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Contributions to the political debate by the Cologne Institute for Economic Research

The euro rescue fund @5: Taking stock

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Executive summary

On June 7, 2015, the euro rescue fund will celebrate its 5th anniversary. Thus, it is time to take stock regarding the success of the reform strategy, the institutional relevance of the ESM, and current political challenges to the conditionality principle which is an essential pillar of the reformed EMU institutional architecture.

First, the rescue and reform strategy of the euro area is on the right track in Ireland, Spain and Portugal. While challenges remain particularly regarding public and private debt levels, all three countries successfully returned to the financial market after implementing a multitude of reforms.

The Cologne Institute for Economic Research (IW Köln) analysed the economic progress made since the beginning of the crisis – with the following results:

- Ireland performs best, closely followed by Spain and with Portugal coming third.
- Economic growth has returned and is particularly buoyant in Ireland and Spain.
- Remarkably, domestic demand is also growing relatively rapidly despite the fact that private debt levels are still elevated and deleveraging is ongoing.
- Unemployment remains high (particularly in Spain), but is decreasing at a considerable pace.
- All three countries have turned their current account from deeply negative into positive digits. This success has been based on a surprisingly strong export performance.

Second, the euro rescue fund fills a gap in the institutional framework of EMU. The founding fathers of EMU had not sufficiently provided for the danger that even solvent member countries could be pushed into illiquidity and default by nervous financial markets. However, financial assistance can only be provided if the stressed country agrees to a reform program. This principle of conditionality is an essential pillar of the new EMU institutional framework. It is a recipe of success for implementing indispensable economic reforms and is required to prevent moral hazard problems.

Third, the principle of conditionality could be endangered by the initiative to integrate the ESM into the EU treaties and the community method and by a call for more political control of the Troika (now named the Institutions), which allegedly lacks democratic legitimacy. Both approaches would increase the political influence on the ESM and the Institutions and could lead to lamentable compromises due to vested political interests. To avoid a sell-out of the conditionality principle, more political independence and rule orientation are needed than the EU Commission or the European Parliament can provide. This is why the IMF and the ECB are required to keep their strong roles in the game.

In view of the two political initiatives:

- The integration of the ESM into the EU treaties appears reasonable at first sight. However, if indeed implemented it must be done without significantly changing the ESM's decision making rules. Otherwise, the conditionality principle could suffer. Also, the grip of ESM members on its large finances could be loosened – which would lead to a severe conflict between the calls for democratic legitimacy at the EU and at the national level.
- The discussion about democratic legitimacy of the Institutions can be largely discarded. They only prepare and monitor reforms. Moreover, they are indirectly legitimized, because it is the democratically legitimized euro finance ministers and the national parliaments of the program countries that take the relevant decisions. The IMF's structure with its decade long and mostly successful practice is a case in point.

1. Introduction

On June 7, 2010, the new euro rescue fund came into force. Its basic principles had been agreed just a few weeks before over the second weekend in May – in the midst of the early intense phase of the euro debt crisis. The Greek rescue package had been considered insufficient by financial markets and severe contagion effects to other countries of the euro area periphery were looming. Since then much has happened. Apart from Greece, also Ireland, Portugal, Spain (for its banking sector), and Cyprus received financial support. The temporary EFSF, which after a while had been enlarged and complemented by several additional instruments, was replaced by the permanent ESM.

Five years on from the inception of the euro rescue fund, stocktaking is warranted. In the following, an evaluation will be given of the overall success of the rescue and reform strategy (chapter 2), of the institutional justification of the euro rescue fund (chapter 3), and of current political challenges to the conditionality principle which is an essential pillar of the reformed EMU institutional architecture (chapter 4).

2. Economic performance of the program countries

In order to evaluate whether the reform strategy of the euro rescue fund and of the program countries was successful[1], Ireland, Spain and Portugal are taken into view. All three countries already exited their programs and returned to financial markets in 2013/2014 without any additional support lines.[2] In the following, the degree of reform implementation of these countries will be briefly considered, before a descriptive qualitative empirical evaluation is provided about their recent economic performance.

Even though the final program assessments[3] of the three countries pointed out considerable remaining economic challenges, the reviews clearly stated that, overall, all three have followed the reform prescriptions:

- Ireland is commended for its very good program performance (European Commission, 2013).
- Spain completely complied with its horizontal MoU requirements and has achieved a thorough overhaul of the Spanish banking sector. Moreover, the

[1] For earlier assessments see Pisani-Ferry et al. (2013) and Matthes (2012).
[2] An assessment of the Greek reform program is dispensed with here due to the current political irritations and Cyprus is still in the midst of the reform program.
[3] See Matthes (2015a) for a brief overview of the recent assessments of the three countries by the EU Commission after the end of their programs. These post program surveillance reviews shall ensure the repayments of the financial assistance the countries received. The EU Commission, in liaison with the ECB, assesses the economic situation twice yearly and, if needed, it recommends corrective measures – until 75 percent of total credits are repaid. Also the ESM joins in this monitoring in the framework of its early warning system, and will continue to do so until all repayments are effected.

