	Score	Rank
FUNDAMENTAL HEALTH	7.4	5.8	**3**
1. Growth potential	6.2	4.9	**7**
2. Competitiveness	8.3	6.2	**1**
3. Fiscal sustainability	7.7	6.3	**4**
4. Resilience	7.5	6.0	**1**
ADJUSTMENT	2.6	4.1	**18**
1. External adjustment	3.2	4.0	**16**
2. Fiscal adjustment	4.0	4.5	**13**
3. Labour cost	1.0	2.6	**21**
4. Reforms	2.4	5.2	**16**

FUNDAMENTAL HEALTH	DE	EZ18	Score	Rank
1. Growth potential	Value	Value	6.2	7
1.1 Trend growth 2002-2010, in %			6.2	**9**
1.1.1 Rise in gross value added	1.4	0.9	5.5	**10**
1.1.2 Deviation of GVA growth from norm	0.5	-0.2	6.9	**7**
1.2 Human resources			4.1	**14**
1.2.1 Fertility rate 2009-2012 average	1.4	1.6	3.1	**18**
1.2.2 Employment rate foreign vs. native, 2013	-12.3	-11.1	4.4	**12**
1.2.3 Pisa Scores 2012	515	502	5.7	**5**
1.3 Employment			7.5	**3**
1.3.1 Employment rate 2002-13, in %	68.9	64.0	6.5	**5**
1.3.2 Change in ER 2002-13, per year, pcp	0.7	0.1	9.5	**2**
1.3.3 Youth unemployment rate, 2002-2013, in %	11.1	19.0	8.6	**3**
1.3.4 Long-term unemployment 2002-2013, in %	4.2	4.2	5.3	**13**
1.4 Consumption rate			7.0	**10**
1.4.1 Total consumption, 2002-2013, % of GDP	75.2	76.5	7.4	**10**
1.4.2 Change in CR 2002-13, per year, %-points	0.0	0.1	6.5	**8**

FUNDAMENTAL HEALTH	DE	EZ18	Score	Rank
3. Fiscal sustainability	Value	Value	7.7	4
3.1 Government outlays, % of GDP (2002-2014)	45.4	48.4	6.5	**11**
3.2 Underlying fiscal balance 2014			9.5	**2**
3.2.1 Structural fiscal balance (% of GDP)	0.7	-1.1	9.0	**3**
3.2.2 Structural primary fiscal balance (% of GDP)	2.6	1.6	10.0	**1**
3.3 Debt ratio, % of GDP, 2014 (EU estimate)	74.5	94.5	5.4	**10**
3.4 Sustainability gap 2015-2020 (% of GDP)	0.6	3.8	9.5	**2**

ADJUSTMENT	DE	EZ18	Score	Rank
	Value	Value	2.6	18
1. External adjustment			3.2	**16**
Change 2H07-3Q14				
1.1. Rise in net exports in % points of GDP	0.0	2.8	3.1	**17**
1.2 Rise in net exports relative to 2H07 exports	-0.1	7.1	2.2	**18**
1.3 Rise in export ratio, % of GDP	5.1	5.0	4.4	**13**
2. Fiscal squeze: shift in primary balance			4.0	**13**
Change 2H07-3Q14	0.7	3.2	2.1	**15**
1.1. Rise in net exports in % points of GDP	54.0	46.0	5.9	**7**
3. Unit labour costs, 2009-14			1.0	**21**
3.1 Real ULC 2009-2014, %	-0.8	-1.9	0.8	**21**
3.2 Nominal ULC 2009-2014, %	7.0	3.7	1.1	**20**
4. Reform responsiveness, 2012/13	0.20	0.44	2.4	**16**

FUNDAMENTAL HEALTH	DE	EZ18	Score	Rank
2. Competitiveness	Value	Value	8.3	1
2.1 Export Ratio, % of GDP 2002-2013	40.2	38.2	10.0	**1**
2.2 Rise in export ratio, 2002-13, %-pts.	1.2	0.9	9.1	**10**
2.3 Labour costs			6.9	**7**
2.3.1 Real unit labour cost, change 2002-14 in %	-0.3	-0.1	7.2	**8**
2.3.2 Nominal unit labour cost, 2002-14 in %	0.9	1.6	8.8	**2**
2.3.3 Hiring & firing practice 2014 (index)	3.4	3.6	4.7	**12**
2.4 Market regulations			7.0	**5**
2.4.1 Product market compet. intensity index, 2014	5.9	5.6	8.7	**4**
2.4.2 OECD service trade restrictiveness index, 2014	0.14	0.16	7.4	**3**
2.4.3 Opening new business (days), 2014	14.5	12.0	5.1	**17**

FUNDAMENTAL HEALTH	DE	EZ18	Score	Rank
4. Resilience	Value	Value	7.5	1
4.1 Debt redemptions 2015-17, % of GDP	15.2	25.6	6.4	**5**
4.2 Debt held abroad, % of GDP, 2014	48.0	53.4	4.7	**13**
4.3 Gross household savings rate, in %, 2013	16.2	13.1	9.1	**2**
4.4 Current account, % of GDP, 2014	7.3	2.9	9.2	**3**
4.5 Bank assets, % of GDP, Sep 2014	276	308	7.3	**8**
4.6 Private sector debt, % of GDP, 2013	104	139	8.4	**5**

Notes: The light-blue shaded bars in the chart indicate the eurozone average for comparison. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 18 Eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 93.

Greece

Overall assessment

The "original" crisis country remains an extreme case. While it is still at the bottom of the fundamental health table, it remains the leader in adjustment ranking, especially on fiscal and structural side. The economy has been growing since the start of 2014, unemployment is gradually trending down. However, Greece still needs a financial backup, mainly because of political risks which might still jeopardise its membership of the eurozone.

2014 key developments

Remains top of adjustment ranking with unchanged score
- Improved external adjustment
- Slight fiscal backtracking in 2014

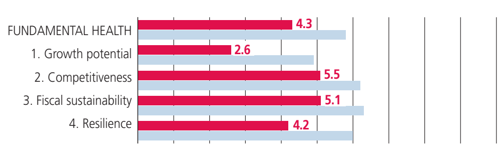
Unchanged fundamental health score
- Improved competitiveness largely due to new service sector regulation indicator
- Growth potential weakened by deteriorating PISA education score

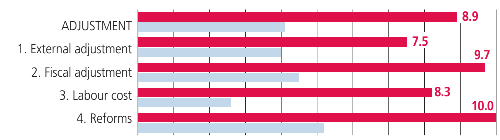
Strengths

- Top performer in the adjustment ranking
- Highest structural fiscal surplus in Europe
- One of the top performers in labour cost after harsh internal devaluation
- Low private sector debt
- Relatively low bank assets as % of GDP

Weaknesses

- Worst debt ratio to GDP despite 2012 debt restructuring and fiscal progress
- Still highly regulated economy
- Worst performer on employment score
- Worst score for immigrant integration, second worst OECD-education score
- Highest propensity to consume
- Small export sector





Detailed Scores

OVERALL RESULTS	GR	EZ18	
	Score	Score	Rank
FUNDAMENTAL HEALTH	4.3	5.8	**21**
1. Growth potential	2.6	4.9	**21**
2. Competitiveness	5.5	6.2	**13**
3. Fiscal sustainability	5.1	6.3	**18**
4. Resilience	4.2	6.0	**19**
ADJUSTMENT	8.9	4.1	**1**
1. External adjustment	7.5	4.0	**4**
2. Fiscal adjustment	9.7	4.5	**1**
3. Labour cost	8.3	2.6	**1**
4. Reforms	10.0	5.2	**1**

FUNDAMENTAL HEALTH	GR	EZ18	Score	Rank
1. Growth potential	Value	Value	2.6	**21**
1.1 Trend growth 2002-2010, in %			4.6	**12**
1.1.1 Rise in gross value added	1.5	0.9	5.6	**9**
1.1.2 Deviation of GVA growth from norm	-0.3	-0.2	3.6	**15**
1.2 Human resources			2.2	**21**
1.2.1 Fertility rate 2009-2012 average	1.4	1.6	3.6	**12**
1.2.2 Employment rate foreign vs. native, 2013	-9.5	-11.1	1.8	**21**
1.2.3 Pisa Scores 2012	466	502	0.0	**19**
1.3 Employment			1.3	**21**
1.3.1 Employment rate 2002-13, in %	57.8	64.0	1.6	**18**
1.3.2 Change in ER 2002-13, per year, pcp	-0.8	0.1	0.0	**20**
1.3.3 Youth unemployment rate, 2002-2013, in %	32.7	19.0	1.4	**21**
1.3.4 Long-term unemployment 2002-2013, in %	7.1	4.2	2.1	**20**
1.4 Consumption rate			2.1	**21**
1.4.1 Total consumption, 2002-2013, % of GDP	88.0	76.5	1.0	**21**
1.4.2 Change in CR 2002-13, per year, %-points	0.5	0.1	3.3	**19**

FUNDAMENTAL HEALTH	GR	EZ18	Score	Rank
3. Fiscal sustainability	Value	Value	5.1	**18**
3.1 Government outlays, % of GDP (2002-2014)	49.6	48.4	2.6	**20**
3.2 Underlying fiscal balance 2014			10.0	**1**
3.2.1 Structural fiscal balance (% of GDP)	2.0	-1.1	10.0	**1**
3.2.2 Structural primary fiscal balance (% of GDP)	6.3	1.6	10.0	**1**
3.3 Debt ratio, % of GDP, 2014 (EU estimate)	175.5	94.5	0.0	**21**
3.4 Sustainability gap 2015-2020 (% of GDP)	2.6	3.8	7.8	**6**

ADJUSTMENT	GR	EZ18	Score	Rank
	Value	Value	8.9	**1**
1. External adjustment			7.5	**4**
Change 2H07-3Q14				
1.1. Rise in net exports in % points of GDP	12.6	2.8	7.4	**3**
1.2 Rise in net exports relative to 2H07 exports	53.7	7.1	10.0	**1**
1.3 Rise in export ratio, % of GDP	7.3	5.0	5.2	**11**
2. Fiscal squeze: shift in primary balance			9.7	**1**
Change 2H07-3Q14	15.9	3.2	10.0	**1**
1.1. Rise in net exports in % points of GDP	85.9	46.0	9.3	**1**
3. Unit labour costs, 2009-14			8.3	**1**
3.1 Real ULC 2009-2014, %	-14.9	-1.9	8.2	**3**
3.2 Nominal ULC 2009-2014, %	-15.6	3.7	8.5	**1**
4. Reform responsiveness, 2012/13	0.84	0.44	10.0	**1**

FUNDAMENTAL HEALTH	GR	EZ18	Score	Rank
2. Competitiveness	Value	Value	5.5	**13**
2.1 Export Ratio, % of GDP 2002-2013	22.8	38.2	0.0	**17**
2.2 Rise in export ratio, 2002-13, %-pts.	1.0	0.9	10.0	**1**
2.3 Labour costs			8.0	**2**
2.3.1 Real unit labour cost, change 2002-14 in %	-1.0	-0.1	10.0	**1**
2.3.2 Nominal unit labour cost, 2002-14 in %	0.9	1.6	8.8	**3**
2.3.3 Hiring & firing practice 2014 (index)	3.6	3.6	5.3	**8**
2.4 Market regulations			4.1	**18**
2.4.1 Product market compet. intensity index, 2014	5.1	5.6	3.3	**18**
2.4.2 OECD service trade restrictiveness index, 2014	0.22	0.16	1.3	**15**
2.4.3 Opening new business (days), 2014	13.0	12.0	7.6	**12**

FUNDAMENTAL HEALTH	GR	EZ18	Score	Rank
4. Resilience	Value	Value	4.2	**19**
4.1 Debt redemptions 2015-17, % of GDP	20.5	25.6	5.2	**14**
4.2 Debt held abroad, % of GDP, 2014	150.2	53.4	0.0	**20**
4.3 Gross household savings rate, in %, 2013	-7.6	13.1	0.0	**20**
4.4 Current account, % of GDP, 2014	-2.3	2.9	4.6	**19**
4.5 Bank assets, % of GDP, Sep 2014	216	308	8.4	**6**
4.6 Private sector debt, % of GDP, 2013	136	139	6.9	**9**

Notes: The light-blue shaded bars in the chart indicate the eurozone average for comparison. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 18 Eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 93.

Ireland

Overall assessment

Small open and highly competitive economy that continues its rebalancing from credit-fuelled domestic consumption back to export-driven growth. Combines solid fundamental outlook with a serious short-term adjustment effort. The 'clean' exit from the 2010 bail-out in late 2013 has additionally boosted confidence. Gets mostly extreme scores, either very good or very bad.

