



Economy Report

Economic Policy

Sustainable Governance Indicators 2017

Indicator

Economic Policy

Question

How successful has economic policy been in providing a reliable economic framework and in fostering international competitiveness?

41 OECD and EU countries are sorted according to their performance on a scale from 10 (best) to 1 (lowest). This scale is tied to four qualitative evaluation levels.

- 10-9 = Economic policy fully succeeds in providing a coherent set-up of different institutional spheres and regimes, thus stabilizing the economic environment. It largely contributes to the objectives of fostering a country's competitive capabilities and attractiveness as an economic location.
- 8-6 = Economic policy largely provides a reliable economic environment and supports the objectives of fostering a country's competitive capabilities and attractiveness as an economic location.
- 5-3 = Economic policy somewhat contributes to providing a reliable economic environment and helps to a certain degree in fostering a country's competitive capabilities and attractiveness as an economic location.
- 2-1 = Economic policy mainly acts in discretionary ways essentially destabilizing the economic environment. There is little coordination in the set-up of economic policy institutions. Economic policy generally fails in fostering a country's competitive capabilities and attractiveness as an economic location.

Canada

Score 9

Canada has implemented market-oriented economic policies that have enhanced the country's competitiveness and attractiveness as a location to do business. Yet these policies appear not to have had a positive impact on productivity growth, which continues to be quite weak. There are still areas where Canada's economic framework is not as conducive as it might be to productivity growth. One factor is the country's dependence on natural resources, which account for roughly 20% of GDP. Recent price volatility in the oil and gas sector, in particular, has weakened the economy. Canada's economy shrank for two consecutive quarters in 2015, putting the country officially into recession. Despite a corresponding drop in the Canadian dollar favorable to exports, Canadian manufacturing has been slow to recover. Interprovincial barriers to trade and labor mobility, marketing boards, which have the right to control output through production quotas are other weaknesses in Canada's regulatory framework from a competitiveness perspective.

The Canadian economy is reliant on natural resources. Growth in the first quarter of 2016 was followed by a 0.4% decline in growth. This was primarily due to intense wildfires in Fort McMurray, Alberta, in the heart of the Athabasca oil sands. Unlike its conservative predecessor, the Liberal government is increasing government spending to stimulate the economy. It budgeted a \$113.2 billion deficit over five years directed primarily toward the middle class. The Bank of Canada's lending rate

remains 0.5%, which leaves little room for a further reduction to spur growth in a country with heavily indebted consumers and some evidence of a housing price bubble in major cities, especially Vancouver and Toronto. However, both the IMF and the OECD have praised Canada's economic policy initiatives in 2016. They have been particularly positive about the federal government's decision to abandon a balanced budget fiscal objective for a long-run objective of a stable debt-GDP ratio with a focus on inclusive growth, as manifested by the rise in the tax rate for high-income individuals and tax cut for middle-income individuals.

Citation:

2016 Federal Budget "Growing the Middle Class," posted at <http://www.budget.gc.ca/2016/docs/plan/budget2016-en.pdf>.

Monetary Policy Report, October 2016, Bank of Canada, <http://www.bankofcanada.ca/wp-content/uploads/2016/10/mpr-2016-10-19.pdf>

OECD Economic Surveys: Canada June 2016, <http://www.oecd.org/eo/surveys/Canada-overview-OECD-economic-survey-2016.pdf>

Canada: 2016 Article IV Consultations, International Monetary Fund, June 2016, <https://www.imf.org/external/pubs/ft/scr/2016/cr16146.pdf>

Denmark

Score 9

The recovery process after the financial crisis has been prolonged, but economic development has improved in recent years. Employment has been growing and unemployment is approaching the structural level, and thus low in comparative perspective.

Growth in GDP in fixed prices has not been high, but this has been compensated by improvements in the terms of trade. Measured in terms of GDP per capita, development performance has been good. Measured in terms of GNI (that is including net incomes from abroad) growth has been even better, due to a net wealth position vis-à-vis foreign countries amounting to 40% of GDP as a result of systematic current account surpluses.

Despite the long recovery process, long-term unemployment has not increased dramatically, and youth unemployment is also low in comparative perspective. While many have been affected by unemployment, most unemployment periods have been short. The overall level of job inflows and outflows has thus remained high during the crisis, showing that the flexicurity model is still intact.

Public finances are meeting budget norms, although only by a small margin some years. Fiscal policies are considered sustainable in that they are able to cope with an aging population. This is mainly due to the significant importance of mandated labor market pensions and recent reforms increasing statutory retirement ages.

Economic policy discussions have gradually changed from crisis management issues to more forward-looking issues. Increasing productivity growth is a key issue, which brings up questions concerning education, research, industrial and tax policies.

Moreover how to increase and support labor supply, and thus employment, remains a central issue, alongside challenges faced by the welfare systems and how to make the public sector more efficient. The liberal government launched a so-called 2025 plan addressing these issues in the autumn, but the new coalition government has announced that a revised plan will be released in spring 2017.

Immigration remains a contested issue, and various measures have been taken both to reduce the inflow and to reduce the welfare entitlements of migrants.

The UK's Brexit decision is one of the elements creating a certain degree of uncertainty for the Danish economy.