Spanish economy is benefiting from past structural reforms and fiscal consolidation (European Commission, 2014a) – reforms that were taken by the Spanish government beside the reform program which focused on the banking sector.
- Portugal had a solid program implementation and achieved an ambitious reform across all main economic sectors (European Commission, 2014b).

The following descriptive empirical evaluation of the progress achieved by the three countries employs a variety of economic indicators: economic growth and unemployment, the fiscal budget, current account and competitiveness, indebtedness of the private sectors, and regulation of product and labour markets. These indicators cover relevant causes and results of the euro debt crisis and provide for a broad overview of economic progress (or the lack of it).

Based on data tables for each country (see Annex), a schematic overview is provided (see diagrams below). Two dimensions of each relevant indicator are assessed: its current state (relative to the euro area average) and its change (relative to the time of program entry or to its worst state in recent years). As each dimension has three possible characteristics, the overview displays a matrix of nine fields. For the countries of interest, each relevant indicator is assigned to one field of the matrix, where the bottom left field represents the worst possible outcome and the top right field the best outcome. This categorization is additionally illustrated by colouring the matrix in reference to traffic lights. Thus a country with many indicators in the top right (bottom left) fields has achieved much (little) progress in moving out of the crisis. It should be noted that this assignment is based on a systematic, but qualitative evaluation aimed at providing the reader with a visualized aggregated overview.

With these qualifications in mind, the overview tables tend to suggest a relatively clear ranking of program countries. Ireland, Spain, and Portugal – in this sequence – score significantly better than Greece and Cyprus.

- Ireland performs best and is most advanced in many respects. Growth of GDP and also of domestic demand is particularly dynamic. Also impressive are the size of the current account surplus and the development of the Irish export performance. Unemployment is still elevated but has decreased significantly to a level even slightly below the euro area average. More progress is still required in the areas structural fiscal consolidation, and deleveraging of the public and private sectors.
- Spain's economic growth is also relatively dynamic – growth forecasts have continually been revised upwards in recent months. The development of domestic demand surprises positively, despite a still high (but considerably reduced) level of private sector debt. Economic sentiment remains very good, so that the upswing should become broader and more self-sustained. This will contribute to a further decline of the still very high unemployment rate. Based on a good export

performance (and improved price competitiveness) the current account balance has turned positive – even though more improvement is needed to reduce the negative net international investment position. Also, the still increasing government debt ratio needs to be stabilized by more fiscal consolidation – a task that is facilitated by the improved growth perspectives.

- Portugal's economy is also growing again, albeit still less dynamically than in Ireland and Spain. On the positive side, domestic demand increased more rapidly than in the euro area on average. However, unemployment is still relatively high at about 14 percent, but has already decreased considerably on the back of significant structural reforms (Matthes, 2015b) – and will continue to do so in the face of improved growth perspectives. A very good export performance and a better price competitiveness have contributed to the significant current account improvement up to positive digits, which, like in Spain, has to continue to reduce net foreign debt. Continued efforts are also needed to reduce the high public and private debt ratios. While financial sector debt, which has been somewhat reduced, is lower than in the euro area, corporate indebtedness and non-performing loans are still relatively high (European Commission, 2014c).

Diagrams:

Ireland		**Change**	
Current state	Negative	Neutral	Positive
Better		Product market regulation **Labour market regulation** Starting business regulation	**Growth of GDP (+)** **Growth of dom. demand (+)** **Current account (+)** **Export performance (+)** **Financial Sector Leverage**
Close EMU average			Unemployment rate Public budget balance Price Competitiveness
Worse		Public debt Private sector debt Net internat. invest. position*	Cycl. adj. publ. budg. balance

Spain		**Change**	
Current state	Negative	Neutral	Positive
Better			**Growth of GDP** **Growth of dom. demand** **Economic sentiment** Current account **Export performance** Product market regulation Labour market regulation
Close EMU average	Public debt		Cycl. adj. publ. budg. balance Price competitiveness Private sector debt Starting business regulation
Worse		**Net internat. invest. pos.**	**Unemployment rate (–)*** **Public budget balance** Financial Sector Leverage

Portugal	Change Negative	Neutral	Positive
Current state: Better		Financial Sector Leverage	Growth of domestic demand Economic sentiment Current account **Export performance (+)** Product market regulation Starting business regulation
Close EMU average		Private Sector Debt	Growth of GDP Cycl. adj. publ. budg. balance Price competitiveness Labour market regulation
Worse	**Public debt** **Net internat. invest. pos.**		Unemployment rate* Public budget balance