2014 key developments

Significant improvement in adjustment score
- Strong export performance helped by exposure to robust growth in US and UK
- Major fiscal progress

Significant improvement in fundamental health
- Fiscal sustainability helped by winding down of IBRC
- Rising current account surplus supports resilience

Strengths

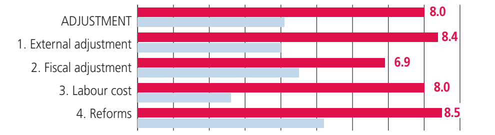
- Second fastest adjusting economy after Greece
- Very deregulated labour, product and services markets facilitate adjustment
- Joint-highest fertility rate in our sample
- Very competitive economy
- Very high OECD reform responsiveness score
- Small government

Weaknesses

- Only the UK has a higher structural fiscal deficit
- Excessive rise in real unit labour costs before 2009
- Oversized banking system
- One of the highest private sector debt levels in our sample
- Depends on foreign creditors
- Employment trend still weak"

Fundamental Health

Adjustment



Detailed Scores

OVERALL RESULTS	IE Score	EZ18 Score	Rank
FUNDAMENTAL HEALTH	5.6	5.8	**12**
1. Growth potential	5.2	4.9	**14**
2. Competitiveness	6.8	6.2	**7**
3. Fiscal sustainability	6.4	6.3	**11**
4. Resilience	4.1	6.0	**20**
ADJUSTMENT	8.0	4.1	**2**
1. External adjustment	8.4	4.0	**2**
2. Fiscal adjustment	6.9	4.5	**4**
3. Labour cost	8.0	2.6	**2**
4. Reforms	8.5	5.2	**2**

FUNDAMENTAL HEALTH	IE	EZ18	Score	Rank
1. Growth potential	Value	Value	5.2	**14**
1.1 Trend growth 2002-2010, in %			1.4	**20**
1.1.1 Rise in gross value added	-0.2	0.9	0.7	**21**
1.1.2 Deviation of GVA growth from norm	-0.7	-0.2	2.1	**17**
1.2 Human resources			7.3	**1**
1.2.1 Fertility rate 2009-2012 average	2.0	1.6	8.6	**1**
1.2.2 Employment rate foreign vs. native, 2013	-4.7	-11.1	6.3	**6**
1.2.3 Pisa Scores 2012	515	502	5.7	**5**
1.3 Employment			4.6	**15**
1.3.1 Employment rate 2002-13, in %	64.2	64.0	4.4	**11**
1.3.2 Change in ER 2002-13, per year, pcp	-0.5	0.1	1.6	**18**
1.3.3 Youth unemployment rate, 2002-2013, in %	17.0	19.0	6.7	**9**
1.3.4 Long-term unemployment 2002-2013, in %	3.9	4.2	5.7	**12**
1.4 Consumption rate			7.6	**4**
1.4.1 Total consumption, 2002-2013, % of GDP	62.8	76.5	10.0	**1**
1.4.2 Change in CR 2002-13, per year, %-points	0.2	0.1	5.2	**14**

FUNDAMENTAL HEALTH	IE	EZ18	Score	Rank
3. Fiscal sustainability	Value	Value	6.4	**11**
3.1 Government outlays, % of GDP (2002-2014)	40.5	48.4	10.0	**1**
3.2 Underlying fiscal balance 2014			6.9	**18**
3.2.1 Structural fiscal balance (% of GDP)	-3.8	-1.1	5.5	**20**
3.2.2 Structural primary fiscal balance (% of GDP)	0.3	1.6	8.3	**12**
3.3 Debt ratio, % of GDP, 2014 (EU estimate)	110.5	94.5	2.8	**18**
3.4 Sustainability gap 2015-2020 (% of GDP)	5.1	3.8	5.8	**10**

ADJUSTMENT	IE	EZ18	Score	Rank
	Value	Value	8.0	**2**
1. External adjustment			8.4	**2**
Change 2H07-3Q14				
1.1. Rise in net exports in % points of GDP	17.2	2.8	9.0	**2**
1.2 Rise in net exports relative to 2H07 exports	19.8	7.1	6.2	**6**
1.3 Rise in export ratio, % of GDP	23.8	5.0	10.0	**1**
2. Fiscal squeze: shift in primary balance			6.9	**4**
Change 2H07-3Q14	7.5	3.2	7.3	**4**
1.1. Rise in net exports in % points of GDP	59.7	46.0	6.5	**6**
3. Unit labour costs, 2009-14			8.0	**2**
3.1 Real ULC 2009-2014, %	-9.6	-1.9	8.7	**1**
3.2 Nominal ULC 2009-2014, %	-8.6	3.7	7.4	**2**
4. Reform responsiveness, 2012/13	0.72	0.44	8.5	**2**

FUNDAMENTAL HEALTH	IE	EZ18	Score	Rank
2. Competitiveness	Value	Value	6.8	**7**
2.1 Export Ratio, % of GDP 2002-2013	88.0	38.2	8.6	**8**
2.2 Rise in export ratio, 2002-13, %-pts.	1.8	0.9	6.0	**12**
2.3 Labour costs			6.1	**10**
2.3.1 Real unit labour cost, change 2002-14 in %	0.4	-0.1	3.5	**18**
2.3.2 Nominal unit labour cost, 2002-14 in %	1.4	1.6	7.5	**7**
2.3.3 Hiring & firing practice 2014 (index)	4.2	3.6	7.3	**3**
2.4 Market regulations			6.5	**8**
2.4.1 Product market compet. intensity index, 2014	5.2	5.6	4.0	**15**
2.4.2 OECD service trade restrictiveness index, 2014	0.15	0.16	6.1	**5**
2.4.3 Opening new business (days), 2014	6.0	12.0	9.3	**3**

FUNDAMENTAL HEALTH	IE	EZ18	Score	Rank
4. Resilience	Value	Value	4.1	**20**
4.1 Debt redemptions 2015-17, % of GDP	16.3	25.6	6.1	**9**
4.2 Debt held abroad, % of GDP, 2014	78.3	53.4	1.3	**19**
4.3 Gross household savings rate, in %, 2013	11.8	13.1	6.7	**10**
4.4 Current account, % of GDP, 2014	7.4	2.9	9.2	**2**
4.5 Bank assets, % of GDP, Sep 2014	626	308	0.5	**19**
4.6 Private sector debt, % of GDP, 2013	266	139	0.7	**19**

Notes: The light-blue shaded bars in the chart indicate the eurozone average for comparison. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 18 Eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 93.

Italy

Overall assessment

A mature economy with many weaknesses and few strengths. Fiscal situation looks stable even at a very low trend growth rate. After the Monti government had successfully steered Italy through the worst of the crisis in 2012, 2013 was largely wasted due to unstable politics. That improved with Matteo Renzi's ascension to Prime Minister in February 2014. But he has not yet delivered enough measurable change. Austerity peaked in 2012. Hope rest on Renzi's labour market reform, to be completed in early 2015.

2014 key developments

Unchanged adjustment score
- Weaker fiscal adjustment and structural reforms scores
- Offset by slightly less bad labour cost developments

Slight improvment in fundamental health
- Largely due to new service sector regulation score
- Improved household savings rate

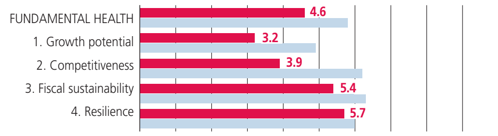
Strengths

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

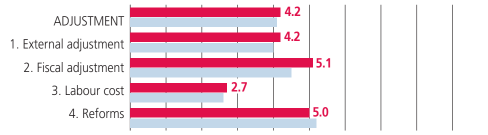
Weaknesses

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

Fundamental Health



Adjustment



Detailed Scores

OVERALL RESULTS	IT Score	EZ18 Score	Rank
FUNDAMENTAL HEALTH	4.6	5.8	**19**
1. Growth potential	3.2	4.9	**19**
2. Competitiveness	3.9	6.2	**19**
3. Fiscal sustainability	5.4	6.3	**15**
4. Resilience	5.7	6.0	**12**
ADJUSTMENT	4.2	4.1	**11**
1. External adjustment	4.2	4.0	**14**
2. Fiscal adjustment	5.1	4.5	**8**
3. Labour cost	2.7	2.6	**12**
4. Reforms	5.0	5.2	**11**

FUNDAMENTAL HEALTH 1. Growth potential	IT Value	EZ18 Value	Score 3.2	Rank **19**
1.1 Trend growth 2002-2010, in %			0.6	**21**
1.1.1 Rise in gross value added	-0.1	0.9	1.2	**20**
1.1.2 Deviation of GVA growth from norm	-1.2	-0.2	0.1	**21**
1.2 Human resources			3.5	**16**
1.2.1 Fertility rate 2009-2012 average	1.4	1.6	3.7	**11**
1.2.2 Employment rate foreign vs. native, 2013	-5.2	-11.1	4.0	**15**
1.2.3 Pisa Scores 2012	490	502	2.5	**13**
1.3 Employment			3.7	**17**
1.3.1 Employment rate 2002-13, in %	57.2	64.0	1.4	**19**
1.3.2 Change in ER 2002-13, per year, pcp	0.0	0.1	4.7	**13**
1.3.3 Youth unemployment rate, 2002-2013, in %	26.2	19.0	3.6	**17**
1.3.4 Long-term unemployment 2002-2013, in %	4.3	4.2	5.2	**14**
1.4 Consumption rate			5.2	**16**
1.4.1 Total consumption, 2002-2013, % of GDP	79.5	76.5	5.3	**15**
1.4.2 Change in CR 2002-13, per year, %-points	0.2	0.1	5.1	**15**

FUNDAMENTAL HEALTH 3. Fiscal sustainability	IT Value	EZ18 Value	Score 5.4	Rank **15**
3.1 Government outlays, % of GDP (2002-2014)	48.6	48.4	4.2	**12**
3.2 Underlying fiscal balance 2014			8.9	**5**
3.2.1 Structural fiscal balance (% of GDP)	-0.9	-1.1	7.8	**7**
3.2.2 Structural primary fiscal balance (% of GDP)	3.8	1.6	10.0	**1**
3.3 Debt ratio, % of GDP, 2014 (EU estimate)	132.2	94.5	1.3	**20**
3.4 Sustainability gap 2015-2020 (% of GDP)	3.1	3.8	7.4	**7**

ADJUSTMENT	IT Value	EZ18 Value	Score 4.2	Rank **11**
1. External adjustment			4.2	**14**
Change 2H07-3Q14				
1.1. Rise in net exports in % points of GDP	3.8	2.8	4.4	**12**
1.2 Rise in net exports relative to 2H07 exports	14.2	7.1	5.0	**9**
1.3 Rise in export ratio, % of GDP	1.9	5.0	3.2	**16**
2. Fiscal squeze: shift in primary balance			5.1	**8**
Change 2H07-3Q14	3.6	3.2	4.3	**11**
1.1. Rise in net exports in % points of GDP	53.9	46.0	5.9	**8**
3. Unit labour costs, 2009-14			2.7	**12**
3.1 Real ULC 2009-2014, %	-0.3	-1.9	2.1	**15**
3.2 Nominal ULC 2009-2014, %	5.5	3.7	3.3	**10**
4. Reform responsiveness, 2012/13	0.42	0.44	5.0	**11**

FUNDAMENTAL HEALTH 2. Competitiveness	IT Value	EZ18 Value	Score 3.9	Rank **19**
2.1 Export Ratio, % of GDP 2002-2013	25.7	38.2	3.4	**14**
2.2 Rise in export ratio, 2002-13, %-pts.	0.4	0.9	5.4	**15**
2.3 Labour costs			3.2	**21**
2.3.1 Real unit labour cost, change 2002-14 in %	0.4	-0.1	3.4	**19**
2.3.2 Nominal unit labour cost, 2002-14 in %	2.3	1.6	4.8	**16**
2.3.3 Hiring & firing practice 2014 (index)	2.4	3.6	1.3	**20**
2.4 Market regulations			3.7	**19**
2.4.1 Product market compet. intensity index, 2014	5.2	5.6	4.0	**15**
2.4.2 OECD service trade restrictiveness index, 2014	0.21	0.16	2.4	**12**
2.4.3 Opening new business (days), 2014	5.0	12.0	4.6	**19**

FUNDAMENTAL HEALTH 4. Resilience	IT Value	EZ18 Value	Score 5.7	Rank **12**
4.1 Debt redemptions 2015-17, % of GDP	42.3	25.6	0.0	**21**
4.2 Debt held abroad, % of GDP, 2014	45.5	53.4	4.9	**11**
4.3 Gross household savings rate, in %, 2013	12.9	13.1	7.3	**7**
4.4 Current account, % of GDP, 2014	1.5	2.9	6.4	**9**
4.5 Bank assets, % of GDP, Sep 2014	248	308	7.8	**7**
4.6 Private sector debt, % of GDP, 2013	119	139	7.7	**6**

Notes: The light-blue shaded bars in the chart indicate the eurozone average for comparison. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 18 Eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 93.

Latvia

Overall assessment
Dynamic Eastern growth star. Escaped from a tough crisis in 2007 by taking the tough medicine of an IMF adjustment programme. Not quite as strong as neigbouring Estonia on most scores, but a very strong recent export performance was one of the factors that helped the post-2007 bounce-back. Joined the Eurozone in January 2014 and thus features in our ranking for the first time.

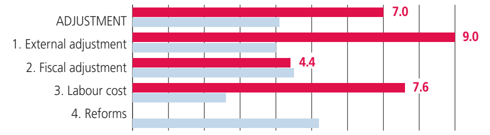
2014 key developments
Joined the Eurozone in January. New in our ranking, entered as 7th on the fundamental health score and 4th on the adjustment score.