Citation:

Danish Economic Councils, The Danish Economy, Various issues. Latest issue: Autumn 2016 report, <http://www.dors.dk/vismandsrapporter/dansk-oekonomi-efteraar-2016> (Accessed 22 October 2016). English summary: http://www.dors.dk/files/media/rapporter/2016/E16/E16_English%20Summary_1.pdf
English summary available at: http://dors.dk/graphics/Synkron-Library/Publikationer/Rapporter/Efter%E5r%202014/Trykte%20rapport/E14_English_Summary.pdf

Finansministeriet, Økonomisk Redegørelse, August 2016. <https://www.fm.dk/publikationer/2016/oer-aug-16> (Accessed 22 October 2016). English version: Ministry of Finance, Economic Survey, August 2016. <https://uk.fm.dk/publications/2016/economic-survey-august-2016>. (Accessed 22 October 2016)

OECD, Economic Surveys. Denmark. January 2014 http://www.oecd.org/eco/surveys/Overview_Denmark_2014.pdf (accessed 16 October 2014).

Regeringen, Et Danmark der står sammen. Regeringsgrundlag. October 2011. http://www.stm.dk/publikationer/Et_Danmark_der_staar_sammen_11/Regeringsgrundlag_okt_2011.pdf

The Danish Government, "Together for the Future: Government Platform, June 2015." http://stm.dk/multimedia/TOGETHER_FOR_THE_FUTURE.pd

Netherlands

Score 9

After a long period of recession, the Dutch economy recovered in 2015 and 2016, later than many other European countries. Economic activity, exports, consumption, investment and employment levels are all up, while the housing market has also performed strongly. Since 2014, GDP is back at its pre-crisis level. Inflation rates are exceptionally low, as are interest rates. This is largely due to external circumstances such as low oil prices, low interest rates thanks to European Central Bank (ECB) policies, and a cheaper euro.

The comparative international situation of the Dutch economy improved, with the Netherlands ranked 4 out of 138 countries in the Global Competitiveness Index 2016-2017, overtaking Germany. The Netherlands scores highly for higher education and training, world-class infrastructure, health and primary education, goods-market efficiency, and technological readiness. The World Economic Forum praises the country for its new Work and Security Act, which attempts to improve the position of flexible workers and simplifying dismissal procedures. However, there is still fierce political and policy debate in the Netherlands about the success or failure of this new act.

In sum, although the Netherlands was caught in a long-term slump, strong recovery has now occurred. A very different interpretation of the same state of affairs suggests that in spite of having followed neoliberal economic policies, traditional cycles of economic growth and recovery are no longer to be expected. Therefore, the Scientific Council for Government Policy (WRR) has urged the government to rethink the Netherlands' long-term economic structure by investing in future earning capacity so as to expedite innovation and make the economy more resilient in terms of labor productivity and transnational value chains.

Citation:

CBS (2016), Macro-economie (www.cbs.nl, accessed 31 October 2016).

Schwab, K. (ed.). Insight Report. The Global Competitiveness Report 2016-2017, Full Data Edition, World Economic Forum, 2014

WRR (2013), Naar een lerende economie. Investeren in het verdienvermogen van Nederland, Amsterdam University Press

"Rutte II heeft een 'perfecte storm' in de rug", in NRC Handelsblad, 14 September 2015

<https://www.cpb.nl/sites/default/files/omnidownload/CPB-Policy-Brief-2016-05-Juniraming-2016.pdf>

United States

Score 9

The United States has maintained economic policies that have effectively promoted international competitiveness and economic growth. Compared with other developed democracies, the United States has had generally low taxes, less regulation, lower levels of unionization, and greater openness to foreign trade. Although its pro-business policies have had some social costs, including the rapid growth of income inequality, the country has enjoyed superior levels of growth, capital formation and competitiveness over the past two decades.

Obama's economic policy was formed in response to the 2008 financial and economic crisis. During the period under review, the administration continued a moderately expansionary fiscal policy to stimulate the economy, generally constrained by the Republican-led Congress. The economy has continued a long, slow recovery from the recession with GDP growth of 2.9% in the third quarter of 2016 and a modest increase in real wages. Although unemployment has fallen to pre-recession levels (5%), many workers have left the workforce or settled for low paying or part-time jobs. Declining productivity growth and rising inequality have resulted in slower economic growth for low- and middle-income families. Globalization and automation also weaken the position of workers and their ability to secure a decent wage.

After declining for six consecutive years, the federal budget deficit rose in fiscal 2016 to 3.2% of GDP – a result of declining tax revenues. Many economists call for

increased short-term fiscal stimulus. At the same time, the long-term debt picture has adverse implications for monetary stability and business confidence. In addition, the 2016 presidential campaign highlighted sharply increased hostility to international trade and trade deals, in both parties, particularly in the Trump campaign.

Citation:

Bureau of Economic Analysis, National Income and Product Accounts, 2016, <https://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>

Germany

Score 8

Germany's economic structure is characterized by a healthy mix of service and industrial sectors (see Statistische Bundesamt). In the five years following the 2003 "Agenda 2010" reform plan, Germany's economic policy successfully addressed numerous serious economic weaknesses prevalent in the post-unification period. This wave of reforms has affected labor market institutions, unemployment benefits, the pension system, corporate taxation, the constitutional debt brake and liberalized labor migration from outside the EU. It has also improved Germany's competitiveness and increased its attractiveness as a destination for foreign investment. Moreover, the European sovereign debt crisis, affecting several other euro zone member states since the end of 2009, continues to have benefits for Germany. For example, Germany's ability to refinance its debt on international capital markets has never been better, with international investors perceiving German government bonds as a haven for investment. As a result, the German state and wider German economy currently benefits from extremely low interest rates; these went so low as to turn negative in spring 2016 (Boerse 2016). These low interest rates have been feeding a new construction boom. Furthermore, the German economy profits from the ECB's expansive monetary policies. These policies contribute to the low value of the euro, which boosts German exports (Sachverständigenrat 2016: 13; Statistisches Bundesamt 2016a).