Greece	Change Negative	Neutral	Positive
Current state: Better		Private Sector Debt	Cycl. adj. publ. budg. balance Current account Labour market regulation
Close EMU average			Growth of GDP Growth of domestic demand Economic sentiment Public budget balance Price competitiveness Product market regulation Starting business regulation
Worse	**Public debt (–)** **Net internat. invest. pos.**	**Unemployment rate (–)*** Export performance	**Financial Sector Leverage**

Cyprus	Change Negative	Neutral	Positive
Current state: Better			Economic sentiment Financial Sector Leverage
Close EMU average		Starting business regulation	Current account Price competitiveness
Worse	Unemployment rate **Public budget balance (–)** Public debt **Net internat. invest. pos. (–)**	Growth of GDP Growth of domestic demand Cycl. adj. publ. budg. bal. **Private Sector Debt (–)**	

For the evaluation of the current state of each indicator relative to the euro area average data from 2014 or 2013 are used; bold type: strong expression of state; (+) or (–): particularly strong expression of the state in the respective direction.
For the evaluation of change the current state is compared to the indicator value at the time of entry into the program and to the worst indicator value in recent years; *comparison to the worst value shows progress, but not when compared to the value at the time of entry into the program

Source: own evaluation based on the data tables in the Annex

3. Institutional evaluation[4]

The euro rescue fund fills a gap in the institutional framework of EMU. The founding fathers of EMU had not sufficiently provided for the danger that even solvent member countries could be pushed into illiquidity and default by nervous financial markets. This possibility is particularly relevant, because of the possibility of self-fulfilling prophesies and because of the absence of a lender of last resort in the euro area.

However, financial assistance can only be provided if the stressed country agrees to a reform program and signs a Memorandum of Understanding (MoU) whose implementation is monitored by the EU Commission, the ECB and the IMF (formerly called Troika, now named the Institutions). This principle of conditionality is essential to prevent moral hazard problems. Despite claims to the contrary (see, e.g., Blankart, 2012; Homburg, 2012; Konrad, 2013), this conditionality has proved to be rather deterring, as signing an MoU and submitting to the control of the Institutions implies a certain surrender of national sovereignty. This increases the incentive for EMU member countries to follow a prudent fiscal policy course. Thus, the conditionality principle is an essential new pillar of the new institutional architecture of EMU.

The new framework also allows for better containment of contagion effects in crisis times, as the euro rescue fund (and the ECB) can shield other EMU countries from such dangers. This feature further strengthens the conditionality principle. If countries should be substantially unwilling to follow the agreed MoU, financial assistance has to be discontinued, no matter whether this should lead to an exit of EMU (Matthes/Schuster, 2015). Without the safety net of the ESM and ECB, the ripple effects caused by such a development could put other EMU under strong pressures from financial markets. In this respect, the existence of the ESM is thus in itself a precondition for being able to stick to the conditionality principle.

4. Challenges to the conditionality principle

It is of utmost importance to safeguard the conditionality principle, currently with regard to Greece, but also in the medium to longer term. However, several challenges to this objective can be identified.

[4] There has been an intense debate about the pros and cons of the euro rescue fund, particularly in Germany (Belke, 2011; EZB, 2011; Fuest, 2011; Schäuble et al., 2011; Grossmann, 2011; Bijlsma/Vallee, 2012; Blankart, 2012; Homburg, 2012; Matthes, 2012; Buch, 2013; Becker et al., 2013, BMF, 2013; Kerber, 2013; Konrad, 2013; Pisany-Ferry et al., 2013; Preißl, 2014).

4.1 Vagueness of certain ESM conditions

Several vague formulations in the ESM treaty and certain ESM guidelines are a matter of concern. This mainly applies to the additional instruments (beyond the standard tool of a three year full credit program): precautionary financial assistance, primary and secondary market support facility as well as indirect and direct bank recapitalization instruments, which have not been used yet.[5] Particularly, the conditions for precautionary financial assistance under the ECCL (Enhanced Conditions Credit Line) are widely open to interpretation and appear rather generous. Thus, when the additional instruments have to be eventually used, it will be important to ensure a high level of reform conditionality in order to set clear precedents.

Moreover, the ESM treaty is relatively unclear about the relevance of a debt sustainability analysis (DSA) as a precondition for financial assistance and also about the conditions when private sector involvement (PSI) needs to be applied.[6] This vagueness appears understandable when the situation is reconsidered in which the ESM treaty was written. At that time, the euro debt crisis was acute and there were justified fears that too strict formulations on DSA and PSI would aggravate the crisis via contagion effects. As this danger has now receded, the formulations should be made stricter in the medium term.