Strengths
- Fastest external adjustment in the sample
- Small government, low debt
- Highest trend growth rate
- Highly deregulated proudct and labour markets
- Very smalll banking sector

Weaknesses
- Weak human resources, in particular fertility rate
- Strong uptrend in unit labour costs
- Very low household savings rate and high propensity to consume
- Current account deficit
- Still low employment rate

Fundamental Health

Adjustment



Detailed Scores

OVERALL RESULTS	LV	EZ18	
	Score	Score	Rank
FUNDAMENTAL HEALTH	6.5	5.8	**7**
1. Growth potential	6.2	4.9	**6**
2. Competitiveness	5.3	6.2	**15**
3. Fiscal sustainability	8.1	6.3	**3**
4. Resilience	6.5	6.0	**7**
ADJUSTMENT	7.0	4.1	**3**
1. External adjustment	9.0	4.0	**1**
2. Fiscal adjustment	4.4	4.5	**11**
3. Labour cost	7.6	2.6	**3**
4. Reforms	n.a.	5.2	**n.a.**

FUNDAMENTAL HEALTH	LV	EZ18	Score	Rank
1. Growth potential	Value	Value	6.2	6
1.1 Trend growth 2002-2010, in %			9.8	**1**
1.1.1 Rise in gross value added	5.2	0.9	10.0	**1**
1.1.2 Deviation of GVA growth from norm	1.1	-0.2	9.6	**3**
1.2 Human resources			3.2	**18**
1.2.1 Fertility rate 2009-2012 average	1.4	1.6	3.3	**17**
1.2.2 Employment rate foreign vs. native, 2013	-5.3	-11.1	5.2	**9**
1.2.3 Pisa Scores 2012	494	502	3.0	**12**
1.3 Employment			5.2	**13**
1.3.1 Employment rate 2002-13, in %	63.2	64.0	4.0	**14**
1.3.2 Change in ER 2002-13, per year, pcp	0.4	0.1	7.5	**5**
1.3.3 Youth unemployment rate, 2002-2013, in %	22.1	19.0	5.0	**15**
1.3.4 Long-term unemployment 2002-2013, in %	5.2	4.2	4.3	**17**
1.4 Consumption rate			6.7	**12**
1.4.1 Total consumption, 2002-2013, % of GDP	80.6	76.5	4.7	**16**
1.4.2 Change in CR 2002-13, per year, %-points	-0.4	0.1	8.7	**3**

FUNDAMENTAL HEALTH	LV	EZ18	Score	Rank
3. Fiscal sustainability	Value	Value	8.1	3
3.1 Government outlays, % of GDP (2002-2014)	36.8	48.4	8.9	**4**
3.2 Underlying fiscal balance 2014			7.7	**12**
3.2.1 Structural fiscal balance (% of GDP)	-1.5	-1.1	7.3	**11**
3.2.2 Structural primary fiscal balance (% of GDP)	0.0	1.6	8.0	**15**
3.3 Debt ratio, % of GDP, 2014 (EU estimate)	40.3	94.5	7.8	**3**
3.4 Sustainability gap 2015-2020 (% of GDP)	n.a.	3.8	n.a.	**n.a.**

ADJUSTMENT	LV	EZ18	Score	Rank
	Value	Value	7.0	3
1. External adjustment			9.0	**1**
Change 2H07-3Q14				
1.1. Rise in net exports in % points of GDP	17.6	2.8	9.2	**1**
1.2 Rise in net exports relative to 2H07 exports	41.2	7.1	10.0	**1**
1.3 Rise in export ratio, % of GDP	14.1	5.0	7.8	**5**
2. Fiscal squeze: shift in primary balance			4.4	**11**
Change 2H07-3Q14	3.7	3.2	4.4	**10**
1.1. Rise in net exports in % points of GDP	n.a.	46.0	n.a.	**n.a.**
3. Unit labour costs, 2009-14			7.6	**3**
3.1 Real ULC 2009-2014, %	-11.3	-1.9	8.2	**2**
3.2 Nominal ULC 2009-2014, %	-0.2	3.7	6.9	**4**
4. Reform responsiveness, 2012/13	n.a.	0.44	n.a.	**n.a.**

FUNDAMENTAL HEALTH	LV	EZ18	Score	Rank
2. Competitiveness	Value	Value	5.3	15
2.1 Export Ratio, % of GDP 2002-2013	45.5	38.2	0.0	**17**
2.2 Rise in export ratio, 2002-13, %-pts.	2.1	0.9	10.0	**1**
2.3 Labour costs			4.3	**17**
2.3.1 Real unit labour cost, change 2002-14 in %	-0.1	-0.1	5.9	**12**
2.3.2 Nominal unit labour cost, 2002-14 in %	5.8	1.6	0.0	**20**
2.3.3 Hiring & firing practice 2014 (index)	4.1	3.6	7.0	**5**
2.4 Market regulations			6.9	**7**
2.4.1 Product market compet. intensity index, 2014	5.6	5.6	6.7	**7**
2.4.2 OECD service trade restrictiveness index, 2014	n.a.	0.16	n.a.	**n.a.**
2.4.3 Opening new business (days), 2014	12.5	12.0	7.2	**13**

FUNDAMENTAL HEALTH	LV	EZ18	Score	Rank
4. Resilience	Value	Value	6.5	7
4.1 Debt redemptions 2015-17, % of GDP	11.1	25.6	7.4	**3**
4.2 Debt held abroad, % of GDP, 2014	30.1	53.4	6.7	**6**
4.3 Gross household savings rate, in %, 2013	0.2	13.1	0.6	**19**
4.4 Current account, % of GDP, 2014	-1.3	2.9	5.1	**16**
4.5 Bank assets, % of GDP, Sep 2014	127	308	10.0	**1**
4.6 Private sector debt, % of GDP, 2013	91	139	9.0	**3**

Notes: The light-blue shaded bars in the chart indicate the eurozone average for comparison. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 18 Eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 93.

Luxembourg

Overall assessment

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

2014 key developments

Improved, if low adjustment score
- Strong export performance boosts external adjustment
- More strucutural reforms

Reaches fundamental health top spot for the first time due to new data
- Benefits strongly from new service sector regulation score
- New data on foreign ownership of public debt positive for LU

Strengths

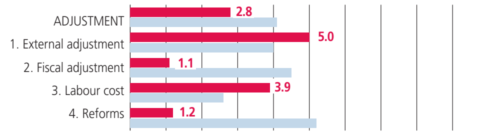
- Very high export ratio
- Strong growth potential
- Most comfortable fiscal position
- Highest household savings rate
- One of the highest current account surpluses

Weaknesses

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

Fundamental Health

Adjustment



Detailed Scores

OVERALL RESULTS	LU	EZ18	
	Score	Score	Rank
FUNDAMENTAL HEALTH	7.6	5.8	**1**
1. Growth potential	7.0	4.9	**4**
2. Competitiveness	7.7	6.2	**4**
3. Fiscal sustainability	9.5	6.3	**1**
4. Resilience	6.3	6.0	**9**
ADJUSTMENT	2.8	4.1	**16**
1. External adjustment	5.0	4.0	**11**
2. Fiscal adjustment	1.1	4.5	**19**
3. Labour cost	3.9	2.6	**9**
4. Reforms	1.2	5.2	**18**

FUNDAMENTAL HEALTH	LU	EZ18	Score	Rank
1. Growth potential	Value	Value	7.0	**4**
1.1 Trend growth 2002-2010, in %			7.1	**7**
1.1.1 Rise in gross value added	0.9	0.9	4.1	**16**
1.1.2 Deviation of GVA growth from norm	1.7	-0.2	10.0	**2**
1.2 Human resources			4.4	**11**
1.2.1 Fertility rate 2009-2012 average	1.6	1.6	4.8	**9**
1.2.2 Employment rate foreign vs. native, 2013	-2.5	-11.1	5.5	**8**
1.2.3 Pisa Scores 2012	490	502	2.5	**13**
1.3 Employment			6.6	**6**
1.3.1 Employment rate 2002-13, in %	64.1	64.0	4.4	**12**
1.3.2 Change in ER 2002-13, per year, pcp	0.2	0.1	6.1	**8**
1.3.3 Youth unemployment rate, 2002-2013, in %	15.1	19.0	7.3	**5**
1.3.4 Long-term unemployment 2002-2013, in %	1.3	4.2	8.6	**3**
1.4 Consumption rate			10.0	**1**
1.4.1 Total consumption, 2002-2013, % of GDP	50.6	76.5	10.0	**1**
1.4.2 Change in CR 2002-13, per year, %-points	-0.6	0.1	10.0	**1**

FUNDAMENTAL HEALTH	LU	EZ18	Score	Rank
3. Fiscal sustainability	Value	Value	9.5	**1**
3.1 Government outlays, % of GDP (2002-2014)	42.1	48.4	10.0	**1**
3.2 Underlying fiscal balance 2014			9.4	**3**
3.2.1 Structural fiscal balance (% of GDP)	1.1	-1.1	9.3	**2**
3.2.2 Structural primary fiscal balance (% of GDP)	1.5	1.6	9.5	**6**
3.3 Debt ratio, % of GDP, 2014 (EU estimate)	23.0	94.5	9.1	**2**
3.4 Sustainability gap 2015-2020 (% of GDP)	n.a.	3.8	n.a.	**n.a.**

ADJUSTMENT	LU	EZ18	Score	Rank
	Value	Value	2.8	**16**
1. External adjustment			5.0	**11**
Change 2H07-3Q14				
1.1. Rise in net exports in % points of GDP	1.1	2.8	3.5	**14**
1.2 Rise in net exports relative to 2H07 exports	0.6	7.1	2.3	**15**
1.3 Rise in export ratio, % of GDP	17.6	5.0	9.1	**3**
2. Fiscal squeze: shift in primary balance			1.1	**19**
Change 2H07-3Q14	-0.6	3.2	1.1	**19**
1.1. Rise in net exports in % points of GDP	n.a.	46.0	n.a.	**n.a.**
3. Unit labour costs, 2009-14			3.9	**9**
3.1 Real ULC 2009-2014, %	-6.8	-1.9	5.8	**5**
3.2 Nominal ULC 2009-2014, %	14.3	3.7	2.0	**16**
4. Reform responsiveness, 2012/13	0.10	0.44	1.2	**18**

FUNDAMENTAL HEALTH	LU	EZ18	Score	Rank
2. Competitiveness	Value	Value	7.7	**4**
2.1 Export Ratio, % of GDP 2002-2013	173.8	38.2	10.0	**2**
2.2 Rise in export ratio, 2002-13, %-pts.	5.6	0.9	9.7	**8**
2.3 Labour costs			5.3	**11**
2.3.1 Real unit labour cost, change 2002-14 in %	-0.4	-0.1	8.0	**7**
2.3.2 Nominal unit labour cost, 2002-14 in %	3.2	1.6	2.4	**19**
2.3.3 Hiring & firing practice 2014 (index)	3.7	3.6	5.7	**6**
2.4 Market regulations			5.9	**12**
2.4.1 Product market compet. intensity index, 2014	5.2	5.6	4.0	**15**
2.4.2 OECD service trade restrictiveness index, 2014	0.14	0.16	6.9	**4**
2.4.3 Opening new business (days), 2014	18.5	12.0	6.8	**15**

FUNDAMENTAL HEALTH	LU	EZ18	Score	Rank
4. Resilience	Value	Value	6.3	**9**
4.1 Debt redemptions 2015-17, % of GDP	0.0	25.6	10.0	**1**
4.2 Debt held abroad, % of GDP, 2014	9.9	53.4	8.9	**3**
4.3 Gross household savings rate, in %, 2013	19.6	13.1	10.0	**1**
4.4 Current account, % of GDP, 2014	6.4	2.9	8.8	**4**
4.5 Bank assets, % of GDP, Sep 2014	2145	308	0.0	**20**
4.6 Private sector debt, % of GDP, 2013	356	139	0.0	**20**

Notes: The light-blue shaded bars in the chart indicate the eurozone average for comparison. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 18 Eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 93.

Malta

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

2014 key developments
Weaker adjustment score
- Underwhelming export performance in 2014

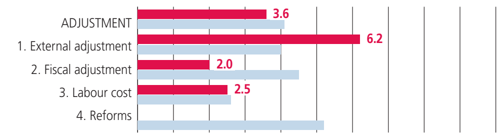
Improved fundamental health score due to newly available data
- Resilience improved by newly available and very low data on foreign debt holdings
- Much lower debt redemptions 2015-2017

Strengths
- Mostly very deregulated labour, product and services markets
- Better-than-average youth and long-term unemployment rates
- Strong export orientation

Weaknesses
- Low employment rate
- Weak fiscal adjustment despite significant fiscal challenge
- High bank assets as share of GDP
- High propensity to consume

Fundamental Health

Adjustment



Detailed Scores

OVERALL RESULTS	MT	EZ18	
	Score	Score	Rank
FUNDAMENTAL HEALTH	6.2	5.8	**10**
1. Growth potential	5.4	4.9	**12**
2. Competitiveness	7.4	6.2	**5**
3. Fiscal sustainability	6.5	6.3	**10**
4. Resilience	5.5	6.0	**13**
ADJUSTMENT	3.6	4.1	**13**
1. External adjustment	6.2	4.0	**7**
2. Fiscal adjustment	2.0	4.5	**15**
3. Labour cost	2.5	2.6	**13**
4. Reforms	n.a.	5.2	**n.a.**

FUNDAMENTAL HEALTH	MT	EZ18	Score	Rank
1. Growth potential	Value	Value	5.4	**12**
1.1 Trend growth 2002-2010, in %			3.9	**15**
1.1.1 Rise in gross value added	1.5	0.9	5.7	**8**
1.1.2 Deviation of GVA growth from norm	-0.7	-0.2	2.1	**18**
1.2 Human resources			5.2	**10**
1.2.1 Fertility rate 2009-2012 average	1.4	1.6	3.5	**14**
1.2.2 Employment rate foreign vs. native, 2013	-4.1	-11.1	8.7	**2**
1.2.3 Pisa Scores 2012	n.a.	502	n.a.	**n.a.**
1.3 Employment			5.9	**9**
1.3.1 Employment rate 2002-13, in %	55.8	64.0	0.8	**21**
1.3.2 Change in ER 2002-13, per year, pcp	0.6	0.1	8.5	**4**
1.3.3 Youth unemployment rate, 2002-2013, in %	14.7	19.0	7.4	**4**
1.3.4 Long-term unemployment 2002-2013, in %	3.0	4.2	6.6	**8**
1.4 Consumption rate			6.8	**11**
1.4.1 Total consumption, 2002-2013, % of GDP	79.3	76.5	5.3	**14**
1.4.2 Change in CR 2002-13, per year, %-points	-0.3	0.1	8.4	**4**

