The 2011 EURO PLUS MONITOR

PROGRESS AMID THE TURMOIL

Private Bankers founded 1590
BERENBERG BANK
Joh. Berenberg, Gossler & Co. KG

the Lisbon council

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Policy Brief

The 2011 Euro Plus Monitor: Progress Amid the Turmoil

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‘Parts of the European economy are improving quickly – a fact which the steady trickle of negative crisis-related news has sometimes obscured from view.’

How is the European economy faring? Who has the strongest underlying position? And who is improving the fastest? These are the questions we set out to answer in **The 2011 Euro Plus Monitor,** produced by Berenberg Bank and the Lisbon Council.[1] The publication appears this year for the first time, and is intended to inform and enrich public debate about ways to improve economic performance and strengthen the resilience against financial crises. It is also meant to feed into and accompany the Euro Plus Pact, launched and championed by the European Council earlier this year, to provide a much-needed growth and competitiveness component to recent European reform agendas.[2]

The 2011 Euro Plus Monitor evaluates and ranks the 17 countries of the eurozone based on two key criteria.[3] First and foremost, it looks at countries' underlying economic strength, calculated here as an **Overall Health Indicator** based on four key sub-indicators (long-term growth potential, competitiveness, fiscal sustainability and fundamental resilience to financial shocks).[4] But economies are not stagnant pictures. To the contrary, parts of the European economy are improving quickly – a fact which the steady trickle of negative crisis-related news has sometimes obscured from view. To shed more light on the progress being made at the country level, we set out to measure not just the overall situation of the 17 countries of the eurozone, but the speed, scope and effectiveness with which these countries are adjusting. The result is the **Adjustment Progress Indicator** – a second composite indicator that does not assess the recent situation (for instance, how wide is a country's fiscal deficit?) but examines the dynamics of change (for instance, how fast is the deficit now falling?). More precisely, the Adjustment Progress Indicator looks at three sub-indicators, namely 1) the external adjustment, 2) the fiscal adjustment, and 3) the change in real unit labour costs.[5] The goal is to give a nuanced picture not just of where countries stand, but of who is (or is not) improving quickly enough to provide the basis for sustainable economic growth and social prosperity.
We summarise the results in tables 1 and 2 on page 3 and chart 1 on page 4 of this policy brief. The outcome in individual countries is discussed and evaluated in the individual country profiles, which begin on page 56.

Our results show, first and foremost, that:

1. The **eurozone** as a whole is turning into a much more balanced and potentially more dynamic economy. Many of those countries most in need to adjust, as shown by low rankings in the Overall Health Indicator, are now making the greatest progress towards restoring their fiscal balance and external competitiveness, as shown by high rankings in the Adjustment Progress Indicator.

1. Berenberg Bank and the Lisbon Council would like to thank Hamburgisches WeltWirtschaftsInstitut (HWWI) for their assistance with econometric modeling and data collection as a substantial part of this project.
2. For details on the Euro Plus project, see European Council, *European Council Conclusions,* EUCO 10/1/11 REV 1, 24-25 March 2011 (Brussels: European Council, 2011).
3. For reasons of scale and scope, the Euro Plus Monitor is limited to the 17 eurozone countries: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia and Spain. Amongst non-eurozone members of the European Union, Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania have also expressed a willingness to adhere to the Euro Plus Pact.
4. The calculations for the Overall Health Check Indicator are based on backward-looking hard data.
5. The calculations in the Adjustment Progress Indicator are mostly based on hard data but also partly on European Commission forecasts and Berenberg Bank's own forecasts and adjustments.

Table 1: Countries Ranked by Adjustment Progress Indicator

Rank	Country	Total Score	External	Fiscal	RULC
1	Estonia	8,4	9,9	5,6	9,8
2	Greece	6,6	6,4	8,2	5,2
3	Ireland	6,5	7,0	4,5	7,9
4	Malta	6,4	7,9	4,4	7,0
5	Spain	5,7	6,5	7,5	3,1
6	Slovakia	5,0	5,0	5,7	4,4
7	Portugal	4,9	5,1	6,4	3,2
8	Netherlands	4,0	3,2	5,1	3,8
9	Luxembourg	4,0	3,3	1,9	6,8
10	Finland	3,8	0,5	3,5	7,5
11	Slovenia	3,6	4,6	3,6	2,6
12	Italy	3,3	2,3	4,7	2,9
13	Cyprus	2,9	4,0	3,4	1,3
14	Belgium	2,6	2,8	1,6	3,3
15	France	2,5	2,5	3,9	1,3
16	Germany	2,2	1,6	3,7	1,1
17	Austria	2,1	3,2	1,6	1,6
	Euro17	3,2	3,0	4,5	2,2

Table 2: Countries Ranked by Overall Health Indicator

Rank	Country	Total Score	Growth	Competitiveness	Fiscal Sustainability	Resilience
1	Estonia	7,4	5,6	6,4	9,3	8,2
2	Luxembourg	7,3	7,1	6,4	9,2	6,6
3	Germany	6,8	6,6	7,9	6,0	6,7
4	Netherlands	6,8	7,5	8,2	5,8	5,8
5	Slovenia	6,6	6,2	6,7	5,6	7,7
6	Slovakia	6,3	5,2	6,7	6,6	6,8
7	Finland	6,2	6,2	4,5	7,1	7,2
8	Austria	5,6	6,1	5,3	5,0	6,1
9	Belgium	5,6	5,5	6,7	5,0	5,2
10	Ireland	4,7	4,7	7,0	3,5	3,7
11	Malta	4,6	4,2	6,4	5,4	2,4
12	Spain	4,5	3,4	3,8	5,8	5,1
13	France	4,5	4,7	3,7	4,1	5,3
14	Italy	4,4	3,2	4,1	4,8	5,4
15	Portugal	3,8	3,2	4,8	3,8	3,6
16	Cyprus	3,8	3,8	2,4	6,3	2,8
17	Greece	3,0	4,0	2,7	2,2	2,9
	Euro17	5,5	5,0	6,2	5,5	5,3

Notes

For the scores, we ranked all sub-indicators on a linear scale of 10 to 0, with 10 for the best and 0 for the worst. In most cases, we calibrated the linear scale so that the top performing country was slightly below the 10 benchmark and the worst performing slightly above the 0 bottom, leaving some room for further changes in the readings in coming years within the 10 to 0 scale. For some indicators, small countries had results so far outside the range of the readings of others that we did not use these outliers to define the upper or lower end of the range. We accorded these outliers the top score of 10 or the bottom score of 0, respectively.

The composition of gross domestic product usually changes with rising levels of per capita income. We thus adjusted the annual average growth in non-construction gross value added per labour force, as well as the share of government outlays in GDP for per capita GDP. Separately, we adjusted the share of exports in GDP for the size of a country (nominal GDP) and its level of development (per capita GDP). For further details, see the description in the text on the various sub-indicators.

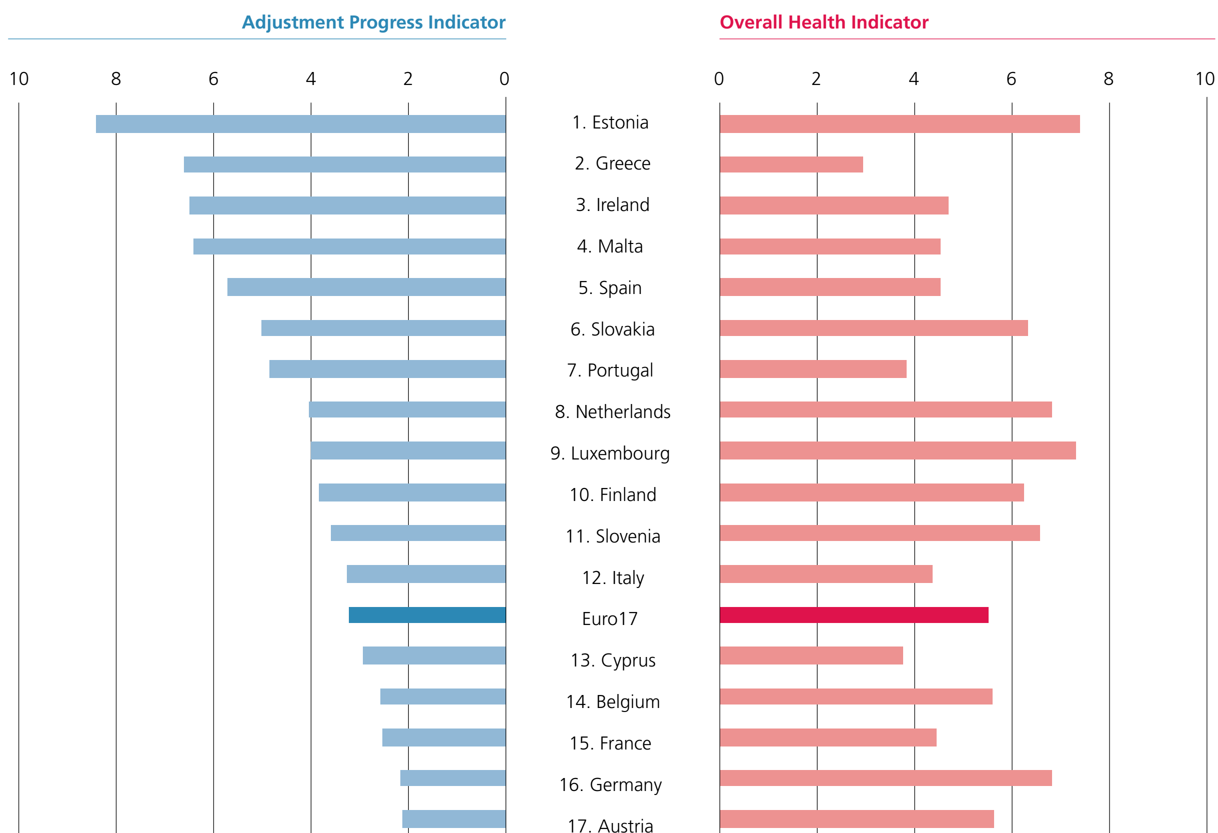
'The eurozone as a whole is turning into a much more balanced and potentially more dynamic economy.'

2. All four of the eurozone periphery countries disparagingly labelled PIGS – **Portugal** (No. 7), **Ireland** (No. 3), **Greece** (No. 2) and **Spain** (No. 5) – place within the top seven countries in the Adjustment Progress Indicator and within the top six in the External Adjustment sub-indicator. The sizable gains in these countries' net exports show that it is possible to correct even major imbalances within the confines of monetary union. While domestic demand has turned into the main driver of the German economy, a dramatic turnaround in net exports is cushioning the adjustment crisis on the eurozone periphery.

3. Eurozone members are going through a wave of sweeping structural and fiscal reforms and a major overhaul of governance structures while other more heavily indebted economies (such as the US and Japan) are not. If the eurozone gets through the current acute crisis and continues to make steady progress at the national level of the type captured in this policy brief, Europe could yet lead the global economy on a host of

Chart 1: Eurozone Countries Ranked by Adjustment Progress Indicator

The right hand column indicates the country's relative ranking in the Overall Health Indicator

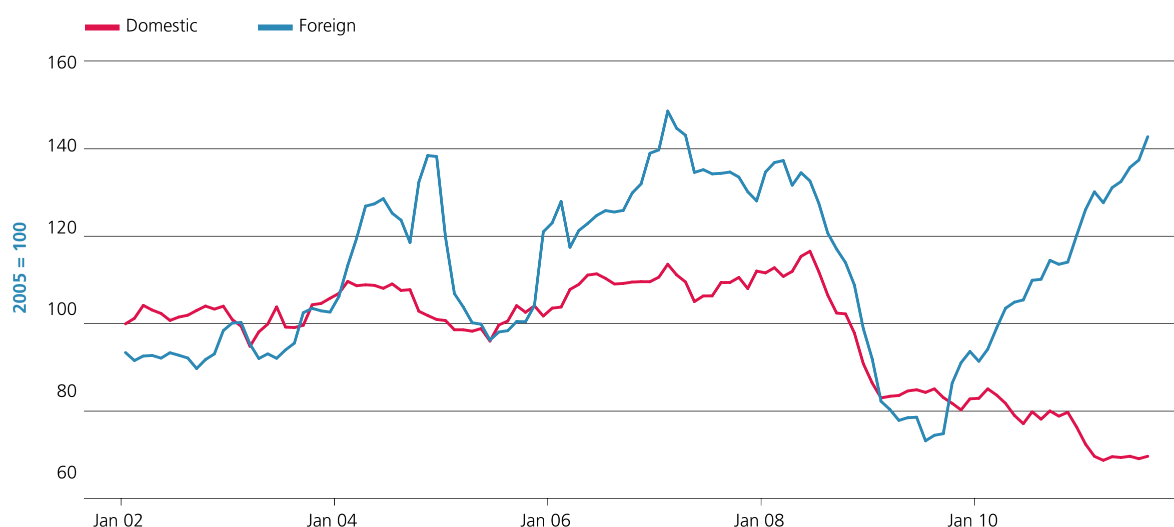


Source: Berenberg Bank

‘If the eurozone gets through the current acute crisis and continues to make steady progress at the national level, Europe could yet lead the global economy on a host of performance-based criteria.’

Greece: Industrial Orders from Abroad Rise

Index levels, three month moving averages



Greece is reeling under a severe squeeze of domestic demand. But Greece is adjusting. While domestic orders are plunging, export orders are surging. However, exports of goods account only for 8% of Greek GDP. Greece also needs a turnaround in tourism and in receipts for transport services. Whereas tourist arrivals are growing (especially outside Athens), receipts for transport services still look weak. As the transport industry tends to be very footloose, higher taxes and stronger tax enforcement may be driving part of that industry abroad.

Source: Eurostat

performance-based criteria, as European leaders vowed to do in 2000.[6]

4. The evidence presented in this policy brief shows that the oft-heard suggestion that crisis countries like Greece, Portugal and Spain need to leave the common currency to regain their external balance is wrong. Instead, the changes forced by the crisis have put the eurozone on track for a major convergence between core and peripheral countries. Countries that have been lagging behind (such as Greece and Portugal) are mending their ways. Conversely, some of the countries that have little need to adjust (such as Germany), as shown by top rankings in the Overall Health Indicator, are relaxing the fiscal reins and reducing their external surpluses because they can afford it. They thus show up with low scores in the Adjustment Progress Indicator.

6. In 2000, European leaders vowed to make Europe “the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion.” An earlier Lisbon Council study showed that, had crisis not intervened, Europe was surprisingly on track to meet that goal, with excellent pre-crisis performance, particularly in job creation and productivity improvements.

‘The oft-heard suggestion that crisis countries like Greece, Portugal and Spain need to leave the common currency to regain their external balance is wrong.’

5. **Greece** is a point in case. While it comes in last among the 17 eurozone countries in the Overall Health Indicator, it is among the fastest changing economies, ranking No. 2 in the Adjustment Progress Indicator, ahead of **Ireland** (No. 3), **Malta** (No. 4) and **Spain** (No 5), and well ahead of **Italy** (No. 12) and **France** (No. 15). Greece has adjusted in two major and closely intertwined respects: through an exceptionally harsh fiscal squeeze, Athens has slashed its underlying fiscal deficit and curtailed its appetite for imports in a dramatic way. As a result, its net import position has become much less negative. Once the Greek economy returns to growth, Greece looks set to enjoy a huge fiscal improvement. The turnaround in Greece's underlying fiscal and competitiveness positions indicates that the widespread perception that Greece is a bottomless pit and that taxpayers are being asked to throw good money after bad is wrong – at least if policy makers prevent the current crisis from spiralling out of control.

6. The extreme experience of Greece points to an urgent need to refocus the European debate away from short-term austerity towards the long-term pro-growth reforms that are the hallmark of the Euro Plus Pact. For Greece, the focus should be on removing red tape, opening up markets and restoring growth by creating better conditions for investment, and not on imposing ever greater fiscal austerity. Adjustment programmes negotiated with the IMF, European Commission and European Central Bank should thus focus on such steps to enhance the long-term growth potential. Such a policy would in itself do much to correct the remaining Greek fiscal imbalances (see the Greece country profile on page 63 for more).

7. Alarm bells should be ringing for **France**. Among the six eurozone countries with an AAA rating, France achieves by far the lowest ranking in the overall health check. The results are too mediocre for a country that wants to safeguard its place in the top league.[7] Specifically, France ranks No. 13 on the Overall Health Check Indicator, just ahead of **Italy** (No. 14) but slightly behind **Spain** (No. 12). Even worse, we see little adjustment progress for France in the last two to three years in the Adjustment Progress Indicator, where France comes in at No. 15, behind **Belgium** (No. 14) and **Cyprus** (No. 13). Countries in rude overall health such as Germany have little need to adjust. But for a country with significant health problems such as France, the lack of adjustment is a concern. In most criteria used to rate progress in the Euro Plus Monitor, France finds itself with scores closer to Spain and Italy than to other AAA-rated European countries like Germany, Austria and the Netherlands. Safeguarding France's position in the top league of European economies will require significant reforms, ideally starting ahead of the next French presidential election. And whoever wins the next election, chances are the post-election administration will have no choice but to either adopt unpopular reforms immediately – or to adopt them with a vengeance a little later after further serious slippage in the French performance relative to Germany. Specifically, France needs to rein in government consumption, improve education prospects especially for its immigrant population and make better use of its well-talented workforce. France needs to make it easier for companies

7. As of November 2011, the six eurozone countries with AAA rating were Austria, Finland, France, Germany, Luxembourg and the Netherlands.

'The changes forced by the crisis have put the eurozone on track for a major convergence between core and peripheral countries.'

to hire people by reducing the degree of employment protection that favours the privileged insiders over those looking to get a job.

8. **Italy** ranks only No. 14 on the Overall Health Indicator. It suffers mostly from a very low rate of trend growth and overregulated service markets. Low productivity growth rooted in excessive regulations is the Achilles heel of the Italian economy. Italy is also lagging behind in its adjustment efforts, coming in only as No. 12 on the Adjustment Progress Indicator. A high share of government expenditure in GDP suggests that Italy needs sustained spending restraint and pro-growth structural reforms rather than tax hikes to improve its fiscal position further. If Italy chose serious structural reforms that could unleash its economic potential, it would have little need for a significant fiscal squeeze courtesy of its comparatively healthy primary fiscal balance.

9. **Estonia**, with 1.28 million people and €14.3 billion gross domestic product, comes out on top of the Euro Plus Monitor, placing No. 1 in both the overall health and the adjustment progress indicators. Estonia's success reflects the inherent vigour of the Baltic tiger as well as the fact that Tallinn has already had more time for its adjustment efforts to show results. The Estonian bubble burst well before the Greek debt crisis erupted, forcing Estonia to correct some excesses early on. In the case of Greece, the overall adjustment is still in its painful first phase in which a collapse of imports, layoffs of least productive workers and severe downward pressure on wages improve the external balance and the competitive position. Estonia – and to a lesser extent **Ireland** (No. 3, on the Adjustment Progress Indicator) – have already progressed to the second phase of adjustment in which surging exports and productivity-boosting private sector investment drive the adjustment further. Beyond doing well, Estonia is also preparing itself well for the future.

10. Among the more interesting developments is that wage pressures within the eurozone have started to converge (see chart 4 on page 16 for more). In terms of real unit labour costs, 12 of the 17 eurozone countries have reversed their positions relative to the eurozone average since 2008, either moving from below- to above-average increases in real unit labour costs or vice versa. Whereas wage moderation has ended in Germany and Austria, it has taken hold in much of the periphery. This is important because it means serious structural adjustments can happen – and are happening – within the confines of the monetary union. And the eurozone itself is moving closer to the definition of an optimal currency union.[8]

11. **Germany** comes across as a near-perfect reform success story. The legacy of post-unification follies left the erstwhile "sick man of Europe" (as Germany was described in *The Economist* newspaper in 1999)[9] no choice but to fundamentally reform itself in the years after 2003. Having returned to rude health by 2006, as a result of often difficult

8. See Robert A. Mundell, "A Theory of Optimum Currency Areas," *The American Economic Review*, Vol. 51, No. 4 (Pittsburgh: American Economic Association, 1961).
9. See also Holger Schmieding, "Germany: The Sick Man of Europe?" *Merrill Lynch European Monitor* (London: Merrill Lynch, 1998).

'The extreme experience of Greece points to an urgent need to refocus the European debate away from short-term austerity towards the long-term pro-growth reforms that are the hallmark of the Euro Plus Pact.'

and unpopular reforms that eventually cost then-Chancellor Gerhard Schröder his job, neither the post-Lehman slump nor the sovereign debt crisis have exposed a major need to adjust further. Germany's relatively high ranking (No. 3) on the overall health check, coupled with its extremely low score – No. 16 out of 17 places – for post-2008 adjustment reflects this. The recent rebound in German wage inflation (from very subdued to essentially normal), a modest fiscal relaxation and a shift from net exports to domestic demand are part and parcel of intra-euro convergence rather than causes for concerns.

12. **Spain** is making relatively speedy progress. It ranks No. 5 on the Adjustment Progress Indicator, though its No. 12 spot on the Overall Health Indicator shows that it still has a lot of adjustment ahead. Its overall health is still held back by sluggish progress in developing an alternative to the construction-based growth of the pre-2007 period and even more so by the dismal state of its labour market. A serious labour market reform, perhaps after the election on 20 November, could turn Spain into one of the more dynamic economies of the eurozone.

13. The **Netherlands** ranks No. 8 on the Adjustment Progress Indicator and No. 4 on the Overall Health Indicator, while **Slovakia** finishes at No. 6 on both the Adjustment Progress Indicator and the Overall Health Indicator. These two otherwise dissimilar countries are among the few economies which can boast significant adjustment progress despite enjoying fairly robust overall health already. With its No. 4 finish, the Netherlands has the edge in terms of longer-term fundamentals, while Slovakia's No. 6 finish in adjustment progress gives it the better score on embracing and delivering improvement.

14. **Cyprus** is a potential problem. Its No. 16 result on the Overall Health Indicator is matched with an almost equally low No. 13 finish on the Adjustment Progress Indicator. While it enjoys a slightly better economic starting situation than Greece, it has not gone through any of the potentially growth-enhancing adjustments that Greece has. However, with 800,000 people and annual GDP of €17 billion, it weighs little on Europe's overall economic performance.

15. Even the poor performers should take heart, as there is a hidden upside in many of the low scores. Low rankings in some key sub-indicators – which will be discussed below – also mean that these countries could raise their performance noticeably by addressing these specific shortcomings. Three examples are labour market and education reforms in France, labour market reforms in Spain and a deregulation of the service sector coupled with serious cuts in the red tape that is obstructing the opening and growth of new businesses in Italy.

‘Once the Greek economy returns to growth, Greece looks set to enjoy a huge fiscal improvement.’

I. Adjustment Progress Indicator

The European debt crisis has forced a substantial adjustment on a number of European economies. To correct past excesses in public and private spending, governments and households need to consume less relative to what they produce and earn. In economic statistics, this should show up in three major ways: 1) in a reduced fiscal deficit at home, 2) in a rise in exports relative to imports in the external accounts, and 3) in a correction in real unit labour costs forced by the crisis and the fiscal squeeze.[10]

The Adjustment Progress Indicator is separate from the Overall Health Indicator, which we will present and describe in the next section. Whereas the Overall Health Indicator ranks countries for their fundamental position on a wide array of sub-indicators that determine long-term growth potential, fiscal sustainability and fundamental resilience to external shocks, the Adjustment Progress Indicator tracks the progress countries are making at the moment on the most important short- to medium-term adjustment criteria.
To calculate this, we focus on three measures of adjustment which we will discuss in this section: 1) reduction and/or changes in the fiscal deficit, 2) the rise (or fall) in exports relative to imports in the external accounts, and 3) the changes in unit labour costs relative to other eurozone members. Once we have calculated these figures for each country, we average out the three sub-indicators to give an overall Adjustment Progress Indicator score and a ranking to each country.

A good score on the Adjustment Progress Indicator shows that countries are getting results in the key areas that their fiscal and structural reforms are meant to address. **Estonia** (No. 1) comes out on top. But **Malta** (No. 4) and the famous PIGS – **Portugal** (No. 7), **Ireland** (No 3), **Greece** (No. 2) and **Spain** (No. 5) – also dominate the top of the ranking.[11] This is a sign that reforms and the pains of adjustment are showing results in these countries.

A low score on the Adjustment Progress Indicator can mean two things. It can show that countries did not adjust because they did not want to. This seems to be the case in **France** (No. 15). But it can also signal that countries did not adjust much because they did not need to. This is the case with **Germany** (No. 16) and **Austria** (No. 17). These countries score well in the Overall Health Indicator, where Austria ranks No. 8 and Germany ranks No. 3. This means these countries can afford a relatively relaxed fiscal stance, an above-average rise in real unit labour costs and a faster rise in imports than exports. Low German and Austrian scores for recent adjustment progress are part of the convergence within the eurozone towards best practice. For **France**, however, its low ranking in Adjustment Progress (No. 15) is not offset by a similarly high performance in Overall Health (where it ranks No. 13). In other words, unlike Austria and Germany, France looks much shakier on its long-term fundamentals. In France, the lack of major adjustment progress is a genuine concern.

10. To some extent, our fiscal analysis may be outdated by the time this report is published. We rely on European Commission projections published on the European Commission homepage on 03 September 2011. We thus do not incorporate more recent fiscal initiatives and results. Also, the overall Greek fiscal-adjustment need may now be judged to be bigger than estimated before, reflecting the unexpected depth of Greek recession. But in the case of Greece, the likely debt relief can mitigate such extra need for austerity. In addition, the depth of the recession there also raises the chances of a faster snapback in real and nominal GDP once the gloom lifts.
11. Slovakia is No. 6 – a great score for a country that also ranks fairly high (No. 6) on the Overall Health Indicator.

‘The European debt crisis has forced a substantial adjustment on a number of European economies.’

I.1 External Adjustment: Swing in Net Exports

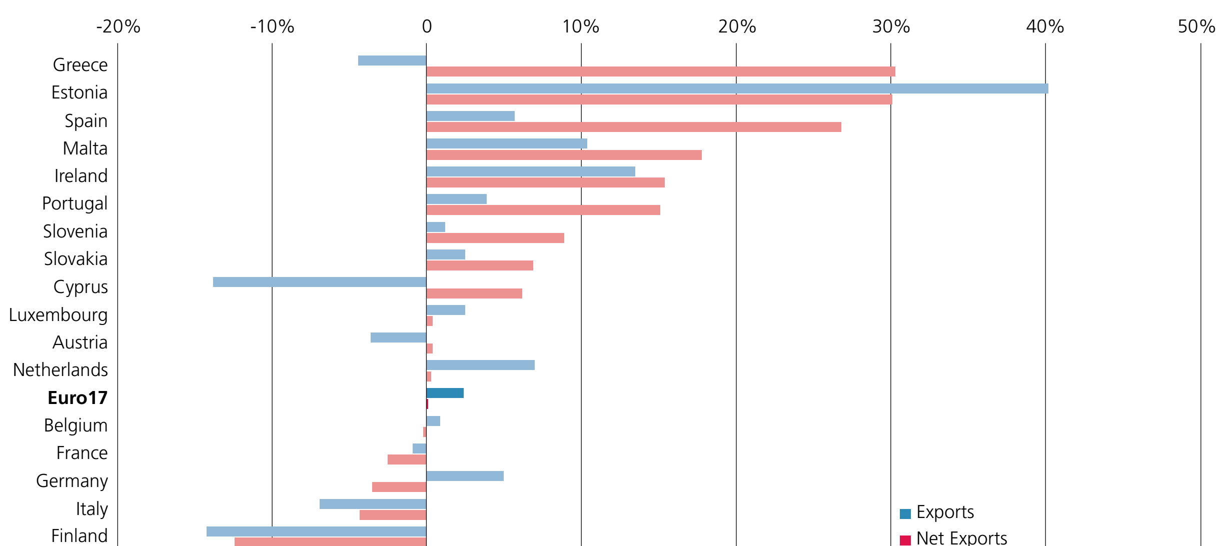
Table 3: Shift in Net Exports 2007-11

External Adjustment			Change in Net Exports					Rise in Export Ratio	
				Relative to GDP		Relative to Starting Level			
Rank	Country	Score	Score	%	Score	%	Score	Score	% of GDP
1	Estonia	9,9	9,8	23,2%	9,8	30,1%	9,9	10,0	30,9%
2	Malta	7,9	7,4	16,7%	7,8	17,8%	7,1	7,1	9,7%
3	Ireland	7,0	7,0	15,7%	7,6	15,4%	6,5	8,7	13,8%
4	Spain	6,5	7,2	8,3%	5,4	26,8%	9,1	3,9	1,8%
5	Greece	6,4	7,5	7,3%	5,1	30,3%	10,0	2,8	-1,0%
6	Portugal	5,1	5,5	5,6%	4,6	15,1%	6,4	3,8	1,4%
7	Slovakia	5,0	4,7	6,7%	4,9	6,9%	4,5	4,2	2,4%
8	Slovenia	4,6	4,9	6,6%	4,9	8,9%	5,0	3,6	0,9%
9	Cyprus	4,0	4,1	3,3%	3,9	6,2%	4,4	0,3	-7,3%
10	Luxembourg	3,3	3,1	0,8%	3,2	0,4%	3,0	5,0	4,6%
11	Austria	3,2	3,0	0,3%	3,0	0,4%	3,0	2,3	-2,2%
12	Netherlands	3,2	3,0	0,3%	3,0	0,3%	3,0	5,5	5,9%
-	Euro17	3,0	2,9	0,0%	3,0	0,1%	2,9	3,6	1,1%
13	Belgium	2,8	2,9	-0,2%	2,9	-0,2%	2,9	3,5	0,8%
14	France	2,5	2,5	-0,7%	2,7	-2,5%	2,3	3,1	-0,3%
15	Italy	2,3	2,2	-1,2%	2,6	-4,3%	1,9	2,4	-2,0%
16	Germany	1,6	2,3	-1,8%	2,4	-3,5%	2,1	4,2	2,5%
17	Finland	0,5	0,6	-6,3%	1,1	-12,4%	0,0	0,3	-7,2%

If a country that has lived beyond its means is adjusting well, the success should show up most visibly in an improvement in its external accounts. To track the progress, we examine two different aspects of external adjustment, namely 1) the shift in the balance of exports and imports (net exports), and 2) the rise in the ratio of exports in a country’s GDP.

We find that several of the smaller economies that were living well beyond their means until 2007 (or in some cases 2009) turned their external balance around convincingly. **Estonia** (No. 1) managed the most impressive shift in its external balance with a cumulative swing in its net export position of 23.2% of its GDP since the second half of 2007, followed by **Malta** (No. 2, with a 16.7% swing) and **Ireland** (No. 3, with a 15.7% swing). The shifts are also quite impressive for **Spain** (No. 4, with a 8.3% change), **Greece** (No. 5, with a 7.3% shift) and **Slovakia** (No. 7, with a 6.7% change). At the other end of the spectrum, **Germany** (No. 16) reduced its net export surplus by 1.8% of its GDP while **Finland** (No. 17) raised its imports relative to exports so much that it recorded a shift of -6.3% points. These shifts are appropriate for well-performing economies and represent

‘The eurozone itself is moving closer to the definition of an optimal currency union.’



Source: Eurostat, Berenberg calculations

an important re-balancing of demand within the euro-area itself.

Of course, a mere look at the shift in the balance of exports and imports as a share of GDP is somewhat unfair. Small, open economies find it much easier to shift resources from the domestically oriented to the export- or import-competing sectors than larger and more closed economies. To account for this, we chose to look not just at the shift in the relative balance of imports and exports, but also at the cumulative shift in a country’s net export position relative to the starting level of 2002.

