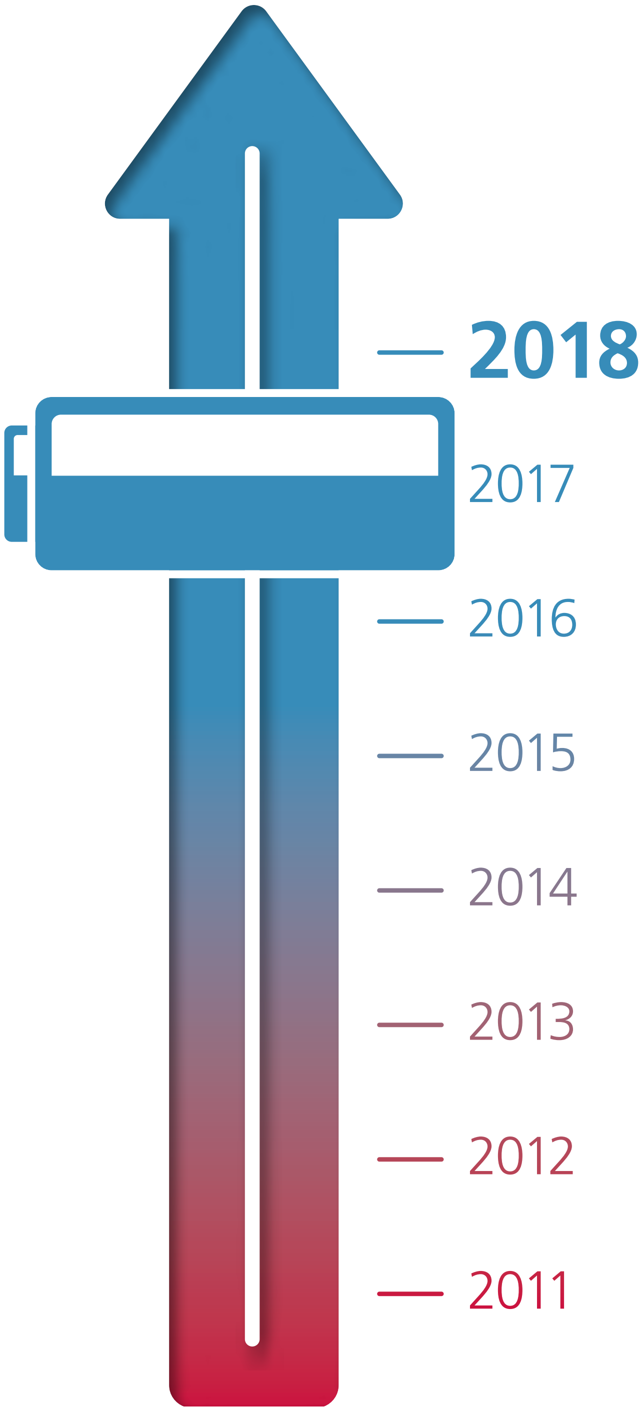
# THE 2017 EURO PLUS MONITOR

## INTO A HIGHER GEAR




BERENBERG
PARTNERSHIP SINCE 1590

the Lisbon council
think tank for the 21st century

Policy Brief

# The 2017 Euro Plus Monitor
# Into a Higher Gear

By Dr Holger Schmieding (principal author) and Dr Florian Hense
Series Editor: Paul Hofheinz


Dr. Holger Schmieding is chief economist of Berenberg. Previously, he was an economist at the International Monetary Fund, head of research on central and eastern Europe at the Kiel Institute of World Economics and chief economist Europe of a major global investment bank.

Dr Florian Hense is an economist at Berenberg. Previously, he worked as an economist at the European Commission and at the Center for Financial Studies.

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

# The 2017 EURO PLUS MONITOR

## INTO A HIGHER GEAR

## Contents



BERENBERG
PARTNERSHIP SINCE 1590

the Lisbon council
think tank for the 21st century

# Highlights at a Glance

**Progress on track.** *The 2017 Euro Plus Monitor* examines the fundamental health and measures the adjustment progress of the European Union's 28 member states. This year, we find advances in many of the erstwhile reform laggards while some countries that used to lead the adjustment league are allowing themselves some slippage.

**A new wave of reforms.** The brutal front-loaded adjustment which the 2011-2012 crisis forced upon parts of the euro periphery is largely over. Encouragingly, the reform and adjustment process has now broadened to other countries. **France, Belgium, Austria** and **Finland** have started to shape up after a long period of lagging behind.

**A golden decade for France?** France still has a long way to go. But it is now at least on the right track. If it stays the course, it could turn into the most dynamic among the major economies in Europe in the 2020s.

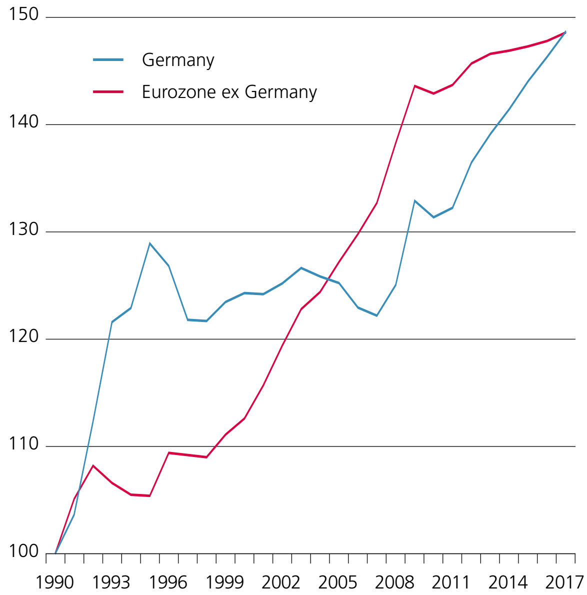
**A better balance**. Thanks to adjustment efforts at the periphery from 2010 to 2014 and to some recent progress in parts of core Europe, the **eurozone** is becoming a more balanced economy. For example, Chart 1 shows the correction of labour cost imbalances between **Germany** and the eurozone outside Germany.

**Reaping the rewards.** Partly as a result of previous adjustment efforts, the eurozone is well placed to ride the global business cycle. Demand growth can probably remain above trend for at least two more years without hitting serious inflationary bottlenecks.

**Will success breed complacency?** The biggest challenge now is to avoid the complacency that could come with the cyclical bout of above-trend growth. Most countries in Europe and the institutional architecture of the eurozone need further reforms.

Chart 1. Labour Costs: Back to Balance

Nominal Unit Labour Costs Germany versus Eurozone ex Germany, 1990=100




For lack of 1990 data, the eurozone ex Germany excludes Cyprus, Estonia, Latvia, Lithuania, Malta, Slovakia and Slovenia.
Source: European Commission

**Populism remains perilous.** Populist protest parties pose particular risks for reform progress and the cohesion of Europe. Although the threat has receded somewhat in 2017 as populist promises have been exposed as phony, the risk of populist upsets continues to loom large. Europe needs to use the good years to increase its resilience to future shocks.

**Brexit does not pay.** The **United Kingdom** has decoupled itself from the cyclical upturn elsewhere. Even worse, Brexit seems to weigh on the country's growth potential. It has nothing to gain from leaving the EU as its problems lie in policy areas such as macroeconomic management and the housing market over which the EU never had much influence.

## Table 1. Adjustment Progress Indicator

| Rank | | | Total score | | | External adjustment | | | Fiscal adjustment | | | Labour cost adj. | | | Reform drive | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2017 | 2016 | Country | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 |
| 1 | 1 | Greece | 7.4 | *-0.2* | 7.6 | 7.3 | *-0.1* | 7.4 | 6.9 | *-0.9* | 7.8 | 7.6 | *0.0* | 7.5 | 7.7 | *0.0* | 7.7 |
| 2 | 2 | Ireland | 6.9 | *0.0* | 6.8 | 5.9 | *-0.1* | 6.0 | 6.3 | *0.0* | 6.3 | 9.2 | *0.1* | 9.1 | 6.1 | *0.1* | 6.0 |
| 3 | 3 | Latvia | 6.1 | *-0.2* | 6.4 | 9.7 | *-0.3* | 9.9 | 5.5 | *-0.2* | 5.6 | 3.2 | *-0.3* | 3.5 | n.a. | *n.a.* | n.a. |
| 4 | 4 | Romania | 5.9 | *-0.2* | 6.1 | 7.1 | *-0.2* | 7.3 | 5.8 | *-0.2* | 6.0 | 4.9 | *-0.1* | 5.0 | n.a. | *n.a.* | n.a. |
| 5 | 5 | Spain | 5.9 | *-0.1* | 6.0 | 7.3 | *0.2* | 7.1 | 5.2 | *0.2* | 5.0 | 5.6 | *0.3* | 5.3 | 5.6 | *-0.9* | 6.5 |
| 6 | 7 | Cyprus | 5.6 | *0.0* | 5.6 | 3.8 | *0.1* | 3.7 | 5.5 | *-0.3* | 5.9 | 7.4 | *0.1* | 7.3 | n.a. | *n.a.* | n.a. |
| 7 | 8 | Portugal | 5.3 | *-0.1* | 5.4 | 6.3 | *0.3* | 6.0 | 4.6 | *0.4* | 4.2 | 5.0 | *-0.2* | 5.2 | 5.4 | *-0.8* | 6.3 |
| 8 | 6 | Lithuania | 5.3 | *-0.4* | 5.7 | 7.1 | *-0.6* | 7.7 | 7.0 | *-0.5* | 7.5 | 1.8 | *-0.3* | 2.0 | n.a. | *n.a.* | n.a. |
| 9 | 10 | Estonia | 5.1 | *-0.1* | 5.2 | 7.1 | *-0.4* | 7.5 | 2.7 | *-0.8* | 3.4 | 4.5 | *0.4* | 4.1 | 6.1 | *0.5* | 5.6 |
| 10 | 12 | Malta | 5.1 | *0.5* | 4.6 | 7.0 | *0.9* | 6.1 | 4.6 | *0.3* | 4.3 | 3.7 | *0.2* | 3.5 | n.a. | *n.a.* | n.a. |
| 11 | 9 | Croatia | 5.1 | *-0.4* | 5.4 | 6.2 | *0.1* | 6.0 | 3.1 | *-1.2* | 4.3 | 5.9 | *0.0* | 5.9 | n.a. | *n.a.* | n.a. |
| 12 | 11 | Slovenia | 5.0 | *0.0* | 5.0 | 7.4 | *0.6* | 6.9 | 5.7 | *0.0* | 5.7 | 4.6 | *0.4* | 4.2 | 2.3 | *-1.1* | 3.4 |
| 13 | 13 | Slovakia | 4.5 | *0.0* | 4.5 | 7.1 | *-0.1* | 7.2 | 4.7 | *0.3* | 4.4 | 1.9 | *-0.1* | 2.1 | 4.3 | *0.1* | 4.3 |
| 14 | 15 | Czech Republic | 4.2 | *-0.1* | 4.3 | 6.3 | *0.4* | 5.9 | 5.5 | *0.2* | 5.3 | 1.0 | *-0.4* | 1.4 | 4.1 | *-0.6* | 4.6 |
| 15 | 18 | Netherlands | 4.1 | *0.2* | 3.9 | 5.5 | *0.3* | 5.2 | 4.2 | *-0.2* | 4.4 | 3.1 | *0.2* | 2.9 | 3.6 | *0.5* | 3.1 |
| 16 | 17 | Bulgaria | 4.1 | *0.0* | 4.1 | 8.4 | *-0.5* | 8.9 | 3.8 | *0.8* | 3.1 | 0.0 | *-0.2* | 0.2 | n.a. | *n.a.* | n.a. |
| 17 | 20 | United Kingdom | 4.0 | *0.3* | 3.7 | 2.5 | *0.4* | 2.1 | 6.8 | *0.5* | 6.3 | 2.5 | *0.2* | 2.4 | 4.2 | *0.1* | 4.1 |
| 18 | 14 | Hungary | 3.9 | *-0.4* | 4.3 | 6.7 | *-0.3* | 7.0 | 2.6 | *0.2* | 2.4 | 3.0 | *-0.6* | 3.6 | 3.4 | *-0.9* | 4.2 |
| 19 | 16 | Poland | 3.9 | *-0.3* | 4.2 | 5.2 | *-0.2* | 5.5 | 5.6 | *0.2* | 5.4 | 0.4 | *-0.1* | 0.5 | 4.5 | *-0.8* | 5.3 |
| 20 | 19 | Italy | 3.8 | *-0.1* | 3.9 | 4.0 | *0.1* | 3.9 | 3.4 | *-0.2* | 3.6 | 3.6 | *0.3* | 3.3 | 4.3 | *-0.6* | 4.8 |
| | | Eurozone | 3.7 | *0.1* | 3.6 | 4.3 | *0.2* | 4.1 | 3.7 | *0.0* | 3.7 | 2.6 | *0.1* | 2.6 | 4.2 | *0.3* | 3.9 |
| 21 | 23 | Belgium | 3.4 | *0.5* | 2.9 | 4.4 | *0.4* | 4.0 | 2.6 | *0.4* | 2.2 | 2.9 | *0.3* | 2.6 | 3.5 | *0.9* | 2.6 |
| 22 | 21 | Denmark | 3.3 | *-0.1* | 3.4 | 3.8 | *0.2* | 3.6 | 2.4 | *0.0* | 2.5 | 3.4 | *-0.1* | 3.5 | 3.3 | *-0.7* | 4.0 |
| 23 | 22 | Luxembourg | 3.1 | *-0.2* | 3.3 | 4.3 | *0.1* | 4.3 | 2.7 | *-0.7* | 3.3 | 3.9 | *-0.3* | 4.2 | 1.6 | *0.2* | 1.4 |
| 24 | 24 | France | 3.0 | *0.2* | 2.8 | 2.2 | *-0.1* | 2.3 | 3.3 | *0.1* | 3.2 | 1.6 | *-0.1* | 1.7 | 4.8 | *0.8* | 4.0 |
| 25 | 25 | Austria | 2.9 | *0.3* | 2.6 | 3.3 | *0.4* | 2.9 | 2.7 | *-0.1* | 2.8 | 0.6 | *0.1* | 0.5 | 5.2 | *0.9* | 4.3 |
| 26 | 27 | Finland | 2.9 | *0.5* | 2.3 | 1.3 | *0.5* | 0.9 | 1.7 | *-0.1* | 1.8 | 4.6 | *1.8* | 2.8 | 3.8 | *-0.1* | 3.9 |
| 27 | 26 | Germany | 2.4 | *0.1* | 2.3 | 3.4 | *0.0* | 3.4 | 2.7 | *-0.3* | 3.0 | 0.4 | *-0.2* | 0.6 | 3.2 | *0.8* | 2.4 |
| 28 | 28 | Sweden | 2.2 | *-0.1* | 2.3 | 2.2 | *-0.1* | 2.3 | 2.1 | *0.0* | 2.1 | 1.7 | *0.2* | 1.5 | 2.8 | *-0.3* | 3.2 |

## Table 2. Fundamental Health Indicator

| Rank | | | Total score | | | Growth potential | | | Competitiveness | | | Fiscal sustainability | | | Resilience | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2017 | 2016 | Country | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 |
| 1 | 1 | Estonia | 7.5 | *0.0* | 7.4 | 7.1 | *0.1* | 7.0 | 6.2 | *0.1* | 6.2 | 8.4 | *-0.2* | 8.6 | 8.2 | *0.2* | 8.0 |
| 2 | 2 | Czech Republic | 7.4 | *0.0* | 7.4 | 7.3 | *0.0* | 7.2 | 7.3 | *0.0* | 7.4 | 8.0 | *0.0* | 8.0 | 7.1 | *-0.1* | 7.2 |
| 3 | 5 | Malta | 7.3 | *0.2* | 7.1 | 7.1 | *0.1* | 7.1 | 7.4 | *0.4* | 7.0 | 6.7 | *0.2* | 6.5 | 8.1 | *0.3* | 7.8 |
| 4 | 4 | Germany | 7.3 | *0.0* | 7.3 | 6.3 | *0.0* | 6.3 | 8.2 | *0.1* | 8.2 | 7.0 | *0.0* | 7.0 | 7.7 | *-0.1* | 7.8 |
| 5 | 3 | Luxembourg | 7.2 | *-0.2* | 7.4 | 6.7 | *0.0* | 6.6 | 6.6 | *-0.1* | 6.8 | 8.9 | *-0.3* | 9.3 | 6.7 | *-0.2* | 7.0 |
| 6 | 6 | Netherlands | 7.1 | *0.1* | 7.0 | 7.2 | *0.1* | 7.1 | 7.7 | *0.0* | 7.6 | 7.0 | *-0.2* | 7.2 | 6.4 | *0.3* | 6.1 |
| 7 | 7 | Slovakia | 7.0 | *0.1* | 6.9 | 5.9 | *0.1* | 5.8 | 7.2 | *0.0* | 7.2 | 7.4 | *0.1* | 7.3 | 7.4 | *0.2* | 7.2 |
| 8 | 8 | Lithuania | 6.6 | *-0.1* | 6.7 | 6.1 | *0.0* | 6.1 | 6.5 | *0.0* | 6.5 | 7.7 | *-0.3* | 7.9 | 6.4 | *-0.1* | 6.4 |
| 9 | 9 | Ireland | 6.6 | *0.0* | 6.6 | 7.4 | *0.1* | 7.3 | 7.3 | *-0.4* | 7.7 | 7.2 | *0.2* | 7.0 | 4.6 | *0.1* | 4.5 |
| 10 | 10 | Sweden | 6.6 | *0.0* | 6.6 | 7.4 | *0.0* | 7.4 | 4.6 | *0.0* | 4.6 | 7.0 | *-0.1* | 7.1 | 7.2 | *0.0* | 7.2 |
| 11 | 13 | Poland | 6.5 | *0.0* | 6.4 | 6.1 | *0.0* | 6.1 | 6.7 | *-0.1* | 6.8 | 6.8 | *0.0* | 6.8 | 6.2 | *0.1* | 6.1 |
| 12 | 12 | Romania | 6.4 | *0.0* | 6.4 | 4.9 | *0.1* | 4.8 | 6.1 | *0.3* | 5.8 | 7.3 | *-0.3* | 7.6 | 7.4 | *-0.1* | 7.5 |
| 13 | 14 | Denmark | 6.4 | *0.1* | 6.3 | 6.3 | *0.1* | 6.2 | 5.2 | *0.0* | 5.2 | 6.8 | *-0.2* | 7.0 | 7.4 | *0.4* | 6.9 |
| 14 | 11 | Latvia | 6.4 | *-0.1* | 6.4 | 6.2 | *0.0* | 6.2 | 4.9 | *-0.1* | 4.9 | 8.1 | *-0.2* | 8.3 | 6.3 | *0.1* | 6.3 |
| 15 | 16 | Slovenia | 6.3 | *0.2* | 6.1 | 6.2 | *0.3* | 5.9 | 5.9 | *0.2* | 5.7 | 6.0 | *-0.1* | 6.1 | 7.0 | *0.2* | 6.7 |
| 16 | 15 | Hungary | 6.2 | *0.0* | 6.2 | 5.5 | *0.1* | 5.4 | 7.3 | *0.0* | 7.3 | 5.4 | *-0.4* | 5.8 | 6.5 | *0.2* | 6.3 |
| 17 | 17 | Bulgaria | 6.0 | *0.0* | 6.0 | 5.0 | *0.1* | 5.0 | 5.5 | *0.0* | 5.5 | 7.1 | *0.1* | 7.0 | 6.4 | *0.0* | 6.4 |
| | | Eurozone | 5.8 | *0.0* | 5.8 | 5.2 | *0.1* | 5.2 | 6.1 | *0.0* | 6.1 | 5.9 | *0.0* | 6.0 | 6.1 | *0.1* | 6.0 |
| 18 | 18 | United Kingdom | 5.7 | *0.0* | 5.7 | 5.7 | *0.0* | 5.7 | 5.4 | *-0.1* | 5.5 | 6.9 | *0.4* | 6.5 | 4.7 | *-0.2* | 4.9 |
| 19 | 19 | Austria | 5.6 | *0.0* | 5.5 | 6.0 | *0.1* | 5.9 | 4.6 | *-0.1* | 4.7 | 5.2 | *0.0* | 5.2 | 6.4 | *0.2* | 6.2 |
| 20 | 20 | Belgium | 5.4 | *0.1* | 5.3 | 5.6 | *0.0* | 5.5 | 6.7 | *0.2* | 6.6 | 4.0 | *0.1* | 3.9 | 5.2 | *0.0* | 5.2 |
| 21 | 21 | Finland | 5.1 | *0.1* | 5.0 | 5.6 | *0.1* | 5.5 | 3.3 | *0.3* | 3.0 | 5.9 | *-0.3* | 6.2 | 5.7 | *0.3* | 5.5 |
| 22 | 24 | Portugal | 4.9 | *0.2* | 4.7 | 3.7 | *0.1* | 3.6 | 5.8 | *0.1* | 5.7 | 5.0 | *0.0* | 5.0 | 5.1 | *0.5* | 4.6 |
| 23 | 22 | Croatia | 4.9 | *0.0* | 4.9 | 3.9 | *0.1* | 3.7 | 4.0 | *-0.1* | 4.0 | 4.6 | *-0.2* | 4.8 | 7.0 | *0.1* | 6.9 |
| 24 | 23 | France | 4.8 | *0.0* | 4.8 | 5.0 | *0.0* | 5.0 | 4.5 | *-0.1* | 4.6 | 4.4 | *0.0* | 4.4 | 5.3 | *0.1* | 5.2 |
| 25 | 25 | Spain | 4.7 | *0.1* | 4.7 | 4.3 | *0.1* | 4.2 | 4.5 | *-0.1* | 4.6 | 5.4 | *0.0* | 5.4 | 4.8 | *0.2* | 4.5 |
| 26 | 26 | Italy | 4.4 | *0.0* | 4.4 | 3.5 | *0.1* | 3.4 | 4.1 | *0.0* | 4.0 | 4.5 | *-0.2* | 4.7 | 5.7 | *0.2* | 5.5 |
| 27 | 27 | Greece | 4.0 | *0.1* | 3.9 | 1.6 | *0.0* | 1.5 | 4.9 | *0.2* | 4.7 | 5.0 | *-0.4* | 5.4 | 4.5 | *0.4* | 4.1 |
| 28 | 28 | Cyprus | 3.6 | *0.0* | 3.6 | 3.3 | *0.1* | 3.2 | 3.3 | *0.0* | 3.3 | 5.3 | *0.0* | 5.3 | 2.5 | *0.0* | 2.5 |

**Scores:** For the scores, we rank all sub-indicators on a linear scale of 10 (best) to 0 (worst). Having calculated the results of the sub-indicators, we aggregate them into an overall score for each country, separately for the Adjustment Progress Indicator and the Fundamental Health Indicator.
**Change** refers to the change in score relative to last year. Note that our scores and ranks for 2016 can differ slightly for some countries from those published in *The 2016 Euro Plus Monitor* due to subsequent revisions of back data for labour costs, net exports and some other parameters, and the extension of our analysis by the quality of public finances.
**Ranks:** Based on the scores, we calculate the relative ranking of each country, with the No. 1 rank assigned to the country with the highest and the No. 28 rank to the one with the lowest score.

# I. Key Findings

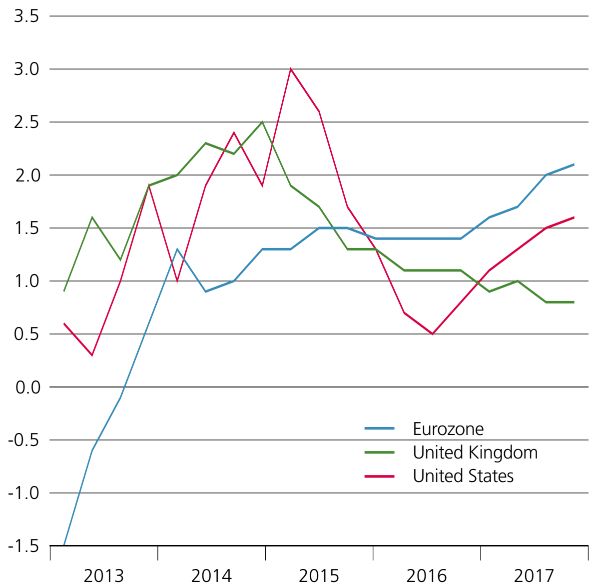
Europe has come a long way. Five years after the European Central Bank defused the euro crisis in July 2012, the economic upswing across the eurozone and most other members of the European Union has accelerated to a pace well above trend.[1] Structural reforms and other adjustment efforts in major parts of the region have helped to make many economies somewhat more flexible, or are promising to do so in the near future. Partly as a result of these changes, growth can probably remain above trend in most of the region for at least two more years without hitting serious inflationary bottlenecks. If so, continental Europe can finally make up some of the ground it lost versus the United States during the euro crisis. Due to the adjustment efforts of the periphery in the years 2010 to 2014 and some recent progress at the core, the eurozone as a whole is turning into a more balanced economy.

In the first *Euro Plus Monitor* released in 2011, we held out a carrot, declaring that the reforms sparked by the euro crisis could help to turn the **eurozone** into one of the more dynamic regions of the developed world over time.[2] The eurozone is certainly not there yet. But it is getting a little closer. For the last two years, per capita gross domestic product has expanded at a faster rate in the eurozone than in the U.S. and the **United Kingdom** (see Chart 2 at right for more). Unfortunately, the United Kingdom has decoupled itself from the cyclical acceleration of growth elsewhere in Europe and the world due to its decision to leave the European Union (Brexit).

On the European continent, the economic recovery seems to be more broad-based and better entrenched than before. Virtually all countries and sectors of the economy are contributing to the self-sustaining upswing. As a result, it would take a major economic or political shock well beyond, say, the uncertainties about Catalonia, Brexit or the precise shape of a future German or Italian government to dent the recovery.

Chart 2. Into a Higher Gear

Real GDP per capita for eurozone versus United Kingdom and United States




Sources: OECD, Berenberg calculations

Encouragingly, the reform and adjustment process which had initially focussed mainly on the countries hit hardest by the euro crisis of 2011-2012 has broadened out to other countries, notably to **France, Belgium, Austria** and **Finland**. These countries have started to shape up after a long period of lagging

1. On 26 July 2012, ECB President Mario Draghi told a capital markets conference in London that the eurozone's central bank would do "whatever it takes" to save the euro. See Mario Draghi, "Speech at Global Investment Conference London," 26 July 2012.
2. Holger Schmieding et. al., *The 2011 Euro Plus Monitor: Progress Amid the Turmoil* (Brussels and London: The Lisbon Council and Berenberg, 2011).

## ‘The biggest challenge may be to avoid the complacency that could come with the bout of above-trend growth.’

behind. This offers some hope: if **Germany**, the **Netherlands** and other fundamentally solid countries do not become overly complacent, if the erstwhile euro crisis countries round off their adjustment efforts instead of falling for the temptation of reform reversals and if the laggards continue to shape up, the **EU27** could indeed turn into one of the more dynamic regions among the mature economies of the world eventually. Of course, these are three very big “ifs.” They illustrate the risks as much as the promise.

For the eurozone, successful reforms could underpin a prolonged period of growth above the current trend rate of 1.5%. A faster expansion of supply beyond a mere rebound in demand would help to avoid the excesses that would then have to be corrected in a cleansing recession again. Of course, the sweet spot of the cycle will not last forever – even in the best of cases. Booms and busts are part of life. As the **eurozone** upswing is less mature than that of the U.S., it may not be a domestic imbalance but rather some external shock such as a U.S. or Chinese recession that will interrupt the eurozone upturn eventually. The more Europe has done to improve its fundamental health beforehand, the better it will be able to eventually weather the downturn after the good years.

Despite a rapid expansion of demand and some recent structural progress, major challenges remain:

- The biggest challenge may be to avoid the complacency that could come with the cyclical bout of above-trend growth. Most countries in Europe need further reforms to strengthen their growth potential.

- Despite significant progress, unemployment rates are still elevated in many countries in Europe. The strong cyclical gains in employment may hide levels of structural unemployment that remain excessive. These countries need further reforms in the labour market and beyond.

- The reform and adjustment process remains incomplete in many countries including **Italy** as well as **France**, **Belgium**, **Austria** and **Finland**.

- Across Europe, businesses are still facing different regulatory regimes and often serious obstacles to innovation and growth. For example, making it fast and easy to register a new business in those countries where it is not could make their economies more vigorous and flexible.

- The Brexit vote has raised a risk that, for the first time in decades, barriers to the free movement of goods and services, capital and labour may be erected anew instead of being torn down close to the heart of Europe.

- Fortunately, the threat that populism could spell the end of the European project has receded somewhat this year. Whatever their overblown claims may be, populists cannot defy economic logic and the political rationale for close cooperation among the heavily interdependent nations of Europe. Elections in 2017, notably those in the **Netherlands**, **France** and **Austria** with strong support for pro-European centre-right or centre-left reformers, suggest that the march of the radical populists can be stopped. To contain the threat, Europe has to adjust further. Pro-growth reforms, well-designed social safety nets and the correction of unsustainable policies need to be part of the answer.

Beyond changes in individual countries, the institutional architecture of the **eurozone** could and should be strengthened by further reforms. The European Central Bank has plugged the biggest hole in this architecture by assuming the role of potential lender of last resort with its “outright monetary

‘The survey assesses the fundamental health and recent adjustment progress of the 28 European Union members.’

transactions” programme for countries supported by the European Stability Mechanism (ESM). For a discussion which further reforms make sense, see the Special Focus on European Reforms on page 68.

In *The 2017 Euro Plus Monitor*, produced by Berenberg and the Lisbon Council, we answer two separate questions. First, we assess the fundamental economic health of the 28 member countries of the European Union on four long-term criteria: 1) growth potential, 2) competitiveness, 3) fiscal sustainability and 4) resilience to financial shocks. We aggregate these results into the **Fundamental Health Indicator**, which measures the overall health of an economy, regardless of whether or not it is currently reforming. Second, we ask whether the countries surveyed are rising to the challenge posed by globalisation, rapid technological change and the aftermath of the euro confidence crisis of 2011-2012. Whatever the starting situation, are they reforming themselves with visible results or are they failing to adjust? We examine four key aspects of adjustment: 1) the swing in the

Chart 3. Adjustment Progress and Fundamental Health

Twenty-eight European countries ranked by the Adjustment Progress Indicator


See notes under Table 2 on page 7. Source: Berenberg calculations

## 'Five years after the end of the euro crisis, Europe has entered a new stage of adjustment.'

external accounts, 2) the change in the fiscal position, 3) unit labour costs dynamics and 4) supply-side reforms. We aggregate the results into the **Adjustment Progress Indicator**, which measures the progress that individual countries are making.

A low score on the Adjustment Progress Indicator can mean two different things. On the positive side, it can signal that countries do not adjust much because they do not need to. This is the case for **Luxembourg**, **Germany** and – to a lesser extent – **Sweden**. On the negative side, a low score in the Adjustment Progress Indicator can be a harbinger of trouble to come for countries that are in urgent need of reform, as suggested by a low score in the Fundamental Health Indicator. In previous years, this was very much the case for **France** as well as for **Finland**, **Austria** and **Belgium**. Whereas these countries are not out of the danger zone for good yet, they have made noteworthy progress recently.

*The 2017 Euro Plus Monitor* is the seventh full edition of this survey. We base the analysis on the latest available data for the various subindicators, including the European Commission's Autumn 2017 forecasts for economic growth, labour costs and fiscal deficits in the European Union in 2017.[3] This time, we also broaden the analysis with an extra look at the quality of fiscal changes, thus augmenting the analysis of the overall size of fiscal changes and a mere quantitative assessment of fiscal sustainability.

This year, the main findings are:

1. Thirteen years after serious reforms ended Germany's post-unification malaise and five years after the end of the euro crisis, Europe has entered a new stage of adjustment. While the erstwhile crisis countries at the euro periphery have largely completed their painful programmes of austerity and reforms, some structurally-challenged **eurozone** laggards such as **France**, **Belgium**, **Austria** and **Finland** have started to step up their efforts at least modestly.

2. Since *The Euro Plus Monitor* was launched six years ago, **France** has consistently remained in the bottom third of the Adjustment Progress Indicator and the Fundamental Health Indicator.[4] It still remains there. Nonetheless, we now find noteworthy progress in France on a number of counts. According to the OECD, France became the leader for economic reforms among all major OECD countries (except Latvia) in the 2015-2016 period already (see Chart 8 on page 40). The effects of the French labour market reform decrees of 22 September 2017 and the tax reform envisaged in the French draft budget for 2018 are not yet visible in the data we use. If France follows up with further reforms to its tax, social-security and welfare systems and manages to reduce the share of the public sector in GDP, it could rise significantly in the rankings in the next few years, possibly turning into the most dynamic of the major economies in Europe in the coming decade. France may strengthen so much over time that it can eventually outclass a **Germany** that remains strong but is becoming complacent and a **United Kingdom** that is hurting itself with its decision to leave the European Union (see also the Special Focus on France on page 71).

3. Three other core members of the eurozone that suffer from traits of the French malaise with a lack of competitiveness and a big share of government spending in GDP, namely **Belgium**, **Austria** and

3. European Commission, *Autumn 2017 Economic Forecast* (Brussels: European Commission, 2017).
4. Schmieding et. al., *The 2011 Euro Plus Monitor*, op. cit.

## ‘The good news does not extend to Italy which cannot afford prolonged political uncertainty.’

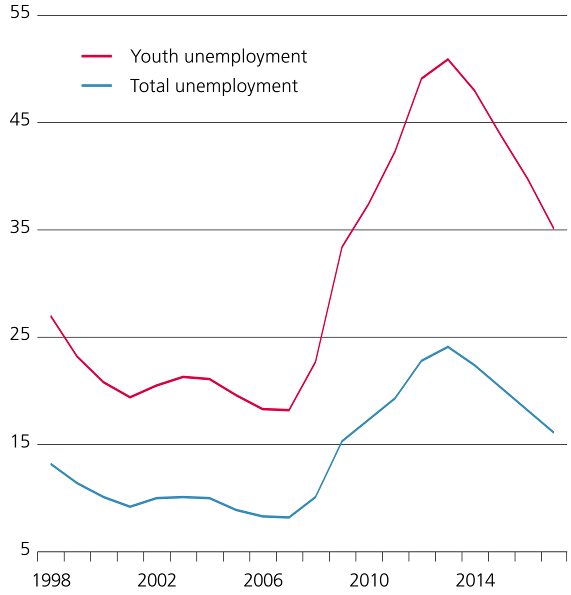
**Finland**, have also improved their scores in the Adjustment Progress Indicator from a low base. Unlike France, they have also raised their scores slightly in the Fundamental Health Indicator. Whereas Finland has managed to reduce its unit labour costs significantly, helped by a rebound in exports and output, Belgium and Austria have implemented significantly more pro-growth structural reforms than before. Austria’s growth potential seems to have improved slightly. Further reform in coming years could help Austria with its 5.6 score for fundamental health to return to or even exceed the **eurozone** average of 5.9.

**4.** Unfortunately, the good news does not extend to **Italy** (ranked No. 20 for adjustment progress, down from No. 19 in 2016). Based largely on the labour market reform which then Prime Minister Matteo Renzi implemented in early 2015, we had detected signs of a potential turnaround in Italy in *The 2016 Euro Plus Monitor* one year ago. However, the pace of pro-growth structural reforms decelerated sharply in 2016 (the most recent data available for this analysis) as political uncertainty started to take hold ahead. In addition, Italy also relaxed its fiscal reins significantly in 2016 and 2017. Italy’s high debt burden still makes it vulnerable to potential bouts of market anxiety. The country cannot afford a period of prolonged political uncertainty, let alone genuine reform reversals or even doubts about its political commitment to stay in the euro.

**5.** By and large, the results continue to show some convergence among the 19 countries of the eurozone and the members of the European Union as a whole. Four of the seven countries at the bottom of the ranking for fundamental health, namely **Cyprus** (No. 28 for fundamental health), **Greece** (No. 27), **Spain** (No. 25) and **Portugal** (No. 22) are among the top seven in

Chart 4. Rise and Fall of Unemployment in Reform 4 Countries

Unemployment in percent of labour force in Reform 4 Countries




Youth unemployment among the under 25 year olds; total unemployment for age group 15-74 years. Reform 4 countries are Greece, Ireland, Portugal and Spain. Source: Eurostat

the Adjustment Progress Indicator (see Table 1 on page 7). In a similar vein, all countries in the bottom half of the ranking for fundamental health managed to either raise or at least maintain their scores.

**6.** Since 2010, the **eurozone** has offered its weaker members a deal: we protect you against market turbulence and help to finance your budget if you slash your fiscal deficit and raise your growth potential through serious structural reforms. By and large, the “tough love” approach has worked as serious labour market reforms and wage restraint are paying off. The five peripheral countries that received support from European facilities, often topped up by a contribution from the International Monetary Fund (IMF), remain

## ‘External imbalances have diminished and wage pressures have converged somewhat in the eurozone.’

among the star performers in the Adjustment Progress Indicator. After a surge in unemployment to record levels, their labour markets continue to recover at a rapid pace, as they have done since mid 2013 (except for a Greek interruption caused by a futile confrontation with creditors in 2015). Chart 4 on page 12 shows that the process is far from complete, though.

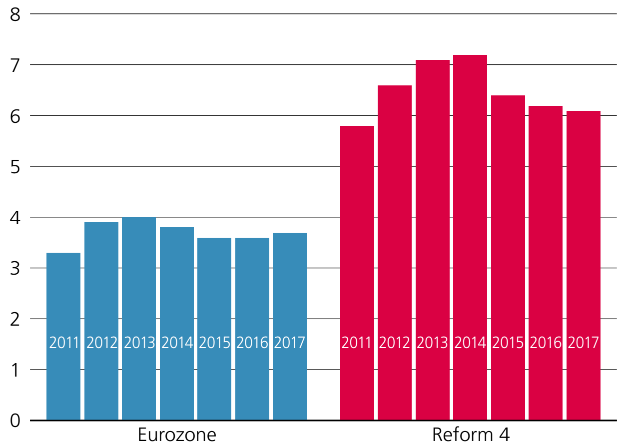
7. After a brutal front-loaded adjustment which the crisis forced upon countries at the euro periphery, most of them no longer need to tighten their belts much further. Following rapid advances in the years before, *The 2017 Euro Plus Monitor* confirms a trend that had emerged in 2015 already: most of the previous reform leaders in Europe have slackened their adjustment efforts. To some extent, this makes sense. Reform countries such as **Ireland**, **Spain** and – to a lesser extent – **Portugal** have overcome their economic malaise. They can afford to return to a neutral fiscal policy and have begun to savour the sweet taste of success. If a country has already adjusted a lot in the past, it no longer has to be a leader in new adjustment efforts.

8. External imbalances have diminished and wage pressures have converged somewhat within the **eurozone**. For example, **Ireland**, **Italy**, **Portugal** and **Spain** have managed to turn major current account deficits into surpluses. More than anything else, this proves that serious adjustments have happened and continue to happen within the confines of the monetary union.

9. **Estonia**, **Ireland**, **Latvia**, **Lithuania**, **Portugal** and **Spain** show that the pain of adjustment can pay off nicely – just as it did in the **United Kingdom** after the reforms of the 1980s, in **Scandinavia** after the reforms of the 1990s and in **Germany** after the Agenda 2010 reforms of 2004. If applied correctly, the bitter but necessary medicine of fiscal repair and structural reforms does work. However, the medicine needs time to do so.

Chart 5. Small Eurozone Rebound in 2017: The Pace of Adjustment

Adjustment Progress Indicator 2011 - 2017




Reform 4 countries are Greece, Ireland, Portugal and Spain.
Scale 0 (worst) to 10 (best). The data for 2015, 2016 and 2017 also include indicators for the quality of fiscal adjustment.
Source: Berenberg calculations

10. The overall results for the **eurozone** remain positive. After three years of quickening adjustment progress in 2011-2013 and some minor slowdown in 2014-2016, the pace of adjustment advanced slightly again in 2017 (see Chart 5 above). Despite slippage among some of the erstwhile reform leaders at the euro periphery as well as in **Italy**, small improvements in **Germany**, **France** and the **Netherlands** as well as more pronounced gains in **Belgium**, **Finland** and **Malta** helped to raise the overall score for adjustment progress in the eurozone to 3.7, up marginally from 3.6 in 2016. Nonetheless, the **eurozone** as a whole did not improve its overall health. The aggregate score in the Fundamental Health Indicator stays unchanged at 5.8 for the year. Moderate declines in the score by 0.2 points

‘The United Kingdom’s problems lie in the macroeconomic sphere over which Brussels has no influence.’

in **Luxembourg** and by 0.1 points in **Latvia** and **Lithuania** largely offset small gains in some other countries such as **Portugal**, **Slovenia**, **Belgium**, **Finland**, **Spain** and **Greece**.

**11.** A group of countries at the heart of Europe, namely the **Czech Republic** (ranked No. 2 for fundamental health), **Germany** (No. 4), **Luxembourg** (No. 5), the **Netherlands** (No. 6) and **Slovakia** (No. 7) are among the most fundamentally sound economies in the European Union. Germany excels in terms of competitiveness with its strong export sector. It also scores well for resilience to financial shocks because of its high savings rate and low private debt. Germany continues to enjoy its “golden decade” as a result of the Agenda 2010 reforms of 2004. The Netherlands look somewhat similar to Germany in terms of competitiveness. It scores significantly lower for financial resilience, but partly offsets this with stronger growth potential.

**12.** The **United Kingdom** still gets top marks for its microeconomics, notably for its growth friendly rules in product, services and labour markets. Common European Union regulations give the United Kingdom sufficient room to set its own polices and shine despite the occasional gripes about meddling from Brussels. The United Kingdom’s problems lie in the macroeconomic sphere upon which Brussels has virtually no influence at all. The United Kingdom’s big macroeconomic imbalances range from a structural fiscal deficit (around 2.5% of GDP) to a huge current account deficit (around 5.1% of GDP) and a low household savings rate of just 4.8% of gross disposable income. In terms of fundamental economic health, the United Kingdom stays at No. 18, with a score of 5.7, one notch below the **eurozone** average of 5.8. In the ranking for adjustment progress, the United Kingdom raises its score to 4.0, up from 3.7, the eurozone average. However, this is partly caused by a one-off boost to income tax revenues in early 2017 that is unlikely to be repeated and by the compression in real unit labour costs due to the surge in inflation in the wake of the vote to leave the European Union.

**13.** In order to contain the damage from Brexit, the **United Kingdom** would need to improve its attractiveness for inward investment through significantly faster domestic structural reforms. Unfortunately, the pace of reforms seems to have slowed down recently. In addition, nominal labour costs are rising faster in the United Kingdom than in most other countries in the sample. This does not bode well for the United Kingdom’s competitive position in the future. For a country that needs to do more rather than less to improve its competitive position, the decision to put access to its dominant export market at risk looks somewhat foolhardy.

**14.** **Sweden** remains on the wrong track even if it is still far away from the danger zone. With an unchanged score of 6.6 in the Fundamental Health Indicator, it still exceeds the **eurozone** average of 5.9. However, Sweden (ranked No. 10 on fundamental health) is far behind **Germany** (No. 4, with a score of 7.3) and the **Netherlands** (No. 6, with a 7.1 score) largely because of Sweden’s relatively low ranking on competitiveness. More importantly, Sweden stays at the very bottom of the Adjustment Progress Indicator at No. 28 due partly to an insufficient pace of external and labour cost adjustment and a lack of pro-growth reforms. Even more than Germany, Sweden shows that success can breed complacency. Sweden is the only country among the bottom five in the Adjustment Progress

‘Poland still does fairly well. But it falls back due to a slower pace of structural reforms.’

Indicator that did not manage to raise its score in 2017 but actually let it worsen slightly instead.

**15.** Wealthy **Denmark** is showing many traits roughly in line with the European mainstream. Its 6.4 score on the Fundamental Health Indicator (giving it a No. 13 rank) is above the **eurozone** average of 5.8 largely because of Denmark’s comfortable fiscal position and a stronger growth potential. As a result, it can afford to be in the bottom third of the Adjustment Progress Indicator (No. 22). However, Denmark’s low scores for labour cost adjustment and reform efforts suggest that it needs to watch its competitive position. Within the Fundamental Health Indicator, Denmark’s score for competitiveness at 5.2 comes in below the eurozone average of 6.1.

**16.** **Poland** continues to do fairly well, with scores just above the eurozone average for both its fundamental health (No. 11) and its adjustment progress (No. 19, down from No. 16 last year). However, the Polish score for adjustment progress drops by 0.3 points largely due a much slower pace of structural reforms.

**17.** The three small open Baltic countries remain among the star performers with above-average scores for fundamental health and adjustment progress. As in previous years, **Estonia**, **Latvia** and **Lithuania** continue to slacken their adjustment efforts as visible in a decline in their respective scores. They can afford to relax the reins. Nonetheless, they may soon need to be more careful again in order to avoid a relapse into the excesses of the previous boom, which had to be corrected by a painful bust.

**18.** By and large, the other east European catching-up countries are also utilising the opportunity to integrate themselves closely into the European and global supply chain rather well. With the exception of **Croatia**, all of them achieve a Fundamental Health Indicator score that is above the **eurozone** average. On this count, **Czech Republic** remains the star performer (ranked No. 2 for fundamental health) well ahead of **Slovakia** (No. 7), **Romania** (No. 12), **Slovenia** (No. 15), **Hungary** (No. 16) and **Bulgaria** (No. 17). Most of these countries also exceed the eurozone average for adjustment progress, with Romania in the lead ahead of Croatia, Slovenia, Slovakia and the Czech Republic. As none of these countries falls short of the eurozone average on both counts, they do not seem to pose an economic problem for EU policymakers.

# II. Adjustment Progress Indicator

Table 3. Adjustment Progress Indicator

| Rank | | | Total score | | | External adjustment | | | Fiscal adjustment | | | Labour cost adj. | | | Reform drive | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2017 | 2016 | Country | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 |
| 1 | 1 | Greece | 7.4 | *-0.2* | 7.6 | 7.3 | *-0.1* | 7.4 | 6.9 | *-0.9* | 7.8 | 7.6 | *0.0* | 7.5 | 7.7 | *0.0* | 7.7 |
| 2 | 2 | Ireland | 6.9 | *0.0* | 6.8 | 5.9 | *-0.1* | 6.0 | 6.3 | *0.0* | 6.3 | 9.2 | *0.1* | 9.1 | 6.1 | *0.1* | 6.0 |
| 3 | 3 | Latvia | 6.1 | *-0.2* | 6.4 | 9.7 | *-0.3* | 9.9 | 5.5 | *-0.2* | 5.6 | 3.2 | *-0.3* | 3.5 | n.a. | *n.a.* | n.a. |
| 4 | 4 | Romania | 5.9 | *-0.2* | 6.1 | 7.1 | *-0.2* | 7.3 | 5.8 | *-0.2* | 6.0 | 4.9 | *-0.1* | 5.0 | n.a. | *n.a.* | n.a. |
| 5 | 5 | Spain | 5.9 | *-0.1* | 6.0 | 7.3 | *0.2* | 7.1 | 5.2 | *0.2* | 5.0 | 5.6 | *0.3* | 5.3 | 5.6 | *-0.9* | 6.5 |
| 6 | 7 | Cyprus | 5.6 | *0.0* | 5.6 | 3.8 | *0.1* | 3.7 | 5.5 | *-0.3* | 5.9 | 7.4 | *0.1* | 7.3 | n.a. | *n.a.* | n.a. |
| 7 | 8 | Portugal | 5.3 | *-0.1* | 5.4 | 6.3 | *0.3* | 6.0 | 4.6 | *0.4* | 4.2 | 5.0 | *-0.2* | 5.2 | 5.4 | *-0.8* | 6.3 |
| 8 | 6 | Lithuania | 5.3 | *-0.4* | 5.7 | 7.1 | *-0.6* | 7.7 | 7.0 | *-0.5* | 7.5 | 1.8 | *-0.3* | 2.0 | n.a. | *n.a.* | n.a. |
| 9 | 10 | Estonia | 5.1 | *-0.1* | 5.2 | 7.1 | *-0.4* | 7.5 | 2.7 | *-0.8* | 3.4 | 4.5 | *0.4* | 4.1 | 6.1 | *0.5* | 5.6 |
| 10 | 12 | Malta | 5.1 | *0.5* | 4.6 | 7.0 | *0.9* | 6.1 | 4.6 | *0.3* | 4.3 | 3.7 | *0.2* | 3.5 | n.a. | *n.a.* | n.a. |
| 11 | 9 | Croatia | 5.1 | *-0.4* | 5.4 | 6.2 | *0.1* | 6.0 | 3.1 | *-1.2* | 4.3 | 5.9 | *0.0* | 5.9 | n.a. | *n.a.* | n.a. |
| 12 | 11 | Slovenia | 5.0 | *0.0* | 5.0 | 7.4 | *0.6* | 6.9 | 5.7 | *0.0* | 5.7 | 4.6 | *0.4* | 4.2 | 2.3 | *-1.1* | 3.4 |
| 13 | 13 | Slovakia | 4.5 | *0.0* | 4.5 | 7.1 | *-0.1* | 7.2 | 4.7 | *0.3* | 4.4 | 1.9 | *-0.1* | 2.1 | 4.3 | *0.1* | 4.3 |
| 14 | 15 | Czech Republic | 4.2 | *-0.1* | 4.3 | 6.3 | *0.4* | 5.9 | 5.5 | *0.2* | 5.3 | 1.0 | *-0.4* | 1.4 | 4.1 | *-0.6* | 4.6 |
| 15 | 18 | Netherlands | 4.1 | *0.2* | 3.9 | 5.5 | *0.3* | 5.2 | 4.2 | *-0.2* | 4.4 | 3.1 | *0.2* | 2.9 | 3.6 | *0.5* | 3.1 |
| 16 | 17 | Bulgaria | 4.1 | *0.0* | 4.1 | 8.4 | *-0.5* | 8.9 | 3.8 | *0.8* | 3.1 | 0.0 | *-0.2* | 0.2 | n.a. | *n.a.* | n.a. |
| 17 | 20 | United Kingdom | 4.0 | *0.3* | 3.7 | 2.5 | *0.4* | 2.1 | 6.8 | *0.5* | 6.3 | 2.5 | *0.2* | 2.4 | 4.2 | *0.1* | 4.1 |
| 18 | 14 | Hungary | 3.9 | *-0.4* | 4.3 | 6.7 | *-0.3* | 7.0 | 2.6 | *0.2* | 2.4 | 3.0 | *-0.6* | 3.6 | 3.4 | *-0.9* | 4.2 |
| 19 | 16 | Poland | 3.9 | *-0.3* | 4.2 | 5.2 | *-0.2* | 5.5 | 5.6 | *0.2* | 5.4 | 0.4 | *-0.1* | 0.5 | 4.5 | *-0.8* | 5.3 |
| 20 | 19 | Italy | 3.8 | *-0.1* | 3.9 | 4.0 | *0.1* | 3.9 | 3.4 | *-0.2* | 3.6 | 3.6 | *0.3* | 3.3 | 4.3 | *-0.6* | 4.8 |
| | | Eurozone | 3.7 | *0.1* | 3.6 | 4.3 | *0.2* | 4.1 | 3.7 | *0.0* | 3.7 | 2.6 | *0.1* | 2.6 | 4.2 | *0.3* | 3.9 |
| 21 | 23 | Belgium | 3.4 | *0.5* | 2.9 | 4.4 | *0.4* | 4.0 | 2.6 | *0.4* | 2.2 | 2.9 | *0.3* | 2.6 | 3.5 | *0.9* | 2.6 |
| 22 | 21 | Denmark | 3.3 | *-0.1* | 3.4 | 3.8 | *0.2* | 3.6 | 2.4 | *0.0* | 2.5 | 3.4 | *-0.1* | 3.5 | 3.3 | *-0.7* | 4.0 |
| 23 | 22 | Luxembourg | 3.1 | *-0.2* | 3.3 | 4.3 | *0.1* | 4.3 | 2.7 | *-0.7* | 3.3 | 3.9 | *-0.3* | 4.2 | 1.6 | *0.2* | 1.4 |
| 24 | 24 | France | 3.0 | *0.2* | 2.8 | 2.2 | *-0.1* | 2.3 | 3.3 | *0.1* | 3.2 | 1.6 | *-0.1* | 1.7 | 4.8 | *0.8* | 4.0 |
| 25 | 25 | Austria | 2.9 | *0.3* | 2.6 | 3.3 | *0.4* | 2.9 | 2.7 | *-0.1* | 2.8 | 0.6 | *0.1* | 0.5 | 5.2 | *0.9* | 4.3 |
| 26 | 27 | Finland | 2.9 | *0.5* | 2.3 | 1.3 | *0.5* | 0.9 | 1.7 | *-0.1* | 1.8 | 4.6 | *1.8* | 2.8 | 3.8 | *-0.1* | 3.9 |
| 27 | 26 | Germany | 2.4 | *0.1* | 2.3 | 3.4 | *0.0* | 3.4 | 2.7 | *-0.3* | 3.0 | 0.4 | *-0.2* | 0.6 | 3.2 | *0.8* | 2.4 |
| 28 | 28 | Sweden | 2.2 | *-0.1* | 2.3 | 2.2 | *-0.1* | 2.3 | 2.1 | *0.0* | 2.1 | 1.7 | *0.2* | 1.5 | 2.8 | *-0.3* | 3.2 |

Ranks, scores and score changes for the adjustment progress indicator and sub-indicators. For further explanations see notes under Table 2 on page 7 and the Notes on Key Components on page 103.

‘We complement our analysis of fiscal tightening with a look at the composition of fiscal changes.’

The **Adjustment Progress Indicator** tracks the progress countries have made on the four most important measures of short- to medium-term adjustment: 1) the rise (or fall) in exports relative to imports in the external accounts; 2) the size and quality of any change in the fiscal deficit, adjusted for interest payments as well as cyclical and one-off factors; 3) changes in unit labour costs relative to the eurozone average; and 4) structural reforms.

The first three adjustment criteria measure changes that are almost immediately visible in hard economic data: fiscal tightening affects economic statistics almost instantaneously because it represses domestic demand and steers resources towards export-oriented activities. But the structural reforms measured in criterion No. 4 (structural reform) often work with a long time lag. While they may not show up in hard economic data for a while, they are a crucial element of the repair process.

We first calculate these four sub-indicators for each country on a scale of 0 (worst) to 10 (best). We then aggregate them to assign an overall Adjustment Progress Indicator score. We then calculate the relative ranking of each country, with the No. 1 rank assigned to the country with the highest and the No. 28 rank to the country with the lowest score. A good score on the Adjustment Progress Indicator shows that countries are improving rapidly and getting results in the key areas that their fiscal repair and structural reforms were meant to address.

For *The 2017 Euro Plus Monitor*, we add European Commission estimates for 2017 fiscal deficits and labour costs as well as hard data for exports and imports in late 2016 and the first half of 2017. In the section on fiscal adjustment, we complement our usual analysis of the size of a fiscal adjustment with a look at the composition of fiscal changes. Due to some revisions to back data, the scores presented here for 2016 differ modestly from the ones published in *The 2016 Euro Plus Monitor*.

‘Tough love has worked. The erstwhile euro crisis countries remain among the star performers.’

# II.1 Overall Adjustment

1. Europe continues to adjust. After three years of marginal decline, the score for adjustment progress in the **eurozone** rises slightly, driven mostly by a gain in exports, a further adjustment of labour costs and a faster pace of pro-growth structural reforms in **France**, **Austria**, **Belgium**, the **Netherlands** and – from a very low level – even in **Germany**.

2. Due to the adjustment efforts of the periphery in 2010- 2014 period and some recent progress at the core, the **eurozone** as a whole is turning into a more balanced and potentially more dynamic economy. While disparities within the area and within the overall **EU27** remain significant, they are diminishing somewhat. Most frontrunners for adjustment progress let their scores fall back slightly. With the exception of **Ireland** (ranked No. 2 for adjustment progress, with a marginal rise in the score to 6.9, up from 6.8 in 2016) and a stable score for **Cyprus** at 5.6, all other countries among the top nine let their scores fall modestly in the 2017 ranking. At the other end of the league table, four of the five worst-ranked countries managed to raise their score, with **Sweden** at the very bottom of the ranking being the exception to the rule.

3. Despite modest slippage among some erstwhile reform leaders at the euro periphery, as well as in **Italy**, significant gains in the **Netherlands** (No. 15 on the Adjustment Progress Indicator, up from No. 18 in 2016), **Belgium** (No. 21, up from No. 23) and **Malta** (No. 10, up from No. 12) as well as small improvements in **France** (No. 24), **Austria** (No. 25) and **Finland** (No. 26) helped to raise the overall score for the **eurozone** to 3.7, up from 3.6 last year. As in the previous five years, the aggregate score for the eurozone is held back by **Germany** (No. 27), which has only a limited need to adjust. Note that the scores rate the cumulative adjustment progress since 2007 (external adjustment), 2009 (fiscal and labour cost adjustment) or 2010 (structural reforms) and not just the adjustment made in the last twelve months for which data are available. A rise or decline in the score thus means that, in the previous 12 months, adjustment efforts increased or slackened relative to the average of the years before.

4. Tough love has worked. The five peripheral countries that received support from European facilities, often topped up by a contribution from the IMF, remain among the star performers in the Adjustment Progress Indicator. Taking the last seven years together, **Greece** (No. 1), **Ireland** (No. 2), **Spain** (No. 5), **Cyprus** (No. 6) and **Portugal** (No. 7) have adjusted more thoroughly than almost any other country in the sample. They had to do it. And they did it. This confirms the key results of the analysis in previous editions of *The Euro Plus Monitor*.

5. Since 2010, the **eurozone** has offered its weaker members a deal: we protect you against market turbulence and help to finance your budget if you slash your fiscal deficit and raise your growth potential through serious structural reforms. By and large, the approach is paying off. After surging to record levels, unemployment has come down noticeably in the reform countries since spring 2013 (see Chart 4 on page 12). Serious labour market reforms and wage restraint are paying off. The countries that stay the course could be in the early stages of a long-term surge in employment and incomes comparable to the one which started in **Germany** two years after its 2004 labour market reforms.

## ‘However, the rapid adjustment at the periphery triggered by the euro crisis is now mostly a story of the past.’

6. However, the rapid adjustment at the euro periphery triggered by the crisis and to some extent enforced by official creditors is now mostly a story of the past. Progress seems to have largely stalled at the **eurozone periphery** (see Chart 5 on page 13). The results of *The 2017 Euro Plus Monitor* confirm a trend that started in 2014: we detect a further slackening of adjustment efforts in three of the five countries that had to ask taxpayers from other European countries for help – namely in **Greece**, **Spain** and **Portugal** – while **Ireland** and **Cyprus** maintain their previous scores. By and large, the less stellar score for Greece, Spain and Portugal is part of the return to a more normal life after the end of the extraordinary times. Having compressed domestic demand and imports drastically during the crisis, they can breathe more normally again. Nonetheless, we need to watch the risk of reform reversals in all three countries, especially in Greece.

7. **Greece** remains a special case. Thanks to its heroic adjustment efforts in 2010-2013, Greece still leads the Adjustment Progress Indicator. However, the last three years have seen major shifts. In 2015, a futile confrontation with creditors weighed heavily on the Greek score. By sowing uncertainty and chasing capital out of the country in record amounts between late 2014 and July 2015, Greece weakened its economic and fiscal position dramatically at the time. Following some damage repair in 2016, the score for Greece falls slightly in 2017. This is largely the result of a weaker score for fiscal adjustment now than in 2016 when a major – and apparently temporary - push to raise tax revenues had raised the fiscal score somewhat artificially.

8. **Ireland** stays at the No. 2 position in the Adjustment Progress Indicator while **Spain** (No. 5) maintains its position despite a small decline in its score. This slippage stems exclusively from a much lower propensity to enact pro-growth reforms in a period of political uncertainty punctured by an election that had to be repeated for lack of a conclusive result. Fortunately, the rapid decline in Spanish unemployment and the strong rates of GDP growth suggest that Spain can afford some slippage in its efforts for a while. Looking ahead, however, Spain ought to do more to safeguard the progress it has made. Genuine reform reversals could put its position at serious risk, probably more so than the ongoing dispute with its restive Catalonia region. **Cyprus** (No. 6) and **Portugal** (No. 7) advance by one position in the ranking not because of a faster pace of adjustment but simply because Lithuania falls back to the No. 8 position, down from No. 6. As in the case of Spain the small decline in the Portuguese score reflects solely a reduced pace of structural reforms under its left-wing government.

9. Beyond the erstwhile euro crisis countries, two other groups of countries shine in the adjustment ranking. Despite some significant slippage in the last three years, the three small, relatively open Baltic economies remain in the top half of the league, with **Latvia** (No. 3) well ahead of **Lithuania** (No. 8) and **Estonia** (No. 9). Six years ago, Estonia led the league. Having successfully concluded the adjustment from its pre-Lehman boom-bust, the Baltic countries can afford to relax their efforts and reap the benefits of what they have achieved.

10. All of the catching-up economies of southern and eastern Europe are adjusting faster than the **eurozone** average, with **Romania** (No.4), **Croatia** (No. 11), **Slovenia** (No. 12) and **Slovakia** (No. 13) achieving particularly good scores largely because of rapid export growth. The other east-central and south-eastern European economies

## 'On an eight-year view, wage pressures have converged significantly within the eurozone.'

– such as the **Czech Republic** (No. 14), **Bulgaria** (No. 16), **Hungary** (No. 18) and **Poland** (No. 19) – also score modestly above the eurozone average despite noticeable slippage in Hungary and Poland caused by growing reluctance to pursue pro-growth reforms, a weaker external position and – especially in the case of Hungary - a strong increase in labour costs.

**11.** Taking the years since 2010 together, serious austerity in the fiscally challenged periphery and a virtual standstill in parts of core Europe have resulted in a significant fiscal convergence in the **eurozone** and the European Union as a whole. However, for better or worse, austerity is over. For the third year in a row, many European countries loosened the fiscal reins in 2017. In some cases, such as **Germany**, we can applaud that as a welcome fiscal stimulus. In other cases, such as those of **Italy**, **Portugal** and **Spain**, the turn away from post-crisis prudence looks a little premature.

**12.** *The 2017 Euro Plus Monitor* shows that external imbalances have diminished somewhat within the **eurozone**. As part and parcel of this adjustment progress, **Ireland**, **Italy**, **Portugal** and **Spain** have managed to turn major current account deficits into surpluses or at least a rough balance (Portugal). In this respect, they are no longer living beyond their means. The rapid rise in exports creates room for a rebound in imports while maintaining a surplus in net exports. For Ireland, Spain and Portugal, this recovery in domestic demand and imports combined with a rise in employment is the sweet taste of success.

**13.** On an eight-year view, **wage pressures** have also converged significantly within the **eurozone**. The erstwhile crisis countries have slashed their unit labour costs while German labour costs are rising at an above average rate. See Chart 1 on page 6.

**14.** **France** deserves special attention. France still has the most bloated share of public spending in percent of GDP among the countries surveyed and suffers from an overly rigid labour market and a pronounced lack of competitiveness.[5] Fortunately, we now find some noteworthy progress in France on a number of counts including some serious structural reforms and efforts to rein in government spending for 2016, and that came even before Emmanuel Macron became president with an explicit pro-reform agenda. According to the OECD, France turned into the leader for economic reforms among all major OECD countries (except Latvia) in the 2015-2016 period. Although the inflexible French labour market has not yet responded adequately to the challenge of globalisation, France has started to make progress. If France follows up on the labour market reform decrees signed on 22 September 2017 with further reforms to its social security, tax and welfare systems and manages to reduce the share of the public sector in GDP, it could turn into the most dynamic of the major economies in Europe in the coming decade (see the Special Focus on France on page 71).