FUNDAMENTAL HEALTH	MT	EZ18	Score	Rank
3. Fiscal sustainability	Value	Value	6.5	**10**
3.1 Government outlays, % of GDP (2002-2014)	42.3	48.4	6.6	**10**
3.2 Underlying fiscal balance 2014			7.2	**17**
3.2.1 Structural fiscal balance (% of GDP)	-2.7	-1.1	6.4	**17**
3.2.2 Structural primary fiscal balance (% of GDP)	0.1	1.6	8.1	**14**
3.3 Debt ratio, % of GDP, 2014 (EU estimate)	71.0	94.5	5.6	**9**
3.4 Sustainability gap 2015-2020 (% of GDP)	n.a.	3.8	n.a.	**n.a.**

ADJUSTMENT	MT	EZ18	Score	Rank
	Value	Value	3.6	**13**
1. External adjustment			6.2	**7**
Change 2H07-3Q14				
1.1. Rise in net exports in % points of GDP	9.0	2.8	6.2	**9**
1.2 Rise in net exports relative to 2H07 exports	6.9	7.1	3.6	**12**
1.3 Rise in export ratio, % of GDP	16.9	5.0	8.8	**4**
2. Fiscal squeze: shift in primary balance			2.0	**15**
Change 2H07-3Q14	0.6	3.2	2.0	**17**
1.1. Rise in net exports in % points of GDP	n.a.	46.0	n.a.	**n.a.**
3. Unit labour costs, 2009-14			2.5	**13**
3.1 Real ULC 2009-2014, %	-2.6	-1.9	3.4	**10**
3.2 Nominal ULC 2009-2014, %	10.0	3.7	1.7	**17**
4. Reform responsiveness, 2012/13	n.a.	0.44	n.a.	**n.a.**

FUNDAMENTAL HEALTH	MT	EZ18	Score	Rank
2. Competitiveness	Value	Value	7.4	**5**
2.1 Export Ratio, % of GDP 2002-2013	133.9	38.2	9.7	**3**
2.2 Rise in export ratio, 2002-13, %-pts.	4.1	0.9	9.3	**9**
2.3 Labour costs			5.2	**12**
2.3.1 Real unit labour cost, change 2002-14 in %	-0.1	-0.1	6.0	**11**
2.3.2 Nominal unit labour cost, 2002-14 in %	2.5	1.6	4.3	**17**
2.3.3 Hiring & firing practice 2014 (index)	3.7	3.6	5.7	**6**
2.4 Market regulations			5.6	**14**
2.4.1 Product market compet. intensity index, 2014	6.1	5.6	10.0	**1**
2.4.2 OECD service trade restrictiveness index, 2014	n.a.	0.16	n.a.	**n.a.**
2.4.3 Opening new business (days), 2014	34.5	12.0	1.2	**21**

FUNDAMENTAL HEALTH	MT	EZ18	Score	Rank
4. Resilience	Value	Value	5.5	**13**
4.1 Debt redemptions 2015-17, % of GDP	18.4	25.6	5.6	**13**
4.2 Debt held abroad, % of GDP, 2014	7.9	53.4	9.1	**1**
4.3 Gross household savings rate, in %, 2013	n.a.	13.1	n.a.	**n.a.**
4.4 Current account, % of GDP, 2014	0.3	2.9	5.9	**12**
4.5 Bank assets, % of GDP, Sep 2014	681	308	0.0	**20**
4.6 Private sector debt, % of GDP, 2013	137	139	6.8	**10**

Notes: The light-blue shaded bars in the chart indicate the eurozone average for comparison. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 18 Eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 93.

Netherlands

Overall assessment

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

2014 key developments

Unchanged adjustment score at low level
- Strong export performance boosts external adjustment
- Falls behind in labour cost adjustment

Slightly lower fundamental health score
- Rising unit labour costs erode cost competitiveness from high level
- Resilience score suffers from higher debt redemptions and growing banks

Strengths

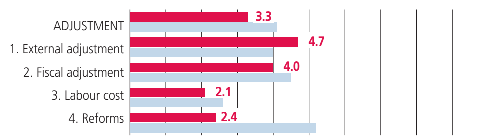
- Strongest growth potential
- Very competitive economy
- High employment rate
- Biggest current account surplus
- Highly deregulated product and services markets

Weaknesses

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

Fundamental Health

Adjustment



Detailed Scores

OVERALL RESULTS	NL	EZ18	
	Score	Score	Rank
FUNDAMENTAL HEALTH	6.9	5.8	**5**
1. Growth potential	7.4	4.9	**1**
2. Competitiveness	7.9	6.2	**2**
3. Fiscal sustainability	6.6	6.3	**8**
4. Resilience	5.7	6.0	**11**
ADJUSTMENT	3.3	4.1	**14**
1. External adjustment	4.7	4.0	**12**
2. Fiscal adjustment	4.0	4.5	**12**
3. Labour cost	2.1	2.6	**15**
4. Reforms	2.4	5.2	**15**

FUNDAMENTAL HEALTH	NL	EZ18	Score	Rank
1. Growth potential	Value	Value	7.4	1
1.1 Trend growth 2002-2010, in %			7.6	**6**
1.1.1 Rise in gross value added	1.7	0.9	6.2	**6**
1.1.2 Deviation of GVA growth from norm	1.0	-0.2	9.0	**5**
1.2 Human resources			5.8	**6**
1.2.1 Fertility rate 2009-2012 average	1.8	1.6	6.4	**7**
1.2.2 Employment rate foreign vs. native, 2013	-19.8	-11.1	4.5	**11**
1.2.3 Pisa Scores 2012	519	502	6.1	**4**
1.3 Employment			7.9	**2**
1.3.1 Employment rate 2002-13, in %	74.8	64.0	9.1	**1**
1.3.2 Change in ER 2002-13, per year, pcp	0.0	0.1	4.6	**15**
1.3.3 Youth unemployment rate, 2002-2013, in %	8.0	19.0	9.7	**1**
1.3.4 Long-term unemployment 2002-2013, in %	1.5	4.2	8.3	**4**
1.4 Consumption rate			8.1	**3**
1.4.1 Total consumption, 2002-2013, % of GDP	71.2	76.5	9.4	**3**
1.4.2 Change in CR 2002-13, per year, %-points	-0.1	0.1	6.8	**7**

FUNDAMENTAL HEALTH	NL	EZ18	Score	Rank
3. Fiscal sustainability	Value	Value	6.6	8
3.1 Government outlays, % of GDP (2002-2014)	45.4	48.4	6.9	**9**
3.2 Underlying fiscal balance 2014			8.5	**7**
3.2.1 Structural fiscal balance (% of GDP)	-0.5	-1.1	8.1	**4**
3.2.2 Structural primary fiscal balance (% of GDP)	1.0	1.6	9.0	**9**
3.3 Debt ratio, % of GDP, 2014 (EU estimate)	69.7	94.5	5.7	**8**
3.4 Sustainability gap 2015-2020 (% of GDP)	5.5	3.8	5.4	**15**

ADJUSTMENT	NL	EZ18	Score	Rank
	Value	Value	3.3	14
1. External adjustment			4.7	**12**
Change 2H07-3Q14				
1.1. Rise in net exports in % points of GDP	2.8	2.8	4.1	**13**
1.2 Rise in net exports relative to 2H07 exports	4.0	7.1	3.0	**13**
1.3 Rise in export ratio, % of GDP	11.8	5.0	6.9	**7**
2. Fiscal squeze: shift in primary balance			4.0	**12**
Change 2H07-3Q14	3.2	3.2	4.0	**12**
1.1. Rise in net exports in % points of GDP	36.7	46.0	4.0	**11**
3. Unit labour costs, 2009-14			2.1	**15**
3.1 Real ULC 2009-2014, %	0.1	-1.9	1.4	**18**
3.2 Nominal ULC 2009-2014, %	5.9	3.7	2.7	**11**
4. Reform responsiveness, 2012/13	0.20	0.44	2.4	**15**

FUNDAMENTAL HEALTH	NL	EZ18	Score	Rank
2. Competitiveness	Value	Value	7.9	2
2.1 Export Ratio, % of GDP 2002-2013	70.1	38.2	9.5	**5**
2.2 Rise in export ratio, 2002-13, %-pts.	2.0	0.9	8.5	**11**
2.3 Labour costs			4.7	**14**
2.3.1 Real unit labour cost, change 2002-14 in %	0.2	-0.1	4.3	**17**
2.3.2 Nominal unit labour cost, 2002-14 in %	1.8	1.6	6.2	**10**
2.3.3 Hiring & firing practice 2014 (index)	3.1	3.6	3.7	**16**
2.4 Market regulations			8.9	**2**
2.4.1 Product market compet. intensity index, 2014	5.9	5.6	8.7	**4**
2.4.2 OECD service trade restrictiveness index, 2014	0.10	0.16	10.0	**1**
2.4.3 Opening new business (days), 2014	4.0	12.0	8.0	**9**

FUNDAMENTAL HEALTH	NL	EZ18	Score	Rank
4. Resilience	Value	Value	5.7	11
4.1 Debt redemptions 2015-17, % of GDP	21.9	25.6	4.8	**15**
4.2 Debt held abroad, % of GDP, 2014	39.4	53.4	5.6	**9**
4.3 Gross household savings rate, in %, 2013	11.5	13.1	6.6	**11**
4.4 Current account, % of GDP, 2014	8.2	2.9	9.6	**1**
4.5 Bank assets, % of GDP, Sep 2014	373	308	5.4	**15**
4.6 Private sector debt, % of GDP, 2013	230	139	2.4	**18**

Notes: The light-blue shaded bars in the chart indicate the eurozone average for comparison. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 18 Eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 93.

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.

2014 key developments
Adjustment progress indicator falls significantly towards Eurozone average
- External adjustment weaker, rising labour costs undermine competitiveness
- Structural reforms slowing

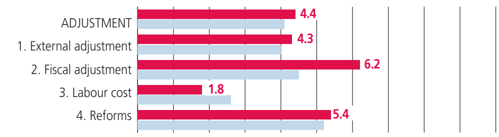
Fundamental health scores improves slight from high level
- Fiscal sustainability score benefits from pension re-nationalisation one-off
- Household savings rate rises, but still very low

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

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

Fundamental Health

Adjustment



Detailed Scores

OVERALL RESULTS	PL	EZ18	
	Score	Score	Rank
FUNDAMENTAL HEALTH	6.8	5.8	**6**
1. Growth potential	6.4	4.9	**5**
2. Competitiveness	7.4	6.2	**6**
3. Fiscal sustainability	6.5	6.3	**9**
4. Resilience	6.9	6.0	**6**
ADJUSTMENT	4.4	4.1	**10**
1. External adjustment	4.3	4.0	**13**
2. Fiscal adjustment	6.2	4.5	**6**
3. Labour cost	1.8	2.6	**18**
4. Reforms	5.4	5.2	**8**

FUNDAMENTAL HEALTH	PL	EZ18	Score	Rank
1. Growth potential	Value	Value	6.4	**5**
1.1 Trend growth 2002-2010, in %			9.1	**3**
1.1.1 Rise in gross value added	4.7	0.9	10.0	**1**
1.1.2 Deviation of GVA growth from norm	0.8	-0.2	8.3	**6**
1.2 Human resources			5.4	**8**
1.2.1 Fertility rate 2009-2012 average	1.3	1.6	2.9	**20**
1.2.2 Employment rate foreign vs. native, 2013	-5.8	-11.1	9.5	**1**
1.2.3 Pisa Scores 2012	521	502	6.3	**3**
1.3 Employment			4.1	**16**
1.3.1 Employment rate 2002-13, in %	56.3	64.0	1.0	**20**
1.3.2 Change in ER 2002-13, per year, pcp	0.8	0.1	9.8	**1**
1.3.3 Youth unemployment rate, 2002-2013, in %	29.5	19.0	2.5	**18**
1.3.4 Long-term unemployment 2002-2013, in %	6.3	4.2	3.0	**19**
1.4 Consumption rate			7.1	**7**
1.4.1 Total consumption, 2002-2013, % of GDP	80.9	76.5	4.5	**17**
1.4.2 Change in CR 2002-13, per year, %-points	-0.5	0.1	9.7	**2**

FUNDAMENTAL HEALTH	PL	EZ18	Score	Rank
3. Fiscal sustainability	Value	Value	6.5	**9**
3.1 Government outlays, % of GDP (2002-2014)	43.5	48.4	4.1	**13**
3.2 Underlying fiscal balance 2014			6.7	**19**
3.2.1 Structural fiscal balance (% of GDP)	-2.9	-1.1	6.2	**18**
3.2.2 Structural primary fiscal balance (% of GDP)	-0.8	1.6	7.2	**19**
3.3 Debt ratio, % of GDP, 2014 (EU estimate)	49.1	94.5	7.2	**5**
3.4 Sustainability gap 2015-2020 (% of GDP)	2.3	3.8	8.1	**4**