4.2 Political challenges to the conditionality principle

In addition, political challenges could threaten the conditionality principle. These political challenges are centred, one the one side, around criticism of the Institutions and, on the other side, around the legal and institutional construction of the ESM.

Criticism of the Institutions

On the one side, the Institutions are criticized from two angles: first, to be mainly responsible for the severe economic downturn in Greece and the resulting social implications, and second, to be not sufficiently democratically legitimized. Regarding the first criticism, particularly in the case of Greece, it is alleged that the Institutions and the imposed reforms were mainly responsible for the deep economic crisis in Greece.

This reproach has to be discussed in a differentiated way:

- It is true that, from today's viewpoint, the over-optimistic economic predictions of the Institutions are a bone of contention. However, many other economists also underestimated how deep the structural problems of the Greek economy were

[5] For a more detailed evaluation see Matthes, 2015a
[6] For a more detailed evaluation see Matthes, 2015a

and how much they hampered the economic recovery. Moreover, a broad based loss of confidence led to a much deeper economic crisis than expected. As a result, fiscal revenues also decreased more substantially than expected so that fiscal deficit targets were continually missed.

- It is probably here that, in hindsight, the Institutions made a substantial mistake when they insisted on ever further fiscal consolidation measures in order to meet the fiscal deficit targets despite the fact that fiscal multipliers turned out to be much larger than expected.[7] Large and continual cuts in government expenditure as well as substantially higher tax burdens on consumption and the private sector impeded an economic recovery.
- In addition, in the first reform program too little weight was put on the rigorous implementation of substantial structural reforms which were required to raise the growth potential of the Greek economy. Moreover, specialists could have realized that first liberalizing the labour market – while allowing for greater delays with product market implementation – would also render a prompt recovery less likely.
- Nevertheless, it appears inappropriate to hold the Institutions solely or mainly responsible for the deepness of crisis in Greece. Without the reform program the Greek economy would have also suffered severely due to the sudden stop of external financing and the huge imbalances that had built up before the crisis. It has to be recalled that the fiscal deficit in Greece amounted to over 15 percent of GDP in 2009 and that the current account deficit had risen also to 15 percent of GDP in 2008. The required adjustment towards an economy which is not built on ever increasing debts had to lead to an inevitable and severe downturn. Putting most of the blame on the Institutions is thus misplaced.
- Instead, the bridge financing of the EFSF (and also allowing for the considerable rise of the Greek TARGET2 deficits) can be assumed to have cushioned the deep fall of the economy to some extent.
- In view of the catastrophic fiscal situation in 2009/2010, it is also illusionary to claim that there was an alternative to embark on substantial fiscal consolidation or to maintain that fiscal stimulus would have been the right choice.

Regarding the second criticism, the democratic legitimacy of the Institutions has been called into question and demands arose to submit the Institutions to a stronger political control – also by the European Parliament (EP). These aspects need to be qualified.

- First, the Institutions are indirectly legitimized. They only prepare decisions which are eventually taken by democratically legitimized finance ministers and national

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[7] See Kolev/Matthes (2013) for a short overview of the so called austerity debate (including higher than expected fiscal multipliers during the euro debt crisis) and for recommendations concerning timing and structure of fiscal consolidation measures based on an economic literature survey.

parliaments. The room for manoeuvring might not be large at times for national parliamentarians, but this is not the responsibility of the Institutions or the ESM but is due to the mostly rather dire economic situation which renders unpopular reforms inevitable.

- Second, submitting the Institutions to stronger political influence could endanger the conditionality principle. The result would very probably be lamentable compromises, because many reform prescriptions meet with strong political resistance of vested political interests. In fact, the Greek example has shown that close control of the implementation of parliamentary decision is needed. To avoid a sell-out of the conditionality principle, more political independence and rule orientation are needed than the EU Commission or the European Parliament can provide. This is why the IMF and the ECB – with their greater reliance on economic expertise and strong internal rules – are required to keep their strong roles in the game.

The concept of indirect legitimacy and of a large degree of expert independence is not an invention of the euro area. On the contrary, these are the principles of the IMF, which has by and large successfully performed tasks similar to the ESM and the Institutions all over the globe for decades. All in all, without the diligent control of reform implementation by the Institutions (where the relatively independent ECB and IMF play a crucial role), the foundation of the conditionality principle would be endangered.

Integration of the ESM into the EU treaties and the community method?