**15.** Three other core members of the eurozone that suffer from traits of the French malaise, namely **Belgium** (No. 21, up from No. 23), **Austria** (still at No. 25) and **Finland** (No. 26, up from No. 27 in 2016), also show signs of improvement, although their scores for overall adjustment efforts remain well below the eurozone average. While Finland has managed to reduce its unit

5. See Holger Schmieding and Florian Hense, *The 2016 Euro Plus Monitor: Coping with the Backlash* (Brussels and London: The Lisbon Council and Berenberg, 2016).

## 'Italy has not lived up to the hopes which Matteo Renzi had raised with his labour market reform in 2015.'

labour costs significantly, helped by a rebound in exports and output. Belgium and Austria have implemented significantly more pro-growth structural reforms than before. Judging by the plans of its centre-right leader Sebastian Kurz whose party achieved the highest share of the vote in the 15 October 2017 election, Austria may step up the pace of reforms further in coming years. It still has a long way to go. However, it finally seems to be mostly on the right track.

16. **Italy** (No. 20, down from No. 19) has not lived up to the hopes which then-Prime Minister Matteo Renzi raised with his labour market reform in early 2015. One year ago, we detected signs of a potential turnaround in Italy in *The 2016 Euro Plus Monitor*. Extending the analysis with actual data for 2016 and estimates for 2017 now reveals significant slippage in Italy on two major counts. First, the pace of pro-growth structural reforms apparently decelerated sharply in 2016 as political uncertainty started to take hold ahead of the December 2016 referendum on constitutional reforms. Second, in a futile attempt to garner public support ahead of the referendum, Prime Minister Renzi relaxed Italy's fiscal reins. The fiscal stimulus continued under his successor, Prime Minister Paolo Gentiloni, in 2017. We are not concerned about the immediate outlook for the Italian economy. As the rising tide of the strong cyclical upswing in the eurozone lifts all boats and Italy seems to be finally making some progress in cleaning up bank balance sheets, the Italian economy can expand at a pace close to 1.5%, well below the eurozone average but far above its paltry record for the last 10 years. However, Italy's high debt burden still makes it vulnerable to potential bouts of market anxiety.

17. **Sweden** (No. 28) remains stuck at the bottom of the Adjustment Progress Indicator with another drop in the score largely because of its high labour costs and its reluctance to pursue pro-growth reforms.

18. The overall score for the **United Kingdom** (No. 19) improves by 0.3 points for three reasons. First, the devaluation of the sterling exchange rate in the wake of the 23 June 2016 vote to leave the European Union has helped to restrain import growth, lifting the score for external adjustment. Second, the surge in inflation caused by this devaluation reduced real unit labour costs in the United Kingdom, lifting the score for labour cost adjustment. Of course, British workers will not view this drag on their real living standards as a gain. Third, Her Majesty's Treasury could pocket a windfall rise in income tax receipts in early 2017 that, according to the Office for National Statistics, is unlikely to be repeated. As the data on the United Kingdom's structural fiscal balance from the European Commission, which we use as the basis for the analysis, do not correct for this effect, Britain's fiscal position this year paints a picture that is rosier than the long-run trend. Yet, abstracting from this one-off fiscal factor, the United Kingdom's fiscal position still seems to be improving somewhat on trend. The score for the United Kingdom also benefits from a comparatively growth-friendly composition of its fiscal changes.

The United Kingdom's score for reform drive also goes up by one notch as OECD data for the full 2010-2016 period now shows a marginally stronger propensity to reform than the data for 2010 to 2015 had done at the time of our last assessment in December 2016. However, this masks a longer-term problem. Looking at two-year periods, the pace of structural reforms in the United Kingdom has slowed sharply since 2011/2012 (see Chart 8 on page 40).

‘The eurozone has improved its external position because the former crisis countries have shaped up.’

## II.2 External Adjustment

Table 4. External Adjustment 2007-2017

| Rank | | | | | Change in net exports H2 2007 - H1 2017 | | | | | | | | Change in export ratio in percent points of GDP H2 2007 - H1 2017 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | In percent points of GDP | | | Relative to H2 2007, in percent | | | | | |
| 2017 | 2016 | Country | Score | *Change* | Score | *Change* | Percent | Score | *Change* | Percent | Score | *Change* | Percent | Score | *Change* |
| 1 | 1 | Latvia | **9.7** | *-0.3* | **9.5** | *-0.4* | 17.1 | **9.0** | *-0.8* | 40.3 | **10.0** | *0.0* | 20.1 | **10.0** | *0.0* |
| 2 | 2 | Bulgaria | **8.4** | *-0.5* | **8.7** | *-0.7* | 16.4 | **8.8** | *-0.6* | 31.8 | **8.6** | *-0.7* | 14.5 | **7.9** | *-0.3* |
| 3 | 10 | Slovenia | **7.4** | *0.6* | **6.6** | *0.2* | 12.0 | **7.2** | *0.3* | 18.4 | **5.9** | *0.2* | 17.8 | **9.2** | *1.2* |
| 4 | 5 | Greece | **7.3** | *-0.1* | **8.3** | *-0.2* | 10.1 | **6.6** | *-0.5* | 43.0 | **10.0** | *0.0* | 7.8 | **5.4** | *0.3* |
| 5 | 8 | Spain | **7.3** | *0.2* | **8.3** | *0.1* | 10.4 | **6.7** | *0.1* | 40.3 | **10.0** | *0.1* | 7.2 | **5.2** | *0.3* |
| 6 | 3 | Lithuania | **7.1** | *-0.6* | **5.7** | *-0.8* | 8.0 | **5.9** | *-0.8* | 16.2 | **5.4** | *-0.9* | 34.7 | **10.0** | *0.0* |
| 7 | 4 | Estonia | **7.1** | *-0.4* | **5.6** | *-0.5* | 9.0 | **6.2** | *-0.6* | 14.5 | **5.1** | *-0.5* | 24.7 | **10.0** | *0.0* |
| 8 | 7 | Slovakia | **7.1** | *-0.1* | **5.7** | *0.0* | 10.4 | **6.7** | *0.0* | 12.9 | **4.8** | *0.0* | 19.4 | **9.8** | *-0.2* |
| 9 | 6 | Romania | **7.1** | *-0.2* | **6.5** | *-0.5* | 7.8 | **5.8** | *-0.4* | 25.1 | **7.2** | *-0.7* | 15.1 | **8.1** | *0.4* |
| 10 | 11 | Malta | **7.0** | *0.9* | **7.5** | *1.9* | 19.3 | **9.7** | *2.6* | 14.9 | **5.2** | *1.2* | 9.5 | **6.0** | *-0.9* |
| 11 | 9 | Hungary | **6.7** | *-0.3* | **5.1** | *-0.4* | 8.1 | **5.9** | *-0.5* | 10.7 | **4.3** | *-0.3* | 27.2 | **10.0** | *0.0* |
| 12 | 15 | Czech Republic | **6.3** | *0.4* | **4.5** | *0.4* | 5.5 | **5.0** | *0.4* | 8.9 | **4.0** | *0.4* | 21.1 | **10.0** | *0.5* |
| 13 | 12 | Portugal | **6.3** | *0.3* | **5.7** | *0.0* | 6.0 | **5.2** | *0.0* | 20.0 | **6.2** | *0.1* | 13.5 | **7.6** | *0.7* |
| 14 | 13 | Croatia | **6.2** | *0.1* | **5.9** | *-0.1* | 7.5 | **5.7** | *-0.1* | 19.7 | **6.1** | *-0.1* | 11.1 | **6.7** | *0.5* |
| 15 | 14 | Ireland | **5.9** | *-0.1* | **3.9** | *-0.1* | 4.3 | **4.6** | *-0.1* | 4.7 | **3.1** | *-0.1* | 25.2 | **10.0** | *0.0* |
| 16 | 17 | Netherlands | **5.5** | *0.3* | **3.7** | *0.2* | 3.2 | **4.2** | *0.2* | 4.6 | **3.1** | *0.2* | 18.1 | **9.3** | *0.6* |
| 17 | 16 | Poland | **5.2** | *-0.2* | **4.5** | *-0.3* | 4.5 | **4.6** | *-0.3* | 11.2 | **4.4** | *-0.4* | 10.9 | **6.6** | *0.0* |
| 18 | 19 | Belgium | **4.4** | *0.4* | **2.2** | *0.2* | -1.5 | **2.6** | *0.2* | -2.0 | **1.8** | *0.2* | 16.9 | **8.8** | *0.8* |
| 19 | 18 | Luxembourg | **4.3** | *0.1* | **1.5** | *0.1* | -5.1 | **1.3** | *0.1* | -3.0 | **1.6** | *0.0* | 36.9 | **10.0** | *0.0* |
| | | Eurozone | 4.3 | *0.2* | 3.5 | *0.1* | 2.1 | 3.8 | *0.1* | 5.3 | 3.3 | *0.1* | 8.7 | 5.7 | *0.3* |
| 20 | 20 | Italy | **4.0** | *0.1* | **4.0** | *0.0* | 2.4 | **3.9** | *0.0* | 9.0 | **4.0** | *0.0* | 4.3 | **4.1** | *0.4* |
| 21 | 22 | Denmark | **3.8** | *0.2* | **3.3** | *0.1* | 1.8 | **3.7** | *0.1* | 3.5 | **2.9** | *0.1* | 6.5 | **4.9** | *0.5* |
| 22 | 21 | Cyprus | **3.8** | *0.1* | **3.8** | *0.5* | 3.1 | **4.2** | *0.5* | 5.7 | **3.3** | *0.6* | 3.8 | **3.9** | *-0.7* |
| 23 | 23 | Germany | **3.4** | *0.0* | **2.6** | *-0.1* | -0.1 | **3.1** | *-0.1* | -0.2 | **2.2** | *-0.1* | 7.0 | **5.1** | *0.3* |
| 24 | 24 | Austria | **3.3** | *0.4* | **2.7** | *0.3* | 0.1 | **3.1** | *0.3* | 0.2 | **2.2** | *0.3* | 5.6 | **4.6** | *0.6* |
| 25 | 27 | United Kingdom | **2.5** | *0.4* | **2.2** | *0.5* | -0.9 | **2.8** | *0.3* | -3.0 | **1.6** | *0.6* | 1.7 | **3.1** | *0.4* |
| 26 | 26 | Sweden | **2.2** | *-0.1* | **1.9** | *-0.2* | -2.0 | **2.4** | *-0.2* | -4.3 | **1.3** | *-0.2* | 1.5 | **3.0** | *0.1* |
| 27 | 25 | France | **2.2** | *-0.1* | **1.4** | *-0.2* | -2.3 | **2.3** | *-0.1* | -8.5 | **0.5** | *-0.3* | 3.5 | **3.8** | *0.1* |
| 28 | 28 | Finland | **1.3** | *0.5* | **0.7** | *0.3* | -4.8 | **1.4** | *0.6* | -11.7 | **0.0** | *0.0* | 0.4 | **2.6** | *0.8* |

Ranks, scores and score changes for external adjustment indicator and sub-indicators. Values given in percent are for H1 2017 over H2 2007: (1) change of net exports as a percent of GDP, (2) change of net export ratio as a percent of the starting level and (3) change in the export ratio in percentage points of GDP. For further explanations see notes under Table 2 on page 7 and the Notes on Key Components on page 103. Since a change in statistics in early 2015, Irish data for GDP, exports and imports have become difficult to interpret. We have tried to adjust the Irish data for that distortion.

## ‘Eastern Europe catching-up countries are integrating themselves well into the European economy.’

Some 10 years ago, persistent external deficits had made many countries at the eurozone periphery vulnerable to shocks. The deficits largely reflected credit-fuelled excesses in domestic consumption. In the wake of the post-Lehman financial crisis and the subsequent euro crisis, many European Union members needed to find a better domestic and external balance. To track progress in the external accounts, we examine two different aspects of 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. Beyond looking at the absolute shifts, we also assess them relative to the starting position of each country as measured by the pre-crisis share of exports in GDP in the second half of 2007. For *The 2017 Euro Plus Monitor*, we add data for the final quarter of 2016 and the first two quarters of 2017 to those data we had analysed a year ago already.

The overall results confirm the pattern we observed over the last six years. The **eurozone** as a whole has improved its external position since 2007 largely because the erstwhile crisis countries, notably **Greece**, **Ireland**, **Portugal** and **Spain**, have shaped up. Economies that were running excessive external deficits until 2007 (or 2009) have made so much progress that most of them can now afford to let imports rise in line with or even slightly faster than exports again.

Looking at the cumulative adjustment since 2007, three groups of countries continue to dominate the top half of the overall external adjustment-based ranking.

1. **Estonia**, **Latvia** and **Lithuania**, the three Baltic economies, have successfully staged an export-led recovery from their 2007-2009 crisis.

2. The peripheral countries that had to ask for external help during the euro crisis have turned their external positions around convincingly, although further progress is still required especially in **Cyprus** and – to some extent – in **Greece**.

3. Most of the catching-up economies in southern and eastern Europe are integrating themselves well into the European and global economy as seen by the significant rise in the share of exports in their GDP over time.

Despite some slippage, **Latvia** (No. 1) maintains its position as the best of the 28 countries in the sample by a wide margin, well ahead of **Bulgaria** (No. 2) and **Slovenia** (No. 3), followed by **Greece** (No. 4) and **Spain** (No. 5). Among the erstwhile euro crisis countries, **Portugal** (No. 13) and **Ireland** (No. 15) still achieve scores that are well above the eurozone average. **Cyprus** (No. 22), however, continues to lag behind.

All in all, we are starting to see some convergence towards the mean. Among the top 11 performers for external adjustment, only **Malta** (No. 10), **Slovenia** (No. 3) and **Spain** (No. 5) improve their scores further in 2017. All other top ranked countries allowed themselves a little slippage, largely because rebounding domestic demand has led to a rise in imports that is outpacing the continued gains in exports. By and large, we see this as a measure of success and not – or not yet - as a sign of complacency. Having improved their external balance very visibly, they can afford to relax the reins a little. The same holds for the eurozone as a whole, which has attained a comfortable external position.

Mirroring the still solid but declining scores for most of the top 11 performers, the scores for eight out of the bottom 11 countries improved slightly in 2017, with the stable score for **Germany** (No. 23) and modest

## ‘The United Kingdom has achieved even less than Italy in terms of external adjustment since 2007.’

declines for **Sweden** (No. 26) and **France** (No. 27) serving as the exceptions to the rule.

**Greece** (No. 4) remains a special case. Athens continues to get good marks for its overall external adjustment with a score of 7.3. But most of the improvement in Greece’s external position has come from a collapse in imports rather than a surge in exports. Political uncertainty, regulatory red tape and excessive taxes have hampered investment into export-oriented activities. That may help to explain why Greek exports are lagging far behind those of other countries at the euro periphery. The strong rise in its export share to 30.9% of GDP in 2015, up from 23.4% in the second half of 2007 reflected largely a decline in real GDP rather than a rise in real exports. Fortunately, the situation may be changing. After a setback caused by the chaos and the restricted access to finance in the wake of Greece’s futile confrontation with creditors in 2015, Greek exports seem to be rebounding again, reaching a strong 31.7% of GDP in the second quarter of 2017.

The two biggest eurozone members, **Germany** (No. 23 with a score of 3.4) and **France** (No. 27 with 2.2) remain close to the bottom of the league. Whereas the German score remains stable, the French score slips slightly as imports rose faster than exports. In the case of Germany, this makes perfect sense. As a country with an exceptionally strong external position, Germany can easily afford to consume more, raising its imports at a faster rate than its exports, as it did in 2016. For France, the decline in its score should be a reason for concern, as the share of exports (30.2% of GDP in the first half of 2017) remains low. France needs to do more to become competitive.

Outside the eurozone, the **United Kingdom** (No. 25) managed to raise its below-average score modestly as the plunge in the sterling exchange rate after the Brexit vote in June 2016 helped to raise exports while dampening the growth in imports. Nonetheless, the United Kingdom has achieved even far less than **Italy** (No. 20 with a marginal gain in score) in terms of external adjustment since 2007. **Sweden** (No. 26) and **Finland** (No. 28) remain close to the bottom of the ranking, although Finland finally managed to raise its dismal score to 1.3, up from 0.8, the second best gain in our sample after **Malta** (at 7.0, up by 0.9 points from 6.1).

Looking at the first sub-criterion – the rise in the share of net exports in GDP – **Malta** with its relatively small and very open economy managed the most impressive shift in its external balance by a total of 19.3 percentage points of GDP from the second half of 2007 to the first half of 2017. It is followed by **Latvia** (a 17.1 percentage point shift), **Bulgaria** (16.4 points) and **Slovenia** (12.0 points). The results are also quite impressive for **Spain** with a shift of 10.4 percentage points as it is a much bigger and hence less open economy than the other top ranked economies. **Slovakia** (with a shift of 10.4 points) and **Greece** (a shift of 10.1 points) also rank among the top performers for the turnaround in their net exports since 2007.

At the other end of the spectrum, the net export balance has deteriorated significantly in **Luxembourg** (-5.1 percentage points of GDP from the second half of 2007 to the first half of 2017), **Finland** (-4.8 points), **France** (-2.3 points), **Sweden** (-2.0 points) and **Belgium** (-1.5 point). Data for Malta and Luxembourg can be very volatile due the economy’s relatively small size compared to its (net) exports. For **Finland**, **Sweden** and **France**, the shift is too pronounced for comfort. See the data column on “change in net exports in percentage points of GDP” in Table 4 on page 22 for more.

The discussion in the section above refers to the cumulative shift in net exports since early 2017. If we merely look at the change in the last three quarters for which data have been published since *The 2016 Euro*

# 'The net export balance has recently deteriorated in many top-ranked economies.'

*Plus Monitor*, we find that the net export balance has deteriorated in many of the top-ranked economies, notably **Latvia**, **Bulgaria**, **Greece**, **Lithuania** and **Estonia** while – at the lower end of the ranking, it has improved for **Finland**, the **United Kingdom**, **Austria** and **Cyprus**.

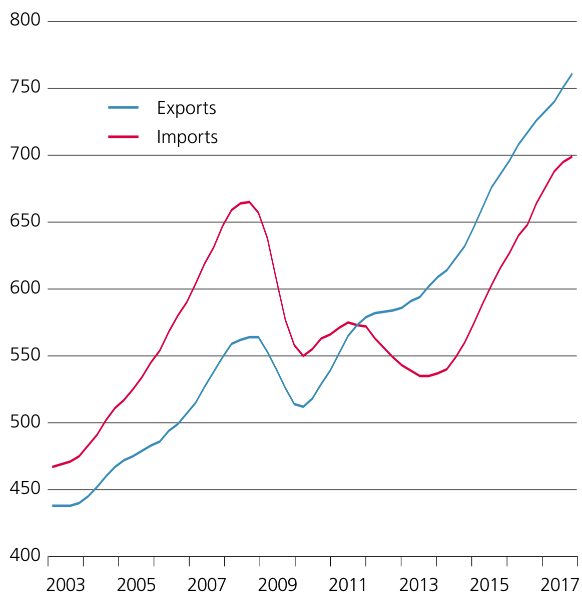
Of course, an analysis based merely on the shift in the balance of exports and imports as a share of GDP is somewhat unfair. Small open economies such as Ireland, Cyprus and the Baltic states find it much easier to shift resources from the domestically oriented to the export-oriented or import-competing 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 the first half of 2007.

To some extent, the results are similar: **Greece**, **Spain**, **Latvia** and **Bulgaria** stay at or close to the top whereas **Finland**, **France**, **Sweden**, the **United Kingdom**, **Luxembourg**, **Belgium**, **Germany** and **Austria** remain close to the bottom. Adjusted for its comparatively low starting level, another eurozone crisis economy – **Portugal** – as well as **Croatia** have also achieved impressive shifts. This confirms a major rebalancing within Europe. On this criterion, even **Italy** looks well above average as, relative to its weak starting level, it has turned around its external balance quite decisively. See the data column "change in net exports relative to H2 2007" in Table 4 on page 22.

In the immediate aftermath of the eurozone confidence crisis of 2011/2012, a closer look at the drivers of external adjustment revealed a dark side to story: in most erstwhile crisis countries and in particular in Greece, the net export position initially improved more through a collapse in imports than a rise in exports. However, this ceased to be the case in 2014. As the worst of the domestic fiscal squeeze ended in 2014, imports have rebounded in most reform countries for

Chart 6. Exports up, Imports Rebound at the Periphery

Real exports and imports of goods and services in Reform 4 countries in billions of euros, chain linked (base year = 2010)




Four-quarter rolling sum of real exports and imports for Reform 4 countries. Reform 4 countries are Greece, Ireland, Portugal and Spain. Source: Eurostat

more than three years already while the share of exports in GDP continues to grow (see Chart 6 above).

We thus complement our analysis of the net export position by a closer look at the change in the ratio of exports to GDP. See the data column "change in export ratio in percentage points of GDP" in Table 4 on page 22 for more. While **Spain** and **Portugal** have done well from the second half of 2007 to the first half of 2017, raising their export ratio by 7.2 and 13.5 percentage points of GDP, respectively, some of the small, open economies in the eurozone managed even more spectacular improvements. This holds especially for **Luxembourg** (+36.9 points) and **Lithuania** (+34.7 points) as well as for **Ireland** (+25.2 points), **Estonia** (+24.7 points) and **Latvia** (+20.1 points). Unsurprisingly, small open economies top the list.

‘Five of the top seven countries are either from the Baltic region or erstwhile euro crisis countries.’

On the opposite side of the spectrum, **Finland** has finally managed to recoup the post-crisis drop in its export ratio, raising the share of exports in GDP in the first half of 2017 to 0.4 percentage points above the second half of 2007 level. The results are also very weak for **Sweden** (+1.5 percentage points) and the **United Kingdom** (+1.7 percentage points). With overall gains in the export ratio by 3.5 and 4.3 percentage points, respectively, **France** and **Italy** also lag well behind the eurozone average of 8.7 points. Like the eurozone as a whole, however, both Italy and France managed to raise their export share slightly on balance over the last four quarters.

Combining the findings from the shift in net exports and the change in the export ratio into one ranking yields the results for overall external adjustment as shown in Table 4 on page 22. **Latvia** (No. 1) and **Bulgaria** (No. 2) maintain the top two slots despite a modest worsening in their scores. Helped by a 9% year-on-year rise in its exports in 1H 2017 that propelled its export-to-GDP ratio to 82.9% versus 80.1% in early 2016, **Slovenia** advances to No. 3, up from No. 10. Of course, Slovenia’s surge in the rankings stems not only from its own improvement but also from the recent slippage in most of the other top-ranked countries.

Five of the top seven countries in the ranking for external adjustment are either from the Baltic region (**Estonia**, **Latvia** and **Lithuania**) or erstwhile euro crisis countries (**Greece** and **Spain**). Of course, comparing these – and other – groups of countries to each other can be misleading. The time available for adjustment matters. Hit by the bursting of domestic bubbles, the Baltic countries started their wrenching adjustment earlier than most of the countries affected by the euro-confidence crisis. They have had more time to achieve results.

Going forward, we expect the pace of external adjustment to remain largely steady in the **eurozone**. Export growth should remain satisfactory as we expect the global economy to expand by 2.8% in the next two years, in line with the 2.7% growth which we estimate for 2017.[6] As part and parcel of the overall recovery of the eurozone, its members will likely be able to export more to each other. At the same time, in an economic recovery driven mostly by domestic demand, imports will likely rise at least as fast as exports for most countries in the sample. If so, we would view that as a healthy development. Unfortunately, the **United Kingdom** will likely continue to lag behind as the Brexit decision weighs on its supply potential by curtailing net immigration of skilled workers from elsewhere in the EU and by restraining investment growth.

6. See “Forecasts at a Glance,” *Berenberg*, 24 November 2017.

‘Countries most in need of fiscal repair did impose serious austerity from 2010 until 2013.’

# II.3 Fiscal Adjustment

**Table 5. Fiscal Adjustment (overall) 2009-2017**

| Rank | | | | | Size of adjustment | | Quality of adjustment | |
|---|---|---|---|---|---|---|---|---|
| 2017 | 2016 | Country | Score | *Change* | Score | *Change* | Score | *Change* |
| 1 | 2 | Lithuania | 7.0 | -0.5 | 5.9 | -0.8 | 8.1 | -0.1 |
| 2 | 1 | Greece | 6.9 | -0.9 | 9.0 | -0.7 | 4.9 | -1.0 |
| 3 | 3 | United Kingdom | 6.8 | 0.5 | 7.0 | 0.8 | 6.6 | 0.1 |
| 4 | 4 | Ireland | 6.3 | 0.0 | 7.1 | 0.3 | 5.5 | -0.2 |
| 5 | 5 | Romania | 5.8 | -0.2 | 6.3 | -1.0 | 5.4 | 0.5 |
| 6 | 7 | Slovenia | 5.7 | 0.0 | 5.0 | -0.5 | 6.4 | 0.5 |
| 7 | 9 | Poland | 5.6 | 0.2 | 7.0 | 0.0 | 4.2 | 0.3 |
| 8 | 6 | Cyprus | 5.5 | -0.3 | 6.4 | -0.6 | 4.7 | 0.0 |
| 9 | 10 | Czech Republic | 5.5 | 0.2 | 7.7 | -0.1 | 3.3 | 0.5 |
| 10 | 8 | Latvia | 5.5 | -0.2 | 6.7 | -0.4 | 4.2 | 0.1 |
| 11 | 11 | Spain | 5.2 | 0.2 | 5.6 | -0.1 | 4.7 | 0.4 |
| 12 | 13 | Slovakia | 4.7 | 0.3 | 6.6 | 0.0 | 2.8 | 0.5 |
| 13 | 14 | Malta | 4.6 | 0.3 | 3.5 | -0.3 | 5.7 | 1.0 |
| 14 | 16 | Portugal | 4.6 | 0.4 | 6.4 | -0.1 | 2.7 | 0.8 |
| 15 | 12 | Netherlands | 4.2 | -0.2 | 4.0 | -0.7 | 4.4 | 0.3 |
| 16 | 21 | Bulgaria | 3.8 | 0.8 | 4.2 | -0.1 | 3.5 | 1.6 |
| | | Eurozone | 3.7 | 0.0 | 3.8 | -0.2 | 3.7 | 0.2 |
| 17 | 17 | Italy | 3.4 | -0.2 | 2.5 | -0.7 | 4.3 | 0.3 |
| 18 | 20 | France | 3.3 | 0.1 | 3.9 | 0.2 | 2.7 | 0.1 |
| 19 | 15 | Croatia | 3.1 | -1.2 | 4.2 | -0.7 | 2.0 | -1.7 |
| 20 | 23 | Austria | 2.7 | -0.1 | 1.5 | -0.1 | 3.9 | -0.2 |
| 21 | 22 | Germany | 2.7 | -0.3 | 2.3 | -0.5 | 3.0 | -0.2 |
| 22 | 18 | Estonia | 2.7 | -0.8 | 0.6 | -1.1 | 4.7 | -0.5 |
| 23 | 19 | Luxembourg | 2.7 | -0.7 | 0.3 | -1.3 | 5.0 | 0.0 |
| 24 | 25 | Hungary | 2.6 | 0.2 | 0.0 | -0.4 | 5.3 | 0.8 |
| 25 | 26 | Belgium | 2.6 | 0.4 | 1.7 | 0.4 | 3.4 | 0.4 |
| 26 | 24 | Denmark | 2.4 | 0.0 | 0.3 | -0.3 | 4.6 | 0.3 |
| 27 | 27 | Sweden | 2.1 | 0.0 | 0.0 | 0.0 | 4.2 | -0.1 |
| 28 | 28 | Finland | 1.7 | -0.1 | 0.0 | -0.3 | 3.4 | 0.1 |

Ranks, scores and score changes for Fiscal Adjustment Indicator and sub-indicators. The overall score is the average of the separate subscores for the size and the quality of the fiscal adjustment. The change in scores refers to the difference between the scores for the fiscal adjustment 2009-2017 and the 2009-2016 period. See the notes below Table 6 on page 29 and Table 7 on page 33 for details. For further explanations see notes under Table 2 on page 7.

## 'Do countries rely more on tax hikes or expenditure cuts to improve their fiscal position?'

Countries that have lived beyond their means need to tighten their belts. Since 2011, we have tracked the fiscal adjustment of European Union member countries in the wake of the post-Lehman Brothers collapse recession and the euro confidence crisis. The results have consistently shown that 1) the countries most in need of fiscal repair did impose serious austerity on their economies in the years from 2010 onwards and 2) that these adjustment efforts slackened significantly after 2013.

In *The 2017 Euro Plus Monitor*, we broaden the analysis. We first look at the size of the overall fiscal adjustment relative to a country's adjustment needs, as we have done in previous editions of *The Euro Plus Monitor*. Then, we add a look at the quality of the adjustment. This analysis has three facets: First, do countries rely more on tax hikes or expenditure cuts to repair their public finances? Second, do they restructure the composition of public expenditure towards (or away from) investment in infrastructure and education? Third, do they raise taxes on consumption including petrol taxes or stifle economic incentives by relying mostly on higher taxes on incomes and profits? Earlier this year, we assessed the quality of fiscal adjustment in *The Euro Plus Monitor September 2017 Update*.[7] Now, for the full *Euro Plus Monitor*, we include estimates for countries' 2017 fiscal positions and thus go beyond the preliminary results first presented in September 2017.

Table 5 on page 27 presents the results of the combined assessment of the size and the quality of fiscal adjustment. Largely because of the Herculean scope of its fiscal adjustment until 2013, **Greece** (No. 2) remains one of the star performers. However, following some fiscal slippage in 2017 and after a new bout of serious austerity in 2016 and due to an excessive reliance on raising tax revenues, Greece no longer gets the top spot which it had maintained in all previous editions of *The Euro Plus Monitor*, which looked at the size shift in the fiscal stance only. Greece is now surpassed by **Lithuania** (No. 1). The **United Kingdom** maintains the No. 3 position with a score only slightly below that of Greece. The big difference with Greece is that the United Kingdom, while tightening its fiscal stance much less aggressively than Greece, gets much better marks than Greece – and all other countries except Lithuania - for the quality of its fiscal repair after 2009. In our ranking, the United Kingdom is the prime beneficiary of the broadening of the analysis to include the quality and not just size of fiscal adjustment.

Beyond Greece, the other countries that had to ask other eurozone taxpayers for help in the euro crisis also achieve scores well above the eurozone average for their overall fiscal adjustment efforts since 2009, with a particular good result for **Ireland** (No. 4 again) and satisfactory scores for **Spain** (No. 11 again) and **Portugal** (No. 14, up from No. 16). **Germany** (No. 21) gets below-average marks for both the size and the quality of its fiscal adjustment efforts. Having enjoyed a modest fiscal surplus for the last four years running, Germany has little need to adjust its fiscal policy, although some additional well-targeted spending on infrastructure bottlenecks (local roads in some federal states, the digital economy) as well as child-care and education would certainly help. Although Germany has gone through hardly any austerity since 2009, its sustainability gap remains so small that it could easily afford the small fiscal stimuli of 0.3% of GDP in 2015 and 0.1% each in 2016 and 2017. Germany continues to benefit from the rapid rise in employment and tax receipts unleashed by its 2004 labour market reforms.

For **Italy** (No. 17), **Austria** (No. 20) and **Belgium** (No. 25), their below-average scores for fiscal

7. Holger Schmieding and Florian Hense, *The Euro Plus Monitor September 2017 Update* (Brussels and London: The Lisbon Council and Berenberg, 2017).

# ‘Austerity is largely over in Europe.’

Table 6. Size of Fiscal Adjustment 2009-2017

| Rank | | | Change in structural primary balance 2009-2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | in percent points of GDP | | | in percent of required shift | | |
| 2017 | 2016 | Country | Score | *Change* | Percent | Score | *Change* | Percent | Score | *Change* |
| 1 | 1 | Greece | **9.0** | *-0.7* | 15.5 | **10.0** | *0.0* | 74.4 | **7.9** | *-1.4* |
| 2 | 2 | Czech Republic | **7.7** | *-0.1* | 5.4 | **5.3** | *-0.2* | 131.2 | **10.0** | *0.0* |
| 3 | 7 | Ireland | **7.1** | *0.3* | 8.2 | **7.3** | *0.3* | 66.0 | **7.0** | *0.3* |
| 4 | 11 | United Kingdom | **7.0** | *0.8* | 7.5 | **6.8** | *0.7* | 67.5 | **7.2** | *1.0* |
| 5 | 5 | Poland | **7.0** | *0.0* | 5.2 | **5.2** | *0.0* | 82.4 | **8.8** | *0.0* |
| 6 | 4 | Latvia | **6.7** | *-0.4* | 2.8 | **3.4** | *-0.9* | 172.4 | **10.0** | *0.0* |
| 7 | 9 | Slovakia | **6.6** | *0.0* | 5.9 | **5.6** | *0.0* | 70.4 | **7.5** | *0.0* |
| 8 | 10 | Portugal | **6.4** | *-0.1* | 7.7 | **7.0** | *-0.1* | 55.1 | **5.9** | *-0.1* |
| 9 | 6 | Cyprus | **6.4** | *-0.6* | 6.9 | **6.4** | *-0.6* | n.a. | **n.a.** | *n.a.* |
| 10 | 3 | Romania | **6.3** | *-1.0* | 6.1 | **5.8** | *-0.8* | 63.4 | **6.7** | *-1.2* |
| 11 | 8 | Lithuania | **5.9** | *-0.8* | 5.6 | **5.4** | *-0.6* | 59.8 | **6.4** | *-1.0* |
| 12 | 12 | Spain | **5.6** | *-0.1* | 6.8 | **6.3** | *-0.1* | 46.9 | **5.0** | *-0.1* |
| 13 | 13 | Slovenia | **5.0** | *-0.5* | 4.2 | **4.4** | *-0.4* | 52.6 | **5.6** | *-0.7* |
| 14 | 14 | Croatia | **4.2** | *-0.7* | 3.9 | **4.2** | *-0.7* | n.a. | **n.a.** | *n.a.* |
| 15 | 16 | Bulgaria | **4.2** | *-0.1* | 3.8 | **4.2** | *-0.1* | n.a. | **n.a.** | *n.a.* |
| 16 | 15 | Netherlands | **4.0** | *-0.7* | 3.5 | **3.9** | *-0.5* | 39.4 | **4.2** | *-0.8* |
| 17 | 18 | France | **3.9** | *0.2* | 3.1 | **3.7** | *0.1* | 38.8 | **4.1** | *0.2* |
| | | Eurozone | **3.8** | *-0.2* | 2.8 | **3.5** | *-0.1* | 38.4 | **4.1** | *-0.3* |
| 18 | 17 | Malta | **3.5** | *-0.3* | 2.9 | **3.5** | *-0.3* | n.a. | **n.a.** | *n.a.* |
| 19 | 19 | Italy | **2.5** | *-0.7* | 1.5 | **2.5** | *-0.4* | 23.1 | **2.5** | *-0.9* |
| 20 | 20 | Germany | **2.3** | *-0.5* | 0.4 | **1.7** | *-0.1* | 27.6 | **2.9** | *-0.9* |
| 21 | 24 | Belgium | **1.7** | *0.4* | 1.1 | **2.2** | *0.3* | 12.0 | **1.3** | *0.4* |
| 22 | 23 | Austria | **1.5** | *-0.1* | 0.7 | **1.9** | *-0.1* | 9.8 | **1.0** | *-0.1* |
| 23 | 21 | Estonia | **0.6** | *-1.1* | -0.2 | **1.3** | *-0.4* | 0.0 | **0.0** | *n.a.* |
| 24 | 22 | Luxembourg | **0.3** | *-1.3* | -1.2 | **0.6** | *-1.0* | 0.0 | **0.0** | *n.a.* |
| 25 | 25 | Denmark | **0.3** | *-0.3* | -1.2 | **0.6** | *-0.6* | 0.0 | **0.0** | *0.0* |
| 26 | 27 | Finland | **0.0** | *-0.3* | -2.0 | **0.0** | *-0.5* | 0.0 | **0.0** | *0.0* |
| 27 | 26 | Hungary | **0.0** | *-0.4* | -2.5 | **0.0** | *-0.8* | 0.0 | **0.0** | *0.0* |
| 27 | 28 | Sweden | **0.0** | *0.0* | -2.8 | **0.0** | *0.0* | 0.0 | **0.0** | *0.0* |

Ranks, scores and score changes for Size of Fiscal Adjustment Indicator and its sub-indicators. Values: (1) 2009-2017 change in structural primary balance in % of GDP and (2) as a share of the required fiscal shift until 2020, adjusted for age-related spending. For further explanations see notes under Table 2 on page 7.

adjustment are a much greater concern because these countries have an above-average need to adjust. Unfortunately, Italy and Austria fell back further in 2017 whereas Belgium managed to improve its score.

Table 6 above presents the results of the analysis of the size of fiscal adjustment in all 28 member states since 2009. The table is comparable to those in previous editions of *The Euro Plus Monitor* in which we looked only at the size but not at the quality of fiscal adjustment. The data show that, for better or worse, austerity is largely over in Europe. For the third year in a row, many European countries loosened the fiscal reins somewhat in 2017. In some cases such as that of **Germany**, **Estonia**, **Lithuania**, **Latvia** and the **Czech Republic**, we can applaud that as a welcome stimulus from countries which can afford it due to their strong fiscal position. In other cases such as that of **Italy**,

## ‘With a loosening of the reins, Italy has added to the fiscal challenges it will face in the future.’

the turn away from their post-crisis fiscal repair looks premature. While politically understandable, Italy has added to the fiscal challenges it will face in the future. Going forward, even countries with solid public finances should ask themselves whether the current period of above-trend-growth is the right time to add a further fiscal stimulus.

To analyse shifts in the fiscal policy stance, we examine the structural primary balance of the general government accounts. These data adjust the actual fiscal balance for the impact of the short-term business cycle, interest payments and some significant one-off factors such as public funding for a recapitalisation of banks.[8]

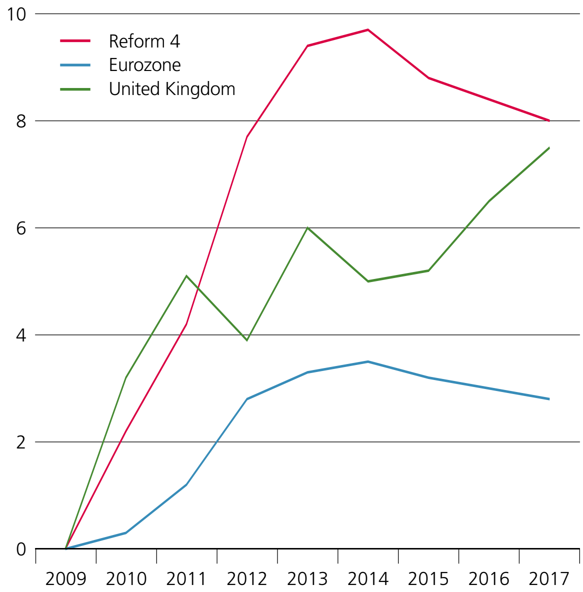
Using the latest European Commission data and estimates for 2017 as the basis for analysis, four results stand out:

1. Taking the last eight years together, the countries that were most in need of reining in their excessive deficits have made serious progress, with **Greece** (with a 15.5 point shift in the structural primary balance from 2009 to 2017) well ahead of **Ireland** (an 8.2 point shift), **Portugal** (a 7.7 point shift), the **United Kingdom** (a 7.5 point shift), **Cyprus** (a 6.9 point shift) and **Spain** (a 6.8 point shift). All five eurozone countries that had to ask taxpayers in other countries for support – and the almost equally fiscally challenged United Kingdom - are running a much tighter fiscal policy than they did in 2009 (see Chart 7 at right).

2. Following **Greece**’s futile confrontation with creditors in the first half of 2015, the Greek economic and fiscal outlook deteriorated so much by mid-2015 that Greece needed a new and painful adjustment programme including harsh additional austerity in 2016 to regain some of the investor confidence it had shattered under Finance Minister Yanis Varoufakis in early 2015. Whereas **Cyprus** and **Spain** relaxed their fiscal stance significantly in both 2016 and 2017 and **Portugal** granted itself a small stimulus in these two years, Greece’s primary structural balance improved a lot in 2016 due to higher tax receipts, only to fall back to the 2015 position in 2017. The return of Greece’s underlying fiscal balance in 2017 to its 2015 level shows up in a less stellar score for Greece’s cumulative fiscal adjustment since 2009 in the 2017 ranking.

### Chart 7: Fiscal Adjustment 2009-2017

Cumulative change in structural primary fiscal balance since 2009 in percent of GDP




Reform 4 countries are Greece, Ireland, Portugal and Spain.
Source: European Commission

8. The underlying data used in the next section is from the European Commission Autumn 2017 forecasts.

## ‘With solid growth in aggregate demand, no artificial fiscal stimulus is required.’

**3.** A number of countries with a fairly comfortable fiscal starting position such as **Germany** (No. 20 in the ranking for the size of the fiscal adjustment) and **Estonia** (No. 23) have hardly changed their fiscal stance over these eight years while some other countries have relaxed the fiscal reins either modestly in the case of **Luxembourg** (No. 24) and **Denmark** (No. 25) or significantly in the case of **Finland** (No. 26), **Hungary** and **Sweden** (which share the No. 27 spot). On an eight-year view, serious tightening in the fiscally challenged periphery and a virtual standstill in parts of the core have resulted in a significant convergence of fiscal policy in the **eurozone** and the European Union as a whole.

**4.** By and large, fiscal repair has given way to a looser policy stance in the last three years. After a cumulative fiscal correction of 3.4% of GDP from 2009 to 2014 brought the **eurozone**’s structural primary balance to +1.6% in 2014, governments relaxed the fiscal reins marginally by 0.2% of GDP per year in 2015, 2016 and 2017. We expect a similar stimulus of 0.2% of GDP in 2018, driven partly by more government spending and modest tax cuts in **Germany**.

All in all, the turn from austerity to a small fiscal stimulus is quite understandable for most countries of the **eurozone**. As Chart 11 on page 59 shows, the rise in public debt in the eurozone since 1999 has been far less pronounced than in the **United States** and the **United Kingdom**. Largely because of Germany’s exceptionally strong fiscal position, the ratio of public debt to GDP declined in the eurozone for the third year in a row in 2017. With real GDP growth of around 2.2% and thus well above the 1.5% trend, we project further and a more broad-based improvement in the fiscal situation of most eurozone countries in 2018.[9] However, countries need to not overdo any fiscal relaxation during the current cyclical upswing. With solid growth in aggregate demand, no artificial stimulus is required. Instead, additional expenditure should be well targeted to increase an economy’s supply potential and to correct the most glaring deficiencies in the welfare system in a way that enhances rather than stifles incentives to work. An excessive expansion of public spending could otherwise haunt countries if and when the business cycle turns down again, as it will do eventually.

Of course, the size of the fiscal shift over time tells only half the story. We have to relate it to the actual adjustment needed. In 2014, the International Monetary Fund estimated how much countries would have to shift their cyclically adjusted primary balance between 2014 and 2020 to get to a deficit-to-GDP ratio of 60% by 2030, also adding an adjustment for age-related spending.[10] We take these numbers – including their underlying assumptions – and add the actual adjustment progress in 2017 over 2009. We then relate the actual shift in the fiscal stance between 2009 and 2017 to the initial estimates of the required shift.

On this measure, **Latvia** and the **Czech Republic** made the most progress over the last eight years taken together, as shown in the column on “fiscal adjustment in percent of required shift” in Table 6 on page 29 with progress even beyond what the IMF

9. See “Forecasts at a Glance,” Berenberg, op.cit.

10. International Monetary Fund, *Fiscal Monitor 2014* (Washington DC: IMF, 2014); *Ibid. Fiscal Monitor 2013* (Washington DC, IMF, 2013). These estimates are subject to revision. They also deviate somewhat from the estimates of the European Commission. The EU and IMF estimates of how much countries are shifting their cyclically adjusted primary balances are usually similar but not identical. See also Schmieding and Hense, “Notes on Key Components, Fiscal Sustainability,” in *The 2016 Euro Plus Monitor: Coping with the Backlash* (Brussels and London: The Lisbon Council and Berenberg), as well as the further explanations at the bottom of page 28 of that report.

## 'Size matters. But it is not the only criterion to assess changes in a country's fiscal stance.'

originally estimated as required. They are followed by **Poland**, **Greece**, **Slovakia**, the **United Kingdom**, **Ireland** and **Romania**.

We combine both fiscal adjustment measures, namely the estimated total shift between 2009 and 2017 in absolute terms and the adjustment so far relative to the total adjustment need until 2020, for the overall fiscal adjustment score. The picture is rather mixed. After major gains across the eurozone periphery until 2014 and some up and down in 2015 and 2016, the overall score worsened significantly for **Greece** (No. 1) and **Cyprus** (No. 9). Among the erstwhile euro crisis countries, **Portugal** and **Spain** also allowed themselves some fiscal slippage whereas Ireland raised its score  modestly, correcting the decline seen last year.

The **United Kingdom** (No. 4, up from No. 11 in 2016) managed to improve its score in a meaningful way again in 2017 due to a fiscal tightening worth 1% of its GDP, following similar progress in 2016.

The low ranking for **Germany** (No. 20, unchanged from 2016) needs to be seen in context. Although Germany has gone through hardly any austerity since 2009, its sustainability gap remains so small that it could easily afford its small fiscal stimuli of 0.3% of GDP in 2015 and 0.1% a year in 2016 and 2017. As it continues to benefit from the rapid rise in employment and tax receipts unleashed by its 2004 labour market reforms, Germany had the fiscal space for the extra spending on refugees from late 2015 onwards and for additional initiatives to upgrade its infrastructure. Although real government consumption in Germany rose by 3.7% in 2016, the country achieved a healthy fiscal surplus of around 0.8% of GDP last year. With the rise in public spending slowing down again in 2017 after the end of the acute refugee crisis and supported by strong expansion in GDP of around 2.5%, Germany seems to be on track for a fiscal surplus of 1% of GDP this year.

For **Italy** (No. 19), **Belgium** (No. 21) and **Austria** (No. 22), their below-average scores for the size of their fiscal adjustment are a much greater concern because these countries have an above-average need to rein in public spending. Whereas Belgium at least improved its score in 2017, Italy and – to a much smaller extent – Austria fell back further on this count in 2017.

Size matters. But it is not the only criterion to assess changes in a country's fiscal stance. If a country slims down its public sector and distributes the savings through tax cuts (Criterion 1), it can strengthen its private sector and enhance its growth potential. If it tightens fiscal policy by placing more burdens on businesses instead of raising consumption taxes (Criterion 2), it may do more harm than good if it chases away capital. But if it restructures public expenditure away from consumption to investment in infrastructure and education without changing the overall level of public expenditure (Criterion 3), it may reap significant benefits in the future.

In *The 2017 Euro Plus Monitor*, we expand the analysis of the size of fiscal adjustment to include a closer look at the quality of fiscal policy, putting equal weight on each of the three criteria mentioned above. In each case, we compare the average of the last two years for which data are available (2015/2016 or 2014/2015) to those for 2009. Unsurprisingly, the resulting ranking in Table 7 on page 33 differs significantly from that for the sheer size of fiscal changes. **Lithuania** (No. 1) excels because it has managed to slim down its public sector with both spending and tax cuts. The **United Kingdom** (No. 2) does well on all our three criteria for the quality of fiscal adjustment.

# ‘Most of the former euro crisis countries feature in the top half of the quality ranking.’

Table 7. Quality of Fiscal Adjustment 2009-2017

| Rank | | | Change in composition of public finances 2009-2017 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Spending and tax cuts | | | Productive expenditure | | | Non-distortionary taxes | | |
| 2017 | 2016 | Country | Score | *Change* | Percent | Score | *Change* | Percent | Score | *Change* | Percent | Score | *Change* |
| 1 | 1 | Lithuania | **8.1** | *-0.1* | 6.8 | **10.0** | *0.0* | 0.6 | **6.3** | *-0.3* | n.a. | **n.a.** | *n.a.* |
| 2 | 2 | United Kingdom | **6.6** | *0.1* | 3.5 | **7.7** | *0.0* | 0.5 | **6.2** | *0.4* | 3.6 | **6.0** | *0.1* |
| 3 | 4 | Slovenia | **6.4** | *0.5* | 2.4 | **6.8** | *1.0* | 0.8 | **6.6** | *0.7* | 3.3 | **5.7** | *-0.3* |
| 4 | 10 | Malta | **5.7** | *1.0* | -1.2 | **3.5** | *1.5* | 1.7 | **7.9** | *0.5* | n.a. | **n.a.** | *n.a.* |
| 5 | 5 | Ireland | **5.5** | *-0.2* | 14.0 | **10.0** | *0.0* | -0.5 | **4.7** | *0.1* | -1.0 | **1.8** | *-0.8* |
| 6 | 8 | Romania | **5.4** | *0.5* | 4.4 | **8.5** | *1.3* | -2.0 | **2.3** | *-0.2* | n.a. | **n.a.** | *n.a.* |
| 7 | 11 | Hungary | **5.3** | *0.8* | -3.8 | **1.1** | *1.1* | 2.3 | **8.9** | *1.5* | 3.4 | **5.9** | *-0.1* |
| 8 | 7 | Luxembourg | **5.0** | *0.0* | 2.2 | **6.5** | *-0.6* | -0.4 | **4.8** | *1.0* | 1.1 | **3.7** | *-0.5* |
| 9 | 3 | Greece | **4.9** | *-1.0* | -3.8 | **1.1** | *-2.7* | 0.7 | **6.5** | *-0.3* | 4.8 | **7.1** | *-0.1* |
| 10 | 9 | Cyprus | **4.7** | *0.0* | 2.6 | **6.9** | *-0.2* | -1.9 | **2.5** | *0.1* | n.a. | **n.a.** | *n.a.* |
| 11 | 6 | Estonia | **4.7** | *-0.5* | 1.3 | **5.7** | *-1.4* | -0.7 | **4.3** | *-0.3* | 1.5 | **4.0** | *0.3* |
| 12 | 14 | Spain | **4.7** | *0.4* | 1.6 | **6.0** | *0.3* | -2.9 | **0.9** | *0.4* | 4.8 | **7.1** | *0.7* |
| 13 | 12 | Denmark | **4.6** | *0.3* | 2.5 | **6.8** | *0.7* | 0.7 | **6.5** | *0.1* | -2.4 | **0.5** | *0.0* |
| 14 | 15 | Netherlands | **4.4** | *0.3* | 2.1 | **6.5** | *0.6* | -0.2 | **5.1** | *0.1* | -1.2 | **1.7** | *0.1* |
| 15 | 18 | Italy | **4.3** | *0.3* | -1.5 | **3.2** | *0.4* | -0.5 | **4.6** | *-0.2* | 2.5 | **5.0** | *0.6* |
| 16 | 16 | Latvia | **4.2** | *0.1* | -2.4 | **2.4** | *-0.3* | 0.0 | **5.4** | *0.1* | 2.3 | **4.8** | *0.4* |
| 17 | 13 | Sweden | **4.2** | *-0.1* | 0.7 | **5.2** | *-0.5* | -0.1 | **5.2** | *0.4* | -0.7 | **2.1** | *-0.2* |
| 18 | 19 | Poland | **4.2** | *0.3* | 3.5 | **7.7** | *0.1* | -0.8 | **4.1** | *0.9* | -2.2 | **0.7** | *0.0* |
| 19 | 17 | Austria | **3.9** | *-0.2* | 0.3 | **4.8** | *0.2* | -0.2 | **5.0** | *-0.2* | -1.0 | **1.8** | *-0.5* |
| | | Eurozone | **3.7** | *0.2* | -1.0 | **3.6** | *0.4* | -0.6 | **4.4** | *0.0* | 0.3 | **3.0** | *0.2* |
| 20 | 27 | Bulgaria | **3.5** | *1.6* | -3.0 | **1.8** | *1.8* | -0.1 | **5.2** | *1.3* | n.a. | **n.a.** | *n.a.* |
| 21 | 21 | Finland | **3.4** | *0.1* | -4.4 | **0.6** | *0.6* | 0.2 | **5.6** | *0.1* | 1.4 | **4.0** | *-0.2* |
| 22 | 23 | Belgium | **3.4** | *0.4* | -2.4 | **2.4** | *1.2* | 0.0 | **5.4** | *0.0* | -0.5 | **2.3** | *-0.1* |
| 23 | 24 | Czech Republic | **3.3** | *0.5* | 0.8 | **5.3** | *0.6* | -2.4 | **1.7** | *1.2* | 0.1 | **2.8** | *-0.4* |
| 24 | 22 | Germany | **3.0** | *-0.2* | -1.8 | **2.9** | *-0.5* | -0.2 | **5.0** | *0.0* | -1.7 | **1.2** | *-0.2* |
| 25 | 26 | Slovakia | **2.8** | *0.5* | -5.7 | **0.0** | *0.0* | 1.4 | **7.6** | *1.9* | -2.0 | **0.9** | *-0.3* |
| 26 | 28 | Portugal | **2.7** | *0.8* | 1.3 | **5.8** | *1.3* | -3.2 | **0.5** | *0.3* | -0.9 | **1.9** | *0.8* |
| 27 | 25 | France | **2.7** | *0.1* | -4.0 | **0.9** | *0.2* | -0.5 | **4.6** | *-0.3* | -0.3 | **2.5** | *0.4* |
| 28 | 20 | Croatia | **2.0** | *-1.7* | -2.5 | **2.3** | *-2.1* | -2.4 | **1.7** | *-1.3* | n.a. | **n.a.** | *n.a.* |

Ranks, scores and score changes for Quality of Fiscal Adjustment Indicator and its sub-indicators. Values: (1) Sum of government spending and tax cuts in % of GDP, change from 2009 to 2016; (2) change in the share of productive expenditure, which is public investment in infrastructure and education, in total public expenditure 2009 to 2015; (3) change in the share of non-distortionary tax revenue, which is the revenue of consumption and property taxes, in total tax revenues 2009 to 2015. For further explanations see notes under Table 2 on page 7.

Most of the erstwhile euro crisis countries feature in the top half of the ranking, with **Ireland** (No. 5) well ahead of **Greece** (No. 9), **Cyprus** (No. 10) and **Spain** (No. 12). Despite some improvement relative to its data for the previous years, **Portugal** (No. 26) ranks well below the eurozone average due to less productive public investment and higher distortionary taxes. The case of Greece merits closer attention. Largely because of the collapse in GDP, Greece has not managed to reduce the size of its public sector as measured by the first of the three criteria. However, helped by EU funds for public investment and because it has focussed on raising consumption and petrol taxes as part of its fiscal adjustment, Greece does well on the two other criteria.

In terms of the quality of fiscal changes since 2009, **Germany** (No. 24) and **France** (No. 27) come in

## ‘President Macron would be well advised to focus on the quality of fiscal policy even more than on the deficit.’

close to the bottom of the league table. Whereas Germany can probably afford this for a while, the ranking highlights the challenges facing the new French government. President Emmanuel Macron and his government would be well advised to focus on the quality of fiscal policy even more than on the overall deficit. Slimming down the public sector through gradual cuts in expenditure and taxes, shifting the weight of taxation away from corporate taxes and strengthening public investment in infrastructure and education relative to public consumption expenditures should be among the top priorities for Paris. Fortunately, President Macron’s programme seems to point this way.

All in all, we have to treat the results of this analysis with some caution. The scores can be volatile year-by-year especially for smaller countries at the euro periphery. One reason for this are the short-term fluctuations in the disbursement of EU funds for public investment in these countries, which are often affected by the capacity of the countries to draw on specific funds for specific projects in any given year. That we use two-year rolling averages helps to mitigate the impact on the ranking.[11] Nonetheless, the significant changes in scores for some small countries seen in Table 7 on page 33 (-1.7 points for Croatia, +1.6 points for Bulgaria, -1.0 point for Greece, +1.0 point for Malta) suggest that short-term factors continue to affect the results.

11. The results deviate modestly from those we presented in *The Euro Plus Monitor September 2017 Update* as we now use two-year averages instead of data for an individual year. See Schmieding and Hense, op. cit.

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

# II.4 Labour Cost Adjustment

### Table 8. Labour Cost Adjustment 2009-2017

| Rank | | | | | Real Unit Labour Costs 2009-2017 | | | | | | Nominal Unit Labour Costs 2009-2017 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Absolute change | | | Shift from 2000-2009 relative to Eurozone | | | Absolute change | | | Shift from 2000-2009 relative to Eurozone | | |
| 2017 | 2016 | Country | Score | *Change* | Percent | Score | *Change* | Percent | Score | *Change* | Percent | Score | *Change* | Percent | Score | *Change* |
| 1 | 1 | Ireland | **9.2** | *0.1* | -16.9 | **10.0** | *0.0* | 25.9 | **10.0** | *0.0* | -13.8 | **10.0** | *0.0* | 26.6 | **6.7** | *0.2* |
| 2 | 2 | Greece | **7.6** | *0.0* | -7.2 | **5.8** | *-0.1* | 13.0 | **6.5** | *-0.1* | -11.1 | **9.3** | *0.0* | 40.7 | **8.7** | *0.2* |
| 3 | 3 | Cyprus | **7.4** | *0.1* | -9.5 | **7.4** | *0.1* | 13.7 | **6.7** | *0.0* | -7.4 | **7.9** | *0.0* | 33.8 | **7.7** | *0.2* |
| 4 | 4 | Croatia | **5.9** | *0.0* | -13.2 | **10.0** | *0.0* | 3.4 | **3.4** | *-0.1* | -2.1 | **5.8** | *0.0* | 10.7 | **4.5** | *0.1* |
| 5 | 5 | Spain | **5.6** | *0.3* | -6.8 | **5.5** | *0.5* | 4.5 | **3.7** | *0.2* | -4.7 | **6.8** | *0.3* | 24.1 | **6.4** | *0.3* |
| 6 | 6 | Portugal | **5.0** | *-0.2* | -9.2 | **7.2** | *-0.4* | 1.2 | **2.6** | *-0.2* | -1.9 | **5.7** | *-0.3* | 9.1 | **4.2** | *0.0* |
| 7 | 7 | Romania | **4.9** | *-0.1* | -12.7 | **9.8** | *-0.2* | -13.4 | **0.0** | *0.0* | 23.0 | **0.0** | *0.0* | 151.6 | **10.0** | *0.0* |
| 8 | 9 | Slovenia | **4.6** | *0.4* | -4.2 | **3.6** | *0.9* | 2.7 | **3.1** | *0.3* | 2.2 | **4.1** | *0.2* | 33.5 | **7.7** | *0.3* |
| 9 | 17 | Finland | **4.6** | *1.8* | -7.7 | **6.1** | *3.0* | 11.6 | **6.0** | *1.3* | 5.6 | **2.9** | *2.0* | 2.3 | **3.3** | *0.8* |
| 10 | 10 | Estonia | **4.5** | *0.4* | -2.6 | **2.4** | *1.1* | 10.5 | **5.6** | *0.4* | 21.2 | **0.0** | *0.0* | 51.6 | **10.0** | *0.0* |
| 11 | 8 | Luxembourg | **3.9** | *-0.3* | -4.8 | **4.0** | *-0.2* | 12.3 | **6.2** | *-0.2* | 12.0 | **0.4** | *-0.7* | 14.6 | **5.0** | *-0.1* |
| 12 | 13 | Malta | **3.7** | *0.2* | -7.5 | **6.0** | *0.6* | 7.6 | **4.7** | *0.2* | 11.0 | **0.8** | *-0.1* | 2.7 | **3.3** | *0.1* |
| 13 | 15 | Italy | **3.6** | *0.3* | -2.5 | **2.3** | *0.4* | 6.1 | **4.2** | *0.1* | 5.1 | **3.0** | *0.4* | 12.6 | **4.7** | *0.2* |
| 14 | 14 | Denmark | **3.4** | *-0.1* | -5.0 | **4.2** | *0.1* | 10.5 | **5.6** | *0.0* | 10.7 | **0.9** | *-0.3* | 0.2 | **3.0** | *0.0* |
| 15 | 12 | Latvia | **3.2** | *-0.3* | 3.6 | **0.0** | *-0.1* | 1.9 | **2.9** | *-1.1* | 20.2 | **0.0** | *0.0* | 62.4 | **10.0** | *0.0* |
| 16 | 16 | Netherlands | **3.1** | *0.2* | -2.8 | **2.6** | *0.3* | 0.6 | **2.5** | *0.1* | 3.6 | **3.6** | *0.1* | 4.5 | **3.6** | *0.1* |
| 17 | 11 | Hungary | **3.0** | *-0.6* | -5.7 | **4.7** | *-1.4* | -1.5 | **1.8** | *-0.7* | 18.6 | **0.0** | *0.0* | 17.2 | **5.4** | *-0.5* |
| 18 | 18 | Belgium | **2.9** | *0.3* | -4.5 | **3.8** | *0.8* | 3.4 | **3.4** | *0.3* | 7.6 | **2.1** | *0.1* | -2.9 | **2.5** | *0.1* |
| | | Eurozone | **2.6** | *0.1* | -2.7 | **2.5** | *0.2* | 0.0 | **2.3** | *0.0* | 5.7 | **2.8** | *0.0* | 0.0 | **3.0** | *0.1* |
| 19 | 19 | United Kingdom | **2.5** | *0.2* | -3.7 | **3.2** | *0.5* | 7.0 | **4.5** | *0.2* | 14.4 | **0.0** | *0.0* | -4.7 | **2.3** | *0.0* |
| 20 | 20 | Slovakia | **1.9** | *-0.1* | 1.4 | **0.0** | *0.0* | -4.0 | **1.0** | *-0.1* | 6.7 | **2.4** | *-0.4* | 10.1 | **4.4** | *0.0* |
| 21 | 21 | Lithuania | **1.8** | *-0.3* | -0.6 | **0.9** | *-0.4* | 0.9 | **2.5** | *-0.3* | 18.0 | **0.0** | *0.0* | 4.7 | **3.6** | *-0.4* |
| 22 | 23 | Sweden | **1.7** | *0.2* | -2.9 | **2.6** | *0.6* | 3.2 | **3.3** | *0.2* | 15.2 | **0.0** | *0.0* | -14.5 | **0.9** | *-0.1* |
| 23 | 22 | France | **1.6** | *-0.1* | 0.6 | **0.1** | *-0.2* | -1.1 | **1.9** | *-0.1* | 7.8 | **2.0** | *-0.1* | -2.6 | **2.6** | *0.0* |
| 24 | 24 | Czech Republic | **1.0** | *-0.4* | 2.9 | **0.0** | *0.0* | -1.9 | **1.6** | *-0.7* | 14.3 | **0.0** | *-0.6* | -5.1 | **2.2** | *-0.3* |
| 25 | 27 | Austria | **0.6** | *0.1* | -0.4 | **0.8** | *0.4* | -4.9 | **0.7** | *0.1* | 13.9 | **0.0** | *0.0* | -14.5 | **0.9** | *0.0* |
| 26 | 26 | Poland | **0.4** | *-0.1* | -1.5 | **1.6** | *0.0* | -16.3 | **0.0** | *0.0* | 13.5 | **0.0** | *-0.3* | -22.1 | **0.0** | *0.0* |
| 27 | 25 | Germany | **0.4** | *-0.2* | -0.6 | **0.9** | *-0.1* | -6.3 | **0.2** | *-0.1* | 11.9 | **0.4** | *-0.3* | -21.3 | **0.0** | *-0.1* |
| 28 | 28 | Bulgaria | **0.0** | *-0.2* | 20.9 | **0.0** | *0.0* | -27.2 | **0.0** | *0.0* | 52.6 | **0.0** | *0.0* | -20.2 | **0.1** | *-0.8* |

Ranks, scores and score changes for Labour Cost Adjustment Indicator and sub-indicators. Values: (1) 2009-2017 cumulative change in real unit labour costs, in %; (2) shift in cumulative real unit labour cost change between periods 2000-2009 and 2009-2017, relative to the Eurozone, in %; (3) 2009-2017 cumulative change in euro nominal unit labour costs, 2007-2017 for non-eurozone countries, in %; (4) shift in cumulative euro nominal unit labour cost change between periods 2000-2009 and 2009-2017, relative to the eurozone, 2000-2007 to 2007-2017 for non-eurozone countries, in % . For further explanations see notes under Table 2 on page 7 and the Notes on Key Components on page 103.