As the preceding government, the current government has abandoned the liberalizing policy agenda of the first decade of the millennium in favor of greater regulation. For example, recent policies have included the introduction of a statutory minimum wage, an expansion of the pension system, an increase in state support for nursing care and plans to more tightly regulate temporary forms of employment. Moreover, although trade unions and employers' associations have eschewed ideology in setting wage policy and granted firms significant flexibility, there has been a change in wage policies. Germany's recent robust economic performance and buoyant labor market have led to an increase in wages and a slight increase in unit labor costs. Yet, neither greater government regulation nor increased wages have undermined Germany's export performance or employment growth. Meanwhile, higher wages have also stimulated domestic demand, which may in future help to limit Germany's large current account surplus (forecast to reach a record 8.8% of GDP in 2016, Sachverständigenrat 2016).

Citation:

Sachverständigenrat zur Begutachtung der Gesamtwirtschaftlichen Entwicklung (2016): Jahresgutachten 2016/2017. <http://www.sachverstaendigenrat-wirtschaft.de/jahresgutachten-2016-2017.html>

Statistisches

Bundesamt

(2016a):

https://www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2016/09/PD16_315_51.html

Boerse (2106): <http://www.boerse.de/konjunkturdaten/staatsanleihen/>

Ireland

Score 8

In 2015, Ireland's headline GDP growth rate was 26.3% and GNP growth rate was 18.7%, according to Ireland's Central Statistics Office. The magnitude of these growth rates is largely due to multinational corporations transferring intangible assets (i.e., intellectual property rights) to Ireland.

The transfer of intellectual property rights to Ireland created an onshoring effect, which meant that multinational corporations could allocate the profits to external activities to their Irish operations. In particular, a small number of multinational corporations have been engaged in contract manufacturing. In other words, these multinational corporations have contracted foreign manufacturers to produce commodities for which the intellectual property rights were transferred to Ireland. The Irish-based multinational corporation pays the foreign manufacturer a fee, but the profit accrues to the owner of the intellectual property in Ireland and is attributed to Ireland's GDP.

The combined effect of onshoring intellectual property and contract manufacturing was the most significant driver of the 2015 increase in GDP, and for the revised growth rates of 8.5% for GDP and 9.2% for GNP in 2014. A secondary driver of these growth rates was the rise in aircraft leasing operations financed in the Irish Financial Services Center (IFSC).

Recently the Economic and Social Research Institute noted that Gross Value Added (GVA) in the industrial sector more than doubled in 2015 with nominal GVA increasing from €41 billion in 2014 to €92 billion in 2015. Although most production took place outside of Ireland, because the intellectual property rights were registered in Ireland production gains were attributed to Ireland (ESRI Quarterly Bulletin, Autumn 2016: 17).

However, changes to the European System of Accounts in 2010 and other statistical reporting procedures had the effect of inflating GDP and GNP growth for 2014 and 2015 in Ireland. Due to the substantial increases in GDP and GNP for 2015, Ireland became a target of criticism for the international media. Yet, because of the new accounting conventions, these statistical effects cannot be removed from the official national income accounts.

Nevertheless, the Central Bank of Ireland and the Economic and Social Research Institute (ESRI) have attempted to remove the combined effects of onshoring, contract manufacturing and aircraft leasing activities to provide a more accurate calculation of Ireland's economic performance. For 2016, the Central Bank of Ireland calculates that the GDP growth rate was 4.5% and GNP growth rate was 4.5%, while the ESRI calculates that the GDP growth rate was 4.3% and GNP growth rate was 4.1%.

The rapid improvement in the fiscal situation has been aided by the continuation of several favorable external developments, such as the fall in the euro exchange rate against the dollar, lower imported energy costs, relatively rapid growth in US and UK markets that are particularly important for Irish exporters, and the continued low interest rate environment in the EU. International financial markets rapidly revised their view of the Irish economy as growth resumed and now show confidence in the soundness of Irish fiscal policies, as reflected in the fall in the yield on long-term government debt (ten-year bonds), which fell from more than 14% in July 2011 to 0.39% in September 2016. The sale of €4 billion of twenty-year bonds - constituting 40% of the National Treasury Management's targeted debt issue for 2017 - at an interest rate of 1.73% at the start of 2017 is further evidence of the confidence of the international financial sector in the Irish economy.

Citation:

Budget 2017 and related background documents are available here:

<http://www.budget.gov.ie/Budgets/2017>

Economic and Social Research Institute Quarterly Economic Commentary, Autumn 2016

Latvia

Score 8

Latvia met its long-standing economic policy goal of joining the euro zone on 1 January 2014. At the time, its economic growth rate of 4.1% was the highest in Europe. It followed a difficult period of economic adjustment in 2009 and 2010. After fulfilling its ambitious fiscal consolidation targets, Latvia's economy rebounded, returning to the international markets and to favorable economic growth rates. International instability contributed to a slowing of Latvia's annual growth rate to 2.4% in 2014, though it improved slightly to 2.7% in 2015 and is well above the EU average.

Latvia's economic policy had been governed by parameters accepted as part of financial assistance provided by the IMF and European Union. As this assistance has since been repaid, these parameters have been withdrawn. While these parameters led the economy into a difficult period of adjustment, they provided a framework in which the economy established fiscal discipline. For example, in 2013, Latvia introduced legislation that placed a cap on the public budget deficit and launched a multi-year planning cycle.