To some extent, the results are similar: **Estonia** and **Ireland** stay close to the top and Germany close to the bottom of the list, confirming a major rebalancing, with Estonia and Ireland moving from deficit to surplus and Germany reducing its external surplus in a meaningful way. But the big news is that three of the eurozone crisis economies, namely **Greece, Portugal** and **Spain**, have moved up significantly in the ranking, as chart 2 above shows. Relative to their comparatively low ratio of exports in their GDP in the second half of 2007, these countries achieved major shifts. Ranked in this way, Greece does even better than Estonia, the erstwhile winner in this category.

A closer look at the drivers of adjustment reveals a dark side to the external adjustment story: in some countries, the net export position improved solely through a collapse in imports, not through an actual rise in exports, as chart 2 shows. The prime example is **Greece** which even suffered an estimated drop in the share of exports in GDP

'Germany comes across as a near-perfect reform success story.'

by a percentage point between the second half of 2007 and the second quarter of 2011. For **Cyprus** (No. 9), **Austria** (No. 11), **France** (No. 14), **Italy** (No. 15) and **Finland** (No. 17), the share of exports in GDP has also declined over this period. On the opposite end of the scale lies **Estonia** (No. 1). The small Baltic country can attribute the rise in its net exports solely to an increase in exports as a share of its GDP.

However, comparing the countries currently suffering from the sovereign debt crisis to Estonia can be misleading. Estonia started its own wrenching adjustment much earlier. In Estonia, imports also fell sharply in the first phase of the crisis (by 41% within two years) before recovering equally rapidly thereafter. The initial import adjustment for Estonia was merely the prelude to a major export boom. Greece, which started the harsh phase of its own adjustment less than two years ago, could still see stronger exports rather than a fall in imports dominating the further improvement in its net export position.

I.2 Domestic Adjustment: Underlying Fiscal Deficit

Table 4: Fiscal Squeeze: Shift in Primary Balance

			2009-11 in % of GDP			in % of required shift		
Rank	Country	Score	%	Score	Rank	%	Score	Rank
1	Greece	8,2	8,2	9,7	1	47,3	6,7	5
2	Spain	7,5	4,7	6,4	2	65,5	8,5	2
3	Portugal	6,4	4,7	6,4	2	n.a.	n.a.	n.a.
4	Slovakia	5,7	2,8	4,6	4	48,9	6,9	4
5	Estonia	5,6	-0,8	1,1	15	-	10,0	1
6	Netherlands	5,1	1,0	2,9	10	52,8	7,3	3
7	Italy	4,7	1,3	3,1	7	42,2	6,2	8
-	Euro17	4,5	1,3	3,1	-	38,4	5,8	-
8	Ireland	4,5	2,2	4,0	5	29,1	4,9	10
9	Malta	4,4	0,2	2,1	12	46,3	6,6	6
10	France	3,9	1,9	3,7	6	20,9	4,1	12
11	Germany	3,7	-0,9	1,0	16	44,1	6,4	7
12	Slovenia	3,6	1,1	3,0	9	22,9	4,3	11
13	Finland	3,5	0,1	2,0	13	-	5,0	9
14	Cyprus	3,4	1,2	3,0	8	18,2	3,8	13
15	Luxembourg	1,9	-1,1	0,9	17	-	3,0	14
16	Belgium	1,6	0,6	2,5	11	-12,5	0,8	16
17	Austria	1,6	-0,3	1,6	14	-5,0	1,5	15

Required shift: Cumulative shift needed until 2020 to achieve a 60% debt ratio in 2030.
Source: European Commission, Berenberg calculations

‘Serious tightening in the fiscally challenged periphery and some modest fiscal stimulus in parts of the core have resulted in a significant convergence of fiscal policy in the eurozone as a whole.’

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

Taking 2010 and mid-year estimates for the likely result for 2011 together[12], we find major progress in many countries in two key areas relative to the 2009 starting situation:

- Those countries most in need of reining in their excessive deficits have made serious progress, with Greece well ahead of Portugal and Spain.
- A number of countries with a fairly comfortable fiscal starting position, including Germany, Austria and Estonia, have slightly relaxed their fiscal reins over these years.

Serious tightening in the fiscally challenged periphery and some modest fiscal stimulus in parts of the core have resulted in a significant convergence of fiscal policy in the eurozone as a whole. As required, the overall underlying primary deficit for the eurozone as a whole has declined noticeably to 0% of GDP over this period, down from 1.4% in 2009. But this aggregate tightening has not been so aggressive as to be a serious threat to aggregate demand growth.

Looking at individual results, **Greece** (No. 1) has undergone the most wrenching fiscal squeeze, with an improvement in the underlying primary deficit by 8.2% of its GDP within two years (see chart 3 on page 14 for an illustration of this). By comparison, the adjustments in **Spain** (No. 2, at 4.7%), **Portugal** (No. 3, at 4.7%) and **Ireland** (No. 8, with a tightening of 2.2%) are much more modest. No wonder Greece has fallen into a deep recession whereas the other crisis countries still managed to expand modestly – at least until the overall eurozone economy turned down in autumn 2011.

Of course, the size of the fiscal squeeze tells only half the story. We have to relate it to the actual adjustment need. For this, we use a slightly different calculation. The European Commission has estimated how much countries must shift their underlying primary balance between 2010 and 2020 to get to a deficit-to-GDP ratio of 60% by 2030.[13] We take these numbers – including their underlying assumptions – and add two features, namely the actual adjustment progress in 2010 over 2009 and the European Commission estimate of the likely progress to be made in 2012 over 2010 based on policies that had already been implemented by mid-2011. We then calculate how much of the overall required shift in stance between 2009 and 2020 to get to a 60% debt-to-GDP ratio by 2030 has already been achieved in 2010 and 2011 or is already in the pipeline for 2012 due to measures passed until mid-2011.

On this measure, **Estonia** comes in at No. 1, as Table 4 on page 12 shows. It could even afford to relax fiscal policy slightly and still keep its debt burden (an estimated 6.9% of GDP in 2011) below 60% of GDP by 2030. Some major core countries such as **Germany** (No. 7) and the **Netherlands** (No. 3) also score well because they have little need to adjust their fiscal stance.

12. All calculations rely on European Commission estimates of the underlying primary balances in 2011. These estimates are subject to change. But the shifts in these balances are so significant that even modest revisions to the data would be unlikely to invalidate the conclusions presented here.
13. European Commission, *Public Finances in EMU 2011* (Brussels: European Commission, 03 September 2011).

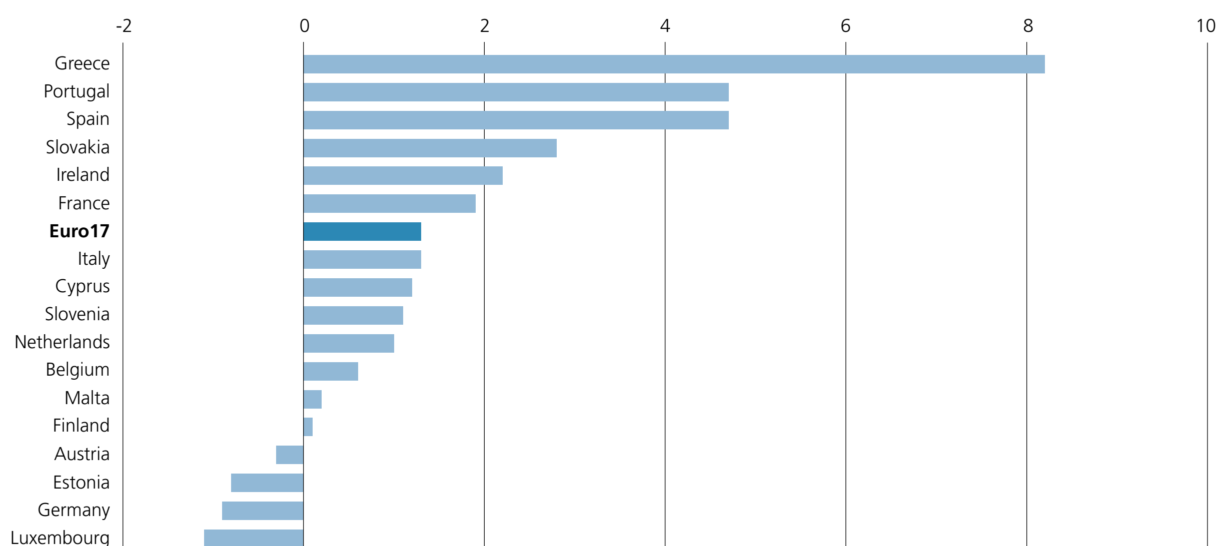
'To correct past excesses in public and private spending, governments and households need to consume less relative to what they produce and earn.'

Among the fiscally-challenged parts of the eurozone, **Spain** (No. 2) scores particularly well, having already acted to achieve 65% of the overall required fiscal squeeze. **Greece** (No. 5) also stands out with an adjustment so far that amounts to almost half of the overall need until 2020. On the opposite end of the spectrum we find **Belgium** (No. 16) which has an above-average need to adjust until 2020 but had actually relaxed fiscal policy slightly after 2009.

For the overall fiscal adjustment score, we combine both measures: 1) the estimated total shift in 2010 and 2011 in absolute terms, and 2) the adjustment so far relative to the total adjustment need until 2020. Measured in this way, **Greece** (No. 1) comes top, followed by **Spain** (No. 2), **Portugal** (No. 3)[14], **Slovakia** (No. 4) and **Estonia** (No. 5). The **Netherlands** (No. 6), **Italy** (No. 7), **Ireland** (No. 8) and **Malta** (No. 9) are trailing behind the best performers but still achieve respectable results.

The mediocre rankings for **Germany** (No. 11), **Finland** (No. 13), **Luxembourg** (No. 15) and **Austria** (No. 17) need to be seen in context: while they do show that these countries have done hardly any fiscal tightening recently, the overall need for these countries to adjust is also comparatively small. For **France** (No. 11), the below average fiscal adjustment is a greater concern because the country has an above-average need to adjust.

Chart 3: Fiscal Adjustment 2009-2011 (in Percentage of GDP)
Change in underlying primary fiscal balance



Source: Eurostat, European Commission, Berenberg estimates

14. The data for Portugal are incomplete, with no estimate of how much of the required shift in its fiscal balance until 2020 Portugal has already achieved.

‘If a country that has lived beyond its means is adjusting well, the success should show up most visibly in an improvement in its external accounts.’

I.3. Swing in Labour Cost Dynamics

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

To gauge adjustment progress, we examine how much changes in real unit labour costs are deviating from the eurozone average. We conduct our analysis in two steps. First, we calculate the cumulative change in real unit labour costs between 2009 and 2011 and rank countries according to their deviation from the eurozone average, awarding the highest ranking to the country with the biggest relative fall. Second, we relate this to what had happened in the period 2000-2009, awarding the highest ranking to the country which has made the biggest shift from above-average in the earlier period to below-average in the crisis period. We then derive an overall ranking by combining these two components.

Unsurprisingly, two small, open and highly flexible economies which had granted themselves by far the highest rise in real unit labour costs in the years 2000 to 2009, **Estonia** and **Ireland**, also had to undergo some of the most wrenching adjustment thereafter. They thus come top in our ranking for the strongest swing in labour market dynamics, with **Estonia** as No. 1 and **Ireland** as No. 2. They are followed by **Finland** (No. 3), **Malta** (No. 4) and **Luxembourg** (No. 5), that is, by countries that also fit into the small and open category.

Table 5: Real Unit Labour Costs 2009-11

Rank	Country	Score
1	Estonia	9,8
2	Ireland	7,9
3	Finland	7,5
4	Malta	7,0
5	Luxembourg	6,8
6	Greece	5,2
7	Slovakia	4,4
8	Netherlands	3,8
9	Belgium	3,3
10	Portugal	3,2
11	Spain	3,1
12	Italy	2,9
13	Slovenia	2,6
-	Euro17	2,2
14	Austria	1,6
15	Cyprus	1,3
16	France	1,3
17	Germany	1,1

'Those countries most in need of reining in their excessive deficits have made serious progress, with Greece well ahead of Portugal and Spain.'

Overall, four results stand out:

1. Wage pressures are converging rapidly within the eurozone. Twelve of the 17 euro members have reversed positions relative to the 2008 eurozone average, either moving from below- to above-average increases in real unit labour costs or vice versa.

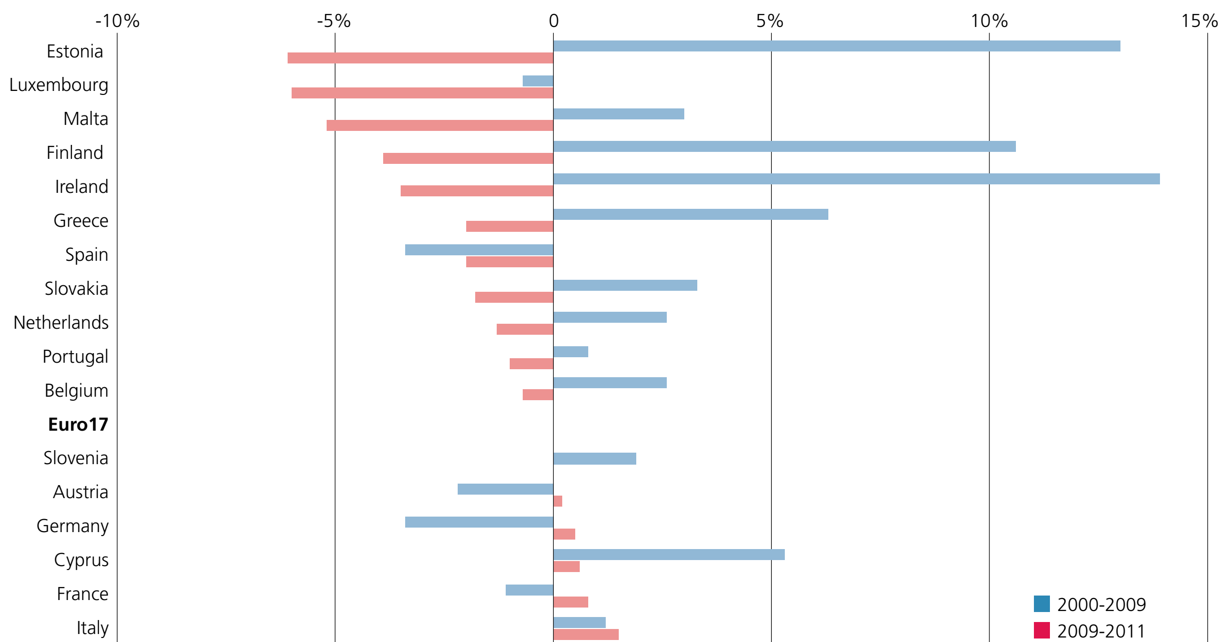
2. Whereas wage moderation has ended in some core countries such as Germany and Austria, it has taken hold in much of the euro periphery.

3. The small, open economies which saw the most pronounced increases in real unit labour costs in the years 2000-2009,[15] often on the back of a credit-fuelled real estate boom, also saw the biggest relative and absolute decline in real unit labour costs thereafter.

4. Among the less open economies which did not have a private-sector credit bubble beforehand, Greece stands out as the country with the most pronounced decline in real unit labour costs.

Chart 4: Real Unit Labour Cost Adjustment (in Percent)

Cumulative deviation of change in real unit labour cost from eurozone average; 2000-2009 vs. 2009-2011



Source: Eurostat, Berenberg calculations

15. As labour markets tend to react with some lag to the real economy, we use 2009 instead of 2008 as the base year for this particular adjustment indicator.

‘The guiding ideas of the Euro Plus Pact make fundamental sense. Many countries are already making strides towards putting them into practice.’

II. Overall Health Indicator

The rankings in the overall health check can help to explain why some countries have fallen victim to the current sovereign debt crisis while others have not. But that is not our sole objective. We also want to abstract from the specific peculiarities of the current situation and focus on the longer-term health of the economies we examine in this policy brief.

To assess both the overall health of euro members and their potential vulnerability to serious financial shocks, we look at four underlying sub-indicators: 1) long-term growth potential, 2) competitiveness (measured here as performance on exports and improvements in relative unit-labour costs), 3) fiscal sustainability, and 4) fundamental resilience to financial shocks. Countries are measured on each of these four sub-indicators, and assigned a score and rank. Then, the four sub-indicators are brought together in one overall score – and the countries are each given a ranking relative to other eurozone members.

The four pillars of our analysis largely overlap with the four goals of the Euro Plus Pact: 1) to foster employment, 2) foster competitiveness, 3) contribute further to the sustainability of public finances and 4) reinforce financial stability.[16] The guiding ideas of the Pact make fundamental sense. More importantly, they are not just lofty ideas. In their own somewhat haphazard fashion, many eurozone members are already making great strides towards putting them into practice.

Estonia (No. 1) and **Luxembourg** (No. 2) both come out on top of the Overall Health Indicator ranking. Both benefit from exceptionally prudent fiscal policy. For Estonia, the score also reflects its very supply-friendly economic policy and the resulting rapid turnaround in net exports and wage costs after the 2007-2008 crisis. **Germany** and the **Netherlands**, meanwhile, tie for the No. 3 spot. Both economies are extremely competitive. The Dutch have a slight edge over Germany on long-term growth potential (where the Netherlands ranks No. 1, while Germany is No. 3), partly because the Dutch have higher fertility rates and a better demographic outlook. But Germany (at No. 5 by this measure) looks more resilient to financial shocks than its neighbour on the shores of the North Sea (at No. 8 in this category).

Slovenia (No. 5), **Slovakia** (No. 6) and **Finland** (No. 7) also show up prominently on the list of healthy economies; these countries have each, in their own way, done a good job of preparing for future challenges and managing today’s challenges effectively. **Austria** (No. 8) and **Belgium** (No. 9) come out in the middle of the ranking, with scores which are modestly above average. Austria is the slightly more dynamic and resilient of the pair (with a No. 6 ranking on the sub-indicator for long-term growth), but Belgium excels with a good rating on the sub-indicator for competitiveness, where it ranks No. 4 amongst eurozone economies, reflecting its export prowess.

Interestingly, while **Ireland** (No. 10) and **Spain** (No. 12) figure prominently in the current sovereign debt crisis, they earn mediocre but not dismal scores in the Overall Health

16. European Council, *op. cit.*.

‘France takes the Leviathan award for the most bloated share of government spending in GDP.’

Indicator. Ireland looks exceptionally strong on competitiveness, where it ranks No. 3, whereas Spain benefits from its comparatively low level of public debt (where it ranks No. 6). For Ireland, the score also reflects some of the recent external adjustment which has been early and profound enough to influence not just our short-term adjustment ranking but also our long-term health check.

But the news in the Overall Health Indicator may be the relatively poor performance of **France** (No. 13), which fares only marginally better than **Italy** (No. 14). It is worth noting that both countries are well below **Ireland** (whose high ranking on competitiveness helps give it a No. 10 ranking) and **Spain** (whose relatively low public debt ratio gives it an overall No. 12 ranking). For France, the weakest spots are the inward-looking nature of its economy and its excessive fiscal deficits. Italy is being held down by its dismal outlook for long-term growth, reflecting partly the low birth rate but mostly the decline in gross value added per member of the labour force over the eight years to 2010. Put differently, low productivity growth rooted in excessive regulations is the Achilles heel of the Italian economy.

France also takes the Leviathan award for the most bloated share of government spending in GDP (53.7%) of all eurozone members. If France had a share of government spending in GDP terms in line with the eurozone average, its score in the Overall Health Indicator would move to 4.8, up from 4.5, and thus well above the results for Italy and Spain.

Greece (No. 17) defines the lower end of the range with weak scores on all major counts. **Portugal** (No. 15) and **Cyprus** (No. 16) are only modestly ahead of Greece. Portugal suffers particularly from a low ranking for its growth potential.

II.1 Long-Term Growth Potential

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

- Some core eurozone economies come out particularly well. Helped by a vibrant labour market, a low propensity to consume and good scores on all other counts, the **Netherlands** comes No. 1 in the overall ranking for growth potential, followed by **Luxembourg** (No. 2) and **Germany** (No. 3).
- Meanwhile, the worst rankings for long-term growth potential go to some of the most famous debt crisis countries on the eurozone periphery, namely **Spain** (No. 15), **Italy** (No. 16) and **Portugal** (No. 17). In the years 2002 to 2010, all three countries

‘Wage pressures are converging rapidly within the eurozone.’

saw a comparatively strong increase in their propensity to consume while generating very little trend growth in their non-construction gross value added.

- **Greece** (No. 13) and **Cyprus** (No. 14) also receive fairly low scores for their growth potential, with Greece also being held back by its high consumption and low productivity.
- The dynamic euro newcomers from east-central Europe – **Slovenia** (No. 4), **Estonia** (No. 7) and **Slovakia** (No. 9) – all score fairly well.
- The below-average ranking for **France** (No. 11) is closer to that of Greece (No. 13) than of Germany (No. 3). France scores particularly badly on its recent growth performance. Although France enjoys the advantage of a high birth rate, the country does far less than Germany to utilise its human potential.
- There is a flip side to many of the scores. Low rankings for many countries in some key aspects also demonstrate the potential which these countries could unleash by targeted reforms, for instance by labour market and education reforms in France and Spain.

Table 6: Growth Potential Ranking

Rank	Country	Total score	Recent growth	Human Capital	Employment	Consumption
1	Netherlands	7,5	7,5	6,9	8,0	7,5
2	Luxembourg	7,1	7,2	4,3	6,8	10,0
3	Germany	6,6	7,5	4,2	8,1	6,8
4	Slovenia	6,2	7,7	4,0	6,6	6,6
5	Finland	6,2	6,7	8,0	5,9	4,0
6	Austria	6,1	6,4	2,6	8,3	7,2
7	Estonia	5,6	6,9	4,6	2,4	8,4
8	Belgium	5,5	4,1	6,7	5,1	6,2
9	Slovakia	5,2	9,4	2,4	2,4	6,8
10	Ireland	4,7	5,3	6,1	2,1	5,2
11	France	4,7	3,3	6,0	5,0	4,3
12	Malta	4,2	n.a.	2,5	5,3	4,7
13	Greece	4,0	6,4	3,1	3,5	2,9
14	Cyprus	3,8	2,1	2,9	7,0	3,2
15	Spain	3,4	2,3	3,8	2,1	5,2
16	Italy	3,2	0,5	3,8	3,9	4,5
17	Portugal	3,2	2,2	4,4	3,9	2,1
	Euro17	5,0	4,5	4,6	5,4	5,5

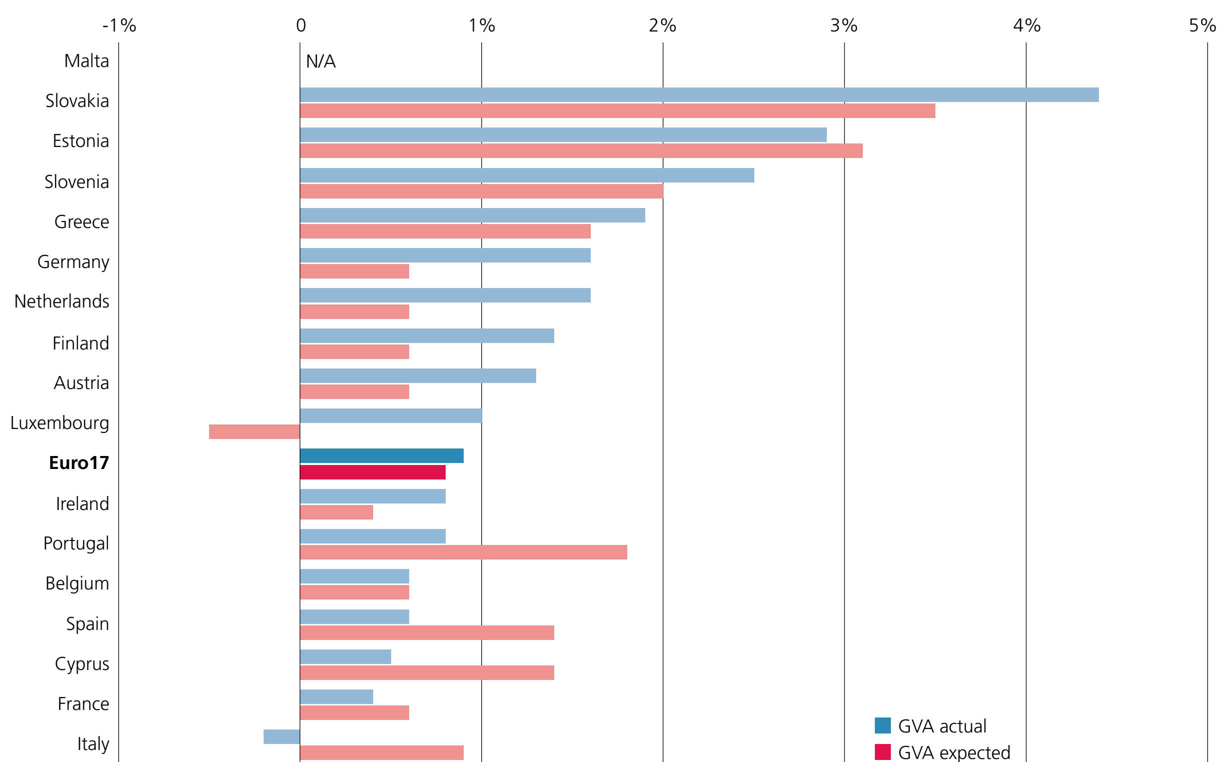
‘Mature economies with high levels of productivity typically find it more difficult to grow fast than less mature economies, which are exploiting their potential to catch up.’

II.1.a. Recent Trend Growth

The obvious starting point to analyse the long-term growth potential of a country is that country’s actual recent growth performance. But this data, too, can carry many distortions, as we saw in the years to 2008 when much growth was based on boom-bust factors and distorted asset prices. To correct in particular for boom-bust cycles in real estate – a common problem in all pre-2008 economic data – we look at the trend in gross value added (GVA) outside the construction sector.[17] We also adjust the data for increases in the labour supply. By relating a measure of actual output to a measure of potential input, we calculated a variant of productivity. But this variant takes the available pool of labour (the potential) rather than actual use of labour as its base. We will deal with the way the countries actually utilise their human capital in the separate employment pillar of our analysis.

Chart 5: Trend Growth 2002-2010 (in Percent)

Compound annual growth in non-construction gross value added 2002-2010 per member of the labour force, expected = model estimate for this trend rise based on starting level



Source: Eurostat, Berenberg calculations

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

‘The more the domestically-born population is set to contract, the more important it is for a society to attract and integrate immigrants.’

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

Unsurprisingly, the dynamic euro newcomers from east-central Europe – **Slovakia** (4.4%), **Slovenia** (2.5%) and **Estonia** (2.9%) – enjoyed the strongest average annual increase in their non-construction gross value added over this period, followed with some distance by **Greece** (1.9%), as shown in the individual country reports that begin on page 56.

Among the core European countries, **Germany** (1.6%) and the **Netherlands** (1.6%) do particularly well, whereas **France** (0.4%) does not. In fact, France’s trend growth rate is slightly below the rate in **Spain** (0.6%), **Portugal** (0.8%) and **Cyprus** (0.5%). At the bottom of the league, **Italy** (-0.2%) is the only country in which non-construction gross value added per potential worker declined in the eight years to 2010.[18]

Comparing the actual gain in non-construction GVA per labour force to the model estimate based on the starting level, we get a somewhat different ranking: Slovakia still tops the list. But Germany, the Netherlands and Luxembourg move up in the rankings. Relative to their elevated starting level, they managed to expand their economies rather well in the eight years to 2010.

Combining actual growth and the deviation from our model estimate into a single ranking for recent trend growth, Slovakia (No. 1), Slovenia (No. 2) and Estonia (No. 6) still do very well. But Germany (No. 3) and the Netherlands (No. 4) attain scores only modestly behind the youthful star performers.

In the overall ranking, France (No. 12), Spain (No. 13), Portugal (No. 14), Cyprus (No. 15) and Italy (No. 16) all expanded significantly less than they should have relative to their starting level. These countries are far from realising their potential.

Table 7: Recent Trend Growth

Rank	Country	Score
1	Slovakia	9,4
2	Slovenia	7,7
3	Germany	7,5
4	Netherlands	7,5
5	Luxembourg	7,2
6	Estonia	6,9
7	Finland	6,7
8	Greece	6,4
9	Austria	6,4
10	Ireland	5,3
-	Euro17	4,5
11	Belgium	4,1
12	France	3,3
13	Spain	2,3
14	Portugal	2,2
15	Cyprus	2,1
16	Italy	0,5
n.a.	Malta	n.a.

18. We suspect that the Italian data on real gross value added may slightly understate the country’s actual economic performance. Italian data show an unusual gap between the gross value added deflator (rising much more rapidly in Italy than in the eurozone as a whole) and consumer prices (rising only slightly faster than eurozone average). One possible explanation is that part of the rapid improvement in product quality which Italy delivered as it moved upmarket for many goods in the face of fierce Chinese competition is wrongly captured in Italian statistics as inflation (higher prices for shoes and handbags, for example) rather than real output (better quality of shoes and handbags). An upward revision in some Italian current account and GDP statistics, based on a different calculation of deflators, may partly address our concerns about Italian statistics. But the new data still have to be validated by Eurostat.

> ‘Being used to monetary discipline may be helpful for improving overall employment performance within the strictures of monetary union.’

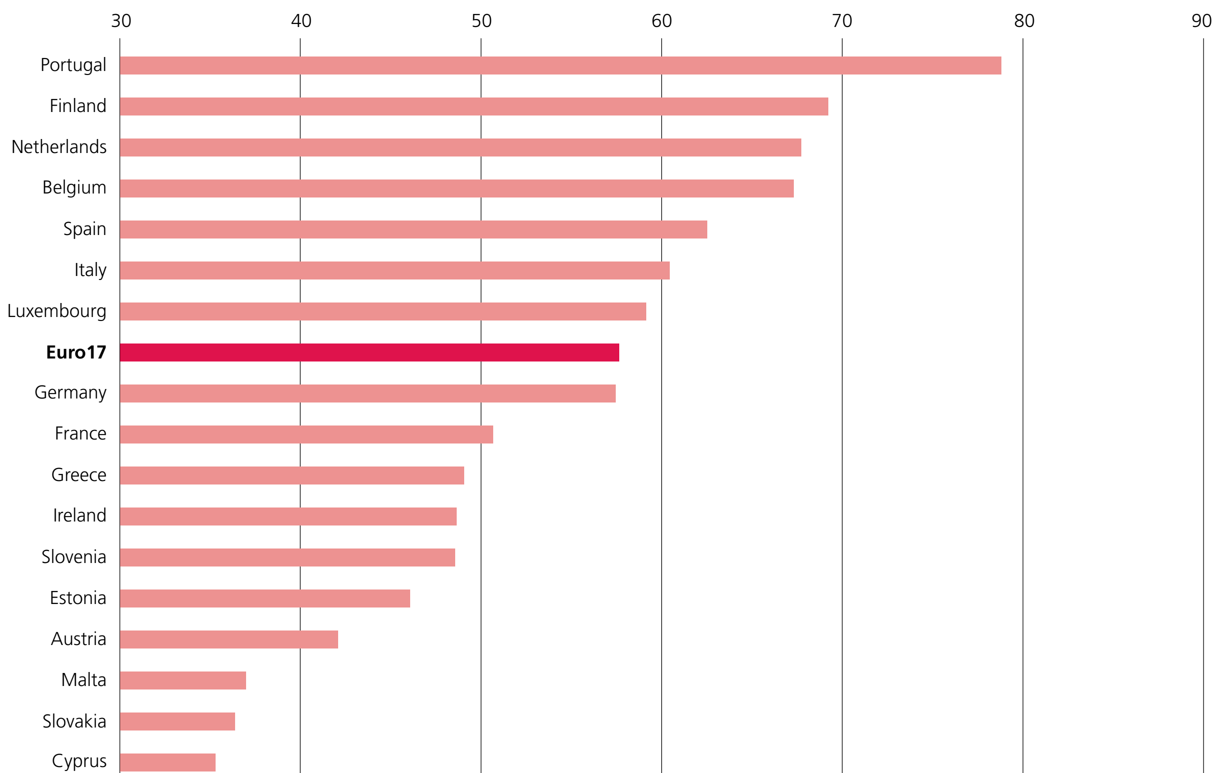
II.1.b. Human Capital

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

Regarding fertility, the overall trends in the eurozone are well known: women in France and Ireland have the most babies, with the fertility rate close to the 2.1 threshold needed to fully replace the current generation by a new generation over time. Portugal, Germany, Austria, Spain, Slovakia and Italy have the lowest fertility rates, reaching only around two-thirds of the replacement ratio.