## ‘Nominal unit labour costs have risen significantly in many core countries.’

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

To evaluate adjustment progress, we measure how much changes in nominal and real unit labour costs deviate 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 2017 and rank countries according to their deviation from the eurozone average, awarding the highest score to the country with the biggest relative decline. Second, we relate this to what happened in the 2000-2009 period, assigning the best score to the country which made the biggest shift from an above-average cumulative rise in unit labour costs in the earlier period to an above-average decrease thereafter. Third, we repeat the exercise for nominal unit labour costs. We then derive an overall score and ranking by combining these components.

Overall, seven results stand out:

1. On an eight-year view, wage pressures have converged within the **eurozone**. Most of the eurozone members with excessive wage increases until 2009 have gone through a big correction. Under the pressure of record unemployment and the lagging impact of a deep adjustment crisis that lasted until 2013, the five countries that had to ask taxpayers elsewhere for help have slashed their labour costs the most. **Ireland** (No. 1) continues to top the ranking for labour cost adjustment ahead of **Greece** (No. 2), **Cyprus** (No. 3), **Spain** (No. 5) and **Portugal** (No. 6). This by and large confirms the results we found in previous editions of *The Euro Plus Monitor*.

2. Conversely, nominal unit labour costs have risen significantly in many core countries such as **Germany** (No. 27), **Austria** (No. 25), **France** (No. 23) and – to a lesser extent – also in **Belgium** (No. 18) in the last eight years. For Germany and to a lesser extent Austria, it makes sense to be close to the bottom of the European league table as their labour markets are comparatively healthy. For France and Belgium, the low scores are more problematic.

3. The process of labour cost convergence seems to have slowed down in the last three years, though. Instead of the clear core versus periphery split that had been apparent until 2014, the picture has become more nuanced. Whereas the scores for **Ireland**, **Greece** and **Cyprus** remain almost unchanged and **Spain** manages to raise its score by 0.3 points, **Portugal** falls back slightly in 2017 relative to its 2016 and 2015 scores. For the second year in a row, nominal wages rose faster in Portugal (1.9%) than in the **eurozone** (1.5%) as a whole.

4. Reflecting the fundamental health of the German labour market, **Germany**’s wage gains outpaced those in most other Western European countries in the sample with a cumulative increase in German nominal labour costs of 5.1% in the last three years, well ahead of 2.1% average for the **eurozone**. German increases in unit labour costs even outpace those in the **United Kingdom** (cumulative rise of 4.8% over the last three years).

## ‘The labour market in France is not yet functioning well enough to cope with globalisation.’

5. The labour market in **France** is not yet functioning well enough to cope with the challenge of globalisation. Taking the last three years together, we see serious progress in some places. Most importantly, nominal unit labour costs rose by merely 1.5%, below the 2.2% cumulative increase for the **eurozone** over these three years. However, after two years of wage moderation in 2015 and 2016, the 1.1% increase in nominal labour costs in 2017 exceeded that of the eurozone (+0.9%). As a result, the French score for overall labour cost adjustment since 2009 fell to 1.6 in 2017, down from 1.7 last year. Because labour costs are still excessive, French unemployment – at 9.7% in the third quarter of 2017 – remains stubbornly high. It will take time until President Macron’s reforms show up in the labour market statistics.

6. **Italy** (No. 13) is finally moving in the right direction. After two years with gains in nominal unit labour costs roughly in line with the **eurozone** average, Italian wage costs increased barely at all in 2017 (+0.1%) versus a gain of 0.9% in the eurozone.

7. The **United Kingdom** still combines a low ranking for labour cost adjustment (No. 19) with a dismal score for external adjustment (No. 25). Unlike less advanced countries with significant catch-up potential such as the Baltic countries and several European Union members from South-eastern Europe, the United Kingdom cannot count on above-average productivity gains to offset a major rise in wages. Once again, nominal unit labour cost in 2017 rose faster in the United Kingdom (+1.5%) than in the **eurozone** (+0.9%). However, because of the boost to inflation caused by the 16% decline in the sterling exchange rate in the six months after the vote to leave the European Union on 23 June 2016, real unit labour costs fell by 0.7% in the UK this year. What British workers experience as an erosion in their real living standard shows up in a small gain for the United Kingdom in its score for labour cost adjustment in the ranking.

The drop in the exchange rate will probably help the **United Kingdom** for a while, at least to the extent that it is not eroded over time by a resulting rise in wage and price inflation. But for a country that needs to do more rather than less to improve its competitive position, the decision to put access to its dominant export market at risk looks somewhat foolhardy.

Having been among the star performers until 2014, **Latvia** (No. 15, down from No. 12) continues to fall back with a drop in its score by an additional 0.3 points. It is joined by **Lithuania** (No. 21), whose score for 2017 is also 0.3 points below its previous result. To a certain extent, this makes sense. These two small, open economies on the Baltic Sea successfully concluded their own post-bubble adjustment process three years ago. As they started to relax the reins somewhat since 2014, they are falling behind in the adjustment ranking, including for labour costs. Nonetheless, these countries may soon need to be more careful again. They should avoid a relapse into the excesses of the previous boom - which then had to be corrected by a bust. Interestingly, **Estonia** (No. 10) bucked the trend this time, raising its score to 4.5, up by 0.4 points, and defending its position in the ranking for labour cost adjustment.

**Romania** (No. 7), **Hungary** (No. 17) and **Poland** (No. 26) look similar to the three Baltic countries in one key respect: although their nominal unit labour costs have risen much faster than the **eurozone** average since 2009, they nonetheless managed to reduce their real unit labour costs. This is a typical

## ‘Bulgaria, Germany, Poland and Austria grace the bottom of the league on labour cost adjustment.’

feature of catching-up economies as described by the Balassa-Samuelson effect.[12] From a low starting level, prices for non-tradable goods tend to rise faster in catching-up economies than in more developed economies. As long as these catching-up economies maintain a competitive edge in tradable goods, usually by productivity gains in this sector in line with the overall rise in wages, the resulting gap between higher overall inflation in the catching-up economies and more subdued inflation in the more mature economies is a by-product of development rather than a concern.

To gauge whether these countries have lost competitiveness, we need to look at their export performance. Reassuringly, the three Baltic countries – **Latvia** (No. 1), **Lithuania** (No. 6) and **Estonia** (No. 7) – as well as **Romania** (No. 9) rank among the top 10 for external adjustment (see Table 4 on page 22), with **Hungary** following at No. 11 and **Poland** at No. 17. However, the significant slippage in the ranking for **Lithuania** (No. 6, down from No. 3) suggests that the country may not be able to afford its above-average wage dynamics for much longer.

On labour cost adjustment, **Bulgaria** (No. 28) graces the bottom of the league table, just below **Germany** (No. 27), **Poland** (No. 26), and **Austria** (No. 25). Bulgaria is the only country we survey with a major increase in real unit labour costs since 2009. The rise of 20.9% since 2009 makes it an outlier in this category. Nonetheless, Bulgaria managed to raise its exports so substantially over this period that it still comes in at No. 2 in the external adjustment ranking. So far, we need not be concerned about a potential loss in Bulgaria’s competitiveness.

12. The theory, first put forward by economists Bela Balassa and Paul Samuelson in 1964, holds that productivity – in times of economic growth and “catching up” – varies more by country in the traded goods sector than in other sectors. See Bela Balassa, *Policy Reform in Developing Countries* (London: Pergamon, 2016).

## ‘To seize the opportunities of globalisation, countries need pro-growth structural reforms.’

# II.5 Reform Drive

**Table 9. Reform Drive 2010-2016**

| Rank 2017 | Rank 2016 | Country | Score | Change | OECD reform responsiveness indicator: Average 2010-2016 | OECD reform responsiveness indicator: 2015/2016 | OECD reform responsiveness indicator: Average 2010-2014 |
|---|---|---|---|---|---|---|---|
| 1 | 1 | Greece | **7.7** | *0.0* | 0.64 | 0.40 | 0.78 |
| 2 | 5 | Estonia | **6.1** | *0.5* | 0.52 | 0.36 | 0.60 |
| 3 | 4 | Ireland | **6.1** | *0.1* | 0.51 | 0.36 | 0.59 |
| 4 | 2 | Spain | **5.6** | *-0.9* | 0.47 | 0.30 | 0.56 |
| 5 | 3 | Portugal | **5.4** | *-0.8* | 0.46 | 0.17 | 0.61 |
| 6 | 9 | Austria | **5.2** | *0.9* | 0.44 | 0.50 | 0.40 |
| 7 | 13 | France | **4.8** | *0.8* | 0.41 | 0.57 | 0.32 |
| 8 | 6 | Poland | **4.5** | *-0.8* | 0.37 | 0.19 | 0.48 |
| 9 | 10 | Slovakia | **4.3** | *0.1* | 0.37 | 0.21 | 0.45 |
| 10 | 7 | Italy | **4.3** | *-0.6* | 0.36 | 0.36 | 0.36 |
| 11 | 12 | United Kingdom | **4.2** | *0.1* | 0.36 | 0.21 | 0.43 |
| | | Eurozone | 4.2 | *0.3* | 0.35 | 0.39 | 0.34 |
| 12 | 8 | Czech Republic | **4.1** | *-0.6* | 0.34 | 0.36 | 0.32 |
| 13 | 15 | Finland | **3.8** | *-0.1* | 0.32 | 0.21 | 0.38 |
| 14 | 18 | Netherlands | **3.6** | *0.5* | 0.30 | 0.33 | 0.29 |
| 15 | 19 | Belgium | **3.5** | *0.9* | 0.29 | 0.50 | 0.18 |
| 16 | 11 | Hungary | **3.4** | *-0.9* | 0.28 | 0.25 | 0.37 |
| 17 | 14 | Denmark | **3.3** | *-0.7* | 0.28 | 0.33 | 0.42 |
| 18 | 20 | Germany | **3.2** | *0.8* | 0.27 | 0.33 | 0.23 |
| 19 | 17 | Sweden | **2.8** | *-0.3* | 0.24 | 0.25 | 0.23 |
| 20 | 16 | Slovenia | **2.3** | *-1.1* | 0.19 | 0.08 | 0.30 |
| 21 | 21 | Luxembourg | **1.6** | *0.2* | 0.13 | 0.17 | 0.12 |
| | | Latvia | **n.a.** | *n.a.* | n.a. | 0.67 | n.a. |
| | | Cyprus | **n.a.** | *n.a.* | n.a. | n.a. | n.a. |
| | | Malta | **n.a.** | *n.a.* | n.a. | n.a. | n.a. |
| | | Lithuania | **n.a.** | *n.a.* | n.a. | n.a. | n.a. |
| | | Bulgaria | **n.a.** | *n.a.* | n.a. | n.a. | n.a. |
| | | Croatia | **n.a.** | *n.a.* | n.a. | n.a. | n.a. |
| | | Romania | **n.a.** | *n.a.* | n.a. | n.a. | n.a. |

Ranks, score and score changes for the reform drive indicator. The values given for the OECD reform responsiveness indicator refer to the average results from the OECD’s Going for Growth data for 2010, 2011/2012 and 2013/2014 combined (last column) and 2015/2016 (second last column). The 2010-2016 aggregate is a weighted average with 2015/2016 given a weight of 35% (17.5% per year) versus 65% for the five years before (13% per year). The change in score refers to the change from the assessment for the 6-year period 2010-2015 presented in *The 2016 Euro Plus Monitor*. Source: OECD, Berenberg calculations. For further explanations see notes under Table 2 on page 7 and the Notes on Key Components on page 103.

## 'OECD data reveal some dramatic changes for the 2015/2016 assessment period.'

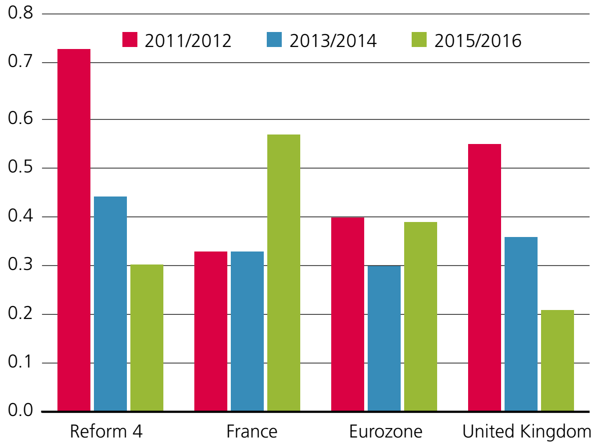
To seize the opportunities of globalisation and rapid technological change, countries need to adjust. In addition, countries that have lived beyond their means also need to tighten their belts. But squeezing domestic demand, slashing labour costs and raising exports are only part of the solution. To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

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

To measure how much countries have done, we employ the expertise of the Organisation for Economic Co-operation and Development. The OECD regularly identifies five priority areas for reform for most of its member countries. In each of these areas, it makes a number of concrete recommendations and subsequently measures whether these were followed up (Score 1) or not (Score 0) with a full assessment every two years and an interim assessment in between. For *The 2017 Euro Plus Monitor*, we use the data for four two-years periods, 2009/2010, 2011/2012, 2013/2014 and 2015/2016. The latest data are taken from *Going for Growth: Policies for Growth to Benefit All*, the

### Chart 8. Pace of Pro-growth Reforms

**Responsiveness to OECD reform recommendations during various two-year periods**




Reform 4 countries are Greece, Ireland, Portugal and Spain. Scale of 0 (no progress) to 1 (excellent pace of reforms). Source: OECD

OECD's March 2017 report, with a data cut-off point of 31 December 2016.[13]

The OECD data reveal some dramatic changes for the 2015/2016 assessment period relative to the average for the 2010-2014 period. Having overcome the erstwhile euro crisis, the **eurozone** has entered a new stage. On the negative side, the countries that had been the focus of the euro crisis implemented far fewer structural reforms in 2015/2016 than they had done in the years before. As Chart 8 above shows, the rapid pace of change in the 2011-2012 period when they had little choice but to do what it took to qualify for external help continued to decelerate further in the last two years, adding to the significant slippage that had become visible in the 2013/2014 period already. The contrast between major reforms early on and the much more leisurely pace of additional reforms in 2015/2016

13. OECD, *Going for Growth: Policies for Growth to Benefit All* (Paris: OECD, 2017). As the OECD has not yet published an assessment covering 2017, the analysis in this section is almost identical with the results presented in *The Euro Plus Monitor September 2017 Update* on 11 September 2017, which was also based largely on the OECD's 2017 *Going for Growth* report.

‘Pre-occupied with the Brexit discussion, the United Kingdom fell into the bottom third of the league.’

is especially stark for **Portugal** (No. 5) where a new left-leaning government maintained fiscal discipline but rolled back some structural reforms. The drop is also quite pronounced for **Greece** (still No. 1), to a lesser extent for **Spain** (No. 4) and **Ireland** (No. 3). For Spain and Ireland, we are not very concerned about the fact that they have become much less responsive to reform recommendations. Although more needs to be done, the countries have advanced so far that they can afford a slower pace of change as long as they do not reverse their previous reforms. For the much more challenged economy of Greece and, to some extent, also for Portugal, the slackening of structural reform progress looks dangerous (Greece) or at least premature (Portugal).

On the positive side, the pace of reforms quickened significantly in **France** in 2015/2016. Following up on 57% of the OECD recommendations, France reached the best value for any OECD country bar small **Latvia** (67%) in this period. Under then Economy Minister Emmanuel Macron and Labour Minister Myriam El Khomri, France finally turned itself into a reform leader in Europe.

**Italy** did not live up to the hopes which Matteo Renzi had initially raised as prime minister. In line with the average for 2010-2014, Italy heeded 36% of the OECD reform recommendations in the 2015/2016 period. The result is far worse than an OECD interim assessment a year earlier had suggested with a stellar 55% for 2014/2015. Having managed to implement a significant labour market reform and some other changes in 2015, Prime Minister Renzi apparently did not get much done in 2016 as political headwinds gathered pace that finally cost him his job after he lost a referendum on streamlining Italy’s electoral system in December 2016. While Italy remained close to the eurozone average for 2015/2016, an average pace of reform is not good enough for a country with above-average structural problems.

Within the **eurozone**, we find some significant progress in two smaller countries that we admonished in the past for insufficient adjustment progress. **Belgium** (No. 15) and **Austria** (No. 6) implemented far more structural reforms in the last two years than they had before. In 2015/2016, both countries followed up on half the OECD’s reform recommendations. The change is especially pronounced for Belgium, which had been among the major reform laggards before.

Pre-occupied with the Brexit discussion and suffering from a serious bout of reform fatigue, the **United Kingdom** (No. 11) implemented only 21% of OECD reform recommendations in 2015/2016, well below the 43% average for the 2010-2014 period. Having been above the eurozone average, the United Kingdom fell into the bottom third of the reform league in 2015/2016.

Beyond the cases discussed above, countries with a major loss of reform momentum in the 2015/2016 period are **Estonia** (No. 2), **Poland** (No. 8), **Slovakia** (No. 9), **Slovenia** (No. 20), **Finland** (No. 13) and – to a lesser extent – **Hungary** (No. 16). For Estonia, which had reformed itself thoroughly and successfully in the wake of the Baltic crisis 10 years ago, this may be understandable. For Poland, Slovakia, Slovenia and Finland, however, we view this as a sign of complacency. This is especially true for Finland, which is still one of the weakest members of the eurozone. It ought to do much better to get back on track. Although Finland has made significant progress on other criteria of adjustment, it needs to step up its structural reform efforts.

For the overall assessment of reform progress since 2010, we take the weighted average of all reform efforts of the last seven years, giving slightly more weight to the 2015/2016 period than to the years before (17.5% versus 13% per year). Because the

## ‘All in all, the pace of reforms quickened slightly in the eurozone.’

erstwhile euro-crisis countries did reform at such a rapid pace from 2010 to 2014, they stay at or close to the top in the reform league. However, the scores for Spain and Portugal drop significantly relative to the ones we published at the end of 2016 based on an analysis for the 2010-2015 period. The scores do not decline for Greece and Ireland because the sharp slowdown in their reform progress had already been fully captured in the OECD’s assessment for 2014/2015, which we discussed in *The 2016 Euro Plus Monitor* last December. **Greece** (No. 1) maintains the top spot ahead of the Baltic star **Estonia** (No. 2) followed by **Ireland** (No. 3), **Spain** (No. 4) and **Portugal** (No. 5).

Some comparatively healthy core eurozone countries which need few reforms feature at the bottom of the table with **Germany** at No. 18 and **Luxembourg** at the bottom at No. 21. Encouragingly, **Austria** (No. 6), The **Netherlands** (No. 14) and **Belgium** (No. 15) move up significantly in the rankings. All in all, the pace of reforms quickened slightly in the eurozone as a whole as progress in France, Belgium, Austria and the Netherlands more than offset the slippage in some other member countries.

# III. Fundamental Health Indicator

## III. 1 Overall Health

Table 10. Fundamental Health Indicator

| Rank | | | Total score | | | Growth potential | | | Competitiveness | | | Fiscal sustainability | | | Resilience | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2017 | 2016 | Country | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 |
| 1 | 1 | Estonia | 7.5 | *0.0* | 7.4 | 7.1 | *0.1* | 7.0 | 6.2 | *0.1* | 6.2 | 8.4 | *-0.2* | 8.6 | 8.2 | *0.2* | 8.0 |
| 2 | 2 | Czech Republic | 7.4 | *0.0* | 7.4 | 7.3 | *0.0* | 7.2 | 7.3 | *0.0* | 7.4 | 8.0 | *0.0* | 8.0 | 7.1 | *-0.1* | 7.2 |
| 3 | 5 | Malta | 7.3 | *0.2* | 7.1 | 7.1 | *0.1* | 7.1 | 7.4 | *0.4* | 7.0 | 6.7 | *0.2* | 6.5 | 8.1 | *0.3* | 7.8 |
| 4 | 4 | Germany | 7.3 | *0.0* | 7.3 | 6.3 | *0.0* | 6.3 | 8.2 | *0.1* | 8.2 | 7.0 | *0.0* | 7.0 | 7.7 | *-0.1* | 7.8 |
| 5 | 3 | Luxembourg | 7.2 | *-0.2* | 7.4 | 6.7 | *0.0* | 6.6 | 6.6 | *-0.1* | 6.8 | 8.9 | *-0.3* | 9.3 | 6.7 | *-0.2* | 7.0 |
| 6 | 6 | Netherlands | 7.1 | *0.1* | 7.0 | 7.2 | *0.1* | 7.1 | 7.7 | *0.0* | 7.6 | 7.0 | *-0.2* | 7.2 | 6.4 | *0.3* | 6.1 |
| 7 | 7 | Slovakia | 7.0 | *0.1* | 6.9 | 5.9 | *0.1* | 5.8 | 7.2 | *0.0* | 7.2 | 7.4 | *0.1* | 7.3 | 7.4 | *0.2* | 7.2 |
| 8 | 8 | Lithuania | 6.6 | *-0.1* | 6.7 | 6.1 | *0.0* | 6.1 | 6.5 | *0.0* | 6.5 | 7.7 | *-0.3* | 7.9 | 6.4 | *-0.1* | 6.4 |
| 9 | 9 | Ireland | 6.6 | *0.0* | 6.6 | 7.4 | *0.1* | 7.3 | 7.3 | *-0.4* | 7.7 | 7.2 | *0.2* | 7.0 | 4.6 | *0.1* | 4.5 |
| 10 | 10 | Sweden | 6.6 | *0.0* | 6.6 | 7.4 | *0.0* | 7.4 | 4.6 | *0.0* | 4.6 | 7.0 | *-0.1* | 7.1 | 7.2 | *0.0* | 7.2 |
| 11 | 13 | Poland | 6.5 | *0.0* | 6.4 | 6.1 | *0.0* | 6.1 | 6.7 | *-0.1* | 6.8 | 6.8 | *0.0* | 6.8 | 6.2 | *0.1* | 6.1 |
| 12 | 12 | Romania | 6.4 | *0.0* | 6.4 | 4.9 | *0.1* | 4.8 | 6.1 | *0.3* | 5.8 | 7.3 | *-0.3* | 7.6 | 7.4 | *-0.1* | 7.5 |
| 13 | 14 | Denmark | 6.4 | *0.1* | 6.3 | 6.3 | *0.1* | 6.2 | 5.2 | *0.0* | 5.2 | 6.8 | *-0.2* | 7.0 | 7.4 | *0.4* | 6.9 |
| 14 | 11 | Latvia | 6.4 | *-0.1* | 6.4 | 6.2 | *0.0* | 6.2 | 4.9 | *-0.1* | 4.9 | 8.1 | *-0.2* | 8.3 | 6.3 | *0.1* | 6.3 |
| 15 | 16 | Slovenia | 6.3 | *0.2* | 6.1 | 6.2 | *0.3* | 5.9 | 5.9 | *0.2* | 5.7 | 6.0 | *-0.1* | 6.1 | 7.0 | *0.2* | 6.7 |
| 16 | 15 | Hungary | 6.2 | *0.0* | 6.2 | 5.5 | *0.1* | 5.4 | 7.3 | *0.0* | 7.3 | 5.4 | *-0.4* | 5.8 | 6.5 | *0.2* | 6.3 |
| 17 | 17 | Bulgaria | 6.0 | *0.0* | 6.0 | 5.0 | *0.1* | 5.0 | 5.5 | *0.0* | 5.5 | 7.1 | *0.1* | 7.0 | 6.4 | *0.0* | 6.4 |
| | | Eurozone | 5.8 | *0.0* | 5.8 | 5.2 | *0.1* | 5.2 | 6.1 | *0.0* | 6.1 | 5.9 | *0.0* | 6.0 | 6.1 | *0.1* | 6.0 |
| 18 | 18 | United Kingdom | 5.7 | *0.0* | 5.7 | 5.7 | *0.0* | 5.7 | 5.4 | *-0.1* | 5.5 | 6.9 | *0.4* | 6.5 | 4.7 | *-0.2* | 4.9 |
| 19 | 19 | Austria | 5.6 | *0.0* | 5.5 | 6.0 | *0.1* | 5.9 | 4.6 | *-0.1* | 4.7 | 5.2 | *0.0* | 5.2 | 6.4 | *0.2* | 6.2 |
| 20 | 20 | Belgium | 5.4 | *0.1* | 5.3 | 5.6 | *0.0* | 5.5 | 6.7 | *0.2* | 6.6 | 4.0 | *0.1* | 3.9 | 5.2 | *0.0* | 5.2 |
| 21 | 21 | Finland | 5.1 | *0.1* | 5.0 | 5.6 | *0.1* | 5.5 | 3.3 | *0.3* | 3.0 | 5.9 | *-0.3* | 6.2 | 5.7 | *0.3* | 5.5 |
| 22 | 24 | Portugal | 4.9 | *0.2* | 4.7 | 3.7 | *0.1* | 3.6 | 5.8 | *0.1* | 5.7 | 5.0 | *0.0* | 5.0 | 5.1 | *0.5* | 4.6 |
| 23 | 22 | Croatia | 4.9 | *0.0* | 4.9 | 3.9 | *0.1* | 3.7 | 4.0 | *-0.1* | 4.0 | 4.6 | *-0.2* | 4.8 | 7.0 | *0.1* | 6.9 |
| 24 | 23 | France | 4.8 | *0.0* | 4.8 | 5.0 | *0.0* | 5.0 | 4.5 | *-0.1* | 4.6 | 4.4 | *0.0* | 4.4 | 5.3 | *0.1* | 5.2 |
| 25 | 25 | Spain | 4.7 | *0.1* | 4.7 | 4.3 | *0.1* | 4.2 | 4.5 | *-0.1* | 4.6 | 5.4 | *0.0* | 5.4 | 4.8 | *0.2* | 4.5 |
| 26 | 26 | Italy | 4.4 | *0.0* | 4.4 | 3.5 | *0.1* | 3.4 | 4.1 | *0.0* | 4.0 | 4.5 | *-0.2* | 4.7 | 5.7 | *0.2* | 5.5 |
| 27 | 27 | Greece | 4.0 | *0.1* | 3.9 | 1.6 | *0.0* | 1.5 | 4.9 | *0.2* | 4.7 | 5.0 | *-0.4* | 5.4 | 4.5 | *0.4* | 4.1 |
| 28 | 28 | Cyprus | 3.6 | *0.0* | 3.6 | 3.3 | *0.1* | 3.2 | 3.3 | *0.0* | 3.3 | 5.3 | *0.0* | 5.3 | 2.5 | *0.0* | 2.5 |

Ranks, scores and score changes for the Overall Health Indicator and sub-indicators. For further explanations see notes under Table 2 on page 7 and the Notes on Key Components on page 103.

The **Fundamental Health Indicator** is designed to identify underlying strengths and weaknesses of European countries. It complements the Adjustment Progress Indicator. Ideally, countries with below-average scores for their fundamental health should be reforming and feature above average in the separate adjustment scores. The results this year show that, by and large, this is the case. Four aspects stand out:

1. Four of the seven countries at the bottom of the ranking for fundamental health, namely **Cyprus** (No. 28), **Greece** (No. 27), **Spain** (No. 25) and **Portugal** (No. 22) are among the top seven in the Adjustment Progress Indicator (see Table 1 on page 7), where **Greece** leads the ranking (No. 1) ahead of **Spain** (No. 5), **Cyprus** (No. 6) and **Portugal** (No. 7).

## 'All countries among the bottom 12 manage to either raise or at least maintain their scores.'

2. Reflecting their previous adjustment efforts and the ongoing recovery from their deep adjustment crisis, three of these four countries manage to raise their score for fundamental health this year, with gains of 0.2 point for Portugal and 0.1 point for Spain and Greece.

3. All countries among the bottom twelve in the ranking for fundamental health manage to either raise or at least maintain their scores for fundamental health.

4. The three countries with a small slippage in their score, namely **Luxembourg** (No. 5), **Lithuania** (No. 8) and **Latvia** (No. 14), all maintain results which are above those for the eurozone average and the **United Kingdom**.

To assess the fundamental health of the 28 European countries surveyed in *The 2017 Euro Plus Monitor*, we look at four sub-indicators: 1) long-term growth potential, 2) competitiveness, 3) fiscal sustainability, and 4) fundamental resilience to financial shocks. We assess countries on each of these four sub-indicators, and assign a score from 0 (the worst possible) to 10 (the best possible). Then we bring the four sub-indicators together with equal weighting in one overall score and rank the countries accordingly.

The four pillars of the analysis largely overlap with the four goals of the Euro Plus Pact, adopted by the European Council in 2011: 1) to foster employment, 2) to foster competitiveness, 3) to contribute further to the sustainability of public finances and 4) to reinforce financial stability.[14] The guiding ideas of the Pact still make fundamental sense as problems in these areas had contributed greatly to the European and global financial crises since 2008.[15]

After discussing the aggregate results for the Fundamental Health Indicator, we then explain the separate scores for each of the four pillars. The gains and losses in scores may seem very small. This has two major reasons: Since we mostly look at long-run averages and slow-moving aggregates like debt levels when we assess the fundamental health of countries, changes from year to year tend to be moderate even for those countries with fast adjustment processes. In addition, deep adjustment crises tend to have a "J-curve" impact on some key criteria of fundamental health – meaning initial losses are often followed later by significant up-ticks; the situation often gets worse before its gets better. For example, the temporary decline in GDP that often goes along with fiscal repair raises the ratio of debt to GDP in the short term before the ratio starts to fall significantly in the subsequent recovery, improving the fiscal sustainability in the long run. In the same vein, the number of long-term unemployed usually goes up in the initial adjustment crisis, too, worsening the score for human capital. It usually takes at least five years after a country has left an adjustment recession and starts to reap the rewards of its efforts for debt ratios to fall below the pre-crisis level. For long-term unemployment, the lag can be significantly longer, especially if the labour market has not been made sufficiently flexible. This is one reason why long-term unemployment – despite record-low total unemployment – remains elevated even in Germany.

The primary purpose of the Fundamental Health Indicator is not to look at such J-curve effects but

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

15. In some cases, data revisions affect the ranking by as much as the most recent changes in actual economic performance. Because of data revisions and the inclusion of a new sub-criterion on the quality of public finances, the rankings for 2016 in the current analysis differ slightly form those published in *The 2016 Euro Plus Monitor* on 14 December 2016. For more details, see the Methodological Notes on page 103 as well as previous editions of *The Euro Plus Monitor*.

## ‘Germany excels in terms of competitiveness with its strong export sector.’

to analyse the longer-term issues that will shape the economic outlook for European countries well beyond their immediate challenges. While the criteria to assess the health of countries are inspired by the European Union’s Euro Plus Pact, their selection owes as much to the factors that contributed significantly to the crises of 2008-2009 and 2011-2012.

As in the analysis based on data available in late 2016, the results show that a group of countries at the heart of Europe, namely the **Czech Republic** (No. 2), **Germany** (No. 4), **Luxembourg** (No. 5), the **Netherlands** (No. 6) and **Slovakia** (No. 7) are among the most fundamentally sound economies in the European Union. Germany excels in terms of competitiveness with its strong export sector. It also scores well for resilience to financial shocks because of its high savings rate and low private debt. The Netherlands looks somewhat similar to Germany in terms of competitiveness. It scores significantly lower for financial resilience largely because of a higher level of private debt and an elevated ratio of bank assets to GDP. However, it partly mitigates this by stronger growth potential.

The top spot this year goes once again to **Estonia** (No. 1).[16] The small Baltic country offsets some modest slippage in terms of fiscal sustainability by stronger readings for growth potential, competitiveness and resilience to financial shocks. **Lithuania** (No. 8) also scores well, even though its fiscal sustainability weakens, while **Latvia** (at No. 14, down from No. 11 for 2016) falls back because its 2017 fiscal stimulus shows up in a less stellar score for its structural fiscal balance. Nonetheless, its overall fiscal position remains comfortable.

**Malta** (No. 3, up from No. 5 in 2016) rises in the ranking because of a strong gain in its volatile exports position, a further improvement in its fiscal accounts and a better resilience to financial shocks. Among the top 10 for fundamental health, **Ireland** (No. 9) and **Sweden** (No. 10) maintain their places with aggregate scores that are very similar, staying ahead of **Poland** (No. 11, up from No. 13), **Romania** (No. 12 again) and **Denmark** (No. 13, up from No. 14). All these countries attain scores well above those for the **eurozone** average (see Table 10 on page 43). Ireland’s sub-indicator for trend growth improves further in 2017 owing to its continuing rapid recovery from its crisis of 2012-2013.

Although the reform countries at the **eurozone** periphery except **Ireland** remain in the bottom third of the Fundamental Health Indicator, they have made progress over the last five years. They have turned their external accounts around convincingly, improving their external positions by more than **Germany** and the eurozone. If they stay the course, they should see their score for fundamental health improve further over time. However, their fiscal sustainability still looks shaky as the progress in bringing down structural fiscal deficits has gone along with a rise in the debt-to-GDP ratios caused by severe adjustment recession. It will take time for the improved structural fiscal balance to show up in a lower debt-to-GDP ratio.

**Italy** (No. 26), **Greece** (No. 27) and **Cyprus** (No. 28) remain at the bottom of the league table. All three countries – and Greece in particular – have very low scores for growth potential. In the case of Cyprus, an insufficient resilience against future financial crises due to a high level of private debt and a still outsized financial sector remains a major concern. For lack of

16. In *The 2016 Euro Plus Monitor*, the Czech Republic was at the top of the Fundamental Health Indicator. Due to data revisions, Estonia and Czech Republic swapped places.

## ‘Spain and France continue to look sickly on their long-term fundamentals despite a small gain in Spain.’

progress in these areas, it falls below Greece to the last spot on the Fundamental Health Indicator.

**Spain** (No. 25) and **France** (No. 24) also continue to look sickly on their long-term fundamentals despite a modest gain in the Spanish score caused by better readings for growth potential and the resilience to financial shocks. In the case of France, we remain particularly concerned about a lack of competitiveness and a fiscal position that looks more unhealthy than that of all EU member countries except **Belgium** (No. 20), largely because of the excessive share of government expenditure in GDP of 56.3% in 2017. Of course, fiscal tightening need not be the remedy. If France unlocks its growth potential through supply-side reforms, its fiscal position could improve significantly without any need for any further tax hikes. In any case, France should rather cut expenditure than raise taxes. France also needs major efforts to become more competitive. Fortunately, the process seems to be well underway (see the Special Focus on France on page 71). However, it will take time for the results to show up in the slow-moving ranking for fundamental health.

For **Finland** (No. 21), the lack of competitiveness remains by far the biggest single problem. On all other counts, Finland is not far away from the eurozone average. However, reflecting its adjustment efforts in previous years and the cyclical rebound in major trading partners, Finland’s score for competitiveness improves to 3.3 points, up from 3.0 in 2016.

**Austria** (No. 19) may be close to a turning point. In previous years, its consistently low scores for adjustment progress had shown up in a gradual deterioration of its fundamental health. In *The 2016 Euro Plus Monitor*, we warned that Austria may be approaching the danger zone if it does not start to shape up. This year, the advance in its score for adjustment progress to 2.9 points, still unsatisfactory but up by 0.3 points from 2.6 in 2016, has helped Austria to nudge up its score for fundamental health to 5.6, up from 5.5 in 2016. Prospects for growth potential seem to have improved slightly in Austria. Further reform in coming years could help Austria to return to or even exceed the **eurozone** average of 5.8.

With an unchanged score of 5.7, the **United Kingdom** (No. 18) comes in slightly below the **eurozone** average of 5.8 largely because of its comparatively mediocre results for competitiveness and financial resilience. While the United Kingdom has improved its fiscal sustainability with further fiscal repair in 2017, accentuated by a one-off surge in income tax revenues in early 2017, its huge current account deficit (an estimated 5.1% of GDP in 2017 versus a surplus of 3% for the eurozone) and a low personal savings rate (4.8% of disposable income versus 12.0% for the eurozone) weigh on the ranking of the United Kingdom. That its growth potential still exceeds the eurozone average in the ranking mitigates the damage but does not suffice to close the gap.

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

# III. 2 Growth Potential

**Table 11. Growth Potential**

| Rank | | | Total score | | | Trend growth | | | Human capital | | | Employment | | | Consumption | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2017 | 2016 | Country | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 |
| 1 | 2 | Ireland | 7.4 | *0.1* | 7.3 | 7.0 | *0.3* | 6.7 | 7.2 | *0.0* | 7.3 | 5.4 | *0.2* | 5.1 | 10.0 | *0.0* | 10.0 |
| 2 | 1 | Sweden | 7.4 | *0.0* | 7.4 | 7.8 | *-0.3* | 8.2 | 5.7 | *0.0* | 5.8 | 7.2 | *0.1* | 7.1 | 8.8 | *0.1* | 8.6 |
| 3 | 3 | Czech Republic | 7.3 | *0.0* | 7.2 | 8.2 | *0.0* | 8.2 | 3.9 | *0.0* | 3.9 | 7.0 | *0.3* | 6.7 | 9.9 | *-0.1* | 10.0 |
| 4 | 4 | Netherlands | 7.2 | *0.1* | 7.1 | 6.5 | *0.0* | 6.5 | 5.2 | *0.0* | 5.2 | 7.8 | *0.1* | 7.7 | 9.2 | *0.1* | 9.1 |
| 5 | 5 | Malta | 7.1 | *0.1* | 7.1 | 10.0 | *0.0* | 10.0 | 3.5 | *0.0* | 3.5 | 6.6 | *0.1* | 6.5 | 8.4 | *0.2* | 8.3 |
| 6 | 6 | Estonia | 7.1 | *0.1* | 7.0 | 8.0 | *-0.1* | 8.1 | 5.8 | *0.0* | 5.8 | 6.8 | *0.1* | 6.7 | 7.6 | *0.3* | 7.3 |
| 7 | 7 | Luxembourg | 6.7 | *0.0* | 6.6 | n.a. | *n.a.* | n.a. | 4.3 | *0.0* | 4.4 | 6.5 | *0.0* | 6.5 | 9.1 | *0.1* | 9.1 |
| 8 | 10 | Denmark | 6.3 | *0.1* | 6.2 | 5.1 | *0.2* | 4.8 | 5.5 | *0.1* | 5.4 | 7.6 | *-0.1* | 7.7 | 7.1 | *0.2* | 6.9 |
| 9 | 8 | Germany | 6.3 | *0.0* | 6.3 | 6.3 | *-0.1* | 6.4 | 3.8 | *-0.1* | 3.8 | 7.8 | *0.1* | 7.7 | 7.4 | *0.0* | 7.4 |
| 10 | 14 | Slovenia | 6.2 | *0.3* | 5.9 | 6.6 | *0.6* | 6.0 | 4.2 | *0.1* | 4.1 | 6.3 | *0.3* | 6.0 | 7.9 | *0.2* | 7.7 |
| 11 | 9 | Latvia | 6.2 | 0.0 | 6.2 | 9.2 | *-0.1* | 9.3 | 4.1 | 0.0 | 4.1 | 5.8 | *0.1* | 5.7 | 5.7 | *-0.1* | 5.8 |
| 12 | 11 | Poland | 6.1 | 0.0 | 6.1 | 8.5 | *0.0* | 8.5 | 4.0 | 0.0 | 4.0 | 4.8 | *0.2* | 4.6 | 7.3 | *-0.1* | 7.3 |
| 13 | 12 | Lithuania | 6.1 | *0.0* | 6.1 | 10.0 | *0.0* | 10.0 | 3.5 | *0.0* | 3.6 | 6.0 | *0.2* | 5.8 | 4.8 | *-0.2* | 5.0 |
| 14 | 13 | Austria | 6.0 | *0.1* | 5.9 | 5.2 | *0.1* | 5.1 | 3.2 | *0.0* | 3.2 | 7.7 | *0.0* | 7.6 | 7.9 | *0.1* | 7.8 |
| 15 | 15 | Slovakia | 5.9 | *0.1* | 5.8 | 8.6 | *-0.1* | 8.7 | 2.8 | *0.1* | 2.7 | 3.6 | *0.2* | 3.4 | 8.5 | *0.1* | 8.4 |
| 16 | 16 | United Kingdom | 5.7 | *0.0* | 5.7 | 4.7 | *-0.2* | 4.9 | 6.3 | *0.0* | 6.3 | 7.2 | *0.1* | 7.1 | 4.4 | *0.0* | 4.4 |
| 17 | 18 | Finland | 5.6 | *0.1* | 5.5 | 4.7 | *0.4* | 4.3 | 6.0 | *-0.1* | 6.1 | 6.4 | *0.1* | 6.3 | 5.2 | *0.1* | 5.1 |
| 18 | 17 | Belgium | 5.6 | *0.0* | 5.5 | 4.5 | *0.1* | 4.4 | 5.1 | *0.0* | 5.1 | 5.1 | *0.1* | 5.0 | 7.5 | *0.0* | 7.5 |
| 19 | 19 | Hungary | 5.5 | *0.1* | 5.4 | 4.4 | *0.1* | 4.4 | 3.3 | *-0.1* | 3.4 | 6.0 | *0.3* | 5.7 | 8.2 | *0.1* | 8.2 |
| | | Eurozone | 5.2 | *0.1* | 5.2 | 4.6 | *0.1* | 4.5 | 4.2 | *0.0* | 4.2 | 5.4 | *0.1* | 5.3 | 6.7 | *0.1* | 6.7 |
| 20 | 21 | Bulgaria | 5.0 | *0.1* | 5.0 | 6.2 | *0.0* | 6.2 | 3.7 | *0.1* | 3.5 | 5.2 | *0.1* | 5.1 | 5.2 | *0.0* | 5.2 |
| 21 | 20 | France | 5.0 | *0.0* | 5.0 | 3.9 | *0.0* | 3.9 | 5.8 | *0.0* | 5.8 | 5.2 | *0.0* | 5.2 | 5.4 | *0.0* | 5.3 |
| 22 | 22 | Romania | 4.9 | *0.1* | 4.8 | 7.4 | *0.1* | 7.3 | 3.5 | *0.0* | 3.5 | 5.4 | *0.2* | 5.1 | 3.3 | *0.0* | 3.4 |
| 23 | 23 | Spain | 4.3 | *0.1* | 4.2 | 4.3 | *0.2* | 4.0 | 3.3 | *-0.1* | 3.4 | 2.9 | *0.1* | 2.8 | 6.9 | *0.2* | 6.8 |
| 24 | 24 | Croatia | 3.9 | *0.1* | 3.7 | 2.8 | *0.3* | 2.5 | 3.3 | *0.0* | 3.3 | 2.5 | *0.2* | 2.3 | 6.7 | *0.0* | 6.7 |
| 25 | 25 | Portugal | 3.7 | *0.1* | 3.6 | 2.2 | *0.2* | 2.0 | 4.2 | *-0.1* | 4.3 | 4.3 | *0.3* | 4.0 | 4.2 | *0.2* | 4.0 |
| 26 | 26 | Italy | 3.5 | *0.1* | 3.4 | 1.3 | *0.2* | 1.1 | 3.7 | *0.1* | 3.5 | 3.5 | *0.0* | 3.5 | 5.4 | *0.0* | 5.3 |
| 27 | 27 | Cyprus | 3.3 | *0.1* | 3.2 | 0.8 | *0.2* | 0.7 | 3.3 | *0.0* | 3.3 | 5.4 | *0.1* | 5.3 | 3.6 | *0.1* | 3.4 |
| 28 | 28 | Greece | 1.6 | *0.0* | 1.5 | 0.6 | *0.1* | 0.5 | 2.4 | *-0.1* | 2.5 | 1.0 | *0.1* | 0.8 | 2.3 | *-0.1* | 2.4 |

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 7 and the Notes on Key Components on page 103.

Growth does not cure all economic and social 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 capital, 3) the labour market and 4) a country’s propensity to save rather than consume. We first present the key overall results before we look more closely at the four sub-criteria.

**Overall assessment of growth potential**

Combing the sub-criteria for growth potential, we find four countries with excellent scores at the top, namely **Ireland** (No. 1), **Sweden** (No. 2), the **Czech Republic** (No. 3) and the **Netherlands** (No. 4). After a decline in its score last year, the Netherlands’ score rises slightly, largely because of a slight decline in the

## ‘At the bottom of the league, we detect some encouraging signs of progress.’

share of consumption in GDP and a gain in the Dutch employment rate.

At the bottom of the league, we detect some encouraging signs of progress. **Croatia** (No. 24), **Portugal** (No. 25), **Italy** (No. 26), **Cyprus** (No. 27) and **Greece** (No. 28) still have the lowest growth potential and hence the strongest need to do something about it. However, these five countries as well as **Romania** (No. 22) and **Spain** (No. 23) manage to raise their scores for trend growth slightly in the 2017 ranking. The adjustment efforts of previous years and the ongoing economic recovery are bearing fruit.

**Recent trend growth**

The obvious starting point to analyse the long-term growth potential of a country is actual recent performance. To correct for boom-bust cycles in real estate – a common problem of some economies inside and outside the eurozone at least until 2008 – we look at the trend in real gross value added (GVA) outside the construction sector. 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. This variant takes the available pool of labour (total number of 15-64 year-olds, i.e., the potential labour force) rather than actual use of labour (number of employed) as its base. We will assess the way countries utilise their human capital in the discussion on labour markets that begins below.

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-olds, 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.

**Malta** (No. 1) and **Lithuania** (No. 2) continue to top the league for recent trend growth, followed by **Latvia** (No. 3), **Slovakia** (No. 4), **Poland** (No. 5), the **Czech Republic** (No. 6), **Estonia** (No. 7) and **Sweden** (No. 8). With the exception of already wealthy Sweden, these are all economies with significant potential to catch up to the more advanced members of the European Union. By and large, these countries seem to have the policies in place that are required to utilise that potential. **Greece** (No. 27), **Cyprus** (No. 26), **Italy** (No. 25), **Portugal** (No. 24), **Croatia** (No. 23) and **France** (No. 22) continue to languish at the bottom of the league for recent trend growth (see column “recent growth” in Table 11 on page 47). However, except for France, these countries all managed to raise their scores for trend growth in 2017. As some of the frontrunners (notably Sweden, Estonia, Germany and Latvia) let their score slip a little in 2017, the disparities in trend growth between the best and the worst performers in the EU narrowed modestly in 2017.

**Human capital**

The assessment of human resources includes data for fertility, educational achievement according to the OECD’s Programme for International Student Assessment (PISA) as well as an index to measure how well countries are integrating immigrants into their labour market.

**Ireland** (No. 1) gets top marks for its human resources largely because of its comparatively high fertility rate of 2.0 and its proven record of integrating immigrants. The **United Kingdom** (No. 2) and **Finland** (No. 3) also score fairly well whereas the results are particularly bad for **Greece** (No. 28), **Slovakia** (No. 27; its very low PISA scores are not offset by any strength in other categories). That some

## ‘Catching-up economies in Eastern Europe have a lot of room to use their human resources better.’

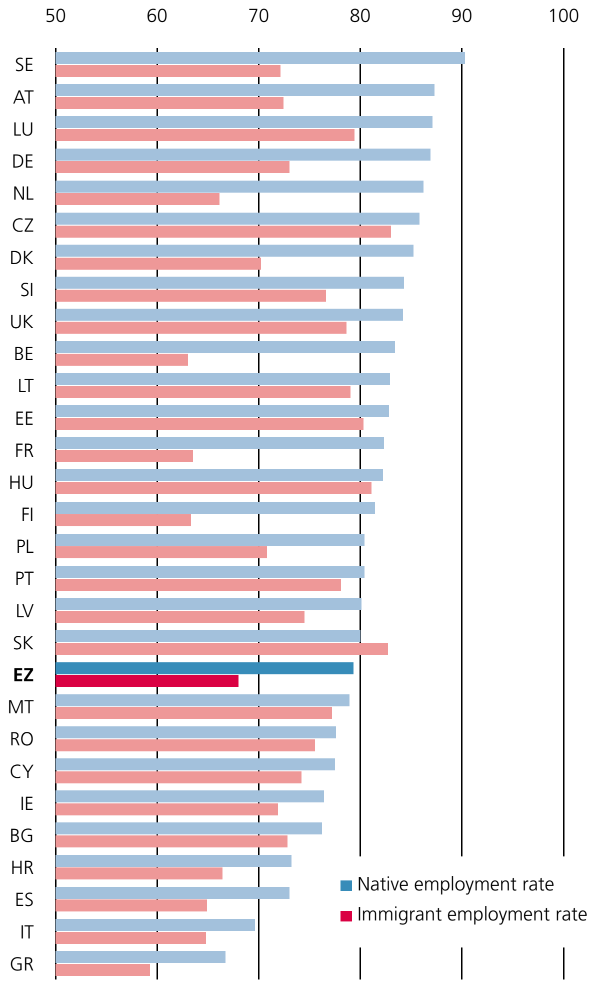
of the catching-up economies in Eastern Europe and the southern periphery of the eurozone such as **Croatia** (No. 22), **Cyprus** (No. 25), **Hungary** (No. 23), **Bulgaria** (No. 18), **Lithuania** (No. 19) and **Romania** (No. 21) have a lot of room to improve the use of their human resources may be almost understandable, although the much better scores for **Estonia** (No. 4) show that it can be done in economies with per-capita GDP well below the eurozone average. The dismal results for **Spain** (No. 24) and **Austria** (No. 26; below average PISA score, significant problems in integrating immigrants) are more difficult to justify. They seem to reflect deep-seated structural problems. Encouragingly, **Italy** (No. 17) raises its score for human capital to 3.7, up from 3.5 in 2016, because the country managed to narrow the gap between the employment rate for immigrants and native-born workers, suggesting that it is becoming better at integrating immigrants.

**Labour market**

To analyse how countries utilise their human potential, we look at overall employment, the share of young people and long-term unemployed in total joblessness as well as measures of labour market flexibility. **Germany** (No. 1) and the **Netherlands** (No. 2) make better use of their human resources than any other country in the sample, closely followed by **Austria** (No. 3), **Denmark** (No. 4), **Sweden** (No. 5) and the **United Kingdom** (No. 6). These comparatively advanced countries offer sufficient jobs to combine a high employment rate with comparatively low rates of youth unemployment. Conversely, some of the emerging markets on the Southern and Eastern periphery still have rather low rates of employment as much of the transition to a modern service economy with a high rate of female participation in the labour market still lies ahead for them. Reflecting its deep crisis of recent years and a labour market that is only gradually becoming more flexible, **Greece** (No. 28) suffers from unusually high

Chart 9. Mind the Gap

Employment of natives and immigrants in percent of prime working age population (25-54 years)




Source: Eurostat

youth unemployment and a large number of long-term unemployed. Fortunately, the trend has turned up. With the unfortunate exceptions of **Italy** (No. 25) and **France** (No. 20), all of the other 10 countries with the weakest results for employment managed to raise their scores in 2017, with gains of 0.1 points for Greece, Spain and Belgium, of 0.2 points for Croatia, Slovakia, Lithuania and Poland and even 0.3 points for Portugal. Except for Denmark’s drop to a still

'The adjustment crisis forced Greek and Cypriot households to spend virtually all they earned.'

very robust score of 7.6, down by 0.1 points from 7.7 in 2016, the score for employment did not weaken for any of the 28 countries in our sample. For both the **eurozone** (at 5.4, up from 5.3) and the United Kingdom (at 7.2, up from 7.1), the score improved by 0.1 points. With its flexible labour market, the United Kingdom maintained its advantage over the eurozone in this category.

**Consumption**

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 these savings either at home or abroad. We aggregate household and government consumption and examine both the share of total final consumption in GDP and the change in this share over time. We combine these scores into one joint ranking.

**Ireland** (No. 1) and the **Czech Republic** (No. 2K) excel on this criterion, followed by the **Netherlands** (No. 3), **Luxembourg** (No. 4) and **Sweden** (No. 5). **Slovakia** (No. 6), **Malta** (No. 7) and **Hungary** (No. 8) are also among the more thrifty nations in the EU (see the data column on "consumption" in Table 11 on page 47). **Greece** (No. 28) and **Cyprus** (No. 26) remain at the bottom of the league for this sub-criterion. The fall in income during their adjustment crises has left consumers with little room to save, forcing them to spend virtually all they earned – and sometimes draw down their savings – in order to get by. For 2017, the Greek score falls slightly, reflecting a rise in private consumption that outstripped the increase in overall GDP according to the EU estimates on which we base our analysis. This may reflect pent-up demand after a long crisis. As Cyprus has returned to satisfactory economic growth – and as Greece may be turning the corner as well – their scores could improve in coming years if the likely rebound in income allows households to save a little more.

‘The ultimate proof of competitiveness is whether a company or country can profitably sell its wares.’

# III.3 Competitiveness

Table 12. Competitiveness

| Rank | | | Total score | | | Export ratio | | | Export rise | | | Labour costs | | | Mkt. regulations | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2017 | 2016 | Country | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 |
| 1 | 1 | Germany | 8.2 | *0.1* | 8.2 | 9.4 | *-0.1* | 9.5 | 8.4 | *-0.2* | 8.6 | 7.8 | *0.5* | 7.3 | 7.4 | *0.2* | 7.2 |
| 2 | 3 | Netherlands | 7.7 | *0.0* | 7.6 | 9.6 | *0.0* | 9.6 | 6.9 | *-0.2* | 7.1 | 6.8 | *0.3* | 6.5 | 7.4 | *0.0* | 7.4 |
| 3 | 7 | Malta | 7.4 | *0.4* | 7.0 | 9.6 | *-0.1* | 9.6 | 5.3 | *-0.6* | 5.8 | 6.9 | *0.2* | 6.7 | 7.7 | *2.0* | 5.8 |
| 4 | 4 | Czech Republic | 7.3 | *0.0* | 7.4 | 8.1 | *0.1* | 8.0 | 10.0 | *0.0* | 10.0 | 4.4 | *-0.5* | 4.9 | 6.9 | *0.4* | 6.5 |
| 5 | 5 | Hungary | 7.3 | *0.0* | 7.3 | 9.9 | *0.0* | 9.9 | 10.0 | *0.0* | 10.0 | 6.6 | *-0.3* | 6.9 | 2.8 | *0.2* | 2.5 |
| 6 | 2 | Ireland | 7.3 | *-0.4* | 7.7 | 9.9 | *0.0* | 9.9 | 4.6 | *-0.8* | 5.4 | 8.2 | *-0.8* | 9.0 | 6.6 | *0.3* | 6.3 |
| 7 | 6 | Slovakia | 7.2 | *0.0* | 7.2 | 9.0 | *0.0* | 8.9 | 10.0 | *0.0* | 10.0 | 4.4 | *0.3* | 4.2 | 5.5 | *-0.3* | 5.8 |
| 8 | 10 | Belgium | 6.7 | *0.2* | 6.6 | 9.4 | *0.0* | 9.4 | 6.1 | *0.6* | 5.5 | 6.2 | *0.2* | 6.0 | 5.3 | *-0.1* | 5.4 |
| 9 | 8 | Poland | 6.7 | *-0.1* | 6.8 | 7.9 | *0.0* | 8.0 | 9.0 | *-0.1* | 9.1 | 7.9 | *-0.2* | 8.0 | 2.0 | *0.0* | 2.0 |
| 10 | 9 | Luxembourg | 6.6 | *-0.1* | 6.8 | 10.0 | *0.0* | 10.0 | 6.7 | *-0.3* | 7.0 | 5.1 | *-0.3* | 5.4 | 4.7 | *0.0* | 4.6 |
| 11 | 11 | Lithuania | 6.5 | *0.0* | 6.5 | 5.3 | *0.1* | 5.2 | 10.0 | *0.0* | 10.0 | 3.1 | *-0.1* | 3.1 | 7.7 | *0.1* | 7.7 |
| 12 | 12 | Estonia | 6.2 | *0.1* | 6.2 | 4.5 | *0.0* | 4.5 | 10.0 | *0.0* | 10.0 | 3.5 | *0.2* | 3.4 | 6.8 | *0.1* | 6.8 |
| 13 | 13 | Romania | 6.1 | *0.3* | 5.8 | 3.6 | *0.0* | 3.6 | 10.0 | *0.1* | 9.9 | 5.6 | *0.4* | 5.1 | 5.3 | *0.6* | 4.6 |
| | | Eurozone | 6.1 | *0.0* | 6.1 | 5.3 | *0.0* | 5.3 | 7.0 | *-0.1* | 7.0 | 6.0 | *0.2* | 5.9 | 6.1 | *0.0* | 6.1 |
| 14 | 14 | Slovenia | 5.9 | 0.2 | 5.7 | 4.0 | *0.1* | 3.9 | 9.6 | 0.0 | 9.6 | 4.3 | *0.3* | 4.0 | 5.9 | *0.3* | 5.5 |
| 15 | 15 | Portugal | 5.8 | 0.1 | 5.7 | 0.0 | *0.0* | 0.0 | 10.0 | 0.0 | 10.0 | 7.4 | *-0.1* | 7.5 | 5.6 | *0.2* | 5.4 |
| 16 | 17 | Bulgaria | 5.5 | 0.0 | 5.5 | 5.9 | *0.0* | 5.9 | 10.0 | 0.0 | 10.0 | 2.1 | *-0.6* | 2.7 | 4.0 | *0.7* | 3.3 |
| 17 | 16 | United Kingdom | 5.4 | -0.1 | 5.5 | 3.4 | *-0.2* | 3.6 | 4.0 | 0.2 | 3.8 | 7.1 | *0.1* | 6.9 | 7.2 | *-0.4* | 7.7 |
| 18 | 18 | Denmark | 5.2 | 0.0 | 5.2 | 1.9 | *0.0* | 2.0 | 5.1 | 0.2 | 4.9 | 7.0 | *0.1* | 6.9 | 6.6 | *-0.2* | 6.9 |
| 19 | 21 | Greece | 4.9 | *0.2* | 4.7 | 0.0 | *0.0* | 0.0 | 9.8 | *0.6* | 9.2 | 5.5 | *0.1* | 5.4 | 4.1 | *0.0* | 4.1 |
| 20 | 19 | Latvia | 4.9 | *-0.1* | 4.9 | 0.3 | *0.1* | 0.3 | 9.7 | *-0.3* | 10.0 | 1.8 | *-0.6* | 2.4 | 7.6 | *0.5* | 7.0 |
| 21 | 24 | Sweden | 4.6 | *0.0* | 4.6 | 2.4 | *-0.1* | 2.5 | 3.9 | *-0.1* | 4.1 | 6.0 | *0.3* | 5.6 | 6.0 | *0.0* | 6.1 |
| 22 | 20 | Austria | 4.6 | *-0.1* | 4.7 | 3.5 | *0.0* | 3.6 | 5.1 | *-0.1* | 5.1 | 5.3 | *0.1* | 5.2 | 4.4 | *-0.6* | 4.9 |
| 23 | 23 | Spain | 4.5 | *-0.1* | 4.6 | 1.7 | *-0.1* | 1.8 | 5.3 | *0.0* | 5.2 | 6.2 | *0.0* | 6.2 | 5.0 | *-0.2* | 5.2 |
| 24 | 22 | France | 4.5 | *-0.1* | 4.6 | 3.1 | *-0.2* | 3.2 | 4.0 | *0.0* | 4.1 | 4.2 | *-0.2* | 4.4 | 6.8 | *0.0* | 6.8 |
| 25 | 26 | Italy | 4.1 | *0.0* | 4.0 | 2.5 | *-0.1* | 2.6 | 5.9 | *0.3* | 5.6 | 4.1 | *0.2* | 3.9 | 3.8 | *-0.2* | 4.0 |
| 26 | 25 | Croatia | 4.0 | *-0.1* | 4.0 | 0.0 | *0.0* | 0.0 | 5.6 | *0.1* | 5.5 | 6.5 | *-0.1* | 6.6 | 3.8 | *-0.3* | 4.1 |
| 27 | 27 | Cyprus | 3.3 | *0.0* | 3.3 | 0.0 | *0.0* | 0.0 | 1.6 | *-0.7* | 2.3 | 6.2 | *0.2* | 6.1 | 5.6 | *0.6* | 4.9 |
| 28 | 28 | Finland | 3.3 | *0.3* | 3.0 | 0.0 | *0.0* | 0.0 | 3.6 | *0.4* | 3.2 | 5.9 | *0.9* | 5.0 | 3.6 | *-0.2* | 3.8 |

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 7 and the Notes on Key Components on page 103.

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 one. 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 can be sold to a

## ‘Finland, Cyprus, Croatia and Italy fare worst in the long-term ranking for competitiveness.’

willing buyer. In the analysis of competitiveness, we thus focus on two measures of export success: 1) the share of exports in a country’s GDP and 2) the rise of this share over time. We adjust these export prowess data for the fact that small and rich countries tend to have a higher share of exports in GDP than big or less advanced economies and we compare the actual data to a model-based benchmark. Subsequently, we add labour cost dynamics and the level of product and service market regulation for an overall assessment of competitiveness. We first present the key overall results before we look more closely at the various sub-criteria.

**Overall assessment of competitiveness**

Combining the various criteria, we find that **Germany** (No. 1) remains the most competitive country in the league table, ahead of the **Netherlands** (No. 2) and **Malta** (No. 3). The **Czech Republic** (No. 4), **Hungary** (No. 5) and **Ireland** (No. 6) also achieve results far above the eurozone average. Once again, **Finland** (No. 28), **Cyprus** (No. 27), **Croatia** (No. 26) and **Italy** (No. 25) fare worst in this long-term ranking for competitiveness (see Table 12 on page 51).

For the **eurozone** as a whole, the score for competitiveness stayed constant in 2017 with only minor changes in the various sub-indices. The **United Kingdom** (No. 17) falls back slightly from its previous No. 16 position largely due to a weaker ranking in the World Economic Forum’s index for the intensity of competition in its local market.

**Export prowess**

Judging by their export performance in terms of 1) the share of exports in GDP and 2) the rise of this share over time, **Hungary**, **Slovakia** and the **Czech Republic** and are the most competitive economies in the EU, followed by **Germany**, **Poland**, the **Netherlands**, **Luxembourg** and **Romania**. On the other end of the spectrum, **Cyprus**, **Finland**, **Croatia** and **Sweden** face serious problems. Five of the eight top performers in export prowess are catching-up economies that have joined the European Union only recently. Most of these countries are using the opportunity to integrate themselves into the European and global supply chain rather well, achieving top marks for the rise in exports.

**Greece** plays a special and still somewhat sad role in the ranking for export prowess. While it gets a very low score for its very low export ratio, the methodology awards Greece a good score for the increasing share of exports in its GDP. Unfortunately, this has come about largely for the wrong reason, namely more through a plunge in GDP rather than a significant rise in exports. Fortunately, the recovery in GDP, which had been delayed by Greece’s confrontation with its creditors in the first half of 2015, seems to have finally arrived in 2017. Jointly with **Belgium**, Greece managed the biggest score improvement in the sub-category for the export ratio rise in 2017. Largely for this reason, Greece improved its overall standing in the ranking for competitiveness to No. 19, up from No. 21 in 2016.