On the other side, political challenges to the conditionality principle could result from the recent criticism in the EP of the legal and institutional construction of the ESM. It is criticized that the ESM is based on an intergovernmental treaty and thus stands outside the EU treaties. At first sight, the demand appears justified, to integrate this essential pillar of EMU governance into the EU treaties or even into the community method as is currently suggested in the EP. However, such initiatives could weaken the conditionality principle and endanger the proper functioning of the ESM.

This argument hinges on whether and how the ESM's decision making rules would be changed, if the ESM was integrated into the community method. The ESM voting rules foresee that nearly all important decisions by the Board of Governors are taken by unanimity or by a qualified majority of 80 percent of the votes cast (or in case of an emergency voting procedure by 85 percent). The voting rights of ESM member countries are based on the country's share in the ECB's capital, so that larger countries, which shoulder a relatively larger financial burden of the ESM's capital, also have proportionally larger voting rights. This weighting of votes is indispensable because of the high relevance of ESM decisions for national budgets.

The normal community method, however, stipulates a lower qualified majority in the Council(s), a significant participation of the EP, and the EU Commission's right of initiative. The submission of ESM to these rules would considerably strengthen the political influence of the EP and the Commission. Thus, the same argument as mentioned above applies here as well, that lamentable political compromises would endanger the conditionality principle. Moreover, due to the ESM's relevance for national budgets, the call for democratic legitimacy at the EU level stands in direct conflict to the call for democratic legitimacy at the national level.

According to another suggestion, the integration of the ESM into the EU framework could be more closely aligned to the ECB model. This appears appropriate with regard to the ECB's large institutional independence from political interference. The ECB's accountability only foresees that it collectively justifies and explains its decisions to the European Parliament. A similar arrangement might be suitable for the ESM Board of Governors. However, the normal decision making rules of the ECB – a simple majority of unweighted votes – would clearly be inappropriate for the ESM.

Nevertheless, there could be a viable avenue to integrate the ESM into the EU treaties, even though the author does not regard this step as necessary. In fact, intergovernmental traces (like the institutional character of the ESM) are a common feature of the EU. For example, the common foreign and security policy has strong intergovernmental features. Also the economic union – despite its supranational features – leaves decision making powers ultimately at the national level. Following this line of thought, it might be possible to integrate the ESM into the EU treaties without significantly changing its decision making rules.

Only a very limited change of the voting rules appears appropriate. In order to allow for a better representation of small ESM members, the ESM decision making rules could be more closely aligned to the EU rules of a qualified double majority. Accordingly, a second threshold based on the number of countries could be added to the ESM rules for a qualified majority.

5. Conclusion

On June 7, 2015, the euro rescue fund will celebrate its 5th anniversary. Thus, it is time to take stock regarding the success of the reform strategy, the institutional relevance of the ESM, and current political challenges to the conditionality principle which is an essential pillar of the reformed EMU institutional architecture.

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Annex: Data tables

Ireland

Growth and Unemployment				
	annual average 2010-2013			2014
Growth of GDP (change in real GDP yoy in %)	0,9			4,8
Growth of domestic demand (change in domestic demand yoy in %)	-0,5			3,6
	worst value since 2010			Mar 15
Economic Sentiment (Economic Sentiment of the EU-Commission: higher values mean a better sentiment)	N.A.			N.A.
	worst value 2007-2012	2010	2012	2013
Investment ratio (Gross Fixed Capital Formation as % of GDP)	14,5	15,8	15,6	15,2
	highest value 2007-2012	2010	2012	2013
Residential Construction as % of GDP	11,1	3,1	1,9	2
	worst value (maximum) 2008-2013	2010	2012	2014
Unemployment rate as % of civilian labor force	14,7	13,9	14,7	11,3

State Budget				
	worst value 2008-2013	2010	2012	2014
Public budget balance as % of GDP	-32,5	-32,5	-8,1	-4,1
Cyclically adjusted public budget balance as % of GDP	-30,3	-30,3	-7,2	-4,2
Public revenue as % of GDP	33,5	33,6	34,2	34,9
Public expenditure as % of GDP	66,1	66,1	42,3	39,0
Public debt as % of GDP	123,2	87,4	121,7	109,7

Current Account and Competitiveness				
	worst value 2007-2012	2010	2012	2013
Current Account Balance as % of GDP	-9,4	-3,2	1,6	4,4
	2000-2010			2010-2014
Export Competitiveness (cumulative change in export performance* in %)	7,9			11,8
	worst value (maximum) 2008-2014	2010	2012	End of 2014
Price competitiveness I: REER** based on nominal unit labour cost in the total economy (Basis: Index 1999=100)	145,8	121,6	111,3	108,9
Price competitiveness II: REER** based on GDP deflator (Basis: Index 1999=100)	129,8	113,9	109,8	109,6
Price competitiveness III: REER** based on export prices (Basis: Index 1999=100)	111,0	102,4	98,7	99,0