ADJUSTMENT	PL	EZ18	Score	Rank
	Value	Value	4.4	**10**
1. External adjustment			4.3	**13**
Change 2H07-3Q14				
1.1. Rise in net exports in % points of GDP	4.1	2.8	4.5	**11**
1.2 Rise in net exports relative to 2H07 exports	10.1	7.1	4.2	**11**
1.3 Rise in export ratio, % of GDP	4.6	5.0	4.2	**14**
2. Fiscal squeze: shift in primary balance			6.2	**6**
Change 2H07-3Q14	4.7	3.2	5.2	**7**
1.1. Rise in net exports in % points of GDP	66.8	46.0	7.3	**3**
3. Unit labour costs, 2009-14			1.8	**18**
3.1 Real ULC 2009-2014, %	-2.9	-1.9	1.3	**19**
3.2 Nominal ULC 2009-2014, %	3.8	3.7	2.3	**13**
4. Reform responsiveness, 2012/13	0.46	0.44	5.4	**8**

FUNDAMENTAL HEALTH	PL	EZ18	Score	Rank
2. Competitiveness	Value	Value	7.4	**6**
2.1 Export Ratio. % of GDP 2002-2013	38.3	38.2	9.5	**4**
2.2 Rise in export ratio. 2002-13. %-pts.	1.4	0.9	10.0	**1**
2.3 Labour costs			8.0	**3**
2.3.1 Real unit labour cost. change 2002-14 in %	-1.6	-0.1	10.0	**1**
2.3.2 Nominal unit labour cost. 2002-14 in %	0.7	1.6	9.4	**1**
2.3.3 Hiring & firing practice 2014 (index)	3.4	3.6	4.7	**12**
2.4 Market regulations			2.0	**21**
2.4.1 Product market compet. intensity index. 2014	5.3	5.6	4.7	**14**
2.4.2 OECD service trade restrictiveness index. 2014	0.25	0.16	0.0	**16**
2.4.3 Opening new business (days). 2014	30.0	12.0	1.3	**20**

FUNDAMENTAL HEALTH	PL	EZ18	Score	Rank
4. Resilience	Value	Value	6.9	**6**
4.1 Debt redemptions 2015-17, % of GDP	15.9	25.6	6.2	**7**
4.2 Debt held abroad, % of GDP, 2014	31.5	53.4	6.5	**7**
4.3 Gross household savings rate, in %, 2013	6.1	13.1	3.7	**16**
4.4 Current account, % of GDP, 2014	-1.7	2.9	4.9	**17**
4.5 Bank assets, % of GDP, Sep 2014	97	308	10.0	**1**
4.6 Private sector debt, % of GDP, 2013	75	139	9.8	**2**

Notes: The light-blue shaded bars in the chart indicate the eurozone average for comparison. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 18 Eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 93.

Portugal

Overall assessment

Among the worst performers in the fundamental health check despite further improvements. As Portugal is one of the strongest performers on the adjustment side, the positive trend looks set to continue. The fiscal situation has improved further from a weak level and structural reforms are beginning to yield the benefits. The growth potential is still one of the weakest in the eurozone. The diligent implementation of reforms has restored confidence. Portugal managed a ‘clean exit’ from the 2011 bail-out and weathered a major banking crisis in 2014 well.

2014 key developments

Adjustment score rise continues
- 2014 major fiscal progress
- Export and labour cost adjustment have slowed as recovery takes hold

Fundamental health marginally improved at very low level
- Competitiveness, fiscal sustainability and resilience all improved
- Growth potential deteriorates due to weak employment performance since the crisis

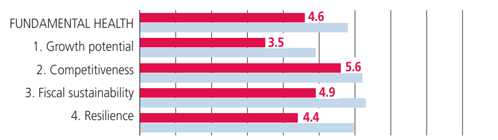
Strengths

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

Weaknesses

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

Fundamental Health



Adjustment

Detailed Scores

OVERALL RESULTS	PT	EZ18	
	Score	Score	Rank
FUNDAMENTAL HEALTH	4.6	5.8	**18**
1. Growth potential	3.5	4.9	**18**
2. Competitiveness	5.6	6.2	**12**
3. Fiscal sustainability	4.9	6.3	**19**
4. Resilience	4.4	6.0	**18**
ADJUSTMENT	6.7	4.1	**5**
1. External adjustment	6.0	4.0	**9**
2. Fiscal adjustment	7.9	4.5	**2**
3. Labour cost	5.2	2.6	**7**
4. Reforms	7.8	5.2	**5**

FUNDAMENTAL HEALTH	PT	EZ18	Score	Rank
1. Growth potential	Value	Value	3.5	**18**
1.1 Trend growth 2002-2010, in %			2.4	**18**
1.1.1 Rise in gross value added	1.1	0.9	4.5	**13**
1.1.2 Deviation of GVA growth from norm	-1.1	-0.2	0.4	**20**
1.2 Human resources			4.1	**13**
1.2.1 Fertility rate 2009-2012 average	1.3	1.6	2.8	**21**
1.2.2 Employment rate foreign vs. native, 2013	-4.4	-11.1	8.5	**3**
1.2.3 Pisa Scores 2012	488	502	2.3	**16**
1.3 Employment			3.5	**18**
1.3.1 Employment rate 2002-13, in %	66.0	64.0	5.2	**8**
1.3.2 Change in ER 2002-13, per year, pcp	-0.7	0.1	0.0	**20**
1.3.3 Youth unemployment rate, 2002-2013, in %	24.4	19.0	4.2	**16**
1.3.4 Long-term unemployment 2002-2013, in %	4.9	4.2	4.6	**16**
1.4 Consumption rate			4.1	**17**
1.4.1 Total consumption, 2002-2013, % of GDP	84.7	76.5	2.6	**19**
1.4.2 Change in CR 2002-13, per year, %-points	0.1	0.1	5.5	**11**

FUNDAMENTAL HEALTH	PT	EZ18	Score	Rank
3. Fiscal sustainability	Value	Value	4.9	**19**
3.1 Government outlays, % of GDP (2002-2014)	47.5	48.4	3.5	**15**
3.2 Underlying fiscal balance 2014			8.7	**6**
3.2.1 Structural fiscal balance (% of GDP)	-1.3	-1.1	7.5	**10**
3.2.2 Structural primary fiscal balance (% of GDP)	3.7	1.6	10.0	**1**
3.3 Debt ratio, % of GDP, 2014 (EU estimate)	127.7	94.5	1.6	**19**
3.4 Sustainability gap 2015-2020 (% of GDP)	5.2	3.8	5.6	**11**

ADJUSTMENT	PT	EZ18	Score	Rank
	Value	Value	6.7	**5**
1. External adjustment			6.0	**9**
Change 2H07-3Q14				
1.1. Rise in net exports in % points of GDP	7.0	2.8	5.5	**10**
1.2 Rise in net exports relative to 2H07 exports	23.1	7.1	6.8	**4**
1.3 Rise in export ratio, % of GDP	8.1	5.0	5.5	**10**
2. Fiscal squeze: shift in primary balance			7.9	**2**
Change 2H07-3Q14	9.4	3.2	8.8	**2**
1.1. Rise in net exports in % points of GDP	64.3	46.0	7.0	**4**
3. Unit labour costs, 2009-14			5.2	**7**
3.1 Real ULC 2009-2014, %	-7.3	-1.9	4.9	**8**
3.2 Nominal ULC 2009-2014, %	-4.4	3.7	5.5	**8**
4. Reform responsiveness, 2012/13	0.66	0.44	7.8	**5**

FUNDAMENTAL HEALTH	PT	EZ18	Score	Rank
2. Competitiveness	Value	Value	5.6	**12**
2.1 Export Ratio, % of GDP 2002-2013	30.6	38.2	0.0	**17**
2.2 Rise in export ratio, 2002-13, %-pts.	1.1	0.9	10.0	**1**
2.3 Labour costs			7.0	**6**
2.3.1 Real unit labour cost, change 2002-14 in %	-0.6	-0.1	8.6	**5**
2.3.2 Nominal unit labour cost, 2002-14 in %	1.2	1.6	8.0	**5**
2.3.3 Hiring & firing practice 2014 (index)	3.3	3.6	4.3	**14**
2.4 Market regulations			5.4	**15**
2.4.1 Product market compet. intensity index, 2014	5.1	5.6	3.3	**18**
2.4.2 OECD service trade restrictiveness index, 2014	0.19	0.16	3.6	**11**
2.4.3 Opening new business (days), 2014	2.5	12.0	9.2	**6**

FUNDAMENTAL HEALTH	PT	EZ18	Score	Rank
4. Resilience	Value	Value	4.4	**18**
4.1 Debt redemptions 2015-17, % of GDP	32.0	25.6	2.4	**19**
4.2 Debt held abroad, % of GDP, 2014	91.4	53.4	0.0	**20**
4.3 Gross household savings rate, in %, 2013	12.6	13.1	7.2	**8**
4.4 Current account, % of GDP, 2014	1.0	2.9	6.2	**11**
4.5 Bank assets, % of GDP, Sep 2014	282	308	7.1	**10**
4.6 Private sector debt, % of GDP, 2013	203	139	3.7	**17**

Notes: The light-blue shaded bars in the chart indicate the eurozone average for comparison. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 18 Eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 93.

Slovakia

Overall assessment

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

2014 key developments

Adjustment score edges down from high level
- Fiscal adjustment slowed considerably
- Labour cost adjustment re-accelerated

Fundamental health score falls from high level
- Foreign ownership of public sector debt rises
- Structural deficit and sustainability gap increase due to 2014 fiscal easing

Strengths

- Among the top performers for trend growth
- High and rising export ratio
- Strong relative economic performance of foreigners
- Strong fiscal adjustment effort
- Low public and private debt levels strengthen resilience to financial shocks
- Small banking system compared to GDP

Weaknesses

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

Fundamental Health

Adjustment

Detailed Scores

OVERALL RESULTS	SK	EZ18	
	Score	Score	Rank
FUNDAMENTAL HEALTH	7.0	5.8	**4**
1. Growth potential	5.8	4.9	**10**
2. Competitiveness	7.7	6.2	**3**
3. Fiscal sustainability	7.3	6.3	**5**
4. Resilience	7.1	6.0	**4**
ADJUSTMENT	5.9	4.1	**7**
1. External adjustment	6.1	4.0	**8**
2. Fiscal adjustment	6.9	4.5	**5**
3. Labour cost	5.2	2.6	**8**
4. Reforms	5.5	5.2	**7**

FUNDAMENTAL HEALTH	SK	EZ18	Score	Rank
1. Growth potential	Value	Value	5.8	**10**
1.1 Trend growth 2002-2010, in %			9.7	**2**
1.1.1 Rise in gross value added	4.5	0.9	10.0	**1**
1.1.2 Deviation of GVA growth from norm	1.1	-0.2	9.4	**4**
1.2 Human resources			3.4	**17**
1.2.1 Fertility rate 2009-2012 average	1.4	1.6	3.5	**14**
1.2.2 Employment rate foreign vs. native, 2013	1.1	-11.1	6.5	**5**
1.2.3 Pisa Scores 2012	472	502	0.3	**18**
1.3 Employment			2.7	**19**
1.3.1 Employment rate 2002-13, in %	59.1	64.0	2.2	**17**
1.3.2 Change in ER 2002-13, per year, pcp	0.3	0.1	6.5	**7**
1.3.3 Youth unemployment rate, 2002-2013, in %	30.5	19.0	2.2	**19**
1.3.4 Long-term unemployment 2002-2013, in %	9.8	4.2	0.0	**21**
1.4 Consumption rate			7.2	**6**
1.4.1 Total consumption, 2002-2013, % of GDP	75.7	76.5	7.2	**11**
1.4.2 Change in CR 2002-13, per year, %-points	-0.2	0.1	7.2	**6**

FUNDAMENTAL HEALTH	SK	EZ18	Score	Rank
3. Fiscal sustainability	Value	Value	7.3	**5**
3.1 Government outlays, % of GDP (2002-2014)	40.1	48.4	7.1	**8**
3.2 Underlying fiscal balance 2014			7.3	**16**
3.2.1 Structural fiscal balance (% of GDP)	-2.1	-1.1	6.8	**13**
3.2.2 Structural primary fiscal balance (% of GDP)	-0.3	1.6	7.7	**16**
3.3 Debt ratio, % of GDP, 2014 (EU estimate)	54.1	94.5	6.9	**6**
3.4 Sustainability gap 2015-2020 (% of GDP)	2.5	3.8	7.9	**5**

ADJUSTMENT	SK	EZ18	Score	Rank
	Value	Value	5.9	**7**
1. External adjustment			6.1	**8**
Change 2H07-3Q14				
1.1. Rise in net exports in % points of GDP	10.0	2.8	6.6	**7**
1.2 Rise in net exports relative to 2H07 exports	12.5	7.1	4.7	**10**
1.3 Rise in export ratio, % of GDP	12.4	5.0	7.1	**6**
2. Fiscal squeze: shift in primary balance			6.9	**5**
Change 2H07-3Q14	5.9	3.2	6.1	**6**
1.1. Rise in net exports in % points of GDP	70.5	46.0	7.7	**2**
3. Unit labour costs, 2009-14			5.2	**8**
3.1 Real ULC 2009-2014, %	-3.7	-1.9	3.2	**11**
3.2 Nominal ULC 2009-2014, %	0.7	3.7	7.2	**3**
4. Reform responsiveness, 2012/13	0.47	0.44	5.5	**7**

FUNDAMENTAL HEALTH	SK	EZ18	Score	Rank
2. Competitiveness	Value	Value	7.7	**3**
2.1 Export Ratio, % of GDP 2002-2013	76.6	38.2	9.3	**6**
2.2 Rise in export ratio, 2002-13, %-pts.	3.0	0.9	10.0	**1**
2.3 Labour costs			4.6	**15**
2.3.1 Real unit labour cost, change 2002-14 in %	0.0	-0.1	5.5	**15**
2.3.2 Nominal unit labour cost, 2002-14 in %	2.1	1.6	5.4	**13**
2.3.3 Hiring & firing practice 2014 (index)	2.9	3.6	3.0	**17**
2.4 Market regulations			7.0	**6**
2.4.1 Product market compet. intensity index, 2014	5.5	5.6	6.0	**8**
2.4.2 OECD service trade restrictiveness index, 2014	n.a.	0.16	n.a.	**n.a.**
2.4.3 Opening new business (days), 2014	11.5	12.0	8.1	**8**

FUNDAMENTAL HEALTH	SK	EZ18	Score	Rank
4. Resilience	Value	Value	7.1	**4**
4.1 Debt redemptions 2015-17, % of GDP	17.8	25.6	5.8	**12**
4.2 Debt held abroad, % of GDP, 2014	36.3	53.4	6.0	**8**
4.3 Gross household savings rate, in %, 2013	7.3	13.1	4.4	**15**
4.4 Current account, % of GDP, 2014	2.4	2.9	6.9	**8**
4.5 Bank assets, % of GDP, Sep 2014	86	308	10.0	**1**
4.6 Private sector debt, % of GDP, 2013	75	139	9.8	**1**

Notes: The light-blue shaded bars in the chart indicate the eurozone average for comparison. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 18 Eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 93.