The case of the **United Kingdom** shows how the choice of methodology can affect results. Following the devaluation of sterling after the 23 June 2016 vote to leave the European Union, the United Kingdom achieved higher prices for its exports measured in sterling terms than before. The United Kingdom’s ratio of exports to nominal GDP (both expressed in domestic currency) went up significantly in late 2016 and the first two quarters of 2017. If we based our assessment of export prowess on nominal data, the UK score would rise substantially. In real terms, however, focussing on export volumes rather than export values, the rise would be much smaller, resulting in no more than a minor advance in the score of the United Kingdom on this count. In the end, it comes down to a judgement call: If we view the rise in export prices

## ‘The Brexit-induced spike in British inflation compressed the real wages of British workers.’

relative to domestic prices in the United Kingdom as a permanent change in relative prices, we should use the nominal data. If we see this as a temporary distortion that will be largely corrected by some decline in export prices and a rise in domestic prices over time, we should base our analysis on data for real exports and real GDP. The recent spike in inflation in the United Kingdom suggests that prices will react over time. We have thus chosen the second option, that is an analysis of inflation-adjusted data.

**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. But nominal units are also problematic. As prices for domestic goods usually rise significantly in fast-growing catching-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 need not be a cause for concern.[17] 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 role. The flexibility of companies to adjust the labour force, in particular downwards, matters a lot for hiring decisions. To include a measure of this flexibility, we add the hiring and firing practices index of the World Economic Forum Global Competitiveness Report 2017-2018.[18]

Three results stand out.

First, 16 of 28 EU members as well as the **eurozone** as a whole manage to raise their score in 2017, with a particular pronounced gain for Finland. Although **Finland** remains at the bottom of the league for overall competitiveness, the country seems to be on the right track.

Second, the excellent score for labour cost competitiveness in **Germany** improves further, as it had done last year. Although wages in Germany are rising faster than in most other countries – as discussed in the Adjustment Progress Indicator – the resulting drop in Germany’s labour cost competitiveness is once again more than offset by a significantly better score for hiring and firing practices in the World Economic Forum’s Global Competitiveness Report 2017-2018.

Third, after a major slippage last year due to an increase in its nominal and real unit labour costs above that of the eurozone average, the **United Kingdom** manages to raise its score for labour costs slightly in 2017. However, British workers may not like to be reminded of the reason: as the Brexit-induced spike in United Kingdom inflation depressed the real wages of British workers, an increase in nominal unit labour cost in the United Kingdom by 1.5% and thus in excess of the **eurozone** average of 0.9% translated into an 0.7% decline in real unit labour costs for the United Kingdom while these costs fell only slightly by 0.2% in the eurozone. Our methodology

17. See footnote 12 of this report. 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.
18. World Economic Forum, *The Global Competitiveness Report 2016-2017* (Geneva: World Economic Forum, 2016).

## ‘Overly regulated markets make it difficult to thrive for companies that are not yet well established.’

treats the fall in real unit labour costs in the United Kingdom relative to those in the eurozone as a gain in competitiveness.

**Market regulations**

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 adjust and grow. To facilitate structural change in an economy, would-be entrepreneurs must be able to establish and drive growth in new companies easily. We take data from three sources to assess the weight of red-tape on the economies:

- From the World Economic Forum, we take the survey value for local competition intensity from the goods market pillar.
- From the OECD, we take the Service Trade Restrictiveness Index (STRI) for 2015.
- 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 the comparison of market regulation

We give all three sub-indices equal weight for the aggregate ranking.

The **United Kingdom** (No. 6 in the ranking for market regulation) remains one of the most liberal economies in Europe. However, with a drop in its score to 7.2, down from 7.7, it falls behind the new top performers **Lithuania** (No. 1), **Malta** (No. 2), **Latvia** (No. 3), **Germany** (No. 4) and the **Netherlands** (No. 5) in this category – see the column “market regulations” in Table 12 on page 51. Apart from less intense competition on its local market as measured by the World Economic Forum, the United Kingdom also scores less well than before on the OECD’s index for services trade restrictiveness. Ahead of the exit from the European Union, signs that the United Kingdom may be turning itself into a less competitive market should be a particular concern. To mitigate the Brexit damage, the United Kingdom would need to further deregulate its domestic market instead.

Interestingly, even **France** (No. 9 for market regulation) does quite well in this category with an unchanged score of 6.8, above the eurozone average of 6.1. While services markets in France are more regulated than in most other eurozone members, it takes only 3.5 days to register a business in France, one day less than in the United Kingdom and on par with **Estonia**, the **Netherlands** and **Denmark**, the other countries defining best practice within the European Union in this particular sub-category of the analysis of market regulations.

The bottom of the league for market regulation features **Italy** (No. 24), **Croatia** (No. 25), **Finland** (No. 26), **Hungary** (No. 27) and **Poland** (No. 28). According to the World Bank, it still takes 37 days to register a business in Poland, by far the worst result in this sub-category.

‘The new look at the quality of the fiscal position makes a significant difference for Germany.’

## III.4 Fiscal Sustainability

Safeguarding fiscal sustainability became a key thrust of eurozone macroeconomic policy after 2009. Where do countries stand after eight years of adjustment? To answer this question, we examine 1) the share of government expenditure 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; 4) the sustainability gap, i.e., the required amount of fiscal tightening in the years to 2020 to hypothetically bring the debt ratio down to 60% of GDP by 2030; and 5) a summary assessment of the quality of public finances. We then aggregate the five sub-indicators into an overall score and ranking for fiscal sustainability. Below, we first present the overall results before we take a closer look at the five sub-indicators.

Note that the results we present in this section for 2017 and for 2016 are not fully comparable to those we published in previous editions of *The Euro Plus Monitor*. As explained in the section on adjustment progress (see page 28), we have added an analysis of the quality of public finances: For this purpose, we look at 1) the share of education and infrastructure investment in total public expenditure and 2) the share of consumption and property taxes in overall total revenues. The results shown for 2016 in the fiscal tables are based on the new methodology.

**Overall results**

Once again, the clear leaders are **Luxembourg** (No. 1), **Estonia** (No. 2) and **Latvia** (No. 3) courtesy of their very low levels of public debt. They are closely followed by the **Czech Republic** (No. 4) and **Lithuania** (No. 5).

As in previous years, **Portugal** (No. 23), **Greece** (No. 24), **Croatia** (No. 25), **Italy** (No. 26), **France** (No. 27) and **Belgium** (No. 28) are facing the gravest fiscal challenges. Belgium has the strongest need to adjust its fiscal stance as measured by the sustainability gap whereas France suffers from its bloated public sector with the worst ranking for the share of public expenditure in GDP after **Hungary** (No. 19; see Table 13 on pages 56-57 for more).

Reflecting the turn away from austerity and a modest fiscal stimulus in many countries, the fiscal sustainability of the **eurozone** and most of its member countries deteriorated slightly in 2017 with a marginal decline in the score for the eurozone to 5.9, down from from 6.0. Against the trend on the European continent, the **United Kingdom** (No. 13) improved its score for fiscal sustainability by 0.4 points to 6.9, up from 6.5, largely because it turned a structural primary deficit of 0.8% of GDP into a small surplus of 0.2% in 2017 according to the European Commission’s November 2017 projections on which we base our analysis.

The new look at the quality of the fiscal position makes a significant difference for **Germany** (No. 12). Because it has achieved a small fiscal surplus and has put its debt ratio on a nicely declining trajectory, Germany had come in at No. 6 in the ranking for fiscal sustainability in *The 2016 Euro Plus Monitor*. Although Germany’s fiscal position has certainly not deteriorated in the last six months, Germany drops to No. 12 in the new ranking. The extension of *The 2017 Euro Plus Monitor* by an assessment of the quality of public finances is driving this. For the quality of its public finances, Germany gets a score well below that of the eurozone average. It uses a smaller part of its public expenditure for education and infrastructure investment and relies less on consumption and property taxes to fund its budget than most other

## 'Excessive government expenditure constrains the room for the expansion of the private sector.'

Table 13. Fiscal Sustainability

| Rank | | | Total score | | | Government expenditure | | | Structural balance | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2017 | 2016 | Country | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 |
| 1 | 1 | Luxembourg | 8.9 | *-0.3* | 9.3 | 10.0 | *0.0* | 10.0 | 8.9 | *-1.1* | 10.0 |
| 2 | 2 | Estonia | 8.4 | *-0.2* | 8.6 | 8.0 | *-0.1* | 8.1 | 7.3 | *-0.6* | 7.9 |
| 3 | 3 | Latvia | 8.1 | *-0.2* | 8.3 | 7.5 | *-0.1* | 7.6 | 7.1 | *-1.0* | 8.2 |
| 4 | 4 | Czech Republic | 8.0 | *0.0* | 8.0 | 5.4 | *0.1* | 5.3 | 9.3 | *-0.1* | 9.5 |
| 5 | 5 | Lithuania | 7.7 | *-0.3* | 7.9 | 8.4 | *0.1* | 8.2 | 8.0 | *-0.7* | 8.7 |
| 6 | 7 | Slovakia | 7.4 | *0.1* | 7.3 | 8.4 | *0.0* | 8.5 | 7.5 | *0.1* | 7.3 |
| 7 | 6 | Romania | 7.3 | *-0.3* | 7.6 | 7.0 | *0.2* | 6.8 | 6.1 | *-1.0* | 7.0 |
| 8 | 11 | Ireland | 7.2 | *0.2* | 7.0 | 10.0 | *0.0* | 10.0 | 8.1 | *0.4* | 7.7 |
| 9 | 13 | Bulgaria | 7.1 | *0.1* | 7.0 | 5.5 | *0.2* | 5.3 | 8.7 | *-0.1* | 8.8 |
| 10 | 9 | Sweden | 7.0 | *-0.1* | 7.1 | 3.4 | *0.0* | 3.5 | 9.1 | *-0.3* | 9.4 |
| 11 | 8 | Netherlands | 7.0 | *-0.2* | 7.2 | 7.1 | *0.0* | 7.1 | 9.0 | *-0.6* | 9.6 |
| 12 | 10 | Germany | 7.0 | *0.0* | 7.0 | 6.4 | *-0.1* | 6.5 | 9.6 | *0.0* | 9.6 |
| 13 | 16 | United Kingdom | 6.9 | *0.4* | 6.5 | 8.1 | *0.0* | 8.1 | 7.3 | *0.8* | 6.6 |
| 14 | 14 | Poland | 6.8 | *0.0* | 6.8 | 3.0 | *0.1* | 2.9 | 7.2 | *0.0* | 7.1 |
| 15 | 12 | Denmark | 6.8 | *-0.2* | 7.0 | 2.2 | *0.0* | 2.3 | 8.4 | *-0.7* | 9.1 |
| 16 | 15 | Malta | 6.7 | *0.2* | 6.5 | 6.7 | *0.2* | 6.5 | 9.5 | -0.1 | 9.5 |
| 17 | 18 | Slovenia | 6.0 | *-0.1* | 6.1 | 3.2 | *0.1* | 3.1 | 8.1 | -0.3 | 8.4 |
| 18 | 17 | Finland | 5.9 | *-0.3* | 6.2 | 2.2 | *-0.1* | 2.3 | 7.8 | -0.6 | 8.4 |
| | | Eurozone | 5.9 | *0.0* | 6.0 | 5.7 | *0.0* | 5.7 | 8.4 | *-0.1* | 8.5 |
| 19 | 19 | Hungary | 5.4 | *-0.4* | 5.8 | 0.0 | *0.0* | 0.0 | 6.8 | *-1.3* | 8.1 |
| 20 | 20 | Spain | 5.4 | *0.0* | 5.4 | 7.3 | *0.0* | 7.3 | 6.8 | *0.0* | 6.7 |
| 21 | 22 | Cyprus | 5.3 | *0.0* | 5.3 | 8.5 | *0.0* | 8.5 | 9.4 | *-0.3* | 9.6 |
| 22 | 23 | Austria | 5.2 | *0.0* | 5.2 | 2.9 | *-0.1* | 3.0 | 8.4 | *0.0* | 8.4 |
| 23 | 24 | Portugal | 5.0 | *0.0* | 5.0 | 3.0 | *0.1* | 2.8 | 8.5 | *0.1* | 8.5 |
| 24 | 21 | Greece | 5.0 | *-0.4* | 5.4 | 1.4 | *0.2* | 1.3 | 10.0 | *0.0* | 10.0 |
| 25 | 25 | Croatia | 4.6 | *-0.2* | 4.8 | 1.1 | *-0.1* | 1.2 | 8.8 | *-0.3* | 9.1 |
| 26 | 26 | Italy | 4.5 | *-0.2* | 4.7 | 3.6 | *-0.1* | 3.7 | 8.3 | *-0.3* | 8.6 |
| 27 | 27 | France | 4.4 | *0.0* | 4.4 | 0.3 | *-0.2* | 0.5 | 7.0 | *0.2* | 6.9 |
| 28 | 28 | Belgium | 4.0 | *0.1* | 3.9 | 2.2 | *-0.1* | 2.3 | 8.2 | *0.4* | 7.8 |

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 7 and the Notes on Key Components on page 103.

countries in the European Union. Judging by these results, there may indeed be a case for Germany to spend more on investing in schools and cut income taxes somewhat.

**Government Expenditure**

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 expenditure 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 expenditure in GDP (the 2002-2017 average) for differences in per capita income.

## ‘By and large, the eurozone remains on the right track.’

### Table 13. Fiscal Sustainability (continued)

| Rank | | | Public debt | | | Sustainability gap | | | Quality of public finances | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2017 | 2016 | Country | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 |
| 1 | 1 | Luxembourg | 9.0 | *-0.2* | 9.2 | n.a. | *n.a.* | n.a. | 7.8 | *0.0* | 7.8 |
| 2 | 2 | Estonia | 10.0 | *0.0* | 10.0 | n.a. | *n.a.* | n.a. | 8.5 | *0.0* | 8.5 |
| 3 | 3 | Latvia | 7.9 | *0.1* | 7.8 | 10.0 | *0.0* | 10.0 | 8.1 | *0.0* | 8.0 |
| 4 | 4 | Czech Republic | 8.2 | *0.2* | 8.1 | 10.0 | *0.0* | 10.0 | 7.1 | *0.0* | 7.1 |
| 5 | 5 | Lithuania | 7.8 | *-0.1* | 7.9 | 6.9 | *-0.7* | 7.6 | 7.3 | *0.0* | 7.2 |
| 6 | 7 | Slovakia | 7.1 | *0.1* | 7.0 | 7.9 | *0.0* | 7.9 | 6.2 | *0.2* | 6.0 |
| 7 | 6 | Romania | 8.0 | *0.0* | 8.0 | 7.1 | *-0.9* | 8.0 | 8.1 | *-0.1* | 8.2 |
| 8 | 11 | Ireland | 4.2 | *0.3* | 4.0 | 6.5 | *0.3* | 6.2 | 6.9 | *-0.1* | 7.0 |
| 9 | 13 | Bulgaria | 8.9 | *0.2* | 8.6 | n.a. | *n.a.* | n.a. | 5.3 | *0.2* | 5.1 |
| 10 | 9 | Sweden | 7.9 | *0.2* | 7.7 | 9.4 | *-0.3* | 9.7 | 5.3 | *0.0* | 5.3 |
| 11 | 8 | Netherlands | 6.6 | *0.3* | 6.3 | 5.6 | *-0.6* | 6.2 | 6.7 | *0.0* | 6.7 |
| 12 | 10 | Germany | 6.1 | *0.2* | 5.9 | 9.1 | *-0.1* | 9.2 | 3.6 | *-0.1* | 3.7 |
| 13 | 16 | United Kingdom | 4.5 | *0.1* | 4.4 | 7.0 | *0.8* | 6.2 | 7.6 | *0.1* | 7.5 |
| 14 | 14 | Poland | 6.9 | *0.1* | 6.9 | 9.1 | *0.0* | 9.1 | 7.8 | *0.0* | 7.9 |
| 15 | 12 | Denmark | 8.1 | *0.1* | 8.0 | 9.6 | *-0.4* | 10.0 | 5.5 | *0.1* | 5.4 |
| 16 | 15 | Malta | 6.8 | *0.2* | 6.6 | n.a. | *n.a.* | n.a. | 3.8 | 0.3 | 3.5 |
| 17 | 18 | Slovenia | 5.3 | *0.2* | 5.1 | 6.8 | *-0.4* | 7.3 | 6.8 | 0.1 | 6.7 |
| 18 | 17 | Finland | 6.2 | *0.0* | 6.2 | 7.1 | *-0.6* | 7.8 | 6.4 | 0.0 | 6.4 |
| | | Eurozone | 4.5 | *0.1* | 4.4 | 6.2 | *-0.2* | 6.4 | 4.8 | *-0.1* | 4.9 |
| 19 | 19 | Hungary | 5.5 | *0.1* | 5.4 | 7.2 | *-1.3* | 8.6 | 7.4 | *0.3* | 7.1 |
| 20 | 20 | Spain | 3.7 | *0.0* | 3.6 | 3.6 | *-0.1* | 3.7 | 5.5 | *0.0* | 5.6 |
| 21 | 22 | Cyprus | 3.4 | *0.3* | 3.1 | n.a. | *n.a.* | n.a. | 0.0 | *-0.2* | 0.2 |
| 22 | 23 | Austria | 5.1 | *0.4* | 4.7 | 4.9 | *-0.1* | 4.9 | 4.7 | *-0.1* | 4.8 |
| 23 | 24 | Portugal | 1.7 | *0.3* | 1.4 | 4.7 | *-0.1* | 4.8 | 7.2 | *-0.2* | 7.4 |
| 24 | 21 | Greece | 0.0 | *0.0* | 0.0 | 5.6 | *-2.3* | 7.9 | 7.9 | *0.2* | 7.7 |
| 25 | 25 | Croatia | 5.0 | *0.2* | 4.8 | n.a. | *n.a.* | n.a. | 3.7 | *-0.6* | 4.2 |
| 26 | 26 | Italy | 1.3 | *0.0* | 1.3 | 5.9 | *-0.5* | 6.3 | 3.4 | *-0.1* | 3.5 |
| 27 | 27 | France | 3.8 | *0.0* | 3.8 | 5.9 | *0.1* | 5.7 | 5.1 | *-0.1* | 5.2 |
| 28 | 28 | Belgium | 3.3 | *0.1* | 3.2 | 3.2 | *0.3* | 2.9 | 3.0 | *-0.1* | 3.1 |

Ranks, scores and score changes from last year for the Fiscal Sustainability Indicator and sub-indicators. For further explanations see notes under Table 2 on page 7 and the Notes on Key Components on page 103.

By and large, the **eurozone** remains on the right track. Reflecting earlier adjustment efforts and firmer economic growth, the eurozone’s share of government expenditure in GDP fell further to 46.8% in 2017, down from 47.6% in 2016. This marks the fourth time in a row that governments in the eurozone have slimmed down as measured by the share of public spending in GDP.

Contrary to the trend among most western European countries, **Germany** raised its government spending slightly faster than the overall increase in GDP in 2016 and 2017, partly driven by extra outlays for the 1.2 million migrants and refugees which the country admitted in 2015 and 2016.

At 44.4% in 2017, the share remains below Germany’s post-2001 average of 45.3% and the eurozone’s 46.8% reading for 2017, though.

As in some previous editions of *The Euro Plus Monitor*, **France** (No. 27) gets the Leviathan “award” for the

## ‘The leanest governments can be found mostly around the edges of the European Union.’

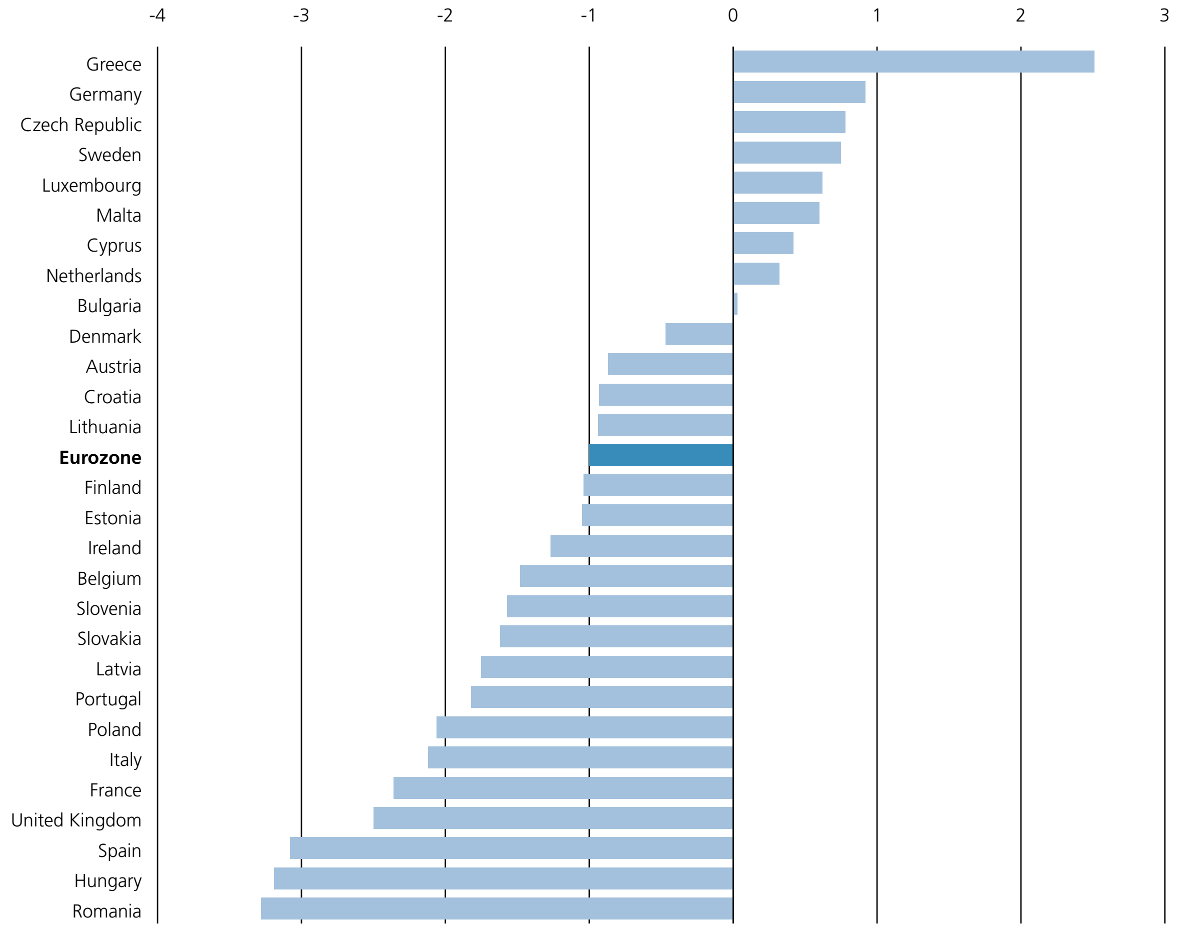
biggest share of public spending in GDP in 2017. However, adjusted for differences in per-capita income as we do for our ranking, **Hungary** (No. 28) looks even worse on this criterion than France. Fortunately, France is trying to address its problem, though very timidly, with a fall in the share of government spending in GDP to 56.4% in 2016 and 56.3% in 2017, down from a peak of 57% in 2013 and 2014.

**Finland** (No. 24), which had even surpassed France’s share of government spending in annual GDP from 2013 to 2015, finally made more decisive progress in 2017, bringing the share to 53.1%, down from 55.8% in 2016. Nonetheless, Finland as well as **Belgium** (52.4% in 2017 after 53.2% in 2016), **Austria** (unchanged at 50.6%) and **Denmark** (down significantly to 50.8% after a 53.5% in 2016) still have a long way to go to match the eurozone average of 46.8%.

The leanest governments can be found mostly around the edges of the EU, with comparatively rich **Ireland** (No. 1) even having a smaller share of government spending in its GDP than much poorer **Romania**

Chart 10. The New League of Prudence

Structural fiscal balance 2017 in percent of GDP




Sources: European Commission, Berenberg calculations

## ‘At the bottom of the league table, the United Kingdom moves up slightly this year.’

(No. 11), **Lithuania** (No. 5), and **Bulgaria** (No. 14) in 2017.

**Structural fiscal balance**
To assess the underlying fiscal situation excluding mere cyclical and one-off factors, we examine 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 Portugal and Italy whereas it is 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.

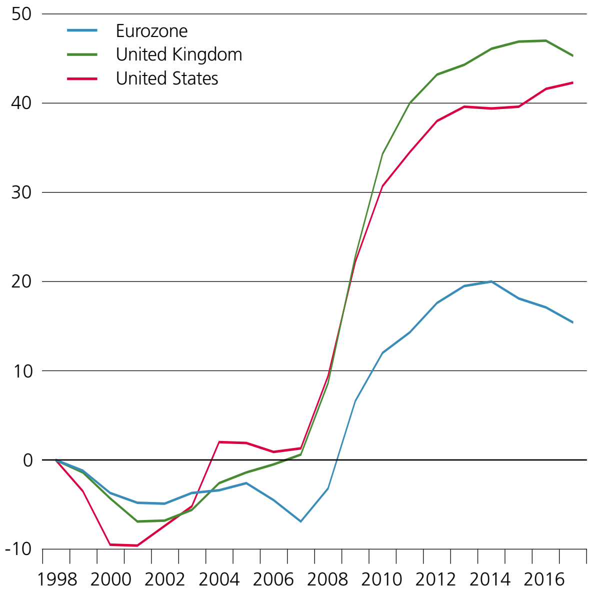
As many countries granted themselves a small stimulus in 2017, the **eurozone**’s structural fiscal deficit rose slightly to 1.0% of potential GDP in 2017, up from 0.9% in 2016. The slippage is particularly pronounced in **Italy**, with an increase in the structural deficit to 2.1% of potential GDP, down from from 1.7%, and in **Cyprus** to a surplus of 0.4% (from 1.1% in 2016) after serious fiscal tightening from 2010 to 2014.

Measured solely by their current structural fiscal deficits, **Greece**, **Germany**, **Sweden**, the **Czech Republic**, **Malta** and **Luxembourg** have the strongest current fiscal position among the 28 countries in the sample, the difference between them being that Greece carries a huge debt burden of 180% of GDP whereas Luxembourg seems almost debt-free with a debt ratio of just 24% by comparison. Behind the six frontrunners, the **Netherlands** is also excelling with a small surplus on their structural fiscal balance.

At the bottom of the league table, the **United Kingdom** moves up slightly this year. Due to some significant austerity in 2017, its structural deficit of 2.5% of GDP is now smaller than that of **Romania** (3.3%), **Hungary** (3.2%) and **Spain** (3.1%). The former two countries had loosened their fiscal reins this year.

Chart 11: Debt Burden Finally Falling in the Eurozone

Change in public debt ratio since 1998 in percent of GDP




Sources: Eurostat, European Commission

Excluding interest payments from the analysis changes the results only modestly. Judged solely by its primary structural balance, **Greece** (with a primary-budget surplus of 5.6% of GDP in 2017) maintains the pole position, followed by **Cyprus** (2.8%), **Malta** (2.5%), **Germany** (2.1%) and **Portugal** (also 2.1%). Despite a further fiscal stimulus in 2017, **Italy** is still running a structural surplus of 1.7% of GDP. Because of Italy’s huge debt, its interest expenditures drive a wedge of 3.8% percentage points between its primary and its actual structural fiscal balance.

**Public debt**
The level of public debt is one of the most prominent factors determining fiscal sustainability. With an estimated debt ratio of 179.5% of GDP in 2017, **Greece** (No. 28 on the public debt criterion) kept the red lantern at the bottom of the public debt league,

## ‘Greece has often relied too much on hiking taxes.’

ahead of **Italy** (No. 27, with 132.1%) and **Portugal** (No. 26, with 126.4%). The position of **Ireland** (No. 21) continues to improve rapidly with a fall in its debt ratio to 90.8% in 2017 down from 94.5% in 2016 and a peak of 119.6% in 2012.

While the **eurozone** as a whole reduced its debt burden in 2017 to 87.2% of GDP after 88.9% in the year before, the **United Kingdom** finally managed to get on the right track with a drop in its debt ratio to 86.6% from a peak of 88.3% in 2016 according to the European Commission’s Autumn 2017 forecasts.

**Quality of public finances**

Assessing the quality of public finances is not an easy endeavour. Countries organise their public sectors in different ways. Also, voter preferences for welfare and other social spending often rise with growing prosperity, making it difficult to compare the size and structure of public spending in countries at different stages of economic development. A well-run welfare state which sets the right incentives, say, in line with Scandinavian “flexicurity” models, may look bloated on measures of overall public spending in GDP and the relative shares of consumption and investment in government expenditures. Nonetheless, comparisons make sense. Although we have to treat the results of such analyses with some caution, such comparisons can highlight differences between countries as well as changes within countries over time.

As explained above, we use two criteria to examine the quality of public finances in a somewhat cursory way: we look at 1) the share of education and infrastructure investment in total public expenditure and 2) the share of consumption and property taxes in overall government revenues. To correct for the general tendency towards more public consumption as economies get richer, we measure the expenditure data for individual countries against a benchmark derived from a simple regression against per-capita GDP. We assign scores to the two components, 1) the structure of public expenditure and 2) the structure of tax revenues. We take the average of these two scores as the overall score for the quality of public finances for the 28 countries in the sample.

**Estonia** (No. 1) tops the resulting league ahead of **Romania** (No. 2) and **Latvia** (No. 3). The lowest score goes to **Cyprus** (No. 28) which has spent very little on infrastructure and education investment in the 2009-2015 base period for the analysis (more recent data are not yet available in sufficient detail). **Belgium** (No. 27), **Italy** (No. 26), **Germany** (No. 25), **Croatia** (No. 24) and **Malta** (No. 24) could also do significantly more to improve the quality of their public finances. Interestingly, **Greece** (No. 4) ranks fairly well on this count, partly because EU funds are supporting public investment in the country. Note that our analysis of the quality of public finances is based on a long-term average (2009-2015). As anybody using the road from Athens airport to the city and major roads in many other parts of the country can testify, Greece – and Europe – have spent significant amounts of money in the past to upgrade Greek infrastructure. As noted in the discussion of fiscal adjustment on page 28, Greece has often relied too much on hiking taxes in its severe post-2009 fiscal squeeze. But in doing so, Greece has often focussed on consumer, petrol and property taxes more than on direct taxes. This shows up in a relatively good score for the composition of tax receipts. Although Greece gets an above-average score for the structure of public spending and tax receipts, the country with its high debt burden remains very close to the bottom in our aggregate assessment of fiscal sustainability.

‘The eurozone and most of its members have become slightly more resilient to financial shocks.’

# III.5 Resilience

To analyse the vulnerability to sudden shifts in market sentiment, we look at six separate subindicators: 1) the debt redemptions over the next three years as a share of GDP, 2) public debt held abroad as a share of GDP, 3) the household savings rate, 4) current account deficit, 5) the size of the banking system as a multiple of GDP, and 6) the debt of households and non-financial corporations (private debt). Below, we first present the overall results before we discuss the six components in more detail.

**Overall results**

The eurozone and most of its member countries have become slightly more resilient to financial shocks. However, the marginal rise in the score for the region by 0.1 points hides two divergent trends.

First, the good news stems mostly from a rise in the share of public debt held at home. Part of this can be traced to the bond purchase programme of the ECB, which – mostly through the national central banks of member states – continues to buy bonds on the secondary market from domestic and foreign sellers alike. As the ECB would certainly not join any panic selling of bonds in a new crisis, this makes eurozone members less prone to fall victim to financial shocks. In addition, the bond redemption schedule for most eurozone countries looks easier now than it did a year ago.

Second, largely offsetting these positive trends, the savings rate of eurozone households has fallen slightly to 12.0% in 2017, down from 12.3% in 2016, while the current account surplus has narrowed to 3.0%, down from from 3.3% last year. Of course, the savings rate and the current account surplus, while slightly less stellar than last year, remain healthy and impressive. Arguably, the modest decline in both can be seen as part and parcel of a welcome return to normal after a need for exceptional prudence in the wake of the euro crisis.

To some degree, the adjustment efforts made especially by the euro periphery over the past six years continue to shine through. While the former crisis countries remain at or close to the bottom of the table for resilience to financial shocks, most of their scores have improved. Current account deficits have narrowed or turned into surpluses, the private sector is repairing its balance sheet, savings rates have risen and many banks have deleveraged. However, much of the progress has been in previous years. The further advance in the scores in 2017 for **Portugal** (No 23 with a rise in the score by 0.5 points), **Greece** (No. 27 with a rise of 0.4 points), **Spain** (No. 24 with a rise of 0.2 points) and **Ireland** (No. 26 with a rise of 0.1 point).

Best placed to weather potential future shocks would be **Estonia** (No. 1 again for resilience) ahead of **Malta** (No. 2), **Germany** (No. 3), **Romania** (No. 4), **Slovakia** (No. 5) and **Denmark** (No. 6). Its resilience allowed Slovenia to master its serious financial crisis in 2013-2014 without having to call in the troika. Among the top 10, which are rounded off by **Sweden** (No. 7), the **Czech Republic** (No. 8), **Croatia** (No. 9) and **Slovenia** (No. 10), Denmark makes the most impressive advance in the 2017 ranking (rising to No. 6, up from No. 9, with a rise in score of 0.4 points) largely because it faces few bond redemptions in the next three years while Malta (No.2, up from No. 3, with a 0.3 point gain in its score) benefits from a strong improvement in its current account. As the external position of the small island economy tends to be rather volatile, it remains to be seen whether this result is an outlier or trend.

## ‘An aggressive central bank can defuse financial crises by buying assets.’

Table 14. Resilience

| Rank | | | Total score | | | Debt redemptions | | | Debt held abroad | | | Savings rate | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2017 | 2016 | Country | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 |
| 1 | 1 | Estonia | 8.2 | *0.2* | 8.0 | 10.0 | *0.0* | 10.0 | 9.3 | *0.0* | 9.3 | 7.1 | *0.6* | 6.5 |
| 2 | 2 | Malta | 8.1 | *0.3* | 7.8 | 6.9 | *0.5* | 6.4 | 9.4 | *0.1* | 9.3 | n.a. | *n.a.* | n.a. |
| 3 | 3 | Germany | 7.7 | *-0.1* | 7.8 | 4.6 | *-0.6* | 5.2 | 6.2 | *0.7* | 5.6 | 9.3 | *-0.3* | 9.5 |
| 4 | 4 | Romania | 7.4 | *-0.1* | 7.5 | 6.5 | *-0.2* | 6.7 | 8.2 | *0.2* | 8.0 | 5.2 | *-0.3* | 5.5 |
| 5 | 6 | Slovakia | 7.4 | *0.2* | 7.2 | 7.7 | *1.3* | 6.4 | 6.6 | *0.2* | 6.4 | 8.3 | *0.2* | 8.1 |
| 6 | 10 | Denmark | 7.4 | *0.4* | 6.9 | 7.9 | *2.0* | 5.9 | 8.7 | *0.1* | 8.6 | 6.5 | *0.1* | 6.4 |
| 7 | 5 | Sweden | 7.2 | *0.0* | 7.2 | 6.9 | *-0.1* | 6.9 | 8.3 | *0.5* | 7.8 | 10.0 | *0.0* | 10.0 |
| 8 | 7 | Czech Republic | 7.1 | *-0.1* | 7.2 | 6.4 | *0.3* | 6.1 | 7.5 | *-1.0* | 8.4 | 6.1 | *-0.3* | 6.4 |
| 9 | 9 | Croatia | 7.0 | *0.1* | 6.9 | 4.2 | *0.3* | 3.9 | 6.6 | *0.4* | 6.2 | 8.0 | *-0.2* | 8.2 |
| 10 | 11 | Slovenia | 7.0 | *0.2* | 6.7 | 5.9 | *1.1* | 4.8 | 4.0 | *0.2* | 3.8 | 6.4 | *-0.8* | 7.3 |
| 11 | 8 | Luxembourg | 6.7 | *-0.2* | 7.0 | 9.0 | *-0.9* | 9.9 | 8.6 | *-0.5* | 9.1 | 10.0 | *0.0* | 10.0 |
| 12 | 14 | Hungary | 6.5 | *0.2* | 6.3 | 2.0 | *0.5* | 1.5 | 6.3 | *0.8* | 5.5 | 5.7 | *0.2* | 5.6 |
| 13 | 16 | Austria | 6.4 | *0.2* | 6.2 | 5.2 | *0.2* | 4.9 | 3.6 | *1.1* | 2.5 | 7.2 | *-0.4* | 7.6 |
| 14 | 17 | Netherlands | 6.4 | *0.3* | 6.1 | 4.7 | *0.8* | 3.9 | 6.9 | *0.6* | 6.3 | 7.4 | *0.0* | 7.4 |
| 15 | 13 | Bulgaria | 6.4 | *0.0* | 6.4 | 9.1 | *0.5* | 8.7 | n.a. | *n.a.* | n.a. | 0.0 | *-0.3* | 0.3 |
| 16 | 12 | Lithuania | 6.4 | *-0.1* | 6.4 | 6.9 | *-0.6* | 7.6 | 6.2 | *0.1* | 6.1 | 0.0 | *0.0* | 0.0 |
| 17 | 15 | Latvia | 6.3 | *0.1* | 6.3 | 7.5 | *0.2* | 7.2 | 6.8 | *0.4* | 6.4 | 2.5 | *0.5* | 1.9 |
| 18 | 18 | Poland | 6.2 | *0.1* | 6.1 | 6.0 | *0.8* | 5.2 | 7.1 | *0.5* | 6.6 | 1.8 | *-0.8* | 2.6 |
| | | Eurozone | 6.1 | *0.1* | 6.0 | 3.7 | *0.2* | 3.5 | 5.0 | *0.7* | 4.4 | 6.8 | *-0.2* | 7.0 |
| 19 | 20 | Finland | 5.7 | *0.3* | 5.5 | 5.6 | *-0.4* | 5.9 | 5.2 | *0.9* | 4.3 | 3.4 | *-0.3* | 3.7 |
| 20 | 19 | Italy | 5.7 | *0.2* | 5.5 | 0.5 | *0.5* | 0.0 | 5.3 | *0.9* | 4.4 | 5.8 | *-0.2* | 6.0 |
| 21 | 21 | France | 5.3 | *0.1* | 5.2 | 3.2 | *0.1* | 3.1 | 3.9 | *0.6* | 3.4 | 7.7 | *0.1* | 7.6 |
| 22 | 22 | Belgium | 5.2 | *0.0* | 5.2 | 4.5 | *0.9* | 3.5 | 3.1 | *0.2* | 2.9 | 5.8 | *-0.7* | 6.5 |
| 23 | 24 | Portugal | 5.1 | *0.5* | 4.6 | 4.6 | *0.2* | 4.4 | 1.9 | *1.9* | 0.0 | 3.8 | *0.2* | 3.6 |
| 24 | 25 | Spain | 4.8 | *0.2* | 4.5 | 3.0 | *1.0* | 2.0 | 5.1 | *0.6* | 4.5 | 4.0 | *-0.6* | 4.6 |
| 25 | 23 | United Kingdom | 4.7 | *-0.2* | 4.9 | 5.8 | *0.1* | 5.8 | 6.9 | *-0.1* | 7.0 | 3.1 | *-1.2* | 4.3 |
| 26 | 26 | Ireland | 4.6 | *0.1* | 4.5 | 5.5 | *-0.9* | 6.4 | 4.0 | *1.3* | 2.7 | 4.1 | *0.2* | 3.8 |
| 27 | 27 | Greece | 4.5 | *0.4* | 4.1 | 6.1 | *1.7* | 4.4 | 0.0 | *0.0* | 0.0 | 0.0 | *0.0* | 0.0 |
| 28 | 28 | Cyprus | 2.5 | *0.0* | 2.5 | 5.1 | *-0.4* | 5.5 | 1.5 | *0.4* | 1.1 | 0.0 | *0.0* | 0.0 |

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 7 and the Notes on Key Components on page 103.

The **United Kingdom** (No. 25, down from No. 23) falls back even further in the ranking due to the significant drop in its household savings rate to an estimated 4.8% in 2017, down from 7.1% in 2016. As households cushioned the shock to their real disposable incomes from the Brexit-related spike in inflation, they returned to their bad old habit of borrowing more. The modest improvement in the United Kingdom’s current account deficit to 5.1% of GDP in 2017, down from 5.9% last year, did not suffice to offset this. All in all, the still-big current account deficit and the low savings rate weigh heavily on the score, putting the United Kingdom in terms of resilience to financial shocks into a group which otherwise includes mostly countries which either made negative headlines during the euro crisis or other fiscally challenged countries such as **France** (No. 21) and **Belgium** (No. 22). As the United Kingdom is not part of the eurozone, economic and financial shocks would likely show up more in a serious plunge in the exchange rate than in protracted financial turbulence. After all, an aggressive central bank can defuse any domestic financial turbulence by buying assets in exchange for the money it can print itself. In a way, the Bank of England proved this point in its swift reaction to the Brexit vote.

## 'Countries with little public debt excel in the ranking.'

**Table 14. Resilience (continued)**

| Rank | | | Current account | | | Bank assets | | | Private debt | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2017 | 2016 | Country | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 |
| 1 | 1 | Estonia | 6.8 | *0.2* | 6.6 | 8.4 | *0.4* | 7.9 | 7.8 | *0.0* | 7.8 |
| 2 | 2 | Malta | 10.0 | *1.0* | 9.0 | 6.9 | *0.2* | 6.7 | 7.2 | *-0.1* | 7.3 |
| 3 | 3 | Germany | 9.4 | *-0.3* | 9.8 | 7.9 | *0.2* | 7.8 | 8.6 | *0.0* | 8.6 |
| 4 | 4 | Romania | 4.2 | *-0.4* | 4.6 | 7.3 | *-0.4* | 7.6 | 10.0 | *0.0* | 10.0 |
| 5 | 6 | Slovakia | 6.1 | *0.2* | 5.9 | 10.0 | *0.0* | 10.0 | 8.8 | *-0.3* | 9.1 |
| 6 | 10 | Denmark | 9.7 | *0.2* | 9.5 | 7.9 | *0.2* | 7.7 | 3.4 | *-0.1* | 3.5 |
| 7 | 5 | Sweden | 8.0 | *-0.1* | 8.1 | 5.8 | *-0.3* | 6.1 | 4.4 | *0.0* | 4.4 |
| 8 | 7 | Czech Republic | 5.6 | *0.0* | 5.7 | 6.8 | *0.2* | 6.7 | 10.0 | *0.0* | 10.0 |
| 9 | 9 | Croatia | 7.2 | *0.4* | 6.8 | 7.7 | *-0.9* | 8.6 | 8.3 | *0.3* | 7.9 |
| 10 | 11 | Slovenia | 8.5 | *0.3* | 8.2 | 7.3 | *0.2* | 7.1 | 9.5 | *0.3* | 9.2 |
| 11 | 8 | Luxembourg | 7.9 | *-0.1* | 8.0 | 4.8 | *0.1* | 4.7 | 0.0 | *0.0* | 0.0 |
| 12 | 14 | Hungary | 7.8 | *-0.9* | 8.6 | 7.5 | *0.1* | 7.3 | 9.7 | *0.3* | 9.3 |
| 13 | 16 | Austria | 6.8 | *0.0* | 6.8 | 8.5 | *0.3* | 8.2 | 7.4 | *0.0* | 7.4 |
| 14 | 17 | Netherlands | 10.0 | *0.1* | 9.9 | 6.8 | *0.4* | 6.5 | 2.8 | *0.2* | 2.6 |
| 15 | 13 | Bulgaria | 7.1 | *-1.1* | 8.2 | 7.2 | *0.2* | 7.0 | 8.3 | *0.3* | 8.1 |
| 16 | 12 | Lithuania | 5.4 | *0.0* | 5.4 | 9.6 | *0.4* | 9.2 | 10.0 | 0.0 | 10.0 |
| 17 | 15 | Latvia | 5.0 | *-1.3* | 6.4 | 7.1 | *0.5* | 6.5 | 9.1 | 0.0 | 9.1 |
| 18 | 18 | Poland | 6.2 | *-0.1* | 6.3 | 6.6 | *0.4* | 6.2 | 9.4 | -0.1 | 9.6 |
| | | Eurozone | 7.1 | *-0.1* | 7.3 | 7.0 | *0.1* | 6.9 | 6.8 | *0.0* | 6.8 |
| 19 | 20 | Finland | 5.2 | *0.1* | 5.0 | 8.9 | *1.0* | 7.9 | 6.2 | *0.2* | 6.1 |
| 20 | 19 | Italy | 6.9 | *0.0* | 7.0 | 7.8 | *0.1* | 7.7 | 7.9 | *0.1* | 7.8 |
| 21 | 21 | France | 4.3 | *-0.2* | 4.5 | 6.1 | *0.0* | 6.2 | 6.3 | *-0.2* | 6.5 |
| 22 | 22 | Belgium | 5.2 | *-0.5* | 5.8 | 8.2 | *0.5* | 7.7 | 4.3 | *-0.5* | 4.8 |
| 23 | 24 | Portugal | 5.8 | *0.0* | 5.8 | 9.4 | *0.0* | 9.4 | 5.2 | *0.4* | 4.8 |
| 24 | 25 | Spain | 6.5 | *-0.1* | 6.6 | 3.6 | *0.1* | 3.5 | 6.3 | *0.4* | 6.0 |
| 25 | 23 | United Kingdom | 3.3 | *0.4* | 2.9 | 4.0 | *0.0* | 4.0 | 5.3 | *-0.2* | 5.5 |
| 26 | 26 | Ireland | 7.6 | *-0.3* | 7.9 | 6.2 | *0.3* | 5.9 | 0.1 | *0.1* | 0.0 |
| 27 | 27 | Greece | 5.6 | *0.2* | 5.4 | 8.0 | *0.5* | 7.5 | 7.4 | *0.1* | 7.3 |
| 28 | 28 | Cyprus | 3.1 | *-0.2* | 3.4 | 5.3 | *0.2* | 5.1 | 0.0 | *0.0* | 0.0 |

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 7 and the Notes on Key Components on page 103.

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

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

- How much public debt has to be redeemed in 2018-2020?
- How much public debt is held abroad?

Unsurprisingly, countries with little public debt (such as **Estonia**, **Bulgaria** and **Luxembourg**) excel in

## ‘Only the current account deficits of France and Cyprus look substantial enough to be a concern.’

this ranking whereas highly indebted countries such as **Portugal**, **Greece** and **Italy** end up at the bottom of this league table. As discussed above, the share of public debt held abroad has recently declined for most eurozone members partly because of the bond purchase programme of the ECB. For Greece, the ratio of public debt held abroad to its GDP, at 146% in 2017, remains exceptionally high. However, as almost all the debt is held by official creditors who have granted the country exceptionally generous conditions for servicing and repaying the debt – and who may even get further with piecemeal debt relief if Greece meets the conditions attached to its current third support programme – the profile and costs of servicing its public debt is one of Greece’s lesser worries for the time being. Because of the generous debt-service conditions granted by its official external creditors, the debt redemption schedule for the next three years is significantly less challenging for **Greece** (equivalent to 16.2% of its annual GDP) than it is for the **eurozone** average (25.9%).

**Household savings rate**

Having a high level of private-sector debt can be mitigated by thrift, that is by a high propensity to save money out of current income. Reflecting a return to normal after a period of prudence, the **eurozone** reduced its savings rate to 12%, an adequate rate, down from 12.3% in 2016. Having saved part of the windfall gain from low oil prices in 2016, they no longer did so in 2017. The change in the eurozone was partly driven by households in **Germany** who reduced their savings rate to 16.6% in 2017, down from 17.1%. The rate remains well above the eurozone average of 12.0%, though.

With a negative savings rate of 8.4% in 2017 after -9.4% in 2016, **Greece** once again ends up at the bottom of the league table, ahead of **Bulgaria** (-6.7%), **Cyprus** (-4.7%) and **Lithuania** (-1.9%). All other countries in the sample had a positive gross household savings rate in 2017 according to the November 2017 European Commission projections.

The most thrifty households in the European Union can be found in Luxembourg (with a savings rate of 19.7% of gross income), **Sweden** (18.2%), **Germany** (16.6%), **Romania** (14.8%), **Croatia** (14.2%) and **France** (13.7%).

Once again, the **United Kingdom** seems to be the odd place out among the more advanced economies in Europe as British households reduced their savings rate significantly further to 4.8% in 2017, down from 7.1% in 2016. A low savings rate contributes to the macroeconomic vulnerability of the United Kingdom.

**Current account**

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 2017 European Commission projections for the current account balances largely confirms the trends that were visible before: The overall position of the eurozone is comfortable, that of the United Kingdom is not. After big improvements in most of the erstwhile crisis countries except Cyprus in the years 2010 to 2014, they are by and large returning to normal, that is running a slightly smaller external surplus or even dipping back into a small deficit.

Its external surplus should help to protect the eurozone against sudden shifts in global portfolio flows such as those that may emanate from a further normalization of U.S. Federal Reserve System policies and/or unexpected turns in U.S. fiscal policies.

Seven of the 19 eurozone countries are running a current account deficit, up from five in 2016, with **Belgium** and **Latvia** joining the crowd. Of those, only **France** (3.0% of GDP in 2017 after 2.6% last year according to European Commission projections) and **Cyprus** (5.4%, after 4.9% in 2016) are substantial in the wider scheme of things whereas the 2017 deficits of **Latvia** (1.4%), **Finland** (1.1%), **Belgium** (1.0%), **Lithuania** (0.7%) and **Greece** (0.2%) look too small to matter very much. Relative to last year, the changes

## 'Italy finally became more serious about cleaning up the problem of non-performing loans.'

in current account positions are mostly minor. The period of belt-tightening is over. That shows up in a roughly parallel expansion of exports and imports across much of the **eurozone**, leaving the current account position almost stable. After the plunge in its oil import bill helped **Germany** to attain a current account surplus of 8.5% of its GDP in 2016, the partial rebound in oil prices and the ongoing growth in domestic demand narrowed the German surplus to a still exceptionally high 7.8% in 2017.

Largely due to the oil effect, the current account surplus of the **eurozone** fell to 3.0% in 2017, down from 3.3% in 2016.

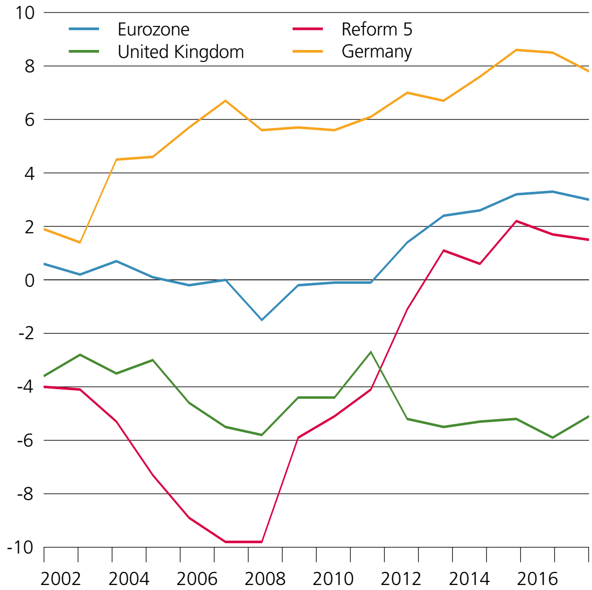
Jointly with **Cyprus**, the **United Kingdom** with its flexible exchange rate continues to grace the bottom of the current account league. Partly owing to the significant drop of the sterling exchange rate after the Brexit vote, the current account deficit narrowed to 5.1% of GDP in 2017, after registering -5.9% in 2016. Despite this modest progress, the external deficit unlikely to vanish any time soon. Except for tourism, British service exports are not very sensitive to exchange rate moves.

### Bank assets

In times of grave financial turmoil such as the slump in late 2008 and early 2009 brought on by the collapse of Lehman Brothers in 2008-2009 and the euro crisis of 2011-2012, banking systems often transmit and amplify tensions. In several cases (namely, **Ireland**, **Spain** and **Cyprus**), the banking systems became a major source of trouble, as they had in financial crises in Scandinavia in the early 1990s and the post-bubble correction in the Baltic economies after 2007. In the wake of the Lehman crisis, the eurozone left the cleaning up of the sector to national initiatives with varying success, making the region more vulnerable to

**Chart 12. External Divergence**

Current account balance in percent of GDP 2002-2017




Reform 5 are Greece, Ireland, Italy, Portugal and Spain.
Sources: Eurostat, European Commission

the problems emanating from some exposed peripheral countries in 2011 and 2012. Despite various initiatives to erect and complete a banking union, the banking sector remains fragmented. Fortunately, even laggard **Italy** finally became more serious about cleaning up the problem of non-performing loans in its banking sector in 2017.

An oversized banking sector makes countries more vulnerable to shocks of confidence – the more the financial system has outgrown the country's potential safety net, which corresponds to the country's economic power, the more crisis-prone this country is. The ratio of bank assets to GDP thus features on our list of criteria to assess the resilience of a country to shocks.[19] This year, we change the methodology in one respect. Countries with low per-capita GDP tend

19. European Central Bank. Total assets/liabilities of monetary financial institutions.

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

to have less developed financial systems. They may nonetheless be prone to financial crises as investors know that – in times of stress – these countries could mobilise fewer domestic resources to bolster their financial systems than richer countries. In past editions of *The Euro Plus Monitor*, we simply compared the ratios of bank assets to GDP. We now adjust the ratio of bank assets to GDP for differences in per capita GDP. As a result, the Eastern European countries with relatively undeveloped banking systems now attain less stellar scores in the ranking than they did before. We have applied the new methodology to the current data (for September 2017) as well as to those available a year ago. The changes in score shown in the column “bank assets” in Table 14 on page 63 thus reflect genuine changes over this period rather than the difference in method. However, the result we now present for 2016 differ slightly from those published a year ago in *The 2016 Euro Plus Monitor*.

**Slovakia** (No. 1 on this sub-criterion), **Lithuania** (No. 2) and **Estonia** (No. 6) are at or close to the top of the revised ranking. These three countries had also done well in the previous analyses. The main beneficiaries of the new approach, namely to consider per-capita GDP upon evaluating the ratio of bank assets to GDP, are **Portugal** (now ranked No. 3), **Finland** (No. 4) and **Austria** (No. 5). Although these countries had already achieved above-average scores in the old ranking, the new method accentuates their advantage.

The most vulnerable countries on the bank-asset criterion according to the new methodology are **Spain** (No. 28), the **United Kingdom** (No. 27), **Luxembourg** (No. 26) and **Cyprus** (No. 25). The latter three countries have an elevated ratio of bank assets to GDP because they serve as major international financial centres.

Bank balance sheets are moving slowly, so changes in the ranking over time are limited. Nonetheless, the September 2017 data suggest a rough pattern: in core Europe, bank balance sheets are either still contracting (for example in **Austria**, **Belgium** and the **Netherlands**), stagnant (**France**) or expanding at a pace below the rise in nominal GDP (**Germany**). As a result, the ratio of bank assets to nominal GDP continues to edge down. Over time, very cheap borrowing costs and improving economic conditions could lead to more credit growth and an expansion of bank balance sheets relative to GDP. In **Portugal**, **Spain**, **Greece**, **Ireland** and – to a lesser extent – in **Italy**, bank balance sheets continued to shrink in the nine months to September 2017. In these countries, banks are increasingly successfully ridding themselves of problematic portfolios by selling them or taking write-downs.

**Private debt**

In severe financial crises, the lines between private and public debt can become blurred. Most obviously, if an economic boom fuelled by private debt 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 collapse-led financial crisis, 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 analysis with 2016 data from Eurostat, the European Union’s statistical agency, shows a further shift towards normal after the exceptional prudence enforced by the post-Lehman and euro crises. After years of modest deleveraging in the **eurozone** as a whole, the process stalled in 2016. However, the deleveraging continued in many of the most indebted countries in 2016.

Unsurprisingly, the lowest private sector debt ratios can be found in central and eastern Europe, with **Romania** (56% of 2016 GDP), **Lithuania** (56%), the **Czech Republic** (69%), **Hungary** (77%), **Slovenia** (81%) and **Poland** (82%) being the best in class.

## ‘Dutch private debt mostly reflects a mortgage market that is deeper and better developed than elsewhere.’

To some extent, this criterion may be a little unfair, though. Poorer countries tend to have lower debt ratios. A country that has less income, fewer assets and a less developed financial system tends to be less creditworthy and less indebted than a more advanced economy.

**Greece** (with private debt of 125% of its GDP) and **Italy** (114%) have many problems, but overindebtedness of the private sector is not one of them. Both easily remain in the top bracket of the private debt league. Both countries even managed to reduce their private debt burden slightly in 2016, as have **Spain** (now at 147% after 155% in 2015) and **Portugal** (171% after 180%). Judging by their private debt burdens, **Cyprus** (345% after 354%), **Luxembourg** (344% after 349% in the year before), **Ireland** (278% after 307%) and the **Netherlands** (222% after 225%) remain most vulnerable on this count. Dutch private debt largely reflects a mortgage market that is deeper and more developed than in most other eurozone member countries.

# IV. Special Focus: The Outlook for European Reform

If Europe musters the will to do so, it could grasp a rare opportunity in 2018. While the populist threat has receded at least for the time being, support for European integration has increased again. The rise of Emmanuel Macron to the presidency of France highlights the trend. Firm economic growth at low inflation makes the backdrop for serious reforms in the EU27 and the eurozone unusually auspicious.

But which reforms would be most useful? The major gap in the institutional architecture of the eurozone, the lack of a lender of last resort, has been filled long ago by the European Central Bank (ECB) and the European Stability Mechanism (ESM). Doomsayers who had detected further supposedly fatal flaws have been proven wrong by the firming economic recovery. Not all that is different in the eurozone needs to be aligned to, say, the standards of the United States or the United Kingdom to let the eurozone or EU27 thrive.

Proposals to improve the economic performance and strengthen the cohesion of the EU27 and the eurozone should be measured against four criteria: do the proposed institutions and rules 1) improve efficiency, 2) provide incentives for member countries to pursue sensible policies, 3) safeguard against systemic risks and/or 4) provide a buffer against temporary asymmetric shocks? In addition, reforms need to be politically sustainable and economise on the use of scarce political capital to push them through.

A nine-point programme for European reform follows. For a more detailed discussion, see "Reforming Europe: Which Ideas Make Sense?," Berenberg, 19 June 2017.

1. **European Defence Fund**: Reducing the duplication of weapons systems across the EU27 promises more value for money. A common fund can provide incentives to do so, improving the efficiency of defence spending. As a further incentive for countries to agree to joint development and procurement of common systems beyond a subsidy from a European Defence Fund, such common spending on defence should not be counted as national spending under the EU's fiscal rules. More joint spending to fight terrorism and police the external borders of the Schengen area as well as fiscal incentives to participate in a resettlement of refugees could be treated in a similar way.

2. **Fiscal transfers**: The EU already has extensive regional and structural funds to support less advanced regions. It needs no further fund for permanent transfers. However, a facility to offer conditional support for eurozone member countries hit by a temporary asymmetric shock makes sense. The ESM already plays this role for countries engulfed in a crisis that poses a systemic risk to the eurozone as a whole. The new facility, which could be added to the ESM, would provide such support in lesser crises which – while serious for the country concerned – do not undermine the systemic stability of the eurozone as a whole.

3. A joint **Eurozone unemployment insurance** is sometimes mentioned as a suitable shock absorber. It would set the wrong incentives in unreformed labour markets. However, a joint scheme to subsidise temporary cuts in working hours during an acute crisis for a strictly limited period of time akin to Germany's "*Kurzarbeitergeld*" would make sense. It would help to avoid dismissals in sharp

## ‘A fund that subsidises public investment in countries that pursue pro-growth reforms makes sense.’

cyclical downturns. Also, it would probably meet fewer political objections than other proposals.

4. **European Monetary Fund**: The troika and quadriga were ad hoc responses to immediate crises. Europe has moved on, acquiring significant expertise in the handling of crises within the eurozone in the process. A continued reliance on the IMF carries risks, especially in a period in which major shareholders in the IMF such as the United States and China may want to play more assertive roles. As a result, the ESM should evolve into a genuine European Monetary Fund (EMF), taking over the roles which the IMF, the ECB and the European Commission currently play in fiscal support programmes.

5. **Incentives for pro-growth reforms**: Strengthening a country’s growth potential through structural reforms improves the economic outlook for its neighbours as well. While we see no strong case for pooling national investment spending, a European Growth Fund that subsidises public investment spending in countries that pursue genuine pro-growth reforms as certified by the OECD could be useful.

6. **Fiscal rules** are sufficiently flexible already. The substance of the rules does not have to be changed. However, the complex rules enshrined in various “pacts” could be streamlined. More importantly, the way in which the rules are enforced needs to be improved to minimise the inevitable strains.

7. An **Independent Fiscal Council** (IFC) akin to the ECB board could play a key role in future fiscal surveillance within the eurozone. While it should regularly examine the fiscal positions of all euro members, it should not make detailed policy recommendations and not take any decisions beyond issuing its opinions. Instead, it should assess whether the current policies as well as potential policy changes and structural reforms would enable a country to comply with the fiscal rules either fully, largely or not at all. The IFC could then award – or withhold - a seal of approval: Ideally, countries with a first-class IFC certificate should always have automatic access to an EMF credit line, countries that largely comply should be subject only to light conditionality if they had to apply for help whereas countries without a seal of approval would know in advance that, in case of turbulences – they would need to undergo serious adjustment programmes to qualify for support. That would give eurozone members a positive incentive to strive for the best possible rating from the IFC. The IFC rating could also affect yield spreads within the eurozone. Of course, ultimate decisions about support programmes and their conditionality – or lack thereof – will ultimately have to be taken by political bodies such as the European Council and the board of the ESM/EMF. Still, a truly independent IFC could help to separate the analysis on which the decision is to be based from the actual political judgment. The current advisory Fiscal Council to the European Commission could potentially be developed into such a genuinely independent body. Of course, the fiscal surveillance tasks envisaged here for the IFC could also be entrusted to the ESM or a future EMF. This would promise a pooling of expertise. However, as a somewhat inevitable trade-off, the more tasks such institutions acquire, the more

## ‘Completing the banking union is desirable in the long run.’

difficult it may be for them to safeguard their independence in any of their particular roles.

8. **Banking Union**: Completing the banking union including a gradual build-up of a common deposit insurance for banks is desirable in the long run but not essential.

9. Trying to establish a genuine and significant **eurozone budget** administered by a **eurozone finance minister** and approved solely by a eurozone committee of the European parliament would probably deplete the goodwill of many member countries without promising sufficient benefits in return. Establishing separate facilities for well-defined tasks with a governance structure of new institutions similar to that of the ESM seems to be much easier politically while promising almost the same potential economic benefits. Of course, the roles of chairman of the eurogroup of finance ministers and the respective European commissioner could be fused into one and awarded the title of eurozone finance minister. The incumbent could also be the natural chairman of the boards of governors of the ESM/ EMF and other joint eurozone funds.

# V. Special Focus: A Golden Decade for France?

In *The 2011 Euro Plus Monitor*, we warned that "alarm bells should be ringing for France." Like no other country in the sample, France combined a bad score in the Fundamental Health Ranking with a virtual absence of efforts to adjust. We thus called France the "sick man of Europe," a label we had used for Germany in 1998 – until its Agenda 2010 reforms of 2003. At first glance, not much seems to have changed in the last six years: France still comes in among the bottom five for both long-term fundamental health and recent adjustment progress in the 2017 ranking. France suffers from an overly rigid labour market, a lack of competitiveness caused by excessive labour costs and a bloated public sector with a share of government expenditure of 56.3% in GDP in 2017. Because labour costs are still excessive, French unemployment – at 9.7% in the third quarter of 2017 – remains stubbornly high.

Nonetheless, we now see some progress in France on the three counts that matter most:

1. Most importantly, the pace of reforms quickened significantly in France in 2015/2016. Following up on 57% of the OECD structural-reform recommendations, France became the most ardent reformer of all OECD countries in the survey bar small Latvia (67%) in this period, largely due to the reforms masterminded by then-Economy Minister Emmanuel Macron and Labour Minister Myriam El Khomri.