Since meeting its policy goal of joining the euro zone, Latvia's focus has necessarily shifted to longer-term issues of maintaining competitiveness within the euro zone and addressing social inequalities. Structural reforms are planned within the areas of education and science, health financing, innovation policy, the energy market, and the judicial system, among others. These reforms will be key to securing Latvia's future economic competitiveness. Yet the government's commitment to and ability to implement these reforms is weaker than for euro-related policies. Significant parliamentary and stakeholder resistance has stalled reforms to the education system and delayed the opening of the energy market to competition, for example. Stakeholder resistance and political-party disagreements have significantly slowed other reforms such as improving the management of state-owned enterprises or reforming insolvency laws. Management and oversight reform of state-owned enterprises returned to the policy agenda in 2015, as the government prioritized joining the OECD and agreed a framework for Latvia's membership of the OECD.

Citation:

1. European Commission, Unemployment Statistics, Available at: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:Unemployment_rate,_2001-2012_%28%25%29.png&filetimestamp=20130417141135, Last Assessed: 20.05.2013.
2. Central Statistical Bureau (2012), Growth Rate Indicators, Available at: <http://www.csb.gov.lv/en/real-gdp-growth-rate>, Last assessed: 20.05.2013.
3. Central Statistical Bureau (2013), "Employment is still growing," Update, Available at: <http://www.csb.gov.lv/en/notikumi/employment-still-growing-36470.html>, Last assessed: 20.05.2013.
4. IMF (2014), Article IV Consultation Report, Available at: <http://www.imf.org/external/pubs/ft/scr/2014/cr14115.pdf>, Last Assessed: 02.11.2014
5. European Commission (2013), EU BOP Assistance to Latvia - Second Review Under Post - Programme Surveillance, Available at: http://ec.europa.eu/economy_finance/eu_borrower/balance_of_payments/pdf/lv_efc_note_2nd_pps_mission_en.pdf, Last assessed: 21.05.2013.

Lithuania

Score 8

Lithuania's economic policies have created a reliable economic environment, fostering the country's competitive capabilities and improving its attractiveness as an economic location. In its 2017 Doing Business report, the World Bank ranked Lithuania 21 out of 190 countries overall. The criteria assessed most positively included registering property (ranked 2), enforcing contracts (ranked 6) and dealing with construction permits (ranked 16). Meanwhile, access to electricity (ranked 55) and resolving insolvency (ranked 66) were assessed least positively. Lithuania dropped one position in the 2017 report from the 20 out of 189 countries in 2016. This is attributable to a relative deterioration in ease of starting a business (ranked 8 in 2016 and 29 in 2017). In the Global Competitiveness Report 2016-2017, the World Economic Forum ranked Lithuania 35 out of 138 countries, scoring above average on higher education and training (ranked 26) and technological readiness

(ranked 22), but below average for market size (ranked 77), financial-market development (ranked 60) and labor market efficiency (ranked 59).

The European Commission has identified the following challenges to Lithuania's long-term competitiveness: unfavorable demographic developments, labor market deficiencies and high emigration rates, growing levels of poverty and social exclusion, a lack of competition and interconnections in the country's infrastructure (particularly its energy system), low energy efficiency (especially in the case of buildings), a low level of R&D spending, and poor performance with respect to innovation. A new economic challenge has arisen from Russia's ban on some imports from the European Union, in place since autumn 2014. This has disproportionately affected Lithuania, as its ratio of food exports to Russia to GDP was the highest in the European Union. Despite a slowdown in export growth due to trade-restriction measures and the recession in Russia, it is expected that private demand will continue to remain strong in Lithuania. However, according to European Commission, after several years of growth rates above the EU average, Lithuania's GDP growth rate slowed to 1.7% in 2015 due to a significant drop in exports to Russia.

Although the 2008 to 2012 government stabilized Lithuania's economy and public finances through substantial fiscal consolidation, other reform efforts have been more limited, in particular those relating to the labor market, social policies, energy efficiency and the energy sector. However, the government formed after the 2012 parliamentary elections continued and completed some of its predecessor's projects. Construction of the new liquefied-natural-gas terminal (LNG) was finished in December 2014, for example, and another important project establishing electric-power transmission connections with Sweden was completed by the end of 2015, with similar network links to Poland slated to become operational in 2016. These projects are expected to provide alternative energy-supply sources, and have received significant attention. If an appropriate regulatory environment is created allowing good trade relations in the natural-gas and electricity sectors, the completion of these projects should also contribute to cheaper energy prices and more competitive business conditions in Lithuania. The 2012 to 2016 government presented Lithuania's accession to the euro zone in January 2015, another major economic policy event, as a signature achievement. However, accession to the euro zone was supported by all major political parties and much of the preparation for accession had been undertaken by the previous government. The adoption of the euro had been a key policy of the previous government, as a means of achieving economic recovery following the financial and economic crisis of 2008 to 2009.

Considerable political emphasis has been placed on structural reforms, especially in the previous government's program, but a significant number of these have been left unimplemented. Streamlining the regulatory environment for businesses is one of the few areas where some progress has been achieved, especially in terms of the number of procedures and days required to start a new business. In the Global

Competitiveness Report 2016-2017, the World Economic Forum ranked Lithuania 3 out of 138 countries for starting a new business. However, the country was ranked 99 for efficiency of legal framework in challenging regulations and 92 for the burdens imposed by government regulation. Also, inefficient government bureaucracy remains the most problematic factor for doing business in the country, according to business executives surveyed. As the economy recovered, with Lithuania becoming in recent years one of the fastest-growing economies in the European Union, the political will to reform has decreased, especially in higher education and training or health care. In recent years, progress has been made in renovating apartment blocks, which improves energy efficiency, and labor-market modernization, which is likely to foster job creation. Toward the end of its term, the 2012 to 2016 government reformed the Labor Code and social protection, including pension system. Rigid labor market regulation had been strongly criticized by business associations, such as Investor's Forum, and international organizations. However, although the reform was welcomed by business associations, it was criticized by the president and trade unions. Consequently, it became a key topic of the 2016 parliamentary elections. The Lithuanian Farmers and Greens Union, which won the largest proportion of seats in the election, promised to postpone the introduction of the Labor Code from January 2017 to at least July 2017. This would provide time to review the code and attempt to find a better balance between labor market flexibility and employee protection.