Regarding integrating immigrants, we believe that the more the domestically-born population is set to contract, the more important it is for

Chart 6: Human Capital – Integration of Immigrants
Migration Integration Policy Index (MIPEX)



Source: MIPEX

'If France could get its act together, educating its pupils and integrating its immigrants better, its high fertility rate could enable it to move up considerably in the overall growth ranking.'

a society to attract and integrate immigrants. As a proxy for how well countries do this, we take the Migration Integration Policy Index (MIPEX).[19] On access to education, the internationally comparable PISA scores can serve as a rough proxy for the quality of the education system.[20] The PISA results reveal a rough North-South pattern. Whereas Finland comes top and the Netherlands and Estonia also do well, Italy, Spain and Greece have among the lowest scores. In core Europe, Germany and Belgium come in well ahead of France. Of course, the North-South pattern is not perfect, with a very low ranking for Luxembourg being the main exception to the rule.

We combined these three aspects into one aggregate indicator for human capital. The results show no clear pattern. **Finland** comes in at No. 1, topping the list with a comparatively high birth rate, a good record of integrating immigrants and an excellent PISA score. By contrast, **Greece** (No. 13), **Cyprus** (No. 14), **Austria** (No. 15), **Malta** (No. 16) and **Slovakia** (No. 17) do badly.

For human capital, the overall result for **France** (No. 5) is above the eurozone average – and above that for **Germany** (No. 9) – because of the much higher fertility rate of French women. This is despite a relatively low French ranking for the integration of immigrants and a mediocre PISA score. This illustrates a key point: France has a lot of potential that needs to be unleashed. If France could get its act together, educating its pupils and integrating its immigrants better than it does so far, its high fertility rate could enable it to move up considerably in the overall growth ranking.

Table 8: Human Capital

Rank	Country	Score
1	Finland	8,0
2	Netherlands	6,9
3	Belgium	6,7
4	Ireland	6,1
5	France	6,0
6	Estonia	4,6
-	Euro17	4,6
7	Portugal	4,4
8	Luxembourg	4,3
9	Germany	4,2
10	Slovenia	4,0
11	Italy	3,8
12	Spain	3,8
13	Greece	3,1
14	Cyprus	2,9
15	Austria	2,6
16	Malta	2,5
17	Slovakia	2,4

19. The MIPEX project is led by the British Council and the Migration Policy Group. The MIPEX index evaluates 148 indicators from seven different areas: labour market mobility, family reunion for third-country nationals, education, political participation, long-term residence, ease of being accepted as a national and anti-discrimination measures. For further details, see http://www.mipex.eu.
20. Graduation rates for the most recent age cohort are only available for 10 out of 17 eurozone members, making contemporary comparison difficult.

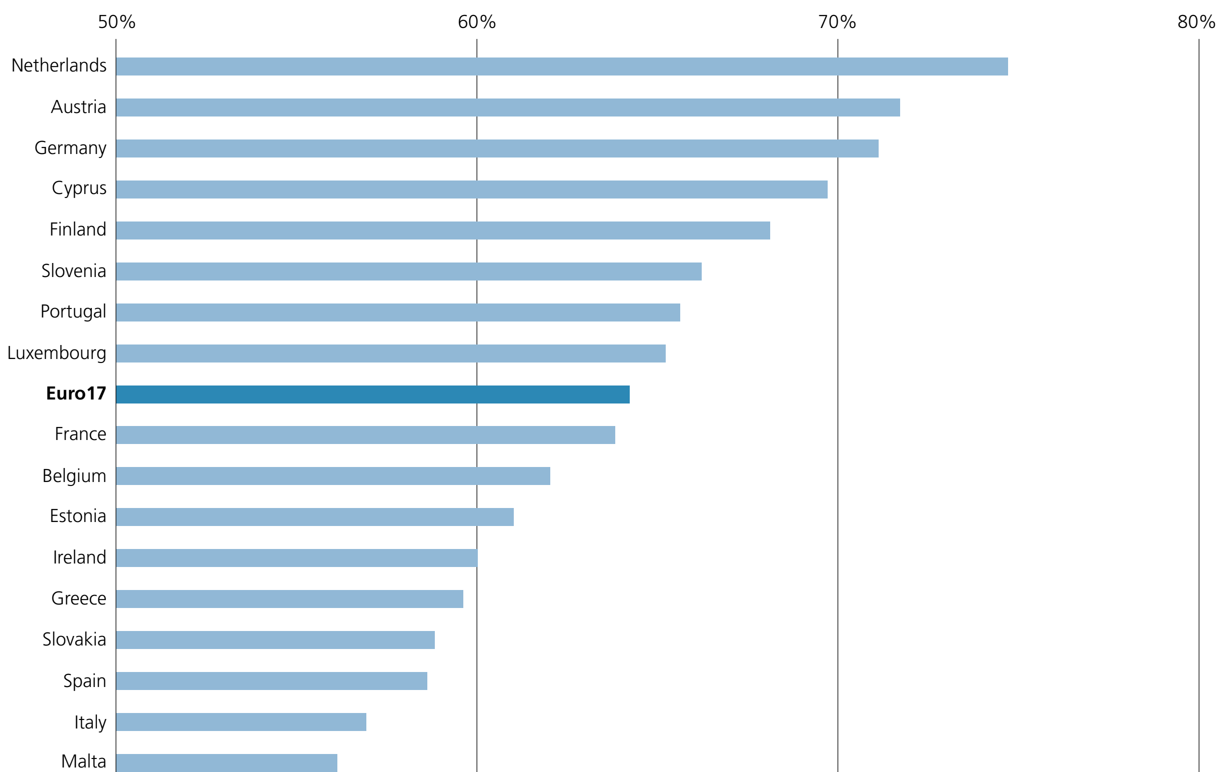
‘Youth and long-term unemployment also have the potential to turn into major social problems over time.’

II.1.c. Employment

How well does a country use its labour resources? To calculate this, we aggregate results for the following four sub-sub-indicators into an overall ranking for employment: 1) the employment rate in 2010, 2) the rise in the employment rate since 2002, 3) youth unemployment, and 4) long-term unemployment. We combine the four separate aspects of the employment performance into an overall ranking.

Parts of core Europe seem to have found the key to unlock their human potential: **Austria** (No. 1), **Germany** (No. 2) and the **Netherlands** (No. 3) lead the field by a wide margin. Interestingly, these are also among the countries with the most firmly rooted tradition of conservative monetary policy (Austria and the Netherlands had tied their erstwhile national currencies firmly to the Deutschmark at a very early stage). The lesson could be that being used to monetary discipline may be helpful at improving overall employment performance within the strictures of monetary union. But institutional factors such as the system

Chart 7: Employment Rates (in Percent)
Average employment rate 2002-2010



Source: Eurostat

‘Over the eight years from 2002 to 2010, real unit labour costs declined noticeably in Germany and Spain (as well as in Luxemburg, Malta and Cyprus).’

of vocational training in Austria and Germany as well as the ease of finding temporary or part-time employment in the Netherlands probably play a major role as well.

Ireland (No. 17) defines the bottom of the list. It comes out behind **Spain** (No. 16) despite having an admirably flexible labour market. The bursting of a big bubble in the labour-intensive construction sector left a major rise in structural unemployment in its wake that would be difficult to digest even for a highly flexible economy. Low-skilled construction workers may not have the skill set to shift to service jobs overnight. Unsurprisingly, Spain’s labour market is that country’s weakest spot.

Italy (No. 12) has an overall employment rate well below the eurozone average and suffers from a high rate of youth unemployment. Similarly, two of the smaller and comparatively poor euro newcomers from east of the former Iron Curtain – **Estonia** (No. 14) and **Slovakia** (No. 15) – also rank poorly. For both of these economies, which are among the most dynamic of all on most other indicators, raising the overall employment rate and cutting long-term and youth unemployment may well be the biggest challenges as they continue to catch up to the richer euro members from the former Western Europe. **France** (No. 10) achieves a mediocre ranking, held back by its comparatively high rate of youth unemployment.

On the most important sub-components, namely the employment rate in the 2010 cycle and the increase in the employment rate since 2002, two core European countries stand out:

- The Netherlands had by far the highest employment rate (74.7%) in the eurozone (though it ranks No. 3 in the overall indicator due to the lack of any further increase in this rate).
- Due to its post-2003 reforms, Germany has achieved the most impressive rise in its employment rate, rising to 71.1% in 2010, up from 65.4% in 2002.

Put differently, the Netherlands and Germany define the benchmark for “best practice” and “most improved” countries, respectively, for the overall employment situation in the eurozone.

At the same time, Ireland (60.0%), Portugal (65.6%) and Estonia (61.0%) are the only countries within the eurozone with a lower employment rate in 2010 than in 2002. For them, the weak 2010 data relative to 2002 probably reflect at least partly the current adjustment crisis rather than an underlying trend.

Table 9: Employment

Rank	Country	Score
1	Austria	8,3
2	Germany	8,1
3	Netherlands	8,0
4	Cyprus	7,0
5	Luxembourg	6,8
6	Slovenia	6,6
7	Finland	5,9
-	Euro17	5,4
8	Malta	5,3
9	Belgium	5,1
10	France	5,0
11	Portugal	3,9
12	Italy	3,9
13	Greece	3,5
14	Estonia	2,4
15	Slovakia	2,4
16	Spain	2,1
17	Ireland	2,1

‘The German rank, for example, could still be significantly better if the country were to open up its service sector much more thoroughly.’

Two other measures also shed light on how well a country is using its human capital. Young people who are unemployed are denied the chance to hone their newly-learned skills on the job, and the long-term unemployed are at risk of losing their professional skills.[21] Youth and long-term unemployment also have the potential to turn into major social problems over time.

The unemployment rate among young people is particularly high in some of the eurozone crisis economies, namely Spain, Greece and Estonia. All three are reeling under the current adjustment crisis (or the relatively recent crisis in the case of Estonia). Interestingly, Slovakia also fares badly on this count. Some core countries such as the Netherlands, Austria and Germany are best at offering their young generation a job.

The results are similar for long-term unemployment, with Spain, Slovakia, Ireland and Estonia scoring badly whereas Austria and the Netherlands lead the eurozone rankings. Germany also has a fairly low rate of long-term unemployment. But Germany has been much less successful at bringing its long-term unemployed back into a job than it hast been at keeping youth unemployment down.

In the end, no other indicator shows a clearer rift between the core and the periphery of the eurozone, with excellent or at least good readings for many core countries and weak readings for most peripheral countries almost regardless of their exposure to the current debt turmoil or their longer-term growth trend.

II.1.d. Total Consumption

We round off our analysis of long-term growth potential with a look at total final consumption and output. The smaller the share of total consumption in GDP, the more a country saves, allowing it to invest its savings either at home or abroad. We aggregate household and government consumption and examine both the average share of total final consumption in GDP over the 2002-2010 cycle and the change in this share over this period. We combine the separate scores for the average level and the change in the consumption score into one joint ranking, and rank the countries from best to worst performing.

Portugal (No. 17 on the consumption criterion) and **Greece** (No. 16) had a very high consumption ratio and expanded that ratio more than other countries over that period, sending these two countries to the bottom of the ranking on this sub-indicator. **Cyprus** (No. 15) looks little better. It had the highest average consumption ratio. But this high starting level left it little room to raise consumption even further, so its overall ranking is slightly less dismal than that for Portugal and Greece.

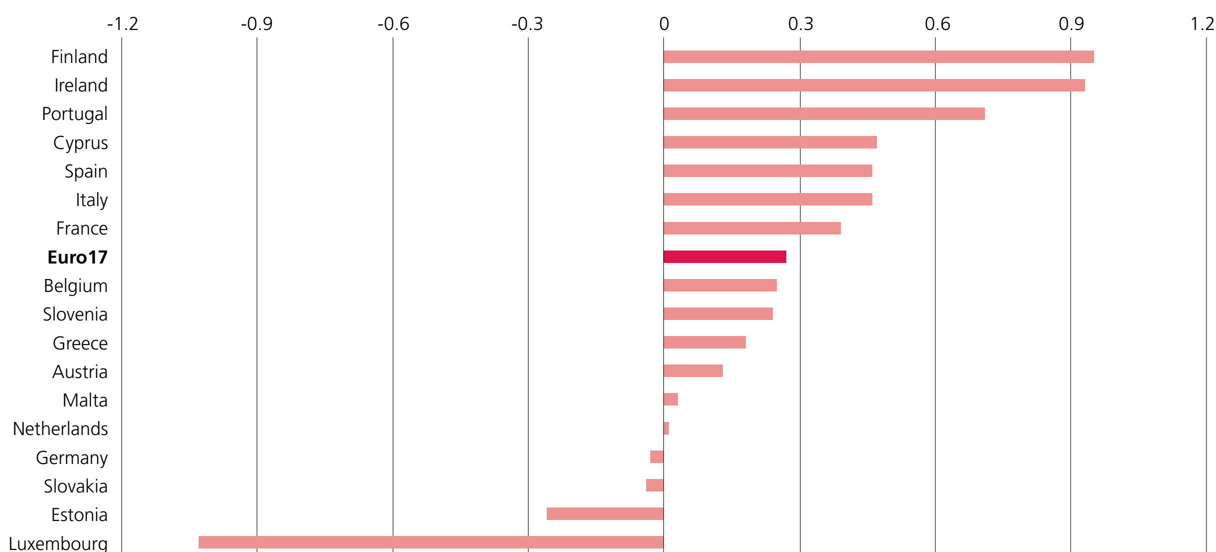
Luxembourg (No. 1) gets by far the best score, with a low consumption ratio and a significant

21. Paul Hofheinz, *Why Skills are Key to Europe’s Future* (Brussels: The Lisbon Council, 2009).

‘Italy, Spain and Greece are among the economies with a significant drop in the share of exports in GDP over the 2002-2010 cycle.’

Chart 8: Total Consumption – Change in Share in GDP (as a Percentage of GDP)

Annual average change in share of total (private and public) consumption in nominal GDP 2002-2010



Source: Eurostat, Berenberg calculations

Table 10: Consumption Rate

Rank	Country	Score
1	Luxembourg	10,0
2	Estonia	8,4
3	Netherlands	7,5
4	Austria	7,2
5	Slovakia	6,8
6	Germany	6,8
7	Slovenia	6,6
8	Belgium	6,2
-	Euro17	5,5
9	Ireland	5,2
10	Spain	5,2
11	Malta	4,7
12	Italy	4,5
13	France	4,3
14	Finland	4,0
15	Cyprus	3,2
16	Greece	2,9
17	Portugal	2,1

'The ultimate proof whether a company can compete is whether it can successfully sell its wares to customers who have a choice.'

decline in that ratio over the 2002 to 2010 period. **Estonia** (No. 2) comes second with a comparatively modest and declining propensity to consume.

Amongst the major core European economies, the **Netherlands** (No. 3) and **Austria** (No. 4) stand out due to their low consumption ratios. Although **Germany** (No. 6) reduced its consumption ratio marginally from 2002 to 2010, it comes well behind Austria and the Netherlands on this sub-indicator because of its somewhat higher average propensity to consume. **Italy** (No. 12) and **France** (No. 13) get fairly similar results somewhat below the eurozone average. Both recorded an above-average increase in their consumption ratio over time.

The scores for **Ireland** (No. 9) and **Spain** (No. 10) are slightly below the eurozone average. In both cases, a comparatively low average consumption ratio offsets the drag from a noticeable increase in this ratio over the 2002 to 2010 period.

II.2 Competitiveness

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

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

Surprise, surprise: the **Netherlands** (No. 1) and **Germany** (No. 2) get top honours and **Greece** (No. 16) and **Cyprus** (No. 17) come bottom of the competitiveness ranking.

Beyond re-stating the obvious, some details in this calculation are interesting: The German rank, for example, could still be significantly better if the country were to open up its service sector much more thoroughly. Some further labour market reform would also help. On all other counts, Germany looks very good indeed.

Contrary to a widespread assertion, the Achilles heel of Greece is not the longer-term trend in its real unit labour costs. While nominal unit labour costs rose faster than in most other euro members, Greek real unit labour costs declined modestly between 2002 and 2010. Almost all other aspects of competitiveness (i.e., product market regulation) are worse problems for

‘Greece does not need to leave the euro to regain competitiveness with a much-devalued new currency. Instead, it needs to reform itself thoroughly.’

Greece than pure labour costs. The conclusion is clear: Greece does not need to leave the euro to regain competitiveness with a much-devalued new national currency. Instead, it needs to reform itself thoroughly.

The results for **Ireland** (No. 3) and **Slovakia** (No. 5) are also quite encouraging, with Ireland benefiting from a strong export performance and a very low level of product market regulation. **France** (No. 15) scores badly on almost all counts except a below-average level of product-market regulation. For an AAA-rated country, the overall ranking of No. 15 out of 17 for competitiveness looks particularly dismal.

It is little consolation that **Italy** (No. 13) is only modestly more competitive than France. As in the case of France, the decline in its propensity to export shows up as the major single problem for Italy. **Spain** (No. 14) and **Portugal** (No. 11) score less badly than France on competitiveness. The ranking for Spain and Portugal could improve significantly if they would reduce their exceptionally high levels of employment protection.

Table 11: Competitiveness Ranking

Rank	Country	Total Score	Export Ratio	Export Rise	Labour	Regulation
1	Netherlands	8,2	8,0	9,7	6,2	8,8
2	Germany	7,9	8,3	10,0	7,8	5,5
3	Ireland	7,0	6,4	7,4	4,7	9,4
4	Belgium	6,7	8,8	5,1	6,1	6,8
5	Slovakia	6,7	9,7	6,1	5,2	5,7
6	Slovenia	6,7	10,0	8,9	2,2	5,5
7	Estonia	6,4	9,6	7,0	1,7	7,2
8	Luxembourg	6,4	8,0	8,6	4,9	4,1
9	Malta	6,4	6,2	5,8	7,0	n.a.
10	Austria	5,3	3,7	6,5	6,3	4,7
11	Portugal	4,8	2,2	6,6	4,2	6,1
12	Finland	4,5	1,4	3,8	4,1	8,6
13	Italy	4,1	2,6	5,1	4,3	4,3
14	Spain	3,8	2,5	2,7	4,6	5,3
15	France	3,7	2,1	2,0	3,9	7,0
16	Greece	2,7	0,1	4,6	4,2	1,7
17	Cyprus	2,4	1,3	0,0	5,9	n.a.
	Euro17	6,2	5,9	7,3	5,6	5,9

‘According to OECD data, Luxembourg grants its employees the highest degree of protection, but wealthy Luxembourg apparently can afford it due to its many other inherent advantages.’

II.2.a. Export Performance

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

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

In addition, we look at the rise in the actual export share from 2002 to 2010 relative to the 2002 starting level. Although Germany had a comparatively high starting level, it also managed to raise its export share most rapidly on this relative basis. Italy, Spain and Greece are among the economies with a significant drop in the share of exports in GDP over the 2002-2010 cycle.

The overall ranking for export prowess, combining both the adjusted share of exports in GDP and the rise of this share over time, yields the following, more or less expected, results:

Germany (No. 2) does extremely well, although trailing marginally behind small **Slovenia** (No. 1). **Greece** (No.15) comes in close to the bottom, although **Cyprus** (No. 17) looks even worse. Although they look far less dismal than the two worst performers, **Italy** (No. 12) and **Spain** (No. 13) also let their export ratio slip significantly in the eight years to 2010. For **France** (No. 16), its inward-orientation with a low and declining export ratio is a major handicap in the overall ranking.

Table 12: Export Prowess

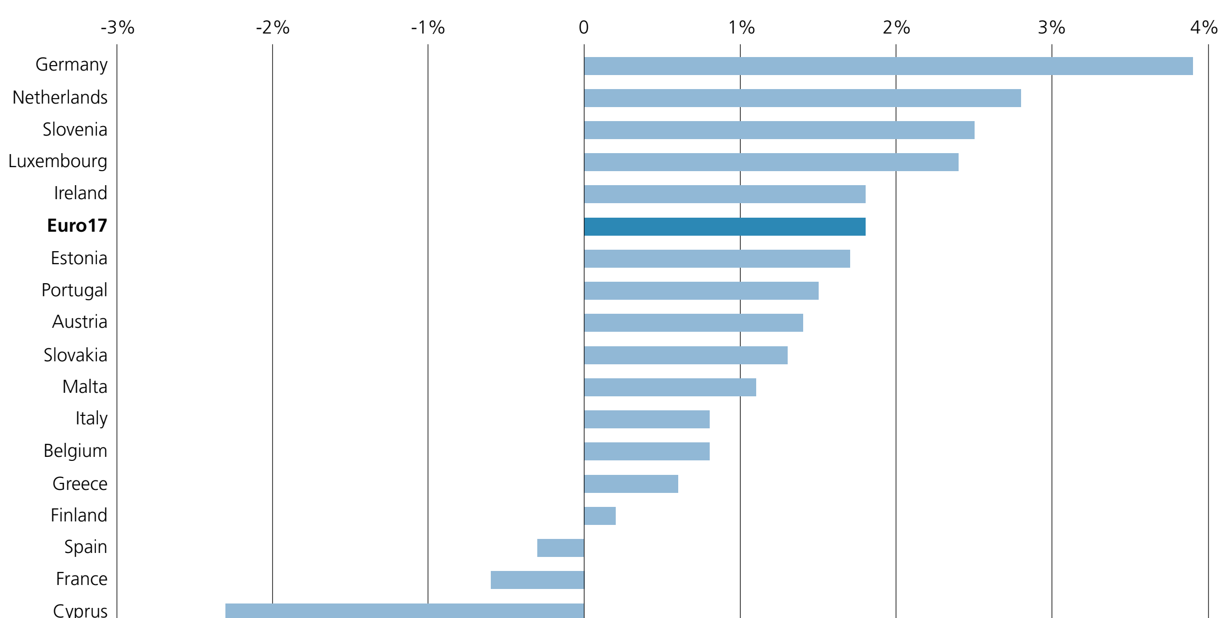
Rank	Country	Score
1	Slovenia	9,5
2	Germany	9,2
3	Netherlands	8,8
4	Estonia	8,3
5	Luxembourg	8,3
6	Slovakia	7,9
7	Belgium	7,0
8	Ireland	6,9
-	Euro17	6,6
9	Malta	6,0
10	Austria	5,1
11	Portugal	4,4
12	Italy	3,9
13	Spain	2,6
14	Finland	2,6
15	Greece	2,4
16	France	2,1
17	Cyprus	0,7

Note: This table combines the separate rankings for export ratio and the rise in the export ratio for an indicator of overall export prowess

'To facilitate structural change in an economy, would-be entrepreneurs must be able to establish and grow new companies easily.'

Chart 9: Rise in Exports (in Percent)

Annual average rise in export ratio 2002-2010, relative to starting level in 2002



Source: Eurostat, Berenberg calculations

II.2.b. Labour Costs

Unit labour costs are a very imperfect gauge of competitiveness. But they do matter. Over the eight years from 2002 to 2010, real unit labour costs declined noticeably in Germany and Spain (as well as in Luxemburg, Malta and Cyprus). For Germany and Spain, the reasons for the decrease in costs pressures were very different: whereas German companies benefited from genuine wage moderation, allowing them to raise employment significantly, the Spanish data are distorted by the post-2007 bust in the labour-intensive construction industry. With less productive construction workers laid off in droves, the average productivity of the workers still employed rose, hence reducing average unit labour costs.

Table 13: Labour Cost

Rank	Country	Score
1	Germany	7,8
2	Malta	7,0
3	Austria	6,3
4	Netherlands	6,2
5	Belgium	6,1
6	Cyprus	5,9
-	Euro17	5,6
7	Slovakia	5,2
8	Luxembourg	4,9
9	Ireland	4,7
10	Spain	4,6
11	Italy	4,3
12	Greece	4,2
13	Portugal	4,2
14	Finland	4,1
15	France	3,9
16	Slovenia	2,2
17	Estonia	1,7

‘In a currency union with irrevocably fixed exchange rates, nominal unit labour costs are arguably a better gauge of competitiveness than real unit labour costs.’

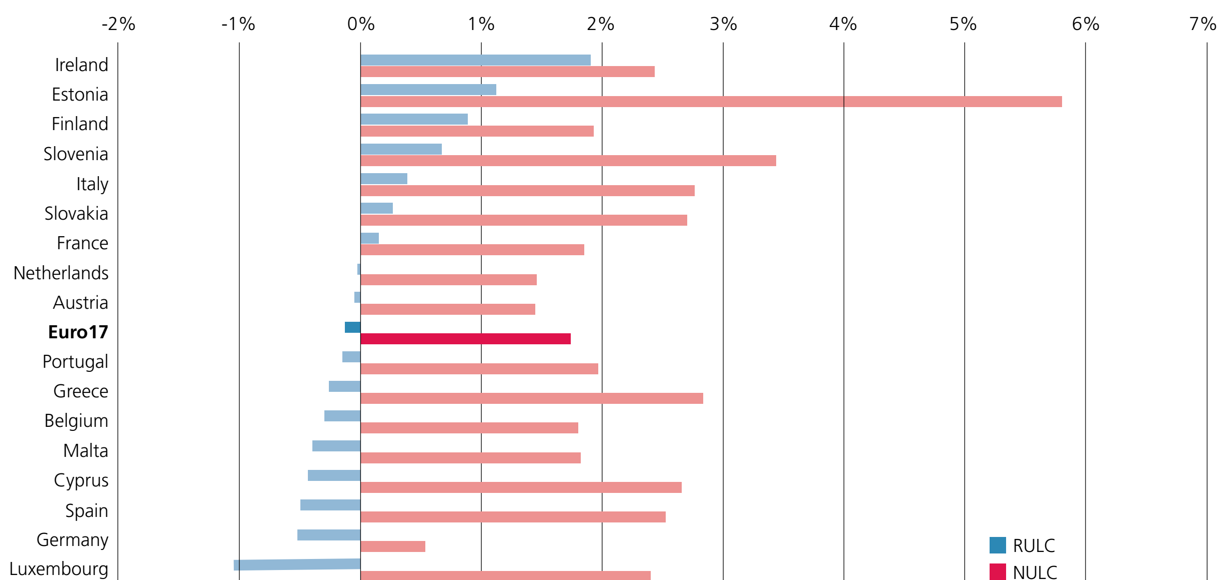
In a currency union with irrevocably fixed exchange rates, nominal unit labour costs are arguably a better gauge of competitiveness than real unit labour costs. Looking at nominal rather than real unit labour costs, the overall picture changes only modestly: Germany still has the most subdued and Estonia the strongest increase in labour costs. But for some of the peripheral European economies, the difference matters. Because they had significantly more inflation than most other euro members, Spain and Greece also had above-average increases in nominal unit labour costs despite modest declines in real unit labour costs.

Unit labour costs are only one labour-related aspect that can shape the decision of companies where to invest and create jobs. Employment protection, including the implicit costs of such regulations and the legal uncertainty created by the regulatory regime, also play a major role. To capture this effect, we add the OECD Employment Protection Strictness Indicator to our analysis of labour costs.[22]

Comparing employment protection, Ireland and Slovakia stand out with exceptionally liberal regulatory regimes whereas Portugal, France and Spain make it particularly difficult for their companies to use labour flexibly, with Greece also doing badly on this count. According to the underlying OECD data, Luxembourg grants its employees the highest degree of protection, but wealthy Luxembourg apparently can afford it due to its many other inherent advantages.

Combining the results for the trend in real unit labour costs in nominal unit labour costs and

Chart 10: Change in Labour Cost (in Percent)
Compound annual average rise in real unit labour cost 2002-2010
Compound annual average rise in nominal unit labour cost 2002-2010



Source: Eurostat, Berenberg calculations

22. OECD, *Calculating Summary Indicators of Employment Protection Strictness* (Paris: OECD, 2009).

'Amid a major decline in real GDP, Greek public debt had soared to almost 145% of GDP at the end of 2010, whereas Estonia has hardly any public debt (6.7% of its GDP).'

the strictness of employment protection into one indicator yields several interesting insights: Major core countries – **Germany** (No. 1), **Austria** (No. 3), **Netherlands** (No. 4) and **Belgium** (No. 5), as well as non-core **Malta** (No. 2) and **Slovakia** (No. 7), apparently offer employers attractive conditions to create jobs. **Portugal** (No. 13) and **France** (No. 15) meanwhile, score badly on this count due to their exceptionally strict employment protection regime. The French score is below those for **Spain** (No. 10), **Italy** (No. 11) and **Greece** (No. 12).

Due to strong rises in real and nominal unit labour costs, **Slovenia** (No. 16) and **Estonia** (No. 17) get the worst scores in our labour cost ranking. But as economies in the process of catching up – which often goes along with major improvements in product quality that are not accurately captured in the output statistics and with a general rise in the relative prices for domestic labour-intensive services – these two countries can probably afford at least some increase of this type more than the more mature economies.

II.2.c Product- and Service-Market Regulation

Overly regulated markets – particularly markets where regulation does the most to protect incumbent business interests and keep markets closed to new entrants and competition – make it difficult for companies that are not yet well established to thrive. It also constrains the ability of an economy to grow. To calculate this, we take the OECD indices for the extent of product and service market regulations.[23]

To facilitate structural change in an economy, would-be entrepreneurs must be able to establish and grow new companies easily. We thus add the World Bank survey of what it costs and how many days it takes to register a new business as a third component for our comparison of market regulations, giving all three sub-indices equal weight for the aggregate ranking.[24]

Ireland comes in at No. 1, standing out as the eurozone economy with the least regulated

Table 14: Market Regulation

Rank	Country	Score
1	Ireland	9,4
2	Netherlands	8,8
3	Finland	8,6
4	Estonia	7,2
5	France	7,0
6	Belgium	6,8
7	Portugal	6,1
-	Euro17	5,9
8	Slovakia	5,7
9	Slovenia	5,5
10	Germany	5,5
11	Spain	5,3
12	Austria	4,7
13	Italy	4,3
14	Luxembourg	4,1
15	Greece	1,7
n.a.	Cyprus	n.a.
n.a.	Malta	n.a.

23. Ibid..
24. World Bank, *Doing Business 2011: Making a Difference for Entrepreneurs* (Washington DC: World Bank, 2010).

'Ireland has by far the biggest fiscal adjustment need until 2020.'

product and service markets. Establishing a new business is also fairly easy on the emerald isle. Ireland thus gets the top spot, followed by the **Netherlands** (No. 2) with a very deregulated product markets and **Finland** (No. 3) with a very liberal regime for services.