2. Taking the last three years together, French nominal unit labour costs rose by merely 1.5%, below the 2.2% cumulative increase for the eurozone over these three years. However, after two years of serious wage moderation in 2015 and 2016, the 1.1% increase in nominal labour costs in election year 2017 exceeded that of the eurozone (+0.9%) slightly.

3. Helped by the cyclical recovery and some spending restraint, the share of public expenditure in French GDP has moderated slightly to an estimated 56.3% in 2017, down from a peak of 57.0% in 2013 and 2014.

The progress visible in these data largely reflect decisions that were taken before Emmanuel Macron became president with an explicit pro-reform agenda in May and secured a parliamentary majority for his new party in June 2017. The effects of the French labour market reform decrees of 22 September 2017 and the tax reform envisaged in the French draft budget for 2018 are not yet visible in the data we use.

The labour market reform addresses key weaknesses and promises to change French labour relations significantly over time from a confrontational towards a much more co-operative approach. Major elements of the reform include:

- Less centralised collective bargaining as small- and medium-sized companies with fewer than 50 employees and small-scale industry associations can strike deals with their workers on aspects of pay, working time and working conditions instead of being bound by agreements with unions at the national level;

- Reduced red tape in case of dismissals with faster procedures;

- Enhanced flexibility for multinational corporations who can now dismiss workers at French subsidiaries

## ‘The French labour reforms seem to be as sweeping as the German Agenda 2010 reforms of 2004.’

more easily even if the company is profitable at the global level;

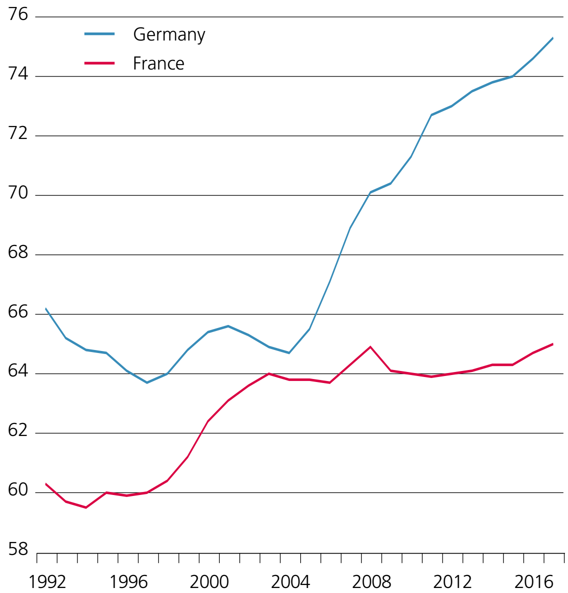
- Caps on severance pay by limiting damages courts can award for “unfair” dismissals, with a range from a minimum of one month gross salary for employees with at least one year of service to a maximum of 20 months gross salary for employees with at least 29 years of service for companies with more than 10 employees;
- A right for employers to get around union opposition by holding a company-wide referendum;
- Streamlined representation of employees on the firm level through the merger of various workers’ councils.

All in all, the reforms inspired by Scandinavian concepts of “flexicurity” as well as the German example of 2004 and the German tradition of shopfloor cooperation between workers and employers seem to be roughly as sweeping as the German “Agenda 2010” reforms were 13 years ago. As in the case of Germany, the changes can help to keep increases in unit labour costs in check until the labour market has improved sufficiently. While the rewards of reforms will likely lead to a rising number of jobs before they improve net wages, the German example shows that, after a while, workers benefit from a stronger labour market through more jobs as well as better pay.

In addition to the labour market reform, France’s fiscal plans for 2018 include a significant tax reform. France wants to phase in a cut in the corporate tax to 25%, down from from 33.3% today, through 2022, restrict the wealth tax (*l’impôt de solidarité sur la*

Chart 13. Big Gap Means Big Potential for France

Employment in percent of working age population (16-64 years), France versus Germany




Source: Eurostat

*fortune*, or “*ISF*”) to real estate in order not to penalise high-income earners, start-ups and other small companies, streamline payroll taxes and lighten the burden of payroll taxes for employers and employees, financed partly by an increase in the CSG (*la contribution sociale généralisée*), which, as a general tax, is also levied upon pensioners and the self-employed. Taken together, the changes would provide incentives for companies to hire and invest and for potential workers to find a job.

If France follows up with further reforms to its social security and welfare systems and manages to reduce the share of the public sector in GDP, it could rise significantly in *The Euro Plus Monitor* rankings over the next few years, possibly turning into the most

‘If France unlocks its growth potential through reforms, rising tax revenues can trigger a virtuous circle.’

dynamic of the major economies in Europe in the coming decade. France may strengthen so much over time that it can eventually outclass a Germany that remains strong but is becoming complacent and a United Kingdom that is hurting itself with its decision to leave the European Union. If France stays its new course, it could be heading for a “golden decade” in the 2020s, just as Germany is currently enjoying its own “golden decade” courtesy of earlier reforms.

Of course, it will take time before President Macron’s reforms show up in labour-market statistics. However, the German example provides a clear lesson: serious labour-market reforms can make a major difference over time, even if they fall short of the flexibility that we deem as optimal. Shortly after the German “Agenda 2010” reforms, German employment started to surge (see Chart 13 on page 72) while the French employment rate has virtually stagnated for almost 15 years. The current gap between the German and French employment rates can be seen as a measure of the potential which France could unlock with its labour market and other supply-side reforms.

Significant fiscal tightening need not be the remedy for France’s bloated public sector. As long as France keeps the nominal increase in public expenditure below the trend growth of nominal GDP, it can reduce the share of public spending in GDP terms without major cuts in expenditure. If France unlocks its growth potential through supply-side reforms, the increase in tax revenues due to stronger trend growth and employment can give rise to a virtuous circle. Rising revenues can make room for further cuts in payroll taxes that would, in turn, encourage the creation of more jobs. As long as France strengthens its supply-side through adequate reforms, it would suffice to refocus rather than cut its public expenditure. Germany’s fiscal surplus of around 1% of GDP this year stems from its exceptional rise in employment and hence tax revenues over the last ten years and not from any significant recent austerity.

# VI. Results by Country

## Austria

### Overall assessment
A mature economy with an overall health slightly below average. Far less dynamic than Germany but in better shape than France and Italy. Has made only patchy adjustment efforts so far. Attains a high score on OECD reform responsiveness but trails far behind on all other adjustment criteria.

### 2017 key developments
Some progress at last
- Stronger gains in export and net exports
- Reform responsiveness rises

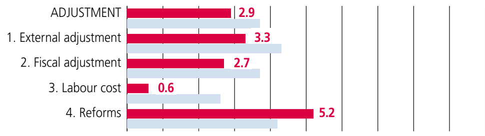
Fundamental health edges up slightly

### Strengths
- Strong labour market
- Low consumption rate
- Fiscal deficit fairly comfortable
- Above-average savings rate

### Weaknesses
- Limited adjustment effort so far
- High government expenditure
- Distortionary taxes too high
- Poor integration of immigrants

**Fundamental Health**


**Adjustment**




## Scores

| OVERALL RESULTS | AT | EZ | |
|---|---|---|---|
| | Score | Score | Rank |
| **FUNDAMENTAL HEALTH** | 5.6 | 5.8 | **19** |
| *1. Growth potential* | 6.0 | 5.2 | **14** |
| *2. Competitiveness* | 4.6 | 6.1 | **22** |
| *3. Fiscal sustainability* | 5.2 | 5.9 | **22** |
| *4. Resilience* | 6.4 | 6.1 | **13** |
| **ADJUSTMENT** | 2.9 | 3.7 | **25** |
| *1. External adjustment* | 3.3 | 4.3 | **24** |
| *2. Fiscal adjustment* | 2.7 | 3.7 | **20** |
| *3. Labour cost adjustment* | 0.6 | 2.6 | **25** |
| *4. Reform drive* | 5.2 | 4.2 | **6** |

| FUNDAMENTAL HEALTH | AT | EZ | Score | Rank |
|---|---|---|---|---|
| 1. Growth potential | Value | Value | 6.0 | **14** |
| **1.1 Trend growth 2002-2017** | | | 5.2 | **15** |
| *1.1.1 GVA ex construction, annual change, %* | 1.1 | 1.1 | 4.6 | **18** |
| *1.1.2 Deviation from norm, ppts* | 0.2 | -0.1 | 5.8 | **13** |
| **1.2 Human capital** | | | 3.2 | **26** |
| *1.2.1 Fertility rate, %, 2010-2017* | 1.4 | 1.6 | 3.7 | **19** |
| *1.2.2 Gap immigrant vs native employment rate, ppts* | -14.9 | -11.3 | 2.7 | **27** |
| *1.2.3 PISA score, 2015* | 492 | 496 | 2.8 | **14** |
| **1.3 Employment, 2002-2017** | | | 7.7 | **3** |
| *1.3.1 Employment rate, %* | 70.1 | 64.2 | 7.0 | **6** |
| *1.3.2 Annual change in ER, ppts* | 0.2 | 0.3 | 6.2 | **16** |
| *1.3.3 Youth unemployment rate, %* | 9.6 | 19.8 | 9.1 | **1** |
| *1.3.4 Long-term unemployment, %* | 1.4 | 4.4 | 8.5 | **3** |
| **1.4 Consumption, 2002-2017** | | | 7.9 | **10** |
| *1.4.1 Total consumption, % of GDP* | 72.7 | 76.4 | 8.6 | **8** |
| *1.4.2 Annual change in consumption share, ppts of GDP* | -0.1 | -0.1 | 7.1 | **14** |

| FUNDAMENTAL HEALTH | AT | EZ | Score | Rank |
|---|---|---|---|---|
| 3. Fiscal sustainability | Value | Value | 5.2 | **22** |
| **3.1 Government expenditure, % of GDP, 2002-2017** | 51.4 | 48.0 | 2.9 | **21** |
| **3.2 Structural fiscal balance, 2017** | | | 8.4 | **13** |
| *3.2.1 Structural balance, % of GDP* | -0.9 | -1.0 | 7.8 | **11** |
| *3.2.2 Structural primary balance, % of GDP* | 1.0 | 1.0 | 9.0 | **13** |
| **3.3 Public debt, % of GDP, 2017** | 78.7 | 87.2 | 5.1 | **18** |
| **3.4 Sustainability gap, % of GDP, 2018-2020** | 6.1 | 4.5 | 4.9 | **19** |
| **3.5 Quality of public finances, 2009-2015** | | | 4.7 | **22** |
| *3.5.1 Education/infrastruct. investment, % of public expenditure* | 3.0 | 2.8 | 6.2 | **11** |
| *3.5.2 Consumption, property taxes, % of tax revenue* | 29.2 | 32.9 | 3.3 | **22** |

| ADJUSTMENT | AT | EZ | Score | Rank |
|---|---|---|---|---|
| | Value | Value | 2.9 | **25** |
| **1. External adjustment, H2 2007-H1 2017** | | | 3.3 | **24** |
| *1.1 Change in net exports, ppts of GDP* | 0.1 | 2.1 | 3.1 | **21** |
| *1.2 Change in net exports relative to H2 2007, %* | 0.2 | 5.3 | 2.2 | **21** |
| *1.3 Change in export ratio, ppts of GDP* | 5.6 | 8.7 | 4.6 | **22** |
| **2. Fiscal adjustment 2009-2017** | | | 2.7 | **20** |
| *2.1 Size of fiscal adjustment* | | | 1.5 | **22** |
| *2.1.1 Change in structural primary balance, ppts of GDP* | 0.7 | 2.8 | 1.9 | **21** |
| *2.2 Quality of fiscal adjustment* | | | 3.9 | **19** |
| *2.2.1 Sum of expenditure and tax cuts, % of GDP* | 0.3 | -1.0 | 4.8 | **16** |
| **3. Labour cost adjustment 2009-2017** | | | 0.6 | **25** |
| *3.1 Change in RULC* | | | 0.7 | **25** |
| *3.1.1 Absolute change in RULC, %* | -0.4 | -2.7 | 0.8 | **23** |
| *3.2 Change in NULC* | | | 0.5 | **24** |
| *3.2.1 Absolute change in NULC, %* | 13.9 | 5.7 | 0.0 | **18** |
| **4. Reform drive 2010-2016** | 0.4 | 0.4 | 5.2 | **6** |

| FUNDAMENTAL HEALTH | AT | EZ | Score | Rank |
|---|---|---|---|---|
| 2. Competitiveness | Value | Value | 4.6 | **22** |
| **2.1 Exports, % of GDP, 2002-2017** | 50.8 | 39.8 | 3.5 | **16** |
| **2.2 Annual change in export ratio, ppts of GDP, 2002-2017** | 1.0 | 1.2 | 5.1 | **22** |
| **2.3 Labour costs** | | | 5.3 | **18** |
| *2.3.1 Annual change in RULC, %, 2002-2017* | -0.1 | -0.1 | 6.0 | **13** |
| *2.3.2 Annual change in NULC, %, 2002-2017* | 1.7 | 1.5 | 6.6 | **14** |
| *2.3.3 WEF hiring/firing practices, 2017/2018* | 3.0 | 3.5 | 3.3 | **24** |
| **2.4 Market regulations** | | | 4.4 | **21** |
| *2.4.1 WEF local competition intensity, 2017/2018* | 5.6 | 5.6 | 6.7 | **9** |
| *2.4.2 OECD services trade restrictiveness, 2016* | 0.3 | 0.2 | 0.9 | **19** |
| *2.4.3 Opening new business, days, 2017* | 21.0 | 8.2 | 5.5 | **24** |

| FUNDAMENTAL HEALTH | AT | EZ | Score | Rank |
|---|---|---|---|---|
| 4. Resilience | Value | Value | 6.4 | **13** |
| **4.1 Debt redemptions, % of GDP, 2018-2020** | 19.8 | 25.9 | 5.2 | **18** |
| **4.2 Debt held abroad, % of GDP, 2017** | 57.8 | 44.8 | 3.6 | **23** |
| **4.3 Household savings rate, %, 2017** | 12.7 | 12.0 | 7.2 | **8** |
| **4.4 Current account, % of GDP, 2017** | 2.2 | 3.0 | 6.8 | **14** |
| **4.5 Bank assets, % of GDP, Sep 2017** | 226.6 | 279.0 | 8.5 | **5** |
| **4.6 Private debt, % of GDP, 2016** | 124.0 | 136.9 | 7.4 | **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 28 EU members from 1 (best) to 28 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 103.

## Belgium

### Overall assessment

A mature export-oriented economy with a fundamental health score below the Eurozone average. Despite substantial fiscal progress since 1993, Belgium's occasional political paralysis has left it lagging most other countries in terms of adjustment effort and fiscal sustainability.

### 2017 key developments

Adjustment progress up strongly from low level
- Reform responsiveness rises
- Fiscal adjustment efforts strengthen

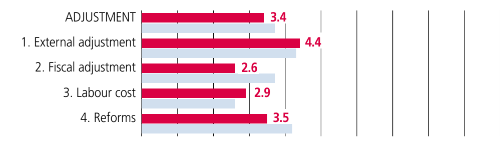
Fundamental health increases
- Increasing competitiveness raises growth potential
- Fiscal sustainability improves

### Strengths

- Strong export orientation
- Relatively high fertility rate
- Above-average PISA score
- High competition intensity
- Moderate labour cost changes
- Low bank assets as share of GDP

### Weaknesses

- Very weak integration of immigrants
- Fiscally very challenged due to high legacy public debt
- Below-average employment rate in an overly regulated labour market
- Low productive public investment


## Scores

| OVERALL RESULTS | BE | EZ | |
|---|---|---|---|
| | Score | Score | Rank |
| **FUNDAMENTAL HEALTH** | 5.4 | 5.8 | **20** |
| *1. Growth potential* | 5.6 | 5.2 | **18** |
| *2. Competitiveness* | 6.7 | 6.1 | **8** |
| *3. Fiscal sustainability* | 4.0 | 5.9 | **28** |
| *4. Resilience* | 5.2 | 6.1 | **22** |
| **ADJUSTMENT** | 3.4 | 3.7 | **21** |
| *1. External adjustment* | 4.4 | 4.3 | **18** |
| *2. Fiscal adjustment* | 2.6 | 3.7 | **25** |
| *3. Labour cost adjustment* | 2.9 | 2.6 | **18** |
| *4. Reform drive* | 3.5 | 4.2 | **15** |

| FUNDAMENTAL HEALTH | BE | EZ | Score | Rank |
|---|---|---|---|---|
| 1. Growth potential | Value | Value | 5.6 | **18** |
| **1.1 Trend growth 2002-2017** | | | 4.5 | **19** |
| *1.1.1 GVA ex construction, annual change, %* | 0.9 | 1.1 | 4.0 | **22** |
| *1.1.2 Deviation from norm, ppts* | 0.0 | -0.1 | 5.0 | **15** |
| **1.2 Human capital** | | | 5.1 | **9** |
| *1.2.1 Fertility rate, %, 2010-2017* | 1.8 | 1.6 | 6.8 | **5** |
| *1.2.2 Gap immigrant vs native employment rate, ppts* | -20.4 | -11.3 | 2.5 | **28** |
| *1.2.3 PISA score, 2015* | 503 | 496 | 4.1 | **9** |
| **1.3 Employment, 2002-2017** | | | 5.1 | **21** |
| *1.3.1 Employment rate, %* | 61.5 | 64.2 | 3.3 | **18** |
| *1.3.2 Annual change in ER, ppts* | 0.2 | 0.3 | 6.2 | **14** |
| *1.3.3 Youth unemployment rate, %* | 20.7 | 19.8 | 5.4 | **16** |
| *1.3.4 Long-term unemployment, %* | 3.9 | 4.4 | 5.7 | **16** |
| **1.4 Consumption, 2002-2017** | | | 7.5 | **12** |
| *1.4.1 Total consumption, % of GDP* | 74.9 | 76.4 | 7.5 | **12** |
| *1.4.2 Annual change in consumption share, ppts of GDP* | -0.2 | -0.1 | 7.5 | **11** |

| FUNDAMENTAL HEALTH | BE | EZ | Score | Rank |
|---|---|---|---|---|
| 3. Fiscal sustainability | Value | Value | 4.0 | **28** |
| **3.1 Government expenditure, % of GDP, 2002-2017** | 52.3 | 48.0 | 2.2 | **23** |
| **3.2 Structural fiscal balance, 2017** | | | 8.2 | **15** |
| *3.2.1 Structural balance, % of GDP* | -1.5 | -1.0 | 7.3 | **17** |
| *3.2.2 Structural primary balance, % of GDP* | 1.1 | 1.0 | 9.1 | **10** |
| **3.3 Public debt, % of GDP, 2017** | 103.8 | 87.2 | 3.3 | **25** |
| **3.4 Sustainability gap, % of GDP, 2018-2020** | 8.1 | 4.5 | 3.2 | **22** |
| **3.5 Quality of public finances, 2009-2015** | | | 3.0 | **27** |
| *3.5.1 Education/infrastruct. investment, % of public expenditure* | 1.9 | 2.8 | 1.7 | **27** |
| *3.5.2 Consumption, property taxes, % of tax revenue* | 32.0 | 32.9 | 4.4 | **19** |

| ADJUSTMENT | BE | EZ | Score | Rank |
|---|---|---|---|---|
| | Value | Value | 3.4 | **21** |
| **1. External adjustment, H2 2007-H1 2017** | | | 4.4 | **18** |
| *1.1 Change in net exports, ppts of GDP* | -1.5 | 2.1 | 2.6 | **24** |
| *1.2 Change in net exports relative to H2 2007, %* | -2.0 | 5.3 | 1.8 | **23** |
| *1.3 Change in export ratio, ppts of GDP* | 16.9 | 8.7 | 8.8 | **11** |
| **2. Fiscal adjustment 2009-2017** | | | 2.6 | **25** |
| *2.1 Size of fiscal adjustment* | | | 1.7 | **21** |
| *2.1.1 Change in structural primary balance, ppts of GDP* | 1.1 | 2.8 | 2.2 | **20** |
| *2.2 Quality of fiscal adjustment* | | | 3.4 | **22** |
| *2.2.1 Sum of expenditure and tax cuts, % of GDP* | -2.4 | -1.0 | 2.4 | **21** |
| **3. Labour cost adjustment 2009-2017** | | | 2.9 | **18** |
| *3.1 Change in RULC* | | | 3.6 | **14** |
| *3.1.1 Absolute change in RULC, %* | -4.5 | -2.7 | 3.8 | **13** |
| *3.2 Change in NULC* | | | 2.3 | **17** |
| *3.2.1 Absolute change in NULC, %* | 7.6 | 5.7 | 2.1 | **12** |
| **4. Reform drive 2010-2016** | 0.3 | 0.4 | 3.5 | **15** |

| FUNDAMENTAL HEALTH | BE | EZ | Score | Rank |
|---|---|---|---|---|
| 2. Competitiveness | Value | Value | 6.7 | **8** |
| **2.1 Exports, % of GDP, 2002-2017** | 78.2 | 39.8 | 9.4 | **6** |
| **2.2 Annual change in export ratio, ppts of GDP, 2002-2017** | 2.1 | 1.2 | 6.1 | **16** |
| **2.3 Labour costs** | | | 6.2 | **13** |
| *2.3.1 Annual change in RULC, %, 2002-2017* | -0.3 | -0.1 | 7.1 | **9** |
| *2.3.2 Annual change in NULC, %, 2002-2017* | 1.4 | 1.5 | 7.4 | **5** |
| *2.3.3 WEF hiring/firing practices, 2017/2018* | 3.2 | 3.5 | 4.0 | **19** |
| **2.4 Market regulations** | | | 5.3 | **17** |
| *2.4.1 WEF local competition intensity, 2017/2018* | 5.8 | 5.6 | 8.0 | **4** |
| *2.4.2 OECD services trade restrictiveness, 2016* | 0.3 | 0.2 | 0.0 | **22** |
| *2.4.3 Opening new business, days, 2017* | 4.0 | 8.2 | 7.9 | **17** |

| FUNDAMENTAL HEALTH | BE | EZ | Score | Rank |
|---|---|---|---|---|
| 4. Resilience | Value | Value | 5.2 | **22** |
| **4.1 Debt redemptions, % of GDP, 2018-2020** | 22.7 | 25.9 | 4.5 | **23** |
| **4.2 Debt held abroad, % of GDP, 2017** | 62.3 | 44.8 | 3.1 | **24** |
| **4.3 Household savings rate, %, 2017** | 10.0 | 12.0 | 5.8 | **14** |
| **4.4 Current account, % of GDP, 2017** | -1.0 | 3.0 | 5.2 | **22** |
| **4.5 Bank assets, % of GDP, Sep 2017** | 234.8 | 279.0 | 8.2 | **7** |
| **4.6 Private debt, % of GDP, 2016** | 190.1 | 136.9 | 4.3 | **23** |

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 28 EU members from 1 (best) to 28 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 103.

## Bulgaria

### Overall assessment
One of the poorest EU countries, benefitting from strong EU support, low tax rates, low indebtedness and strong growth in its exporting countries. Needs a lot of reforms to fight corruption, improve corporate governance and raise education levels.

### 2017 key developments
Adjustment progress unchanged
- Fiscal adjustment has strengthened

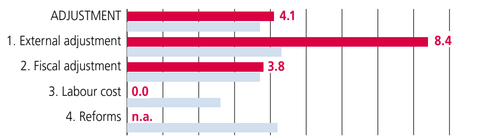
Fundamental health unchanged
- Strong labour cost increases and smaller current account surplus
- Improvement in regulation, debt redemption and private debt

### Strengths
- Strong rise in net exports
- Fast GDP, employment growth
- Relatively easy to hire and fire
- Public and private debt very low
- Current account surplus

### Weaknesses
- Very low PISA score
- High youth/long-term unemployment
- High consumption share
- Weak local competition

**Fundamental Health**


**Adjustment**




## Scores

| OVERALL RESULTS | BG | EZ | |
|---|---|---|---|
| | Score | Score | Rank |
| **FUNDAMENTAL HEALTH** | 6.0 | 5.8 | **17** |
| *1. Growth potential* | 5.0 | 5.2 | **20** |
| *2. Competitiveness* | 5.5 | 6.1 | **16** |
| *3. Fiscal sustainability* | 7.1 | 5.9 | **9** |
| *4. Resilience* | 6.4 | 6.1 | **15** |
| **ADJUSTMENT** | 4.1 | 3.7 | **16** |
| *1. External adjustment* | 8.4 | 4.3 | **2** |
| *2. Fiscal adjustment* | 3.8 | 3.7 | **16** |
| *3. Labour cost adjustment* | 0.0 | 2.6 | **28** |
| *4. Reform drive* | n.a. | 4.2 | **n.a.** |

| FUNDAMENTAL HEALTH | BG | EZ | Score | Rank |
|---|---|---|---|---|
| 1. Growth potential | Value | Value | 5.0 | 20 |
| **1.1 Trend growth 2002-2017** | | | 6.2 | **14** |
| *1.1.1 GVA ex construction, annual change, %* | 4.5 | 1.1 | 10.0 | **1** |
| *1.1.2 Deviation from norm, ppts* | -0.6 | -0.1 | 2.3 | **21** |
| **1.2 Human capital** | | | 3.7 | **18** |
| *1.2.1 Fertility rate, %, 2010-2017* | 1.5 | 1.6 | 4.3 | **11** |
| *1.2.2 Gap immigrant vs native employment rate, ppts* | -3.4 | -11.3 | 6.0 | **9** |
| *1.2.3 PISA score, 2015* | 440 | 496 | 0.0 | **23** |
| **1.3 Employment, 2002-2017** | | | 5.2 | **19** |
| *1.3.1 Employment rate, %* | 59.3 | 64.2 | 2.3 | **22** |
| *1.3.2 Annual change in ER, ppts* | 1.0 | 0.3 | 10.0 | **1** |
| *1.3.3 Youth unemployment rate, %* | 21.6 | 19.8 | 5.1 | **20** |
| *1.3.4 Long-term unemployment, %* | 5.9 | 4.4 | 3.4 | **24** |
| **1.4 Consumption, 2002-2017** | | | 5.2 | **22** |
| *1.4.1 Total consumption, % of GDP* | 80.8 | 76.4 | 4.6 | **23** |
| *1.4.2 Annual change in consumption share, ppts of GDP* | 0.1 | -0.1 | 5.8 | **20** |

| FUNDAMENTAL HEALTH | BG | EZ | Score | Rank |
|---|---|---|---|---|
| 3. Fiscal sustainability | Value | Value | 7.1 | 9 |
| **3.1 Government expenditure, % of GDP, 2002-2017** | 37.1 | 48.0 | 5.5 | **14** |
| **3.2 Structural fiscal balance, 2017** | | | 8.7 | **10** |
| *3.2.1 Structural balance, % of GDP* | 0.0 | -1.0 | 8.5 | **9** |
| *3.2.2 Structural primary balance, % of GDP* | 0.9 | 1.0 | 8.9 | **14** |
| **3.3 Public debt, % of GDP, 2017** | 25.7 | 87.2 | 8.9 | **3** |
| **3.4 Sustainability gap, % of GDP, 2018-2020** | n.a. | 4.5 | n.a. | **n.a.** |
| **3.5 Quality of public finances, 2009-2015** | | | 5.3 | **20** |
| *3.5.1 Education/infrastruct. investment, % of public expenditure* | 5.5 | 2.8 | 5.3 | **20** |
| *3.5.2 Consumption, property taxes, % of tax revenue* | n.a. | 32.9 | n.a. | **n.a.** |

| ADJUSTMENT | BG | EZ | Score | Rank |
|---|---|---|---|---|
| | Value | Value | 4.1 | 16 |
| **1. External adjustment, H2 2007-H1 2017** | | | 8.4 | **2** |
| *1.1 Change in net exports, ppts of GDP* | 16.4 | 2.1 | 8.8 | **3** |
| *1.2 Change in net exports relative to H2 2007, %* | 31.8 | 5.3 | 8.6 | **4** |
| *1.3 Change in export ratio, ppts of GDP* | 14.5 | 8.7 | 7.9 | **13** |
| **2. Fiscal adjustment 2009-2017** | | | 3.8 | **16** |
| *2.1 Size of fiscal adjustment* | | | 4.2 | **15** |
| *2.1.1 Change in structural primary balance, ppts of GDP* | 3.8 | 2.8 | 4.2 | **14** |
| *2.2 Quality of fiscal adjustment* | | | 3.5 | **20** |
| *2.2.1 Sum of expenditure and tax cuts, % of GDP* | -3.0 | -1.0 | 1.8 | **23** |
| **3. Labour cost adjustment 2009-2017** | | | 0.0 | **28** |
| *3.1 Change in RULC* | | | 0.0 | **28** |
| *3.1.1 Absolute change in RULC, %* | 20.9 | -2.7 | 0.0 | **25** |
| *3.2 Change in NULC* | | | 0.1 | **27** |
| *3.2.1 Absolute change in NULC, %* | 52.6 | 5.7 | 0.0 | **18** |
| **4. Reform drive 2010-2016** | n.a. | 0.4 | n.a. | **n.a.** |

| FUNDAMENTAL HEALTH | BG | EZ | Score | Rank |
|---|---|---|---|---|
| 2. Competitiveness | Value | Value | 5.5 | 16 |
| **2.1 Exports, % of GDP, 2002-2017** | 52.9 | 39.8 | 5.9 | **11** |
| **2.2 Annual change in export ratio, ppts of GDP, 2002-2017** | 2.3 | 1.2 | 10.0 | **1** |
| **2.3 Labour costs** | | | 2.1 | **27** |
| *2.3.1 Annual change in RULC, %, 2002-2017* | 0.9 | -0.1 | 0.7 | **27** |
| *2.3.2 Annual change in NULC, %, 2002-2017* | 4.7 | 1.5 | 0.0 | **25** |
| *2.3.3 WEF hiring/firing practices, 2017/2018* | 3.7 | 3.5 | 5.7 | **11** |
| **2.4 Market regulations** | | | 4.0 | **23** |
| *2.4.1 WEF local competition intensity, 2017/2018* | 4.8 | 5.6 | 1.3 | **25** |
| *2.4.2 OECD services trade restrictiveness, 2016* | n.a. | 0.2 | n.a. | **n.a.** |
| *2.4.3 Opening new business, days, 2017* | 23.0 | 8.2 | 6.7 | **23** |

| FUNDAMENTAL HEALTH | BG | EZ | Score | Rank |
|---|---|---|---|---|
| 4. Resilience | Value | Value | 6.4 | 15 |
| **4.1 Debt redemptions, % of GDP, 2018-2020** | 3.5 | 25.9 | 9.1 | **2** |
| **4.2 Debt held abroad, % of GDP, 2017** | n.a. | 44.8 | n.a. | **n.a.** |
| **4.3 Household savings rate, %, 2017** | -6.7 | 12.0 | 0.0 | **24** |
| **4.4 Current account, % of GDP, 2017** | 3.0 | 3.0 | 7.1 | **11** |
| **4.5 Bank assets, % of GDP, Sep 2017** | 103.3 | 279.0 | 7.2 | **16** |
| **4.6 Private debt, % of GDP, 2016** | 104.9 | 136.9 | 8.3 | **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 28 EU members from 1 (best) to 28 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 103.

# Croatia

## Overall assessment

Below average fundamental health, needs reforms to raise competitiveness and growth potential. High government debt. External and labour cost adjustment is making progress. Exports and tourism are rising fast.

## 2017 key developments

Adjustment progress declined
- Fiscal adjustment deteriorated
- Even lower public expenditure on productive assets

Fundamental health unchanged
- Growth outlook improved
- Fiscal sustainability deteriorated

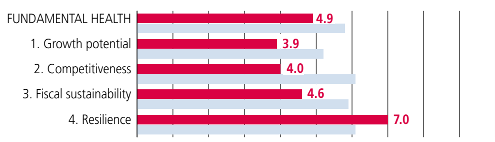
## Strengths

- Labour cost adjustment
- High structural primary surplus
- Thrifty households
- Low private debt
- Current account surplus

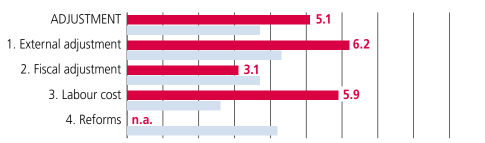
## Weaknesses

- Tax and spending policies not well targeted
- Low PISA score
- Very low employment rate and very high youth unemployment rate
- Low local competition intensity

**Fundamental Health**




**Adjustment**




## Scores

| OVERALL RESULTS | HR Score | EZ Score | Rank |
|---|---|---|---|
| **FUNDAMENTAL HEALTH** | 4.9 | 5.8 | **23** |
| *1. Growth potential* | 3.9 | 5.2 | **24** |
| *2. Competitiveness* | 4.0 | 6.1 | **26** |
| *3. Fiscal sustainability* | 4.6 | 5.9 | **25** |
| *4. Resilience* | 7.0 | 6.1 | **9** |
| **ADJUSTMENT** | 5.1 | 3.7 | **11** |
| *1. External adjustment* | 6.2 | 4.3 | **14** |
| *2. Fiscal adjustment* | 3.1 | 3.7 | **19** |
| *3. Labour cost adjustment* | 5.9 | 2.6 | **4** |
| *4. Reform drive* | n.a. | 4.2 | **n.a.** |

| FUNDAMENTAL HEALTH | HR | EZ | Score | Rank |
|---|---|---|---|---|
| 1. Growth potential | Value | Value | 3.9 | **24** |
| **1.1 Trend growth 2002-2017** | | | 2.8 | **23** |
| *1.1.1 GVA ex construction, annual change, %* | 1.5 | 1.1 | 5.7 | **15** |
| *1.1.2 Deviation from norm, ppts* | -1.8 | -0.1 | 0.0 | **25** |
| **1.2 Human capital** | | | 3.3 | **22** |
| *1.2.1 Fertility rate, %, 2010-2017* | 1.5 | 1.6 | 4.3 | **11** |
| *1.2.2 Gap immigrant vs native employment rate, ppts* | -6.8 | -11.3 | 4.1 | **21** |
| *1.2.3 PISA score, 2015* | 475 | 496 | 0.7 | **20** |
| **1.3 Employment, 2002-2017** | | | 2.5 | **27** |
| *1.3.1 Employment rate, %* | 55.9 | 64.2 | 0.8 | **28** |
| *1.3.2 Annual change in ER, ppts* | 0.3 | 0.3 | 6.7 | **13** |
| *1.3.3 Youth unemployment rate, %* | 34.0 | 19.8 | 1.0 | **26** |
| *1.3.4 Long-term unemployment, %* | 7.7 | 4.4 | 1.5 | **26** |
| **1.4 Consumption, 2002-2017** | | | 6.7 | **17** |
| *1.4.1 Total consumption, % of GDP* | 78.2 | 76.4 | 5.9 | **18** |
| *1.4.2 Annual change in consumption share, ppts of GDP* | -0.2 | -0.1 | 7.5 | **12** |

| FUNDAMENTAL HEALTH | HR | EZ | Score | Rank |
|---|---|---|---|---|
| 3. Fiscal sustainability | Value | Value | 4.6 | **25** |
| **3.1 Government expenditure, % of GDP, 2002-2017** | 47.0 | 48.0 | 1.1 | **26** |
| **3.2 Structural fiscal balance, 2017** | | | 8.8 | **9** |
| *3.2.1 Structural balance, % of GDP* | -0.9 | -1.0 | 7.7 | **12** |
| *3.2.2 Structural primary balance, % of GDP* | 1.9 | 1.0 | 9.9 | **6** |
| **3.3 Public debt, % of GDP, 2017** | 80.2 | 87.2 | 5.0 | **19** |
| **3.4 Sustainability gap, % of GDP, 2018-2020** | n.a. | 4.5 | n.a. | **n.a.** |
| **3.5 Quality of public finances, 2009-2015** | | | 3.7 | **24** |
| *3.5.1 Education/infrastruct. investment, % of public expenditure* | 3.7 | 2.8 | 3.7 | **24** |
| *3.5.2 Consumption, property taxes, % of tax revenue* | n.a. | 32.9 | n.a. | **n.a.** |

| ADJUSTMENT | HR | EZ | Score | Rank |
|---|---|---|---|---|
| | Value | Value | 5.1 | **11** |
| **1. External adjustment, H2 2007-H1 2017** | | | 6.2 | **14** |
| *1.1 Change in net exports, ppts of GDP* | 7.5 | 2.1 | 5.7 | **12** |
| *1.2 Change in net exports relative to H2 2007, %* | 19.7 | 5.3 | 6.1 | **7** |
| *1.3 Change in export ratio, ppts of GDP* | 11.1 | 8.7 | 6.7 | **15** |
| **2. Fiscal adjustment 2009-2017** | | | 3.1 | **19** |
| *2.1 Size of fiscal adjustment* | | | 4.2 | **14** |
| *2.1.1 Change in structural primary balance, ppts of GDP* | 3.9 | 2.8 | 4.2 | **13** |
| *2.2 Quality of fiscal adjustment* | | | 2.0 | **28** |
| *2.2.1 Sum of expenditure and tax cuts, % of GDP* | -2.5 | -1.0 | 2.3 | **22** |
| **3. Labour cost adjustment 2009-2017** | | | 5.9 | **4** |
| *3.1 Change in RULC* | | | 6.7 | **3** |
| *3.1.1 Absolute change in RULC, %* | -13.2 | -2.7 | 10.0 | **1** |
| *3.2 Change in NULC* | | | 5.1 | **6** |
| *3.2.1 Absolute change in NULC, %* | -2.1 | 5.7 | 5.8 | **5** |
| **4. Reform drive 2010-2016** | n.a. | 0.4 | n.a. | **n.a.** |

| FUNDAMENTAL HEALTH | HR | EZ | Score | Rank |
|---|---|---|---|---|
| 2. Competitiveness | Value | Value | 4.0 | **26** |
| **2.1 Exports, % of GDP, 2002-2017** | 40.3 | 39.8 | 0.0 | **24** |
| **2.2 Annual change in export ratio, ppts of GDP, 2002-2017** | 1.0 | 1.2 | 5.6 | **18** |
| **2.3 Labour costs** | | | 6.5 | **10** |
| *2.3.1 Annual change in RULC, %, 2002-2017* | -0.9 | -0.1 | 10.0 | **1** |
| *2.3.2 Annual change in NULC, %, 2002-2017* | 1.4 | 1.5 | 7.4 | **6** |
| *2.3.3 WEF hiring/firing practices, 2017/2018* | 2.6 | 3.5 | 2.0 | **26** |
| **2.4 Market regulations** | | | 3.8 | **25** |
| *2.4.1 WEF local competition intensity, 2017/2018* | 4.7 | 5.6 | 0.7 | **26** |
| *2.4.2 OECD services trade restrictiveness, 2016* | n.a. | 0.2 | n.a. | **n.a.** |
| *2.4.3 Opening new business, days, 2017* | 7.0 | 8.2 | 6.8 | **21** |

| FUNDAMENTAL HEALTH | HR | EZ | Score | Rank |
|---|---|---|---|---|
| 4. Resilience | Value | Value | 7.0 | **9** |
| **4.1 Debt redemptions, % of GDP, 2018-2020** | 23.7 | 25.9 | 4.2 | **24** |
| **4.2 Debt held abroad, % of GDP, 2017** | 30.5 | 44.8 | 6.6 | **12** |
| **4.3 Household savings rate, %, 2017** | 14.2 | 12.0 | 8.0 | **5** |
| **4.4 Current account, % of GDP, 2017** | 3.1 | 3.0 | 7.2 | **10** |
| **4.5 Bank assets, % of GDP, Sep 2017** | 121.5 | 279.0 | 7.7 | **12** |
| **4.6 Private debt, % of GDP, 2016** | 106.1 | 136.9 | 8.3 | **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 28 EU members from 1 (best) to 28 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 103.

# Cyprus

## Overall assessment

So far last eurozone country to receive a bail-out. EU/IMF programme has accelerated the fiscal and labour cost adjustment efforts markedly. But external adjustment remains limited. As other countries had a head-start, Cyprus stays near the bottom of the fundamental health table.

## 2017 key developments

Adjustment progress unchanged
- Fiscal adjustment efforts slacken
- External adjustment score improves as imports fall while exports rise modestly

Fundamental health unchanged at lowest score of all countries
- Slightly higher growth potential

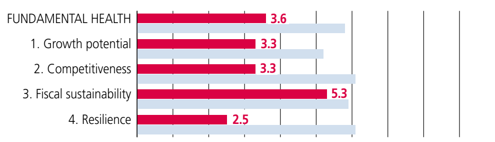
## Strengths

- High structural primary surplus
- Low long-term unemployment
- Flexible labour laws
- Above-average employment rate
- Low government expenditure

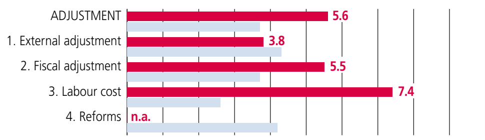
## Weaknesses

- Weak export base, huge current account deficit
- Weak trend growth
- Low education score
- High public and private debt levels
- Lowest productive public investment

**Fundamental Health**




**Adjustment**




## Scores

| OVERALL RESULTS | CY | EZ | |
|---|---|---|---|
| | Score | Score | Rank |
| **FUNDAMENTAL HEALTH** | 3.6 | 5.8 | **28** |
| *1. Growth potential* | 3.3 | 5.2 | **27** |
| *2. Competitiveness* | 3.3 | 6.1 | **27** |
| *3. Fiscal sustainability* | 5.3 | 5.9 | **21** |
| *4. Resilience* | 2.5 | 6.1 | **28** |
| **ADJUSTMENT** | 5.6 | 3.7 | **6** |
| *1. External adjustment* | 3.8 | 4.3 | **22** |
| *2. Fiscal adjustment* | 5.5 | 3.7 | **8** |
| *3. Labour cost adjustment* | 7.4 | 2.6 | **3** |
| *4. Reform drive* | n.a. | 4.2 | **n.a.** |

| FUNDAMENTAL HEALTH | CY | EZ | Score | Rank |
|---|---|---|---|---|
| 1. Growth potential | Value | Value | 3.3 | 27 |
| **1.1 Trend growth 2002-2017** | | | 0.8 | **26** |
| *1.1.1 GVA ex construction, annual change, %* | 0.1 | 1.1 | 1.7 | **26** |
| *1.1.2 Deviation from norm, ppts* | -1.5 | -0.1 | 0.0 | **25** |
| **1.2 Human capital** | | | 3.3 | **25** |
| *1.2.1 Fertility rate, %, 2010-2017* | 1.5 | 1.6 | 4.0 | **16** |
| *1.2.2 Gap immigrant vs native employment rate, ppts* | -3.3 | -11.3 | 5.1 | **15** |
| *1.2.3 PISA score, 2015* | 438 | 496 | 0.0 | **23** |
| **1.3 Employment, 2002-2017** | | | 5.4 | **16** |
| *1.3.1 Employment rate, %* | 67.0 | 64.2 | 5.7 | **9** |
| *1.3.2 Annual change in ER, ppts* | -0.2 | 0.3 | 3.1 | **27** |
| *1.3.3 Youth unemployment rate, %* | 19.6 | 19.8 | 5.8 | **13** |
| *1.3.4 Long-term unemployment, %* | 2.8 | 4.4 | 6.8 | **9** |
| **1.4 Consumption, 2002-2017** | | | 3.6 | **26** |
| *1.4.1 Total consumption, % of GDP* | 81.6 | 76.4 | 4.2 | **24** |
| *1.4.2 Annual change in consumption share, ppts of GDP* | 0.5 | -0.1 | 3.0 | **27** |

| FUNDAMENTAL HEALTH | CY | EZ | Score | Rank |
|---|---|---|---|---|
| 3. Fiscal sustainability | Value | Value | 5.3 | 21 |
| **3.1 Government expenditure, % of GDP, 2002-2017** | 40.1 | 48.0 | 8.5 | **3** |
| **3.2 Structural fiscal balance, 2017** | | | 9.4 | **4** |
| *3.2.1 Structural balance, % of GDP* | 0.4 | -1.0 | 8.8 | **7** |
| *3.2.2 Structural primary balance, % of GDP* | 2.8 | 1.0 | 10.0 | **1** |
| **3.3 Public debt, % of GDP, 2017** | 103.0 | 87.2 | 3.4 | **24** |
| **3.4 Sustainability gap, % of GDP, 2018-2020** | n.a. | 4.5 | n.a. | **n.a.** |
| **3.5 Quality of public finances, 2009-2015** | | | 0.0 | **28** |
| *3.5.1 Education/infrastruct. investment, % of public expenditure* | 1.9 | 2.8 | 0.0 | **28** |
| *3.5.2 Consumption, property taxes, % of tax revenue* | n.a. | 32.9 | n.a. | **n.a.** |

| ADJUSTMENT | CY | EZ | Score | Rank |
|---|---|---|---|---|
| | Value | Value | 5.6 | 6 |
| **1. External adjustment, H2 2007-H1 2017** | | | 3.8 | **22** |
| *1.1 Change in net exports, ppts of GDP* | 3.1 | 2.1 | 4.2 | **18** |
| *1.2 Change in net exports relative to H2 2007, %* | 5.7 | 5.3 | 3.3 | **17** |
| *1.3 Change in export ratio, ppts of GDP* | 3.8 | 8.7 | 3.9 | **24** |
| **2. Fiscal adjustment 2009-2017** | | | 5.5 | **8** |
| *2.1 Size of fiscal adjustment* | | | 6.4 | **9** |
| *2.1.1 Change in structural primary balance, ppts of GDP* | 6.9 | 2.8 | 6.4 | **5** |
| *2.2 Quality of fiscal adjustment* | | | 4.7 | **10** |
| *2.2.1 Sum of expenditure and tax cuts, % of GDP* | 2.6 | -1.0 | 6.9 | **6** |
| **3. Labour cost adjustment 2009-2017** | | | 7.4 | **3** |
| *3.1 Change in RULC* | | | 7.1 | **2** |
| *3.1.1 Absolute change in RULC, %* | -9.5 | -2.7 | 7.4 | **4** |
| *3.2 Change in NULC* | | | 7.8 | **3** |
| *3.2.1 Absolute change in NULC, %* | -7.4 | 5.7 | 7.9 | **3** |
| **4. Reform drive 2010-2016** | n.a. | 0.4 | n.a. | **n.a.** |

| FUNDAMENTAL HEALTH | CY | EZ | Score | Rank |
|---|---|---|---|---|
| 2. Competitiveness | Value | Value | 3.3 | 27 |
| **2.1 Exports, % of GDP, 2002-2017** | 54.8 | 39.8 | 0.0 | **24** |
| **2.2 Annual change in export ratio, ppts of GDP, 2002-2017** | 0.0 | 1.2 | 1.6 | **28** |
| **2.3 Labour costs** | | | 6.2 | **12** |
| *2.3.1 Annual change in RULC, %, 2002-2017* | -0.1 | -0.1 | 5.8 | **14** |
| *2.3.2 Annual change in NULC, %, 2002-2017* | 1.6 | 1.5 | 6.8 | **13** |
| *2.3.3 WEF hiring/firing practices, 2017/2018* | 3.8 | 3.5 | 6.0 | **10** |
| **2.4 Market regulations** | | | 5.6 | **15** |
| *2.4.1 WEF local competition intensity, 2017/2018* | 5.5 | 5.6 | 6.0 | **10** |
| *2.4.2 OECD services trade restrictiveness, 2016* | n.a. | 0.2 | n.a. | **n.a.** |
| *2.4.3 Opening new business, days, 2017* | 6.0 | 8.2 | 5.1 | **26** |

| FUNDAMENTAL HEALTH | CY | EZ | Score | Rank |
|---|---|---|---|---|
| 4. Resilience | Value | Value | 2.5 | 28 |
| **4.1 Debt redemptions, % of GDP, 2018-2020** | 20.3 | 25.9 | 5.1 | **19** |
| **4.2 Debt held abroad, % of GDP, 2017** | 76.1 | 44.8 | 1.5 | **26** |
| **4.3 Household savings rate, %, 2017** | -4.7 | 12.0 | 0.0 | **24** |
| **4.4 Current account, % of GDP, 2017** | -5.4 | 3.0 | 3.1 | **28** |
| **4.5 Bank assets, % of GDP, Sep 2017** | 431.1 | 279.0 | 5.3 | **25** |
| **4.6 Private debt, % of GDP, 2016** | 344.6 | 136.9 | 0.0 | **27** |

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 28 EU members from 1 (best) to 28 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 103.

## Czech Republic

### Overall assessment

The Switzerland of Eastern Europe as government, households and corporates are very conservative regarding their finances. No. 2 on fundamental health. The economy is very open, profiting from strong growth in Germany, its largest export partner.

### 2017 key developments

Adjustment progress slips
- External and fiscal adjustment scores up
- Labour cost and reform scores down

Fundamental health unchanged
- More debt held abroad amid Czech Koruna appreciation bets
- Savings rate down slightly, but employment potential improved

### Strengths

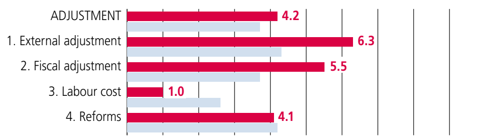
- Strong growth potential
- Low consumption but high export ratio
- High local competition
- Low youth unemployment rate
- Low indebtedness

### Weaknesses

- Low fertility rate
- Below-average PISA score
- Rising labour costs

**Fundamental Health**


**Adjustment**




## Scores

| OVERALL RESULTS | CZ Score | EZ Score | Rank |
|---|---|---|---|
| **FUNDAMENTAL HEALTH** | 7.4 | 5.8 | **2** |
| *1. Growth potential* | 7.3 | 5.2 | **3** |
| *2. Competitiveness* | 7.3 | 6.1 | **4** |
| *3. Fiscal sustainability* | 8.0 | 5.9 | **4** |
| *4. Resilience* | 7.1 | 6.1 | **8** |
| **ADJUSTMENT** | 4.2 | 3.7 | **14** |
| *1. External adjustment* | 6.3 | 4.3 | **12** |
| *2. Fiscal adjustment* | 5.5 | 3.7 | **9** |
| *3. Labour cost adjustment* | 1.0 | 2.6 | **24** |
| *4. Reform drive* | 4.1 | 4.2 | **12** |

| FUNDAMENTAL HEALTH | CZ | EZ | Score | Rank |
|---|---|---|---|---|
| 1. Growth potential | Value | Value | 7.3 | 3 |
| **1.1 Trend growth 2002-2017** | | | 8.2 | **6** |
| *1.1.1 GVA ex construction, annual change, %* | 3.2 | 1.1 | 10.0 | **1** |
| *1.1.2 Deviation from norm, ppts* | 0.3 | -0.1 | 6.3 | **11** |
| **1.2 Human capital** | | | 3.9 | **15** |
| *1.2.1 Fertility rate, %, 2010-2017* | 1.4 | 1.6 | 3.7 | **18** |
| *1.2.2 Gap immigrant vs native employment rate, ppts* | -2.8 | -11.3 | 5.7 | **11** |
| *1.2.3 PISA score, 2015* | 491 | 496 | 2.6 | **16** |
| **1.3 Employment, 2002-2017** | | | 7.0 | **7** |
| *1.3.1 Employment rate, %* | 67.0 | 64.2 | 5.7 | **10** |
| *1.3.2 Annual change in ER, ppts* | 0.6 | 0.3 | 8.4 | **10** |
| *1.3.3 Youth unemployment rate, %* | 15.6 | 19.8 | 7.1 | **7** |
| *1.3.4 Long-term unemployment, %* | 2.9 | 4.4 | 6.8 | **10** |
| **1.4 Consumption, 2002-2017** | | | 9.9 | **2** |
| *1.4.1 Total consumption, % of GDP* | 69.7 | 76.4 | 10.0 | **1** |
| *1.4.2 Annual change in consumption share, ppts of GDP* | -0.6 | -0.1 | 9.8 | **4** |

| FUNDAMENTAL HEALTH | CZ | EZ | Score | Rank |
|---|---|---|---|---|
| 3. Fiscal sustainability | Value | Value | 8.0 | 4 |
| **3.1 Government expenditure, % of GDP, 2002-2017** | 42.5 | 48.0 | 5.4 | **15** |
| **3.2 Structural fiscal balance, 2017** | | | 9.3 | **5** |
| *3.2.1 Structural balance, % of GDP* | 0.8 | -1.0 | 9.1 | **3** |
| *3.2.2 Structural primary balance, % of GDP* | 1.6 | 1.0 | 9.6 | **8** |
| **3.3 Public debt, % of GDP, 2017** | 34.6 | 87.2 | 8.2 | **4** |
| **3.4 Sustainability gap, % of GDP, 2018-2020** | -1.3 | 4.5 | 10.0 | **1** |
| **3.5 Quality of public finances, 2009-2015** | | | 7.1 | **11** |
| *3.5.1 Education/infrastruct. investment, % of public expenditure* | 7.0 | 2.8 | 8.6 | **2** |
| *3.5.2 Consumption, property taxes, % of tax revenue* | 34.9 | 32.9 | 5.6 | **14** |

| ADJUSTMENT | CZ | EZ | Score | Rank |
|---|---|---|---|---|
| | Value | Value | 4.2 | 14 |
| **1. External adjustment, H2 2007-H1 2017** | | | 6.3 | **12** |
| *1.1 Change in net exports, ppts of GDP* | 5.5 | 2.1 | 5.0 | **14** |
| *1.2 Change in net exports relative to H2 2007, %* | 8.9 | 5.3 | 4.0 | **16** |
| *1.3 Change in export ratio, ppts of GDP* | 21.1 | 8.7 | 10.0 | **1** |
| **2. Fiscal adjustment 2009-2017** | | | 5.5 | **9** |
| *2.1 Size of fiscal adjustment* | | | 7.7 | **2** |
| *2.1.1 Change in structural primary balance, ppts of GDP* | 5.4 | 2.8 | 5.3 | **10** |
| *2.2 Quality of fiscal adjustment* | | | 3.3 | **23** |
| *2.2.1 Sum of expenditure and tax cuts, % of GDP* | 0.8 | -1.0 | 5.3 | **14** |
| **3. Labour cost adjustment 2009-2017** | | | 1.0 | **24** |
| *3.1 Change in RULC* | | | 0.8 | **23** |
| *3.1.1 Absolute change in RULC, %* | 2.9 | -2.7 | 0.0 | **25** |
| *3.2 Change in NULC* | | | 1.1 | **23** |
| *3.2.1 Absolute change in NULC, %* | 14.3 | 5.7 | 0.0 | **18** |
| **4. Reform drive 2010-2016** | 0.3 | 0.4 | 4.1 | **12** |

| FUNDAMENTAL HEALTH | CZ | EZ | Score | Rank |
|---|---|---|---|---|
| 2. Competitiveness | Value | Value | 7.3 | 4 |
| **2.1 Exports, % of GDP, 2002-2017** | 64.4 | 39.8 | 8.1 | **9** |
| **2.2 Annual change in export ratio, ppts of GDP, 2002-2017** | 3.4 | 1.2 | 10.0 | **1** |
| **2.3 Labour costs** | | | 4.4 | **21** |
| *2.3.1 Annual change in RULC, %, 2002-2017* | 0.4 | -0.1 | 3.1 | **25** |
| *2.3.2 Annual change in NULC, %, 2002-2017* | 2.0 | 1.5 | 5.8 | **17** |
| *2.3.3 WEF hiring/firing practices, 2017/2018* | 3.3 | 3.5 | 4.3 | **18** |
| **2.4 Market regulations** | | | 6.9 | **7** |
| *2.4.1 WEF local competition intensity, 2017/2018* | 5.8 | 5.6 | 8.0 | **4** |
| *2.4.2 OECD services trade restrictiveness, 2016* | 0.2 | 0.2 | 3.9 | **7** |
| *2.4.3 Opening new business, days, 2017* | 9.0 | 8.2 | 8.8 | **11** |

| FUNDAMENTAL HEALTH | CZ | EZ | Score | Rank |
|---|---|---|---|---|
| 4. Resilience | Value | Value | 7.1 | 8 |
| **4.1 Debt redemptions, % of GDP, 2018-2020** | 14.9 | 25.9 | 6.4 | **11** |
| **4.2 Debt held abroad, % of GDP, 2017** | 22.9 | 44.8 | 7.5 | **7** |
| **4.3 Household savings rate, %, 2017** | 10.6 | 12.0 | 6.1 | **12** |
| **4.4 Current account, % of GDP, 2017** | -0.2 | 3.0 | 5.6 | **19** |
| **4.5 Bank assets, % of GDP, Sep 2017** | 153.4 | 279.0 | 6.8 | **20** |
| **4.6 Private debt, % of GDP, 2016** | 68.7 | 136.9 | 10.0 | **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 28 EU members from 1 (best) to 28 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 103.

## Denmark

### Overall assessment
Rich Denmark's fundamental health score is above the eurozone average because of the its strong growth potential, comfortable fiscal situation and robust financial system. It can thus afford to be in the bottom third for adjustment progress. However, it needs to watch its competitive position.

### 2017 key developments
Adjustment progress slips
- Reform drive slackens
- External adjustment score rises

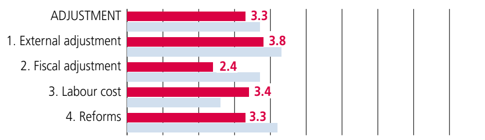
Fundamental health score gains
- Financial resilience improves markedly
- Growth potential edges up

### Strengths
- Highest employment rate
- Easy to open a business
- Thrifty households
- Low public debt
- Less regulated than commonly believed

### Weaknesses
- High private debt
- High government expenditure
- Low productive public investment

Fundamental Health


Adjustment




## Scores

| OVERALL RESULTS | DK Score | EZ Score | Rank |
|---|---|---|---|
| **FUNDAMENTAL HEALTH** | 6.4 | 5.8 | **13** |
| *1. Growth potential* | 6.3 | 5.2 | **8** |
| *2. Competitiveness* | 5.2 | 6.1 | **18** |
| *3. Fiscal sustainability* | 6.8 | 5.9 | **15** |
| *4. Resilience* | 7.4 | 6.1 | **6** |
| **ADJUSTMENT** | 3.3 | 3.7 | **22** |
| *1. External adjustment* | 3.8 | 4.3 | **21** |
| *2. Fiscal adjustment* | 2.4 | 3.7 | **26** |
| *3. Labour cost adjustment* | 3.4 | 2.6 | **14** |
| *4. Reform drive* | 3.3 | 4.2 | **17** |

| FUNDAMENTAL HEALTH | DK | EZ | Score | Rank |
|---|---|---|---|---|
| 1. Growth potential | Value | Value | 6.3 | **8** |
| **1.1 Trend growth 2002-2017** | | | 5.1 | **16** |
| *1.1.1 GVA ex construction, annual change, %* | 0.8 | 1.1 | 3.6 | **23** |
| *1.1.2 Deviation from norm, ppts* | 0.4 | -0.1 | 6.5 | **10** |
| **1.2 Human capital** | | | 5.5 | **7** |
| *1.2.1 Fertility rate, %, 2010-2017* | 1.8 | 1.6 | 6.5 | **7** |
| *1.2.2 Gap immigrant vs native employment rate, ppts* | -15.0 | -11.3 | 4.8 | **17** |
| *1.2.3 PISA score, 2015* | 504 | 496 | 4.3 | **7** |
| **1.3 Employment, 2002-2017** | | | 7.6 | **4** |
| *1.3.1 Employment rate, %* | 74.8 | 64.2 | 9.1 | **1** |
| *1.3.2 Annual change in ER, ppts* | -0.1 | 0.3 | 4.0 | **26** |
| *1.3.3 Youth unemployment rate, %* | 10.7 | 19.8 | 8.8 | **4** |
| *1.3.4 Long-term unemployment, %* | 1.2 | 4.4 | 8.6 | **2** |
| **1.4 Consumption, 2002-2017** | | | 7.1 | **15** |
| *1.4.1 Total consumption, % of GDP* | 72.6 | 76.4 | 8.7 | **7** |
| *1.4.2 Annual change in consumption share, ppts of GDP* | 0.1 | -0.1 | 5.5 | **23** |

| FUNDAMENTAL HEALTH | DK | EZ | Score | Rank |
|---|---|---|---|---|
| 3. Fiscal sustainability | Value | Value | 6.8 | **15** |
| **3.1 Government expenditure, % of GDP, 2002-2017** | 53.7 | 48.0 | 2.2 | **22** |
| **3.2 Structural fiscal balance, 2017** | | | 8.4 | **12** |
| *3.2.1 Structural balance, % of GDP* | -0.5 | -1.0 | 8.1 | **10** |
| *3.2.2 Structural primary balance, % of GDP* | 0.7 | 1.0 | 8.7 | **17** |
| **3.3 Public debt, % of GDP, 2017** | 36.1 | 87.2 | 8.1 | **5** |
| **3.4 Sustainability gap, % of GDP, 2018-2020** | 0.4 | 4.5 | 9.6 | **3** |
| **3.5 Quality of public finances, 2009-2015** | | | 5.5 | **18** |
| *3.5.1 Education/infrastruct. investment, % of public expenditure* | 2.2 | 2.8 | 4.7 | **22** |
| *3.5.2 Consumption, property taxes, % of tax revenue* | 36.6 | 32.9 | 6.2 | **11** |

| ADJUSTMENT | DK | EZ | Score | Rank |
|---|---|---|---|---|
| | Value | Value | 3.3 | **22** |
| **1. External adjustment, H2 2007-H1 2017** | | | 3.8 | **21** |
| *1.1 Change in net exports, ppts of GDP* | 1.8 | 2.1 | 3.7 | **20** |
| *1.2 Change in net exports relative to H2 2007, %* | 3.5 | 5.3 | 2.9 | **20** |
| *1.3 Change in export ratio, ppts of GDP* | 6.5 | 8.7 | 4.9 | **21** |
| **2. Fiscal adjustment 2009-2017** | | | 2.4 | **26** |
| *2.1 Size of fiscal adjustment* | | | 0.3 | **25** |
| *2.1.1 Change in structural primary balance, ppts of GDP* | -1.2 | 2.8 | 0.6 | **25** |
| *2.2 Quality of fiscal adjustment* | | | 4.6 | **13** |
| *2.2.1 Sum of expenditure and tax cuts, % of GDP* | 2.5 | -1.0 | 6.8 | **7** |
| **3. Labour cost adjustment 2009-2017** | | | 3.4 | **14** |
| *3.1 Change in RULC* | | | 4.9 | **9** |
| *3.1.1 Absolute change in RULC, %* | -5.0 | -2.7 | 4.2 | **11** |
| *3.2 Change in NULC* | | | 1.9 | **20** |
| *3.2.1 Absolute change in NULC, %* | 10.7 | 5.7 | 0.9 | **14** |
| **4. Reform drive 2010-2016** | 0.3 | 0.4 | 3.3 | **17** |

| FUNDAMENTAL HEALTH | DK | EZ | Score | Rank |
|---|---|---|---|---|
| 2. Competitiveness | Value | Value | 5.2 | **18** |
| **2.1 Exports, % of GDP, 2002-2017** | 51.0 | 39.8 | 1.9 | **21** |
| **2.2 Annual change in export ratio, ppts of GDP, 2002-2017** | 1.1 | 1.2 | 5.1 | **21** |
| **2.3 Labour costs** | | | 7.0 | **6** |
| *2.3.1 Annual change in RULC, %, 2002-2017* | 0.1 | -0.1 | 4.9 | **19** |
| *2.3.2 Annual change in NULC, %, 2002-2017* | 1.9 | 1.5 | 6.0 | **15** |
| *2.3.3 WEF hiring/firing practices, 2017/2018* | 5.2 | 3.5 | 10.0 | **1** |
| **2.4 Market regulations** | | | 6.6 | **10** |
| *2.4.1 WEF local competition intensity, 2017/2018* | 5.4 | 5.6 | 5.3 | **15** |
| *2.4.2 OECD services trade restrictiveness, 2016* | 0.2 | 0.2 | 4.6 | **5** |
| *2.4.3 Opening new business, days, 2017* | 3.5 | 8.2 | 9.9 | **1** |

| FUNDAMENTAL HEALTH | DK | EZ | Score | Rank |
|---|---|---|---|---|
| 4. Resilience | Value | Value | 7.4 | **6** |
| **4.1 Debt redemptions, % of GDP, 2018-2020** | 8.5 | 25.9 | 7.9 | **4** |
| **4.2 Debt held abroad, % of GDP, 2017** | 11.5 | 44.8 | 8.7 | **3** |
| **4.3 Household savings rate, %, 2017** | 11.4 | 12.0 | 6.5 | **10** |
| **4.4 Current account, % of GDP, 2017** | 8.4 | 3.0 | 9.7 | **3** |
| **4.5 Bank assets, % of GDP, Sep 2017** | 366.2 | 279.0 | 7.9 | **10** |
| **4.6 Private debt, % of GDP, 2016** | 208.6 | 136.9 | 3.4 | **24** |

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 28 EU members from 1 (best) to 28 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 103.