Slovenia

Overall assessment

Small, dynamic catching-up economy with above-average scores for fundamental health. Narrowly avoided EU/IMF bail-out in mid-2013. Fiscal and banking problems should be manageable if political will is maintained.

2014 key developments

Most improved in the adjustment score in 2014
- Big jump in reform drive, abeit still below average
- Faster external and labour cost adjustment

Fundamental health score unchanged overall
- Big improvement in competitiveness due to new service sector trade indicator
- Deterioration in fiscal sustainability (debt level) and resilience (debt redemptions)

Strengths

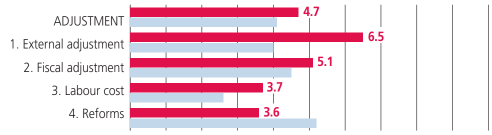
- Low legacy public debt
- Strong trend growth rates
- Easy to open new business
- Low youth unemployment rate
- Resilient to financial shocks due to low levels of private and public debt

Weaknesses

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

Fundamental Health

Adjustment



Detailed Scores

OVERALL RESULTS	SI Score	EZ18 Score	Rank
FUNDAMENTAL HEALTH	6.2	5.8	**9**
1. Growth potential	6.0	4.9	**9**
2. Competitiveness	5.9	6.2	**11**
3. Fiscal sustainability	5.7	6.3	**14**
4. Resilience	7.3	6.0	**3**
ADJUSTMENT	4.7	4.1	**9**
1. External adjustment	6.5	4.0	**6**
2. Fiscal adjustment	5.1	4.5	**9**
3. Labour cost	3.7	2.6	**10**
4. Reforms	3.6	5.2	**14**

FUNDAMENTAL HEALTH 1. Growth potential	SI Value	EZ18 Value	Score 6.0	Rank 9
1.1 Trend growth 2002-2010, in %			6.8	**8**
1.1.1 Rise in gross value added	2.5	0.9	8.5	**5**
1.1.2 Deviation of GVA growth from norm	0.0	-0.2	5.2	**11**
1.2 Human resources			4.3	**12**
1.2.1 Fertility rate 2009-2012 average	1.6	1.6	4.7	**10**
1.2.2 Employment rate foreign vs. native, 2013	-10.5	-11.1	4.2	**13**
1.2.3 Pisa Scores 2012	499	502	3.6	**11**
1.3 Employment			5.8	**10**
1.3.1 Employment rate 2002-13, in %	65.5	64.0	5.0	**10**
1.3.2 Change in ER 2002-13, per year, pcp	0.0	0.1	4.6	**14**
1.3.3 Youth unemployment rate, 2002-2013, in %	15.5	19.0	7.2	**6**
1.3.4 Long-term unemployment 2002-2013, in %	3.2	4.2	6.4	**9**
1.4 Consumption rate			7.1	**8**
1.4.1 Total consumption, 2002-2013, % of GDP	73.2	76.5	8.4	**7**
1.4.2 Change in CR 2002-13, per year, %-points	0.1	0.1	5.8	**9**

FUNDAMENTAL HEALTH 3. Fiscal sustainability	SI Value	EZ18 Value	Score 5.7	Rank 14
3.1 Government outlays, % of GDP (2002-2014)	47.5	48.4	3.6	**14**
3.2 Underlying fiscal balance 2014			7.7	**11**
3.2.1 Structural fiscal balance (% of GDP)	-2.5	-1.1	6.5	**15**
3.2.2 Structural primary fiscal balance (% of GDP)	0.8	1.6	8.8	**10**
3.3 Debt ratio, % of GDP, 2014 (EU estimate)	82.2	94.5	4.8	**11**
3.4 Sustainability gap 2015-2020 (% of GDP)	3.9	3.8	6.8	**9**

ADJUSTMENT	SI Value	EZ18 Value	Score 4.7	Rank 9
1. External adjustment			6.5	**6**
Change 2H07-3Q14				
1.1. Rise in net exports in % points of GDP	11.8	2.8	7.2	**5**
1.2 Rise in net exports relative to 2H07 exports	18.1	7.1	5.8	**7**
1.3 Rise in export ratio, % of GDP	10.9	5.0	6.6	**8**
2. Fiscal squeze: shift in primary balance			5.1	**9**
Change 2H07-3Q14	4.0	3.2	4.6	**9**
1.1. Rise in net exports in % points of GDP	50.9	46.0	5.5	**9**
3. Unit labour costs, 2009-14			3.7	**10**
3.1 Real ULC 2009-2014, %	-2.4	-1.9	2.7	**12**
3.2 Nominal ULC 2009-2014, %	-0.2	3.7	4.7	**9**
4. Reform responsiveness, 2012/13	0.30	0.44	3.6	**14**

FUNDAMENTAL HEALTH 2. Competitiveness	SI Value	EZ18 Value	Score 5.9	Rank 11
2.1 Export Ratio, % of GDP 2002-2013	63.0	38.2	3.8	**12**
2.2 Rise in export ratio, 2002-13, %-pts.	2.1	0.9	10.0	**7**
2.3 Labour costs			3.7	**20**
2.3.1 Real unit labour cost, change 2002-14 in %	0.0	-0.1	5.7	**14**
2.3.2 Nominal unit labour cost, 2002-14 in %	2.6	1.6	4.1	**18**
2.3.3 Hiring & firing practice 2014 (index)	2.4	3.6	1.3	**20**
2.4 Market regulations			6.1	**11**
2.4.1 Product market compet. intensity index, 2014	5.1	5.6	3.3	**18**
2.4.2 OECD service trade restrictiveness index, 2014	0.16	0.16	5.6	**8**
2.4.3 Opening new business (days), 2014	6.0	12.0	9.5	**1**

FUNDAMENTAL HEALTH 4. Resilience	SI Value	EZ18 Value	Score 7,3	Rank 3
4.1 Debt redemptions 2015-17, % of GDP	23.0	25.6	4.6	**16**
4.2 Debt held abroad, % of GDP, 2014	48.6	53.4	4.6	**14**
4.3 Gross household savings rate, in %, 2013	14.0	13.1	7.9	**5**
4.4 Current account, % of GDP, 2014	6.0	2.9	8.6	**6**
4.5 Bank assets, % of GDP, Sep 2014	124	308	10.0	**1**
4.6 Private sector debt, % of GDP, 2013	102	139	8.5	**4**

Notes: The light-blue shaded bars in the chart indicate the eurozone average for comparison. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 18 Eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 93.

Spain

Overall assessment

A mostly mature economy forced to undergo major adjustment during the financial turbulences 2011/2012 and amid a serious real estate and banking crisis, paired with very high unemployment. Structural reforms, especially the 2012 labour market reform, and fiscal rebalancing are showing results. Strong adjustment effort, fundamental health has started to improve. But crisis has left large employment and fiscal challenges.

2014 key developments

Further improvement in adjustment score
- Labour cost adjustment accelerating
- Fiscal and structural reforms well under way

Rises above Finland on fundamental health
- Another big rise in exports highlights strong competitiveness

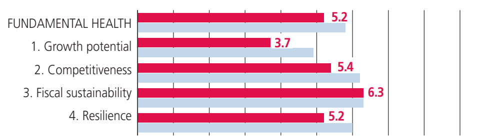
Strengths

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

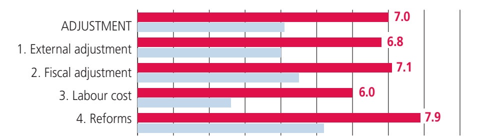
Weaknesses

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

Fundamental Health



Adjustment



Detailed Scores

OVERALL RESULTS	ES	EZ18	
	Score	Score	Rank
FUNDAMENTAL HEALTH	5.2	5.8	**15**
1. Growth potential	3.7	4.9	**17**
2. Competitiveness	5.4	6.2	**14**
3. Fiscal sustainability	6.3	6.3	**12**
4. Resilience	5.2	6.0	**16**
ADJUSTMENT	7.0	4.1	**4**
1. External adjustment	6.8	4.0	**5**
2. Fiscal adjustment	7.1	4.5	**3**
3. Labour cost	6.0	2.6	**5**
4. Reforms	7.9	5.2	**4**

FUNDAMENTAL HEALTH	ES	EZ18	Score	Rank
1. Growth potential	Value	Value	3.7	**17**
1.1 Trend growth 2002-2010, in %			3.5	**16**
1.1.1 Rise in gross value added	1.0	0.9	4.4	**14**
1.1.2 Deviation of GVA growth from norm	-0.6	-0.2	2.6	**16**
1.2 Human resources			2.9	**19**
1.2.1 Fertility rate 2009-2012 average	1.4	1.6	2.9	**19**
1.2.2 Employment rate foreign vs. native, 2013	-9.9	-11.1	3.1	**18**
1.2.3 Pisa Scores 2012	489	502	2.4	**15**
1.3 Employment			2.7	**20**
1.3.1 Employment rate 2002-13, in %	60.6	64.0	2.9	**16**
1.3.2 Change in ER 2002-13, per year, pcp	-0.4	0.1	2.2	**17**
1.3.3 Youth unemployment rate, 2002-2013, in %	31.7	19.0	1.8	**20**
1.3.4 Long-term unemployment 2002-2013, in %	5.3	4.2	4.1	**18**
1.4 Consumption rate			5.9	**14**
1.4.1 Total consumption, 2002-2013, % of GDP	76.1	76.5	7.0	**12**
1.4.2 Change in CR 2002-13, per year, %-points	0.2	0.1	4.8	**18**

FUNDAMENTAL HEALTH	ES	EZ18	Score	Rank
3. Fiscal sustainability	Value	Value	6.3	**12**
3.1 Government outlays, % of GDP (2002-2014)	41.9	48.4	7.9	**6**
3.2 Underlying fiscal balance 2014			8.0	**9**
3.2.1 Structural fiscal balance (% of GDP)	-2.2	-1.1	6.8	**14**
3.2.2 Structural primary fiscal balance (% of GDP)	1.2	1.6	9.2	**8**
3.3 Debt ratio, % of GDP, 2014 (EU estimate)	98.1	94.5	3.7	**15**
3.4 Sustainability gap 2015-2020 (% of GDP)	5.3	3.8	5.6	**13**

ADJUSTMENT	ES	EZ18	Score	Rank
	Value	Value	7.0	**4**
1. External adjustment			6.8	**5**
Change 2H07-3Q14				
1.1. Rise in net exports in % points of GDP	9.4	2.8	6.3	**8**
1.2 Rise in net exports relative to 2H07 exports	36.3	7.1	9.5	**3**
1.3 Rise in export ratio, % of GDP	5.7	5.0	4.6	**12**
2. Fiscal squeze: shift in primary balance			7.1	**3**
Change 2H07-3Q14	8.0	3.2	7.7	**3**
1.1. Rise in net exports in % points of GDP	60.4	46.0	6.6	**5**
3. Unit labour costs, 2009-14			6.0	**5**
3.1 Real ULC 2009-2014, %	-8.4	-1.9	5.2	**7**
3.2 Nominal ULC 2009-2014, %	-7.5	3.7	6.8	**5**
4. Reform responsiveness, 2012/13	0.67	0.44	7.9	**4**

FUNDAMENTAL HEALTH	ES	EZ18	Score	Rank
2. Competitiveness	Value	Value	5.4	**14**
2.1 Export Ratio, % of GDP 2002-2013	26.4	38.2	2.6	**15**
2.2 Rise in export ratio, 2002-13, %-pts.	0.5	0.9	5.8	**13**
2.3 Labour costs			7.0	**5**
2.3.1 Real unit labour cost, change 2002-14 in %	-0.7	-0.1	9.4	**4**
2.3.2 Nominal unit labour cost, 2002-14 in %	1.4	1.6	7.4	**8**
2.3.3 Hiring & firing practice 2014 (index)	3.3	3.6	4.3	**14**
2.4 Market regulations			6.2	**10**
2.4.1 Product market compet. intensity index, 2014	5.5	5.6	6.0	**8**
2.4.2 OECD service trade restrictiveness index, 2014	0.16	0.16	5.7	**7**
2.4.3 Opening new business (days), 2014	13.0	12.0	6.8	**16**

FUNDAMENTAL HEALTH	ES	EZ18	Score	Rank
4. Resilience	Value	Value	5.2	**16**
4.1 Debt redemptions 2015-17, % of GDP	36.7	25.6	1.3	**20**
4.2 Debt held abroad, % of GDP, 2014	40.0	53.4	5.6	**10**
4.3 Gross household savings rate, in %, 2013	10.4	13.1	6.0	**13**
4.4 Current account, % of GDP, 2014	1.4	2.9	6.4	**10**
4.5 Bank assets, % of GDP, Sep 2014	294	308	6.9	**13**
4.6 Private sector debt, % of GDP, 2013	172	139	5.1	**14**

Notes: The light-blue shaded bars in the chart indicate the eurozone average for comparison. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 18 Eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 93.