Citation:

World Bank Group, Doing Business Report 2017: <http://www.doingbusiness.org/~media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB17-Report.pdf>
COMMISSION STAFF WORKING DOCUMENT, country report Lithuania 2016: http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_lithuania_en.pdf
See the 2016 - 2017 Global Competitiveness Report of the World Economic Forum: http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf

Malta

Score 8

Economic planning is at the forefront of Malta's policymaking process and a clear-cut assignment of tasks to government institutions is its strength. Strong ties between public institutions, economic planning ministry and social partners exist notably through the Malta Council for Economic and Social Development. This has been translated into a strong economy. Indeed, provisional GDP estimates for the second quarter of 2016 indicate a 4.7% increase over the same 2015 period and a 3% increase in real terms. Furthermore, Malta's labor market remains resilient and currently has one of the lowest unemployment rates in the EU. Current industrial legislation provides protection against dismissals and allows for open bargaining between employers and their unions, but little co-determination structures.

During 2015, Malta's economic growth rate and labor market performance were among the best in the EU. Moreover, the European Commission no longer deemed Malta at risk of unsustainable economic imbalances in terms of the Macroeconomic

Imbalance Procedure, although it warns of an erosion of competitiveness due to losses in the export market. Nonetheless, the latest EU forecasts project that Malta's robust economic performance will continue in 2016 and 2017. Investment is forecast to stabilize at a relatively high level while strong labor market fundamentals are expected to underpin a healthy increase in household consumption. Moody's Investors Services has confirmed Malta's A3 rating with stable outlook – the credit rating agency gave the island an A+ rating. Meanwhile, the World Economic Forum's 2016-2017 Global Competitiveness Index identified the inadequately educated workforce and the inefficiency of government bureaucracy as the most significant obstacles to doing business in Malta. Other limitations included an insufficient capacity to innovate, difficulties to access financing and a poor work ethic in the national labor force. Nonetheless, the country ranked in the top 20 in terms of technological readiness and 40th overall, which represents an improvement over the preceding reporting period where Malta ranked 48th. The World Bank's Doing Business Report 2016 ranks Malta's ease of doing business at 80 out of a total 189 countries, an improvement from the preceding year's rank of 94. This year's report notes improvements for the time needed to establish an electricity connection, but still does not classify Malta favorably when it comes to starting a business, obtaining credit and registering properties. In response, government departments have signed an agreement pledging to reduce the administrative burden for investors setting up businesses in Malta. And, the tendering process will be simplified as a new EU directive on public procurement comes into force. This is coupled with the introduction of regional one-stop shops, mystery shoppers to assess government department services and the introduction of a government services app next year. Continued dependence on financial services and property development, and the widening of the trade deficit in 2016 highlight the need to further diversify the economy. The precarious situation of the national airline unless resolved may also negatively impact the economy. Finally, according to an EU poll, 81% cited corruption as a problem when conducting business.

Citation:

National Statistics Office (NSO) News Release 142/2016
 Times of Malta 05/08/2015 Malta with highest growth in GDP
 Times of Malta 03/06/2015 Malta's unemployment rate second lowest in Euro Zone
 EU Commission Alert Mechanism Report 2016 COM (2015) 691 final p.33
 Times of Malta 27/11/2015 EU Alerts Malta to 'competitive erosion'
 Malta Today 04/02/2016 Malta registers second largest economic growth in Eurozone
 European Economic Forecast Spring 2016 p.100
https://www.moody.com/research/Moodys-affirms-Maltas-A3-rating-stable-outlook-PR_354214
 World Economic Forum Global Competitiveness Report 2016-2017 p. 254
 Doing Business – Measuring Regulatory Quality and Efficiency 2016 p. 5, p.176, p.218
 Doing Business – Beyond Efficiency 2015 p. 4
 Times of Malta 03/06/2016 Public sector pledges to reduce red tape
 Times of Malta 30/11/16 Malta Gets A+ rating on credit
 Times of Malta 18/03/15 Tendering process to be simplified next year.
 Times of Malta 07/12/16 Trade Deficit Widens by 208.4 million
 European Commission Flash Eurobarometer 428 Businesses' Attitudes towards corruption in the EU

Sweden

Score 8

The international financial press painted a positive picture of Sweden's economic policy and development during the first decade of the 2000s, and for good reason. Overall, the Swedish economy has fared comparatively well both during and after the global financial crisis, and Swedish crisis management seems to have been extraordinarily successful. The positive trajectory of economic development has continued in recent years.

Sweden has received numerous accolades for its financial management. The Financial Times named former (2006-2014) Finance Minister Anders Borg "Best Finance Minister in Europe," and The Economist has urged the rest of the world to look at the "New Nordic Model" as a leading example of economic policy. International institutions like the OECD and the European Union have likewise praised the Swedish trajectory of economic development and the role of government in securing and fostering that development. The government has implemented a series of reforms that have provided long-term economic stability. Also, and equally important, previous governments chose not to alter regulatory frameworks (e.g., important labor market regulations) which might jeopardize stability. Most long-term economic indicators on Sweden look good. This is particularly the case with regard to international competitiveness. Thus, it is fair to say that the institutional and regulatory framework of the Swedish economy provides basic stability and predictability.

While most indicators suggest that the economy is doing well, there are some problems to note. The National Bank of Sweden, fearing deflationist tendencies in the economy, lowered its "steering interest rate" to an unprecedented zero percent in late October 2014, then to -0.35% in September 2015. By November 2016, the interest rate had fallen to -0.5%.