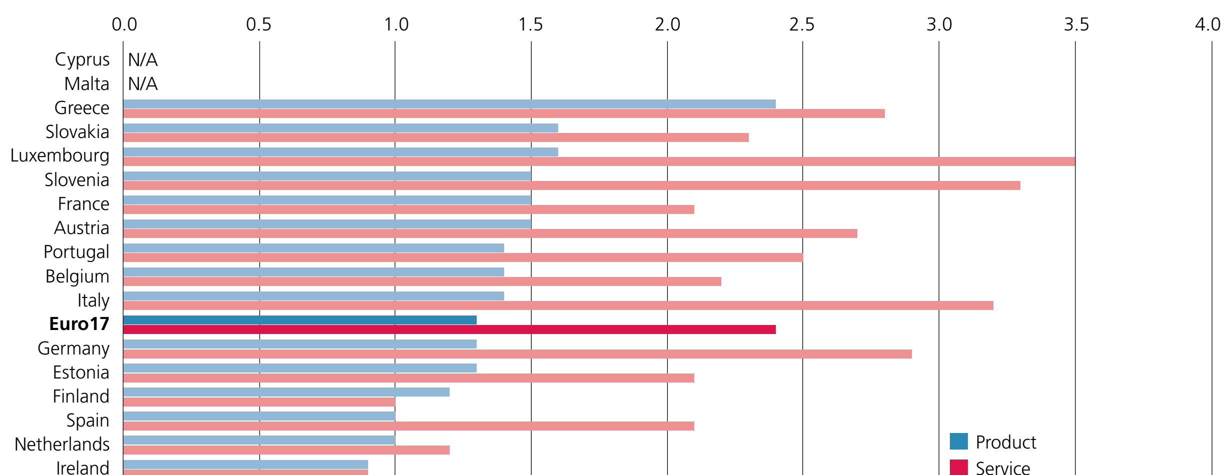
Greece (No. 15) has by far the most heavily regulated product markets. This may be one explanation why Greece has so few industrial companies that have grown to a size sufficient to successfully compete on the European and global markets.[25] Greece also makes it more difficult and costly than any other eurozone country to register a new business. For an economy that needs to trim its bloated public sector, this is a very heavy handicap.

Germany (No. 10) is a split economy with a fairly liberal market for goods but a heavily regulated market for services. This may explain the peculiar German bias towards producing goods instead of supplying services. As goods can often be exported more easily than services, Germany's pronounced regulatory bias against services may be one of the less appealing reasons for the unusually large share of industrial exports in German GDP.

Italy (No. 13) has a regulatory profile very similar to that of Germany (fairly open markets for products, heavily regulated markets for services), except that Italy scores somewhat worse than Germany on all three counts (products, services and new business registration).

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

Chart 11: Market Regulation – Product & Services Markets (OECD Index)



Source: OECD

25. For a fascinating discussion of the relationship between open markets and competitiveness, see William W. Lewis, "The Power of Productivity: Poor Countries Should Put Their Consumers First," *McKinsey Quarterly*, May 2004.

‘For Estonia, the excellent score [on resilience to financial shocks] partly reflects the impressive adjustment the country has made since 2008.’

II.3 Fiscal Sustainability

Is the fiscal position of a eurozone member sustainable? To assess the key issues, we look at 1) the share of government outlays in GDP, taking a high share of expenditures as a signal of potential fiscal overstretch, 2) the cyclically adjusted fiscal deficit as a share of GDP, 3) the ratio of public debt to GDP; and 4) the sustainability gap, that is, the required amount of fiscal tightening needed in the years to 2020 to bring the debt ratio down to 60% by 2030. Then we bring the four sub-indicators into a global score for fiscal sustainability, and rank the 17 countries accordingly.

We find that **Estonia** (No. 1) and **Luxembourg** (No. 2) outclass all other eurozone members thanks to their excellent position on all counts. Blessed with low debt and deficit ratios, they have no need to adjust fiscal policy. The positions of **Finland** (No. 3) with very low structural deficits as well as **Slovakia** (No. 4) and **Cyprus** (No. 5), both with low shares of government spending in GDP), are also quite comfortable.

But the performance of **Germany** (No. 6) is far from perfect. The most serious blot is its elevated debt ratio, a legacy of post-unification blunders that had to be corrected painfully after 2003 and of the need to take over some struggling banks in the last three years. The **Netherlands** (No. 8) is only slightly behind Germany, with a comparatively low

Table 15: Fiscal Sustainability Ranking

Rank	Country	Total Score	Government outlays	Structural deficit	Debt	Sustainability gap
1	Estonia	9,3	10,0	7,6	10,0	9,4
2	Luxembourg	9,2	10,0	8,1	9,4	9,4
3	Finland	7,1	2,9	8,6	7,3	9,7
4	Slovakia	6,6	9,4	2,4	7,8	6,9
5	Cyprus	6,3	7,0	4,6	6,3	7,1
6	Germany	6,0	5,4	7,4	4,8	6,6
7	Spain	5,8	8,7	2,9	6,4	5,2
8	Netherlands	5,8	5,2	5,7	6,2	6,0
9	Slovenia	5,6	3,9	6,1	7,9	4,6
10	Malta	5,4	5,7	5,6	5,8	4,4
11	Austria	5,0	2,5	5,7	5,6	6,3
12	Belgium	5,0	2,8	7,0	3,8	6,4
13	Italy	4,8	3,7	7,3	2,3	5,9
14	France	4,1	0,9	4,8	4,8	5,7
15	Portugal	3,8	5,0	1,6	4,1	4,6
16	Ireland	3,5	9,5	0,6	3,9	0,0
17	Greece	2,2	4,4	3,2	0,4	0,9
	Euro17	5,5	5,7	5,8	4,6	5,8

‘The most obvious gauge of a country’s vulnerability to shifts in market sentiment is its annual external financing need as expressed in its current account deficit.’

level of debt the most outstanding feature of the Dutch result.

The ranking for **France** (No. 14) is below average, with an exceptionally high share of government spending more than offsetting a comfortably small sustainability gap. For **Italy** (No. 13), the very high stock of public debt is offset by one of the lowest structural deficits in the eurozone, putting Italy slightly above France in the overall fiscal sustainability ranking.

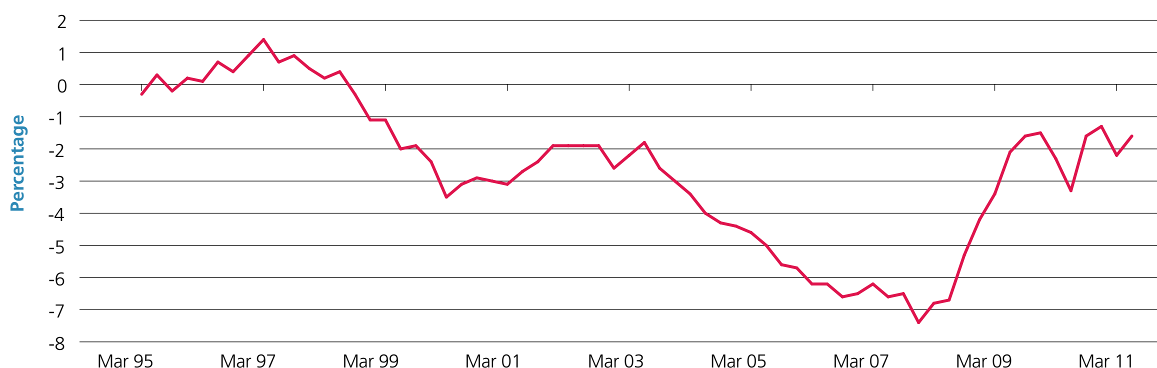
Unsurprisingly, **Greece** (No. 17) with its exceptionally high level of debt, a still uncomfortable structural deficit in the base year 2010 and an alarming sustainability gap, as well as **Ireland** (No. 16), with by far the worst structural deficit in the eurozone in 2010, take the bottom two slots.

On the southern rim of the eurozone, **Spain** (No. 7) comes in well ahead of **Italy** (No. 13), **France** (No. 14) and **Portugal** (No. 15) largely thanks to Spain’s still comparatively low level of debt and a manageable sustainability gap. The share of government outlays in GDP is also well below the eurozone average.

Of course, the sustainability of any given fiscal position depends very much on the longer-term rate of trend growth of an economy and its resilience to external shocks. We deal with these two issues separately in the sections on the growth and resilience pillars of the Overall Health Indicator.

Spain: Net Exports Rebounding

In percentage of GDP



When Spain threw a credit-fuelled party in the years until 2008, a surge in imports pushed its net export position deeply into the red. But since the real estate boom went bust in 2008, Spain has slashed its propensity to import. Helped also by a rebound in exports after the post-Lehman recession, the net export deficit has narrowed sharply. As new austerity measures take their toll, we expect Spanish net exports to turn positive over the course of 2012.

Source: Eurostat

‘A high share of government outlays in GDP can impair the sustainability of public finances.’

II.3.a. Government Outlays

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

As a general rule, rich countries tend to have a greater share of government outlays in GDP, partly because the demand for education and health services – often provided by the public sector – and for welfare provisions rises with income levels. We thus adjust the raw data for the share of general government outlays in GDP (2002-2010 average) for differences in per capita income.[26]

Curiously, **Estonia** (No. 1) and **Luxembourg** (No. 2), the poorest and the richest of the 17 euro members, have by far the leanest public sector relative to their respective income levels. These two small countries lead the ranking. **Ireland** (No. 3), **Slovakia** (No. 4) and **Spain** (No. 5) also score exceptionally well.

France (No. 17) takes the Leviathan award for the most bloated share of government spending of all eurozone members. With a 53.7% share in GDP for the average of the years 2002 to 2010 (and 55.4% in 2010), the French government sector exceeds the income-adjusted average for the eurozone by eight percentage points. This is the single most negative factor which keeps the overall ranking for France down. Arguably, the public sector in France may be more efficient than in many other eurozone members, reducing the drag of excessive government spending on overall economic dynamism. But a discussion of such “soft” factors is beyond the scope of the study. And the gap between France and its peers among the major eurozone members is so vast that even such mitigating considerations would not change the overall assessment very much. What’s more, if France had a share of government spending as a percentage of GDP in line with the eurozone average, its score in the Overall Health Indicator would move to 4.8, up from 4.5, and thus to well above the results for Italy and Spain.

Among the richer eurozone members, **Finland** (No. 14), **Belgium** (No. 15) and **Austria** (No. 16) also have comparatively outsized public sectors. In **Greece** (No. 11), **Slovenia** (No. 12) and **Italy** (No. 13) public spending has also been above the norm on average for the years 2002 to 2010.

Table 16: Government Outlays

Rank	Country	Score
1	Estonia	10,0
2	Luxembourg	10,0
3	Ireland	9,5
4	Slovakia	9,4
5	Spain	8,7
6	Cyprus	7,0
-	Euro17	5,7
7	Malta	5,7
8	Germany	5,4
9	Netherlands	5,2
10	Portugal	5,0
11	Greece	4,4
12	Slovenia	3,9
13	Italy	3,7
14	Finland	2,9
15	Belgium	2,8
16	Austria	2,5
17	France	0,9

26. To abstract from short-term cyclical factors, we take the 2002 to 2010 average. But the results would not change much if we took the 2010 data instead.

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

II.3.b Structural Deficits

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

Finland (No. 1) and **Luxembourg** (No. 2) take the top spots. Even including interest outlays, both countries ran a small structural surplus in 2010 already. **Germany** (No. 4), **Italy** (No. 5) and **Belgium** (No. 6) also score well, with a primary structural balance (excluding interest outlays) in surplus in 2010. For Italy, its structural primary surplus is the most important factor mitigating the negative reading resulting from its high overall level of public debt.

Judging by the structural fiscal balance, **Portugal** (No. 16) and **Ireland** (at No. 17, the worst of all by a significant margin) were the most fiscally challenged eurozone members in 2010. **Spain** (No. 14) and **Slovakia** (No. 15) also saddled themselves with huge structural deficits, even more so than **Greece** (No. 13) which had already brought its structural deficit down substantially in 2010 from a record in 2009.

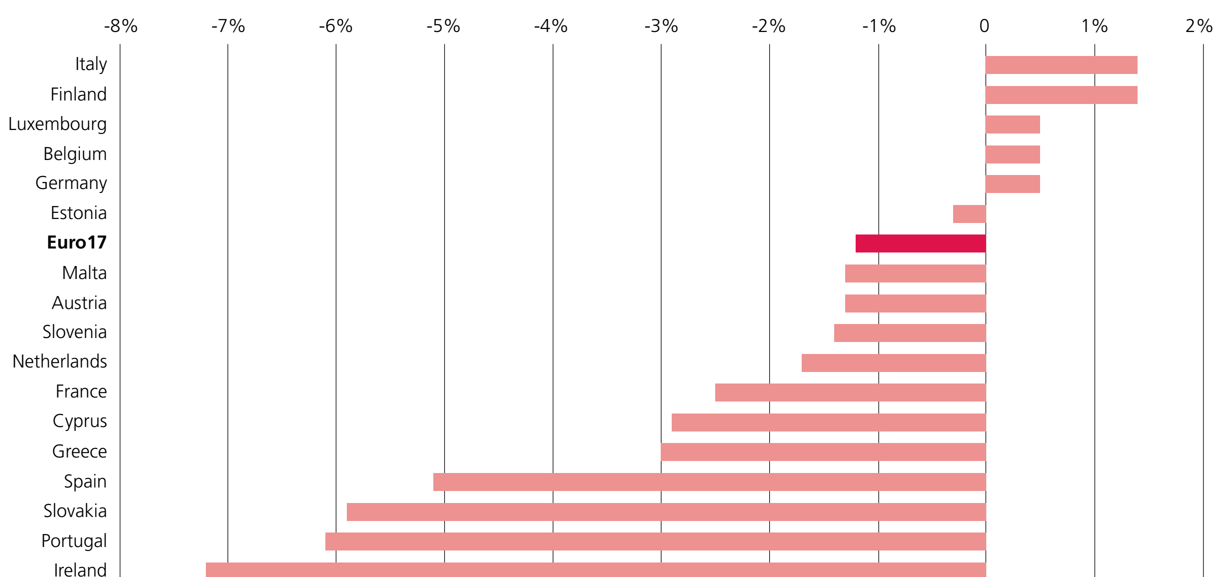
Table 17: Structural Deficit

Rank	Country	Score
1	Finland	8,6
2	Luxembourg	8,1
3	Estonia	7,6
4	Germany	7,4
5	Italy	7,3
6	Belgium	7,0
7	Slovenia	6,1
-	Euro17	5,8
8	Austria	5,7
9	Netherlands	5,7
10	Malta	5,6
11	France	4,8
12	Cyprus	4,6
13	Greece	3,2
14	Spain	2,9
15	Slovakia	2,4
16	Portugal	1,6
17	Ireland	0,6

‘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.’

Chart 12: Underlying Primary Fiscal Balance (in Percentage of GDP)

Underlying primary fiscal balance 2010



Source: European Commission

II.3.c Public Debt

The straightforward look at public debt levels in 2010 offers no surprises. The data have been well rehashed throughout the sovereign debt crisis. Amid a major decline in real GDP, Greek public debt had soared to almost 145% of GDP at the end of 2010, whereas Estonia has hardly any public debt (6.7% of its GDP). France and Germany are close to the eurozone average of 85.5%, whereas Spain remains well below average.

Table 18: Debt Ratio 2010

Rank	Country	Score	% of GDP
1	Estonia	10,0	6,7%
2	Luxembourg	9,4	19,1%
3	Slovenia	7,9	38,8%
4	Slovakia	7,8	41,0%
5	Finland	7,3	48,3%
6	Spain	6,4	61,0%
7	Cyprus	6,3	61,5%
8	Netherlands	6,2	62,9%
9	Malta	5,8	69,0%
10	Austria	5,6	71,8%
11	France	4,8	82,3%
12	Germany	4,8	83,2%
-	Euro17	4,6	85,5%
13	Portugal	4,1	93,3%
14	Ireland	3,9	94,9%
15	Belgium	3,8	96,2%
16	Italy	2,3	118,4%
17	Ireland	0,4	144,9%

Source: Eurostat

‘As Iceland and Ireland have found out to their cost in the last four years, having an oversized financial sector can make a country very vulnerable to swings in market sentiment and to the bursting of credit bubbles.’

II.3.d Sustainability Gap

As the last component of our fiscal sustainability analysis, we take the result of an impressive European Commission exercise to calculate how much eurozone members would have to tighten fiscal policy until 2020 to get their debt-to-GDP ratios down to the Maastricht benchmark of 60%.[27] Although the precise results are highly dependent on the underlying assumptions on trend growth and interest rates – and the precise results are slightly dated as they were calculated in the summer of 2011– they do offer valuable insights into the rough magnitude of the adjustment required.

For our backward-looking overall health check, we take the European Commission calculations using 2010 as the base year. In other words, the significant adjustments which – for example – Greece is making in 2011 and the improvements in fiscal deficits that are already in the pipeline in various member countries due to measures already passed before the cut-off date for the European Commission study are not included in this assessment. However, we have included these changes in our separate analysis of recent adjustment progress in the first part of this policy brief. Whereas the long-term overall health check is more backward looking and based on solid hard data, the discussion of the current adjustment progress needs to be based to some extent on more tentative estimates for fiscal outcomes in 2011.

So the somewhat time-lagging result is this: Based on actual 2010 data, **Ireland** (No. 17) has by far the biggest fiscal adjustment need until 2020. It would take a shift in the Irish fiscal stance of 16.8% of GDP by 2020 to set the emerald isle on course for a 60% debt ratio in 2030.

Because **Greece** (No. 16) already underwent a wrenching adjustment in 2010, its required fiscal tightening of 12.7% of its GDP is somewhat less daunting than that of Ireland. But with a surge in the Greek debt to GDP ratio caused

Table 19: Sustainability Gap

Rank	Country	Score	Value
1	Finland	9,7	0,4
2	Estonia	9,4	0,8
3	Luxembourg	9,4	0,9
4	Cyprus	7,1	4,0
5	Slovakia	6,9	4,3
6	Germany	6,6	4,7
7	Belgium	6,4	5,1
8	Austria	6,3	5,2
9	Netherlands	6,0	5,6
10	Italy	5,9	5,8
-	Euro17	5,8	5,8
11	France	5,7	6,0
12	Spain	5,2	6,7
13	Portugal	4,6	7,5
13	Slovenia	4,6	7,5
15	Malta	4,4	7,8
16	Greece	0,9	12,7
17	Ireland	0,0	16,8

Sustainability gap: required cumulative fiscal tightening 2010-2020 in % of GDP to achieve a 60% debt ratio by 2030
Source: European Commission (September 2011)

27. European Commission, *Public Finances in EMU 2011* (Brussels: European Commission, 2011).

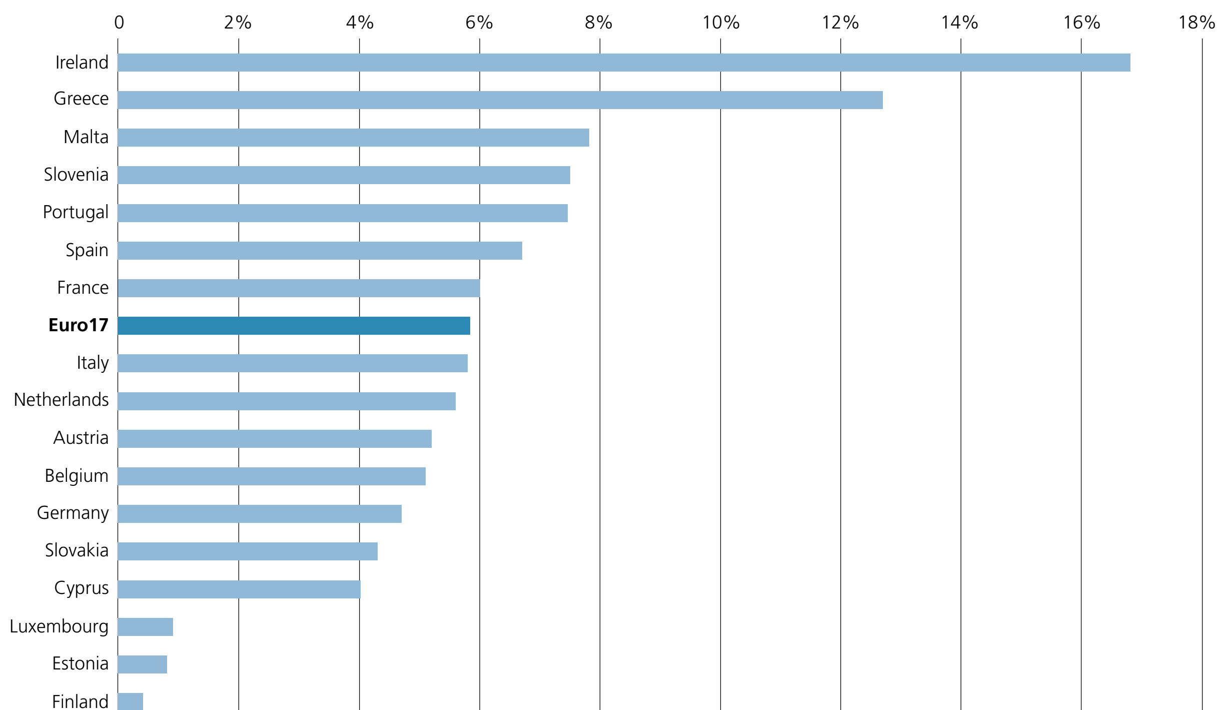
‘Establishing itself as a financial centre can make a small, open economy rich. But it can also be the road to disaster.’

by the unexpectedly large drop in nominal GDP over the course of 2011, updated European Commission scenarios will likely show an even more pronounced adjustment need for Greece (in the absence of substantial debt relief, that is).

Courtesy of their excellent fiscal starting situation, **Finland** (No. 1), **Estonia** (No. 2) and **Luxembourg** (No. 3) have virtually no need to adjust their fiscal stance in the future. Among the major economies of the eurozone, **Germany** (No. 6) scores particularly well, followed with a noticeable gap by **Italy** (No. 10) and **France** (No. 11) with almost identical readings.

Chart 13: Sustainability Gap

Required fiscal tightening in percentage of GDP from 2010 to 2020 to achieve a 60% debt ratio by 2030 (2010 baseline scenario).



Source: European Commission, September 2011

'Having a comparatively low fiscal deficit does not suffice to maintain market confidence when investors are nervous.'

II.4 Resilience

Table 20: Resilience Ranking

Rank	Country	Total Score	Debt Rollover	Debt Held at Home	Current Account	Private Debt	Savings Rate	Bank Assets
1	Estonia	8,2	9,7	9,4	7,7	n.a.	4,4	9,9
2	Slovenia	7,7	7,3	7,4	5,4	n.a.	8,6	10,0
3	Finland	7,2	5,4	5,2	7,4	9,9	6,6	8,7
4	Slovakia	6,8	5,9	8,3	4,0	n.a.	5,5	10,0
5	Germany	6,7	2,6	5,2	8,8	7,2	9,6	7,0
6	Luxembourg	6,6	8,7	n.a.	9,9	n.a.	7,7	0,0
7	Austria	6,1	5,0	3,5	7,2	6,6	8,4	5,9
8	Netherlands	5,8	4,8	5,5	9,5	2,6	6,9	5,7
9	Italy	5,4	1,8	4,2	4,1	6,3	7,6	8,3
10	France	5,3	4,1	4,3	4,9	3,9	8,9	5,8
11	Belgium	5,2	2,4	3,2	6,3	3,0	9,5	6,6
12	Spain	5,1	5,1	6,9	3,4	0,9	7,4	6,8
13	Ireland	3,7	2,3	4,2	5,4	0,0	10,0	0,0
14	Portugal	3,6	2,2	3,7	0,6	2,2	5,7	7,1
15	Greece	2,9	0,0	0,8	0,3	7,3	0,4	8,9
16	Cyprus	2,8	4,2	n.a.	1,7	n.a.	5,3	0,0
17	Malta	2,4	3,7	n.a.	3,6	n.a.	n.a.	0,0
	Euro17	5,3	3,4	4,8	5,5	4,8	6,9	6,6

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

All the indicators we examine are variants of one theme: how much do countries – the sovereigns and the private sector – rely on continued access to finance? To assess the vulnerability to sudden shifts in market sentiment, we look at five separate sub-indicators: 1) the current account deficit, 2) the average annual sovereign debt roll-over as a share of GDP, 3) public debt held abroad as a share of GDP, 4) the household savings rate, and 5) the debt of households and non-financial corporations.

Unsurprisingly, **Portugal** (No. 14) and **Greece** (No. 15) are close to the bottom of this sub-indicator ranking. Huge current account deficits and high levels of public debt had made them vulnerable to sudden adverse shifts in market sentiment. The most extreme scores go to small countries, with the best score for **Estonia** (No. 1) with little public and private debt and an

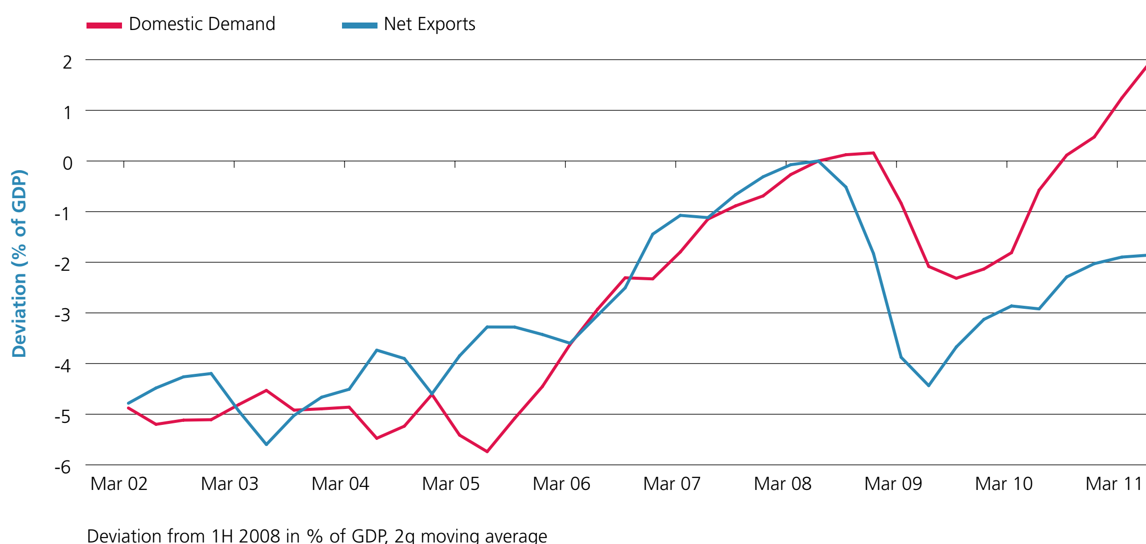
external surplus, followed by **Slovenia** (No. 2) with high savings rates and low bank assets. But **Cyprus** (No. 16) with its huge external deficit and the comparatively short maturity of its public debt, and **Malta** (No. 17) with its vast current account deficit, do very poorly.

For **Estonia** (No. 1), the excellent score partly reflects the impressive adjustment the country has made since 2008. It can thus serve as an example for what other countries which started their adjustment later can achieve if they stay the reform course.

Among the weightier economies, **Germany** (No. 5) takes the top spot while **Spain** (No. 12) looks most shaky. The results for **Italy** (No. 9) and **France** (No. 10) are roughly comparable and just above the eurozone average, with a slight advantage for Italy over France due to Italy's low level of private debt. Two factors mitigate the Italian disadvantage of a very high ratio of public debt to GDP (118.4%): the public debt of Italy has a longer maturity and a much bigger share of it is held domestically than in France.

Germany: Net Exports and Domestic Demand

Deviation from pre-Lehman level (1H 2008) in percentage of GDP



Contrary to a widespread assertion, Germany is not just an export machine. Reaping the rewards of its post-2003 reforms, Germany can afford to loosen up. And it is doing so. The flip-side of the euro peripheral countries tightening their belts is stronger German domestic demand. German domestic demand exceeds its pre-Lehman level by the equivalent of 2% of GDP. However, net exports are still far below their 1H 2008 average.

Source: Destatis

‘Countries can correct deep-seated domestic distortions within monetary union.’

II.4.a Current Account

The most obvious gauge of a country’s vulnerability to shifts in market sentiment is its annual external financing need as expressed in its current account deficit. In the actual data for 2010, which form the basis of our assessment, **Luxembourg** (No. 1) and the **Netherlands** (No. 2) stand out with the biggest surpluses whereas **Cyprus** (No. 15), **Portugal** (No. 16) and **Greece** (No. 17) ran the widest deficits. On this count, **France** (No. 10) comes significantly ahead of **Italy** (No.11).

Of course, a current account surplus or deficit is not *per se* good or bad. A current account surplus can be a sign of companies shifting production abroad, a deficit can be the mirror image of strong inward investment into productive capacities. But an external deficit can be a measure of vulnerability as it signals a dependence on attracting capital from abroad to finance a gap between domestic production and absorption.

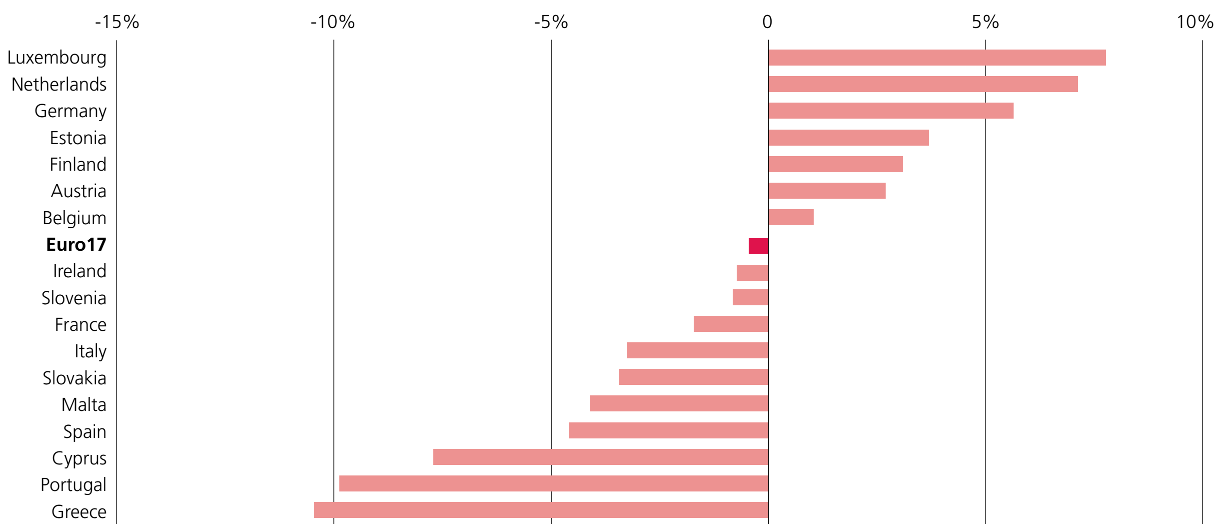
Table 21: Current Account Balance

Rank	Country	Score	% of GDP
1	Luxembourg	9,9	7,8
2	Netherlands	9,5	7,1
3	Germany	8,8	5,7
4	Estonia	7,7	3,7
5	Finland	7,4	3,1
6	Austria	7,2	2,7
7	Belgium	6,3	1,0
-	Euro17	5,5	-0,5
8	Ireland	5,4	-0,7
9	Slovenia	5,4	-0,8
10	France	4,9	-1,7
11	Italy	4,1	-3,3
12	Slovakia	4,0	-3,4
13	Malta	3,6	-4,1
14	Spain	3,4	-4,6
15	Cyprus	1,7	-7,7
16	Portugal	0,6	-9,9
17	Greece	0,3	-10,5

Source: Eurostat, ECB

Chart 14: Current Account Balance (in Percentage of GDP)

Current account balance 2010



Source: Eurostat

II.4.b Debt Profile

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

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

- How much public debt matures on average per year?
- How much foreign debt is held abroad?