Debt of the Private Sector, of the Financial Sector and Abroad				
	worst value 2007-2012	2010	2012	2013
Private Sector Debt as % of GDP	281,5	261,1	281,5	266,3
Financial Sector Leverage (debt-to-equity)	275,4	181,4	114,5	99,6
Net International Investment Position as % of GDP	-112,2	-88	-112	-104,9

Indicators on regulation				
	2008	2010	2012	2013
Product market regulation (Rigidity on a scale of 0 (very flexible) to 6 (very rigid))	1,38	N.A.	N.A.	1,44
Labour market regulation (Rigidity on a scale of 0 (very flexible) to 6 (very rigid))	1,91	N.A.	N.A.	2,00
	2008	2010	2012	2015
Starting business regulation (Administrative effort on a scale of 0 (country with highest effort) to 100 (country with lowest effort))	92,4	92,4	92,4	94,2

*Export performance: Change in exports of respective country relative to the trade-weighted change in imports of the country's trading partners; Increase (decrease) implies gain (loss) of export market share
**REER: real effective exchange rate
N.A.: not available

Sources: Eurostat, European Commission, OECD, World Bank, Institut der deutschen Wirtschaft Köln

Spain

Growth and Unemployment				
	annual average 2010-2013			2014
Growth of GDP (change in real GDP yoy in %)	-1,3			1,4
Growth of domestic demand (change in domestic demand yoy in %)	-3,2			2,3
	worst value since 2010			Mar 15
Economic Sentiment (Economic Sentiment of the EU-Commission: higher values mean a better sentiment)	83,7			109,1
	worst value 2007-2012	2010	2012	2013
Investment ratio (Gross Fixed Capital Formation as % of GDP)	19,7	23	19,7	18,5
	highest value 2007-2012	2010	2012	2013
Residential Construction as % of GDP	12,2	7,3	5,2	4,4
	worst value (maximum) 2008-2013	2010	2012	2014
Unemployment rate as % of civilian labor force	26,1	19,9	24,8	24,5

State Budget				
	worst value 2008-2013	2010	2012	2014
Public budget balance as % of GDP	-11,0	-9,4	-10,3	-5,8
Cyclically adjusted public budget balance as % of GDP	-9,1	-6,9	-6,4	-2,3
Public revenue as % of GDP	34,8	36,2	37,0	37,8
Public expenditure as % of GDP	47,3	45,6	47,3	43,6
Public debt as % of GDP	92,1	60,1	84,4	97,7

Current Account and Competitiveness				
	worst value 2007-2012	2010	2012	2013
Current Account Balance as % of GDP	-10,0	-3,9	-0,3	1,4
	2000-2010			2010-2014
Export Competitiveness (cumulative change in export performance* in %)	-13,7			5,8
	worst value (maximum) 2008-2014	2010	2012	End of 2014
Price competitiveness I: REER** based on nominal unit labour cost in the total economy (Basis: Index 1999=100)	124,5	117,5	108,1	106,2
Price competitiveness II: REER** based on GDP deflator (Basis: Index 1999=100)	121,5	116,9	112,3	110,7
Price competitiveness III: REER** based on export prices (Basis: Index 1999=100)	117,9	114,3	113,8	112,0

Debt of the Private Sector, of the Financial Sector and Abroad				
	worst value 2007-2012	2010	2012	2013
Private Sector Debt as % of GDP	202,4	201,5	184,8	172,2
Financial Sector Leverage (debt-to-equity)	764,3	660,2	764,3	544,9
Net International Investment Position as % of GDP	-93,8	-89,1	-90	-92,6

Indicators on regulation				
	2008	2010	2012	2013
Product market regulation (Rigidity on a scale of 0 (very flexible) to 6 (very rigid))	1,58	N.A.	N.A.	1,45
Labour market regulation (Rigidity on a scale of 0 (very flexible) to 6 (very rigid))	2,76	N.A.	N.A.	2,36
	2008	2010	2012	2015
Starting business regulation (Administrative effort on a scale of 0 (country with highest effort) to 100 (country with lowest effort))	69,1	68,9	78,2	88,1

*Export performance: Change in exports of respective country relative to the trade-weighted change in imports of the country's trading partners; Increase (decrease) implies gain (loss) of export market share
**REER: real effective exchange rate
N.A.: not available

Sources: Eurostat, European Commission, OECD, World Bank, Institut der deutschen Wirtschaft Köln