## Estonia

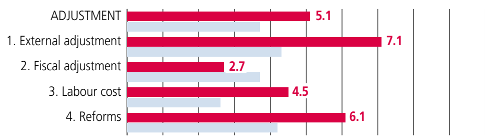
### Overall assessment
The top performer on fundamental health in the eurozone. Small open and highly dynamic catching-up economy. Recovery after credit bubble recession in 2007 complete. Adjustment effort thus fading. Low public and private sector debt levels make it the most resilient Eurozone economy.

### 2017 key developments
Adjustment progress continues to weaken as crisis has passed
- External adjustment score lower
- Fiscal adjustment efforts also slacken

Fundamental health unchanged at top position
- Fiscal sustainability still excellent, but less stellar than before
- Financial resilience, growth potential and competitiveness up slightly

### Strengths
- Extremely comfortable fiscal position
- Tax and spending policies well targeted
- Deregulated product, services and labour markets
- Low propensity to consume
- Highest PISA score
- High employment rate

### Weaknesses
- High legacy long-term unemployment
- Fast rebound in unit labour costs


## Scores

| OVERALL RESULTS | EE Score | EZ Score | Rank |
|---|---|---|---|
| **FUNDAMENTAL HEALTH** | 7.5 | 5.8 | **1** |
| *1. Growth potential* | 7.1 | 5.2 | **6** |
| *2. Competitiveness* | 6.2 | 6.1 | **12** |
| *3. Fiscal sustainability* | 8.4 | 5.9 | **2** |
| *4. Resilience* | 8.2 | 6.1 | **1** |
| **ADJUSTMENT** | 5.1 | 3.7 | **9** |
| *1. External adjustment* | 7.1 | 4.3 | **7** |
| *2. Fiscal adjustment* | 2.7 | 3.7 | **22** |
| *3. Labour cost adjustment* | 4.5 | 2.6 | **10** |
| *4. Reform drive* | 6.1 | 4.2 | **2** |

| FUNDAMENTAL HEALTH | EE | EZ | Score | Rank |
|---|---|---|---|---|
| 1. Growth potential | Value | Value | 7.1 | 6 |
| **1.1 Trend growth 2002-2017** | | | 8.0 | **7** |
| *1.1.1 GVA ex construction, annual change, %* | 3.6 | 1.1 | 10.0 | **1** |
| *1.1.2 Deviation from norm, ppts* | 0.2 | -0.1 | 6.0 | **12** |
| **1.2 Human capital** | | | 5.8 | **4** |
| *1.2.1 Fertility rate, %, 2010-2017* | 1.6 | 1.6 | 5.2 | **9** |
| *1.2.2 Gap immigrant vs native employment rate, ppts* | -2.5 | -11.3 | 6.2 | **7** |
| *1.2.3 PISA score, 2015* | 524 | 496 | 6.8 | **1** |
| **1.3 Employment, 2002-2017** | | | 6.8 | **8** |
| *1.3.1 Employment rate, %* | 67.0 | 64.2 | 5.7 | **8** |
| *1.3.2 Annual change in ER, ppts* | 0.8 | 0.3 | 9.8 | **5** |
| *1.3.3 Youth unemployment rate, %* | 18.1 | 19.8 | 6.3 | **11** |
| *1.3.4 Long-term unemployment, %* | 4.1 | 4.4 | 5.4 | **18** |
| **1.4 Consumption, 2002-2017** | | | 7.6 | **11** |
| *1.4.1 Total consumption, % of GDP* | 71.1 | 76.4 | 9.4 | **6** |
| *1.4.2 Annual change in consumption share, ppts of GDP* | 0.1 | -0.1 | 5.8 | **19** |

| FUNDAMENTAL HEALTH | EE | EZ | Score | Rank |
|---|---|---|---|---|
| 3. Fiscal sustainability | Value | Value | 8.4 | 2 |
| **3.1 Government expenditure, % of GDP, 2002-2017** | 38.0 | 48.0 | 8.0 | **7** |
| **3.2 Structural fiscal balance, 2017** | | | 7.3 | **22** |
| *3.2.1 Structural balance, % of GDP* | -1.1 | -1.0 | 7.7 | **15** |
| *3.2.2 Structural primary balance, % of GDP* | -1.0 | 1.0 | 7.0 | **27** |
| **3.3 Public debt, % of GDP, 2017** | 9.2 | 87.2 | 10.0 | **1** |
| **3.4 Sustainability gap, % of GDP, 2018-2020** | n.a. | 4.5 | n.a. | **n.a.** |
| **3.5 Quality of public finances, 2009-2015** | | | 8.5 | **1** |
| *3.5.1 Education/infrastruct. investment, % of public expenditure* | 7.1 | 2.8 | 8.3 | **4** |
| *3.5.2 Consumption, property taxes, % of tax revenue* | 42.5 | 32.9 | 8.6 | **6** |

| ADJUSTMENT | EE | EZ | Score | Rank |
|---|---|---|---|---|
| | Value | Value | 5.1 | 9 |
| **1. External adjustment, H2 2007-H1 2017** | | | 7.1 | **7** |
| *1.1 Change in net exports, ppts of GDP* | 9.0 | 2.1 | 6.2 | **8** |
| *1.2 Change in net exports relative to H2 2007, %* | 14.5 | 5.3 | 5.1 | **11** |
| *1.3 Change in export ratio, ppts of GDP* | 24.7 | 8.7 | 10.0 | **1** |
| **2. Fiscal adjustment 2009-2017** | | | 2.7 | **22** |
| *2.1 Size of fiscal adjustment* | | | 0.6 | **23** |
| *2.1.1 Change in structural primary balance, ppts of GDP* | -0.2 | 2.8 | 1.3 | **23** |
| *2.2 Quality of fiscal adjustment* | | | 4.7 | **11** |
| *2.2.1 Sum of expenditure and tax cuts, % of GDP* | 1.3 | -1.0 | 5.7 | **13** |
| **3. Labour cost adjustment 2009-2017** | | | 4.5 | **10** |
| *3.1 Change in RULC* | | | 4.0 | **12** |
| *3.1.1 Absolute change in RULC, %* | -2.6 | -2.7 | 2.4 | **18** |
| *3.2 Change in NULC* | | | 5.0 | **7** |
| *3.2.1 Absolute change in NULC, %* | 21.2 | 5.7 | 0.0 | **18** |
| **4. Reform drive 2010-2016** | 0.5 | 0.4 | 6.1 | **2** |

| FUNDAMENTAL HEALTH | EE | EZ | Score | Rank |
|---|---|---|---|---|
| 2. Competitiveness | Value | Value | 6.2 | 12 |
| **2.1 Exports, % of GDP, 2002-2017** | 71.6 | 39.8 | 4.5 | **13** |
| **2.2 Annual change in export ratio, ppts of GDP, 2002-2017** | 2.9 | 1.2 | 10.0 | **1** |
| **2.3 Labour costs** | | | 3.5 | **25** |
| *2.3.1 Annual change in RULC, %, 2002-2017* | 0.6 | -0.1 | 2.0 | **26** |
| *2.3.2 Annual change in NULC, %, 2002-2017* | 5.1 | 1.5 | 0.0 | **25** |
| *2.3.3 WEF hiring/firing practices, 2017/2018* | 4.6 | 3.5 | 8.7 | **3** |
| **2.4 Market regulations** | | | 6.8 | **8** |
| *2.4.1 WEF local competition intensity, 2017/2018* | 5.8 | 5.6 | 8.0 | **4** |
| *2.4.2 OECD services trade restrictiveness, 2016* | 0.2 | 0.2 | 2.9 | **9** |
| *2.4.3 Opening new business, days, 2017* | 3.5 | 8.2 | 9.6 | **5** |

| FUNDAMENTAL HEALTH | EE | EZ | Score | Rank |
|---|---|---|---|---|
| 4. Resilience | Value | Value | 8.2 | 1 |
| **4.1 Debt redemptions, % of GDP, 2018-2020** | 0.0 | 25.9 | 10.0 | **1** |
| **4.2 Debt held abroad, % of GDP, 2017** | 6.3 | 44.8 | 9.3 | **2** |
| **4.3 Household savings rate, %, 2017** | 12.4 | 12.0 | 7.1 | **9** |
| **4.4 Current account, % of GDP, 2017** | 2.3 | 3.0 | 6.8 | **13** |
| **4.5 Bank assets, % of GDP, Sep 2017** | 108.4 | 279.0 | 8.4 | **6** |
| **4.6 Private debt, % of GDP, 2016** | 115.4 | 136.9 | 7.8 | **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 28 EU members from 1 (best) to 28 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 103.

## Finland

### Overall assessment

The country finally seems to shape up after deteriorating fundamental health in the years before. Efforts to reform and keep labour costs in check have replaced complacency. But adjustment remains slow and incomplete. The key is to raise competitiveness.

### 2017 key developments

Adjustment progress score rises the most among 28 countries from low level
- Labour cost adjustment jumps on the back of much lower unit labour costs
- External adjustment score improves as exports and net exports rise

Fundamental health edges up
- Competitiveness, growth potential and financial resilience all gain
- Fiscal sustainability falls as structural surplus turns into deficit

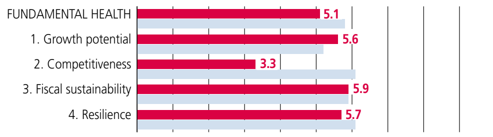
### Strengths

- High PISA score
- Relatively high fertility rate
- Decent employment rate
- Low bank assets
- Education/infrastructure investment

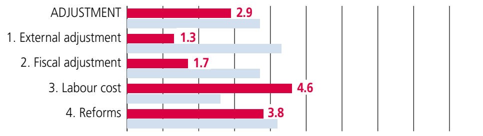
### Weaknesses

- Worst competitiveness score in sample
- Export performance still weak
- Low degree of product market competition
- Low employment rate for immigrants
- Excessive role of government

Fundamental Health




Adjustment




## Scores

| OVERALL RESULTS | FI | EZ | |
|---|---|---|---|
| | Score | Score | Rank |
| **FUNDAMENTAL HEALTH** | 5.1 | 5.8 | **21** |
| *1. Growth potential* | 5.6 | 5.2 | **17** |
| *2. Competitiveness* | 3.3 | 6.1 | **28** |
| *3. Fiscal sustainability* | 5.9 | 5.9 | **18** |
| *4. Resilience* | 5.7 | 6.1 | **19** |
| | | | |
| **ADJUSTMENT** | 2.9 | 3.7 | **26** |
| *1. External adjustment* | 1.3 | 4.3 | **28** |
| *2. Fiscal adjustment* | 1.7 | 3.7 | **28** |
| *3. Labour cost adjustment* | 4.6 | 2.6 | **9** |
| *4. Reform drive* | 3.8 | 4.2 | **13** |

| FUNDAMENTAL HEALTH | FI | EZ | Score | Rank |
|---|---|---|---|---|
| 1. Growth potential | Value | Value | 5.6 | **17** |
| **1.1 Trend growth 2002-2017** | | | 4.7 | **17** |
| *1.1.1 GVA ex construction, annual change, %* | 1.0 | 1.1 | 4.2 | **21** |
| *1.1.2 Deviation from norm, ppts* | 0.1 | -0.1 | 5.2 | **14** |
| **1.2 Human capital** | | | 6.0 | **3** |
| *1.2.1 Fertility rate, %, 2010-2017* | 1.8 | 1.6 | 6.5 | **6** |
| *1.2.2 Gap immigrant vs native employment rate, ppts* | -18.1 | -11.3 | 4.3 | **20** |
| *1.2.3 PISA score, 2015* | 523 | 496 | 6.6 | **2** |
| **1.3 Employment, 2002-2017** | | | 6.4 | **11** |
| *1.3.1 Employment rate, %* | 68.9 | 64.2 | 6.5 | **7** |
| *1.3.2 Annual change in ER, ppts* | 0.1 | 0.3 | 5.4 | **21** |
| *1.3.3 Youth unemployment rate, %* | 20.0 | 19.8 | 5.7 | **14** |
| *1.3.4 Long-term unemployment, %* | 1.9 | 4.4 | 7.9 | **7** |
| **1.4 Consumption, 2002-2017** | | | 5.2 | **21** |
| *1.4.1 Total consumption, % of GDP* | 76.3 | 76.4 | 6.9 | **16** |
| *1.4.2 Annual change in consumption share, ppts of GDP* | 0.4 | -0.1 | 3.6 | **26** |

| FUNDAMENTAL HEALTH | FI | EZ | Score | Rank |
|---|---|---|---|---|
| 3. Fiscal sustainability | Value | Value | 5.9 | **18** |
| **3.1 Government expenditure, % of GDP, 2002-2017** | 52.6 | 48.0 | 2.2 | **24** |
| **3.2 Structural fiscal balance, 2017** | | | 7.8 | **19** |
| *3.2.1 Structural balance, % of GDP* | -1.0 | -1.0 | 7.7 | **14** |
| *3.2.2 Structural primary balance, % of GDP* | -0.1 | 1.0 | 7.9 | **20** |
| **3.3 Public debt, % of GDP, 2017** | 62.7 | 87.2 | 6.2 | **14** |
| **3.4 Sustainability gap, % of GDP, 2018-2020** | 3.4 | 4.5 | 7.1 | **9** |
| **3.5 Quality of public finances, 2009-2015** | | | 6.4 | **15** |
| *3.5.1 Education/infrastruct. investment, % of public expenditure* | 3.5 | 2.8 | 7.0 | **9** |
| *3.5.2 Consumption, property taxes, % of tax revenue* | 35.4 | 32.9 | 5.7 | **12** |

| ADJUSTMENT | FI | EZ | Score | Rank |
|---|---|---|---|---|
| | Value | Value | 2.9 | **26** |
| **1. External adjustment, H2 2007-H1 2017** | | | 1.3 | **28** |
| *1.1 Change in net exports, ppts of GDP* | -4.8 | 2.1 | 1.4 | **27** |
| *1.2 Change in net exports relative to H2 2007, %* | -11.7 | 5.3 | 0.0 | **28** |
| *1.3 Change in export ratio, ppts of GDP* | 0.4 | 8.7 | 2.6 | **28** |
| **2. Fiscal adjustment 2009-2017** | | | 1.7 | **28** |
| *2.1 Size of fiscal adjustment* | | | 0.0 | **26** |
| *2.1.1 Change in structural primary balance, ppts of GDP* | -2.0 | 2.8 | 0.0 | **26** |
| *2.2 Quality of fiscal adjustment* | | | 3.4 | **21** |
| *2.2.1 Sum of expenditure and tax cuts, % of GDP* | -4.4 | -1.0 | 0.6 | **27** |
| **3. Labour cost adjustment 2009-2017** | | | 4.6 | **9** |
| *3.1 Change in RULC* | | | 6.1 | **5** |
| *3.1.1 Absolute change in RULC, %* | -7.7 | -2.7 | 6.1 | **6** |
| *3.2 Change in NULC* | | | 3.1 | **14** |
| *3.2.1 Absolute change in NULC, %* | 5.6 | 5.7 | 2.9 | **10** |
| **4. Reform drive 2010-2016** | 0.3 | 0.4 | 3.8 | **13** |

| FUNDAMENTAL HEALTH | FI | EZ | Score | Rank |
|---|---|---|---|---|
| 2. Competitiveness | Value | Value | 3.3 | **28** |
| **2.1 Exports, % of GDP, 2002-2017** | 38.7 | 39.8 | 0.0 | **24** |
| **2.2 Annual change in export ratio, ppts of GDP, 2002-2017** | 0.5 | 1.2 | 3.6 | **27** |
| **2.3 Labour costs** | | | 5.9 | **15** |
| *2.3.1 Annual change in RULC, %, 2002-2017* | 0.0 | -0.1 | 5.6 | **18** |
| *2.3.2 Annual change in NULC, %, 2002-2017* | 1.6 | 1.5 | 7.0 | **10** |
| *2.3.3 WEF hiring/firing practices, 2017/2018* | 3.5 | 3.5 | 5.0 | **13** |
| **2.4 Market regulations** | | | 3.6 | **26** |
| *2.4.1 WEF local competition intensity, 2017/2018* | 4.7 | 5.6 | 0.7 | **26** |
| *2.4.2 OECD services trade restrictiveness, 2016* | 0.2 | 0.2 | 2.0 | **16** |
| *2.4.3 Opening new business, days, 2017* | 14.0 | 8.2 | 8.1 | **16** |

| FUNDAMENTAL HEALTH | FI | EZ | Score | Rank |
|---|---|---|---|---|
| 4. Resilience | Value | Value | 5.7 | **19** |
| **4.1 Debt redemptions, % of GDP, 2018-2020** | 18.3 | 25.9 | 5.6 | **16** |
| **4.2 Debt held abroad, % of GDP, 2017** | 43.4 | 44.8 | 5.2 | **18** |
| **4.3 Household savings rate, %, 2017** | 5.4 | 12.0 | 3.4 | **20** |
| **4.4 Current account, % of GDP, 2017** | -1.1 | 3.0 | 5.2 | **23** |
| **4.5 Bank assets, % of GDP, Sep 2017** | 207.8 | 279.0 | 8.9 | **4** |
| **4.6 Private debt, % of GDP, 2016** | 149.3 | 136.9 | 6.2 | **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 28 EU members from 1 (best) to 28 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 103.

## France

### Overall assessment
Close to the bottom for both fundamental health and adjustment progress, but things have started to improve. Recent reforms point in the right direction. A more flexible labour market can raise growth potential and help to make public finances sustainable.

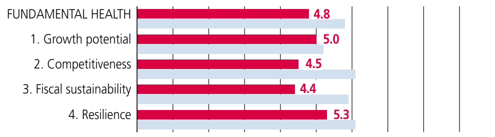
### 2017 key developments
Adjustment progress improves
- Reform responsiveness rises strongly
- External and labour cost adjustment scores slip further

Fundamental health unchanged at low level
- Human capital score improves
- Public and private debt rise

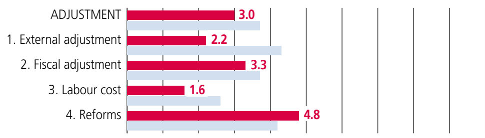
### Strengths
- High fertility rate
- Easy to open a business
- High competition intensity
- Thrifty households

### Weaknesses
- Low trend growth
- Second worst score of high government expenditure
- Weak exports and big current account deficit
- High ratio of bank assets in GDP

**Fundamental Health**




**Adjustment**




## Scores

| OVERALL RESULTS | FR Score | EZ Score | Rank |
|---|---|---|---|
| **FUNDAMENTAL HEALTH** | 4.8 | 5.8 | **24** |
| *1. Growth potential* | 5.0 | 5.2 | **21** |
| *2. Competitiveness* | 4.5 | 6.1 | **24** |
| *3. Fiscal sustainability* | 4.4 | 5.9 | **27** |
| *4. Resilience* | 5.3 | 6.1 | **21** |
| **ADJUSTMENT** | 3.0 | 3.7 | **24** |
| *1. External adjustment* | 2.2 | 4.3 | **27** |
| *2. Fiscal adjustment* | 3.3 | 3.7 | **18** |
| *3. Labour cost adjustment* | 1.6 | 2.6 | **23** |
| *4. Reform drive* | 4.8 | 4.2 | **7** |

| FUNDAMENTAL HEALTH | FR | EZ | Score | Rank |
|---|---|---|---|---|
| 1. Growth potential | Value | Value | 5.0 | **21** |
| **1.1 Trend growth 2002-2017** | | | 3.9 | **22** |
| *1.1.1 GVA ex construction, annual change, %* | 0.7 | 1.1 | 3.5 | **24** |
| *1.1.2 Deviation from norm, ppts* | -0.2 | -0.1 | 4.3 | **19** |
| **1.2 Human capital** | | | 5.8 | **5** |
| *1.2.1 Fertility rate, %, 2010-2017* | 2.0 | 1.6 | 8.2 | **2** |
| *1.2.2 Gap immigrant vs native employment rate, ppts* | -18.8 | -11.3 | 3.4 | **24** |
| *1.2.3 PISA score, 2015* | 496 | 496 | 3.2 | **12** |
| **1.3 Employment, 2002-2017** | | | 5.2 | **20** |
| *1.3.1 Employment rate, %* | 64.1 | 64.2 | 4.4 | **14** |
| *1.3.2 Annual change in ER, ppts* | 0.1 | 0.3 | 5.3 | **23** |
| *1.3.3 Youth unemployment rate, %* | 22.1 | 19.8 | 5.0 | **21** |
| *1.3.4 Long-term unemployment, %* | 3.6 | 4.4 | 6.0 | **15** |
| **1.4 Consumption, 2002-2017** | | | 5.4 | **19** |
| *1.4.1 Total consumption, % of GDP* | 78.4 | 76.4 | 5.8 | **19** |
| *1.4.2 Annual change in consumption share, ppts of GDP* | 0.2 | -0.1 | 4.9 | **24** |

| FUNDAMENTAL HEALTH | FR | EZ | Score | Rank |
|---|---|---|---|---|
| 3. Fiscal sustainability | Value | Value | 4.4 | **27** |
| **3.1 Government expenditure, % of GDP, 2002-2017** | 54.9 | 48.0 | 0.3 | **27** |
| **3.2 Structural fiscal balance, 2017** | | | 7.0 | **25** |
| *3.2.1 Structural balance, % of GDP* | -2.4 | -1.0 | 6.6 | **24** |
| *3.2.2 Structural primary balance, % of GDP* | -0.6 | 1.0 | 7.4 | **24** |
| **3.3 Public debt, % of GDP, 2017** | 96.9 | 87.2 | 3.8 | **22** |
| **3.4 Sustainability gap, % of GDP, 2018-2020** | 4.9 | 4.5 | 5.9 | **15** |
| **3.5 Quality of public finances, 2009-2015** | | | 5.1 | **21** |
| *3.5.1 Education/infrastruct. investment, % of public expenditure* | 2.9 | 2.8 | 5.5 | **19** |
| *3.5.2 Consumption, property taxes, % of tax revenue* | 33.0 | 32.9 | 4.8 | **17** |

| ADJUSTMENT | FR | EZ | Score | Rank |
|---|---|---|---|---|
| | Value | Value | 3.0 | **24** |
| **1. External adjustment, H2 2007-H1 2017** | | | 2.2 | **27** |
| *1.1 Change in net exports, ppts of GDP* | -2.3 | 2.1 | 2.3 | **26** |
| *1.2 Change in net exports relative to H2 2007, %* | -8.5 | 5.3 | 0.5 | **27** |
| *1.3 Change in export ratio, ppts of GDP* | 3.5 | 8.7 | 3.8 | **25** |
| **2. Fiscal adjustment 2009-2017** | | | 3.3 | **18** |
| *2.1 Size of fiscal adjustment* | | | 3.9 | **17** |
| *2.1.1 Change in structural primary balance, ppts of GDP* | 3.1 | 2.8 | 3.7 | **16** |
| *2.2 Quality of fiscal adjustment* | | | 2.7 | **27** |
| *2.2.1 Sum of expenditure and tax cuts, % of GDP* | -4.0 | -1.0 | 0.9 | **26** |
| **3. Labour cost adjustment 2009-2017** | | | 1.6 | **23** |
| *3.1 Change in RULC* | | | 1.0 | **22** |
| *3.1.1 Absolute change in RULC, %* | 0.6 | -2.7 | 0.1 | **24** |
| *3.2 Change in NULC* | | | 2.3 | **18** |
| *3.2.1 Absolute change in NULC, %* | 7.8 | 5.7 | 2.0 | **13** |
| **4. Reform drive 2010-2016** | 0.4 | 0.4 | 4.8 | **7** |

| FUNDAMENTAL HEALTH | FR | EZ | Score | Rank |
|---|---|---|---|---|
| 2. Competitiveness | Value | Value | 4.5 | **24** |
| **2.1 Exports, % of GDP, 2002-2017** | 27.1 | 39.8 | 3.1 | **18** |
| **2.2 Annual change in export ratio, ppts of GDP, 2002-2017** | 0.4 | 1.2 | 4.0 | **24** |
| **2.3 Labour costs** | | | 4.2 | **23** |
| *2.3.1 Annual change in RULC, %, 2002-2017* | 0.2 | -0.1 | 4.4 | **21** |
| *2.3.2 Annual change in NULC, %, 2002-2017* | 1.6 | 1.5 | 6.9 | **11** |
| *2.3.3 WEF hiring/firing practices, 2017/2018* | 2.4 | 3.5 | 1.3 | **27** |
| **2.4 Market regulations** | | | 6.8 | **9** |
| *2.4.1 WEF local competition intensity, 2017/2018* | 5.8 | 5.6 | 8.0 | **4** |
| *2.4.2 OECD services trade restrictiveness, 2016* | 0.2 | 0.2 | 2.7 | **14** |
| *2.4.3 Opening new business, days, 2017* | 3.5 | 8.2 | 9.7 | **3** |

| FUNDAMENTAL HEALTH | FR | EZ | Score | Rank |
|---|---|---|---|---|
| 4. Resilience | Value | Value | 5.3 | **21** |
| **4.1 Debt redemptions, % of GDP, 2018-2020** | 27.9 | 25.9 | 3.2 | **25** |
| **4.2 Debt held abroad, % of GDP, 2017** | 54.7 | 44.8 | 3.9 | **22** |
| **4.3 Household savings rate, %, 2017** | 13.7 | 12.0 | 7.7 | **6** |
| **4.4 Current account, % of GDP, 2017** | -3.0 | 3.0 | 4.3 | **25** |
| **4.5 Bank assets, % of GDP, Sep 2017** | 377.3 | 279.0 | 6.1 | **23** |
| **4.6 Private debt, % of GDP, 2016** | 146.9 | 136.9 | 6.3 | **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 28 EU members from 1 (best) to 28 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 103.

## Germany

### Overall assessment

By far the most dynamic among the major mature European economies. Leads in competitiveness and among Top 3 in financial resilience. Rising labour costs imply gradual loss in competitiveness. At risk of becoming complacent. Tax and spending policies need to become more supply-friendly.

### 2017 key developments

Adjustment progress rises from low level

- Less bad score for OECD reform responsiveness
- Fiscal and labour cost adjustment efforts slacken

Fundamental health unchanged at high level

- Export performance still strong, but less so than before
- Labour market strengthening further

### Strengths

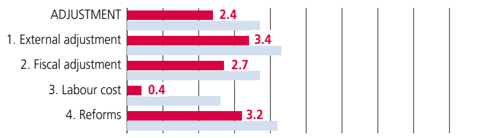
- Most competitive economy
- Stellar employment situation
- Fiscal surplus, falling public debt ratio
- High household savings rate
- Low private debt

### Weaknesses

- Low productive public investment
- Tax system too distortionary
- Risk of further reform reversals
- Below average on integration of immigrants
- Birth rate rising but still very low

**Fundamental Health**


**Adjustment**




## Scores

| OVERALL RESULTS | DE Score | EZ Score | Rank |
|---|---|---|---|
| **FUNDAMENTAL HEALTH** | 7.3 | 5.8 | **4** |
| *1. Growth potential* | 6.3 | 5.2 | **9** |
| *2. Competitiveness* | 8.2 | 6.1 | **1** |
| *3. Fiscal sustainability* | 7.0 | 5.9 | **12** |
| *4. Resilience* | 7.7 | 6.1 | **3** |
| | | | |
| **ADJUSTMENT** | 2.4 | 3.7 | **27** |
| *1. External adjustment* | 3.4 | 4.3 | **23** |
| *2. Fiscal adjustment* | 2.7 | 3.7 | **21** |
| *3. Labour cost adjustment* | 0.4 | 2.6 | **27** |
| *4. Reform drive* | 3.2 | 4.2 | **18** |

| FUNDAMENTAL HEALTH<br>1. Growth potential | DE<br>Value | EZ<br>Value | Score<br>6.3 | Rank<br>9 |
|---|---|---|---|---|
| **1.1 Trend growth 2002-2017** | | | 6.3 | **13** |
| *1.1.1 GVA ex construction, annual change, %* | 1.5 | 1.1 | 5.7 | **13** |
| *1.1.2 Deviation from norm, ppts* | 0.4 | -0.1 | 6.9 | **9** |
| **1.2 Human capital** | | | 3.8 | **16** |
| *1.2.1 Fertility rate, %, 2010-2017* | 1.4 | 1.6 | 3.2 | **22** |
| *1.2.2 Gap immigrant vs native employment rate, ppts* | -13.9 | -11.3 | 3.9 | **22** |
| *1.2.3 PISA score, 2015* | 508 | 496 | 4.8 | **5** |
| **1.3 Employment, 2002-2017** | | | 7.8 | **1** |
| *1.3.1 Employment rate, %* | 70.3 | 64.2 | 7.1 | **5** |
| *1.3.2 Annual change in ER, ppts* | 0.7 | 0.3 | 9.1 | **7** |
| *1.3.3 Youth unemployment rate, %* | 10.0 | 19.8 | 9.0 | **2** |
| *1.3.4 Long-term unemployment, %* | 3.5 | 4.4 | 6.1 | **13** |
| **1.4 Consumption, 2002-2017** | | | 7.4 | **13** |
| *1.4.1 Total consumption, % of GDP* | 74.9 | 76.4 | 7.6 | **10** |
| *1.4.2 Annual change in consumption share, ppts of GDP* | -0.2 | -0.1 | 7.2 | **13** |

| FUNDAMENTAL HEALTH<br>3. Fiscal sustainability | DE<br>Value | EZ<br>Value | Score<br>7.0 | Rank<br>12 |
|---|---|---|---|---|
| **3.1 Government expenditure, % of GDP, 2002-2017** | 45.3 | 48.0 | 6.4 | **13** |
| **3.2 Structural fiscal balance, 2017** | | | 9.6 | **2** |
| *3.2.1 Structural balance, % of GDP* | 0.9 | -1.0 | 9.2 | **2** |
| *3.2.2 Structural primary balance, % of GDP* | 2.1 | 1.0 | 10.0 | **1** |
| **3.3 Public debt, % of GDP, 2017** | 64.8 | 87.2 | 6.1 | **15** |
| **3.4 Sustainability gap, % of GDP, 2018-2020** | 1.0 | 4.5 | 9.1 | **5** |
| **3.5 Quality of public finances, 2009-2015** | | | 3.6 | **25** |
| *3.5.1 Education/infrastruct. investment, % of public expenditure* | 2.2 | 2.8 | 3.3 | **25** |
| *3.5.2 Consumption, property taxes, % of tax revenue* | 31.0 | 32.9 | 4.0 | **21** |

| ADJUSTMENT | DE<br>Value | EZ<br>Value | Score<br>2.4 | Rank<br>27 |
|---|---|---|---|---|
| **1. External adjustment, H2 2007-H1 2017** | | | 3.4 | **23** |
| *1.1 Change in net exports, ppts of GDP* | -0.1 | 2.1 | 3.1 | **22** |
| *1.2 Change in net exports relative to H2 2007, %* | -0.2 | 5.3 | 2.2 | **22** |
| *1.3 Change in export ratio, ppts of GDP* | 7.0 | 8.7 | 5.1 | **20** |
| **2. Fiscal adjustment 2009-2017** | | | 2.7 | **21** |
| *2.1 Size of fiscal adjustment* | | | 2.3 | **20** |
| *2.1.1 Change in structural primary balance, ppts of GDP* | 0.4 | 2.8 | 1.7 | **22** |
| *2.2 Quality of fiscal adjustment* | | | 3.0 | **24** |
| *2.2.1 Sum of expenditure and tax cuts, % of GDP* | -1.8 | -1.0 | 2.9 | **19** |
| **3. Labour cost adjustment 2009-2017** | | | 0.4 | **27** |
| *3.1 Change in RULC* | | | 0.6 | **26** |
| *3.1.1 Absolute change in RULC, %* | -0.6 | -2.7 | 0.9 | **21** |
| *3.2 Change in NULC* | | | 0.2 | **26** |
| *3.2.1 Absolute change in NULC, %* | 11.9 | 5.7 | 0.4 | **16** |
| **4. Reform drive 2010-2016** | 0.3 | 0.4 | 3.2 | **18** |

| FUNDAMENTAL HEALTH<br>2. Competitiveness | DE<br>Value | EZ<br>Value | Score<br>8.2 | Rank<br>1 |
|---|---|---|---|---|
| **2.1 Exports, % of GDP, 2002-2017** | 41.6 | 39.8 | 9.4 | **7** |
| **2.2 Annual change in export ratio, ppts of GDP, 2002-2017** | 1.4 | 1.2 | 8.4 | **13** |
| **2.3 Labour costs** | | | 7.8 | **3** |
| *2.3.1 Annual change in RULC, %, 2002-2017* | -0.2 | -0.1 | 6.5 | **10** |
| *2.3.2 Annual change in NULC, %, 2002-2017* | 1.1 | 1.5 | 8.2 | **4** |
| *2.3.3 WEF hiring/firing practices, 2017/2018* | 4.6 | 3.5 | 8.7 | **3** |
| **2.4 Market regulations** | | | 7.4 | **4** |
| *2.4.1 WEF local competition intensity, 2017/2018* | 5.9 | 5.6 | 8.7 | **2** |
| *2.4.2 OECD services trade restrictiveness, 2016* | 0.2 | 0.2 | 5.4 | **2** |
| *2.4.3 Opening new business, days, 2017* | 10.5 | 8.2 | 8.3 | **14** |

| FUNDAMENTAL HEALTH<br>4. Resilience | DE<br>Value | EZ<br>Value | Score<br>7.7 | Rank<br>3 |
|---|---|---|---|---|
| **4.1 Debt redemptions, % of GDP, 2018-2020** | 22.0 | 25.9 | 4.6 | **21** |
| **4.2 Debt held abroad, % of GDP, 2017** | 33.8 | 44.8 | 6.2 | **15** |
| **4.3 Household savings rate, %, 2017** | 16.6 | 12.0 | 9.3 | **3** |
| **4.4 Current account, % of GDP, 2017** | 7.8 | 3.0 | 9.4 | **4** |
| **4.5 Bank assets, % of GDP, Sep 2017** | 241.2 | 279.0 | 7.9 | **9** |
| **4.6 Private debt, % of GDP, 2016** | 99.3 | 136.9 | 8.6 | **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 28 EU members from 1 (best) to 28 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 103.

## Greece

### Overall assessment
Thanks to its extraordinary adjustment efforts until 2014, Greece is no longer at the bottom of the fundamental health table. But risks remain. Any further confrontation with creditors would be futile as confidence remains fragile. Greece needs to pursue reforms less reluctantly.

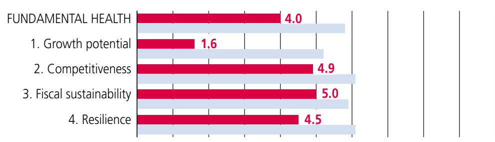
### 2017 key developments
Adjustment progress slips
- Fiscal adjustment score drops in 2017 after exceptionally high score for 2016
- External adjustment score falls as imports rise faster than exports

Fundamental health improves slightly
- Competitiveness and financial resilience improve from low level
- Fiscal sustainability score lower after exceptionally strong 2016

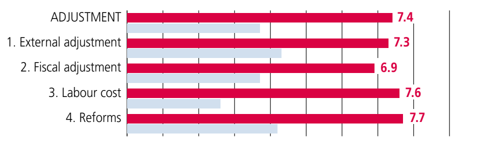
### Strengths
- Top performer in adjustment ranking
- Highest fiscal surplus
- Second in labour cost adjustment
- Low ratio of bank assets/GDP
- Highest ranking in reform drive

### Weaknesses
- Worst public debt ratio
- Worst performer on employment
- Worst score for human capital
- Highest propensity to consume
- Small export sector
- Still highly regulated economy

**Fundamental Health**




**Adjustment**




## Scores

| OVERALL RESULTS | GR Score | EZ Score | Rank |
|---|---|---|---|
| **FUNDAMENTAL HEALTH** | 4.0 | 5.8 | **27** |
| *1. Growth potential* | 1.6 | 5.2 | **28** |
| *2. Competitiveness* | 4.9 | 6.1 | **19** |
| *3. Fiscal sustainability* | 5.0 | 5.9 | **24** |
| *4. Resilience* | 4.5 | 6.1 | **27** |
| | | | |
| **ADJUSTMENT** | 7.4 | 3.7 | **1** |
| *1. External adjustment* | 7.3 | 4.3 | **4** |
| *2. Fiscal adjustment* | 6.9 | 3.7 | **2** |
| *3. Labour cost adjustment* | 7.6 | 2.6 | **2** |
| *4. Reform drive* | 7.7 | 4.2 | **1** |

| FUNDAMENTAL HEALTH<br>1. Growth potential | GR Value | EZ Value | Score 1.6 | Rank 28 |
|---|---|---|---|---|
| **1.1 Trend growth 2002-2017** | | | 0.6 | **27** |
| *1.1.1 GVA ex construction, annual change, %* | -0.1 | 1.1 | 1.2 | **27** |
| *1.1.2 Deviation from norm, ppts* | -2.0 | -0.1 | 0.0 | **25** |
| **1.2 Human capital** | | | 2.4 | **28** |
| *1.2.1 Fertility rate, %, 2010-2017* | 1.4 | 1.6 | 3.2 | **23** |
| *1.2.2 Gap immigrant vs native employment rate, ppts* | -7.4 | -11.3 | 3.2 | **26** |
| *1.2.3 PISA score, 2015* | 459 | 496 | 0.0 | **23** |
| **1.3 Employment, 2002-2017** | | | 1.0 | **28** |
| *1.3.1 Employment rate, %* | 56.1 | 64.2 | 0.9 | **27** |
| *1.3.2 Annual change in ER, ppts* | -0.3 | 0.3 | 2.8 | **28** |
| *1.3.3 Youth unemployment rate, %* | 36.6 | 19.8 | 0.1 | **28** |
| *1.3.4 Long-term unemployment, %* | 9.8 | 4.4 | 0.0 | **28** |
| **1.4 Consumption, 2002-2017** | | | 2.3 | **28** |
| *1.4.1 Total consumption, % of GDP* | 89.4 | 76.4 | 0.3 | **28** |
| *1.4.2 Annual change in consumption share, ppts of GDP* | 0.3 | -0.1 | 4.2 | **25** |

| FUNDAMENTAL HEALTH<br>3. Fiscal sustainability | GR Value | EZ Value | Score 5.0 | Rank 24 |
|---|---|---|---|---|
| **3.1 Government expenditure, % of GDP, 2002-2017** | 50.2 | 48.0 | 1.4 | **25** |
| **3.2 Structural fiscal balance, 2017** | | | 10.0 | **1** |
| *3.2.1 Structural balance, % of GDP* | 2.5 | -1.0 | 10.0 | **1** |
| *3.2.2 Structural primary balance, % of GDP* | 5.7 | 1.0 | 10.0 | **1** |
| **3.3 Public debt, % of GDP, 2017** | 179.5 | 87.2 | 0.0 | **28** |
| **3.4 Sustainability gap, % of GDP, 2018-2020** | 5.3 | 4.5 | 5.6 | **18** |
| **3.5 Quality of public finances, 2009-2015** | | | 7.9 | **4** |
| *3.5.1 Education/infrastruct. investment, % of public expenditure* | 3.9 | 2.8 | 6.0 | **14** |
| *3.5.2 Consumption, property taxes, % of tax revenue* | 45.5 | 32.9 | 9.8 | **2** |

| ADJUSTMENT | GR Value | EZ Value | Score 7.4 | Rank 1 |
|---|---|---|---|---|
| **1. External adjustment, H2 2007-H1 2017** | | | 7.3 | **4** |
| *1.1 Change in net exports, ppts of GDP* | 10.1 | 2.1 | 6.6 | **7** |
| *1.2 Change in net exports relative to H2 2007, %* | 43.0 | 5.3 | 10.0 | **1** |
| *1.3 Change in export ratio, ppts of GDP* | 7.8 | 8.7 | 5.4 | **18** |
| **2. Fiscal adjustment 2009-2017** | | | 6.9 | **2** |
| *2.1 Size of fiscal adjustment* | | | 9.0 | **1** |
| *2.1.1 Change in structural primary balance, ppts of GDP* | 15.5 | 2.8 | 10.0 | **1** |
| *2.2 Quality of fiscal adjustment* | | | 4.9 | **9** |
| *2.2.1 Sum of expenditure and tax cuts, % of GDP* | -3.8 | -1.0 | 1.1 | **24** |
| **3. Labour cost adjustment 2009-2017** | | | 7.6 | **2** |
| *3.1 Change in RULC* | | | 6.1 | **4** |
| *3.1.1 Absolute change in RULC, %* | -7.2 | -2.7 | 5.8 | **8** |
| *3.2 Change in NULC* | | | 9.0 | **1** |
| *3.2.1 Absolute change in NULC, %* | -11.1 | 5.7 | 9.3 | **2** |
| **4. Reform drive 2010-2016** | 0.6 | 0.4 | 7.7 | **1** |

| FUNDAMENTAL HEALTH<br>2. Competitiveness | GR Value | EZ Value | Score 4.9 | Rank 19 |
|---|---|---|---|---|
| **2.1 Exports, % of GDP, 2002-2017** | 24.4 | 39.8 | 0.0 | **24** |
| **2.2 Annual change in export ratio, ppts of GDP, 2002-2017** | 1.0 | 1.2 | 9.8 | **9** |
| **2.3 Labour costs** | | | 5.5 | **17** |
| *2.3.1 Annual change in RULC, %, 2002-2017* | 0.2 | -0.1 | 4.5 | **20** |
| *2.3.2 Annual change in NULC, %, 2002-2017* | 1.5 | 1.5 | 7.1 | **9** |
| *2.3.3 WEF hiring/firing practices, 2017/2018* | 3.5 | 3.5 | 5.0 | **13** |
| **2.4 Market regulations** | | | 4.1 | **22** |
| *2.4.1 WEF local competition intensity, 2017/2018* | 5.1 | 5.6 | 3.3 | **23** |
| *2.4.2 OECD services trade restrictiveness, 2016* | 0.3 | 0.2 | 1.2 | **18** |
| *2.4.3 Opening new business, days, 2017* | 12.5 | 8.2 | 7.9 | **18** |

| FUNDAMENTAL HEALTH<br>4. Resilience | GR Value | EZ Value | Score 4.5 | Rank 27 |
|---|---|---|---|---|
| **4.1 Debt redemptions, % of GDP, 2018-2020** | 16.2 | 25.9 | 6.1 | **12** |
| **4.2 Debt held abroad, % of GDP, 2017** | 146.3 | 44.8 | 0.0 | **27** |
| **4.3 Household savings rate, %, 2017** | -8.4 | 12.0 | 0.0 | **24** |
| **4.4 Current account, % of GDP, 2017** | -0.2 | 3.0 | 5.6 | **19** |
| **4.5 Bank assets, % of GDP, Sep 2017** | 179.4 | 279.0 | 8.0 | **8** |
| **4.6 Private debt, % of GDP, 2016** | 124.7 | 136.9 | 7.4 | **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 28 EU members from 1 (best) to 28 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 103.

## Hungary

### Overall assessment
Fast growing, open and very competitive economy in danger of overheating with double-digit wage growth and the largest labour shortage in the EU. The lowest corporate tax level in the EU. Cuts in payroll and income tax improve competitiveness.

### 2017 key developments
Adjustment progress drops
- Large drops in reform drive and labour cost adjustment
- External adjustment deteriorates but still strong

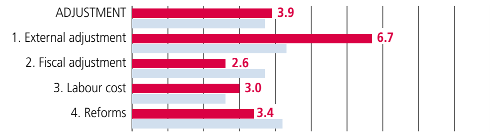
Fundamental health fairly unchanged
- Fiscal sustainability drops sharply as structural deficit rises
- Lower levels of debt redemptions and debt held abroad

### Strengths
- Strong increase in exports
- Easy to hire and fire
- Low gap between native and immigrant employment rate
- High employment growth
- Focus on consumption/property taxes

### Weaknesses
- Low fertility rate and PISA score
- Low employment rate
- Lack of local competition
- Lots of debt redemptions
- Big structural primary deficit and high government expenditure

Fundamental Health


Adjustment




## Scores

| OVERALL RESULTS | HU Score | EZ Score | Rank |
|---|---|---|---|
| **FUNDAMENTAL HEALTH** | 6.2 | 5.8 | **16** |
| *1. Growth potential* | 5.5 | 5.2 | **19** |
| *2. Competitiveness* | 7.3 | 6.1 | **5** |
| *3. Fiscal sustainability* | 5.4 | 5.9 | **19** |
| *4. Resilience* | 6.5 | 6.1 | **12** |
| **ADJUSTMENT** | 3.9 | 3.7 | **18** |
| *1. External adjustment* | 6.7 | 4.3 | **11** |
| *2. Fiscal adjustment* | 2.6 | 3.7 | **24** |
| *3. Labour cost adjustment* | 3.0 | 2.6 | **17** |
| *4. Reform drive* | 3.4 | 4.2 | **16** |

| FUNDAMENTAL HEALTH<br>1. Growth potential | HU Value | EZ Value | Score<br>5.5 | Rank<br>19 |
|---|---|---|---|---|
| **1.1 Trend growth 2002-2017** | | | 4.4 | **20** |
| *1.1.1 GVA ex construction, annual change, %* | 2.4 | 1.1 | 8.3 | **11** |
| *1.1.2 Deviation from norm, ppts* | -1.1 | -0.1 | 0.6 | **23** |
| **1.2 Human capital** | | | 3.3 | **23** |
| *1.2.1 Fertility rate, %, 2010-2017* | 1.3 | 1.6 | 2.8 | **27** |
| *1.2.2 Gap immigrant vs native employment rate, ppts* | -1.1 | -11.3 | 7.1 | **3** |
| *1.2.3 PISA score, 2015* | 475 | 496 | 0.6 | **22** |
| **1.3 Employment, 2002-2017** | | | 6.0 | **14** |
| *1.3.1 Employment rate, %* | 58.7 | 64.2 | 2.0 | **23** |
| *1.3.2 Annual change in ER, ppts* | 0.8 | 0.3 | 10.0 | **1** |
| *1.3.3 Youth unemployment rate, %* | 19.4 | 19.8 | 5.9 | **12** |
| *1.3.4 Long-term unemployment, %* | 3.6 | 4.4 | 6.0 | **14** |
| **1.4 Consumption, 2002-2017** | | | 8.2 | **8** |
| *1.4.1 Total consumption, % of GDP* | 74.9 | 76.4 | 7.5 | **11** |
| *1.4.2 Annual change in consumption share, ppts of GDP* | -0.4 | -0.1 | 9.0 | **6** |

| FUNDAMENTAL HEALTH<br>3. Fiscal sustainability | HU Value | EZ Value | Score<br>5.4 | Rank<br>19 |
|---|---|---|---|---|
| **3.1 Government expenditure, % of GDP, 2002-2017** | 49.4 | 48.0 | 0.0 | **28** |
| **3.2 Structural fiscal balance, 2017** | | | 6.8 | **26** |
| *3.2.1 Structural balance, % of GDP* | -3.2 | -1.0 | 6.0 | **27** |
| *3.2.2 Structural primary balance, % of GDP* | -0.4 | 1.0 | 7.6 | **22** |
| **3.3 Public debt, % of GDP, 2017** | 72.6 | 87.2 | 5.5 | **16** |
| **3.4 Sustainability gap, % of GDP, 2018-2020** | 3.3 | 4.5 | 7.2 | **8** |
| **3.5 Quality of public finances, 2009-2015** | | | 7.4 | **8** |
| *3.5.1 Education/infrastruct. investment, % of public expenditure* | 4.3 | 2.8 | 4.9 | **21** |
| *3.5.2 Consumption, property taxes, % of tax revenue* | 46.2 | 32.9 | 10.0 | **1** |

| ADJUSTMENT | HU Value | EZ Value | Score<br>3.9 | Rank<br>18 |
|---|---|---|---|---|
| **1. External adjustment, H2 2007-H1 2017** | | | 6.7 | **11** |
| *1.1 Change in net exports, ppts of GDP* | 8.1 | 2.1 | 5.9 | **9** |
| *1.2 Change in net exports relative to H2 2007, %* | 10.7 | 5.3 | 4.3 | **14** |
| *1.3 Change in export ratio, ppts of GDP* | 27.2 | 8.7 | 10.0 | **1** |
| **2. Fiscal adjustment 2009-2017** | | | 2.6 | **24** |
| *2.1 Size of fiscal adjustment* | | | 0.0 | **27** |
| *2.1.1 Change in structural primary balance, ppts of GDP* | -2.5 | 2.8 | 0.0 | **27** |
| *2.2 Quality of fiscal adjustment* | | | 5.3 | **7** |
| *2.2.1 Sum of expenditure and tax cuts, % of GDP* | -3.8 | -1.0 | 1.1 | **25** |
| **3. Labour cost adjustment 2009-2017** | | | 3.0 | **17** |
| *3.1 Change in RULC* | | | 3.2 | **17** |
| *3.1.1 Absolute change in RULC, %* | -5.7 | -2.7 | 4.7 | **10** |
| *3.2 Change in NULC* | | | 2.7 | **16** |
| *3.2.1 Absolute change in NULC, %* | 18.6 | 5.7 | 0.0 | **18** |
| **4. Reform drive 2010-2016** | 0.3 | 0.4 | 3.4 | **16** |

| FUNDAMENTAL HEALTH<br>2. Competitiveness | HU Value | EZ Value | Score<br>7.3 | Rank<br>5 |
|---|---|---|---|---|
| **2.1 Exports, % of GDP, 2002-2017** | 76.5 | 39.8 | 9.9 | **2** |
| **2.2 Annual change in export ratio, ppts of GDP, 2002-2017** | 4.4 | 1.2 | 10.0 | **1** |
| **2.3 Labour costs** | | | 6.6 | **9** |
| *2.3.1 Annual change in RULC, %, 2002-2017* | -0.6 | -0.1 | 8.9 | **5** |
| *2.3.2 Annual change in NULC, %, 2002-2017* | 3.1 | 1.5 | 2.7 | **23** |
| *2.3.3 WEF hiring/firing practices, 2017/2018* | 4.5 | 3.5 | 8.3 | **5** |
| **2.4 Market regulations** | | | 2.8 | **27** |
| *2.4.1 WEF local competition intensity, 2017/2018* | 4.2 | 5.6 | 0.0 | **28** |
| *2.4.2 OECD services trade restrictiveness, 2016* | 0.3 | 0.2 | 0.8 | **21** |
| *2.4.3 Opening new business, days, 2017* | 7.0 | 8.2 | 7.5 | **19** |

| FUNDAMENTAL HEALTH<br>4. Resilience | HU Value | EZ Value | Score<br>6.5 | Rank<br>12 |
|---|---|---|---|---|
| **4.1 Debt redemptions, % of GDP, 2018-2020** | 32.9 | 25.9 | 2.0 | **27** |
| **4.2 Debt held abroad, % of GDP, 2017** | 33.4 | 44.8 | 6.3 | **14** |
| **4.3 Household savings rate, %, 2017** | 9.9 | 12.0 | 5.7 | **15** |
| **4.4 Current account, % of GDP, 2017** | 4.3 | 3.0 | 7.8 | **8** |
| **4.5 Bank assets, % of GDP, Sep 2017** | 100.4 | 279.0 | 7.5 | **13** |
| **4.6 Private debt, % of GDP, 2016** | 77.0 | 136.9 | 9.7 | **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 28 EU members from 1 (best) to 28 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 103.

## Ireland

### Overall assessment
Small open, highly competitive and fast expanding economy that has completed an impressive post-crisis adjustment. Combines solid fundamental outlook with the toughest adjustment efforts, second only to Greece. Needs to avoid renewed credit excesses.

### 2017 key developments
Adjustment progress edges up slighty
- Scores for reform drive and labour cost adjustment slightly up
- External adjustment score down a little

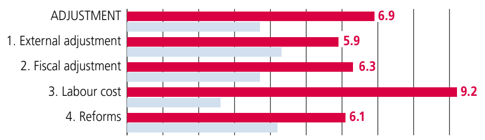
Fundamental health unchanged at comfortable level
- Scores for growth potential, fiscal sutainability and resilience up
- Competitiveness suffers from faster labour cost increases

### Strengths
- Second fastest adjusting economy
- Strongest labour cost adjustment
- Highest fertility rate, high PISA score
- Very high OECD reform drive
- Very deregulated labour and services markets facilitate growth

### Weaknesses
- High public and private sector debt
- Oversized banking system
- Depends on foreign creditors
- Employment trend still weak

**Fundamental Health**


**Adjustment**




## Scores

| OVERALL RESULTS | IE | EZ | |
|---|---|---|---|
| | Score | Score | Rank |
| **FUNDAMENTAL HEALTH** | 6.6 | 5.8 | **9** |
| *1. Growth potential* | 7.4 | 5.2 | **1** |
| *2. Competitiveness* | 7.3 | 6.1 | **6** |
| *3. Fiscal sustainability* | 7.2 | 5.9 | **8** |
| *4. Resilience* | 4.6 | 6.1 | **26** |
| **ADJUSTMENT** | 6.9 | 3.7 | **2** |
| *1. External adjustment* | 5.9 | 4.3 | **15** |
| *2. Fiscal adjustment* | 6.3 | 3.7 | **4** |
| *3. Labour cost adjustment* | 9.2 | 2.6 | **1** |
| *4. Reform drive* | 6.1 | 4.2 | **3** |

| FUNDAMENTAL HEALTH | IE | EZ | Score | Rank |
|---|---|---|---|---|
| 1. Growth potential | Value | Value | 7.4 | 1 |
| **1.1 Trend growth 2002-2017** | | | 7.0 | **10** |
| *1.1.1 GVA ex construction, annual change, %* | 1.5 | 1.1 | 5.7 | **14** |
| *1.1.2 Deviation from norm, ppts* | 0.8 | -0.1 | 8.3 | **5** |
| **1.2 Human capital** | | | 7.2 | **1** |
| *1.2.1 Fertility rate, %, 2010-2017* | 2.0 | 1.6 | 8.4 | **1** |
| *1.2.2 Gap immigrant vs native employment rate, ppts* | -4.5 | -11.3 | 7.3 | **2** |
| *1.2.3 PISA score, 2015* | 509 | 496 | 4.9 | **3** |
| **1.3 Employment, 2002-2017** | | | 5.4 | **17** |
| *1.3.1 Employment rate, %* | 64.1 | 64.2 | 4.4 | **16** |
| *1.3.2 Annual change in ER, ppts* | 0.1 | 0.3 | 5.1 | **24** |
| *1.3.3 Youth unemployment rate, %* | 17.5 | 19.8 | 6.5 | **10** |
| *1.3.4 Long-term unemployment, %* | 4.1 | 4.4 | 5.5 | **17** |
| **1.4 Consumption, 2002-2017** | | | 10.0 | **1** |
| *1.4.1 Total consumption, % of GDP* | 62.4 | 76.4 | 10.0 | **1** |
| *1.4.2 Annual change in consumption share, ppts of GDP* | -0.9 | -0.1 | 10.0 | **1** |

| FUNDAMENTAL HEALTH | IE | EZ | Score | Rank |
|---|---|---|---|---|
| 3. Fiscal sustainability | Value | Value | 7.2 | 8 |
| **3.1 Government expenditure, % of GDP, 2002-2017** | 38.5 | 48.0 | 10.0 | **1** |
| **3.2 Structural fiscal balance, 2017** | | | 8.1 | **17** |
| *3.2.1 Structural balance, % of GDP* | -1.3 | -1.0 | 7.5 | **16** |
| *3.2.2 Structural primary balance, % of GDP* | 0.8 | 1.0 | 8.8 | **16** |
| **3.3 Public debt, % of GDP, 2017** | 90.8 | 87.2 | 4.2 | **21** |
| **3.4 Sustainability gap, % of GDP, 2018-2020** | 4.2 | 4.5 | 6.5 | **14** |
| **3.5 Quality of public finances, 2009-2015** | | | 6.9 | **12** |
| *3.5.1 Education/infrastruct. investment, % of public expenditure* | 2.8 | 2.8 | 6.0 | **15** |
| *3.5.2 Consumption, property taxes, % of tax revenue* | 40.6 | 32.9 | 7.9 | **8** |

| ADJUSTMENT | IE | EZ | Score | Rank |
|---|---|---|---|---|
| | Value | Value | 6.9 | 2 |
| **1. External adjustment, H2 2007-H1 2017** | | | 5.9 | **15** |
| *1.1 Change in net exports, ppts of GDP* | 4.3 | 2.1 | 4.6 | **16** |
| *1.2 Change in net exports relative to H2 2007, %* | 4.7 | 5.3 | 3.1 | **18** |
| *1.3 Change in export ratio, ppts of GDP* | 25.2 | 8.7 | 10.0 | **1** |
| **2. Fiscal adjustment 2009-2017** | | | 6.3 | **4** |
| *2.1 Size of fiscal adjustment* | | | 7.1 | **3** |
| *2.1.1 Change in structural primary balance, ppts of GDP* | 8.2 | 2.8 | 7.3 | **2** |
| *2.2 Quality of fiscal adjustment* | | | 5.5 | **5** |
| *2.2.1 Sum of expenditure and tax cuts, % of GDP* | 14.0 | -1.0 | 10.0 | **1** |
| **3. Labour cost adjustment 2009-2017** | | | 9.2 | **1** |
| *3.1 Change in RULC* | | | 10.0 | **1** |
| *3.1.1 Absolute change in RULC, %* | -16.9 | -2.7 | 10.0 | **1** |
| *3.2 Change in NULC* | | | 8.4 | **2** |
| *3.2.1 Absolute change in NULC, %* | -13.8 | 5.7 | 10.0 | **1** |
| **4. Reform drive 2010-2016** | 0.5 | 0.4 | 6.1 | **3** |

| FUNDAMENTAL HEALTH | IE | EZ | Score | Rank |
|---|---|---|---|---|
| 2. Competitiveness | Value | Value | 7.3 | 6 |
| **2.1 Exports, % of GDP, 2002-2017** | 100.0 | 39.8 | 9.9 | **3** |
| **2.2 Annual change in export ratio, ppts of GDP, 2002-2017** | 1.8 | 1.2 | 4.6 | **23** |
| **2.3 Labour costs** | | | 8.2 | **1** |
| *2.3.1 Annual change in RULC, %, 2002-2017* | -0.3 | -0.1 | 7.5 | **7** |
| *2.3.2 Annual change in NULC, %, 2002-2017* | 0.5 | 1.5 | 10.0 | **1** |
| *2.3.3 WEF hiring/firing practices, 2017/2018* | 4.1 | 3.5 | 7.0 | **7** |
| **2.4 Market regulations** | | | 6.6 | **11** |
| *2.4.1 WEF local competition intensity, 2017/2018* | 5.3 | 5.6 | 4.7 | **18** |
| *2.4.2 OECD services trade restrictiveness, 2016* | 0.2 | 0.2 | 5.3 | **3** |
| *2.4.3 Opening new business, days, 2017* | 5.0 | 8.2 | 9.7 | **4** |

| FUNDAMENTAL HEALTH | IE | EZ | Score | Rank |
|---|---|---|---|---|
| 4. Resilience | Value | Value | 4.6 | 26 |
| **4.1 Debt redemptions, % of GDP, 2018-2020** | 18.4 | 25.9 | 5.5 | **17** |
| **4.2 Debt held abroad, % of GDP, 2017** | 54.1 | 44.8 | 4.0 | **21** |
| **4.3 Household savings rate, %, 2017** | 6.7 | 12.0 | 4.1 | **17** |
| **4.4 Current account, % of GDP, 2017** | 4.0 | 3.0 | 7.6 | **9** |
| **4.5 Bank assets, % of GDP, Sep 2017** | 416.1 | 279.0 | 6.2 | **22** |
| **4.6 Private debt, % of GDP, 2016** | 278.1 | 136.9 | 0.1 | **26** |

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 28 EU members from 1 (best) to 28 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 103.

## Italy

### Overall assessment

A mature economy with many weaknesses and few strengths. Politics has stymied hopes which former Prime Minister Renzi had raised with his labour market reform of early 2015. Needs above-average adjustment efforts to improve its fundamental health. Political uncertainty weighs on confidence.