Obviously, countries with small public debt – **Estonia** (No. 1) and **Luxembourg** (No. 2) – score well on both counts, whereas countries with the highest debt ratio – **Ireland** (No. 13), **Portugal** (No. 14), **Italy** (No. 15) and **Greece** (No. 17) – do badly.

To some extent, our debt profile criterion is just a variant of the overall debt criterion already included in the "fiscal sustainability" pillar. But the debt profile still offers valuable insights into the potential vulnerability of countries to financial shocks.

Due to its comparatively long maturity profile and the high share of debt held at home, Italy does much less badly on the two debt profile criteria relative to France and Germany than it does in a simple comparison of debt levels.

Spain enjoys the advantage of a relatively high share of debt held at home but has a comparatively adverse maturity profile. The same holds – in a more extreme form – for Slovakia.

Finland receives very low scores on both aspects of debt profile. This is one of the few genuinely weak spots which we found for Finland in the Overall Health Indicator. Apparently, the Finnish authorities believe that, with their low level of public debt and their country's rude health on many other criteria, they can take advantage of low yields at the short end of the maturity curve without incurring a serious risk to their financial stability.

Table 22: Debt Profile

Rank	Country	Score	Annual Sovereign debt roll-over			Public debt held abroad		
			% of GDP	Score	Rank	% of GDP	Score	Rank
1	Estonia	9,6	0,6	9,7	1	5,3	9,4	1
2	Luxembourg	8,7	2,6	8,7	2	n.a.	n.a.	n.a.
3	Slovenia	7,3	5,3	7,3	3	23,8	7,4	3
4	Slovakia	7,1	8,2	5,9	4	14,9	8,3	2
5	Spain	6,0	9,8	5,1	6	27,9	6,9	4
6	Finland	5,3	9,3	5,4	5	43,2	5,2	7
7	Netherlands	5,2	10,3	4,8	8	40,7	5,5	5
8	Austria	4,3	10,0	5,0	7	58,5	3,5	12
9	France	4,2	11,8	4,1	10	51,4	4,3	8
10	Cyprus	4,2	11,6	4,2	9	n.a.	n.a.	n.a.
-	Euro17	4,1	13,2	3,4	-	46,5	4,8	-
11	Germany	3,9	14,9	2,6	12	43,2	5,2	6
12	Malta	3,7	12,6	3,7	11	n.a.	n.a.	n.a.
13	Ireland	3,3	15,3	2,3	14	52,0	4,2	9
14	Portugal	3,0	15,6	2,2	15	56,4	3,7	11
15	Italy	3,0	16,4	1,8	16	52,6	4,2	10
16	Belgium	2,8	15,3	2,4	13	61,1	3,2	13
17	Greece	0,4	21,0	0,0	17	83,2	0,8	14

'A key element of success for austerity and reform programmes is to elicit a surge in private-sector confidence and investment to offset the fiscal squeeze.'

II.4.c Private Debt

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

Comparing the debt of households and non-financial corporations as a share of GDP for the 11 euro members for which we have reliable data yields the obvious results: With a private sector debt ratio of 370% of its GDP, **Ireland** (No. 11) is the basket case, far worse than **Spain** (No. 10) with 281%. **Greece** (No. 2), **Germany** (No. 3), **Austria** (No. 4) and **Italy** (No. 5) score fairly well, while **Finland** (No. 1) gets the award for best prudence in its private sector (an 83% debt to GDP ratio for its households and non-financial corporations). For Greece, the low level of private sector debt is one of the few bright spots in the Overall Health Indicator.

Table 23: Private Sector Debt

Rank	Country	Score	% of GDP
1	Finland	9,9	83%
2	Greece	7,3	140%
3	Germany	7,2	142%
4	Austria	6,6	154%
5	Italy	6,3	162%
-	Euro17	4,8	195%
6	France	3,9	214%
7	Belgium	3,0	234%
8	Netherlands	2,6	244%
9	Portugal	2,2	252%
10	Spain	0,9	281%
11	Ireland	0,0	370%
n.a.	Slovenia	n.a.	n.a.
n.a.	Luxembourg	n.a.	n.a.
n.a.	Slovakia	n.a.	n.a.
n.a.	Cyprus	n.a.	n.a.
n.a.	Estonia	n.a.	n.a.
n.a.	Malta	n.a.	n.a.

Source: Eurostat

II.4.d Household Savings Rate

Having a high level of private sector debt can be mitigated by thrift, that is, by a high propensity to save money out of current income. Forced to adjust by the real estate crisis that started in earnest in 2008, **Ireland** (No. 1) had the highest gross personal savings rate in 2010, even overtaking the usually thrifty **Germans** (No. 2) and **Belgians** (No. 3).

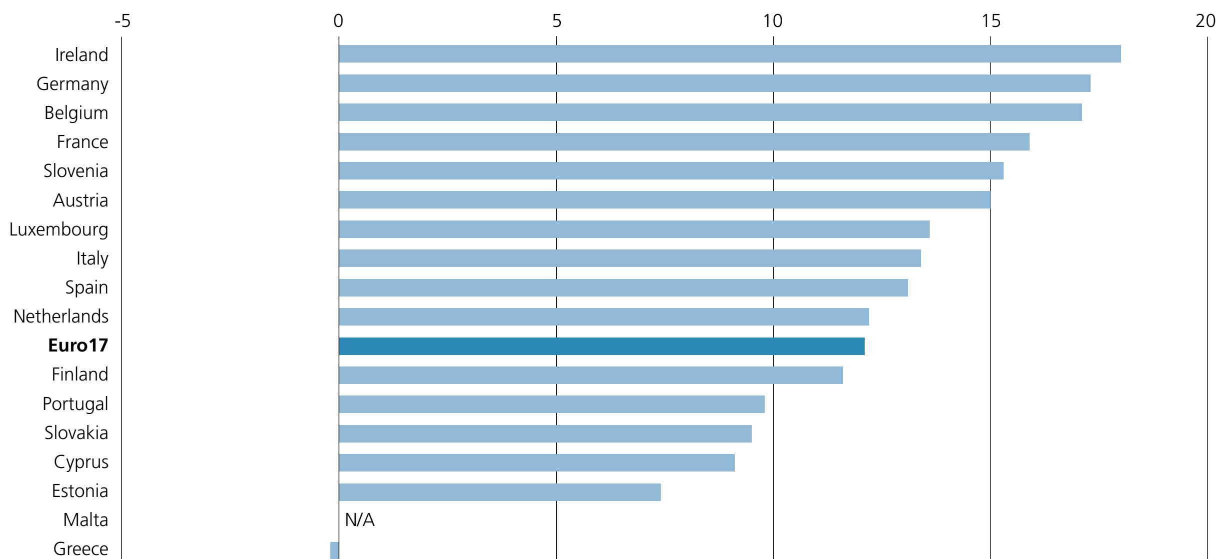
France (No. 4), **Slovenia** (No. 5) and **Austria** (No. 6) also do well on the personal thrift criterion. However, **Greece** (No. 16) had a marginally negative private savings rate in 2010 and gets by far the lowest score on this criterion.

Table 24: Gross Household Savings Rate

Rank	Country	Score	% of GDI
1	Ireland	10,0	18,0%
2	Germany	9,6	17,3%
3	Belgium	9,5	17,1%
4	France	8,9	15,9%
5	Slovenia	8,6	15,3%
6	Austria	8,4	15,0%
7	Luxembourg	7,7	13,6%
8	Italy	7,6	13,4%
9	Spain	7,4	13,1%
10	Netherlands	6,9	12,2%
-	Euro17	6,9	12,1%
11	Finland	6,6	11,6%
12	Portugal	5,7	9,8%
13	Slovakia	5,5	9,5%
14	Cyprus	5,3	9,1%
15	Estonia	4,4	7,4%
16	Greece	0,4	-0,2%
n.a.	Malta	n.a.	n.a.

Nominal value in percentage of gross disposable income
Source: Eurostat

Chart 15: Household Savings Rate (as a Percentage of Gross Disposable Income)
Gross household savings rate 2010



Source: Eurostat

‘The external donors imposed a much less harsh fiscal adjustment on Ireland than on Greece.’

II.4.e. Bank Assets

As Iceland and Ireland have found out to their cost in the last four years, having an oversized financial sector can make a country very vulnerable to swings in market sentiment and to the bursting of credit bubbles. We thus add the ratio of bank assets to GDP to our list of criteria to assess the resilience of a country to shocks.[28]

Unsurprisingly, the most extreme positive and negative scores go to a group of small, open economies. Establishing itself as a financial centre can make a small, open economy rich. But it can also be the road to disaster.

Relative to the small size of their GDP, **Cyprus, Ireland, Luxembourg** and **Malta** (all tied for No. 14) are home to huge financial centres. They all get the bottom score of zero on this criterion in our ranking.

Admittedly, our ranking may be somewhat unfair to Luxembourg, Cyprus and Malta. By simply looking at bank assets relative to GDP, we do not distinguish between banks that rely on the comparatively stable business of managing assets for foreigners (the speciality of erstwhile tax havens such as Luxembourg and Switzerland) and banks that have fuelled an unsustainable domestic credit boom (as happened in Ireland).

For **Slovakia** (No. 1), **Slovenia** (No. 2) and **Estonia** (No. 3), the domestically domiciled financial sectors are so small to earn the near-perfect scores. In this respect, it helps that major parts of the actual banking system in these small countries are owned by banks from bigger foreign neighbours.

For **Greece** (No. 4), the financial sector is so small as to earn the country a very respectable score on this criterion. Maybe some bank assets and liabilities traceable to Greeks show up in the statistics of Cyprus and Switzerland instead?

Among the weightier eurozone members, **Italy** (No. 6) scores well ahead of **Germany** (No. 8), **Spain** (No. 9) and **France** (No. 12) on this criterion.

Table 25: Bank Assets

Rank	Country	Score	% of GDP
1	Slovakia	10,0	86%
2	Slovenia	10,0	152%
3	Estonia	9,9	154%
4	Greece	8,9	209%
5	Finland	8,7	224%
6	Italy	8,3	243%
7	Portugal	7,1	309%
8	Germany	7,0	313%
9	Spain	6,8	326%
-	Euro17	6,6	335%
10	Belgium	6,6	339%
11	Austria	5,9	378%
12	France	5,8	379%
13	Netherlands	5,7	388%
14	Malta	0,0	707%
14	Cyprus	0,0	822%
14	Ireland	0,0	824%
14	Luxembourg	0,0	2133%

Source: ECB

28. The data on bank assets comes from European Central Bank, *EU Banking Structures*, September 2010, p. 35.

Case Studies in Adjustment: Germany

In real life, no country or region can fully conform to the textbook ideal of an "optimum currency area."[29] The relevant question, then, is whether the eurozone offers its members adequate opportunities to adjust within the strictures of monetary union. The German example shows that it does. After 2003, Germany turned itself from the "sick man of Europe" into the most dynamic of the major European economies. It did so without the ability to set its own interest rates or steer its own exchange rate.

Over the course of the 1990s, Germany had become the worst-performing of the major European economies. The costs of German unification and the refusal to adjust the generous West German welfare system to the challenge of integrating a bankrupt East German economy with more than 16 million people compounded deep-rooted structural problems. In the wake of the post-unification boom-bust cycle, Germany also suffered from a long and painful slump in real estate markets and a protracted banking crisis. When Germany breached the 3% deficit limit of the Stability and Growth Pact in 2003, it used its political muscle to suspend the Pact before teaming up with France to critically dilute it.

In the 1990s, Germany was the only major economy in the Western world blighted by a further trend increase in unemployment. When unemployment soared to new post-war highs in the wake of the 2001-2002 recession, the country finally realised it had a serious problem. It reacted with a thorough overhaul of the German body economic. Specifically, Germany:

- slashed welfare, unemployment, pension and healthcare benefits;
- made its exceptionally rigid labour market more flexible, for instance by liberalising temporary work contracts;
- reduced top marginal tax rates for households and companies;
- kept increases in discretionary government spending well below the rate of inflation;
- raised indirect taxes to balance the budget.

As unemployment soared, employers also gained the upper hand in negotiations with trade unions. Using the all-too-credible threat of relocating jobs to less costly climes in east-central Europe or East Asia, employers imposed a long period of wage moderation and a significant relaxation of restrictive work practices onto their workers.

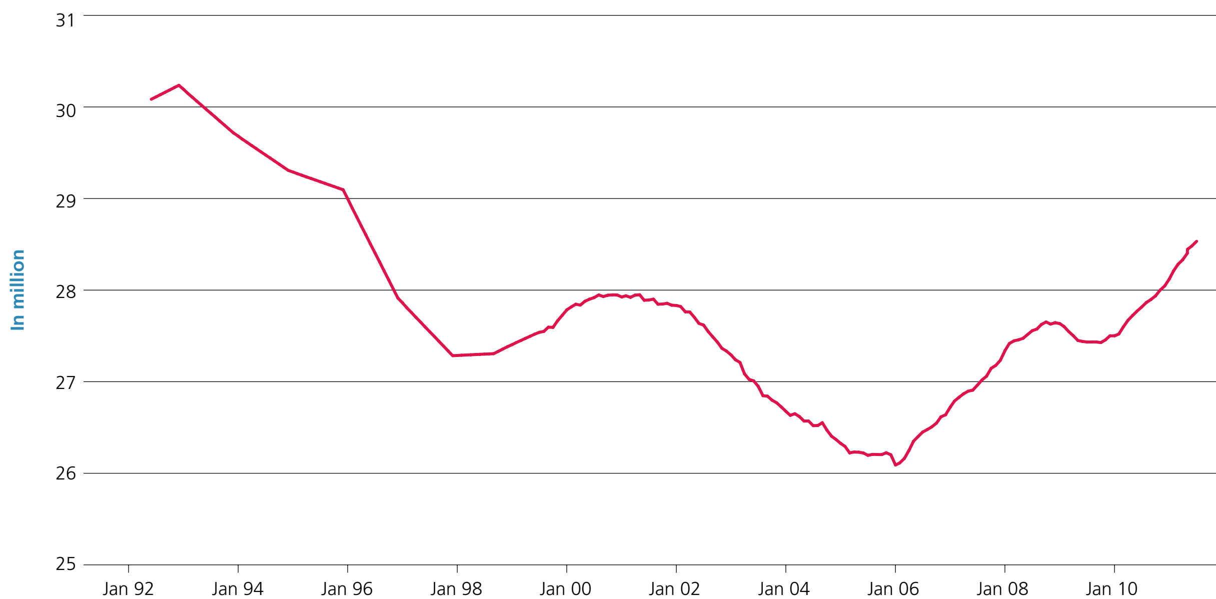
Germany implemented major labour market reforms in early 2004, as part of the Agenda 2010 reforms. Two years later, the trend in the labour market finally turned around (see chart 16 for a graphic representation of how Germany's state finances improved as the labour market improved along with it).

For a country with a pay-as-you go welfare system, the number of people who hold a job and earn enough money to pay into the system is the single most important economic variable. The chart brings out the scale of the problem Germany had until around 2005: with a shrinking number of people paying into its welfare system, Germany was on course for eventual insolvency. The chart also shows how

29. Mundell, *op. cit.*.

‘For a country with a pay-as-you-go welfare system, the number of people who hold a job and earn enough money to pay into the system is the single most important economic variable.’

Chart 16: German Core Employment



Source: Bundesbank

much the labour market has improved since the start of 2006. The post-Lehman recession, the worst cyclical downturn in more than 60 years, interrupted this trend only briefly. As a result of a growing number of workers paying into the system, Germany balanced its budget (general government) in 2007 and 2008, returning after the post-Lehman hit to an almost balanced position in the first half of 2011 again, with a deficit of 0.6% of its GDP.

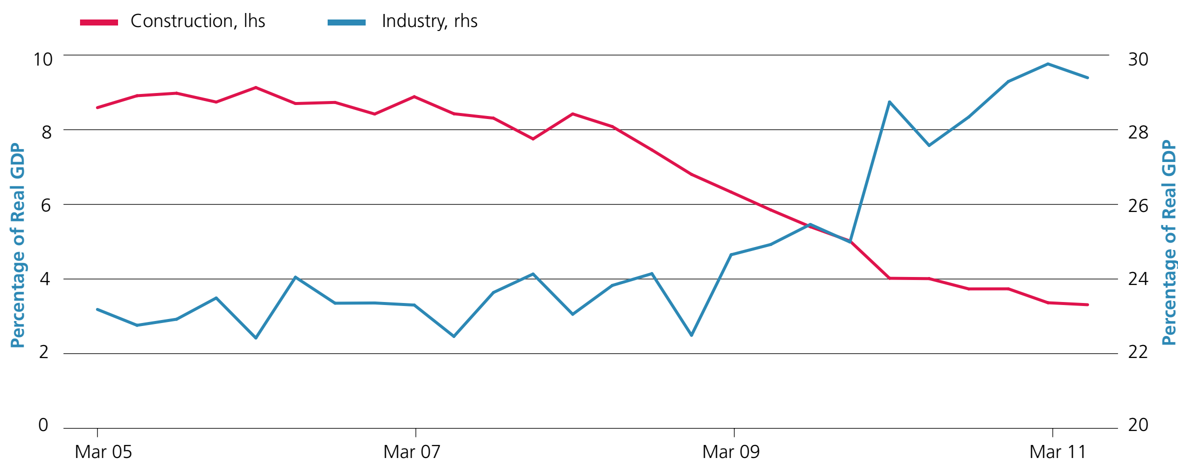
The German example holds some key lessons:

- Countries can correct deep-seated domestic distortions within monetary union;
- It can take years for labour market reforms to show clear results;
- But once structural reforms yield results, the economic and fiscal outlook can improve dramatically.

‘Ireland will be able to stand on its own feet again and finance itself without any external support from the second half of 2012 onwards – at least as long as Europe does not push itself into an ever escalating recession which would also abort the Irish export upswing.’

Ireland: Industry and Construction Changing Places

In percentage of real GDP; industry on right scale

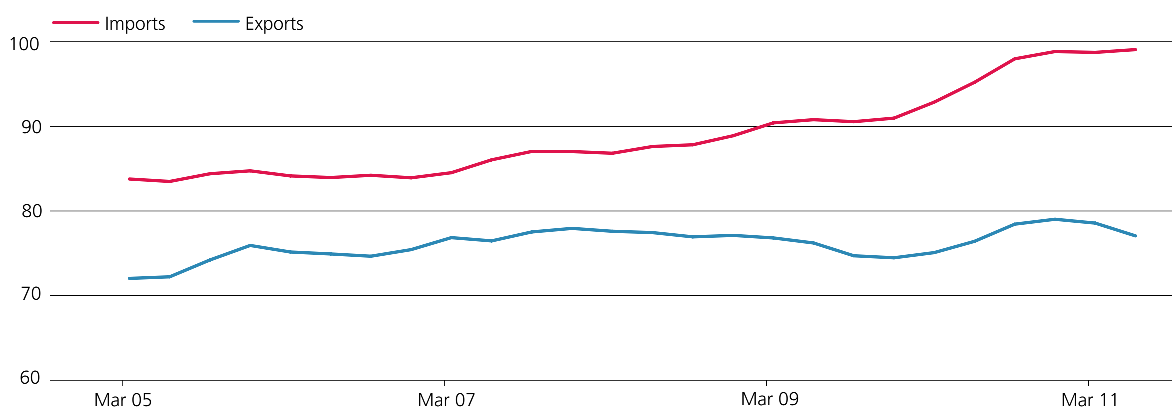


While domestic construction has contracted sharply, export-oriented industries have stepped into the breach. The rise in industry has more than offset the decline in the contribution of construction to Irish GDP.

Source: CSO

Ireland: Exports and Imports

In percentage of GDP



As a small open and highly flexible economy, Ireland has found it easy to shift resources from domestic activities into export industries. While the share of exports in GDP has surged, imports have changed much less. But as Ireland has not yet been subject to a major fiscal squeeze comparable to those of Portugal or Greece, its imports have held up well. Of course, a major part of imports is used to assemble export goods.

Source: CSO

‘The policy advice dished out to Greece had roughly the right ingredients: fiscal austerity and pro-growth structural reforms.’

Case Studies in Adjustment: Greece

Greece can be proud of its heroic adjustment. Today, it scores among the top performers on our ranking for economic and fiscal adjustment. But the Greek story is also one of utter failure. Since the start of its debt crisis in late 2009, the Greek economy has contracted by about 10%, following a decline of some 4% in the post-Lehman crisis. Judging by leading indicators, an end to recession is not yet in sight. Since early 2010, the external supervisors of Greece – the European Union, European Central Bank, International Monetary Fund troika – have had to revise down their estimate of the 2012 level of real GDP in Greece by almost 7% (see chart 17 below).

The deep recession is costing Greece dearly in terms of lost tax revenues and extra expenditure. As a result, the overall fiscal deficit ceased to decline in early 2011 despite further serious fiscal tightening. Even worse, shrinking GDP automatically boosts the debt-to-GDP ratio. What went wrong in Greece?

At the start of its debt crisis, Greece had some particular strengths and weaknesses. On the positive side, Greece was blessed with:

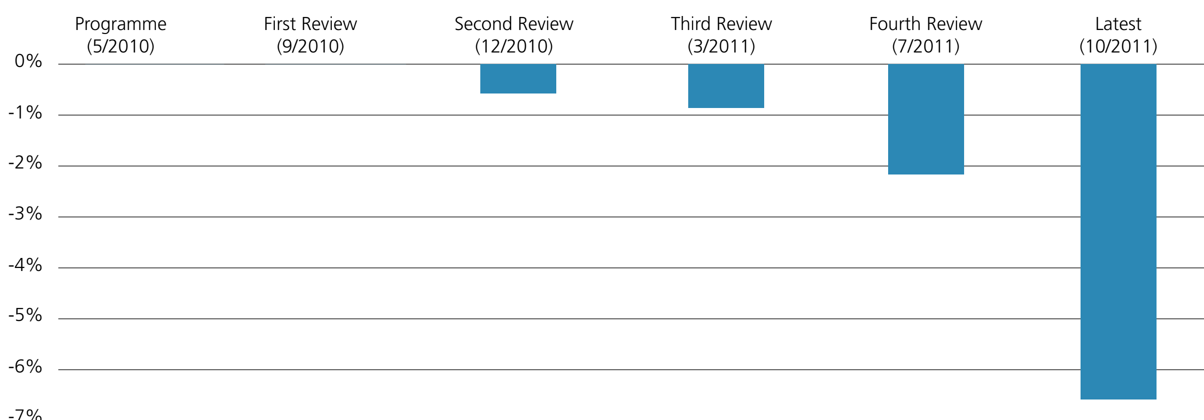
- a popular and newly elected government with a solid majority in parliament;
- a well-capitalised banking system with a strong deposit base;
- a household and corporate sector with comparatively low debt levels;
- no trace of a real estate or private sector credit boom that could go or had gone bust.

On the weak side, Greece suffered from:

- an exceptional surge in the fiscal deficit in 2009 to 15.4% of GDP;
- a collapse of global trust in Greece after it emerged that previous governments had presented inaccurate fiscal statistics;
- a grossly overstaffed and often incompetent public sector;
- a bureaucratic regime that made

Chart 17: Adjustment to 2012 GDP Forecast

Cumulative adjustment to 2012 Greek real GDP forecast of Troika in percentage points



Source: IMF, Berenberg calculations

‘In monitoring Greek progress, donors focussed far more on easily measurable fiscal targets than on progress in the pro-growth structural reforms.’

it exceptionally difficult, expensive and time-consuming to start a new business;
- a dense network of regulations that *de facto* closed many professions to newcomers.

The policy advice dished out to Greece had roughly the right ingredients: fiscal austerity and pro-growth structural reforms. But the harsh prescriptions which Greece had to follow to qualify for support got the balance wrong in three major respects:

- Roughly half of the fiscal measures (including the first VAT hike in March 2010) sought to raise more tax revenue instead of reducing government expenditure, even though tax increases tend to hit aggregate demand more than spending cuts;[30]
- Instead of simplifying the tax code so that an inefficient tax administration could have better coped with it, the tax code became even more complicated. Frequent tax changes compounded the administrative problem;
- In monitoring Greek progress, donors focussed far more on easily measurable fiscal targets than on progress in the pro-growth structural reforms.

The initial tendency of the troika to react to fiscal shortfalls caused by recession and administrative incompetence by demanding further austerity, which often took the form of new tax hikes, compounded the problems. It deepened the recession and overstretched the very limited administrative capacity of the Greek public sector even further.

A roughly 50:50 mix of tax hikes and expenditure cuts is not unusual in fiscal adjustment programmes. The problem for Greece is that its comparatively closed economy translates such a fiscal squeeze into a disproportionate hit to aggregate demand while its inefficient tax administration limits the fiscal gains from higher tax rates. A key element of success for austerity and reform programmes is to elicit a surge in private-sector confidence and investment to offset the fiscal squeeze. But with exceptionally weak domestic demand and tax rates that are going up partly of offset deficiencies in tax collection, private investment is suppressed and driven abroad to friendlier tax climes such as Bulgaria.

Greece seems to be the classic example of a country with a weak tax administration in which a simple and flat tax regime with low but uniform rates would probably have led to a major surge in revenues and private-sector activity rather than to a decline in revenues which the corresponding cut in the notional top marginal tax rates would suggest.

On the political side, the focus on short-term fiscal targets rather than longer-term reforms meant that the Greek government spent too much of its political capital on pushing tax hikes through parliament rather than on loosening regulations and streamlining the public sector. For the outside observer, this partly seemed to reflect the genuine preferences of the Greek government. But given the leverage which the troika has over Greece, the external donors could probably have given the Greek adjustment efforts a different steer if they had insisted on it.

In Greece, the overall adjustment is still in its early phase in which a collapse of imports, layoffs of least productive workers and severe downward pressure improve the external balance and the competitive position. The initial focus on a fiscal squeeze has made it very difficult for Greece to advance to

30. See International Monetary Fund, “Will It Hurt? Macroeconomic Effects of Fiscal Consolidation,” *World Economic Outlook* (Washington DC: IMF, 2010).

‘The focus on short-term fiscal targets rather than longer-term reforms meant that the Greek government spent too much of its political capital on pushing tax hikes through parliament rather than on loosening regulations and streamlining the public sector.’

the second stage of adjustment in which surging exports and productivity-boosting private sector investment drive the further adjustment process.

In this respect, Greece contrasts sharply with Ireland. Although Ireland as a much more open economy with an efficient tax administration could have coped much more easily than Greece with a severe fiscal squeeze, the external donors imposed a much less harsh fiscal adjustment on Ireland than on Greece. As a result, Ireland is the star performer of the peripheral crisis countries. We maintain our view that Ireland will be able to stand on its own feet again and finance itself without any external support from the second half of 2012 onwards[31] – at least as long as Europe does not push itself into an ever escalating recession which would also abort the Irish export upswing.

Notes on Results by Country

Overall Health Indicator
1.1 Gross value added excluding construction adjusted for size of labour force
1.1.2 Deviation of actual rise in GVA from model estimate based on starting level of this GVA measure
1.3.1 Employment rate 2010
1.3.2 Average annual change in employment rate 2002 to 2010, in percentage points
1.4.1 Consumption rate: share of public and private consumption in GDP, average 2002-2010
1.4.2. Average annual change in consumption share 2002 to 2010, in percentage points of GDP
2.1 Average export share in GDP 2002-10; score and ranking based on average export share 2002-10 adjusted for size of economy (nominal GDP) and level of development (per capita GDP)
2.2 Average annual rise in export ratio, percentage points, 2002-2010, ranking based on score adjusted for starting level;
2.3 Labour cost: average annual change in real or nominal unit labour costs 2002 to 2010, in percent
2.3.3 Degree of employment protection 2008
2.4.1 and 2.4.2 OECD indices for 2008
2.4.3 Number of days to set up a new business (World Bank Doing Business Report, 2011), score is combined with cost (percentage of income per capita) of setting up new business
3.1 Government outlays, in percentage of GDP, 2002 to 2010 average
3.2 All fiscal balances refer to the underlying balance, in percentage of GDP
3.3 Debt ratio in percentage of GDP
3.4. Sustainability gap: required cumulative fiscal squeeze in percentage of GDP until 2020 to achieve a 60% debt ratio by 2030.
4.2 Debt held abroad in percentage of GDP, eurozone value = average of eurozone countries

Adjustment Indicator
2.1 Shift in underlying primary fiscal balance in percentage points of GDP
2.2 Fiscal squeeze: relative to required change by 2020 to achieve a debt ratio of 60% by 2030, including measures passed until mid-2011 but fully effective only in 2012
3. Annual average rise in RULC 2009-11; rank and score derived from 1) change in RULC 2009-11 and 2) shift in the average annual rise in real unit labour cost 2009-11 relative to 2000-09 adjusted for eurozone average change in RULC over the respective periods.

31. Holger Schmieding, “Ireland: the First Turnaround Candidate,” *Berenberg Macro Views*, July 2011.

Austria

Assessment

A mature economy with a overall health marginally above average. Less dynamic than Germany but in significantly better shape than France and Italy. Has made very little adjustment effort in the last few years.