Portugal

Growth and Unemployment				
	annual average 2010-2013			2014
Growth of GDP (change in real GDP yoy in %)	-2,5			0,9
Growth of domestic demand (change in domestic demand yoy in %)	-4,9			1,8
	worst value since 2010			Mar 15
Economic Sentiment (Economic Sentiment of the EU-Commission: higher values mean a better sentiment)	76,9			103,2
	worst value 2007-2012	2010	2012	2013
Investment ratio (Gross Fixed Capital Formation as % of GDP)	16,3	20,5	16,3	15,1
	highest value 2007-2012	2010	2012	2013
Residential Construction as % of GDP	5,2	3,6	2,7	2,3
	worst value (maximum) 2008-2013	2010	2012	2014
Unemployment rate as % of civilian labor force	16,4	12	15,8	14,1

State Budget				
	worst value 2008-2013	2010	2012	2014
Public budget balance as % of GDP	-11,2	-11,2	-5,6	-4,5
Cyclically adjusted public budget balance as % of GDP	-10,3	-10,3	-2,5	-1,9
Public revenue as % of GDP	40,4	40,6	42,9	44,5
Public expenditure as % of GDP	51,8	51,8	48,5	49,0
Public debt as % of GDP	129,7	96,2	125,8	130,2

Current Account and Competitiveness				
	worst value 2007-2012	2010	2012	2013
Current Account Balance as % of GDP	-12,1	-10,1	-2,0	0,7
	2000-2010			2010-2014
Export Competitiveness (cumulative change in export performance* in %)	-7,3			10,9
	worst value (maximum) 2008-2014	2010	2012	End of 2014
Price competitiveness I: REER** based on nominal unit labour cost in the total economy (Basis: Index 1999=100)	110,4	106,7	98,7	99,5
Price competitiveness II: REER** based on GDP deflator (Basis: Index 1999=100)	114,6	111,6	106,9	109,4
Price competitiveness III: REER** based on export prices (Basis: Index 1999=100)	107,7	103,5	103,3	102,5

Debt of the Private Sector, of the Financial Sector and Abroad				
	worst value 2007-2012	2010	2012	2013
Private Sector Debt as % of GDP	207,8	201,5	207,8	202,8
Financial Sector Leverage (debt-to-equity)	404,6	296,7	387,9	365,2
Net International Investment Position as % of GDP	-113,8	-104,3	-113,8	-116,2

Indicators on regulation				
	2008	2010	2012	2013
Product market regulation (Rigidity on a scale of 0 (very flexible) to 6 (very rigid))	1,70	N.A.	N.A.	1,30
Labour market regulation (Rigidity on a scale of 0 (very flexible) to 6 (very rigid))	3,69	N.A.	N.A.	2,81
	2008	2010	2012	2015
Starting business regulation (Administrative effort on a scale of 0 (country with highest effort) to 100 (country with lowest effort))	88,4	90,2	94,5	96,3

*Export performance: Change in exports of respective country relative to the trade-weighted change in imports of the country's trading partners; Increase (decrease) implies gain (loss) of export market share
**REER: real effective exchange rate
N.A.: not available

Sources: Eurostat, European Commission, OECD, World Bank, Institut der deutschen Wirtschaft Köln

Greece

Growth and Unemployment				
	annual average 2010-2013			2014
Growth of GDP (change in real GDP yoy in %)	-6,5			0,8
Growth of domestic demand (change in domestic demand yoy in %)	-8,3			0,5
	worst value since 2010			Mar 15
Economic Sentiment (Economic Sentiment of the EU-Commission: higher values mean a better sentiment)	76,5			96,8
	worst value 2007-2012	2010	2012	2013
Investment ratio (Gross Fixed Capital Formation as % of GDP)	11,7	17,3	11,7	11,2
	highest value 2007-2012	2010	2012	2013
Residential Construction as % of GDP	10,8	5	3	2,2
	worst value (maximum) 2008-2013	2010	2012	2014
Unemployment rate as % of civilian labor force	27,5	12,7	24,5	26,5

State Budget				
	worst value 2008-2013	2010	2012	2014
Public budget balance as % of GDP	-15,3	-11,1	-8,7	-3,5
Cyclically adjusted public budget balance as % of GDP	-15,2	-9,4	-2,8	1,0
Public revenue as % of GDP	38,7	41,1	45,7	45,8
Public expenditure as % of GDP	60,1	52,2	54,4	49,3
Public debt as % of GDP	175,0	146,0	156,9	177,1

Current Account and Competitiveness				
	worst value 2007-2012	2010	2012	2013
Current Account Balance as % of GDP	-14,9	-9,9	-2,4	0,6
	2000-2010			2010-2014
Export Competitiveness (cumulative change in export performance* in %)	-29,6			-2,3
	worst value (maximum) 2008-2014	2010	2012	End of 2014
Price competitiveness I: REER** based on nominal unit labour cost in the total economy (Basis: Index 1999=100)	120,4	116,6	108,3	98,0
Price competitiveness II: REER** based on GDP deflator (Basis: Index 1999=100)	109,3	105,6	101,5	96,6
Price competitiveness III: REER** based on export prices (Basis: Index 1999=100)	115,4	113,0	113,9	110,9