Sweden

Overall assessment
A mature economy with still tremendous growth potential. Fiscally sustainable and resilient to shocks. But Sweden's once excellent score for fundamental health continues to slip fast, now trailing Germany and The Netherlands by a wide margin. Like Finland, Sweden is showing clear signs of complacency. If not addressed, that could turn into a problem over time.

2014 key developments
Adjustment score down again slightly from very low 2013 level
- Export underperformance continued
- Labour cost adjustment slightly better due to RULC improvment

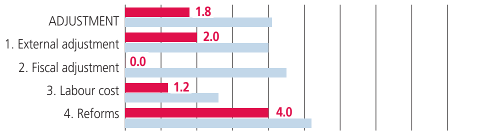
Fundamental health score drops sharply
- New service regulation index and export weakness lower competitiveness score
- Fiscal easing increases the (still small) fiscal challenge

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

Weaknesses
- Worst adjustment score for second year running, fiscal slippage
- Export performance slipping
- High private sector debt levels rising again
- Cumbersome hiring and firing practices
- Relatively high youth unemployment rate
- Weak OECD score for education system

Fundamental Health

Adjustment



Detailed Scores

OVERALL RESULTS	SE	EZ18	
	Score	Score	Rank
FUNDAMENTAL HEALTH	6.4	5.8	**8**
1. Growth potential	7.1	4.9	**2**
2. Competitiveness	4.7	6.2	**18**
3. Fiscal sustainability	6.7	6.3	**7**
4. Resilience	7.1	6.0	**5**
ADJUSTMENT	1.8	4.1	**21**
1. External adjustment	2.0	4.0	**20**
2. Fiscal adjustment	0.0	4.5	**21**
3. Labour cost	1.2	2.6	**20**
4. Reforms	4.0	5.2	**12**

FUNDAMENTAL HEALTH	SE	EZ18	Score	Rank
1. Growth potential	Value	Value	7.1	**2**
1.1 Trend growth 2002-2010, in %			8.7	**4**
1.1.1 Rise in gross value added	1.6	0.9	5.9	**7**
1.1.2 Deviation of GVA growth from norm	1.6	-0.2	11.5	**1**
1.2 Human resources			5.4	**7**
1.2.1 Fertility rate 2009-2012 average	1.9	1.6	7.8	**3**
1.2.2 Employment rate foreign vs. native, 2013	-18.7	-11.1	4.7	**10**
1.2.3 Pisa Scores 2012	482	502	1.5	**17**
1.3 Employment			6.8	**4**
1.3.1 Employment rate 2002-13, in %	73.2	64.0	8.4	**2**
1.3.2 Change in ER 2002-13, per year, pcp	0.1	0.1	5.2	**11**
1.3.3 Youth unemployment rate, 2002-2013, in %	21.5	19.0	5.2	**13**
1.3.4 Long-term unemployment 2002-2013, in %	1.2	4.2	8.6	**2**
1.4 Consumption rate			7.5	**5**
1.4.1 Total consumption, 2002-2013, % of GDP	71.2	76.5	9.4	**4**
1.4.2 Change in CR 2002-13, per year, %-points	0.1	0.1	5.7	**10**

FUNDAMENTAL HEALTH	SE	EZ18	Score	Rank
3. Fiscal sustainability	Value	Value	6.7	**7**
3.1 Government outlays, % of GDP (2002-2014)	52.4	48.4	2.9	**18**
3.2 Underlying fiscal balance 2014			7.3	**15**
3.2.1 Structural fiscal balance (% of GDP)	-1.5	-1.1	7.3	**11**
3.2.2 Structural primary fiscal balance (% of GDP)	-0.7	1.6	7.3	**18**
3.3 Debt ratio, % of GDP, 2014 (EU estimate)	40.3	94.5	7.8	**3**
3.4 Sustainability gap 2015-2020 (% of GDP)	1.4	3.8	8.8	**3**

ADJUSTMENT	SE	EZ18	Score	Rank
	Value	Value	1.8	**21**
1. External adjustment			2.0	**20**
Change 2H07-3Q14				
1.1. Rise in net exports in % points of GDP	-2.3	2.8	2.3	**20**
1.2 Rise in net exports relative to 2H07 exports	-4.9	7.1	1.2	**20**
1.3 Rise in export ratio, % of GDP	0.3	5.0	2.6	**18**
2. Fiscal squeze: shift in primary balance			0.0	**21**
Change 2H07-3Q14	-4.6	3.2	0.0	**21**
1.1. Rise in net exports in % points of GDP	0.0	46.0	0.0	**15**
3. Unit labour costs, 2009-14			1.2	**20**
3.1 Real ULC 2009-2014, %	-2.7	-1.9	2.3	**14**
3.2 Nominal ULC 2009-2014, %	17.0	3.7	0.0	**21**
4. Reform responsiveness, 2012/13	0.34	0.44	4.0	**12**

FUNDAMENTAL HEALTH	SE	EZ18	Score	Rank
2. Competitiveness	Value	Value	4.7	**18**
2.1 Export Ratio, % of GDP 2002-2013	45.5	38.2	2.2	**16**
2.2 Rise in export ratio, 2002-13, %-pts.	0.2	0.9	2.9	**19**
2.3 Labour costs			7.2	**4**
2.3.1 Real unit labour cost, change 2002-14 in %	-0.5	-0.1	8.1	**6**
2.3.2 Nominal unit labour cost, 2002-14 in %	1.0	1.6	8.5	**4**
2.3.3 Hiring & firing practice 2014 (index)	3.5	3.6	5.0	**9**
2.4 Market regulations			6.5	**9**
2.4.1 Product market compet. intensity index, 2014	5.4	5.6	5.3	**12**
2.4.2 OECD service trade restrictiveness index, 2014	0.17	0.16	4.8	**9**
2.4.3 Opening new business (days), 2014	6.0	12.0	9.3	**5**

FUNDAMENTAL HEALTH	SE	EZ18	Score	Rank
4. Resilience	Value	Value	7.1	**5**
4.1 Debt redemptions 2015-17, % of GDP	12.0	25.6	7.2	**4**
4.2 Debt held abroad, % of GDP, 2014	17.6	53.4	8.0	**4**
4.3 Gross household savings rate, in %, 2013	14.8	13.1	8.3	**4**
4.4 Current account, % of GDP, 2014	6.1	2.9	8.6	**5**
4.5 Bank assets, % of GDP, Sep 2014	307	308	6.7	**14**
4.6 Private sector debt, % of GDP, 2013	201	139	3.8	**16**

Notes: The light-blue shaded bars in the chart indicate the eurozone average for comparison. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 18 Eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 93.

United Kingdom

Overall assessment

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

2014 key developments

Significant deterioration of adjustment score
- Fiscal adjustment going backwards with austerity easing
- Labour costs adjustment partly offset by stronger sterling

Fundamental health score edges down
- Competitiveness suffers from weak export performance
- Fiscal sustainability undermined further by fiscal easing

Strengths

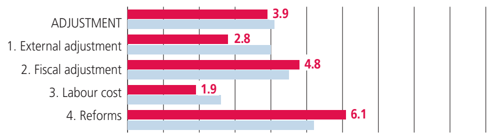
- A very deregulated labour, product and services market
- One of the highest fertility rates in Europe
- Long average maturity of public debt limits roll-over needs
- Good score on OECD reform responsiveness

Weaknesses

- Extremely high share of public and private consumption in GDP
- Very low savings rate for a mature economy
- London as financial centre makes UK vulnerable to financial crises
- Fiscal challenge the second largest after Ireland
- Strong sterling undermining competitiveness
- Worst current account deficit in sample

Fundamental Health

Adjustment



Detailed Scores

OVERALL RESULTS	UK	EZ18	
	Score	Score	Rank
FUNDAMENTAL HEALTH	5.5	5.8	**13**
1. Growth potential	5.4	4.9	**13**
2. Competitiveness	6.2	6.2	**9**
3. Fiscal sustainability	5.4	6.3	**16**
4. Resilience	5.0	6.0	**17**
ADJUSTMENT	3.9	4.1	**12**
1. External adjustment	2.8	4.0	**18**
2. Fiscal adjustment	4.8	4.5	**10**
3. Labour cost	1.9	2.6	**17**
4. Reforms	6.1	5.2	**6**

FUNDAMENTAL HEALTH	UK	EZ18	Score	Rank
1. Growth potential	Value	Value	5.4	**13**
1.1 Trend growth 2002-2010, in %			4.4	**13**
1.1.1 Rise in gross value added	1.0	0.9	4.2	**15**
1.1.2 Deviation of GVA growth from norm	-0.1	-0.2	4.6	**13**
1.2 Human resources			6.5	**2**
1.2.1 Fertility rate 2009-2012 average	1.9	1.6	7.6	**4**
1.2.2 Employment rate foreign vs. native, 2013	-7.5	-11.1	6.7	**4**
1.2.3 Pisa Scores 2012	502	502	4.0	**8**
1.3 Employment			6.7	**5**
1.3.1 Employment rate 2002-13, in %	70.9	64.0	7.3	**3**
1.3.2 Change in ER 2002-13, per year, pcp	-0.1	0.1	4.3	**16**
1.3.3 Youth unemployment rate, 2002-2013, in %	16.2	19.0	6.9	**8**
1.3.4 Long-term unemployment 2002-2013, in %	1.7	4.2	8.1	**6**
1.4 Consumption rate			4.0	**19**
1.4.1 Total consumption, 2002-2013, % of GDP	84.8	76.5	2.6	**20**
1.4.2 Change in CR 2002-13, per year, %-points	0.1	0.1	5.5	**13**

FUNDAMENTAL HEALTH	UK	EZ18	Score	Rank
3. Fiscal sustainability	Value	Value	5.4	**16**
3.1 Government outlays, % of GDP (2002-2014)	44.4	48.4	7.2	**7**
3.2 Underlying fiscal balance 2014			5.2	**21**
3.2.1 Structural fiscal balance (% of GDP)	-5.0	-1.1	4.6	**21**
3.2.2 Structural primary fiscal balance (% of GDP)	-2.3	1.6	5.7	**21**
3.3 Debt ratio, % of GDP, 2014 (EU estimate)	89.0	94.5	4.4	**13**
3.4 Sustainability gap 2015-2020 (% of GDP)	6.1	3.8	4.9	**16**

ADJUSTMENT	UK	EZ18	Score	Rank
	Value	Value	3.9	**12**
1. External adjustment			2.8	**18**
Change 2H07-3Q14				
1.1. Rise in net exports in % points of GDP	0.7	2.8	3.4	**15**
1.2 Rise in net exports relative to 2H07 exports	2.6	7.1	2.7	**14**
1.3 Rise in export ratio, % of GDP	-0.6	5.0	2.2	**19**
2. Fiscal squeze: shift in primary balance			4.8	**10**
Change 2H07-3Q14	4.5	3.2	5.0	**8**
1.1. Rise in net exports in % points of GDP	42.3	46.0	4.6	**10**
3. Unit labour costs, 2009-14			1.9	**17**
3.1 Real ULC 2009-2014, %	-2.0	-1.9	2.6	**13**
3.2 Nominal ULC 2009-2014, %	6.0	3.7	1.2	**19**
4. Reform responsiveness, 2012/13	0.52	0.44	6.1	**6**

FUNDAMENTAL HEALTH	UK	EZ18	Score	Rank
2. Competitiveness	Value	Value	6.2	**9**
2.1 Export Ratio, % of GDP 2002-2013	27.3	38.2	4.0	**11**
2.2 Rise in export ratio, 2002-13, %-pts.	0.4	0.9	5.5	**14**
2.3 Labour costs			6.4	**8**
2.3.1 Real unit labour cost, change 2002-14 in %	0.0	-0.1	5.8	**13**
2.3.2 Nominal unit labour cost, 2002-14 in %	2.2	1.6	5.0	**15**
2.3.3 Hiring & firing practice 2014 (index)	4.5	3.6	8.3	**2**
2.4 Market regulations			9.0	**1**
2.4.1 Product market compet. intensity index, 2014	6.1	5.6	10.0	**1**
2.4.2 OECD service trade restrictiveness index, 2014	0.13	0.16	7.8	**2**
2.4.3 Opening new business (days), 2014	6.0	12.0	9.3	**3**

FUNDAMENTAL HEALTH	UK	EZ18	Score	Rank
4. Resilience	Value	Value	5.0	**17**
4.1 Debt redemptions 2015-17, % of GDP	15.7	25.6	6.3	**6**
4.2 Debt held abroad, % of GDP, 2014	24.3	53.4	7.3	**5**
4.3 Gross household savings rate, in %, 2013	5.1	13.1	3.2	**18**
4.4 Current account, % of GDP, 2014	-3.8	2.9	3.9	**21**
4.5 Bank assets, % of GDP, Sep 2014	416	308	4.5	**17**
4.6 Private sector debt, % of GDP, 2013	175	139	5.0	**15**

Notes: The light-blue shaded bars in the chart indicate the eurozone average for comparison. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 18 Eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 93.