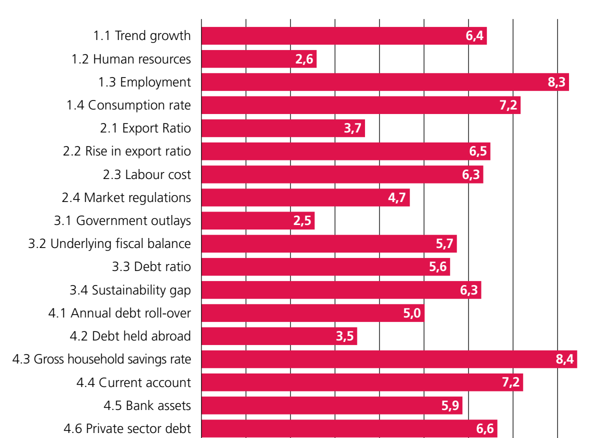
Strengths

- Excellent employment performance, with low rates of youth and long-term unemployment
- Low propensity to consume
- Low ratio of household debt to GDP
- Very subdued nominal unit labour costs growth 2002-10

Weaknesses

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

Overall Health: Score Overview



Detailed Scores

RESULT	AT Score	Rank
Overall Health Check	5,6	**8**
1. Growth potential	6,1	**6**
2. Competitiveness	5,3	**10**
3. Fiscal sustainability	5,0	**11**
4. Resilience	6,1	**7**
Adjustment Progress	2,1	**17**
1. External adjustment	3,2	**11**
2. Fiscal adjustment	1,6	**17**
3. Real unit labour costs 2009-11	1,6	**14**

ADJUSTMENT PROGRESS	AT Value	Euro17 Value	Score	Rank
			2,1	**17**
1. External adjustment Change 2H07-2Q11			3,2	**11**
1.1 Net exports in % points of GDP	0,3	0,0	3,0	**11**
1.2 Net exports relative to 2H07 exports	0,4	0,1	3,0	**11**
1.3 Rise in export ratio, % of GDP	-2,2	1,1	2,3	**15**
2. Fiscal squeeze: shift in primary balance			1,6	**17**
2.1 2009-2011 in % of GDP	-0,3	1,3	1,6	**14**
2.2 in % of required shift to 2020	-5,0	38,4	1,5	**15**
3. Real unit labour costs 2009-11	-1,7	-1,9	1,6	**14**

OVERALL HEALTH 1. Growth potential	AT Value	Euro17 Value	Score	Rank
			6,1	**6**
1.1 Trend growth 2002-2010, in %			6,4	**9**
1.1.1 Rise in Gross value added	1,3	0,9	5,0	**8**
1.1.2 Deviation of GVA from norm	0,7	0,0	7,8	**6**
1.2 Human resources			2,6	**15**
1.2.1 Fertility rate	1,4	1,6	3,3	**15**
1.2.2 Integration of Immigrants (MIPEX)	42,0	57,6	1,7	**14**
1.2.3 Pisa Scores	487	497	2,1	**11**
1.3 Employment			8,3	**1**
1.3.1 Employment rate 2010, in %	71,7	64,2	7,7	**2**
1.3.2 Change in employment rate 2002-10	0,4	0,3	7,2	**2**
1.3.3 Youth unemployment rate, %	8,8	21,3	9,4	**2**
1.3.4 Long-term unemployment, %	1,1	4,1	8,8	**1**
1.4 Consumption rate			7,2	**4**
1.4.1 Total consumption, % of GDP	72,9	77,7	8,5	**3**
1.4.2 Change in consumption share 2002-10	0,1	0,3	5,8	**7**

OVERALL HEALTH 3. Fiscal sustainability	AT Value	Euro17 Value	Score	Rank
			5,0	**11**
3.1 Government outlays	51,2	48,0	2,5	**16**
3.2 Underlying fiscal balance 2010			5,7	**8**
3.2.1 Underlying fiscal balance	-4,0	-4,0	5,4	**9**
3.2.2 Underlying primary fiscal balance	-1,3	-1,2	6,1	**7**
3.3 Debt ratio 2010	71,8	85,5	5,6	**10**
3.4 Sustainability gap	5,2	5,8	6,3	**8**

OVERALL HEALTH 2. Competitiveness	AT Value	Euro17 Value	Score	Rank
			5,3	**10**
2.1 Export Ratio, % of GDP	53,5	38,6	3,7	**10**
2.2 Rise in export ratio, 2002-10 in % points	0,7	0,6	6,5	**8**
2.3 Labour costs			6,3	**3**
2.3.1 Real unit labour cost, change 2002-10 in %	-0,1	-0,1	5,8	**9**
2.3.2 Nominal unit labour cost, 2002-10 in %	1,4	1,7	7,3	**2**
2.3.3 Employment protection	1,9	2,4	5,9	**4**
2.4 Market regulations			4,7	**12**
2.4.1 Product markets (index)	1,5	1,3	6,3	**10**
2.4.2 Service markets (index)	2,7	2,4	3,3	**10**
2.4.3 Opening new business (days)	28	14	4,5	**14**

OVERALL HEALTH 4. Resilience	AT Value	Euro17 Value	Score	Rank
			6,1	**7**
4.1 Annual debt roll-over, % of GDP	10,0	13,2	5,0	**7**
4.2 Debt held abroad, % of GDP	58,5	46,5	3,5	**12**
4.3 Gross household savings rate, in %	15,0	12,1	8,4	**6**
4.4 Current account, % of GDP	2,7	-0,5	7,2	**6**
4.5 Bank assets, % of GDP	378	335	5,9	**11**
4.6 Private sector debt, % of GDP	154	195	6,6	**4**

Notes: Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members from 1 (best) to 17 (worst rank). For an explanation of the variables, see the separate notes to all country tables on page 55.

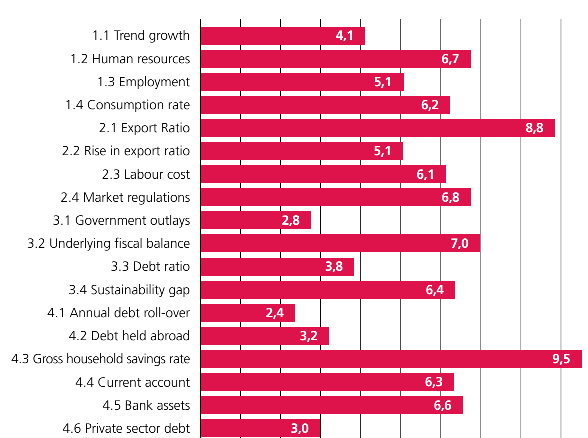
Belgium

Assessment
A mature economy with scores modestly above average on its overall health. Less dynamic than Germany but in significantly better shape than France and Italy. Following major fiscal progress after 1993, Belgium is now at risk of falling behind again on fiscal adjustment efforts.

Strengths
- Low underlying primary fiscal deficit
- High household savings rate
- Strong export orientation
- Good scores for human resources

Weaknesses
- Very low trend growth 2002-2010
- High ratio of government spending in GDP
- Little adjustment effort in the last few years

Overall Health: Score Overview



Detailed Scores

RESULT	BE Score	Rank
Overall Health Check	5,6	**9**
1. Growth potential	5,5	**8**
2. Competitiveness	6,7	**4**
3. Fiscal sustainability	5,0	**12**
4. Resilience	5,2	**11**
Adjustment Progress	2,6	**14**
1. External adjustment	2,8	**13**
2. Fiscal adjustment	1,6	**16**
3. Real unit labour costs 2009-11	3,3	**9**

ADJUSTMENT PROGRESS	BE Value	Euro17 Value	Score	Rank
			2,6	**14**
1. External adjustment Change 2H07-2Q11			2,8	**13**
1.1 Net exports in % points of GDP	-0,2	0,0	2,9	**13**
1.2 Net exports relative to 2H07 exports	-0,2	0,1	2,9	**13**
1.3 Rise in export ratio, % of GDP	0,8	1,1	3,5	**11**
2. Fiscal squeeze: shift in primary balance			1,6	**16**
2.1 2009-2011 in % of GDP	0,6	1,3	2,5	**11**
2.2 in % of required shift to 2020	-12,5	38,4	0,8	**16**
3. Real unit labour costs 2009-11	-2,6	-1,9	3,3	**9**

OVERALL HEALTH 1. Growth potential	BE Value	Euro17 Value	Score	Rank
			5,5	**8**
1.1 Trend growth 2002-2010, in %			4,1	**11**
1.1.1 Rise in Gross value added	0,6	0,9	3,2	**12**
1.1.2 Deviation of GVA from norm	0,0	0,0	5,0	**10**
1.2 Human resources			6,7	**3**
1.2.1 Fertility rate	1,8	1,6	7,0	**4**
1.2.2 Integration of Immigrants (MIPEX)	67,3	57,6	8,1	**4**
1.2.3 Pisa Scores	509	497	4,9	**5**
1.3 Employment			5,1	**9**
1.3.1 Employment rate 2010, in %	62,0	64,2	3,5	**10**
1.3.2 Change in employment rate 2002-10	0,3	0,3	6,4	**4**
1.3.3 Youth unemployment rate, %	22,4	21,3	4,9	**9**
1.3.4 Long-term unemployment, %	4,0	4,1	5,5	**9**
1.4 Consumption rate			6,2	**8**
1.4.1 Total consumption, % of GDP	75,0	77,7	7,5	**8**
1.4.2 Change in consumption share 2002-10	0,3	0,3	5,0	**10**

OVERALL HEALTH 3. Fiscal sustainability	BE Value	Euro17 Value	Score	Rank
			5,0	**12**
3.1 Government outlays	50,8	48,0	2,8	**15**
3.2 Underlying fiscal balance 2010			7,0	**6**
3.2.1 Underlying fiscal balance	-2,9	-4,0	6,2	**5**
3.2.2 Underlying primary fiscal balance	0,5	-1,2	7,7	**3**
3.3 Debt ratio 2010	96,2	85,5	3,8	**15**
3.4 Sustainability gap	5,1	5,8	6,4	**7**

OVERALL HEALTH 2. Competitiveness	BE Value	Euro17 Value	Score	Rank
			6,7	**4**
2.1 Export Ratio, % of GDP	78,4	38,6	8,8	**4**
2.2 Rise in export ratio, 2002-10 in % points	0,6	0,6	5,1	**12**
2.3 Labour costs			6,1	**5**
2.3.1 Real unit labour cost, change 2002-10 in %	-0,3	-0,1	7,2	**6**
2.3.2 Nominal unit labour cost, 2002-10 in %	1,8	1,7	6,4	**4**
2.3.3 Employment protection	2,2	2,4	4,8	**9**
2.4 Market regulations			6,8	**6**
2.4.1 Product markets (index)	1,4	1,3	6,5	**8**
2.4.2 Service markets (index)	2,2	2,4	5,1	**7**
2.4.3 Opening new business (days)	4	14	8,7	**4**

OVERALL HEALTH 4. Resilience	BE Value	Euro17 Value	Score	Rank
			5,2	**11**
4.1 Annual debt roll-over, % of GDP	15,3	13,2	2,4	**13**
4.2 Debt held abroad, % of GDP	61,1	46,5	3,2	**13**
4.3 Gross household savings rate, in %	17,1	12,1	9,5	**3**
4.4 Current account, % of GDP	1,0	-0,5	6,3	**7**
4.5 Bank assets, % of GDP	339	335	6,6	**10**
4.6 Private sector debt, % of GDP	234	195	3,0	**8**

Notes: Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members from 1 (best) to 17 (worst rank). For an explanation of the variables, see the separate notes to all country tables on page 55.

Cyprus

Assessment

A small economy that may be heading for trouble. While its fiscal position is much more sustainable than that of Greece, Cyprus is close to Greece on many other scores. Despite its very low ranking for overall health, Cyprus lags well behind the eurozone average on its adjustment efforts.

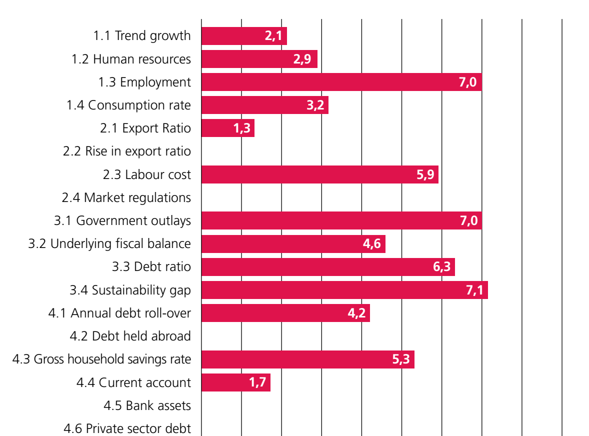
Strengths

- Above-average scores for fiscal sustainability due to a below-average debt ratio and a modest sustainability gap
- Comfortable employment situation
- Subdued real unit labour costs

Weaknesses

- Little adjustment effort since 2008
- Huge current account deficit
- Excessive propensity to consume
- Significant underlying fiscal deficit
- Low rate of trend growth
- Declining export ratio

Overall Health: Score Overview



Detailed Scores

RESULT	CY Score	Rank
Overall Health Check	3,8	16
1. Growth potential	3,8	14
2. Competitiveness	2,4	17
3. Fiscal sustainability	6,3	5
4. Resilience	2,8	16
Adjustment Progress	2,9	13
1. External adjustment	4,0	9
2. Fiscal adjustment	3,4	14
3. Real unit labour costs 2009-11	1,3	15

ADJUSTMENT PROGRESS	CY Value	Euro17 Value	Score	Rank
			2,9	13
1. External adjustment Change 2H07-2Q11			4,0	9
1.1 Net exports in % points of GDP	3,3	0,0	3,9	9
1.2 Net exports relative to 2H07 exports	6,2	0,1	4,4	9
1.3 Rise in export ratio, % of GDP	-7,3	1,1	0,3	17
2. Fiscal squeeze: shift in primary balance			3,4	14
2.1 2009-2011 in % of GDP	1,2	1,3	3,0	8
2.2 in % of required shift to 2020	18,2	38,4	3,8	13
3. Real unit labour costs 2009-11	-1,1	-1,9	1,3	15

OVERALL HEALTH 1. Growth potential	CY Value	Euro17 Value	Score	Rank
			3,8	14
1.1 Trend growth 2002-2010, in %			2,1	15
1.1.1 Rise in Gross value added	0,5	0,9	2,9	14
1.1.2 Deviation of GVA from norm	-0,9	0,0	1,4	14
1.2 Human resources			2,9	14
1.2.1 Fertility rate	1,5	1,6	4,3	10
1.2.2 Integration of Immigrants (MIPEX)	35,2	57,6	0,1	17
1.2.3 Pisa Scores	n.a.	497	n.a.	n.a.
1.3 Employment			7,0	4
1.3.1 Employment rate 2010, in %	69,7	64,2	6,8	4
1.3.2 Change in employment rate 2002-10	0,2	0,3	5,7	10
1.3.3 Youth unemployment rate, %	16,7	21,3	6,8	7
1.3.4 Long-term unemployment, %	1,3	4,1	8,6	3
1.4 Consumption rate			3,2	15
1.4.1 Total consumption, % of GDP	84,4	77,7	2,8	15
1.4.2 Change in consumption share 2002-10	0,5	0,3	3,5	14

OVERALL HEALTH 3. Fiscal sustainability	CY Value	Euro17 Value	Score	Rank
			6,3	5
3.1 Government outlays	43,0	48,0	7,0	6
3.2 Underlying fiscal balance 2010			4,6	12
3.2.1 Underlying fiscal balance	-5,1	-4,0	4,5	12
3.2.2 Underlying primary fiscal balance	-2,9	-1,2	4,6	12
3.3 Debt ratio 2010	61,5	85,5	6,3	7
3.4 Sustainability gap	4,0	5,8	7,1	4

OVERALL HEALTH 2. Competitiveness	CY Value	Euro17 Value	Score	Rank
			2,4	17
2.1 Export Ratio, % of GDP	46,5	38,6	1,3	16
2.2 Rise in export ratio, 2002-10 in % points	-1,1	0,6	0,0	17
2.3 Labour costs			5,9	6
2.3.1 Real unit labour cost, change 2002-10 in %	-0,4	-0,1	8,0	4
2.3.2 Nominal unit labour cost, 2002-10 in %	2,7	1,7	3,8	12
2.3.3 Employment protection	n.a.	2,4	n.a.	n.a.
2.4 Market regulations			n.a.	n.a.
2.4.1 Product markets (index)	n.a.	1,3	n.a.	n.a.
2.4.2 Service markets (index)	n.a.	2,4	n.a.	n.a.
2.4.3 Opening new business (days)	8	14	6,2	12

OVERALL HEALTH 4. Resilience	CY Value	Euro17 Value	Score	Rank
			2,8	16
4.1 Annual debt roll-over, % of GDP	11,6	13,2	4,2	9
4.2 Debt held abroad, % of GDP	n.a.	46,5	n.a.	n.a.
4.3 Gross household savings rate, in %	9,1	12,1	5,3	14
4.4 Current account, % of GDP	-7,7	-0,5	1,7	15
4.5 Bank assets, % of GDP	822	335	0,0	14
4.6 Private sector debt, % of GDP	n.a.	195	n.a.	n.a.

Notes: Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members from 1 (best) to 17 (worst rank). For an explanation of the variables, see the separate notes to all country tables on page 55.

Estonia

Assessment
Top performer in the eurozone. Small open and highly dynamic catching-up economy. Has staged a rapid export-led turnaround after the bursting of a credit bubble in 2007. Little need to adjust further.

Strengths
- Top ranking for fiscal sustainability
- Strong export orientation
- Good PISA scores
- Rapidly adjusting labour market
- Very liberal regulatory regime

Weaknesses
- Excessive rise in labour costs during the boom years until 2008
- Low household savings rate
- Still reeling under the sharp post-bubble drop in employment
- Below average capacity to integrate immigrants

Detailed Scores

RESULT	EE Score	Rank
Overall Health Check	7,4	**1**
1. Growth potential	5,6	**7**
2. Competitiveness	6,4	**7**
3. Fiscal sustainability	9,3	**1**
4. Resilience	8,2	**1**
Adjustment Progress	8,4	**1**
1. External adjustment	9,9	**1**
2. Fiscal adjustment	5,6	**5**
3. Real unit labour costs 2009-11	9,8	**1**

ADJUSTMENT PROGRESS	EE Value	Euro17 Value	Score 8,4	Rank 1
1. External adjustment Change 2H07-2Q11			9,9	**1**
1.1 Net exports in % points of GDP	23,2	0,0	9,8	**1**
1.2 Net exports relative to 2H07 exports	30,1	0,1	9,9	**2**
1.3 Rise in export ratio, % of GDP	30,9	1,1	10,0	**1**
2. Fiscal squeeze: shift in primary balance			5,6	**5**
2.1 2009-2011 in % of GDP	-0,8	1,3	1,1	**15**
2.2 in % of required shift to 2020	-	38,4	10,0	**1**
3. Real unit labour costs 2009-11	-8,0	-1,9	9,8	**1**

OVERALL HEALTH — 1. Growth potential	EE Value	Euro17 Value	Score 5,6	Rank 7
1.1 Trend growth 2002-2010, in %			6,9	**6**
1.1.1 Rise in Gross value added	2,9	0,9	9,7	**2**
1.1.2 Deviation of GVA from norm	-0,2	0,0	4,1	**11**
1.2 Human resources			4,6	**6**
1.2.1 Fertility rate	1,6	1,6	5,2	**6**
1.2.2 Integration of Immigrants (MIPEX)	46,0	57,6	2,8	**13**
1.2.3 Pisa Scores	514	497	5,5	**3**
1.3 Employment			2,4	**14**
1.3.1 Employment rate 2010, in %	61,0	64,2	3,0	**11**
1.3.2 Change in employment rate 2002-10	-0,1	0,3	3,8	**15**
1.3.3 Youth unemployment rate, %	32,9	21,3	1,4	**14**
1.3.4 Long-term unemployment, %	7,7	4,1	1,5	**16**
1.4 Consumption rate			8,4	**2**
1.4.1 Total consumption, % of GDP	73,4	77,7	8,3	**5**
1.4.2 Change in consumption share 2002-10	-0,3	0,3	8,4	**2**

OVERALL HEALTH — 3. Fiscal sustainability	EE Value	Euro17 Value	Score 9,3	Rank 1
3.1 Government outlays	36,8	48,0	10,0	**1**
3.2 Underlying fiscal balance 2010			7,6	**3**
3.2.1 Underlying fiscal balance	-0,4	-4,0	8,2	**3**
3.2.2 Underlying primary fiscal balance	-0,3	-1,2	7,0	**6**
3.3 Debt ratio 2010	6,7	85,5	10,0	**1**
3.4 Sustainability gap	0,8	5,8	9,4	**2**

OVERALL HEALTH — 2. Competitiveness	EE Value	Euro17 Value	Score 6,4	Rank 7
2.1 Export Ratio, % of GDP	71,7	38,6	9,6	**3**
2.2 Rise in export ratio, 2002-10 in % points	1,2	0,6	7,0	**6**
2.3 Labour costs			1,7	**17**
2.3.1 Real unit labour cost, change 2002-10 in %	1,1	-0,1	0,0	**16**
2.3.2 Nominal unit labour cost, 2002-10 in %	5,8	1,7	0,0	**17**
2.3.3 Employment protection	2,1	2,4	5,1	**7**
2.4 Market regulations			7,2	**4**
2.4.1 Product markets (index)	1,3	1,3	7,3	**5**
2.4.2 Service markets (index)	2,1	2,4	5,3	**6**
2.4.3 Opening new business (days)	7	14	9,0	**3**

OVERALL HEALTH — 4. Resilience	EE Value	Euro17 Value	Score 8,2	Rank 1
4.1 Annual debt roll-over, % of GDP	0,6	13,2	9,7	**1**
4.2 Debt held abroad, % of GDP	5,3	46,5	9,4	**1**
4.3 Gross household savings rate, in %	7,4	12,1	4,4	**15**
4.4 Current account, % of GDP	3,7	-0,5	7,7	**4**
4.5 Bank assets, % of GDP	154	335	9,9	**3**
4.6 Private sector debt, % of GDP	n.a.	195	n.a.	**n.a.**

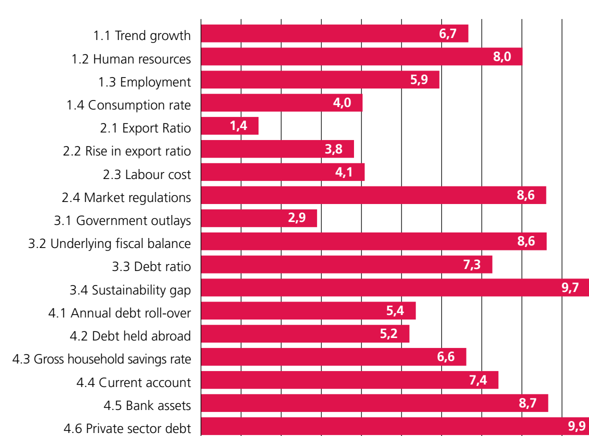
Notes: Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members from 1 (best) to 17 (worst rank). For an explanation of the variables, see the separate notes to all country tables on page 55.

Finland

Assessment
One of the top performers among the mature eurozone members, somewhat behind Germany and the Netherlands on overall health.

Strengths
- Excellent scores for human resources, with the best PISA result and a strong ability to integrate immigrants
- No structural fiscal deficit; no fiscal sustainability gap
- Very low ratio of household debt to GDP
- Liberal regime for market regulation

Weaknesses
- Significant drop in net exports after 2008
- High share of government expenditure in GDP
- Insufficient export orientation for a small economy



Detailed Scores

RESULT	FI Score	Rank
Overall Health Check	6,2	**7**
1. Growth potential	6,2	**5**
2. Competitiveness	4,5	**12**
3. Fiscal sustainability	7,1	**3**
4. Resilience	7,2	**3**
Adjustment Progress	3,8	**10**
1. External adjustment	0,5	**17**
2. Fiscal adjustment	3,5	**13**
3. Real unit labour costs 2009-11	7,5	**3**

ADJUSTMENT PROGRESS	FI Value	Euro17 Value	Score 3,8	Rank 10
1. External adjustment Change 2H07-2Q11			0,5	**17**
1.1 Net exports in % points of GDP	-6,3	0,0	1,1	**17**
1.2 Net exports relative to 2H07 exports	-12,4	0,1	0,0	**17**
1.3 Rise in export ratio, % of GDP	-7,2	1,1	0,3	**16**
2. Fiscal squeeze: shift in primary balance			3,5	**13**
2.1 2009-2011 in % of GDP	0,1	1,3	2,0	**13**
2.2 in % of required shift to 2020	-	38,4	5,0	**9**
3. Real unit labour costs 2009-11	-5,8	-1,9	7,5	**3**

OVERALL HEALTH 1. Growth potential	FI Value	Euro17 Value	Score 6,2	Rank 5
1.1 Trend growth 2002-2010, in %			6,7	**7**
1.1.1 Rise in Gross value added	1,4	0,9	5,3	**7**
1.1.2 Deviation of GVA from norm	0,7	0,0	8,0	**5**
1.2 Human resources			8,0	**1**
1.2.1 Fertility rate	1,9	1,6	7,2	**3**
1.2.2 Integration of Immigrants (MIPEX)	69,2	57,6	8,6	**2**
1.2.3 Pisa Scores	543	497	9,2	**1**
1.3 Employment			5,9	**7**
1.3.1 Employment rate 2010, in %	68,1	64,2	6,1	**5**
1.3.2 Change in employment rate 2002-10	0,0	0,3	4,7	**14**
1.3.3 Youth unemployment rate, %	21,4	21,3	5,2	**8**
1.3.4 Long-term unemployment, %	2,0	4,1	7,8	**5**
1.4 Consumption rate			4,0	**14**
1.4.1 Total consumption, % of GDP	74,6	77,7	7,7	**7**
1.4.2 Change in consumption share 2002-10	0,9	0,3	0,4	**17**

OVERALL HEALTH 3. Fiscal sustainability	FI Value	Euro17 Value	Score 7,1	Rank 3
3.1 Government outlays	50,7	48,0	2,9	**14**
3.2 Underlying fiscal balance 2010			8,6	**1**
3.2.1 Underlying fiscal balance	0,3	-4,0	8,7	**1**
3.2.2 Underlying primary fiscal balance	1,4	-1,2	8,5	**1**
3.3 Debt ratio 2010	48,3	85,5	7,3	**5**
3.4 Sustainability gap	0,4	5,8	9,7	**1**

OVERALL HEALTH 2. Competitiveness	FI Value	Euro17 Value	Score 4,5	Rank 12
2.1 Export Ratio, % of GDP	41,8	38,6	1,4	**15**
2.2 Rise in export ratio, 2002-10 in % points	0,1	0,6	3,8	**14**
2.3 Labour costs			4,1	**14**
2.3.1 Real unit labour cost, change 2002-10 in %	0,9	-0,1	0,6	**15**
2.3.2 Nominal unit labour cost, 2002-10 in %	1,9	1,7	5,9	**7**
2.3.3 Employment protection	2,0	2,4	5,7	**6**
2.4 Market regulations			8,6	**3**
2.4.1 Product markets (index)	1,2	1,3	8,1	**4**
2.4.2 Service markets (index)	1,0	2,4	9,8	**2**
2.4.3 Opening new business (days)	14	14	7,9	**7**

OVERALL HEALTH 4. Resilience	FI Value	Euro17 Value	Score 7,2	Rank 3
4.1 Annual debt roll-over, % of GDP	9,3	13,2	5,4	**5**
4.2 Debt held abroad, % of GDP	43,2	46,5	5,2	**7**
4.3 Gross household savings rate, in %	11,6	12,1	6,6	**11**
4.4 Current account, % of GDP	3,1	-0,5	7,4	**5**
4.5 Bank assets, % of GDP	224	335	8,7	**5**
4.6 Private sector debt, % of GDP	83	195	9,9	**1**

Notes: Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members from 1 (best) to 17 (worst rank). For an explanation of the variables, see the separate notes to all country tables on page 55.

France

Assessment

By far the least healthy of the AAA-rated eurozone members. A country full of potential that needs to be unlocked through labour market reforms, some product market deregulation and a trimming of the public sector to shift more resources into export-oriented activities.

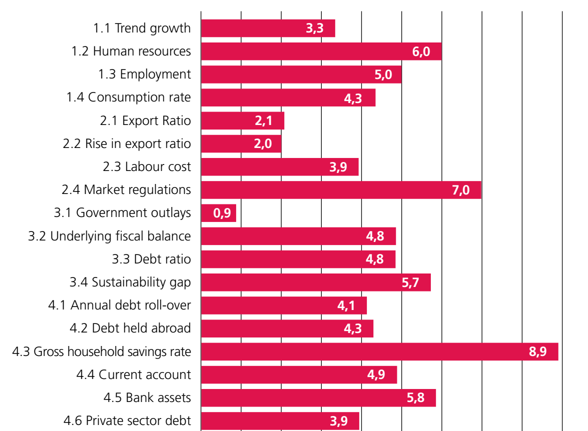
Strengths

- High fertility rate
- High household savings rate
- Comparatively easy to open new business

Weaknesses

- Below-average scores on most major counts
- Highest share of government expenditure in GDP in the eurozone
- Huge fiscal deficit
- Very little increase in gross value added per member of the labour force 2002-2010
- Excessive employment protection makes it difficult for young people to get a job

Overall Health: Score Overview



Detailed Scores

RESULT	FR Score	Rank
Overall Health Check	4,5	**13**
1. Growth potential	4,7	**11**
2. Competitiveness	3,7	**15**
3. Fiscal sustainability	4,1	**14**
4. Resilience	5,3	**10**
Adjustment Progress	2,5	**15**
1. External adjustment	2,5	**14**
2. Fiscal adjustment	3,9	**10**
3. Real unit labour costs 2009-11	1,3	**16**

ADJUSTMENT PROGRESS	FR Value	Euro17 Value	Score 2,5	Rank 15
1. External adjustment Change 2H07-2Q11			2,5	**14**
1.1 Net exports in % points of GDP	-0,7	0,0	2,7	**14**
1.2 Net exports relative to 2H07 exports	-2,5	0,1	2,3	**14**
1.3 Rise in export ratio, % of GDP	-0,3	1,1	3,1	**12**
2. Fiscal squeeze: shift in primary balance			3,9	**10**
2.1 2009-2011 in % of GDP	1,9	1,3	3,7	**6**
2.2 in % of required shift to 2020	20,9	38,4	4,1	**12**
3. Real unit labour costs 2009-11	-0,4	-1,9	1,3	**16**

OVERALL HEALTH 1. Growth potential	FR Value	Euro17 Value	Score 4,7	Rank 11
1.1 Trend growth 2002-2010, in %			3,3	**12**
1.1.1 Rise in Gross value added	0,4	0,9	2,6	**15**
1.1.2 Deviation of GVA from norm	-0,2	0,0	4,1	**12**
1.2 Human resources			6,0	**5**
1.2.1 Fertility rate	2,0	1,6	8,3	**2**
1.2.2 Integration of Immigrants (MIPEX)	50,6	57,6	3,9	**9**
1.2.3 Pisa Scores	497	497	3,4	**8**
1.3 Employment			5,0	**10**
1.3.1 Employment rate 2010, in %	63,8	64,2	4,3	**9**
1.3.2 Change in employment rate 2002-10	0,1	0,3	5,6	**11**
1.3.3 Youth unemployment rate, %	22,5	21,3	4,8	**11**
1.3.4 Long-term unemployment, %	4,0	4,1	5,5	**10**
1.4 Consumption rate			4,3	**13**
1.4.1 Total consumption, % of GDP	80,8	77,7	4,6	**13**
1.4.2 Change in consumption share 2002-10	0,4	0,3	4,1	**11**

OVERALL HEALTH 3. Fiscal sustainability	FR Value	Euro17 Value	Score 4,1	Rank 14
3.1 Government outlays	53,7	48,0	0,9	**17**
3.2 Underlying fiscal balance 2010			4,8	**11**
3.2.1 Underlying fiscal balance	-4,9	-4,0	4,7	**11**
3.2.2 Underlying primary fiscal balance	-2,5	-1,2	5,0	**11**
3.3 Debt ratio 2010	82,3	85,5	4,8	**11**
3.4 Sustainability gap	6,0	5,8	5,7	**11**

OVERALL HEALTH 2. Competitiveness	FR Value	Euro17 Value	Score 3,7	Rank 15
2.1 Export Ratio, % of GDP	26,2	38,6	2,1	**14**
2.2 Rise in export ratio, 2002-10 in % points	-0,2	0,6	2,0	**16**
2.3 Labour costs			3,9	**15**
2.3.1 Real unit labour cost, change 2002-10 in %	0,2	-0,1	4,7	**11**
2.3.2 Nominal unit labour cost, 2002-10 in %	1,9	1,7	6,1	**6**
2.3.3 Employment protection	3,1	2,4	0,9	**13**
2.4 Market regulations			7,0	**5**
2.4.1 Product markets (index)	1,5	1,3	6,3	**11**
2.4.2 Service markets (index)	2,1	2,4	5,4	**5**
2.4.3 Opening new business (days)	7	14	9,2	**2**

OVERALL HEALTH 4. Resilience	FR Value	Euro17 Value	Score 5,3	Rank 10
4.1 Annual debt roll-over, % of GDP	11,8	13,2	4,1	**10**
4.2 Debt held abroad, % of GDP	51,4	46,5	4,3	**8**
4.3 Gross household savings rate, in %	15,9	12,1	8,9	**4**
4.4 Current account, % of GDP	-1,7	-0,5	4,9	**10**
4.5 Bank assets, % of GDP	379	335	5,8	**12**
4.6 Private sector debt, % of GDP	214	195	3,9	**7**

Notes: Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members from 1 (best) to 17 (worst rank). For an explanation of the variables, see the separate notes to all country tables on page 55.

Germany

Assessment

The most dynamic among the major mature economies of the eurozone, jointly with the Netherlands. An exceptionally competitive economy which has started to make much better use of its human potential. Having become lean and mean after a series of wrenching fiscal and structural reforms in the years after 2003, Germany has little need to adjust further.