Debt of the Private Sector, of the Financial Sector and Abroad				
	worst value 2007-2012	2010	2012	2013
Private Sector Debt as % of GDP	130,6	128,8	130,5	135,6
Financial Sector Leverage (debt-to-equity)	2584,1	1680,7	1056	792,7
Net International Investment Position as % of GDP	-109,2	-98,3	-109,2	-121,1

Indicators on regulation				
	2008	2010	2012	2013
Product market regulation (Rigidity on a scale of 0 (very flexible) to 6 (very rigid))	2,19	N.A.	N.A.	1,68
Labour market regulation (Rigidity on a scale of 0 (very flexible) to 6 (very rigid))	2,93	N.A.	N.A.	2,44
	2008	2010	2012	2015
Starting business regulation (Administrative effort on a scale of 0 (country with highest effort) to 100 (country with lowest effort))	60,9	70,9	78,7	90,7

*Export performance: Change in exports of respective country relative to the trade-weighted change in imports of the country's trading partners; Increase (decrease) implies gain (loss) of export market share
**REER: real effective exchange rate
N.A.: not available

Sources: Eurostat, European Commission, OECD, World Bank, Institut der deutschen Wirtschaft Köln

Cyprus

Growth and Unemployment				
	annual average 2010-2013			2014
Growth of GDP (change in real GDP yoy in %)	-2,5			-2,3
Growth of domestic demand (change in domestic demand yoy in %)	-5,2			-1,2
	worst value since 2010			Mar 15
Economic Sentiment (Economic Sentiment of the EU-Commission: higher values mean a better sentiment)	69,1			102,6
	worst value 2007-2012	2010	2012	2013
Investment ratio (Gross Fixed Capital Formation as % of GDP)	15,2	21,8	15,2	13,4
	highest value 2007-2012	2010	2012	2013
Residential Construction as % of GDP	12,3	7,9	4,9	3,9
	worst value (maximum) 2008-2013	2010	2012	2014
Unemployment rate as % of civilian labor force	15,9	6,3	11,9	16,1

State Budget				
	worst value 2008-2013	2010	2012	2014
Public budget balance as % of GDP	-5,8	-4,8	-5,8	-8,8
Cyclically adjusted public budget balance as % of GDP	-5,9	-5,1	-4,8	-6,1
Public revenue as % of GDP	36,3	37,7	36,3	40,3
Public expenditure as % of GDP	42,8	42,5	42,1	49,1
Public debt as % of GDP	102,2	56,5	79,5	107,5

Current Account and Competitiveness				
	worst value 2007-2012	2010	2012	2013
Current Account Balance as % of GDP	-15,6	-9,8	-6,9	-3,1
	2000-2010			2010-2014
Export Competitiveness (cumulative change in export performance* in %)	N.A.			N.A.
	worst value (maximum) 2008-2014	2010	2012	End of 2014
Price competitiveness I: REER** based on nominal unit labour cost in the total economy (Basis: Index 1999=100)	115,2	111,4	107,8	98,7
Price competitiveness II: REER** based on GDP deflator (Basis: Index 1999=100)	117,5	114,9	114,3	111,3
Price competitiveness III: REER** based on export prices (Basis: Index 1999=100)	118,4	112,2	107,6	108,0

Debt of the Private Sector, of the Financial Sector and Abroad				
	worst value 2007-2012	2010	2012	2013
Private Sector Debt as % of GDP	331,4	315,3	331,4	344,8
Financial Sector Leverage (debt-to-equity)	1088,9	836,4	377,6	253,1
Net International Investment Position as % of GDP	-147,3	-35,6	-147,3	-156,8

Indicators on regulation				
	2008	2010	2012	2013
Product market regulation (Rigidity on a scale of 0 (very flexible) to 6 (very rigid))	N.A.	N.A.	N.A.	N.A.
Labour market regulation (Rigidity on a scale of 0 (very flexible) to 6 (very rigid))	N.A.	N.A.	N.A.	N.A.
	2008	2010	2012	2015
Starting business regulation (Administrative effort on a scale of 0 (country with highest effort) to 100 (country with lowest effort))	N.A.	89,3	89,1	89,2

*Export performance: Change in exports of respective country relative to the trade-weighted change in imports of the country's trading partners; Increase (decrease) implies gain (loss) of export market share
**REER: real effective exchange rate
N.A.: not available

Sources: Eurostat, European Commission, OECD, World Bank, Institut der deutschen Wirtschaft Köln