### 2017 key developments

Adjustment progress score slips
- Reform drive slackens
- Score for labour cost adjustment improves

Fundamental health unchanged at low level
- Fiscal situation turns slightly less sustainable
- Recent growth and human capital improve

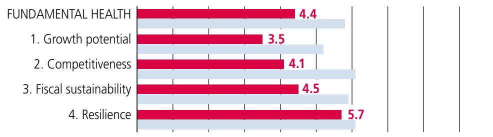
### Strengths

- High primary surplus
- Low private sector indebtedness
- Current account surplus
- Integration of immigrants fairly good

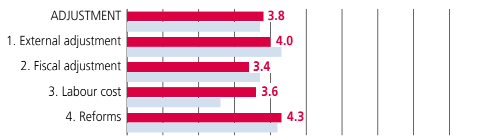
### Weaknesses

- Weak trend growth
- Low productive public investment
- Still highly regulated economy
- Low employment rate
- High public debt ratio
- A lot of public debt matures 2018-20

**Fundamental Health**




**Adjustment**




## Scores

| OVERALL RESULTS | IT Score | EZ Score | Rank |
|---|---|---|---|
| **FUNDAMENTAL HEALTH** | 4.4 | 5.8 | **26** |
| *1. Growth potential* | 3.5 | 5.2 | **26** |
| *2. Competitiveness* | 4.1 | 6.1 | **25** |
| *3. Fiscal sustainability* | 4.5 | 5.9 | **26** |
| *4. Resilience* | 5.7 | 6.1 | **20** |
| **ADJUSTMENT** | 3.8 | 3.7 | **20** |
| *1. External adjustment* | 4.0 | 4.3 | **20** |
| *2. Fiscal adjustment* | 3.4 | 3.7 | **17** |
| *3. Labour cost adjustment* | 3.6 | 2.6 | **13** |
| *4. Reform drive* | 4.3 | 4.2 | **10** |

| FUNDAMENTAL HEALTH<br>1. Growth potential | IT Value | EZ Value | Score<br>3.5 | Rank<br>**26** |
|---|---|---|---|---|
| **1.1 Trend growth 2002-2017** | | | 1.3 | **25** |
| *1.1.1 GVA ex construction, annual change, %* | 0.2 | 1.1 | 1.9 | **25** |
| *1.1.2 Deviation from norm, ppts* | -1.0 | -0.1 | 0.8 | **22** |
| **1.2 Human capital** | | | 3.7 | **17** |
| *1.2.1 Fertility rate, %, 2010-2017* | 1.4 | 1.6 | 3.6 | **20** |
| *1.2.2 Gap immigrant vs native employment rate, ppts* | -4.8 | -11.3 | 5.7 | **12** |
| *1.2.3 PISA score, 2015* | 485 | 496 | 1.9 | **18** |
| **1.3 Employment, 2002-2017** | | | 3.5 | **25** |
| *1.3.1 Employment rate, %* | 57.0 | 64.2 | 1.3 | **26** |
| *1.3.2 Annual change in ER, ppts* | 0.2 | 0.3 | 5.7 | **19** |
| *1.3.3 Youth unemployment rate, %* | 29.5 | 19.8 | 2.5 | **25** |
| *1.3.4 Long-term unemployment, %* | 5.0 | 4.4 | 4.5 | **21** |
| **1.4 Consumption, 2002-2017** | | | 5.4 | **20** |
| *1.4.1 Total consumption, % of GDP* | 79.8 | 76.4 | 5.1 | **21** |
| *1.4.2 Annual change in consumption share, ppts of GDP* | 0.1 | -0.1 | 5.6 | **22** |

| FUNDAMENTAL HEALTH<br>3. Fiscal sustainability | IT Value | EZ Value | Score<br>4.5 | Rank<br>**26** |
|---|---|---|---|---|
| **3.1 Government expenditure, % of GDP, 2002-2017** | 48.9 | 48.0 | 3.6 | **16** |
| **3.2 Structural fiscal balance, 2017** | | | 8.3 | **14** |
| *3.2.1 Structural balance, % of GDP* | -2.1 | -1.0 | 6.8 | **23** |
| *3.2.2 Structural primary balance, % of GDP* | 1.7 | 1.0 | 9.7 | **7** |
| **3.3 Public debt, % of GDP, 2017** | 132.1 | 87.2 | 1.3 | **27** |
| **3.4 Sustainability gap, % of GDP, 2018-2020** | 5.0 | 4.5 | 5.9 | **16** |
| **3.5 Quality of public finances, 2009-2015** | | | 3.4 | **26** |
| *3.5.1 Education/infrastruct. investment, % of public expenditure* | 2.2 | 2.8 | 2.2 | **26** |
| *3.5.2 Consumption, property taxes, % of tax revenue* | 32.3 | 32.9 | 4.5 | **18** |

| ADJUSTMENT | IT Value | EZ Value | Score<br>3.8 | Rank<br>**20** |
|---|---|---|---|---|
| **1. External adjustment, H2 2007-H1 2017** | | | 4.0 | **20** |
| *1.1 Change in net exports, ppts of GDP* | 2.4 | 2.1 | 3.9 | **19** |
| *1.2 Change in net exports relative to H2 2007, %* | 9.0 | 5.3 | 4.0 | **15** |
| *1.3 Change in export ratio, ppts of GDP* | 4.3 | 8.7 | 4.1 | **23** |
| **2. Fiscal adjustment 2009-2017** | | | 3.4 | **17** |
| *2.1 Size of fiscal adjustment* | | | 2.5 | **19** |
| *2.1.1 Change in structural primary balance, ppts of GDP* | 1.5 | 2.8 | 2.5 | **19** |
| *2.2 Quality of fiscal adjustment* | | | 4.3 | **15** |
| *2.2.1 Sum of expenditure and tax cuts, % of GDP* | -1.5 | -1.0 | 3.2 | **18** |
| **3. Labour cost adjustment 2009-2017** | | | 3.6 | **13** |
| *3.1 Change in RULC* | | | 3.3 | **16** |
| *3.1.1 Absolute change in RULC, %* | -2.5 | -2.7 | 2.3 | **19** |
| *3.2 Change in NULC* | | | 3.9 | **11** |
| *3.2.1 Absolute change in NULC, %* | 5.1 | 5.7 | 3.0 | **9** |
| **4. Reform drive 2010-2016** | 0.4 | 0.4 | 4.3 | **10** |

| FUNDAMENTAL HEALTH<br>2. Competitiveness | IT Value | EZ Value | Score<br>4.1 | Rank<br>**25** |
|---|---|---|---|---|
| **2.1 Exports, % of GDP, 2002-2017** | 26.6 | 39.8 | 2.5 | **19** |
| **2.2 Annual change in export ratio, ppts of GDP, 2002-2017** | 0.7 | 1.2 | 5.9 | **17** |
| **2.3 Labour costs** | | | 4.1 | **24** |
| *2.3.1 Annual change in RULC, %, 2002-2017* | 0.3 | -0.1 | 4.0 | **23** |
| *2.3.2 Annual change in NULC, %, 2002-2017* | 2.0 | 1.5 | 5.7 | **18** |
| *2.3.3 WEF hiring/firing practices, 2017/2018* | 2.8 | 3.5 | 2.7 | **25** |
| **2.4 Market regulations** | | | 3.8 | **24** |
| *2.4.1 WEF local competition intensity, 2017/2018* | 5.2 | 5.6 | 4.0 | **22** |
| *2.4.2 OECD services trade restrictiveness, 2016* | 0.2 | 0.2 | 2.8 | **12** |
| *2.4.3 Opening new business, days, 2017* | 6.5 | 8.2 | 4.6 | **27** |

| FUNDAMENTAL HEALTH<br>4. Resilience | IT Value | EZ Value | Score<br>5.7 | Rank<br>**20** |
|---|---|---|---|---|
| **4.1 Debt redemptions, % of GDP, 2018-2020** | 39.0 | 25.9 | 0.5 | **28** |
| **4.2 Debt held abroad, % of GDP, 2017** | 42.3 | 44.8 | 5.3 | **17** |
| **4.3 Household savings rate, %, 2017** | 10.1 | 12.0 | 5.8 | **13** |
| **4.4 Current account, % of GDP, 2017** | 2.5 | 3.0 | 6.9 | **12** |
| **4.5 Bank assets, % of GDP, Sep 2017** | 227.4 | 279.0 | 7.8 | **11** |
| **4.6 Private debt, % of GDP, 2016** | 113.6 | 136.9 | 7.9 | **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 28 EU members from 1 (best) to 28 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 103.

## Latvia

### Overall assessment
Dynamic Baltic growth star. Escaped from its 2007 crisis by taking the tough medicine of an adjustment programme. A boost in exports led to a bounce-back. Not as strong as neigbouring Estonia on fundamental health scores, it remains above Estonia in the adjustment progress table.

### 2017 key developments
Adjustment progress score slightly down
- Lower scores across the board (external, fiscal, labour cost adjustment)

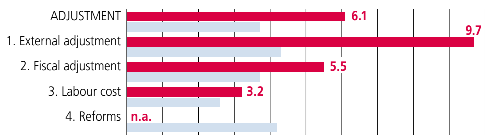
Fundamental health slips
- Slightly lower scores for competitiveness and fiscal sutainability
- Growth potential and financial resilience unchanged

### Strengths
- Fastest external adjustment
- Small government, low debt
- Highest trend growth
- Low private debt
- Tax/spending policies well targeted

### Weaknesses
- Strong uptrend in labour costs
- Current account deficit
- Very low household savings rate
- High propensity to consume
- Structural deficit

**Fundamental Health**


**Adjustment**




## Scores

| OVERALL RESULTS | LV Score | EZ Score | Rank |
|---|---|---|---|
| **FUNDAMENTAL HEALTH** | 6.4 | 5.8 | **14** |
| *1. Growth potential* | 6.2 | 5.2 | **11** |
| *2. Competitiveness* | 4.9 | 6.1 | **20** |
| *3. Fiscal sustainability* | 8.1 | 5.9 | **3** |
| *4. Resilience* | 6.3 | 6.1 | **17** |
| **ADJUSTMENT** | 6.1 | 3.7 | **3** |
| *1. External adjustment* | 9.7 | 4.3 | **1** |
| *2. Fiscal adjustment* | 5.5 | 3.7 | **10** |
| *3. Labour cost adjustment* | 3.2 | 2.6 | **15** |
| *4. Reform drive* | n.a. | 4.2 | **n.a.** |

| FUNDAMENTAL HEALTH | LV | EZ | Score | Rank |
|---|---|---|---|---|
| 1. Growth potential | Value | Value | 6.2 | 11 |
| **1.1 Trend growth 2002-2017** | | | 9.2 | **3** |
| *1.1.1 GVA ex construction, annual change, %* | 4.9 | 1.1 | 10.0 | **1** |
| *1.1.2 Deviation from norm, ppts* | 0.8 | -0.1 | 8.5 | **4** |
| **1.2 Human capital** | | | 4.1 | **13** |
| *1.2.1 Fertility rate, %, 2010-2017* | 1.5 | 1.6 | 4.1 | **15** |
| *1.2.2 Gap immigrant vs native employment rate, ppts* | -5.6 | -11.3 | 6.2 | **6** |
| *1.2.3 PISA score, 2015* | 487 | 496 | 2.1 | **17** |
| **1.3 Employment, 2002-2017** | | | 5.8 | **15** |
| *1.3.1 Employment rate, %* | 64.1 | 64.2 | 4.4 | **15** |
| *1.3.2 Annual change in ER, ppts* | 0.6 | 0.3 | 8.9 | **9** |
| *1.3.3 Youth unemployment rate, %* | 20.8 | 19.8 | 5.4 | **18** |
| *1.3.4 Long-term unemployment, %* | 4.9 | 4.4 | 4.6 | **20** |
| **1.4 Consumption, 2002-2017** | | | 5.7 | **18** |
| *1.4.1 Total consumption, % of GDP* | 79.9 | 76.4 | 5.1 | **22** |
| *1.4.2 Annual change in consumption share, ppts of GDP* | 0.0 | -0.1 | 6.4 | **18** |

| FUNDAMENTAL HEALTH | LV | EZ | Score | Rank |
|---|---|---|---|---|
| 3. Fiscal sustainability | Value | Value | 8.1 | 3 |
| **3.1 Government expenditure, % of GDP, 2002-2017** | 37.6 | 48.0 | 7.5 | **8** |
| **3.2 Structural fiscal balance, 2017** | | | 7.1 | **24** |
| *3.2.1 Structural balance, % of GDP* | -1.8 | -1.0 | 7.1 | **20** |
| *3.2.2 Structural primary balance, % of GDP* | -0.8 | 1.0 | 7.2 | **26** |
| **3.3 Public debt, % of GDP, 2017** | 39.0 | 87.2 | 7.9 | **7** |
| **3.4 Sustainability gap, % of GDP, 2018-2020** | -1.2 | 4.5 | 10.0 | **1** |
| **3.5 Quality of public finances, 2009-2015** | | | 8.1 | **3** |
| *3.5.1 Education/infrastruct. investment, % of public expenditure* | 6.2 | 2.8 | 7.2 | **8** |
| *3.5.2 Consumption, property taxes, % of tax revenue* | 43.3 | 32.9 | 8.9 | **4** |

| ADJUSTMENT | LV | EZ | Score | Rank |
|---|---|---|---|---|
| | Value | Value | 6.1 | 3 |
| **1. External adjustment, H2 2007-H1 2017** | | | 9.7 | **1** |
| *1.1 Change in net exports, ppts of GDP* | 17.1 | 2.1 | 9.0 | **2** |
| *1.2 Change in net exports relative to H2 2007, %* | 40.3 | 5.3 | 10.0 | **1** |
| *1.3 Change in export ratio, ppts of GDP* | 20.1 | 8.7 | 10.0 | **1** |
| **2. Fiscal adjustment 2009-2017** | | | 5.5 | **10** |
| *2.1 Size of fiscal adjustment* | | | 6.7 | **6** |
| *2.1.1 Change in structural primary balance, ppts of GDP* | 2.8 | 2.8 | 3.4 | **18** |
| *2.2 Quality of fiscal adjustment* | | | 4.2 | **16** |
| *2.2.1 Sum of expenditure and tax cuts, % of GDP* | -2.4 | -1.0 | 2.4 | **20** |
| **3. Labour cost adjustment 2009-2017** | | | 3.2 | **15** |
| *3.1 Change in RULC* | | | 1.4 | **21** |
| *3.1.1 Absolute change in RULC, %* | 3.6 | -2.7 | 0.0 | **25** |
| *3.2 Change in NULC* | | | 5.0 | **7** |
| *3.2.1 Absolute change in NULC, %* | 20.2 | 5.7 | 0.0 | **18** |
| **4. Reform drive 2010-2016** | n.a. | 0.4 | n.a. | **n.a.** |

| FUNDAMENTAL HEALTH | LV | EZ | Score | Rank |
|---|---|---|---|---|
| 2. Competitiveness | Value | Value | 4.9 | 20 |
| **2.1 Exports, % of GDP, 2002-2017** | 50.2 | 39.8 | 0.3 | **23** |
| **2.2 Annual change in export ratio, ppts of GDP, 2002-2017** | 2.0 | 1.2 | 9.7 | **10** |
| **2.3 Labour costs** | | | 1.8 | **28** |
| *2.3.1 Annual change in RULC, %, 2002-2017* | 0.9 | -0.1 | 0.3 | **28** |
| *2.3.2 Annual change in NULC, %, 2002-2017* | 5.6 | 1.5 | 0.0 | **25** |
| *2.3.3 WEF hiring/firing practices, 2017/2018* | 3.5 | 3.5 | 5.0 | **13** |
| **2.4 Market regulations** | | | 7.6 | **3** |
| *2.4.1 WEF local competition intensity, 2017/2018* | 5.5 | 5.6 | 6.0 | **10** |
| *2.4.2 OECD services trade restrictiveness, 2016* | 0.1 | 0.2 | 7.7 | **1** |
| *2.4.3 Opening new business, days, 2017* | 5.5 | 8.2 | 9.0 | **9** |

| FUNDAMENTAL HEALTH | LV | EZ | Score | Rank |
|---|---|---|---|---|
| 4. Resilience | Value | Value | 6.3 | 17 |
| **4.1 Debt redemptions, % of GDP, 2018-2020** | 10.4 | 25.9 | 7.5 | **6** |
| **4.2 Debt held abroad, % of GDP, 2017** | 29.2 | 44.8 | 6.8 | **11** |
| **4.3 Household savings rate, %, 2017** | 3.7 | 12.0 | 2.5 | **22** |
| **4.4 Current account, % of GDP, 2017** | -1.4 | 3.0 | 5.0 | **24** |
| **4.5 Bank assets, % of GDP, Sep 2017** | 104.3 | 279.0 | 7.1 | **17** |
| **4.6 Private debt, % of GDP, 2016** | 88.3 | 136.9 | 9.1 | **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 28 EU members from 1 (best) to 28 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 103.

## Lithuania

### Overall assessment
The last Baltic state to join the eurozone. Between Estonia and Latvia in terms of fundamental health and adjustment progress. Having successfully concluded its post-bubble correction, it made sense to relax the reins since 2014. But Lithuania has to avoid a relapse into the excesses of the past.

### 2017 key developments
Adjustment progress score suffers the most in the sample
- Lower scores across the board, especially for external adjustment

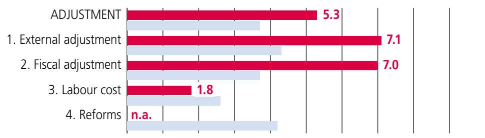
Fundamental health falls modestly
- Fiscal sustainability score down
- Financial resilience lower

### Strengths
- Strong trend growth
- Biggest gains in export ratio since 2002
- Low private debt
- Low bank assets
- Low public expenditure and debt
- High productive public investment

### Weaknesses
- Strong labour cost increases
- High public and private consumption
- Very low household savings rate
- Current account deficit
- Low PISA score

**Fundamental Health**


**Adjustment**




## Scores

| OVERALL RESULTS | LT Score | EZ Score | Rank |
|---|---|---|---|
| **FUNDAMENTAL HEALTH** | 6.6 | 5.8 | **8** |
| *1. Growth potential* | 6.1 | 5.2 | **13** |
| *2. Competitiveness* | 6.5 | 6.1 | **11** |
| *3. Fiscal sustainability* | 7.7 | 5.9 | **5** |
| *4. Resilience* | 6.4 | 6.1 | **16** |
| **ADJUSTMENT** | 5.3 | 3.7 | **8** |
| *1. External adjustment* | 7.1 | 4.3 | **6** |
| *2. Fiscal adjustment* | 7.0 | 3.7 | **1** |
| *3. Labour cost adjustment* | 1.8 | 2.6 | **21** |
| *4. Reform drive* | n.a. | 4.2 | **n.a.** |

| FUNDAMENTAL HEALTH<br>1. Growth potential | LT Value | EZ Value | Score<br>6.1 | Rank<br>13 |
|---|---|---|---|---|
| **1.1 Trend growth 2002-2017** | | | 10.0 | **2** |
| *1.1.1 GVA ex construction, annual change, %* | 5.1 | 1.1 | 10.0 | **1** |
| *1.1.2 Deviation from norm, ppts* | 1.2 | -0.1 | 9.9 | **2** |
| **1.2 Human capital** | | | 3.5 | **19** |
| *1.2.1 Fertility rate, %, 2010-2017* | 1.5 | 1.6 | 4.3 | **13** |
| *1.2.2 Gap immigrant vs native employment rate, ppts* | -3.9 | -11.3 | 4.9 | **16** |
| *1.2.3 PISA score, 2015* | 475 | 496 | 0.6 | **21** |
| **1.3 Employment, 2002-2017** | | | 6.0 | **13** |
| *1.3.1 Employment rate, %* | 63.4 | 64.2 | 4.1 | **17** |
| *1.3.2 Annual change in ER, ppts* | 0.7 | 0.3 | 9.5 | **6** |
| *1.3.3 Youth unemployment rate, %* | 20.5 | 19.8 | 5.5 | **15** |
| *1.3.4 Long-term unemployment, %* | 4.6 | 4.4 | 4.9 | **19** |
| **1.4 Consumption, 2002-2017** | | | 4.8 | **23** |
| *1.4.1 Total consumption, % of GDP* | 84.2 | 76.4 | 2.9 | **25** |
| *1.4.2 Annual change in consumption share, ppts of GDP* | -0.1 | -0.1 | 6.7 | **16** |

| FUNDAMENTAL HEALTH<br>3. Fiscal sustainability | LT Value | EZ Value | Score<br>7.7 | Rank<br>5 |
|---|---|---|---|---|
| **3.1 Government expenditure, % of GDP, 2002-2017** | 36.4 | 48.0 | 8.4 | **5** |
| **3.2 Structural fiscal balance, 2017** | | | 8.0 | **18** |
| *3.2.1 Structural balance, % of GDP* | -0.9 | -1.0 | 7.7 | **13** |
| *3.2.2 Structural primary balance, % of GDP* | 0.2 | 1.0 | 8.2 | **18** |
| **3.3 Public debt, % of GDP, 2017** | 41.5 | 87.2 | 7.8 | **9** |
| **3.4 Sustainability gap, % of GDP, 2018-2020** | 3.8 | 4.5 | 6.9 | **12** |
| **3.5 Quality of public finances, 2009-2015** | | | 7.3 | **9** |
| *3.5.1 Education/infrastruct. investment, % of public expenditure* | 6.2 | 2.8 | 7.3 | **7** |
| *3.5.2 Consumption, property taxes, % of tax revenue* | n.a. | 32.9 | n.a. | **n.a.** |

| ADJUSTMENT | LT Value | EZ Value | Score<br>5.3 | Rank<br>8 |
|---|---|---|---|---|
| **1. External adjustment, H2 2007-H1 2017** | | | 7.1 | **6** |
| *1.1 Change in net exports, ppts of GDP* | 8.0 | 2.1 | 5.9 | **10** |
| *1.2 Change in net exports relative to H2 2007, %* | 16.2 | 5.3 | 5.4 | **9** |
| *1.3 Change in export ratio, ppts of GDP* | 34.7 | 8.7 | 10.0 | **1** |
| **2. Fiscal adjustment 2009-2017** | | | 7.0 | **1** |
| *2.1 Size of fiscal adjustment* | | | 5.9 | **11** |
| *2.1.1 Change in structural primary balance, ppts of GDP* | 5.6 | 2.8 | 5.4 | **9** |
| *2.2 Quality of fiscal adjustment* | | | 8.1 | **1** |
| *2.2.1 Sum of expenditure and tax cuts, % of GDP* | 6.8 | -1.0 | 10.0 | **1** |
| **3. Labour cost adjustment 2009-2017** | | | 1.8 | **21** |
| *3.1 Change in RULC* | | | 1.7 | **20** |
| *3.1.1 Absolute change in RULC, %* | -0.6 | -2.7 | 0.9 | **22** |
| *3.2 Change in NULC* | | | 1.8 | **21** |
| *3.2.1 Absolute change in NULC, %* | 18.0 | 5.7 | 0.0 | **18** |
| **4. Reform drive 2010-2016** | n.a. | 0.4 | n.a. | **n.a.** |

| FUNDAMENTAL HEALTH<br>2. Competitiveness | LT Value | EZ Value | Score<br>6.5 | Rank<br>11 |
|---|---|---|---|---|
| **2.1 Exports, % of GDP, 2002-2017** | 63.9 | 39.8 | 5.3 | **12** |
| **2.2 Annual change in export ratio, ppts of GDP, 2002-2017** | 2.9 | 1.2 | 10.0 | **1** |
| **2.3 Labour costs** | | | 3.1 | **26** |
| *2.3.1 Annual change in RULC, %, 2002-2017* | 0.4 | -0.1 | 3.4 | **24** |
| *2.3.2 Annual change in NULC, %, 2002-2017* | 3.4 | 1.5 | 1.8 | **24** |
| *2.3.3 WEF hiring/firing practices, 2017/2018* | 3.2 | 3.5 | 4.0 | **19** |
| **2.4 Market regulations** | | | 7.7 | **1** |
| *2.4.1 WEF local competition intensity, 2017/2018* | 5.5 | 5.6 | 6.0 | **10** |
| *2.4.2 OECD services trade restrictiveness, 2016* | n.a. | 0.2 | n.a. | **n.a.** |
| *2.4.3 Opening new business, days, 2017* | 5.5 | 8.2 | 9.5 | **6** |

| FUNDAMENTAL HEALTH<br>4. Resilience | LT Value | EZ Value | Score<br>6.4 | Rank<br>16 |
|---|---|---|---|---|
| **4.1 Debt redemptions, % of GDP, 2018-2020** | 12.7 | 25.9 | 6.9 | **7** |
| **4.2 Debt held abroad, % of GDP, 2017** | 34.1 | 44.8 | 6.2 | **16** |
| **4.3 Household savings rate, %, 2017** | -1.9 | 12.0 | 0.0 | **24** |
| **4.4 Current account, % of GDP, 2017** | -0.7 | 3.0 | 5.4 | **21** |
| **4.5 Bank assets, % of GDP, Sep 2017** | 67.0 | 279.0 | 9.6 | **2** |
| **4.6 Private debt, % of GDP, 2016** | 56.2 | 136.9 | 10.0 | **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 28 EU members from 1 (best) to 28 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 103.

## Luxembourg

### Overall assessment

A small open economy that attains its top place in the eurozone for GDP per capita due to its outward orientation and its position as a financial centre. Luxembourg can apparently afford a high degree of regulation in many markets.

### 2017 key developments

Adjustment progress falls
- Fiscal adjustment score drops, labour cost adjustment also lower
- Reform drive slightly higher, but still at very low level

Fundamental health lower
- Lower fiscal sustainability score, but still the highest
- Lower financial resilience

### Strengths

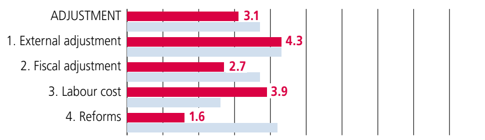
- Highest export ratio
- Most comfortable fiscal position
- Highest household savings rate
- Tax and spend policies well targeted
- High current account surplus

### Weaknesses

- Extremely high private sector debt
- Vulnerable to financial shocks
- Highly regulated product and services markets
- Strong rise in nominal unit labour costs weighs on competitiveness

**Fundamental Health**


**Adjustment**




## Scores

| OVERALL RESULTS | LU | EZ | |
|---|---|---|---|
| | Score | Score | Rank |
| **FUNDAMENTAL HEALTH** | 7.2 | 5.8 | **5** |
| *1. Growth potential* | 6.7 | 5.2 | **7** |
| *2. Competitiveness* | 6.6 | 6.1 | **10** |
| *3. Fiscal sustainability* | 8.9 | 5.9 | **1** |
| *4. Resilience* | 6.7 | 6.1 | **11** |
| | | | |
| **ADJUSTMENT** | 3.1 | 3.7 | **23** |
| *1. External adjustment* | 4.3 | 4.3 | **19** |
| *2. Fiscal adjustment* | 2.7 | 3.7 | **23** |
| *3. Labour cost adjustment* | 3.9 | 2.6 | **11** |
| *4. Reform drive* | 1.6 | 4.2 | **21** |

| FUNDAMENTAL HEALTH | LU | EZ | Score | Rank |
|---|---|---|---|---|
| 1. Growth potential | Value | Value | 6.7 | 7 |
| **1.1 Trend growth 2002-2017** | | | n.a. | **n.a.** |
| *1.1.1 GVA ex construction, annual change, %* | n.a. | 1.1 | n.a. | **n.a.** |
| *1.1.2 Deviation from norm, ppts* | n.a. | -0.1 | n.a. | **n.a.** |
| **1.2 Human capital** | | | 4.3 | **10** |
| *1.2.1 Fertility rate, %, 2010-2017* | 1.6 | 1.6 | 4.9 | **10** |
| *1.2.2 Gap immigrant vs native employment rate, ppts* | -7.7 | -11.3 | 5.8 | **10** |
| *1.2.3 PISA score, 2015* | 483 | 496 | 1.7 | **19** |
| **1.3 Employment, 2002-2017** | | | 6.5 | **10** |
| *1.3.1 Employment rate, %* | 64.6 | 64.2 | 4.6 | **13** |
| *1.3.2 Annual change in ER, ppts* | 0.2 | 0.3 | 6.2 | **15** |
| *1.3.3 Youth unemployment rate, %* | 16.0 | 19.8 | 7.0 | **9** |
| *1.3.4 Long-term unemployment, %* | 1.5 | 4.4 | 8.4 | **4** |
| **1.4 Consumption, 2002-2017** | | | 9.1 | **4** |
| *1.4.1 Total consumption, % of GDP* | 49.4 | 76.4 | 10.0 | **1** |
| *1.4.2 Annual change in consumption share, ppts of GDP* | -0.3 | -0.1 | 8.3 | **8** |

| FUNDAMENTAL HEALTH | LU | EZ | Score | Rank |
|---|---|---|---|---|
| 3. Fiscal sustainability | Value | Value | 8.9 | 1 |
| **3.1 Government expenditure, % of GDP, 2002-2017** | 42.4 | 48.0 | 10.0 | **1** |
| **3.2 Structural fiscal balance, 2017** | | | 8.9 | **8** |
| *3.2.1 Structural balance, % of GDP* | 0.6 | -1.0 | 8.9 | **5** |
| *3.2.2 Structural primary balance, % of GDP* | 0.9 | 1.0 | 8.9 | **15** |
| **3.3 Public debt, % of GDP, 2017** | 23.7 | 87.2 | 9.0 | **2** |
| **3.4 Sustainability gap, % of GDP, 2018-2020** | n.a. | 4.5 | n.a. | **n.a.** |
| **3.5 Quality of public finances, 2009-2015** | | | 7.8 | **6** |
| *3.5.1 Education/infrastruct. investment, % of public expenditure* | 5.1 | 2.8 | 10.0 | **1** |
| *3.5.2 Consumption, property taxes, % of tax revenue* | 35.1 | 32.9 | 5.6 | **13** |

| ADJUSTMENT | LU | EZ | Score | Rank |
|---|---|---|---|---|
| | Value | Value | 3.1 | 23 |
| **1. External adjustment, H2 2007-H1 2017** | | | 4.3 | **19** |
| *1.1 Change in net exports, ppts of GDP* | -5.1 | 2.1 | 1.3 | **28** |
| *1.2 Change in net exports relative to H2 2007, %* | -3.0 | 5.3 | 1.6 | **24** |
| *1.3 Change in export ratio, ppts of GDP* | 36.9 | 8.7 | 10.0 | **1** |
| **2. Fiscal adjustment 2009-2017** | | | 2.7 | **23** |
| *2.1 Size of fiscal adjustment* | | | 0.3 | **24** |
| *2.1.1 Change in structural primary balance, ppts of GDP* | -1.2 | 2.8 | 0.6 | **24** |
| *2.2 Quality of fiscal adjustment* | | | 5.0 | **8** |
| *2.2.1 Sum of expenditure and tax cuts, % of GDP* | 2.2 | -1.0 | 6.5 | **9** |
| **3. Labour cost adjustment 2009-2017** | | | 3.9 | **11** |
| *3.1 Change in RULC* | | | 5.1 | **7** |
| *3.1.1 Absolute change in RULC, %* | -4.8 | -2.7 | 4.0 | **12** |
| *3.2 Change in NULC* | | | 2.7 | **15** |
| *3.2.1 Absolute change in NULC, %* | 12.0 | 5.7 | 0.4 | **17** |
| **4. Reform drive 2010-2016** | 0.1 | 0.4 | 1.6 | **21** |

| FUNDAMENTAL HEALTH | LU | EZ | Score | Rank |
|---|---|---|---|---|
| 2. Competitiveness | Value | Value | 6.6 | 10 |
| **2.1 Exports, % of GDP, 2002-2017** | 176.0 | 39.8 | 10.0 | **1** |
| **2.2 Annual change in export ratio, ppts of GDP, 2002-2017** | 5.0 | 1.2 | 6.7 | **15** |
| **2.3 Labour costs** | | | 5.1 | **19** |
| *2.3.1 Annual change in RULC, %, 2002-2017* | 0.0 | -0.1 | 5.7 | **15** |
| *2.3.2 Annual change in NULC, %, 2002-2017* | 2.6 | 1.5 | 4.0 | **22** |
| *2.3.3 WEF hiring/firing practices, 2017/2018* | 3.7 | 3.5 | 5.7 | **11** |
| **2.4 Market regulations** | | | 4.7 | **20** |
| *2.4.1 WEF local competition intensity, 2017/2018* | 5.3 | 5.6 | 4.7 | **18** |
| *2.4.2 OECD services trade restrictiveness, 2016* | 0.2 | 0.2 | 1.9 | **17** |
| *2.4.3 Opening new business, days, 2017* | 16.5 | 8.2 | 7.4 | **20** |

| FUNDAMENTAL HEALTH | LU | EZ | Score | Rank |
|---|---|---|---|---|
| 4. Resilience | Value | Value | 6.7 | 11 |
| **4.1 Debt redemptions, % of GDP, 2018-2020** | 4.0 | 25.9 | 9.0 | **3** |
| **4.2 Debt held abroad, % of GDP, 2017** | 12.9 | 44.8 | 8.6 | **4** |
| **4.3 Household savings rate, %, 2017** | 19.7 | 12.0 | 10.0 | **1** |
| **4.4 Current account, % of GDP, 2017** | 4.6 | 3.0 | 7.9 | **7** |
| **4.5 Bank assets, % of GDP, Sep 2017** | 1894.5 | 279.0 | 4.8 | **26** |
| **4.6 Private debt, % of GDP, 2016** | 343.6 | 136.9 | 0.0 | **27** |

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 28 EU members from 1 (best) to 28 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 103.

## Malta

### Overall assessment
Small open economy which has turned into the growth star lately after suffering similar problems as other peripheral economies. Malta's fundamental health has moved into the Top 3. The economy is very competitive, but is held back by low human capital scores.

### 2017 key developments
Adjustment progress improves strongly
- External adjustment jumps (much higher net exports)
- Fiscal and labour cost adjustment scores also rise

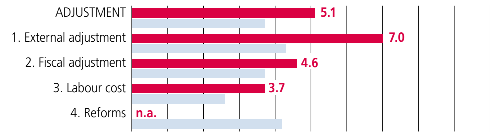
Fundamental health improves
- Higher competitiveness, resilience and fiscal sustainability scores
- Growth potential slightly lower

### Strengths
- Highest trend growth
- Strongest local competition
- Big current account surplus
- Strong fiscal position
- Lowest foreign debt ownership
- High export ratio

### Weaknesses
- Low employment rate
- Tax and spending policies misguided
- Despite strong gains, employment rate still low
- Opening a new business not easy
- Low productive public investment

**Fundamental Health**


**Adjustment**




## Scores

| OVERALL RESULTS | MT | EZ | |
|---|---|---|---|
| | Score | Score | Rank |
| **FUNDAMENTAL HEALTH** | 7.3 | 5.8 | **3** |
| *1. Growth potential* | 7.1 | 5.2 | **5** |
| *2. Competitiveness* | 7.4 | 6.1 | **3** |
| *3. Fiscal sustainability* | 6.7 | 5.9 | **16** |
| *4. Resilience* | 8.1 | 6.1 | **2** |
| **ADJUSTMENT** | 5.1 | 3.7 | **10** |
| *1. External adjustment* | 7.0 | 4.3 | **10** |
| *2. Fiscal adjustment* | 4.6 | 3.7 | **13** |
| *3. Labour cost adjustment* | 3.7 | 2.6 | **12** |
| *4. Reform drive* | n.a. | 4.2 | **n.a.** |

| FUNDAMENTAL HEALTH | MT | EZ | Score | Rank |
|---|---|---|---|---|
| 1. Growth potential | Value | Value | 7.1 | **5** |
| **1.1 Trend growth 2002-2017** | | | 10.0 | **1** |
| *1.1.1 GVA ex construction, annual change, %* | 5.7 | 1.1 | 10.0 | **1** |
| *1.1.2 Deviation from norm, ppts* | 2.8 | -0.1 | 10.0 | **1** |
| **1.2 Human capital** | | | 3.5 | **20** |
| *1.2.1 Fertility rate, %, 2010-2017* | 1.4 | 1.6 | 3.5 | **21** |
| *1.2.2 Gap immigrant vs native employment rate, ppts* | -1.7 | -11.3 | 7.1 | **4** |
| *1.2.3 PISA score, 2015* | 464 | 496 | 0.0 | **23** |
| **1.3 Employment, 2002-2017** | | | 6.6 | **9** |
| *1.3.1 Employment rate, %* | 58.1 | 64.2 | 1.8 | **25** |
| *1.3.2 Annual change in ER, ppts* | 0.9 | 0.3 | 10.0 | **1** |
| *1.3.3 Youth unemployment rate, %* | 13.7 | 19.8 | 7.8 | **5** |
| *1.3.4 Long-term unemployment, %* | 2.8 | 4.4 | 6.9 | **8** |
| **1.4 Consumption, 2002-2017** | | | 8.4 | **7** |
| *1.4.1 Total consumption, % of GDP* | 76.2 | 76.4 | 6.9 | **15** |
| *1.4.2 Annual change in consumption share, ppts of GDP* | -1.0 | -0.1 | 10.0 | **1** |

| FUNDAMENTAL HEALTH | MT | EZ | Score | Rank |
|---|---|---|---|---|
| 3. Fiscal sustainability | Value | Value | 6.7 | **16** |
| **3.1 Government expenditure, % of GDP, 2002-2017** | 41.4 | 48.0 | 6.7 | **12** |
| **3.2 Structural fiscal balance, 2017** | | | 9.5 | **3** |
| *3.2.1 Structural balance, % of GDP* | 0.6 | -1.0 | 8.9 | **6** |
| *3.2.2 Structural primary balance, % of GDP* | 2.5 | 1.0 | 10.0 | **1** |
| **3.3 Public debt, % of GDP, 2017** | 54.9 | 87.2 | 6.8 | **12** |
| **3.4 Sustainability gap, % of GDP, 2018-2020** | n.a. | 4.5 | n.a. | **n.a.** |
| **3.5 Quality of public finances, 2009-2015** | | | 3.8 | **23** |
| *3.5.1 Education/infrastruct. investment, % of public expenditure* | 3.2 | 2.8 | 3.8 | **23** |
| *3.5.2 Consumption, property taxes, % of tax revenue* | n.a. | 32.9 | n.a. | **n.a.** |

| ADJUSTMENT | MT | EZ | Score | Rank |
|---|---|---|---|---|
| | Value | Value | 5.1 | **10** |
| **1. External adjustment, H2 2007-H1 2017** | | | 7.0 | **10** |
| *1.1 Change in net exports, ppts of GDP* | 19.3 | 2.1 | 9.7 | **1** |
| *1.2 Change in net exports relative to H2 2007, %* | 14.9 | 5.3 | 5.2 | **10** |
| *1.3 Change in export ratio, ppts of GDP* | 9.5 | 8.7 | 6.0 | **17** |
| **2. Fiscal adjustment 2009-2017** | | | 4.6 | **13** |
| *2.1 Size of fiscal adjustment* | | | 3.5 | **18** |
| *2.1.1 Change in structural primary balance, ppts of GDP* | 2.9 | 2.8 | 3.5 | **17** |
| *2.2 Quality of fiscal adjustment* | | | 5.7 | **4** |
| *2.2.1 Sum of expenditure and tax cuts, % of GDP* | -1.2 | -1.0 | 3.5 | **17** |
| **3. Labour cost adjustment 2009-2017** | | | 3.7 | **12** |
| *3.1 Change in RULC* | | | 5.3 | **6** |
| *3.1.1 Absolute change in RULC, %* | -7.5 | -2.7 | 6.0 | **7** |
| *3.2 Change in NULC* | | | 2.1 | **19** |
| *3.2.1 Absolute change in NULC, %* | 11.0 | 5.7 | 0.8 | **15** |
| **4. Reform drive 2010-2016** | n.a. | 0.4 | n.a. | **n.a.** |

| FUNDAMENTAL HEALTH | MT | EZ | Score | Rank |
|---|---|---|---|---|
| 2. Competitiveness | Value | Value | 7.4 | **3** |
| **2.1 Exports, % of GDP, 2002-2017** | 134.6 | 39.8 | 9.6 | **5** |
| **2.2 Annual change in export ratio, ppts of GDP, 2002-2017** | 2.7 | 1.2 | 5.3 | **20** |
| **2.3 Labour costs** | | | 6.9 | **7** |
| *2.3.1 Annual change in RULC, %, 2002-2017* | -0.5 | -0.1 | 8.3 | **6** |
| *2.3.2 Annual change in NULC, %, 2002-2017* | 1.9 | 1.5 | 5.9 | **16** |
| *2.3.3 WEF hiring/firing practices, 2017/2018* | 4.0 | 3.5 | 6.7 | **8** |
| **2.4 Market regulations** | | | 7.7 | **2** |
| *2.4.1 WEF local competition intensity, 2017/2018* | 6.2 | 5.6 | 10.0 | **1** |
| *2.4.2 OECD services trade restrictiveness, 2016* | n.a. | 0.2 | n.a. | **n.a.** |
| *2.4.3 Opening new business, days, 2017* | 16.0 | 8.2 | 5.5 | **25** |

| FUNDAMENTAL HEALTH | MT | EZ | Score | Rank |
|---|---|---|---|---|
| 4. Resilience | Value | Value | 8.1 | **2** |
| **4.1 Debt redemptions, % of GDP, 2018-2020** | 12.7 | 25.9 | 6.9 | **8** |
| **4.2 Debt held abroad, % of GDP, 2017** | 5.2 | 44.8 | 9.4 | **1** |
| **4.3 Household savings rate, %, 2017** | n.a. | 12.0 | n.a. | **n.a.** |
| **4.4 Current account, % of GDP, 2017** | 9.6 | 3.0 | 10.0 | **1** |
| **4.5 Bank assets, % of GDP, Sep 2017** | 441.1 | 279.0 | 6.9 | **18** |
| **4.6 Private debt, % of GDP, 2016** | 128.4 | 136.9 | 7.2 | **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 28 EU members from 1 (best) to 28 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 103.

## Netherlands

### Overall assessment
The strongest major eurozone economy after Germany. Top scores for growth potential and competitiveness. Room for improvement in fiscal sustainability and financial resilience.

### 2017 key developments
Adjustment progress improves
- Reform drive strengthens
- External and labour cost adjustment scores also rise

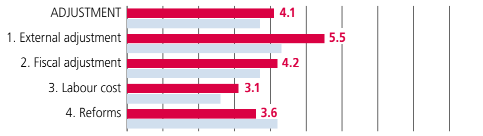
Fundamental health edges higher
- Growth potential and financial resilience up
- Fiscal sustainability down

### Strengths
- Very competitive
- High growth potential
- Strong current account surplus
- High productive public investment
- High employment rate
- Very deregulated markets

### Weaknesses
- High private sector indebtedness
- Large banking sector
- Above-average fiscal sustainability gap due to age-related spending
- Poor integration of immigrants

**Fundamental Health**


**Adjustment**




## Scores

| OVERALL RESULTS | NL | EZ | |
|---|---|---|---|
| | Score | Score | Rank |
| **FUNDAMENTAL HEALTH** | 7.1 | 5.8 | **6** |
| *1. Growth potential* | 7.2 | 5.2 | **4** |
| *2. Competitiveness* | 7.7 | 6.1 | **2** |
| *3. Fiscal sustainability* | 7.0 | 5.9 | **11** |
| *4. Resilience* | 6.4 | 6.1 | **14** |
| **ADJUSTMENT** | 4.1 | 3.7 | **15** |
| *1. External adjustment* | 5.5 | 4.3 | **16** |
| *2. Fiscal adjustment* | 4.2 | 3.7 | **15** |
| *3. Labour cost adjustment* | 3.1 | 2.6 | **16** |
| *4. Reform drive* | 3.6 | 4.2 | **14** |

| FUNDAMENTAL HEALTH | NL | EZ | Score | Rank |
|---|---|---|---|---|
| 1. Growth potential | Value | Value | 7.2 | **4** |
| **1.1 Trend growth 2002-2017** | | | 6.5 | **12** |
| *1.1.1 GVA ex construction, annual change, %* | 1.4 | 1.1 | 5.4 | **16** |
| *1.1.2 Deviation from norm, ppts* | 0.6 | -0.1 | 7.7 | **6** |
| **1.2 Human capital** | | | 5.2 | **8** |
| *1.2.1 Fertility rate, %, 2010-2017* | 1.8 | 1.6 | 6.3 | **8** |
| *1.2.2 Gap immigrant vs native employment rate, ppts* | -20.1 | -11.3 | 3.6 | **23** |
| *1.2.3 PISA score, 2015* | 508 | 496 | 4.8 | **5** |
| **1.3 Employment, 2002-2017** | | | 7.8 | **2** |
| *1.3.1 Employment rate, %* | 74.6 | 64.2 | 9.0 | **2** |
| *1.3.2 Annual change in ER, ppts* | 0.1 | 0.3 | 5.3 | **22** |
| *1.3.3 Youth unemployment rate, %* | 10.5 | 19.8 | 8.8 | **3** |
| *1.3.4 Long-term unemployment, %* | 1.7 | 4.4 | 8.1 | **6** |
| **1.4 Consumption, 2002-2017** | | | 9.2 | **3** |
| *1.4.1 Total consumption, % of GDP* | 69.9 | 76.4 | 10.0 | **1** |
| *1.4.2 Annual change in consumption share, ppts of GDP* | -0.4 | -0.1 | 8.5 | **7** |

| FUNDAMENTAL HEALTH | NL | EZ | Score | Rank |
|---|---|---|---|---|
| 3. Fiscal sustainability | Value | Value | 7.0 | **11** |
| **3.1 Government expenditure, % of GDP, 2002-2017** | 44.8 | 48.0 | 7.1 | **10** |
| **3.2 Structural fiscal balance, 2017** | | | 9.0 | **7** |
| *3.2.1 Structural balance, % of GDP* | 0.3 | -1.0 | 8.7 | **8** |
| *3.2.2 Structural primary balance, % of GDP* | 1.3 | 1.0 | 9.3 | **9** |
| **3.3 Public debt, % of GDP, 2017** | 57.7 | 87.2 | 6.6 | **13** |
| **3.4 Sustainability gap, % of GDP, 2018-2020** | 5.3 | 4.5 | 5.6 | **17** |
| **3.5 Quality of public finances, 2009-2015** | | | 6.7 | **14** |
| *3.5.1 Education/infrastruct. investment, % of public expenditure* | 4.3 | 2.8 | 8.4 | **3** |
| *3.5.2 Consumption, property taxes, % of tax revenue* | 33.7 | 32.9 | 5.1 | **15** |

| ADJUSTMENT | NL | EZ | Score | Rank |
|---|---|---|---|---|
| | Value | Value | 4.1 | **15** |
| **1. External adjustment, H2 2007-H1 2017** | | | 5.5 | **16** |
| *1.1 Change in net exports, ppts of GDP* | 3.2 | 2.1 | 4.2 | **17** |
| *1.2 Change in net exports relative to H2 2007, %* | 4.6 | 5.3 | 3.1 | **19** |
| *1.3 Change in export ratio, ppts of GDP* | 18.1 | 8.7 | 9.3 | **9** |
| **2. Fiscal adjustment 2009-2017** | | | 4.2 | **15** |
| *2.1 Size of fiscal adjustment* | | | 4.0 | **16** |
| *2.1.1 Change in structural primary balance, ppts of GDP* | 3.5 | 2.8 | 3.9 | **15** |
| *2.2 Quality of fiscal adjustment* | | | 4.4 | **14** |
| *2.2.1 Sum of expenditure and tax cuts, % of GDP* | 2.1 | -1.0 | 6.5 | **10** |
| **3. Labour cost adjustment 2009-2017** | | | 3.1 | **16** |
| *3.1 Change in RULC* | | | 2.5 | **19** |
| *3.1.1 Absolute change in RULC, %* | -2.8 | -2.7 | 2.6 | **17** |
| *3.2 Change in NULC* | | | 3.6 | **12** |
| *3.2.1 Absolute change in NULC, %* | 3.6 | 5.7 | 3.6 | **8** |
| **4. Reform drive 2010-2016** | 0.3 | 0.4 | 3.6 | **14** |

| FUNDAMENTAL HEALTH | NL | EZ | Score | Rank |
|---|---|---|---|---|
| 2. Competitiveness | Value | Value | 7.7 | **2** |
| **2.1 Exports, % of GDP, 2002-2017** | 72.9 | 39.8 | 9.6 | **4** |
| **2.2 Annual change in export ratio, ppts of GDP, 2002-2017** | 2.2 | 1.2 | 6.9 | **14** |
| **2.3 Labour costs** | | | 6.8 | **8** |
| *2.3.1 Annual change in RULC, %, 2002-2017* | 0.0 | -0.1 | 5.6 | **17** |
| *2.3.2 Annual change in NULC, %, 2002-2017* | 1.4 | 1.5 | 7.4 | **8** |
| *2.3.3 WEF hiring/firing practices, 2017/2018* | 4.2 | 3.5 | 7.3 | **6** |
| **2.4 Market regulations** | | | 7.4 | **5** |
| *2.4.1 WEF local competition intensity, 2017/2018* | 5.9 | 5.6 | 8.7 | **2** |
| *2.4.2 OECD services trade restrictiveness, 2016* | 0.2 | 0.2 | 5.2 | **4** |
| *2.4.3 Opening new business, days, 2017* | 3.5 | 8.2 | 8.4 | **13** |

| FUNDAMENTAL HEALTH | NL | EZ | Score | Rank |
|---|---|---|---|---|
| 4. Resilience | Value | Value | 6.4 | **14** |
| **4.1 Debt redemptions, % of GDP, 2018-2020** | 21.8 | 25.9 | 4.7 | **20** |
| **4.2 Debt held abroad, % of GDP, 2017** | 27.9 | 44.8 | 6.9 | **9** |
| **4.3 Household savings rate, %, 2017** | 13.0 | 12.0 | 7.4 | **7** |
| **4.4 Current account, % of GDP, 2017** | 9.1 | 3.0 | 10.0 | **1** |
| **4.5 Bank assets, % of GDP, Sep 2017** | 332.6 | 279.0 | 6.8 | **19** |
| **4.6 Private debt, % of GDP, 2016** | 221.5 | 136.9 | 2.8 | **25** |

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 28 EU members from 1 (best) to 28 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 103.

## Poland

### Overall assessment

Dynamic catching-up economy with still low labour costs, benefitting from EU grants to overhaul its infrastructure. Demographic challenges due to low birth rate and young people leaving the country. The government needs to interfere less in economy to achieve more growth.

### 2017 key developments

Adjustment progress slips
- Reform drive drops
- Scores for labour cost and external adjustment deteriorate

Fundamental health unchanged
- Competitiveness down slightly due to higher labour costs
- Employment levels improve

### Strengths

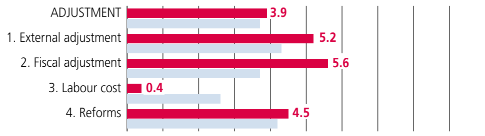
- Strong growth momentum
- Fast employment growth
- Well targeted public investment
- Low private debt levels
- Most debt held locally

### Weaknesses

- Rising labour cost erode competitiveness
- Too much red tape
- Opening business takes very long
- Low household savings ratio
- High structural deficit

**Fundamental Health**


**Adjustment**




## Scores

| OVERALL RESULTS | PL | EZ | |
|---|---|---|---|
| | Score | Score | Rank |
| **FUNDAMENTAL HEALTH** | 6.5 | 5.8 | **11** |
| *1. Growth potential* | 6.1 | 5.2 | **12** |
| *2. Competitiveness* | 6.7 | 6.1 | **9** |
| *3. Fiscal sustainability* | 6.8 | 5.9 | **14** |
| *4. Resilience* | 6.2 | 6.1 | **18** |
| **ADJUSTMENT** | 3.9 | 3.7 | **19** |
| *1. External adjustment* | 5.2 | 4.3 | **17** |
| *2. Fiscal adjustment* | 5.6 | 3.7 | **7** |
| *3. Labour cost adjustment* | 0.4 | 2.6 | **26** |
| *4. Reform drive* | 4.5 | 4.2 | **8** |

| FUNDAMENTAL HEALTH | PL | EZ | Score | Rank |
|---|---|---|---|---|
| 1. Growth potential | Value | Value | 6.1 | 12 |
| **1.1 Trend growth 2002-2017** | | | 8.5 | **5** |
| *1.1.1 GVA ex construction, annual change, %* | 4.4 | 1.1 | 10.0 | **1** |
| *1.1.2 Deviation from norm, ppts* | 0.5 | -0.1 | 7.0 | **8** |
| **1.2 Human capital** | | | 4.0 | **14** |
| *1.2.1 Fertility rate, %, 2010-2017* | 1.4 | 1.6 | 3.1 | **24** |
| *1.2.2 Gap immigrant vs native employment rate, ppts* | -9.6 | -11.3 | 5.5 | **13** |
| *1.2.3 PISA score, 2015* | 504 | 496 | 4.2 | **8** |
| **1.3 Employment, 2002-2017** | | | 4.8 | **22** |
| *1.3.1 Employment rate, %* | 58.2 | 64.2 | 1.8 | **24** |
| *1.3.2 Annual change in ER, ppts* | 1.0 | 0.3 | 10.0 | **1** |
| *1.3.3 Youth unemployment rate, %* | 26.9 | 19.8 | 3.4 | **23** |
| *1.3.4 Long-term unemployment, %* | 5.4 | 4.4 | 4.1 | **23** |
| **1.4 Consumption, 2002-2017** | | | 7.3 | **14** |
| *1.4.1 Total consumption, % of GDP* | 79.6 | 76.4 | 5.2 | **20** |
| *1.4.2 Annual change in consumption share, ppts of GDP* | -0.5 | -0.1 | 9.3 | **5** |

| FUNDAMENTAL HEALTH | PL | EZ | Score | Rank |
|---|---|---|---|---|
| 3. Fiscal sustainability | Value | Value | 6.8 | 14 |
| **3.1 Government expenditure, % of GDP, 2002-2017** | 43.7 | 48.0 | 3.0 | **20** |
| **3.2 Structural fiscal balance, 2017** | | | 7.2 | **23** |
| *3.2.1 Structural balance, % of GDP* | -2.1 | -1.0 | 6.9 | **22** |
| *3.2.2 Structural primary balance, % of GDP* | -0.5 | 1.0 | 7.5 | **23** |
| **3.3 Public debt, % of GDP, 2017** | 53.2 | 87.2 | 6.9 | **11** |
| **3.4 Sustainability gap, % of GDP, 2018-2020** | 1.1 | 4.5 | 9.1 | **6** |
| **3.5 Quality of public finances, 2009-2015** | | | 7.8 | **5** |
| *3.5.1 Education/infrastruct. investment, % of public expenditure* | 6.4 | 2.8 | 7.4 | **6** |
| *3.5.2 Consumption, property taxes, % of tax revenue* | 41.7 | 32.9 | 8.3 | **7** |

| ADJUSTMENT | PL | EZ | Score | Rank |
|---|---|---|---|---|
| | Value | Value | 3.9 | 19 |
| **1. External adjustment, H2 2007-H1 2017** | | | 5.2 | **17** |
| *1.1 Change in net exports, ppts of GDP* | 4.5 | 2.1 | 4.6 | **15** |
| *1.2 Change in net exports relative to H2 2007, %* | 11.2 | 5.3 | 4.4 | **13** |
| *1.3 Change in export ratio, ppts of GDP* | 10.9 | 8.7 | 6.6 | **16** |
| **2. Fiscal adjustment 2009-2017** | | | 5.6 | **7** |
| *2.1 Size of fiscal adjustment* | | | 7.0 | **5** |
| *2.1.1 Change in structural primary balance, ppts of GDP* | 5.2 | 2.8 | 5.2 | **11** |
| *2.2 Quality of fiscal adjustment* | | | 4.2 | **18** |
| *2.2.1 Sum of expenditure and tax cuts, % of GDP* | 3.5 | -1.0 | 7.7 | **5** |
| **3. Labour cost adjustment 2009-2017** | | | 0.4 | **26** |
| *3.1 Change in RULC* | | | 0.8 | **24** |
| *3.1.1 Absolute change in RULC, %* | -1.5 | -2.7 | 1.6 | **20** |
| *3.2 Change in NULC* | | | 0.0 | **28** |
| *3.2.1 Absolute change in NULC, %* | 13.5 | 5.7 | 0.0 | **18** |
| **4. Reform drive 2010-2016** | 0.4 | 0.4 | 4.5 | **8** |

| FUNDAMENTAL HEALTH | PL | EZ | Score | Rank |
|---|---|---|---|---|
| 2. Competitiveness | Value | Value | 6.7 | 9 |
| **2.1 Exports, % of GDP, 2002-2017** | 40.5 | 39.8 | 7.9 | **10** |
| **2.2 Annual change in export ratio, ppts of GDP, 2002-2017** | 1.6 | 1.2 | 9.0 | **12** |
| **2.3 Labour costs** | | | 7.9 | **2** |
| *2.3.1 Annual change in RULC, %, 2002-2017* | -1.2 | -0.1 | 10.0 | **1** |
| *2.3.2 Annual change in NULC, %, 2002-2017* | 0.9 | 1.5 | 8.9 | **2** |
| *2.3.3 WEF hiring/firing practices, 2017/2018* | 3.4 | 3.5 | 4.7 | **17** |
| **2.4 Market regulations** | | | 2.0 | **28** |
| *2.4.1 WEF local competition intensity, 2017/2018* | 5.3 | 5.6 | 4.7 | **18** |
| *2.4.2 OECD services trade restrictiveness, 2016* | 0.3 | 0.2 | 0.8 | **20** |
| *2.4.3 Opening new business, days, 2017* | 37.0 | 8.2 | 0.6 | **28** |

| FUNDAMENTAL HEALTH | PL | EZ | Score | Rank |
|---|---|---|---|---|
| 4. Resilience | Value | Value | 6.2 | 18 |
| **4.1 Debt redemptions, % of GDP, 2018-2020** | 16.6 | 25.9 | 6.0 | **13** |
| **4.2 Debt held abroad, % of GDP, 2017** | 25.7 | 44.8 | 7.1 | **8** |
| **4.3 Household savings rate, %, 2017** | 2.5 | 12.0 | 1.8 | **23** |
| **4.4 Current account, % of GDP, 2017** | 1.0 | 3.0 | 6.2 | **16** |
| **4.5 Bank assets, % of GDP, Sep 2017** | 95.3 | 279.0 | 6.6 | **21** |
| **4.6 Private debt, % of GDP, 2016** | 81.6 | 136.9 | 9.4 | **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 28 EU members from 1 (best) to 28 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 103.

## Portugal

### Overall assessment

Still in the bottom third of the fundamental health league. As it remains one of the stronger adjustment performers, it should continue to move up, though. Structural reforms have yielded benefits. Gains in competitiveness support an export- and investment-led recovery. Risks of reform reversals.

### 2017 key developments

Adjustment progress falls slightly
- Reform drive has slackened significantly over last two years
- External and fiscal adjustment rises

Fundamental health improves
- Financial resilience score up by more than in any other country
- Growth potential and competitiveness also rise

### Strengths

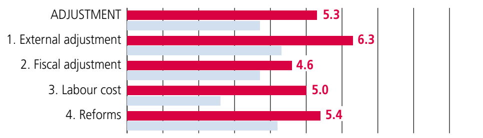
- Low unit labour cost increases
- Low bank assets
- Good at integrating immigrants
- One of the highest primary surpluses

### Weaknesses

- Very weak growth potential, low fertility rate, high propensity to consume
- Weak employment performance
- One of the lowest export ratios
- Very high public and private debt

**Fundamental Health**


**Adjustment**




## Scores

| OVERALL RESULTS | PT Score | EZ Score | Rank |
|---|---|---|---|
| **FUNDAMENTAL HEALTH** | 4.9 | 5.8 | **22** |
| *1. Growth potential* | 3.7 | 5.2 | **25** |
| *2. Competitiveness* | 5.8 | 6.1 | **15** |
| *3. Fiscal sustainability* | 5.0 | 5.9 | **23** |
| *4. Resilience* | 5.1 | 6.1 | **23** |
| **ADJUSTMENT** | 5.3 | 3.7 | **7** |
| *1. External adjustment* | 6.3 | 4.3 | **13** |
| *2. Fiscal adjustment* | 4.6 | 3.7 | **14** |
| *3. Labour cost adjustment* | 5.0 | 2.6 | **6** |
| *4. Reform drive* | 5.4 | 4.2 | **5** |

| FUNDAMENTAL HEALTH | PT | EZ | Score | Rank |
|---|---|---|---|---|
| 1. Growth potential | Value | Value | 3.7 | **25** |
| **1.1 Trend growth 2002-2017** | | | 2.2 | **24** |
| *1.1.1 GVA ex construction, annual change, %* | 1.0 | 1.1 | 4.4 | **20** |
| *1.1.2 Deviation from norm, ppts* | -1.2 | -0.1 | 0.0 | **24** |
| **1.2 Human capital** | | | 4.2 | **11** |
| *1.2.1 Fertility rate, %, 2010-2017* | 1.3 | 1.6 | 2.6 | **28** |
| *1.2.2 Gap immigrant vs native employment rate, ppts* | -2.3 | -11.3 | 8.2 | **1** |
| *1.2.3 PISA score, 2015* | 497 | 496 | 3.4 | **11** |
| **1.3 Employment, 2002-2017** | | | 4.3 | **23** |
| *1.3.1 Employment rate, %* | 65.7 | 64.2 | 5.1 | **11** |
| *1.3.2 Annual change in ER, ppts* | -0.1 | 0.3 | 4.0 | **25** |
| *1.3.3 Youth unemployment rate, %* | 26.1 | 19.8 | 3.6 | **22** |
| *1.3.4 Long-term unemployment, %* | 5.1 | 4.4 | 4.3 | **22** |
| **1.4 Consumption, 2002-2017** | | | 4.2 | **25** |
| *1.4.1 Total consumption, % of GDP* | 84.6 | 76.4 | 2.7 | **26** |
| *1.4.2 Annual change in consumption share, ppts of GDP* | 0.1 | -0.1 | 5.7 | **21** |

| FUNDAMENTAL HEALTH | PT | EZ | Score | Rank |
|---|---|---|---|---|
| 3. Fiscal sustainability | Value | Value | 5.0 | **23** |
| **3.1 Government expenditure, % of GDP, 2002-2017** | 47.1 | 48.0 | 3.0 | **19** |
| **3.2 Structural fiscal balance, 2017** | | | 8.5 | **11** |
| *3.2.1 Structural balance, % of GDP* | -1.8 | -1.0 | 7.1 | **21** |
| *3.2.2 Structural primary balance, % of GDP* | 2.1 | 1.0 | 10.0 | **1** |
| **3.3 Public debt, % of GDP, 2017** | 126.4 | 87.2 | 1.7 | **26** |
| **3.4 Sustainability gap, % of GDP, 2018-2020** | 6.3 | 4.5 | 4.7 | **20** |
| **3.5 Quality of public finances, 2009-2015** | | | 7.2 | **10** |
| *3.5.1 Education/infrastruct. investment, % of public expenditure* | 4.0 | 2.8 | 5.8 | **18** |
| *3.5.2 Consumption, property taxes, % of tax revenue* | 42.6 | 32.9 | 8.6 | **5** |

| ADJUSTMENT | PT | EZ | Score | Rank |
|---|---|---|---|---|
| | Value | Value | 5.3 | **7** |
| **1. External adjustment, H2 2007-H1 2017** | | | 6.3 | **13** |
| *1.1 Change in net exports, ppts of GDP* | 6.0 | 2.1 | 5.2 | **13** |
| *1.2 Change in net exports relative to H2 2007, %* | 20.0 | 5.3 | 6.2 | **6** |
| *1.3 Change in export ratio, ppts of GDP* | 13.5 | 8.7 | 7.6 | **14** |
| **2. Fiscal adjustment 2009-2017** | | | 4.6 | **14** |
| *2.1 Size of fiscal adjustment* | | | 6.4 | **8** |
| *2.1.1 Change in structural primary balance, ppts of GDP* | 7.7 | 2.8 | 7.0 | **3** |
| *2.2 Quality of fiscal adjustment* | | | 2.7 | **26** |
| *2.2.1 Sum of expenditure and tax cuts, % of GDP* | 1.3 | -1.0 | 5.8 | **12** |
| **3. Labour cost adjustment 2009-2017** | | | 5.0 | **6** |
| *3.1 Change in RULC* | | | 4.9 | **8** |
| *3.1.1 Absolute change in RULC, %* | -9.2 | -2.7 | 7.2 | **5** |
| *3.2 Change in NULC* | | | 5.0 | **10** |
| *3.2.1 Absolute change in NULC, %* | -1.9 | 5.7 | 5.7 | **6** |
| **4. Reform drive 2010-2016** | 0.5 | 0.4 | 5.4 | **5** |

| FUNDAMENTAL HEALTH | PT | EZ | Score | Rank |
|---|---|---|---|---|
| 2. Competitiveness | Value | Value | 5.8 | **15** |
| **2.1 Exports, % of GDP, 2002-2017** | 32.5 | 39.8 | 0.0 | **24** |
| **2.2 Annual change in export ratio, ppts of GDP, 2002-2017** | 1.5 | 1.2 | 10.0 | **1** |
| **2.3 Labour costs** | | | 7.4 | **4** |
| *2.3.1 Annual change in RULC, %, 2002-2017* | -0.9 | -0.1 | 10.0 | **1** |
| *2.3.2 Annual change in NULC, %, 2002-2017* | 1.0 | 1.5 | 8.7 | **3** |
| *2.3.3 WEF hiring/firing practices, 2017/2018* | 3.1 | 3.5 | 3.7 | **22** |
| **2.4 Market regulations** | | | 5.6 | **14** |
| *2.4.1 WEF local competition intensity, 2017/2018* | 5.3 | 5.6 | 4.7 | **18** |
| *2.4.2 OECD services trade restrictiveness, 2016* | 0.2 | 0.2 | 3.2 | **8** |
| *2.4.3 Opening new business, days, 2017* | 5.0 | 8.2 | 9.0 | **10** |

| FUNDAMENTAL HEALTH | PT | EZ | Score | Rank |
|---|---|---|---|---|
| 4. Resilience | Value | Value | 5.1 | **23** |
| **4.1 Debt redemptions, % of GDP, 2018-2020** | 22.2 | 25.9 | 4.6 | **22** |
| **4.2 Debt held abroad, % of GDP, 2017** | 73.3 | 44.8 | 1.9 | **25** |
| **4.3 Household savings rate, %, 2017** | 6.2 | 12.0 | 3.8 | **19** |
| **4.4 Current account, % of GDP, 2017** | 0.1 | 3.0 | 5.8 | **18** |
| **4.5 Bank assets, % of GDP, Sep 2017** | 208.0 | 279.0 | 9.4 | **3** |
| **4.6 Private debt, % of GDP, 2016** | 171.4 | 136.9 | 5.2 | **21** |

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 28 EU members from 1 (best) to 28 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 103.