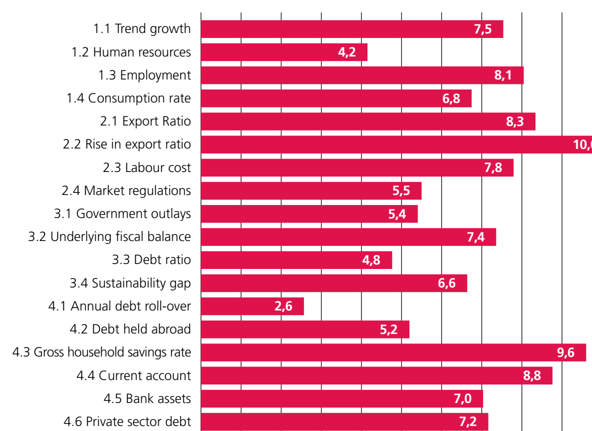
Strengths

- Strong gains in employment
- Very low rate of youth unemployment
- Exceptional export prowess
- Pronounced wage moderation until 2010

Weaknesses

- Heavily regulated service sector
- Very low fertility rate

Overall Health: Score Overview



Detailed Scores

RESULT	DE Score	Rank
Overall Health Check	6,8	**3**
1. Growth potential	6,6	**3**
2. Competitiveness	7,9	**2**
3. Fiscal sustainability	6,0	**6**
4. Resilience	6,7	**5**
Adjustment Progress	2,2	**16**
1. External adjustment	1,6	**16**
2. Fiscal adjustment	3,7	**11**
3. Real unit labour costs 2009-11	1,1	**17**

ADJUSTMENT PROGRESS	DE Value	Euro17 Value	Score	Rank
			2,2	**16**
1. External adjustment Change 2H07-2Q11			1,6	**16**
1.1 Net exports in % points of GDP	-1,8	0,0	2,4	**16**
1.2 Net exports relative to 2H07 exports	-3,5	0,1	2,1	**15**
1.3 Rise in export ratio, % of GDP	2,5	1,1	4,2	**6**
2. Fiscal squeeze: shift in primary balance			3,7	**11**
2.1 2009-2011 in % of GDP	-0,9	1,3	1,0	**16**
2.2 in % of required shift to 2020	44,1	38,4	6,4	**7**
3. Real unit labour costs 2009-11	-1,4	-1,9	1,1	**17**

OVERALL HEALTH	DE Value	Euro17 Value	Score	Rank
1. Growth potential			6,6	**3**
1.1 Trend growth 2002-2010, in %			7,5	**3**
1.1.1 Rise in Gross value added	1,6	0,9	6,0	**5**
1.1.2 Deviation of GVA from norm	1,0	0,0	9,1	**3**
1.2 Human resources			4,2	**9**
1.2.1 Fertility rate	1,4	1,6	3,0	**16**
1.2.2 Integration of Immigrants (MIPEX)	57,4	57,6	5,6	**8**
1.2.3 Pisa Scores	510	497	5,0	**4**
1.3 Employment			8,1	**2**
1.3.1 Employment rate 2010, in %	71,1	64,2	7,4	**3**
1.3.2 Change in employment rate 2002-10	0,7	0,3	9,4	**1**
1.3.3 Youth unemployment rate, %	9,9	21,3	9,0	**3**
1.3.4 Long-term unemployment, %	3,3	4,1	6,3	**8**
1.4 Consumption rate			6,8	**6**
1.4.1 Total consumption, % of GDP	76,7	77,7	6,6	**10**
1.4.2 Change in consumption share 2002-10	0,0	0,3	6,9	**4**

OVERALL HEALTH	DE Value	Euro17 Value	Score	Rank
3. Fiscal sustainability			6,0	**6**
3.1 Government outlays	46,4	48,0	5,4	**8**
3.2 Underlying fiscal balance 2010			7,4	**4**
3.2.1 Underlying fiscal balance	-1,9	-4,0	7,0	**4**
3.2.2 Underlying primary fiscal balance	0,5	-1,2	7,7	**3**
3.3 Debt ratio 2010	83,2	85,5	4,8	**12**
3.4 Sustainability gap	4,7	5,8	6,6	**6**

OVERALL HEALTH	DE Value	Euro17 Value	Score	Rank
2. Competitiveness			7,9	**2**
2.1 Export Ratio, % of GDP	42,3	38,6	8,3	**5**
2.2 Rise in export ratio, 2002-10 in % points	1,4	0,6	10,0	**1**
2.3 Labour costs			7,8	**1**
2.3.1 Real unit labour cost, change 2002-10 in %	-0,5	-0,1	8,5	**2**
2.3.2 Nominal unit labour cost, 2002-10 in %	0,5	1,7	9,9	**1**
2.3.3 Employment protection	2,1	2,4	5,0	**8**
2.4 Market regulations			5,5	**10**
2.4.1 Product markets (index)	1,3	1,3	7,1	**6**
2.4.2 Service markets (index)	2,9	2,4	2,5	**12**
2.4.3 Opening new business (days)	15	14	6,9	**10**

OVERALL HEALTH	DE Value	Euro17 Value	Score	Rank
4. Resilience			6,7	**5**
4.1 Annual debt roll-over, % of GDP	14,9	13,2	2,6	**12**
4.2 Debt held abroad, % of GDP	43,2	46,5	5,2	**6**
4.3 Gross household savings rate, in %	17,3	12,1	9,6	**2**
4.4 Current account, % of GDP	5,7	-0,5	8,8	**3**
4.5 Bank assets, % of GDP	313	335	7,0	**8**
4.6 Private sector debt, % of GDP	142	195	7,2	**3**

Notes: Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members from 1 (best) to 17 (worst rank). For an explanation of the variables, see the separate notes to all country tables on page 55.

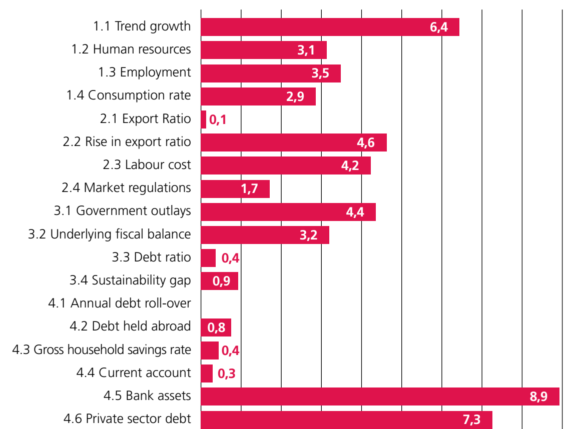
Greece

Assessment
By far the most troubled economy in the eurozone. However, Greece has made heroic efforts to adjust since the end of 2009. A severe fiscal squeeze has led to a major drop in imports and is paving the way for a significant reduction in unit labour costs.

Strengths
- Few major strengths
- Major turnaround in the cyclically adjusted fiscal deficit
- Major improvement in net exports through slump in imports
- Low ratio of household debt to GDP

Weaknesses
- Worst ratio of public debt to GDP
- Very low PISA scores
- High propensity to consume
- Huge current account deficit
- Very low household savings rate
- Most regulated markets in the eurozone

Overall Health: Score Overview



Detailed Scores

RESULT	GR Score	Rank
Overall Health Check	3,0	**17**
1. Growth potential	4,0	**13**
2. Competitiveness	2,7	**16**
3. Fiscal sustainability	2,2	**17**
4. Resilience	2,9	**15**
Adjustment Progress	6,6	**2**
1. External adjustment	6,4	**5**
2. Fiscal adjustment	8,2	**1**
3. Real unit labour costs 2009-11	5,2	**6**

ADJUSTMENT PROGRESS	GR Value	Euro17 Value	Score 6,6	Rank 2
1. External adjustment Change 2H07-2Q11			6,4	**5**
1.1 Net exports in % points of GDP	7,3	0,0	5,1	**5**
1.2 Net exports relative to 2H07 exports	30,3	0,1	10,0	**1**
1.3 Rise in export ratio, % of GDP	-1,0	1,1	2,8	**13**
2. Fiscal squeeze: shift in primary balance			8,2	**1**
2.1 2009-2011 in % of GDP	8,2	1,3	9,7	**1**
2.2 in % of required shift to 2020	47,3	38,4	6,7	**5**
3. Real unit labour costs 2009-11	-4,0	-1,9	5,2	**6**

OVERALL HEALTH 1. Growth potential	GR Value	Euro17 Value	Score 4,0	Rank 13
1.1 Trend growth 2002-2010, in %			6,4	**8**
1.1.1 Rise in Gross value added	1,9	0,9	6,8	**4**
1.1.2 Deviation of GVA from norm	0,3	0,0	6,1	**9**
1.2 Human resources			3,1	**13**
1.2.1 Fertility rate	1,5	1,6	4,3	**9**
1.2.2 Integration of Immigrants (MIPEX)	49,0	57,6	3,5	**10**
1.2.3 Pisa Scores	473	497	0,4	**15**
1.3 Employment			3,5	**13**
1.3.1 Employment rate 2010, in %	59,6	64,2	2,4	**13**
1.3.2 Change in employment rate 2002-10	0,3	0,3	6,4	**4**
1.3.3 Youth unemployment rate, %	32,9	21,3	1,4	**14**
1.3.4 Long-term unemployment, %	5,6	4,1	3,7	**13**
1.4 Consumption rate			2,9	**16**
1.4.1 Total consumption, % of GDP	89,5	77,7	0,3	**17**
1.4.2 Change in consumption share 2002-10	0,2	0,3	5,5	**8**

OVERALL HEALTH 3. Fiscal sustainability	GR Value	Euro17 Value	Score 2,2	Rank 17
3.1 Government outlays	47,0	48,0	4,4	**11**
3.2 Underlying fiscal balance 2010			3,2	**13**
3.2.1 Underlying fiscal balance	-8,6	-4,0	1,8	**15**
3.2.2 Underlying primary fiscal balance	-3,0	-1,2	4,5	**13**
3.3 Debt ratio 2010	144,9	85,5	0,4	**17**
3.4 Sustainability gap	12,7	5,8	0,9	**16**

OVERALL HEALTH 2. Competitiveness	GR Value	Euro17 Value	Score 2,7	Rank 16
2.1 Export Ratio, % of GDP	22,0	38,6	0,1	**17**
2.2 Rise in export ratio, 2002-10 in % points	0,1	0,6	4,6	**13**
2.3 Labour costs			4,2	**12**
2.3.1 Real unit labour cost, change 2002-10 in %	-0,3	-0,1	7,0	**7**
2.3.2 Nominal unit labour cost, 2002-10 in %	2,8	1,7	3,4	**15**
2.3.3 Employment protection	2,7	2,4	2,3	**11**
2.4 Market regulations			1,7	**15**
2.4.1 Product markets (index)	2,4	1,3	0,2	**15**
2.4.2 Service markets (index)	2,8	2,4	2,7	**11**
2.4.3 Opening new business (days)	19	14	2,3	**15**

OVERALL HEALTH 4. Resilience	GR Value	Euro17 Value	Score 2,9	Rank 15
4.1 Annual debt roll-over, % of GDP	21,0	13,2	0,0	**17**
4.2 Debt held abroad, % of GDP	83,2	46,5	0,8	**14**
4.3 Gross household savings rate, in %	-0,2	12,1	0,4	**16**
4.4 Current account, % of GDP	-10,5	-0,5	0,3	**17**
4.5 Bank assets, % of GDP	209	335	8,9	**4**
4.6 Private sector debt, % of GDP	140	195	7,3	**2**

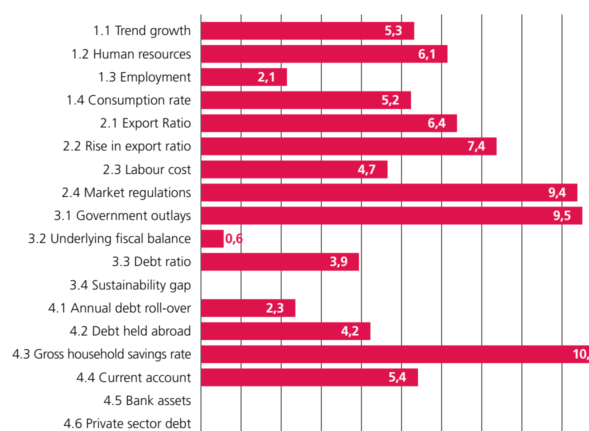
Notes: Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members from 1 (best) to 17 (worst rank). For an explanation of the variables, see the separate notes to all country tables on page 55.

Ireland

Assessment
Small open and highly flexible economy that is making a rapid shift from credit-fuelled domestic demand back to export-driven growth. Combines a solid fundamental outlook with a serious short-term adjustment effort. May be able to regain market confidence within a year. Gets extreme readings on many counts, often positive but some very negative.

Strengths
- Strong adjustment effort with a major rise in exports and a significant fall in unit labour costs
- Best fertility rate in the eurozone
- Major increase in the household savings rate
- The least regulated markets for goods and services in the eurozone
- High household savings rate

Weaknesses
- The worst structural fiscal deficit in the eurozone
- Highest ratio of bank assets to GDP
- Excessive rise in unit labour costs 2002-2010
- Pronounced fall in employment



Detailed Scores

RESULT	IE Score	Rank
Overall Health Check	4,7	**10**
1. Growth potential	4,7	**10**
2. Competitiveness	7,0	**3**
3. Fiscal sustainability	3,5	**16**
4. Resilience	3,7	**13**
Adjustment Progress	6,5	**3**
1. External adjustment	7,0	**3**
2. Fiscal adjustment	4,5	**8**
3. Real unit labour costs 2009-11	7,9	**2**

ADJUSTMENT PROGRESS	IE Value	Euro17 Value	Score 6,5	Rank 3
1. External adjustment Change 2H07-2Q11			7,0	**3**
1.1 Net exports in % points of GDP	15,7	0,0	7,6	**3**
1.2 Net exports relative to 2H07 exports	15,4	0,1	6,5	**5**
1.3 Rise in export ratio, % of GDP	13,8	1,1	8,7	**2**
2. Fiscal squeeze: shift in primary balance			4,5	**8**
2.1 2009-2011 in % of GDP	2,2	1,3	4,0	**5**
2.2 in % of required shift to 2020	29,1	38,4	4,9	**10**
3. Real unit labour costs 2009-11	-1,3	-1,9	2,9	**12**

OVERALL HEALTH 1. Growth potential	IE Value	Euro17 Value	Score 4,7	Rank 10
1.1 Trend growth 2002-2010, in %			5,3	**10**
1.1.1 Rise in Gross value added	0,8	0,9	3,8	**10**
1.1.2 Deviation of GVA from norm	0,4	0,0	6,8	**8**
1.2 Human resources			6,1	**4**
1.2.1 Fertility rate	2,1	1,6	8,9	**1**
1.2.2 Integration of Immigrants (MIPEX)	48,6	57,6	3,4	**11**
1.2.3 Pisa Scores	497	497	3,4	**7**
1.3 Employment			2,1	**17**
1.3.1 Employment rate 2010, in %	60,0	64,2	2,6	**12**
1.3.2 Change in employment rate 2002-10	-0,7	0,3	0,1	**17**
1.3.3 Youth unemployment rate, %	27,5	21,3	3,2	**12**
1.3.4 Long-term unemployment, %	6,6	4,1	2,7	**14**
1.4 Consumption rate			5,2	**9**
1.4.1 Total consumption, % of GDP	65,1	77,7	10,0	**1**
1.4.2 Change in consumption share 2002-10	0,9	0,3	0,5	**16**

OVERALL HEALTH 3. Fiscal sustainability	IE Value	Euro17 Value	Score 3,5	Rank 16
3.1 Government outlays	40,4	48,0	9,5	**3**
3.2 Underlying fiscal balance 2010			0,6	**17**
3.2.1 Underlying fiscal balance	-10,5	-4,0	0,4	**17**
3.2.2 Underlying primary fiscal balance	-7,2	-1,2	0,7	**17**
3.3 Debt ratio 2010	94,9	85,5	3,9	**14**
3.4 Sustainability gap	16,8	5,8	0,0	**17**

OVERALL HEALTH 2. Competitiveness	IE Value	Euro17 Value	Score 7,0	Rank 3
2.1 Export Ratio, % of GDP	86,1	38,6	6,4	**8**
2.2 Rise in export ratio, 2002-10 in % points	1,6	0,6	7,4	**5**
2.3 Labour costs			4,7	**9**
2.3.1 Real unit labour cost, change 2002-10 in %	1,9	-0,1	0,0	**16**
2.3.2 Nominal unit labour cost, 2002-10 in %	2,4	1,7	4,4	**10**
2.3.3 Employment protection	1,1	2,4	9,5	**1**
2.4 Market regulations			9,4	**1**
2.4.1 Product markets (index)	0,9	1,3	9,9	**1**
2.4.2 Service markets (index)	0,9	2,4	10,0	**1**
2.4.3 Opening new business (days)	13	14	8,3	**5**

OVERALL HEALTH 4. Resilience	IE Value	Euro17 Value	Score 3,7	Rank 13
4.1 Annual debt roll-over, % of GDP	15,3	13,2	2,3	**14**
4.2 Debt held abroad, % of GDP	52,0	46,5	4,2	**9**
4.3 Gross household savings rate, in %	18,0	12,1	10,0	**1**
4.4 Current account, % of GDP	-0,7	-0,5	5,4	**8**
4.5 Bank assets, % of GDP	824	335	0,0	**14**
4.6 Private sector debt, % of GDP	370	195	0,0	**12**

Notes: Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members from 1 (best) to 17 (worst rank). For an explanation of the variables, see the separate notes to all country tables on page 55.

Italy

Assessment

A mature economy with a below-average score for overall health. Looks roughly stable at a very low rate of trend growth. Could benefit more than most other economies from thorough service market reforms. Would have little need for fiscal adjustment if it boosted its long-term growth potential through structural reforms.

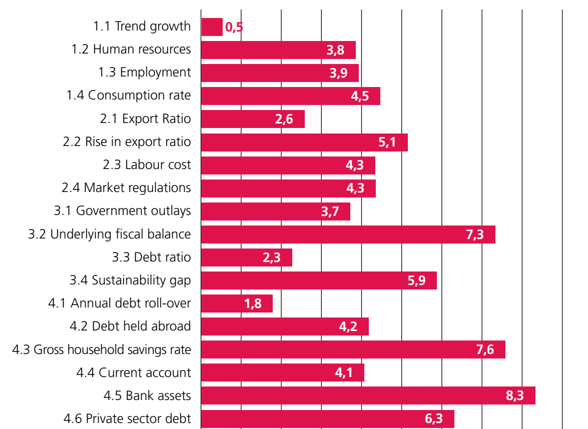
Strengths

- Very low underlying primary fiscal deficit
- Modest levels of household debt
- Above-average score for integrating immigrants

Weaknesses

- Significant decline in gross value added per potential worker 2002-2010
- Very high debt ratio
- Heavily regulated service markets
- High share of government expenditure in GDP
- Low fertility rate
- Very low employment rate

Overall Health: Score Overview



Detailed Scores

RESULT	IT Score	Rank
Overall Health Check	4,4	**14**
1. Growth potential	3,2	**16**
2. Competitiveness	4,1	**13**
3. Fiscal sustainability	4,8	**13**
4. Resilience	5,4	**9**
Adjustment Progress	3,3	**12**
1. External adjustment	2,3	**15**
2. Fiscal adjustment	4,7	**7**
3. Real unit labour costs 2009-11	2,9	**12**

ADJUSTMENT PROGRESS	IT Value	Euro17 Value	Score 3,3	Rank 12
1. External adjustment Change 2H07-2Q11			2,3	**15**
1.1 Net exports in % points of GDP	-1,2	0,0	2,6	**15**
1.2 Net exports relative to 2H07 exports	-4,3	0,1	1,9	**16**
1.3 Rise in export ratio, % of GDP	-2,0	1,1	2,4	**14**
2. Fiscal squeeze: shift in primary balance			4,7	**7**
2.1 2009-2011 in % of GDP	1,3	1,3	3,1	**7**
2.2 in % of required shift to 2020	42,2	38,4	6,2	**8**
3. Real unit labour costs 2009-11	-1,3	-1,9	2,9	**12**

OVERALL HEALTH 1. Growth potential	IT Value	Euro17 Value	Score 3,2	Rank 16
1.1 Trend growth 2002-2010, in %			0,5	**16**
1.1.1 Rise in Gross value added	-0,2	0,9	0,8	**16**
1.1.2 Deviation of GVA from norm	-1,1	0,0	0,2	**16**
1.2 Human resources			3,8	**11**
1.2.1 Fertility rate	1,4	1,6	3,5	**12**
1.2.2 Integration of Immigrants (MIPEX)	60,4	57,6	6,4	**6**
1.2.3 Pisa Scores	486	497	2,0	**12**
1.3 Employment			3,9	**12**
1.3.1 Employment rate 2010, in %	56,9	64,2	1,3	**16**
1.3.2 Change in employment rate 2002-10	0,2	0,3	5,8	**9**
1.3.3 Youth unemployment rate, %	27,8	21,3	3,1	**13**
1.3.4 Long-term unemployment, %	4,0	4,1	5,5	**10**
1.4 Consumption rate			4,5	**12**
1.4.1 Total consumption, % of GDP	79,4	77,7	5,3	**12**
1.4.2 Change in consumption share 2002-10	0,5	0,3	3,6	**12**

OVERALL HEALTH 3. Fiscal sustainability	IT Value	Euro17 Value	Score 4,8	Rank 13
3.1 Government outlays	48,8	48,0	3,7	**13**
3.2 Underlying fiscal balance 2010			7,3	**5**
3.2.1 Underlying fiscal balance	-3,1	-4,0	6,1	**7**
3.2.2 Underlying primary fiscal balance	1,4	-1,2	8,5	**1**
3.3 Debt ratio 2010	118,4	85,5	2,3	**16**
3.4 Sustainability gap	5,8	5,8	5,9	**10**

OVERALL HEALTH 2. Competitiveness	IT Value	Euro17 Value	Score 4,1	Rank 13
2.1 Export Ratio, % of GDP	26,4	38,6	2,6	**11**
2.2 Rise in export ratio, 2002-10 in % points	0,2	0,6	5,1	**11**
2.3 Labour costs			4,3	**11**
2.3.1 Real unit labour cost, change 2002-10 in %	0,4	-0,1	3,4	**13**
2.3.2 Nominal unit labour cost, 2002-10 in %	2,8	1,7	3,5	**14**
2.3.3 Employment protection	1,9	2,4	6,0	**3**
2.4 Market regulations			4,3	**13**
2.4.1 Product markets (index)	1,4	1,3	6,8	**7**
2.4.2 Service markets (index)	3,2	2,4	1,0	**13**
2.4.3 Opening new business (days)	6	14	5,2	**13**

OVERALL HEALTH 4. Resilience	IT Value	Euro17 Value	Score 5,4	Rank 9
4.1 Annual debt roll-over, % of GDP	16,4	13,2	1,8	**16**
4.2 Debt held abroad, % of GDP	52,6	46,5	4,2	**10**
4.3 Gross household savings rate, in %	13,4	12,1	7,6	**8**
4.4 Current account, % of GDP	-3,3	-0,5	4,1	**11**
4.5 Bank assets, % of GDP	243	335	8,3	**6**
4.6 Private sector debt, % of GDP	162	195	6,3	**5**

Notes: Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members from 1 (best) to 17 (worst rank). For an explanation of the variables, see the separate notes to all country tables on page 55.

Luxembourg

Assessment

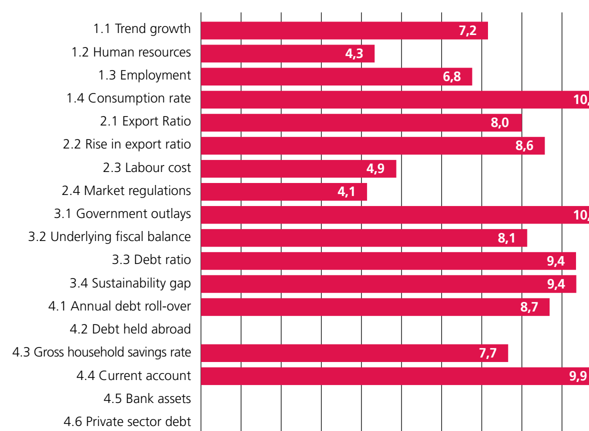
A small open economy that builds its top place in the eurozone rankings for GDP per capita on its outward orientation and its position as a financial centre. Luxembourg can apparently afford a comparatively high degree of regulation in many markets, including the labour market.

Strengths

- Excellent fiscal position
- Strongest trend growth among the mature eurozone members
- Huge current account surplus
- Low rate of public and private consumption

Weaknesses

- Heavily regulated service markets
- Unusual dependence on financial industry
- High degree of market regulation
- High degree of employment protection



Detailed Scores

RESULT	LU Score	Rank
Overall Health Check	7,3	2
1. Growth potential	7,1	2
2. Competitiveness	6,4	8
3. Fiscal sustainability	9,2	2
4. Resilience	6,6	6
Adjustment Progress	4,0	9
1. External adjustment	3,3	10
2. Fiscal adjustment	1,9	15
3. Real unit labour costs 2009-11	6,8	5

ADJUSTMENT PROGRESS	LU Value	Euro17 Value	Score 4,0	Rank 9
1. External adjustment Change 2H07-2Q11			3,3	10
1.1 Net exports in % points of GDP	0,8	0,0	3,2	10
1.2 Net exports relative to 2H07 exports	0,4	0,1	3,0	10
1.3 Rise in export ratio, % of GDP	4,6	1,1	5,0	5
2. Fiscal squeeze: shift in primary balance			1,9	15
2.1 2009-2011 in % of GDP	-1,1	1,3	0,9	17
2.2 in % of required shift to 2020	-	38,4	3,0	14
3. Real unit labour costs 2009-11	-7,9	-1,9	6,8	5

OVERALL HEALTH 1. Growth potential	LU Value	Euro17 Value	Score 7,1	Rank 2
1.1 Trend growth 2002-2010, in %			7,2	5
1.1.1 Rise in Gross value added	1,0	0,9	4,3	9
1.1.2 Deviation of GVA from norm	1,5	0,0	10,0	1
1.2 Human resources			4,3	8
1.2.1 Fertility rate	1,6	1,6	4,9	7
1.2.2 Integration of Immigrants (MIPEX)	59,1	57,6	6,0	7
1.2.3 Pisa Scores	482	497	1,5	14
1.3 Employment			6,8	5
1.3.1 Employment rate 2010, in %	65,2	64,2	4,9	8
1.3.2 Change in employment rate 2002-10	0,2	0,3	6,0	7
1.3.3 Youth unemployment rate, %	14,2	21,3	7,6	5
1.3.4 Long-term unemployment, %	1,3	4,1	8,6	4
1.4 Consumption rate			10,0	1
1.4.1 Total consumption, % of GDP	51,5	77,7	10,0	1
1.4.2 Change in consumption share 2002-10	-1,0	0,3	10,0	1

OVERALL HEALTH 3. Fiscal sustainability	LU Value	Euro17 Value	Score 9,2	Rank 2
3.1 Government outlays	40,3	48,0	10,0	2
3.2 Underlying fiscal balance 2010			8,1	2
3.2.1 Underlying fiscal balance	0,1	-4,0	8,5	2
3.2.2 Underlying primary fiscal balance	0,5	-1,2	7,7	3
3.3 Debt ratio 2010	19,1	85,5	9,4	2
3.4 Sustainability gap	0,9	5,8	9,4	3

OVERALL HEALTH 2. Competitiveness	LU Value	Euro17 Value	Score 6,4	Rank 8
2.1 Export Ratio, % of GDP	159,1	38,6	8,0	7
2.2 Rise in export ratio, 2002-10 in % points	3,3	0,6	8,6	4
2.3 Labour costs			4,9	8
2.3.1 Real unit labour cost, change 2002-10 in %	-1,1	-0,1	10,0	1
2.3.2 Nominal unit labour cost, 2002-10 in %	2,4	1,7	4,6	9
2.3.3 Employment protection	3,3	2,4	0,0	15
2.4 Market regulations			4,1	14
2.4.1 Product markets (index)	1,6	1,3	5,6	13
2.4.2 Service markets (index)	3,5	2,4	0,0	15
2.4.3 Opening new business (days)	19	14	6,8	11

OVERALL HEALTH 4. Resilience	LU Value	Euro17 Value	Score 6,6	Rank 6
4.1 Annual debt roll-over, % of GDP	2,6	13,2	8,7	2
4.2 Debt held abroad, % of GDP	n.a.	46,5	n.a.	n.a.
4.3 Gross household savings rate, in %	13,6	12,1	7,7	7
4.4 Current account, % of GDP	7,8	-0,5	9,9	1
4.5 Bank assets, % of GDP	2133	335	0,0	14
4.6 Private sector debt, % of GDP	n.a.	195	n.a.	n.a.

Notes: Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members from 1 (best) to 17 (worst rank). For an explanation of the variables, see the separate notes to all country tables on page 55.

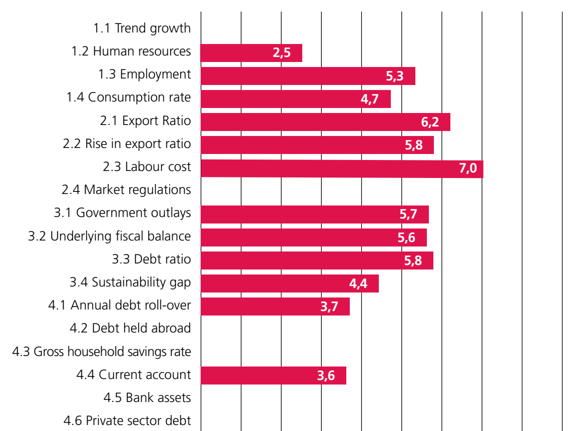
Malta

Assessment
A small open economy that has improved its net export position considerably since 2008. But Malta still ranks slightly below the eurozone average in the overall health check. The analysis is marred by a lack of data on some important counts.