Another concern is household debt, which continues to increase. There are also growing fears (as mentioned in an IMF report) of an emerging bubble in the real-estate market. In an attempt to cool the market, the government has introduced mandatory mortgage repayment rules, and there is some discussion on phasing out tax deductions for interest rate payments. Together with increasing construction, these measures would help cool off the real-estate market in metropolitan regions in the longer term. However, the current housing shortage in metropolitan areas that is driving real estate prices up increases the short-term risk of a bubble in the real estate market.

Economic growth and international competitiveness is closely linked to unemployment and the dynamics of the labor market. The red-green government is committed to halving the country's unemployment rate (which is already one of Europe's lowest) by 2020; a target which will be difficult to reach, given the current

refugee crisis in Europe. Unemployment decreased somewhat in 2015 and early 2016. However, 2017 and 2018 will prove more challenging as the large numbers of immigrants will register as unemployed in early 2017 after completing Swedish language training programs.

Perhaps even more troubling, there are now signs on both sides of the political aisle that policymakers might relax their commitment to the regulatory framework that has to date shaped public budgets and the economy. The previous non-socialist government downplayed the importance of a surplus goal, a stance which the incoming Social Democratic and Green government after the 2014 election has shared. The argument for doing so is that there are urgent programs that require public funding. In 2016, the Social Democratic and Green government negotiated with opposition parties to introduce a reform of the financial framework. The revised framework retains the surplus goal, but at a lowered 0.33% over a business cycle. More importantly, the revised framework states that public debt is to be brought down incrementally.

Moreover, some sectors of the economy, for example the housing market, suffer from low efficiency and lack of transparency. In addition, tax reforms implemented before the last period under review have further undermined economic equality. Nonetheless, Sweden's economy and its regulation thereof are generally considered to be efficient and sound. Whether this is a product of policy incentives, or a consequence of being outside the euro zone is a matter debated among economic experts.

Although the institutional and regulatory framework of economic policy remains overall robust and efficient, the governance of that system has proven exceedingly complex since the 2014 general elections. With 49 seats, the Sweden Democrats (SD) party is in a pivotal position between the Social Democratic-Green government (supported by the Left Party) and the non-socialist "Alliance." None of these parties is willing to negotiate with the SD. In December 2014, an agreement (the "December agreement") was reached between the two party blocs saying, inter alia, that parties would only be allowed to vote for their own original budget proposal. That arrangement meant that the pivotal power of the SD would erode. The December agreement, however, lasted only some ten months; in October 2015 the "Alliance" parties walked out of the accord and, thus, Sweden is once again in a difficult and unpredictable situation in terms of the government's capacity to organize parliamentary majorities and to have its budget accepted by parliament.

Citation:

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Switzerland

Score 8

The Swiss economy is highly competitive, ranking again at the top in the World Economic Forum's 2016 competitiveness assessment. The country's economic policy regime combines a variety of mechanisms. Common denominators, however, are the practice of muddling-through as standard operating procedure and heterodoxy as the primary philosophy underlying economic policymaking. For example, regulation of the labor market is very liberal, particularly with regard to hiring and firing; very similar, in fact, to those of the United States.

In the past, government policies were quite illiberal and politicized with regard to the flow of foreign labor and with regard to farming. The policymaking process previously emphasized the integration of employers and trade unions, with employers enjoying considerable influence ("liberal corporatism") and trade unions serving as junior partners. For trade unions, this corporatism made sense since it resulted in full employment (at least for Swiss citizens), high wages and generous employer-sponsored benefits. While this influence was strong in the past, in recent years the influence of both labor and capital has lessened.

Throughout the 20th century, Switzerland maintained a very protectionist policy regime, allowing for cartels and monopolies. The main beneficiaries were farmers, who were protected from global competition by high tariffs and strict non-tariff barriers, as well as small- and medium-sized businesses and service providers producing for the domestic market. Collusive pricing was tolerated, while competition between providers and producers was limited by the diversity of cantonal regulations.

This policy of protectionism has lessened considerably since the mid-2000s due to a deliberate strategy of market liberalization. At the same time, there has been continuous pushback to this liberalization. For example, an amendment to the law on cartels failed (the amendment would have reduced the influence of major economic actors within the competition agency's governing board). Similarly, in 2016 farmers were successful in being spared from austerity measures; they continue to enjoy a comparatively high level of protection.

Some economists have attributed the Swiss economy's strong growth since about 2005 to its liberalizing reforms. Others note that most of the increase in domestic product is not due to higher productivity, but rather to the increasing volume of hours worked, which itself is at least partially a result of population growth (1% per year, mostly due to immigration). With very few exceptions, Switzerland's current account balance has been positive since the 1970s, implying that exports exceed imports. For example, in 2015 Switzerland had a higher export surplus (in percentage of GDP) than Germany. A considerable share of recent economic growth is therefore export-driven, making Switzerland very dependent on export markets. The country's increasingly rocky relationship with the EU poses imminent dangers to the continued success of its export-oriented economy.

The government levies low taxes on both labor and capital, producing relatively small tax wedges. In addition, the state does not significantly intervene in the business cycle. Rather, it traditionally pursued a prudent and largely procyclical fiscal policy. In times of major economic challenges, such as in 2008 and 2009, fiscal stimulation packages have been implemented. However, for institutional and political reasons these packages have typically been very limited in size and proved difficult to implement swiftly. In fact, many of the resources contained in these fiscal programs have not been taken up by employers. Responsibility for price stability is left to the independent National Bank, which is tasked with maintaining price stability as a primary goal, and has the tools of monetary and interest-rate policy at its disposal.