Methodology

For the scores, we ranked all sub-indicators on a linear scale of 10 (best) to 0 (worst). In most cases, we calibrated the linear scale so that the top-performing country was 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 that we did not use these outliers to define the range. Instead, we accorded these outliers the top score of 10 or the bottom score of 0, respectively.

We also compared the current scores and the ranks to those of last year. However, the major revisions to GDP estimates due to the shift from the ESA95 to the ESA2010 standard meant comparisons would be very difficult. We have therefore in most categories calculated the score each country would have received had the ESA2010-revised data been available in 2013 already. The exceptions are

- **Adjustment Indicator**: Labour Cost Adjustment, Reform Drive
- **Growth**: Human Capital, Employment
- **Competitiveness**: Labour Cost, Regulation
- **Resilience**: Debt Redemptions, Debt Held Abroad, Current Account

Only in these categories did we compare with the results as originally published in *The 2013 Euro Plus Monitor*, "From Pain to Gain," which first appeared on 02 December 2013.

Notes on results by country

I. Adjustment

1. External adjustment

1.1 Change in net exports (real, GDP definition) as a percent of GDP, ESA2010. Q3 2014 (where available, otherwise Q2, or in the case of Cyprus average of Q2 and Q3 2013) over H2 2007. Source: Eurostat.

1.2 Change in net exports Q3 2014 (where available, otherwise Q2, or in the case of Cyprus average of Q2 and Q3 2013) over H2 2007, ESA2010, as a percent of starting level. Source: Eurostat.

1.3 Rise in export ratio, percent of GDP, ESA2010, Q3 2014 (where available, otherwise Q2, or in the case of Cyprus average of Q2 and Q3 2013) over H2 2007. Source: Eurostat.

2. Fiscal adjustment

2.1 2009-2014 shift in structural primary fiscal balance, percentage of GDP, ESA2010. Source: European Commission Autumn 2014 forecasts, November 2014; Berenberg calculations.

2.2 Fiscal shift 2009-2014 as a percent of shift required 2009-2020 to achieve 60% public debt-to-GDP ratio by 2030, adjusted for age-related spending. Sources: European Commission Autumn 2014 forecasts, November 2014; IMF Fiscal Monitor, October 2014; Berenberg calculations.

3. Labour cost adjustment

3.1 Cumulative change in Real Unit Labour Costs (RULC), 2009-2014, in percent. Also in score, but not in country sheet data: shift in RULC trend = cumulative change in RULC 2000-2009 minus the cumulative change in RULC 2009-2014, each minus eurozone changes in same period. Source: European Commission AMECO database.

3.2 Cumulative change in Nominal Unit Labour Costs (NULC) in euros, 2009-2014, in percent. Non-eurozone countries: 2007-2014. Also in score, but not in country sheet data: shift in NULC (euros) trend = cumulative change in NULC (euros), 2000-2009 minus cumulative change in NULC (euros), 2009-2014, each minus eurozone changes in same period. Non-eurozone countries: 2000-2007 minus 2007-2014 changes, each minus eurozone average. Source: European Commission AMECO database.

4. OECD reform responsiveness indicator

4. OECD Reform Responsiveness Indicator Average 2010/11, 2011/12 and 2012/13, 0-1 range index. Source: OECD, *Economic Policy Reforms: Going for Growth 2014* (Paris: OECD, February 2014).

II. Fundamental Health Indicator

1. Growth potential

1.1 Trend growth
1.1.1 Average annual rise in gross value added ex construction, 2002-2010, in percent, ESA2010. Source: Eurostat.
1.1.2 Deviation of annual average rise in Gross Value Added (GVA) from income-adjusted norm, 2002-2010, ESA2010, percentage points. Sources: Eurostat; Berenberg calculations.

1.2 Human capital
1.2.1 Fertility rate, 2009-2013 average. Sources: Eurostat.
1.2.2 Deviation of *employment* rates of foreign born population from native population, 2011-2013 average, in percentage points. Also in score, but not in country sheet data: (2) *education*: average of score based on deviation between immigrants and natives in (2a) change in education attainment rates between primary and tertiary education, 2011-2013 average, and (2b) early school leaver rates, 2011-2013 average. (3) *social inclusion*: average score based on deviation between immigrants and natives in (3a) median equalised net incomes, 2011-2013 average, and (3b) at-risk-of-poverty-rates, 2011-2013 average, (3c) home ownership rates, 2011-2013 averages. (4) *citizenship* acquisition rates, 2010. All based on Eurostat "Migrant Integration Indicators". Source: Eurostat, Berenberg calculation.
1.2.3 Education: 2012 score in OECD's Programme for International Student Assessment (PISA) study (average of reading, science and mathematics scores). Source: OECD.

1.3 Employment
1.3.1 Employment rate, average 2002-2013, in percent of all 15-64 year-olds. Source: Eurostat.
1.3.2 Average annual change in employment rate, 2002-2013, percentage points. Source: Eurostat.
1.3.3 Youth (15-24 year-olds) unemployment rate, average 2002-2013. Source: Eurostat.
1.3.4 Long-term (more than 12 months) unemployment rate (15-64 year-olds), average 2002-2013, in percent of active population. Source: Eurostat.

1.4 Consumption
1.4.1 Total public and private consumption, average 2002-2013, in percent of GDP, ESA2010. Source: Eurostat.
1.4.2 Average annual change in consumption rate, 2002-2013, percentage points, ESA2010. Source: Eurostat.

2. Competitiveness

2.1 Export ratio, average 2002-2013, percent of GDP, ESA2010. Score based deviation of export ratio from adjusted norm based on GDP (size) and GDP per capita (income). Outlier Luxembourg excluded from norm regression. Source: Eurostat; Berenberg calculations.

2.2 Average annual rise in export ratio, 2002-2013, percentage points of GDP, ESA2010. Score based on average annual rise relative to starting point average 2002/2003. Source: Eurostat.

2.3 Labour costs
2.3.1 Real Unit Labour Costs (RULC), annual average change 2002-2014, in percent. Source: European Commission AMECO database.
2.3.2 Nominal Unit Labour Costs (NULC), (national currency), annual average change 2002-2014, in percent. European Commission AMECO database.
2.3.3 World Economy Forum Global Competitiveness Report: Hiring and Firing Practices Survey, 2014. 1 (heavily impeded by regulations) - 7 (extremely flexible) range. Source: World Economic Forum Global Competitiveness Report 2014/2015, September 2014.

2.4 Market regulations
2.4.1 World Economic Forum Product Market competition intensity survey score 2014/15, 0 (not intense at all) -7 (extremely intense) range. Source: World Economic Forum Global Competitiveness Report 2014/2015, September 2014.
2.4.2 OECD service trade restrictiveness indicator 2014. Source: OECD.
2.4.3 World Bank Doing Business Report 2014, days to open a new business. Score also includes cost of opening new businesses, in percent of income per capita. Source: World Bank Doing Business Report, October 2014.

3. Fiscal sustainability

3.1 Government outlays, average 2002-2013, in percent of GDP, ESA2010. Source: European Commission AMECO database, November 2014.

3.2 Structural fiscal balance
3.2.1 Structural fiscal balance, 2014, in percent of GDP, ESA2010. Source: European Commission Autumn 2014 forecasts, November 2014.
3.2.2 Structural primary fiscal balance, 2014, in percent of GDP, ESA2010. Source: European Commission Autumn 2014 forecasts, November 2014; Berenberg calculations.

3.3 Public debt end of 2014, in percent of GDP, ESA2010. Source: EU Commission autumn 2014 forecasts, November 2014.

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

4. Resilience

4.1 Total government bond and bill redemptions, 2015-2017, in percent of 2012 nominal 2013 GDP, ESA2010. Source: Bloomberg.

4.2 Share of public debt held by foreigners, 2014, in percent of GDP. Source: IMF Fiscal Monitor, October 2014.

4.3 Gross household savings rate, 2013, in percent of disposable income. Source: Eurostat.

4.4 Current account balance, 2014, in percent of GDP, ESA2010. Source: European Commission Autumn 2014 forecasts, November 2014.

4.5 Monetary Financial Institutions total assets/liabilities, September 2014, in percent of 2013 nominal GDP, ESA2010. Sources: ECB, Eurostat.

4.6 Private sector debt, 2013, in percent of GDP, ESA2010. Source: Eurostat.

References and additional reading

- British Council and Migration Policy Group. *Migrant Integration Policy Index (MIPEX)* www.mipex.eu (Brussels: MIPEX, 2012)
- Conway, Paul, Véronique Janod, and Giuseppe Nicoletti. *Product Market Regulation in OECD countries: Measurement and Highlights* OECD Economics Department Working Paper No. 530 (Paris: OECD, 2006)
- European Commission. *European Economic Forecasts Autumn 2014* European Economy. 7/2014. November 2014 (Brussels: European Commission, 2014)
- European Council. *European Council Conclusions EUCO 10/1/11 REV 1, 24-25 March 2011* (Brussels: European Council, 2011)
- International Monetary Fund. *Fiscal Monitor October 2014: How Fiscal Policy Can Help* (Washington, DC: IMF, 2014)
- Organisation for Economic Co-operation and Development. *PISA 2009 Results: What Students Know and Can Do: Student Performance in Reading, Mathematics and Science, Vol. 1* (Paris: OECD, 2010)
- ---------. PISA 2012 Results: *What Students Know and Can Do: Student Performance in Reading, Mathematics and Science Vol. 1* (Paris: OECD, revised edition, February 2014)
- ---------. *Ten Years of Product Market Reform in OECD Countries – Insights from a Revised PMR Indicator* (Paris: OECD, 2008)
- ---------. *Economic Policy Reforms: Going for Growth 2014*, February 2014 (Paris: OECD, 2014)
- Schmieding, Holger. "Tough Love: The True Nature of the Euro Crisis" *Berenberg Macro Views* (London: Berenberg, 2012)
- ------------. "Saving the Euro: The Case for an ECB Yield Cap" Berenberg Macro Views (London: Berenberg, 2012)
- Schmieding, Holger, Paul Hofheinz, Jörn Quitzau, Anna Rossen and Christian Schulz. *The 2011 Euro Plus Monitor: Progress Amid the Turmoil* (London/Brussels: Berenberg/Lisbon Council, 2011)
- Schmieding, Holger, Christian Schulz and Paul Hofheinz. *The 2012 Euro Plus Monitor: The Rocky Road to Balanced Growth* (London/Brussels: Berenberg/Lisbon Council, 2012)
- -------------. *The 2013 Euro Plus Monitor: From Pain to Gain* (London/Brussels: Berenberg/Lisbon Council, 2013)
- Schulz, Christian. "New Euro Rules: the World's Toughest Rulebook," *Berenberg Macro Views* (London: Berenberg, 2013)
- Van Ark, Bart. P*roductivity and Digitalisation in Europe: Paving the Road to Faster Growth* (Brussels: Lisbon Council, 2014)
- Wood, Rob. "Groundhog Day: The Tough Fiscal Choices Ahead for the UK," *Berenberg Macro Views* (London: Berenberg, 2012)
- World Bank. *Doing Business 2013: Doing Business in a More Transparent World* (Washington, DC: World Bank, 2013)
- -----------.*Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises* (Washington, DC: World Bank, 2014)
- World Economic Forum. *Global Competitiveness Report 2014-2015* (Geneva: World Economic Forum, 2014)

Acknowledgements

The authors and project team would like to thank Valdis Dombrovskis, vice-president of the European Commission and commissioner for the euro and social dialogue, who joined **The 2014 Euro Summit** in Brussels where this policy brief was launched. Special thanks as well to Christophe Barton, Isobel Head, Alessandro Leipold, Stéphanie Lepczynski, Chrysoula Mitta and Robert Wood. As always, any errors of fact or judgement are the authors' sole responsibility.

Lisbon Council Policy Brief, Vol. VIII, No. 2 (2014)

ISSN: 2031-0943 (print); 2031-0951 (online)

Published 18 December 2014

Published under the editorial responsibility of Berenberg and the Lisbon Council.
Responsible editor: Paul Hofheinz

Design by karakas PRINT

About Berenberg
Established in 1590, Berenberg is today one of the leading privately owned banks in Europe with four main operating divisions: private banking, investment banking, asset management and corporate banking. The Hamburg-based bank has more than 1,200 employees and 19 offices in Europe, America and Asia, with a strong presence in London, Zurich and Frankfurt, and is managed by personally liable partners. Its website is www.berenberg.com. You can follow the views of its economics team on twitter at @Berenberg_Econ.

About the Lisbon Council
The Lisbon Council for Economic Competitiveness and Social Renewal asbl is a Brussels-based think tank and policy network. Established in 2003 in Belgium as a non-profit, non-partisan association, the group is dedicated to making a positive contribution through cutting-edge research and by engaging political leaders and the public at large in a constructive exchange about the economic and social challenges of the 21st century. Its website is www.lisboncouncil.net. You can follow the organisation's activities on twitter at @lisboncouncil.

BERENBERG
PARTNERSHIP SINCE 1590

Berenberg
Neuer Jungfernstieg 20
20354 Hamburg. Germany
T. +49 40 350 600
info@berenberg.de

the Lisbon council
think tank for the 21st century

The Lisbon Council asbl
IPC-Résidence Palace
155 rue de la Loi
1040 Brussels. Belgium
T. +32 2 647 9575
info@lisboncouncil.net