Strengths
- Strong rise in net exports since late 2007
- Low share of government expenditure in GDP
- Subdued unit labour costs

Weaknesses
- Very low employment rate
- Unsustainable fiscal position
- Major current account deficit

Overall Health: Score Overview



Detailed Scores

RESULT	MT Score	Rank
Overall Health Check	4,6	**11**
1. Growth potential	4,2	**12**
2. Competitiveness	6,4	**9**
3. Fiscal sustainability	5,4	**10**
4. Resilience	2,4	**17**
Adjustment Progress	6,4	**4**
1. External adjustment	7,9	**2**
2. Fiscal adjustment	4,4	**9**
3. Real unit labour costs 2009-11	7,0	**4**

ADJUSTMENT PROGRESS	MT Value	Euro17 Value	Score 6,4	Rank 4
1. External adjustment Change 2H07-2Q11			7,9	**2**
1.1 Net exports in % points of GDP	16,7	0,0	7,8	**2**
1.2 Net exports relative to 2H07 exports	17,8	0,1	7,1	**4**
1.3 Rise in export ratio, % of GDP	9,7	1,1	7,1	**3**
2. Fiscal squeeze: shift in primary balance			4,4	**9**
2.1 2009-2011 in % of GDP	0,2	1,3	2,1	**12**
2.2 in % of required shift to 2020	46,3	38,4	6,6	**6**
3. Real unit labour costs 2009-11	-7,1	-1,9	7,0	**4**

OVERALL HEALTH 1. Growth potential	MT Value	Euro17 Value	Score 4,2	Rank 12
1.1 Trend growth 2002-2010, in %			n.a.	**n.a.**
1.1.1 Rise in Gross value added	n.a.	0,9	n.a.	**n.a.**
1.1.2 Deviation of GVA from norm	n.a.	0,0	n.a.	**n.a.**
1.2 Human resources			2.5	**16**
1.2.1 Fertility rate	1,4	1,6	3,6	**11**
1.2.2 Integration of Immigrants (MIPEX)	36,9	57,6	0,5	**15**
1.2.3 Pisa Scores	n.a.	497	n.a.	**n.a.**
1.3 Employment			5,3	**8**
1.3.1 Employment rate 2010, in %	56,1	64,2	0,9	**17**
1.3.2 Change in employment rate 2002-10	0,2	0,3	6,0	**7**
1.3.3 Youth unemployment rate, %	13,0	21,3	8,0	**4**
1.3.4 Long-term unemployment, %	3,2	4,1	6,5	**7**
1.4 Consumption rate			4,7	**11**
1.4.1 Total consumption, % of GDP	84,1	77,7	3,0	**14**
1.4.2 Change in consumption share 2002-10	0,0	0,3	6,5	**6**

OVERALL HEALTH 3. Fiscal sustainability	MT Value	Euro17 Value	Score 5,4	Rank 10
3.1 Government outlays	44,1	48,0	5,7	**7**
3.2 Underlying fiscal balance 2010			5,6	**10**
3.2.1 Underlying fiscal balance	-4,3	-4,0	5,2	**10**
3.2.2 Underlying primary fiscal balance	-1,3	-1,2	6,1	**7**
3.3 Debt ratio 2010	69,0	85,5	5,8	**9**
3.4 Sustainability gap	7,8	5,8	4,4	**15**

OVERALL HEALTH 2. Competitiveness	MT Value	Euro17 Value	Score 6,4	Rank 9
2.1 Export Ratio, % of GDP	83,1	38,6	6,2	**9**
2.2 Rise in export ratio, 2002-10 in % points	0,9	0,6	5,8	**10**
2.3 Labour costs			7,0	**2**
2.3.1 Real unit labour cost, change 2002-10 in %	-0,4	-0,1	7,8	**5**
2.3.2 Nominal unit labour cost, 2002-10 in %	1,8	1,7	6,2	**5**
2.3.3 Employment protection	n.a.	2,4	n.a.	**n.a.**
2.4 Market regulations			n.a.	**n.a.**
2.4.1 Product markets (index)	n.a.	1,3	n.a.	**n.a.**
2.4.2 Service markets (index)	n.a.	2,4	n.a.	**n.a.**
2.4.3 Opening new business (days)	n.a.	14	n.a.	**n.a.**

OVERALL HEALTH 4. Resilience	MT Value	Euro17 Value	Score 2,4	Rank 17
4.1 Annual debt roll-over, % of GDP	12,6	13,2	3,7	**11**
4.2 Debt held abroad, % of GDP	n.a.	46,5	n.a.	**n.a.**
4.3 Gross household savings rate, in %	n.a.	12,1	n.a.	**n.a.**
4.4 Current account, % of GDP	-4,1	-0,5	3,6	**13**
4.5 Bank assets, % of GDP	707	335	0,0	**14**
4.6 Private sector debt, % of GDP	n.a.	195	n.a.	**n.a.**

Notes: Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members from 1 (best) to 17 (worst rank). For an explanation of the variables, see the separate notes to all country tables on page 55.

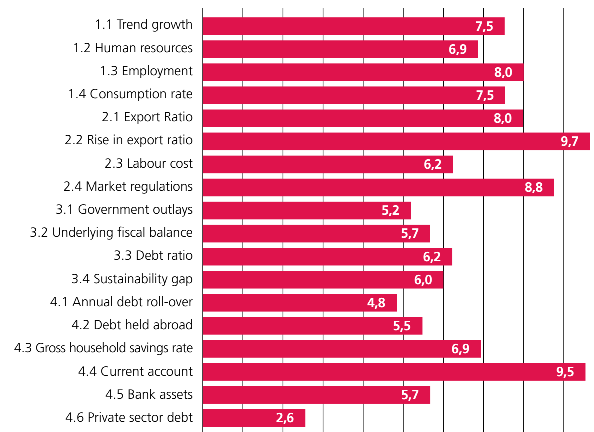
Netherlands

Assessment
The strongest among the major mature economies in the eurozone, jointly with Germany. Top scores for growth potential and competitiveness in the eurozone. Despite having achieved a high level of income, the Netherlands still show an exceptional potential for further growth.

Strengths
- Excellent use of labour resources, with a very high employment rate and very low rates of youth and long-term unemployment
- Very liberal regulatory regime
- Strong export performance
- Major current account surplus

Weaknesses
- Very few weaknesses
- High share of government expenditure in GDP
- Oversized financial industry
- Underling primary fiscal deficit above average

Overall Health: Score Overview



Detailed Scores

RESULT	NL Score	Rank
Overall Health Check	6,8	4
1. Growth potential	7,5	1
2. Competitiveness	8,2	1
3. Fiscal sustainability	5,8	8
4. Resilience	5,8	8
Adjustment Progress	4,0	8
1. External adjustment	3,2	12
2. Fiscal adjustment	5,1	6
3. Real unit labour costs 2009-11	3,8	8

ADJUSTMENT PROGRESS	NL Value	Euro17 Value	Score	Rank
			4,0	8
1. External adjustment Change 2H07-2Q11			3,2	12
1.1 Net exports in % points of GDP	0,3	0,0	3,0	12
1.2 Net exports relative to 2H07 exports	0,3	0,1	3,0	12
1.3 Rise in export ratio, % of GDP	5,9	1,1	5,5	4
2. Fiscal squeeze: shift in primary balance			5,1	6
2.1 2009-2011 in % of GDP	1,0	1,3	2,9	10
2.2 in % of required shift to 2020	52,8	38,4	7,3	3
3. Real unit labour costs 2009-11	-3,2	-1,9	3,8	8

OVERALL HEALTH — 1. Growth potential	NL Value	Euro17 Value	Score	Rank
			7,5	1
1.1 Trend growth 2002-2010, in %			7,5	4
1.1.1 Rise in Gross value added	1,6	0,9	5,9	6
1.1.2 Deviation of GVA from norm	1,0	0,0	9,1	2
1.2 Human resources			6,9	2
1.2.1 Fertility rate	1,8	1,6	6,6	5
1.2.2 Integration of Immigrants (MIPEX)	67,7	57,6	8,2	3
1.2.3 Pisa Scores	519	497	6,1	2
1.3 Employment			8,0	3
1.3.1 Employment rate 2010, in %	74,7	64,2	9,0	1
1.3.2 Change in employment rate 2002-10	0,0	0,3	4,9	12
1.3.3 Youth unemployment rate, %	8,7	21,3	9,4	1
1.3.4 Long-term unemployment, %	1,2	4,1	8,7	2
1.4 Consumption rate			7,5	3
1.4.1 Total consumption, % of GDP	73,1	77,7	8,5	4
1.4.2 Change in consumption share 2002-10	0,0	0,3	6,6	5

OVERALL HEALTH — 3. Fiscal sustainability	NL Value	Euro17 Value	Score	Rank
			5,8	8
3.1 Government outlays	47,1	48,0	5,2	9
3.2 Underlying fiscal balance 2010			5,7	9
3.2.1 Underlying fiscal balance	-3,7	-4,0	5,6	8
3.2.2 Underlying primary fiscal balance	-1,7	-1,2	5,7	10
3.3 Debt ratio 2010	62,9	85,5	6,2	8
3.4 Sustainability gap	5,6	5,8	6,0	9

OVERALL HEALTH — 2. Competitiveness	NL Value	Euro17 Value	Score	Rank
			8,2	1
2.1 Export Ratio, % of GDP	70,4	38,6	8,0	6
2.2 Rise in export ratio, 2002-10 in % points	1,8	0,6	9,7	2
2.3 Labour costs			6,2	4
2.3.1 Real unit labour cost, change 2002-10 in %	0,0	-0,1	5,7	10
2.3.2 Nominal unit labour cost, 2002-10 in %	1,5	1,7	7,3	3
2.3.3 Employment protection	2,0	2,4	5,8	5
2.4 Market regulations			8,8	2
2.4.1 Product markets (index)	1,0	1,3	9,5	2
2.4.2 Service markets (index)	1,2	2,4	8,8	3
2.4.3 Opening new business (days)	8	14	7,9	8

OVERALL HEALTH — 4. Resilience	NL Value	Euro17 Value	Score	Rank
			5,8	8
4.1 Annual debt roll-over, % of GDP	10,3	13,2	4,8	8
4.2 Debt held abroad, % of GDP	40,7	46,5	5,5	5
4.3 Gross household savings rate, in %	12,2	12,1	6,9	10
4.4 Current account, % of GDP	7,1	-0,5	9,5	2
4.5 Bank assets, % of GDP	388	335	5,7	13
4.6 Private sector debt, % of GDP	244	195	2,6	9

Notes: Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members from 1 (best) to 17 (worst rank). For an explanation of the variables, see the separate notes to all country tables on page 55.

Portugal

Assessment

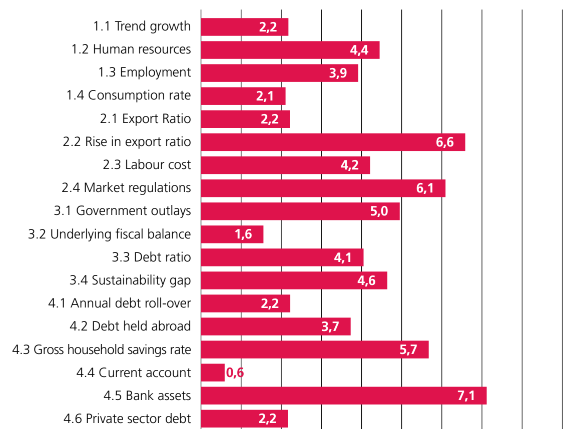
Among the worst performers on the overall health check, Portugal has made a significant adjustment effort since 2009.

Strengths

- Major fiscal adjustment has started
- Excellent score for integrating immigrants

Weaknesses

- Very subdued trend growth
- Insufficient export orientation
- Wide current account deficit
- Huge underlying fiscal deficit in 2010
- Unsustainable fiscal position



Detailed Scores

RESULT	PT Score	Rank
Overall Health Check	3,8	**15**
1. Growth potential	3,2	**17**
2. Competitiveness	4,8	**11**
3. Fiscal sustainability	3,8	**15**
4. Resilience	3,6	**14**
Adjustment Progress	4,9	**7**
1. External adjustment	5,1	**6**
2. Fiscal adjustment	6,4	**3**
3. Real unit labour costs 2009-11	3,2	**10**

ADJUSTMENT PROGRESS	PT Value	Euro17 Value	Score 4,9	Rank 7
1. External adjustment Change 2H07-2Q11			5,1	**6**
1.1 Net exports in % points of GDP	5,6	0,0	4,6	**8**
1.2 Net exports relative to 2H07 exports	15,1	0,1	6,4	**6**
1.3 Rise in export ratio, % of GDP	1,4	1,1	3,8	**9**
2. Fiscal squeeze: shift in primary balance			6,4	**3**
2.1 2009-2011 in % of GDP	4,7	1,3	6,4	**2**
2.2 in % of required shift to 2020	n.a.	38,4	n.a.	**n.a.**
3. Real unit labour costs 2009-11	-2,9	-1,9	3,2	**10**

OVERALL HEALTH 1. Growth potential	PT Value	Euro17 Value	Score 3,2	Rank 17
1.1 Trend growth 2002-2010, in %			2,2	**14**
1.1.1 Rise in Gross value added	0,8	0,9	3,7	**11**
1.1.2 Deviation of GVA from norm	-1,0	0,0	0,7	**15**
1.2 Human resources			4,4	**7**
1.2.1 Fertility rate	1,3	1,6	2,7	**17**
1.2.2 Integration of Immigrants (MIPEX)	78,8	57,6	10,0	**1**
1.2.3 Pisa Scores	490	497	2,5	**9**
1.3 Employment			3,9	**11**
1.3.1 Employment rate 2010, in %	65,6	64,2	5,0	**7**
1.3.2 Change in employment rate 2002-10	-0,4	0,3	2,0	**16**
1.3.3 Youth unemployment rate, %	22,4	21,3	4,9	**9**
1.3.4 Long-term unemployment, %	5,6	4,1	3,8	**12**
1.4 Consumption rate			2,1	**17**
1.4.1 Total consumption, % of GDP	85,5	77,7	2,3	**16**
1.4.2 Change in consumption share 2002-10	0,7	0,3	2,0	**15**

OVERALL HEALTH 3. Fiscal sustainability	PT Value	Euro17 Value	Score 3,8	Rank 15
3.1 Government outlays	45,6	48,0	5,0	**10**
3.2 Underlying fiscal balance 2010			1,6	**16**
3.2.1 Underlying fiscal balance	-9,2	-4,0	1,4	**16**
3.2.2 Underlying primary fiscal balance	-6,1	-1,2	1,7	**16**
3.3 Debt ratio 2010	93,3	85,5	4,1	**13**
3.4 Sustainability gap	7,5	5,8	4,6	**13**

OVERALL HEALTH 2. Competitiveness	PT Value	Euro17 Value	Score 4,8	Rank 11
2.1 Export Ratio, % of GDP	29,5	38,6	2,2	**13**
2.2 Rise in export ratio, 2002-10 in % points	0,4	0,6	6,6	**7**
2.3 Labour costs			4,2	**13**
2.3.1 Real unit labour cost, change 2002-10 in %	-0,1	-0,1	6,4	**8**
2.3.2 Nominal unit labour cost, 2002-10 in %	2,0	1,7	5,8	**8**
2.3.3 Employment protection	3,2	2,4	0,4	**14**
2.4 Market regulations			6,1	**7**
2.4.1 Product markets (index)	1,4	1,3	6,5	**9**
2.4.2 Service markets (index)	2,5	2,4	3,7	**9**
2.4.3 Opening new business (days)	6	14	8,1	**6**

OVERALL HEALTH 4. Resilience	PT Value	Euro17 Value	Score 3,6	Rank 14
4.1 Annual debt roll-over, % of GDP	15,6	13,2	2,2	**15**
4.2 Debt held abroad, % of GDP	56,4	46,5	3,7	**11**
4.3 Gross household savings rate, in %	9,8	12,1	5,7	**12**
4.4 Current account, % of GDP	-9,9	-0,5	0,6	**16**
4.5 Bank assets, % of GDP	309	335	7,1	**7**
4.6 Private sector debt, % of GDP	252	195	2,2	**10**

Notes: Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members from 1 (best) to 17 (worst rank). For an explanation of the variables, see the separate notes to all country tables on page 55.

Slovakia

Assessment

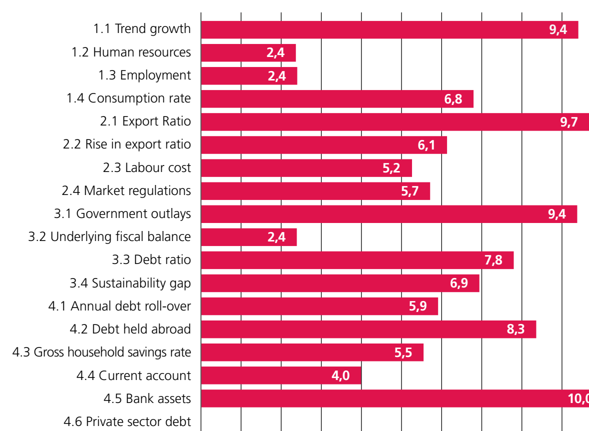
A dynamic catching-up economy with some pronounced strengths and weaknesses. Although its overall fiscal position is still very comfortable, Slovakia needs to rein in its structural fiscal deficit in coming years to maintain its positive outlook. It cannot afford to rest on its past laurels.

Strengths

- Best score for recent trend growth in the eurozone
- Strong export orientation
- Very low share of government expenditure in GDP
- Subdued propensity to consume
- Low ratio of public debt to GDP

Weaknesses

- Very high rates of youth and long-term unemployment
- Very low scores for human resources
- Excessive underlying fiscal deficit 2010



Detailed Scores

RESULT	SK Score	Rank
Overall Health Check	6,3	**6**
1. Growth potential	5,2	**9**
2. Competitiveness	6,7	**5**
3. Fiscal sustainability	6,6	**4**
4. Resilience	6,8	**4**
Adjustment Progress	5,0	**6**
1. External adjustment	5,0	**7**
2. Fiscal adjustment	5,7	**4**
3. Real unit labour costs 2009-11	4,4	**7**

ADJUSTMENT PROGRESS	SK Value	Euro17 Value	Score 5,0	Rank 6
1. External adjustment Change 2H07-2Q11			5,0	**7**
1.1 Net exports in % points of GDP	6,7	0,0	4,9	**6**
1.2 Net exports relative to 2H07 exports	6,9	0,1	4,5	**8**
1.3 Rise in export ratio, % of GDP	2,4	1,1	4,2	**7**
2. Fiscal squeeze: shift in primary balance			5,7	**4**
2.1 2009-2011 in % of GDP	2,8	1,3	4,6	**4**
2.2 in % of required shift to 2020	48,9	38,4	6,9	**4**
3. Real unit labour costs 2009-11	-3,7	-1,9	4,4	**7**

OVERALL HEALTH 1. Growth potential	SK Value	Euro17 Value	Score 5,2	Rank 9
1.1 Trend growth 2002-2010, in %			9,4	**1**
1.1.1 Rise in Gross value added	4,4	0,9	10,0	**1**
1.1.2 Deviation of GVA from norm	0,9	0,0	8,8	**4**
1.2 Human resources			2,4	**17**
1.2.1 Fertility rate	1,4	1,6	3,4	**13**
1.2.2 Integration of Immigrants (MIPEX)	36,3	57,6	0,3	**16**
1.2.3 Pisa Scores	488	497	2,3	**10**
1.3 Employment			2,4	**15**
1.3.1 Employment rate 2010, in %	58,8	64,2	2,1	**14**
1.3.2 Change in employment rate 2002-10	0,3	0,3	6,3	**6**
1.3.3 Youth unemployment rate, %	33,6	21,3	1,1	**16**
1.3.4 Long-term unemployment, %	9,2	4,1	0,0	**17**
1.4 Consumption rate			6,8	**5**
1.4.1 Total consumption, % of GDP	76,7	77,7	6,6	**11**
1.4.2 Change in consumption share 2002-10	0,0	0,3	6,9	**3**

OVERALL HEALTH 3. Fiscal sustainability	SK Value	Euro17 Value	Score 6,6	Rank 4
3.1 Government outlays	38,8	48,0	9,4	**4**
3.2 Underlying fiscal balance 2010			2,4	**15**
3.2.1 Underlying fiscal balance	-7,3	-4,0	2,8	**14**
3.2.2 Underlying primary fiscal balance	-5,9	-1,2	1,9	**15**
3.3 Debt ratio 2010	41,0	85,5	7,8	**4**
3.4 Sustainability gap	4,3	5,8	6,9	**5**

OVERALL HEALTH 2. Competitiveness	SK Value	Euro17 Value	Score 6,7	Rank 5
2.1 Export Ratio, % of GDP	78,2	38,6	9,7	**2**
2.2 Rise in export ratio, 2002-10 in % points	0,9	0,6	6,1	**9**
2.3 Labour costs			5,2	**7**
2.3.1 Real unit labour cost, change 2002-10 in %	0,3	-0,1	4,0	**12**
2.3.2 Nominal unit labour cost, 2002-10 in %	2,7	1,7	3,7	**13**
2.3.3 Employment protection	1,4	2,4	8,0	**2**
2.4 Market regulations			5,7	**8**
2.4.1 Product markets (index)	1,6	1,3	5,1	**14**
2.4.2 Service markets (index)	2,3	2,4	4,6	**8**
2.4.3 Opening new business (days)	16	14	7,4	**9**

OVERALL HEALTH 4. Resilience	SK Value	Euro17 Value	Score 6,8	Rank 4
4.1 Annual debt roll-over, % of GDP	8,2	13,2	5,9	**4**
4.2 Debt held abroad, % of GDP	14,9	46,5	8,3	**2**
4.3 Gross household savings rate, in %	9,5	12,1	5,5	**13**
4.4 Current account, % of GDP	-3,4	-0,5	4,0	**12**
4.5 Bank assets, % of GDP	86	335	10,0	**1**
4.6 Private sector debt, % of GDP	n.a.	195	n.a.	**n.a.**

Notes: Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members from 1 (best) to 17 (worst rank). For an explanation of the variables, see the separate notes to all country tables on page 55.

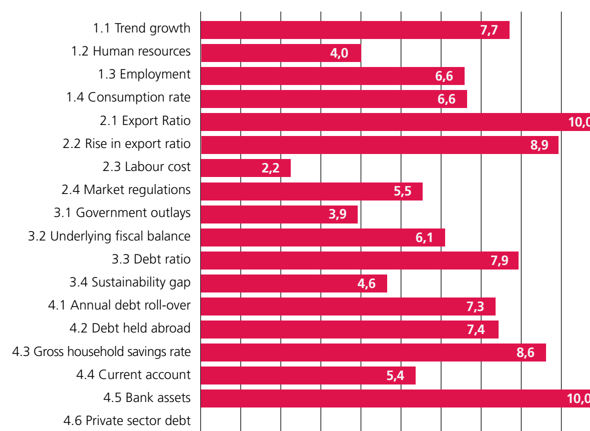
Slovenia

Assessment
A dynamic catching-up economy with some significant strengths and weaknesses. Slovenia ranks as number 5 in the overall health check. But it faces a fiscal sustainability gap.

Strengths
- High rate of trend growth
- Low level of public debt
- Comfortable employment situation
- Very easy to open a new business

Weaknesses
- Strong rise in labour costs 2002-2010
- Heavily regulated product and services markets
- No significant fiscal adjustment effort yet

Overall Health: Score Overview



Detailed Scores

RESULT	SI Score	Rank
Overall Health Check	6,6	5
1. Growth potential	6,2	4
2. Competitiveness	6,7	6
3. Fiscal sustainability	5,6	9
4. Resilience	7,7	2
Adjustment Progress	3,6	11
1. External adjustment	4,6	8
2. Fiscal adjustment	3,6	12
3. Real unit labour costs 2009-11	2,6	13

ADJUSTMENT PROGRESS	SI Value	Euro17 Value	Score 3,6	Rank 11
1. External adjustment Change 2H07-2Q11			4,6	8
1.1 Net exports in % points of GDP	6,6	0,0	4,9	7
1.2 Net exports relative to 2H07 exports	8,9	0,1	5,0	7
1.3 Rise in export ratio, % of GDP	0,9	1,1	3,6	10
2. Fiscal squeeze: shift in primary balance			3,6	12
2.1 2009-2011 in % of GDP	1,1	1,3	3,0	9
2.2 in % of required shift to 2020	22,9	38,4	4,3	11
3. Real unit labour costs 2009-11	-1,9	-1,9	2,6	13

OVERALL HEALTH 1. Growth potential	SI Value	Euro17 Value	Score 6,2	Rank 4
1.1 Trend growth 2002-2010, in %			7,7	2
1.1.1 Rise in Gross value added	2,5	0,9	8,5	3
1.1.2 Deviation of GVA from norm	0,5	0,0	6,9	7
1.2 Human resources			4,0	10
1.2.1 Fertility rate	1,5	1,6	4,4	8
1.2.2 Integration of Immigrants (MIPEX)	48,5	57,6	3,4	12
1.2.3 Pisa Scores	499	497	3,6	6
1.3 Employment			6,6	6
1.3.1 Employment rate 2010, in %	66,2	64,2	5,3	6
1.3.2 Change in employment rate 2002-10	0,4	0,3	7,0	3
1.3.3 Youth unemployment rate, %	14,7	21,3	7,4	6
1.3.4 Long-term unemployment, %	3,1	4,1	6,5	6
1.4 Consumption rate			6,6	7
1.4.1 Total consumption, % of GDP	73,6	77,7	8,2	6
1.4.2 Change in consumption share 2002-10	0,2	0,3	5,0	9

OVERALL HEALTH 3. Fiscal sustainability	SI Value	Euro17 Value	Score 5,6	Rank 9
3.1 Government outlays	45,9	48,0	3,9	12
3.2 Underlying fiscal balance 2010			6,1	7
3.2.1 Underlying fiscal balance	-3,0	-4,0	6,2	6
3.2.2 Underlying primary fiscal balance	-1,4	-1,2	6,0	9
3.3 Debt ratio 2010	38,8	85,5	7,9	3
3.4 Sustainability gap	7,5	5,8	4,6	13

OVERALL HEALTH 2. Competitiveness	SI Value	Euro17 Value	Score 6,7	Rank 6
2.1 Export Ratio, % of GDP	61,8	38,6	10,0	1
2.2 Rise in export ratio, 2002-10 in % points	1,4	0,6	8,9	3
2.3 Labour costs			2,2	16
2.3.1 Real unit labour cost, change 2002-10 in %	0,7	-0,1	1,8	14
2.3.2 Nominal unit labour cost, 2002-10 in %	3,4	1,7	1,6	16
2.3.3 Employment protection	2,5	2,4	3,3	10
2.4 Market regulations			5,5	9
2.4.1 Product markets (index)	1,5	1,3	6,3	12
2.4.2 Service markets (index)	3,3	2,4	0,7	14
2.4.3 Opening new business (days)	6	14	9,6	1

OVERALL HEALTH 4. Resilience	SI Value	Euro17 Value	Score 7,7	Rank 2
4.1 Annual debt roll-over, % of GDP	5,3	13,2	7,3	3
4.2 Debt held abroad, % of GDP	23,8	46,5	7,4	3
4.3 Gross household savings rate, in %	15,3	12,1	8,6	5
4.4 Current account, % of GDP	-0,8	-0,5	5,4	9
4.5 Bank assets, % of GDP	152	335	10,0	2
4.6 Private sector debt, % of GDP	n.a.	195	n.a.	n.a.

Notes: Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members from 1 (best) to 17 (worst rank). For an explanation of the variables, see the separate notes to all country tables on page 55.

Spain

Overall Assessment

A mostly mature economy forced to undergo a major adjustment amid a real estate and sovereign debt crisis. Some well-targeted labour market reforms could dramatically improve the current dismal scores for growth potential.

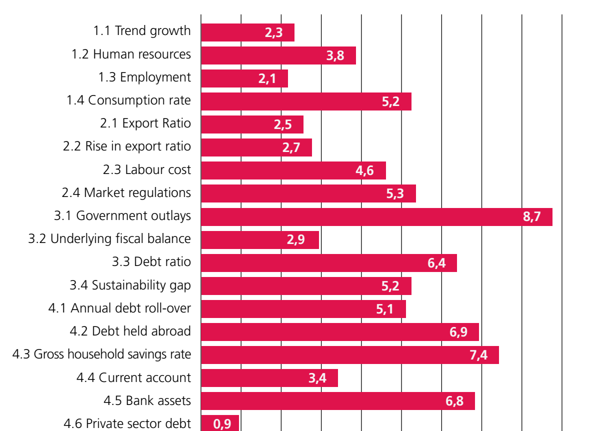
Strengths

- Comparatively low ratio of public debt to GDP
- Below-average share of government expenditure in GDP
- Serious turnaround in net exports and the underlying fiscal position
- Modest degree of regulation for product and services markets

Weaknesses

- Low rate of trend growth outside construction
- Very bad employment scores, with worst youth unemployment within the eurozone
- High structural fiscal deficit in 2010
- Serious sustainability gap
- Low fertility rate, low PISA scores

Overall Health: Score Overview



Detailed Scores

RESULT	ES Score	Rank
Overall Health Check	4,5	**12**
1. Growth potential	3,4	**15**
2. Competitiveness	3,8	**14**
3. Fiscal sustainability	5,8	**7**
4. Resilience	5,1	**12**
Adjustment Progress	5,7	**5**
1. External adjustment	6,5	**4**
2. Fiscal adjustment	7,5	**2**
3. Real unit labour costs 2009-11	3,1	**11**

ADJUSTMENT PROGRESS	ES Value	Euro17 Value	Score 5,7	Rank 5
1. External adjustment Change 2H07-2Q11			6,5	**4**
1.1 Net exports in % points of GDP	8,3	0,0	5,4	**4**
1.2 Net exports relative to 2H07 exports	26,8	0,1	9,1	**3**
1.3 Rise in export ratio, % of GDP	1,8	1,1	3,9	**8**
2. Fiscal squeeze: shift in primary balance			7,5	**2**
2.1 2009-2011 in % of GDP	4,7	1,3	6,4	**2**
2.2 in % of required shift to 2020	65,5	38,4	8,5	**2**
3. Real unit labour costs 2009-11	-3,9	-1,9	3,1	**11**

OVERALL HEALTH 1. Growth potential	ES Value	Euro17 Value	Score 3,4	Rank 15
1.1 Trend growth 2002-2010, in %			2,3	**13**
1.1.1 Rise in Gross value added	0,6	0,9	3,1	**13**
1.1.2 Deviation of GVA from norm	-0,8	0,0	1,5	**13**
1.2 Human resources			3,8	**12**
1.2.1 Fertility rate	1,4	1,6	3,3	**14**
1.2.2 Integration of Immigrants (MIPEX)	62,5	57,6	6,9	**5**
1.2.3 Pisa Scores	484	497	1,8	**13**
1.3 Employment			2,1	**16**
1.3.1 Employment rate 2010, in %	58,6	64,2	2,0	**15**
1.3.2 Change in employment rate 2002-10	0,0	0,3	4,8	**13**
1.3.3 Youth unemployment rate, %	41,6	21,3	0,0	**17**
1.3.4 Long-term unemployment, %	7,3	4,1	1,8	**15**
1.4 Consumption rate			5,2	**10**
1.4.1 Total consumption, % of GDP	76,3	77,7	6,8	**9**
1.4.2 Change in consumption share 2002-10	0,5	0,3	3,6	**13**

OVERALL HEALTH 3. Fiscal sustainability	ES Value	Euro17 Value	Score 5,8	Rank 7
3.1 Government outlays	40,5	48,0	8,7	**5**
3.2 Underlying fiscal balance 2010			2,9	**14**
3.2.1 Underlying fiscal balance	-7,0	-4,0	3,1	**13**
3.2.2 Underlying primary fiscal balance	-5,1	-1,2	2,6	**14**
3.3 Debt ratio 2010	61,0	85,5	6,4	**6**
3.4 Sustainability gap	6,7	5,8	5,2	**12**

OVERALL HEALTH 2. Competitiveness	ES Value	Euro17 Value	Score 3,8	Rank 14
2.1 Export Ratio, % of GDP	26,1	38,6	2,5	**12**
2.2 Rise in export ratio, 2002-10 in % points	-0,1	0,6	2,7	**15**
2.3 Labour costs			4,6	**10**
2.3.1 Real unit labour cost, change 2002-10 in %	-0,5	-0,1	8,3	**3**
2.3.2 Nominal unit labour cost, 2002-10 in %	2,5	1,7	4,2	**11**
2.3.3 Employment protection	3,0	2,4	1,2	**12**
2.4 Market regulations			5,3	**11**
2.4.1 Product markets (index)	1,0	1,3	9,1	**3**
2.4.2 Service markets (index)	2,1	2,4	5,5	**4**
2.4.3 Opening new business (days)	47	14	1,4	**16**

OVERALL HEALTH 4. Resilience	ES Value	Euro17 Value	Score 5,1	Rank 12
4.1 Annual debt roll-over, % of GDP	9,8	13,2	5,1	**6**
4.2 Debt held abroad, % of GDP	27,9	46,5	6,9	**4**
4.3 Gross household savings rate, in %	13,1	12,1	7,4	**9**
4.4 Current account, % of GDP	-4,6	-0,5	3,4	**14**
4.5 Bank assets, % of GDP	326	335	6,8	**9**
4.6 Private sector debt, % of GDP	281	195	0,9	**11**

Notes: Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members from 1 (best) to 17 (worst rank). For an explanation of the variables, see the separate notes to all country tables on page 55.

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