Rather than actively influencing the structure of industry, the government has restricted itself to facilitating the modernization of industries by creating favorable conditions for economic activity. In the financial industry, Switzerland has improved its surveillance of banks and set prudential banking regulations since the onset of the "great recession" in 2008.

In general, decision makers have pursued a very pragmatic and heterodox economic policy and shown themselves willing to disregard liberal norms of policymaking if the need arises. This policy regime, which has been both liberal and protectionist, has come under pressure due to globalization and the increasing importance of international organizations such as the WTO. Given its reliance on the export of goods and services, Switzerland has had to acquiesce to liberalization. The so-called chocolate law is an example. The law allows for subsidies to export-oriented producers of processed food. In December 2015, the WTO ruled such subsidies anticompetitive and Switzerland must abandon them by 2020.

Liberalization was accelerated by bilateral treaties with the EU and practically all new economic policies have followed EU standards. As a consequence of globalization and Europeanization, most sectors increasingly liberalized, in particular in the period between the mid-1990s and 2005. Agriculture offers a major case in

point, though Switzerland's agriculture sector remains one of the most subsidized in Europe.

As a result of liberalization, the driver of Switzerland's postwar economic success – the complementarity of protected domestic-oriented industries and liberal export-oriented industries – has been weakened. The increase in tensions between the export- and domestic-oriented sectors have generally not resulted in open conflict. These developments have, however, increasingly undermined the country's system of interest representation and the corporatist structure of interest intermediation. Interest organizations, in particular employers' groups, have lost support and their members have increasingly turned to lobbying at the level of the individual firm.

Switzerland has not yet determined its long-term relationship with the EU. In the current review period, the quest for politically and economically sustainable solutions became more pressing. Previous interventions entailed bilateral agreements with the EU, which further liberalized the service and agriculture sectors. In addition, immigration policy has changed substantially. Switzerland has abstained from any further recruitment of foreign labor from outside the EU, while liberalizing its immigration regime with EU countries. This policy has meant free movement of labor between Switzerland and the EU, intensifying opposition to the recruitment of highly skilled employees from abroad.

This bilateral arrangement with the EU faces major challenges. The EU has requested new institutional structures to complement and support the bilateral relationship. It argues that the implementation and update of bilateral agreements has become too costly as a result of delays generated by domestic conflicts. Specifically, the EU has insisted on the creation of independent authorities for the settlement of disputes as well as mechanisms for updating bilateral agreements without having to resort to full-scale renegotiations. As of fall 2016, no new institutional arrangements have been established. Given the country's close integration with the EU market – accounting for 54% of Swiss exports and 72% of imports (2015) – Switzerland is highly dependent on a well-functioning relationship with this much larger economic partner. In contrast, the EU is much less dependent on Switzerland.

Broadly perceived as a laggard in the development of its welfare state, Switzerland caught up in the postwar period. Today it has a mature and generous welfare state. In a time of demographic change, this welfare state will only remain sustainable through high rates of economic growth. It is far from clear whether these high rates of growth can be realized in the future, in particular if the inflow of foreign labor from and trade with the EU is constrained.

United Kingdom

Score 8

The UK economic framework was substantially reformed after 1979 in a market-friendly direction and most of these reforms were maintained after the election of the Labour government in 1997, albeit with some rebalancing toward labor interests – notably through the introduction of a minimum wage. The UK economy grew steadily from the early 1990s up to 2007, but hindsight suggests that the underlying economic model depended too much on consumer demand and on an increasingly risk-prone financial sector.

Because of the financial sector's increased share in the economy, the United Kingdom was badly hit by the financial crisis, which began in 2007. As a result of the financial crisis, revenue from taxes on the banking and consumer sectors fell, while public expenditure increased due to rising social security costs and government support for failing banks. In contrast to many EU partner countries, the government was relatively quick to respond to problems in the financial sector. Consequently, the provision of credit has roughly returned to pre-crisis levels. The change in government in 2010 led to the adoption of an economic policy framework ostensibly focused on budgetary consolidation, but in reality the squeeze on public spending has been less than is often claimed because the government chose to exempt key areas, such as health care spending. The corollary, especially as service charges on government debt increased, was that cuts in other areas of public spending had to be even deeper. As a result, these cuts have been very political, and have led to a reshaping of the structure and role of the state. While initial assessments of the strategy were predominantly critical, the situation has improved in recent years. GDP growth was at a rate of 2.1% in the second quarter of 2016 and employment has reached another all-time high at 31.8 million people employed. However, the current account deficit reached a new high of 5.4% of GDP in 2015, which is the highest in the EU. This is indicative of the continuing export weakness of the UK economy, attributable at least in part to weak demand from the euro zone - the UK's largest export market. The uncertainty caused by the referendum result was widely expected to lead to a deterioration in the economy, but subsequent data suggest the economy has been more resilient than forecast. There are also concerns that the robust GDP performance has been driven mainly by consumer demand and that private debt is still high, sustained by very loose monetary policy.

Austria

Score 7

The Austrian economy has remained in comparatively good shape despite a difficult European context. Nevertheless, more significant steps towards reform – especially concerning the labor market – have been discussed, but are not yet or not fully implemented. A significant part of the relative success is due to the presence of social partners, which are responsible for negotiating institutional and other reforms,

and which thus ensure a comparatively peaceful and cooperative relationship between the country's various economic players. A substantial part of Austrian economic policy is prepared by the social partners. As in other EU countries, however, an ever-more-significant portion of economic policy falls under the European Union's jurisdiction, thereby creating an increasingly harmonized European economic framework.