## Romania

### Overall assessment

Fast growing emerging market with some serious long-term problems such as low human capital score, low employment rate and high consumption. Currently reaping benefits of earlier austerity and adjustment. The government is increasing spending too fast, risking a deterioration of financial stability.

### 2017 key developments

Adjustment progress declines
- External, fiscal and labour cost adjustment slips
- Structural deficit widened significantly

Fundamental health unchanged
- Competitiveness improved amid less regulation
- Fiscal sustainability and financial resilience deteriorated

### Strengths

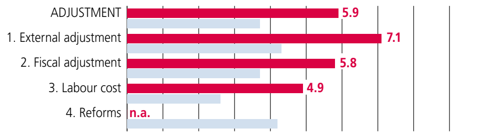
- Strong growth in GDP and exports
- Cuts in income, labour taxes
- Well targeted public investments
- Low private debt, high savings ratio

### Weaknesses

- Low PISA score and fertility rate
- Weak employment rate
- Consumption rising too fast
- High current account deficit
- Structural primary balance weakest in EU

**Fundamental Health**


**Adjustment**




## Scores

| OVERALL RESULTS | RO Score | EZ Score | Rank |
|---|---|---|---|
| **FUNDAMENTAL HEALTH** | 6.4 | 5.8 | **12** |
| *1. Growth potential* | 4.9 | 5.2 | **22** |
| *2. Competitiveness* | 6.1 | 6.1 | **13** |
| *3. Fiscal sustainability* | 7.3 | 5.9 | **7** |
| *4. Resilience* | 7.4 | 6.1 | **4** |
| **ADJUSTMENT** | 5.9 | 3.7 | **4** |
| *1. External adjustment* | 7.1 | 4.3 | **9** |
| *2. Fiscal adjustment* | 5.8 | 3.7 | **5** |
| *3. Labour cost adjustment* | 4.9 | 2.6 | **7** |
| *4. Reform drive* | n.a. | 4.2 | **n.a.** |

| FUNDAMENTAL HEALTH | RO | EZ | Score | Rank |
|---|---|---|---|---|
| 1. Growth potential | Value | Value | 4.9 | **22** |
| **1.1 Trend growth 2002-2017** | | | 7.4 | **9** |
| *1.1.1 GVA ex construction, annual change, %* | 4.7 | 1.1 | 10.0 | **1** |
| *1.1.2 Deviation from norm, ppts* | -0.1 | -0.1 | 4.7 | **18** |
| **1.2 Human capital** | | | 3.5 | **21** |
| *1.2.1 Fertility rate, %, 2010-2017* | 1.5 | 1.6 | 3.9 | **17** |
| *1.2.2 Gap immigrant vs native employment rate, ppts* | n.a. | -11.3 | 6.2 | **8** |
| *1.2.3 PISA score, 2015* | 438 | 496 | 0.0 | **23** |
| **1.3 Employment, 2002-2017** | | | 5.4 | **18** |
| *1.3.1 Employment rate, %* | 59.6 | 64.2 | 2.4 | **21** |
| *1.3.2 Annual change in ER, ppts* | 0.4 | 0.3 | 7.2 | **11** |
| *1.3.3 Youth unemployment rate, %* | 20.8 | 19.8 | 5.4 | **17** |
| *1.3.4 Long-term unemployment, %* | 3.3 | 4.4 | 6.4 | **11** |
| **1.4 Consumption, 2002-2017** | | | 3.3 | **27** |
| *1.4.1 Total consumption, % of GDP* | 77.4 | 76.4 | 6.3 | **17** |
| *1.4.2 Annual change in consumption share, ppts of GDP* | 0.9 | -0.1 | 0.3 | **28** |

| FUNDAMENTAL HEALTH | RO | EZ | Score | Rank |
|---|---|---|---|---|
| 3. Fiscal sustainability | Value | Value | 7.3 | **7** |
| **3.1 Government expenditure, % of GDP, 2002-2017** | 36.1 | 48.0 | 7.0 | **11** |
| **3.2 Structural fiscal balance, 2017** | | | 6.1 | **28** |
| *3.2.1 Structural balance, % of GDP* | -3.3 | -1.0 | 5.9 | **28** |
| *3.2.2 Structural primary balance, % of GDP* | -1.8 | 1.0 | 6.2 | **28** |
| **3.3 Public debt, % of GDP, 2017** | 37.9 | 87.2 | 8.0 | **6** |
| **3.4 Sustainability gap, % of GDP, 2018-2020** | 3.5 | 4.5 | 7.1 | **10** |
| **3.5 Quality of public finances, 2009-2015** | | | 8.1 | **2** |
| *3.5.1 Education/infrastruct. investment, % of public expenditure* | 8.3 | 2.8 | 8.1 | **5** |
| *3.5.2 Consumption, property taxes, % of tax revenue* | n.a. | 32.9 | n.a. | **n.a.** |

| ADJUSTMENT | RO | EZ | Score | Rank |
|---|---|---|---|---|
| | Value | Value | 5.9 | **4** |
| **1. External adjustment, H2 2007-H1 2017** | | | 7.1 | **9** |
| *1.1 Change in net exports, ppts of GDP* | 7.8 | 2.1 | 5.8 | **11** |
| *1.2 Change in net exports relative to H2 2007, %* | 25.1 | 5.3 | 7.2 | **5** |
| *1.3 Change in export ratio, ppts of GDP* | 15.1 | 8.7 | 8.1 | **12** |
| **2. Fiscal adjustment 2009-2017** | | | 5.8 | **5** |
| *2.1 Size of fiscal adjustment* | | | 6.3 | **10** |
| *2.1.1 Change in structural primary balance, ppts of GDP* | 6.1 | 2.8 | 5.8 | **7** |
| *2.2 Quality of fiscal adjustment* | | | 5.4 | **6** |
| *2.2.1 Sum of expenditure and tax cuts, % of GDP* | 4.4 | -1.0 | 8.5 | **3** |
| **3. Labour cost adjustment 2009-2017** | | | 4.9 | **7** |
| *3.1 Change in RULC* | | | 4.9 | **10** |
| *3.1.1 Absolute change in RULC, %* | -12.7 | -2.7 | 9.8 | **3** |
| *3.2 Change in NULC* | | | 5.0 | **7** |
| *3.2.1 Absolute change in NULC, %* | 23.0 | 5.7 | 0.0 | **18** |
| **4. Reform drive 2010-2016** | n.a. | 0.4 | n.a. | **n.a.** |

| FUNDAMENTAL HEALTH | RO | EZ | Score | Rank |
|---|---|---|---|---|
| 2. Competitiveness | Value | Value | 6.1 | **13** |
| **2.1 Exports, % of GDP, 2002-2017** | 34.5 | 39.8 | 3.6 | **15** |
| **2.2 Annual change in export ratio, ppts of GDP, 2002-2017** | 1.5 | 1.2 | 10.0 | **1** |
| **2.3 Labour costs** | | | 5.6 | **16** |
| *2.3.1 Annual change in RULC, %, 2002-2017* | -2.7 | -0.1 | 10.0 | **1** |
| *2.3.2 Annual change in NULC, %, 2002-2017* | 5.8 | 1.5 | 0.0 | **25** |
| *2.3.3 WEF hiring/firing practices, 2017/2018* | 4.0 | 3.5 | 6.7 | **8** |
| **2.4 Market regulations** | | | 5.3 | **18** |
| *2.4.1 WEF local competition intensity, 2017/2018* | 4.9 | 5.6 | 2.0 | **24** |
| *2.4.2 OECD services trade restrictiveness, 2016* | n.a. | 0.2 | n.a. | **n.a.** |
| *2.4.3 Opening new business, days, 2017* | 12.0 | 8.2 | 8.6 | **12** |

| FUNDAMENTAL HEALTH | RO | EZ | Score | Rank |
|---|---|---|---|---|
| 4. Resilience | Value | Value | 7.4 | **4** |
| **4.1 Debt redemptions, % of GDP, 2018-2020** | 14.3 | 25.9 | 6.5 | **10** |
| **4.2 Debt held abroad, % of GDP, 2017** | 16.6 | 44.8 | 8.2 | **6** |
| **4.3 Household savings rate, %, 2017** | 14.8 | 12.0 | 8.3 | **4** |
| **4.4 Current account, % of GDP, 2017** | -3.1 | 3.0 | 4.2 | **26** |
| **4.5 Bank assets, % of GDP, Sep 2017** | 51.9 | 279.0 | 7.3 | **15** |
| **4.6 Private debt, % of GDP, 2016** | 55.8 | 136.9 | 10.0 | **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 28 EU members from 1 (best) to 28 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 103.

## Slovakia

### Overall assessment
A dynamic catching-up economy with the highest production of cars per capita globally, profiting from the euro membership and fast export growth to Western Europe. Weakness in human resources poses considerable challenges. Robust fiscal situation and resilient financial system.

### 2017 key developments
Adjustment progress unchanged
- Deterioration in external and labour cost adjustment
- Improvement in fiscal adjustment

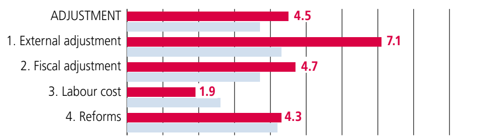
Fundamental health slightly up
- Improvement in debt redemptions and debt held abroad ratio
- Bigger current account surplus but higher private debt

### Strengths
- Fast GDP and export growth
- Low gap between immigrant and native employment rate
- Lean government
- Lowest bank assets to GDP ratio
- Low public and private debt

### Weaknesses
- Low PISA score and fertility rate
- Low employment rate
- High youth/long-term unemployment
- Above-average increase in labour costs
- Weak structural balance

Fundamental Health


Adjustment




## Scores

| OVERALL RESULTS | SK Score | EZ Score | Rank |
|---|---|---|---|
| **FUNDAMENTAL HEALTH** | 7.0 | 5.8 | **7** |
| *1. Growth potential* | 5.9 | 5.2 | **15** |
| *2. Competitiveness* | 7.2 | 6.1 | **7** |
| *3. Fiscal sustainability* | 7.4 | 5.9 | **6** |
| *4. Resilience* | 7.4 | 6.1 | **5** |
| **ADJUSTMENT** | 4.5 | 3.7 | **13** |
| *1. External adjustment* | 7.1 | 4.3 | **8** |
| *2. Fiscal adjustment* | 4.7 | 3.7 | **12** |
| *3. Labour cost adjustment* | 1.9 | 2.6 | **20** |
| *4. Reform drive* | 4.3 | 4.2 | **9** |

| FUNDAMENTAL HEALTH | SK | EZ | Score | Rank |
|---|---|---|---|---|
| 1. Growth potential | Value | Value | 5.9 | **15** |
| **1.1 Trend growth 2002-2017** | | | 8.6 | **4** |
| *1.1.1 GVA ex construction, annual change, %* | 4.0 | 1.1 | 10.0 | **1** |
| *1.1.2 Deviation from norm, ppts* | 0.5 | -0.1 | 7.2 | **7** |
| **1.2 Human capital** | | | 2.8 | **27** |
| *1.2.1 Fertility rate, %, 2010-2017* | 1.4 | 1.6 | 2.9 | **26** |
| *1.2.2 Gap immigrant vs native employment rate, ppts* | 2.7 | -11.3 | 5.5 | **14** |
| *1.2.3 PISA score, 2015* | 463 | 496 | 0.0 | **23** |
| **1.3 Employment, 2002-2017** | | | 3.6 | **24** |
| *1.3.1 Employment rate, %* | 60.3 | 64.2 | 2.7 | **19** |
| *1.3.2 Annual change in ER, ppts* | 0.6 | 0.3 | 8.9 | **8** |
| *1.3.3 Youth unemployment rate, %* | 28.8 | 19.8 | 2.7 | **24** |
| *1.3.4 Long-term unemployment, %* | 9.0 | 4.4 | 0.0 | **27** |
| **1.4 Consumption, 2002-2017** | | | 8.5 | **6** |
| *1.4.1 Total consumption, % of GDP* | 76.0 | 76.4 | 7.0 | **14** |
| *1.4.2 Annual change in consumption share, ppts of GDP* | -0.9 | -0.1 | 10.0 | **1** |

| FUNDAMENTAL HEALTH | SK | EZ | Score | Rank |
|---|---|---|---|---|
| 3. Fiscal sustainability | Value | Value | 7.4 | **6** |
| **3.1 Government expenditure, % of GDP, 2002-2017** | 37.2 | 48.0 | 8.4 | **4** |
| **3.2 Structural fiscal balance, 2017** | | | 7.5 | **20** |
| *3.2.1 Structural balance, % of GDP* | -1.6 | -1.0 | 7.2 | **19** |
| *3.2.2 Structural primary balance, % of GDP* | -0.3 | 1.0 | 7.7 | **21** |
| **3.3 Public debt, % of GDP, 2017** | 50.6 | 87.2 | 7.1 | **10** |
| **3.4 Sustainability gap, % of GDP, 2018-2020** | 2.5 | 4.5 | 7.9 | **7** |
| **3.5 Quality of public finances, 2009-2015** | | | 6.2 | **16** |
| *3.5.1 Education/infrastruct. investment, % of public expenditure* | 4.8 | 2.8 | 6.2 | **12** |
| *3.5.2 Consumption, property taxes, % of tax revenue* | 36.7 | 32.9 | 6.3 | **10** |

| ADJUSTMENT | SK Value | EZ Value | Score | Rank |
|---|---|---|---|---|
| | | | 4.5 | **13** |
| **1. External adjustment, H2 2007-H1 2017** | | | 7.1 | **8** |
| *1.1 Change in net exports, ppts of GDP* | 10.4 | 2.1 | 6.7 | **6** |
| *1.2 Change in net exports relative to H2 2007, %* | 12.9 | 5.3 | 4.8 | **12** |
| *1.3 Change in export ratio, ppts of GDP* | 19.4 | 8.7 | 9.8 | **8** |
| **2. Fiscal adjustment 2009-2017** | | | 4.7 | **12** |
| *2.1 Size of fiscal adjustment* | | | 6.6 | **7** |
| *2.1.1 Change in structural primary balance, ppts of GDP* | 5.9 | 2.8 | 5.6 | **8** |
| *2.2 Quality of fiscal adjustment* | | | 2.8 | **25** |
| *2.2.1 Sum of expenditure and tax cuts, % of GDP* | -5.7 | -1.0 | 0.0 | **28** |
| **3. Labour cost adjustment 2009-2017** | | | 1.9 | **20** |
| *3.1 Change in RULC* | | | 0.5 | **27** |
| *3.1.1 Absolute change in RULC, %* | 1.4 | -2.7 | 0.0 | **25** |
| *3.2 Change in NULC* | | | 3.4 | **13** |
| *3.2.1 Absolute change in NULC, %* | 6.7 | 5.7 | 2.4 | **11** |
| **4. Reform drive 2010-2016** | 0.4 | 0.4 | 4.3 | **9** |

| FUNDAMENTAL HEALTH | SK | EZ | Score | Rank |
|---|---|---|---|---|
| 2. Competitiveness | Value | Value | 7.2 | **7** |
| **2.1 Exports, % of GDP, 2002-2017** | 80.2 | 39.8 | 9.0 | **8** |
| **2.2 Annual change in export ratio, ppts of GDP, 2002-2017** | 3.7 | 1.2 | 10.0 | **1** |
| **2.3 Labour costs** | | | 4.4 | **20** |
| *2.3.1 Annual change in RULC, %, 2002-2017* | 0.3 | -0.1 | 4.0 | **22** |
| *2.3.2 Annual change in NULC, %, 2002-2017* | 2.0 | 1.5 | 5.6 | **19** |
| *2.3.3 WEF hiring/firing practices, 2017/2018* | 3.1 | 3.5 | 3.7 | **22** |
| **2.4 Market regulations** | | | 5.5 | **16** |
| *2.4.1 WEF local competition intensity, 2017/2018* | 5.4 | 5.6 | 5.3 | **15** |
| *2.4.2 OECD services trade restrictiveness, 2016* | 0.2 | 0.2 | 2.9 | **10** |
| *2.4.3 Opening new business, days, 2017* | 12.5 | 8.2 | 8.3 | **15** |

| FUNDAMENTAL HEALTH | SK | EZ | Score | Rank |
|---|---|---|---|---|
| 4. Resilience | Value | Value | 7.4 | **5** |
| **4.1 Debt redemptions, % of GDP, 2018-2020** | 9.5 | 25.9 | 7.7 | **5** |
| **4.2 Debt held abroad, % of GDP, 2017** | 30.6 | 44.8 | 6.6 | **13** |
| **4.3 Household savings rate, %, 2017** | 8.8 | 12.0 | 5.2 | **16** |
| **4.4 Current account, % of GDP, 2017** | 0.8 | 3.0 | 6.1 | **17** |
| **4.5 Bank assets, % of GDP, Sep 2017** | 91.6 | 279.0 | 10.0 | **1** |
| **4.6 Private debt, % of GDP, 2016** | 94.7 | 136.9 | 8.8 | **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 28 EU members from 1 (best) to 28 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 103.

## Slovenia

### Overall assessment
Small, dynamic catching-up economy with above-average scores for growth potential and resilience. Benefits from high PISA score, low youth unemployment rate and private debt levels. High government debt and non-performing loan levels are key challenges, but should be manageable if political will is maintained.

### 2017 key developments
Adjustment progress unchanged
- External adjustment improved
- Reform drive slowed

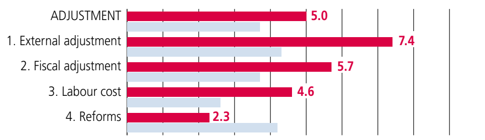
Fundamental health improved
- Growth outlook increased and debt redemption profile improved
- Fiscal sustainability overall up, but savings rate declined

### Strengths
- High PISA score
- Low youth unemployment rate
- Low private debt
- High current account surplus

### Weaknesses
- High gap immigrant vs. native employment rate
- Difficult for companies to hire and fire
- High percent of debt held abroad

**Fundamental Health**


**Adjustment**




## Scores

| OVERALL RESULTS | SI | EZ | |
|---|---|---|---|
| | Score | Score | Rank |
| **FUNDAMENTAL HEALTH** | 6.3 | 5.8 | **15** |
| *1. Growth potential* | 6.2 | 5.2 | **10** |
| *2. Competitiveness* | 5.9 | 6.1 | **14** |
| *3. Fiscal sustainability* | 6.0 | 5.9 | **17** |
| *4. Resilience* | 7.0 | 6.1 | **10** |
| **ADJUSTMENT** | 5.0 | 3.7 | **12** |
| *1. External adjustment* | 7.4 | 4.3 | **3** |
| *2. Fiscal adjustment* | 5.7 | 3.7 | **6** |
| *3. Labour cost adjustment* | 4.6 | 2.6 | **8** |
| *4. Reform drive* | 2.3 | 4.2 | **20** |

| FUNDAMENTAL HEALTH | SI | EZ | Score | Rank |
|---|---|---|---|---|
| 1. Growth potential | Value | Value | 6.2 | 10 |
| **1.1 Trend growth 2002-2017** | | | 6.6 | **11** |
| *1.1.1 GVA ex construction, annual change, %* | 2.4 | 1.1 | 8.4 | **10** |
| *1.1.2 Deviation from norm, ppts* | 0.0 | -0.1 | 4.9 | **17** |
| **1.2 Human capital** | | | 4.2 | **12** |
| *1.2.1 Fertility rate, %, 2010-2017* | 1.5 | 1.6 | 4.2 | **14** |
| *1.2.2 Gap immigrant vs native employment rate, ppts* | -7.7 | -11.3 | 3.3 | **25** |
| *1.2.3 PISA score, 2015* | 509 | 496 | 4.9 | **3** |
| **1.3 Employment, 2002-2017** | | | 6.3 | **12** |
| *1.3.1 Employment rate, %* | 65.6 | 64.2 | 5.0 | **12** |
| *1.3.2 Annual change in ER, ppts* | 0.3 | 0.3 | 6.8 | **12** |
| *1.3.3 Youth unemployment rate, %* | 15.6 | 19.8 | 7.1 | **6** |
| *1.3.4 Long-term unemployment, %* | 3.5 | 4.4 | 6.1 | **12** |
| **1.4 Consumption, 2002-2017** | | | 7.9 | **9** |
| *1.4.1 Total consumption, % of GDP* | 73.8 | 76.4 | 8.1 | **9** |
| *1.4.2 Annual change in consumption share, ppts of GDP* | -0.2 | -0.1 | 7.7 | **10** |

| FUNDAMENTAL HEALTH | SI | EZ | Score | Rank |
|---|---|---|---|---|
| 3. Fiscal sustainability | Value | Value | 6.0 | 17 |
| **3.1 Government expenditure, % of GDP, 2002-2017** | 47.0 | 48.0 | 3.2 | **18** |
| **3.2 Structural fiscal balance, 2017** | | | 8.1 | **16** |
| *3.2.1 Structural balance, % of GDP* | -1.6 | -1.0 | 7.3 | **18** |
| *3.2.2 Structural primary balance, % of GDP* | 1.0 | 1.0 | 9.0 | **12** |
| **3.3 Public debt, % of GDP, 2017** | 76.4 | 87.2 | 5.3 | **17** |
| **3.4 Sustainability gap, % of GDP, 2018-2020** | 3.8 | 4.5 | 6.8 | **13** |
| **3.5 Quality of public finances, 2009-2015** | | | 6.8 | **13** |
| *3.5.1 Education/infrastruct. investment, % of public expenditure* | 4.0 | 2.8 | 5.9 | **16** |
| *3.5.2 Consumption, property taxes, % of tax revenue* | 40.4 | 32.9 | 7.7 | **9** |

| ADJUSTMENT | SI | EZ | Score | Rank |
|---|---|---|---|---|
| | Value | Value | 5.0 | 12 |
| **1. External adjustment, H2 2007-H1 2017** | | | 7.4 | **3** |
| *1.1 Change in net exports, ppts of GDP* | 12.0 | 2.1 | 7.2 | **4** |
| *1.2 Change in net exports relative to H2 2007, %* | 18.4 | 5.3 | 5.9 | **8** |
| *1.3 Change in export ratio, ppts of GDP* | 17.8 | 8.7 | 9.2 | **10** |
| **2. Fiscal adjustment 2009-2017** | | | 5.7 | **6** |
| *2.1 Size of fiscal adjustment* | | | 5.0 | **13** |
| *2.1.1 Change in structural primary balance, ppts of GDP* | 4.2 | 2.8 | 4.4 | **12** |
| *2.2 Quality of fiscal adjustment* | | | 6.4 | **3** |
| *2.2.1 Sum of expenditure and tax cuts, % of GDP* | 2.4 | -1.0 | 6.8 | **8** |
| **3. Labour cost adjustment 2009-2017** | | | 4.6 | **8** |
| *3.1 Change in RULC* | | | 3.4 | **15** |
| *3.1.1 Absolute change in RULC, %* | -4.2 | -2.7 | 3.6 | **14** |
| *3.2 Change in NULC* | | | 5.9 | **5** |
| *3.2.1 Absolute change in NULC, %* | 2.2 | 5.7 | 4.1 | **7** |
| **4. Reform drive 2010-2016** | 0.2 | 0.4 | 2.3 | **20** |

| FUNDAMENTAL HEALTH | SI | EZ | Score | Rank |
|---|---|---|---|---|
| 2. Competitiveness | Value | Value | 5.9 | 14 |
| **2.1 Exports, % of GDP, 2002-2017** | 65.6 | 39.8 | 4.0 | **14** |
| **2.2 Annual change in export ratio, ppts of GDP, 2002-2017** | 2.6 | 1.2 | 9.6 | **11** |
| **2.3 Labour costs** | | | 4.3 | **22** |
| *2.3.1 Annual change in RULC, %, 2002-2017* | -0.2 | -0.1 | 6.4 | **11** |
| *2.3.2 Annual change in NULC, %, 2002-2017* | 2.2 | 1.5 | 5.0 | **21** |
| *2.3.3 WEF hiring/firing practices, 2017/2018* | 2.4 | 3.5 | 1.3 | **27** |
| **2.4 Market regulations** | | | 5.9 | **13** |
| *2.4.1 WEF local competition intensity, 2017/2018* | 5.4 | 5.6 | 5.3 | **15** |
| *2.4.2 OECD services trade restrictiveness, 2016* | 0.2 | 0.2 | 2.7 | **13** |
| *2.4.3 Opening new business, days, 2017* | 7.0 | 8.2 | 9.5 | **7** |

| FUNDAMENTAL HEALTH | SI | EZ | Score | Rank |
|---|---|---|---|---|
| 4. Resilience | Value | Value | 7.0 | 10 |
| **4.1 Debt redemptions, % of GDP, 2018-2020** | 16.7 | 25.9 | 5.9 | **14** |
| **4.2 Debt held abroad, % of GDP, 2017** | 53.6 | 44.8 | 4.0 | **20** |
| **4.3 Household savings rate, %, 2017** | 11.3 | 12.0 | 6.4 | **11** |
| **4.4 Current account, % of GDP, 2017** | 5.9 | 3.0 | 8.5 | **5** |
| **4.5 Bank assets, % of GDP, Sep 2017** | 93.4 | 279.0 | 7.3 | **14** |
| **4.6 Private debt, % of GDP, 2016** | 80.5 | 136.9 | 9.5 | **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 28 EU members from 1 (best) to 28 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 103.

## Spain

### Overall assessment
A mostly mature economy forced to undergo major adjustment amid a real estate and banking crisis. Structural reforms and fiscal rebalancing have shown results. Strong growth in recent years. Fundamental health continues to improve. But the crisis has left challenges.

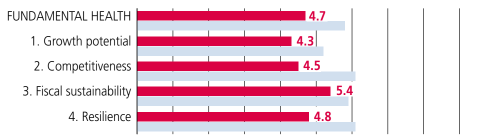
### 2017 key developments
Adjustment progress slips
- Reform drive drops amid political turmoil
- External, fiscal and labour cost adjustment strengthen

Fundamental health rises
- Higher scores for growth potential and financial resilience

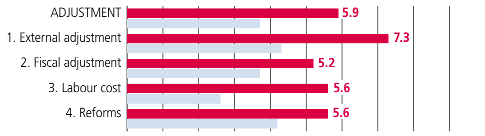
### Strengths
- Strong reform and adjustment efforts
- Turnaround in current account
- Low government expenditure
- Labour costs have adjusted since 2009

### Weaknesses
- Low fertility rate
- Unemployment still very high
- Still big structural fiscal deficit
- High public debt
- High bank assets
- Still room to improve on regulation

**Fundamental Health**




**Adjustment**




## Scores

| OVERALL RESULTS | ES Score | EZ Score | Rank |
|---|---|---|---|
| **FUNDAMENTAL HEALTH** | 4.7 | 5.8 | **25** |
| *1. Growth potential* | 4.3 | 5.2 | **23** |
| *2. Competitiveness* | 4.5 | 6.1 | **23** |
| *3. Fiscal sustainability* | 5.4 | 5.9 | **20** |
| *4. Resilience* | 4.8 | 6.1 | **24** |
| **ADJUSTMENT** | 5.9 | 3.7 | **5** |
| *1. External adjustment* | 7.3 | 4.3 | **5** |
| *2. Fiscal adjustment* | 5.2 | 3.7 | **11** |
| *3. Labour cost adjustment* | 5.6 | 2.6 | **5** |
| *4. Reform drive* | 5.6 | 4.2 | **4** |

| FUNDAMENTAL HEALTH | ES | EZ | Score | Rank |
|---|---|---|---|---|
| 1. Growth potential | Value | Value | 4.3 | **23** |
| **1.1 Trend growth 2002-2017** | | | 4.3 | **21** |
| *1.1.1 GVA ex construction, annual change, %* | 1.3 | 1.1 | 5.1 | **17** |
| *1.1.2 Deviation from norm, ppts* | -0.4 | -0.1 | 3.4 | **20** |
| **1.2 Human capital** | | | 3.3 | **24** |
| *1.2.1 Fertility rate, %, 2010-2017* | 1.4 | 1.6 | 2.9 | **25** |
| *1.2.2 Gap immigrant vs native employment rate, ppts* | -8.1 | -11.3 | 4.5 | **19** |
| *1.2.3 PISA score, 2015* | 492 | 496 | 2.7 | **15** |
| **1.3 Employment, 2002-2017** | | | 2.9 | **26** |
| *1.3.1 Employment rate, %* | 60.1 | 64.2 | 2.6 | **20** |
| *1.3.2 Annual change in ER, ppts* | 0.1 | 0.3 | 5.6 | **20** |
| *1.3.3 Youth unemployment rate, %* | 35.4 | 19.8 | 0.5 | **27** |
| *1.3.4 Long-term unemployment, %* | 6.6 | 4.4 | 2.7 | **25** |
| **1.4 Consumption, 2002-2017** | | | 6.9 | **16** |
| *1.4.1 Total consumption, % of GDP* | 75.6 | 76.4 | 7.2 | **13** |
| *1.4.2 Annual change in consumption share, ppts of GDP* | -0.1 | -0.1 | 6.7 | **15** |

| FUNDAMENTAL HEALTH | ES | EZ | Score | Rank |
|---|---|---|---|---|
| 3. Fiscal sustainability | Value | Value | 5.4 | **20** |
| **3.1 Government expenditure, % of GDP, 2002-2017** | 42.2 | 48.0 | 7.3 | **9** |
| **3.2 Structural fiscal balance, 2017** | | | 6.8 | **27** |
| *3.2.1 Structural balance, % of GDP* | -3.1 | -1.0 | 6.1 | **26** |
| *3.2.2 Structural primary balance, % of GDP* | -0.6 | 1.0 | 7.4 | **25** |
| **3.3 Public debt, % of GDP, 2017** | 98.4 | 87.2 | 3.7 | **23** |
| **3.4 Sustainability gap, % of GDP, 2018-2020** | 7.7 | 4.5 | 3.6 | **21** |
| **3.5 Quality of public finances, 2009-2015** | | | 5.5 | **17** |
| *3.5.1 Education/infrastruct. investment, % of public expenditure* | 3.7 | 2.8 | 6.1 | **13** |
| *3.5.2 Consumption, property taxes, % of tax revenue* | 33.3 | 32.9 | 4.9 | **16** |

| ADJUSTMENT | ES | EZ | Score | Rank |
|---|---|---|---|---|
| | Value | Value | 5.9 | **5** |
| **1. External adjustment, H2 2007-H1 2017** | | | 7.3 | **5** |
| *1.1 Change in net exports, ppts of GDP* | 10.4 | 2.1 | 6.7 | **5** |
| *1.2 Change in net exports relative to H2 2007, %* | 40.3 | 5.3 | 10.0 | **1** |
| *1.3 Change in export ratio, ppts of GDP* | 7.2 | 8.7 | 5.2 | **19** |
| **2. Fiscal adjustment 2009-2017** | | | 5.2 | **11** |
| *2.1 Size of fiscal adjustment* | | | 5.6 | **12** |
| *2.1.1 Change in structural primary balance, ppts of GDP* | 6.8 | 2.8 | 6.3 | **6** |
| *2.2 Quality of fiscal adjustment* | | | 4.7 | **12** |
| *2.2.1 Sum of expenditure and tax cuts, % of GDP* | 1.6 | -1.0 | 6.0 | **11** |
| **3. Labour cost adjustment 2009-2017** | | | 5.6 | **5** |
| *3.1 Change in RULC* | | | 4.6 | **11** |
| *3.1.1 Absolute change in RULC, %* | -6.8 | -2.7 | 5.5 | **9** |
| *3.2 Change in NULC* | | | 6.6 | **4** |
| *3.2.1 Absolute change in NULC, %* | -4.7 | 5.7 | 6.8 | **4** |
| **4. Reform drive 2010-2016** | 0.5 | 0.4 | 5.6 | **4** |

| FUNDAMENTAL HEALTH | ES | EZ | Score | Rank |
|---|---|---|---|---|
| 2. Competitiveness | Value | Value | 4.5 | **23** |
| **2.1 Exports, % of GDP, 2002-2017** | 27.4 | 39.8 | 1.7 | **22** |
| **2.2 Annual change in export ratio, ppts of GDP, 2002-2017** | 0.6 | 1.2 | 5.3 | **19** |
| **2.3 Labour costs** | | | 6.2 | **11** |
| *2.3.1 Annual change in RULC, %, 2002-2017* | -0.3 | -0.1 | 7.3 | **8** |
| *2.3.2 Annual change in NULC, %, 2002-2017* | 1.4 | 1.5 | 7.4 | **7** |
| *2.3.3 WEF hiring/firing practices, 2017/2018* | 3.2 | 3.5 | 4.0 | **19** |
| **2.4 Market regulations** | | | 5.0 | **19** |
| *2.4.1 WEF local competition intensity, 2017/2018* | 5.5 | 5.6 | 6.0 | **10** |
| *2.4.2 OECD services trade restrictiveness, 2016* | 0.2 | 0.2 | 2.1 | **15** |
| *2.4.3 Opening new business, days, 2017* | 13.0 | 8.2 | 6.8 | **22** |

| FUNDAMENTAL HEALTH | ES | EZ | Score | Rank |
|---|---|---|---|---|
| 4. Resilience | Value | Value | 4.8 | **24** |
| **4.1 Debt redemptions, % of GDP, 2018-2020** | 29.0 | 25.9 | 3.0 | **26** |
| **4.2 Debt held abroad, % of GDP, 2017** | 44.5 | 44.8 | 5.1 | **19** |
| **4.3 Household savings rate, %, 2017** | 6.6 | 12.0 | 4.0 | **18** |
| **4.4 Current account, % of GDP, 2017** | 1.7 | 3.0 | 6.5 | **15** |
| **4.5 Bank assets, % of GDP, Sep 2017** | 233.4 | 279.0 | 3.6 | **28** |
| **4.6 Private debt, % of GDP, 2016** | 146.7 | 136.9 | 6.3 | **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 28 EU members from 1 (best) to 28 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 103.

# Sweden

## Overall assessment

A mature economy with the second best score for growth potential in the EU. Fiscally sustainable and resilient to financial shocks. But Sweden's once excellent fundamental health has slipped as its economy has become less competitive, trailing Germany and The Netherlands by a wide margin. Sweden is showing clear signs of complacency.

## 2017 key developments

Adjustment progress falls further and is still lowest in the sample
- Reform drive and external adjustment slacken
- Labour cost adjustment improves from low level

Fundamental health unchanged, but on the cusp of falling out of Top 10
- Fiscal sustainability score slightly lower
- Growth potential, competitiveness and resilience unchanged

## Strengths

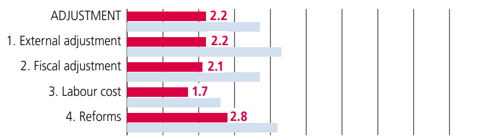
- No. 2 for growth potential
- Thrifty households
- High employment rate
- Low propensity to consume
- Strong current account position
- Comfortable fiscal position

## Weaknesses

- Worst adjustment score
- Export performance slipping
- High bank assets
- High private sector debt levels
- Relatively high youth unemployment

**Fundamental Health**


**Adjustment**




## Scores

| OVERALL RESULTS | SE | EZ | |
|---|---|---|---|
| | Score | Score | Rank |
| **FUNDAMENTAL HEALTH** | 6.6 | 5.8 | **10** |
| *1. Growth potential* | 7.4 | 5.2 | **2** |
| *2. Competitiveness* | 4.6 | 6.1 | **21** |
| *3. Fiscal sustainability* | 7.0 | 5.9 | **10** |
| *4. Resilience* | 7.2 | 6.1 | **7** |
| **ADJUSTMENT** | 2.2 | 3.7 | **28** |
| *1. External adjustment* | 2.2 | 4.3 | **26** |
| *2. Fiscal adjustment* | 2.1 | 3.7 | **27** |
| *3. Labour cost adjustment* | 1.7 | 2.6 | **22** |
| *4. Reform drive* | 2.8 | 4.2 | **19** |

| FUNDAMENTAL HEALTH | SE | EZ | Score | Rank |
|---|---|---|---|---|
| 1. Growth potential | Value | Value | 7.4 | 2 |
| **1.1 Trend growth 2002-2017** | | | 7.8 | **8** |
| *1.1.1 GVA ex construction, annual change, %* | 1.7 | 1.1 | 6.4 | **12** |
| *1.1.2 Deviation from norm, ppts* | 1.0 | -0.1 | 9.3 | **3** |
| **1.2 Human capital** | | | 5.7 | **6** |
| *1.2.1 Fertility rate, %, 2010-2017* | 1.9 | 1.6 | 7.6 | **3** |
| *1.2.2 Gap immigrant vs native employment rate, ppts* | -18.2 | -11.3 | 4.6 | **18** |
| *1.2.3 PISA score, 2015* | 496 | 496 | 3.2 | **12** |
| **1.3 Employment, 2002-2017** | | | 7.2 | **5** |
| *1.3.1 Employment rate, %* | 73.9 | 64.2 | 8.6 | **3** |
| *1.3.2 Annual change in ER, ppts* | 0.2 | 0.3 | 6.1 | **17** |
| *1.3.3 Youth unemployment rate, %* | 21.0 | 19.8 | 5.3 | **19** |
| *1.3.4 Long-term unemployment, %* | 1.2 | 4.4 | 8.6 | **1** |
| **1.4 Consumption, 2002-2017** | | | 8.8 | **5** |
| *1.4.1 Total consumption, % of GDP* | 71.0 | 76.4 | 9.5 | **5** |
| *1.4.2 Annual change in consumption share, ppts of GDP* | -0.3 | -0.1 | 8.0 | **9** |

| FUNDAMENTAL HEALTH | SE | EZ | Score | Rank |
|---|---|---|---|---|
| 3. Fiscal sustainability | Value | Value | 7.0 | 10 |
| **3.1 Government expenditure, % of GDP, 2002-2017** | 51.2 | 48.0 | 3.4 | **17** |
| **3.2 Structural fiscal balance, 2017** | | | 9.1 | **6** |
| *3.2.1 Structural balance, % of GDP* | 0.8 | -1.0 | 9.0 | **4** |
| *3.2.2 Structural primary balance, % of GDP* | 1.1 | 1.0 | 9.1 | **11** |
| **3.3 Public debt, % of GDP, 2017** | 39.0 | 87.2 | 7.9 | **8** |
| **3.4 Sustainability gap, % of GDP, 2018-2020** | 0.7 | 4.5 | 9.4 | **4** |
| **3.5 Quality of public finances, 2009-2015** | | | 5.3 | **19** |
| *3.5.1 Education/infrastruct. investment, % of public expenditure* | 3.0 | 2.8 | 6.6 | **10** |
| *3.5.2 Consumption, property taxes, % of tax revenue* | 31.2 | 32.9 | 4.1 | **20** |

| ADJUSTMENT | SE | EZ | Score | Rank |
|---|---|---|---|---|
| | Value | Value | 2.2 | 28 |
| **1. External adjustment, H2 2007-H1 2017** | | | 2.2 | **26** |
| *1.1 Change in net exports, ppts of GDP* | -2.0 | 2.1 | 2.4 | **25** |
| *1.2 Change in net exports relative to H2 2007, %* | -4.3 | 5.3 | 1.3 | **26** |
| *1.3 Change in export ratio, ppts of GDP* | 1.5 | 8.7 | 3.0 | **27** |
| **2. Fiscal adjustment 2009-2017** | | | 2.1 | **27** |
| *2.1 Size of fiscal adjustment* | | | 0.0 | **27** |
| *2.1.1 Change in structural primary balance, ppts of GDP* | -2.8 | 2.8 | 0.0 | **27** |
| *2.2 Quality of fiscal adjustment* | | | 4.2 | **17** |
| *2.2.1 Sum of expenditure and tax cuts, % of GDP* | 0.7 | -1.0 | 5.2 | **15** |
| **3. Labour cost adjustment 2009-2017** | | | 1.7 | **22** |
| *3.1 Change in RULC* | | | 2.9 | **18** |
| *3.1.1 Absolute change in RULC, %* | -2.9 | -2.7 | 2.6 | **16** |
| *3.2 Change in NULC* | | | 0.5 | **25** |
| *3.2.1 Absolute change in NULC, %* | 15.2 | 5.7 | 0.0 | **18** |
| **4. Reform drive 2010-2016** | 0.2 | 0.4 | 2.8 | **19** |

| FUNDAMENTAL HEALTH | SE | EZ | Score | Rank |
|---|---|---|---|---|
| 2. Competitiveness | Value | Value | 4.6 | 21 |
| **2.1 Exports, % of GDP, 2002-2017** | 46.3 | 39.8 | 2.4 | **20** |
| **2.2 Annual change in export ratio, ppts of GDP, 2002-2017** | 0.7 | 1.2 | 3.9 | **26** |
| **2.3 Labour costs** | | | 6.0 | **14** |
| *2.3.1 Annual change in RULC, %, 2002-2017* | -0.1 | -0.1 | 6.0 | **12** |
| *2.3.2 Annual change in NULC, %, 2002-2017* | 1.6 | 1.5 | 6.9 | **12** |
| *2.3.3 WEF hiring/firing practices, 2017/2018* | 3.5 | 3.5 | 5.0 | **13** |
| **2.4 Market regulations** | | | 6.0 | **12** |
| *2.4.1 WEF local competition intensity, 2017/2018* | 5.5 | 5.6 | 6.0 | **10** |
| *2.4.2 OECD services trade restrictiveness, 2016* | 0.2 | 0.2 | 2.8 | **11** |
| *2.4.3 Opening new business, days, 2017* | 7.0 | 8.2 | 9.3 | **8** |

| FUNDAMENTAL HEALTH | SE | EZ | Score | Rank |
|---|---|---|---|---|
| 4. Resilience | Value | Value | 7.2 | 7 |
| **4.1 Debt redemptions, % of GDP, 2018-2020** | 12.8 | 25.9 | 6.9 | **9** |
| **4.2 Debt held abroad, % of GDP, 2017** | 15.0 | 44.8 | 8.3 | **5** |
| **4.3 Household savings rate, %, 2017** | 18.2 | 12.0 | 10.0 | **1** |
| **4.4 Current account, % of GDP, 2017** | 4.9 | 3.0 | 8.0 | **6** |
| **4.5 Bank assets, % of GDP, Sep 2017** | 308.4 | 279.0 | 5.8 | **24** |
| **4.6 Private debt, % of GDP, 2016** | 188.5 | 136.9 | 4.4 | **22** |

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 28 EU members from 1 (best) to 28 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 103.

## United Kingdom

### Overall assessment
A large mature economy which benefits from a flexible labour market, deregulated economy and London as a global financial centre and tax revenue generator. But Brexit hurts: with less trade, investment and immigration, trend growth will be lower. The high twin deficit is a concern.

### 2017 key developments
Adjustment progress improves
- The weaker currency helps to raise exports and net exports
- Fiscal adjustment improves further (was less frontloaded than in eurozone)

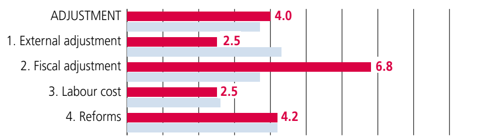
Fundamental health rises slightly
- Fiscal sustainability score rises
- Financial resilience slips

### Strengths
- Very deregulated markets
- Fiscal adjustment is sizeable
- High human capital scores
- High employment scores
- Tax and spend policies well targeted
- Small government

### Weaknesses
- High propensity to consume
- Low savings rate
- Huge financial centre, UK vulnerable to financial crises, Brexit
- High current account deficit
- Still high fiscal deficit

**Fundamental Health**


**Adjustment**




## Scores

| OVERALL RESULTS | UK Score | EZ Score | Rank |
|---|---|---|---|
| **FUNDAMENTAL HEALTH** | 5.7 | 5.8 | **18** |
| *1. Growth potential* | 5.7 | 5.2 | **16** |
| *2. Competitiveness* | 5.4 | 6.1 | **17** |
| *3. Fiscal sustainability* | 6.9 | 5.9 | **13** |
| *4. Resilience* | 4.7 | 6.1 | **25** |
| **ADJUSTMENT** | 4.0 | 3.7 | **17** |
| *1. External adjustment* | 2.5 | 4.3 | **25** |
| *2. Fiscal adjustment* | 6.8 | 3.7 | **3** |
| *3. Labour cost adjustment* | 2.5 | 2.6 | **19** |
| *4. Reform drive* | 4.2 | 4.2 | **11** |

| FUNDAMENTAL HEALTH | UK | EZ | Score | Rank |
|---|---|---|---|---|
| 1. Growth potential | Value | Value | 5.7 | **16** |
| **1.1 Trend growth 2002-2017** | | | 4.7 | **18** |
| *1.1.1 GVA ex construction, annual change, %* | 1.1 | 1.1 | 4.5 | **19** |
| *1.1.2 Deviation from norm, ppts* | 0.0 | -0.1 | 5.0 | **16** |
| **1.2 Human capital** | | | 6.3 | **2** |
| *1.2.1 Fertility rate, %, 2010-2017* | 1.9 | 1.6 | 7.5 | **4** |
| *1.2.2 Gap immigrant vs native employment rate, ppts* | -5.6 | -11.3 | 6.5 | **5** |
| *1.2.3 PISA score, 2015* | 500 | 496 | 3.7 | **10** |
| **1.3 Employment, 2002-2017** | | | 7.2 | **6** |
| *1.3.1 Employment rate, %* | 71.4 | 64.2 | 7.6 | **4** |
| *1.3.2 Annual change in ER, ppts* | 0.2 | 0.3 | 5.9 | **18** |
| *1.3.3 Youth unemployment rate, %* | 15.7 | 19.8 | 7.1 | **8** |
| *1.3.4 Long-term unemployment, %* | 1.7 | 4.4 | 8.1 | **5** |
| **1.4 Consumption, 2002-2017** | | | 4.4 | **24** |
| *1.4.1 Total consumption, % of GDP* | 85.5 | 76.4 | 2.3 | **27** |
| *1.4.2 Annual change in consumption share, ppts of GDP* | -0.1 | -0.1 | 6.6 | **17** |

| FUNDAMENTAL HEALTH | UK | EZ | Score | Rank |
|---|---|---|---|---|
| 3. Fiscal sustainability | Value | Value | 6.9 | **13** |
| **3.1 Government expenditure, % of GDP, 2002-2017** | 42.7 | 48.0 | 8.1 | **6** |
| **3.2 Structural fiscal balance, 2017** | | | 7.3 | **21** |
| *3.2.1 Structural balance, % of GDP* | -2.5 | -1.0 | 6.5 | **25** |
| *3.2.2 Structural primary balance, % of GDP* | 0.2 | 1.0 | 8.2 | **19** |
| **3.3 Public debt, % of GDP, 2017** | 86.6 | 87.2 | 4.5 | **20** |
| **3.4 Sustainability gap, % of GDP, 2018-2020** | 3.6 | 4.5 | 7.0 | **11** |
| **3.5 Quality of public finances, 2009-2015** | | | 7.6 | **7** |
| *3.5.1 Education/infrastruct. investment, % of public expenditure* | 3.1 | 2.8 | 5.9 | **17** |
| *3.5.2 Consumption, property taxes, % of tax revenue* | 44.3 | 32.9 | 9.3 | **3** |

| ADJUSTMENT | UK | EZ | Score | Rank |
|---|---|---|---|---|
| | Value | Value | 4.0 | **17** |
| **1. External adjustment, H2 2007-H1 2017** | | | 2.5 | **25** |
| *1.1 Change in net exports, ppts of GDP* | -0.9 | 2.1 | 2.8 | **23** |
| *1.2 Change in net exports relative to H2 2007, %* | -3.0 | 5.3 | 1.6 | **25** |
| *1.3 Change in export ratio, ppts of GDP* | 1.7 | 8.7 | 3.1 | **26** |
| **2. Fiscal adjustment 2009-2017** | | | 6.8 | **3** |
| *2.1 Size of fiscal adjustment* | | | 7.0 | **4** |
| *2.1.1 Change in structural primary balance, ppts of GDP* | 7.5 | 2.8 | 6.8 | **4** |
| *2.2 Quality of fiscal adjustment* | | | 6.6 | **2** |
| *2.2.1 Sum of expenditure and tax cuts, % of GDP* | 3.5 | -1.0 | 7.7 | **4** |
| **3. Labour cost adjustment 2009-2017** | | | 2.5 | **19** |
| *3.1 Change in RULC* | | | 3.9 | **13** |
| *3.1.1 Absolute change in RULC, %* | -3.7 | -2.7 | 3.2 | **15** |
| *3.2 Change in NULC* | | | 1.1 | **22** |
| *3.2.1 Absolute change in NULC, %* | 14.4 | 5.7 | 0.0 | **18** |
| **4. Reform drive 2010-2016** | 0.4 | 0.4 | 4.2 | **11** |

| FUNDAMENTAL HEALTH | UK | EZ | Score | Rank |
|---|---|---|---|---|
| 2. Competitiveness | Value | Value | 5.4 | **17** |
| **2.1 Exports, % of GDP, 2002-2017** | 28.0 | 39.8 | 3.4 | **17** |
| **2.2 Annual change in export ratio, ppts of GDP, 2002-2017** | 0.4 | 1.2 | 4.0 | **25** |
| **2.3 Labour costs** | | | 7.1 | **5** |
| *2.3.1 Annual change in RULC, %, 2002-2017* | 0.0 | -0.1 | 5.7 | **16** |
| *2.3.2 Annual change in NULC, %, 2002-2017* | 2.1 | 1.5 | 5.5 | **20** |
| *2.3.3 WEF hiring/firing practices, 2017/2018* | 5.1 | 3.5 | 10.0 | **1** |
| **2.4 Market regulations** | | | 7.2 | **6** |
| *2.4.1 WEF local competition intensity, 2017/2018* | 5.7 | 5.6 | 7.3 | **8** |
| *2.4.2 OECD services trade restrictiveness, 2016* | 0.2 | 0.2 | 4.6 | **6** |
| *2.4.3 Opening new business, days, 2017* | 4.5 | 8.2 | 9.9 | **2** |

| FUNDAMENTAL HEALTH | UK | EZ | Score | Rank |
|---|---|---|---|---|
| 4. Resilience | Value | Value | 4.7 | **25** |
| **4.1 Debt redemptions, % of GDP, 2018-2020** | 17.1 | 25.9 | 5.8 | **15** |
| **4.2 Debt held abroad, % of GDP, 2017** | 28.1 | 44.8 | 6.9 | **10** |
| **4.3 Household savings rate, %, 2017** | 4.8 | 12.0 | 3.1 | **21** |
| **4.4 Current account, % of GDP, 2017** | -5.1 | 3.0 | 3.3 | **27** |
| **4.5 Bank assets, % of GDP, Sep 2017** | 415.2 | 279.0 | 4.0 | **27** |
| **4.6 Private debt, % of GDP, 2016** | 168.1 | 136.9 | 5.3 | **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 28 EU members from 1 (best) to 28 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on page 103.

# Methodology

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

We compare the current scores and the ranks to those of last year. However, due to revisions to back data for labour costs, exports, imports and some other parameters, the values we give for 2016 scores and ranks can differ slightly from those published in *The 2016 Euro Plus Monitor*. We have recalculated the 2016 results on the basis of the revised data.

To ensure a rough consistency of the data over time, we have adjusted the Irish national accounts data for 2015, 2016 and 2017 for the strong upward revision in Irish GDP in Q1 2015 that reflected the restructuring of large multinational enterprises in Ireland rather than any underlying sudden surge in Irish output.

## Notes on Key Components

### I. Adjustment

#### 1. External Adjustment

1.1 Change in net exports, in percentage points of GDP, H2 2007-H1 2017. Source: Eurostat

1.2 Change in net exports relative to H2 2007, in percent, H2 2007-H1 2017. Source: Eurostat

1.3 Change in export ratio, in percentage points of GDP, H2 2007-H1 2017. Source: Eurostat

#### 2. Fiscal Adjustment

2.1 Size of fiscal adjustment, in percentage points of GDP, 2009-2017

2.1.1 Change in structural primary balance, in percentage points of GDP, 2009-2017. Source: European Commission Autumn 2017 forecasts, November 2017; Berenberg calculations

2.1.2 Change in structural primary balance, in percentage points of 2009-2020 required shift to achieve 60% public debt-to-GDP ratio by 2030, adjusted for age-related spending, 2009-2017. Sources: European Commission Autumn 2017 forecasts, November 2017; IMF Fiscal Monitor October 2014 (Greece, Latvia, Lithuania, Bulgaria October 2013); Berenberg calculations

2.2 Quality of fiscal adjustment, in percentage points of GDP, 2009-2017

2.2.1 Sum of government expenditure and tax cuts, in percent of GDP, 2009/2010-2015/2016. Source: Eurostat COFOG

2.2.2 Change in education and infrastructure investment, in percent of total government expenditure, 2009/2010-2014/2015. Source: Eurostat

2.2.3 Change in revenue from consumption and property taxes, in percent of total tax revenue, 2009/2010-2014/2015. Source: Eurostat

#### 3. Labour Cost Adjustment

3.1 Change in Real Unit Labour Costs (RULC), 2009- 2017

3.1.1 Absolute change in RULC, in percent, 2009- 2017.

3.1.2 Shift in RULC trend = cumulative change in RULC, 2000-2009, minus the cumulative change in RULC, 2009-2016, each minus eurozone changes in same period. Source: European Commission Autumn 2017 forecasts, November 2017

3.2 Change in Real Unit Labour Costs (NULC), 2009- 2017

3.2.1 Cumulative change in Nominal Unit Labour Costs (NULC) in euros, 2009-2016, in percent. Non-eurozone countries: 2007-2016

3.2.2 Shift in NULC (euros) trend = cumulative change in NULC (euros), 2000-2009, minus the cumulative change in NULC (euros), 2009-2016, each minus eurozone changes in same period. Non-eurozone countries: 2000-2007 minus 2007-2016 changes, each minus eurozone average. Source: European Commission Autumn 2017 forecasts, November 2017

#### 4. OECD Reform Responsiveness Indicator

4. OECD Reform Responsiveness Indicator, average for 2010, 2011/2012, 2013/2014 and 2015/2016, 0-1 range index. Source: OECD, Going for Growth: Policies for Growth to Benefit All (Paris: OECD, 2017)

## II. Fundamental Health Indicator

### 1. Growth Potential

1.1 Trend growth

1.1.1 Change in gross value added ex construction, in percent, average annual, 2002-2017. Source: Eurostat

1.1.2 Deviation of annual average change in gross value added ex construction from income-adjusted norm, in percent points, 2002-2017. Sources: Eurostat, Berenberg calculations

1.2 Human capital

1.2.1 Fertility rate, in percent, average, 2010-2017. Source: United Nations

1.2.2 Integration of immigrants (1) deviation of *employment* rates of foreign born population from native population, in percentage points, average, 2011-2016; *education*: average of score based on deviation between immigrants and natives in (2a) change in education attainment rates between primary and tertiary education, average, 2011-2016 and (2b) early school leaver rates, average, 2011-2016; *social inclusion*: average score based on deviation between immigrants and natives in (3a) median equalised net incomes, average, 2011-2016 and (3b) at-risk-of-poverty-rates, average, 2011-2016 (3c) home ownership rates, averages, 2011-2016; (4) citizenship acquisition rates, 2015. All based on Eurostat "Migrant Integration Indicators." Sources: Eurostat, Berenberg calculations

1.2.3 Education: score in OECD's Programme for International Student Assessment (PISA) study (average of reading, science and mathematics scores), 2015. Source: OECD

1.3 Employment

1.3.1 Employment rate, in percent of all 15-64 year-olds, average, 2002-2017. Source: Eurostat

1.3.2 Change in employment rate, in percent points, annual average, 2002-2017. Source: Eurostat

1.3.3 Youth (15-24 year-olds) unemployment rate, average, 2002-2017. Source: Eurostat

1.3.4 Long-term (more than 12 months) unemployment rate (15-64 year-olds), in percent of active population, average, 2002-2017. Source: Eurostat

1.4 Consumption

1.4.1 Total public and private consumption, in percent of GDP, average, 2002-2017. Source: Eurostat

1.4.2 Change in consumption rate, in percent points, annual average, 2002-2017. Source: Eurostat

### 2. Competitiveness

2.1 Exports, in percent of real GDP, average, 2002-2017. Score based on 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 Change in export ratio, in percent points of real GDP, annual average, 2002-2017. Score based on average annual rise relative to starting point average 2002/2003. Source: Eurostat

2.3 Labour costs

2.3.1 Change in Real Unit Labour Costs (RULC), in percent, annual average, 2002-2017. Source: European Commission Autumn 2017 forecasts, November 2017

2.3.2 Change in Nominal Unit Labour Costs (NULC) (national currency), in percent, annual average, 2002-2017. Source: European Commission Autumn 2017 forecasts, November 2017

2.3.3 World Economic Forum, Labour Market Efficiency, Hiring and Firing Practices, index, 2017/2018, 1 (heavily impeded by regulations) - 7 (extremely flexible) range. Source: World Economic Forum Global Competitiveness Report 2017/2018, September 2017

2.4 Market regulations

2.4.1 World Economic Forum, Good Market Efficiency, Local Competition Intensity Index, 2017/2018, 0 (not intense at all) - 7 (extremely intense) range. Source: World Economic Forum Global Competitiveness Report 2017/2018, September 2017

2.4.2 OECD Service Trade Restrictiveness Index, 2016. Source: OECD

2.4.3 World Bank Doing Business Report, days to open a new business, 2017. Score also includes cost of opening new businesses, in percent of income per capita. Source: World Bank Doing Business Report, October 2017

### 3. Fiscal Sustainability

3.1 Government expenditure, in percent of GDP, average, 2002-2017. Source: European Commission Autumn 2017 forecasts, November 2017

3.2 Structural fiscal balance

3.2.1 Structural fiscal balance, in percent of GDP, 2017. Source: European Commission Autumn 2017 forecasts, November 2017

3.2.2 Structural primary fiscal balance, in percent of GDP, 2017. Source: European Commission Autumn 2017 forecasts, November 2017; Berenberg calculations

3.3 Public debt, in percent of GDP, end of 2017. Source: European Commission Autumn 2017 forecasts, November 2017

3.4 Sustainability gap, adjusted for age-related spending, in percent of GDP, 2017-2020. Source: IMF Fiscal Monitor, October 2014 (Greece, Latvia, Lithuania, Bulgaria October 2013); European Commission Autumn 2017 forecasts, November 2017; Berenberg calculations

3.5 Quality of public finances, in percent of GDP, 2009-2015

3.5.1 Education and infrastructure investment, in percent of total government expenditure, average, 2009-2015. Score based on deviation of share from adjusted norm based on GDP per capita (income). Source: Eurostat; Berenberg calculations

3.5.2 Revenue from consumption and property taxes, in percent of total tax revenue, average, 2009-2015. Source: Eurostat

### 4. Resilience

4.1 Total government bond and bill redemptions, in percent of 2016 nominal GDP, 2018-2020. Source: Bloomberg

4.2 Share of public debt held by foreigners, in percent of GDP, 2016. Source: IMF Fiscal Monitor, October 2017; Eurostat

4.3 Gross household savings rate, in percent of disposable income, 2017. Source: European Commission Autumn 2017 forecasts, November 2017

4.4 Current account balance, in percent of GDP, 2017. Source: European Commission Autumn 2017 forecasts, November 2017

4.5 Monetary Financial Institutions total assets/liabilities, in percent of 2015 nominal GDP, September 2017. Score based on deviation of share from adjusted norm based on GDP per capita (income). Outlier Luxembourg excluded from norm regression. Sources: ECB, Eurostat; Berenberg calculations

4.6 Private sector debt, in percent of GDP, 2016. Source: Eurostat

# References and Additional Reading


- 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. *Autumn 2017 Economic Forecast: Continued Growth in a Changing Policy Context* (Brussels: European Commission, 2017)
- 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 2013: Taxing Times* (Washington, DC: IMF, 2013)
- -----------. *Fiscal Monitor October 2014: Back to Work: How Fiscal Policy Can Help* (Washington, DC: IMF, 2014)
- -----------. *Fiscal Monitor October 2017: Tackling Inequality* (Washington, DC: IMF, 2017)
- Organisation for Economic Co-operation and Development. *Programme for International Student Assessment (PISA) 2012 Results: What Students Know and Can Do: Student Performance in Reading, Mathematics and Science, Vol. 1* (Paris: OECD, revised edition, February 2014)
- -----------. *PISA 2015 Results: What Students Know and Can Do: Student Performance in Reading, Mathematics and Science, Vol. 1* (Paris: OECD, December 2016)
- -----------. *Economic Policy Reforms 2017: Going for Growth* (Paris: OECD, 2017)
- Schmieding, Holger. "Tough Love: The True Nature of the Euro Crisis," *Berenberg Macro Views* (London: Berenberg, 2012)
- -----------. "Coping with the Politics of Anger", *Berenberg Macro Views* (London, Berenberg, 2016)
- -----------. "Reforming Europe: Which Ideas Make Sense?", *Berenberg Macro Views* (London, Berenberg, 2017)
- United Nations. *United National World Population Prospects: The 2017 Revision* (New York: United Nations, 2017)
- World Bank. *Doing Business 2018: Reforming to Create Jobs* (Washington, DC: World Bank, 2017)
- World Economic Forum. *Global Competitiveness Report 2017-2018* (Geneva: World Economic Forum, 2017)

**Previous full editions of The Euro Plus Monitor**

- Schmieding, Holger. *The 2015 Euro Plus Monitor: More Progress, New Risks* (London/Brussels: Berenberg/Lisbon Council, 2015)
- Schmieding, Holger, and Florian Hense. *The 2016 Euro Plus Monitor: Coping with the Backlash* (London/Brussels: Berenberg/Lisbon Council, 2016)

- -------------. *The Euro Plus Monitor Autumn 2017 Update: The Next Stage* (London/ Brussels: Berenberg/ Lisbon Council, 2017)
- 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, and Christian Schulz. *The 2014 Euro Plus Monitor: Leaders and Laggards* (London/ Brussels: Berenberg/Lisbon Council, 2014)
- 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)



## Acknowledgements

The authors and project team would like to thank Peter Praet, chief economist and executive board member of the European Central Bank (ECB), who joined **The 2017 Euro Summit** in Brussels where this policy brief was launched. Special thanks as well to Miel Bakker, Marco Buti, Carsten Hesse, Stéphanie Lepczynski, Tim Lyon, Catherine Mann, Chrysoula Mitta, David Osimo, Klaus Regling, Alain de Serres, Maarten Verwey, Jean-Pierre Vidal, Ilaria Vigo and Karsten Wehmeier. As always, any errors of fact or judgment are the author's sole responsibility.

Lisbon Council Policy Brief, Vol. 11, No. 2 (2017)
ISSN: 2031-0943 (print) 2031-0951 (digital)

Published 30 November 2017
Responsible editor: Paul Hofheinz

First published in Belgium and the United Kingdom by the Lisbon Council and Berenberg

Design by karakas

**About Berenberg**
Founded in 1590, Berenberg is one of Europe's leading private banks today, with over 1,500 employees in its wealth management, asset management, investment banking and corporate banking divisions. Headquartered in Hamburg and led by managing partners, Berenberg maintains a strong presence in the financial centres of Frankfurt, London, New York and Zurich. Its website is www.berenberg.com.

**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.

---

BERENBERG
PARTNERSHIP SINCE 1590

theLisboncouncil
think tank for the 21st century

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

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