The Austrian export industry has contributed significantly to the country's overall success. Austria's economy has profited from the inclusion of former communist East-Central Europe into the European single market. However, Austria's financial sector in particular suffered significant losses in Eastern Europe during the financial crisis due to its substantial exposure to these markets. The Austrian finance (banks, insurance) and construction industries play an important role in the four Visegrad countries and in most of the former Yugoslav republics.

A process of fiscal consolidation is currently under way, with the goal of keeping the government deficit below 3% of GDP. Other programs include a restructuring of the Austrian banking system to reduce the risk it poses to the national economy. Future burdens may rise from the ever-more-significant redistribution of resources to the generation of people 50 years old and above (to the disadvantage of the younger generations), a trend that clouds the outlook for the young generation and the future of Austria's economy more generally. In addition, there is considerable uncertainty associated with the public transfers that will be needed in managing the recent influx of migrants.

Austria's rise to become one of the most prosperous countries in Europe, a development with its roots in the early 1950s, is still reflected in its comparatively high rankings in terms of per-capita income and employment. However, the country fares less well on rankings of inequality and equality of opportunity; according to a study done by the European Central Bank and published in April 2013, private property in Austria is distributed in an extremely unequal way. The richest 5% of the households in Austria own 37.2% of the overall property in Austria, while the top 50% own 94% of the country's property. Among the members of the eurozone, only Germany has a more unequal distribution of property.

This seems to contradict the traditional view of Austria as having one of Europe's most stable social-welfare systems. But these data underline the fact that the Austrian economic success story is not one of increasing equality; indeed, just the opposite is true.

Chile

Score 7

Chile has an advanced macroeconomic and financial policy regime in place. This is rules-based and combines a floating exchange rate, inflation targeting, an

autonomous central bank, an overall government budget rule, and effective regulation and supervision of banks and capital markets. As a result, macroeconomic performance has generally been quite satisfactory. A dominant economic role is assigned to external trade, markets and the private sector, complemented by active government regulation and policies aimed at limiting noncompetitive market conditions, extending social protection, and to a limited degree reducing poverty and income concentration. Economic legislation and regulations provide a level playing field for domestic and foreign competitors. Barriers to international trade and capital flows are negligible, and international competitiveness, adjusted for labor productivity, is relatively high. These policies have enabled a relatively high level of growth, and poverty rates have fallen substantially in the last few decades. During the period under review, economic growth has decreased about 0.5% and estimations for the near future have been adjusted downwards. The unemployment rate increased to 6.9%, one of the highest rates in the last five years.

On the other hand, major structural weaknesses can be observed. Low labor efficiency represents a persistent problem. This is especially the case in small- and middle-scale businesses, which are the largest source of employment and labor in Chile. The highly bureaucratic public administration is another negative aspect that limits productivity.

Moreover, economic stability and growth primarily depend on the export of commodities such as copper and agricultural and silvicultural products with relatively low added value. Thus, Chile shows a low level of industrialization; the manufacturing sector is small and the majority of consumer, intermediate and capital goods have to be imported. Chile is also highly dependent on energy imports. Minor education-sector reforms have focused on higher education, but given Chile's economic structure, there is a strong need to enhance capacities at a technical level. In the long run, deficiencies in the education system along with low investment rates in infrastructure and R&D will probably hinder economic growth and undermine the sustainability of the country's development path.

Estonia

Score 7

As an EU member state, Estonia forms its economic policy in accordance with EU strategies and has adopted a reform program, "Estonia 2020," that describes a set of objectives intended to improve the national economy's competitiveness. Its two central objectives are the increase of productivity and employment. The implementation of economic and innovation policy is the responsibility of the Ministry of Economic Affairs and Communications. In parallel, the Ministry of Education and Research develops and coordinates implementation of the national R&D strategy. These two strategies are supposed to be complementary but duplication and lack of synergy between ministries have been continuous problems. A clear example of lacking coordination is the labor policy. The Ministry of

Economic Affairs analyses the current and perspective need for labor, Ministry of Education implements initial and in-service training policy, and the Ministry of Social Affairs is responsible for employment policy. Additionally, since there is a growing workforce shortage, the Ministry of Interior, which is responsible for immigration issues, is also an important actor in economic policy. In addition to ministries, two governmental agencies – Enterprise Estonia and the Estonian Development Fund (EDF) – were involved in advancing the competitiveness of the national economy. EDF was closed down following criticism on duplicative functions, unclear priorities and insufficiently defined action areas. It was partly replaced by the new Development Monitoring unit at the Estonian parliament.

Despite these organizational arrangements, opposition parties, labor market partners and the general public have voiced increasing dissatisfaction with the government strategy of “fine tuning”. It is claimed that economic growth is insufficient and the economic climate is unattractive to foreign investment; tax policy needs updating and immigration policy must not hinder solving the labor shortage.

Finland

Score 7

The Finnish economy has not recovered to its pre-recession levels of 2008. In fact, the economy has now contracted for several years in a row, with gross national product contracting in the April – June 2015 period for the fourth consecutive quarter. Furthermore, even as other Nordic countries are emerging from recession, Finland faces continued negative growth due to a decline in export competitiveness, weakened investment and subdued private consumption. Output has been dragged down by several additional factors, such as the global turndown, the decline of the electronics and paper industries, and the ongoing Russian recession. The impact of the recession on public finances has been so strong that a full recovery will probably not be achieved for several years. Fiscal policy is a particular concern, as public debt is growing and will probably continue to grow until 2019. Government expenditure totaled 58.7% of GDP in 2014 and is among the highest such ratios in the EU. With the aim of restoring fiscal sustainability, the government has placed a high priority on greater budgetary prudence and balancing the budget. The government has also sought to raise the minimum statutory retirement age, while improving incentives for people to continue working into later life. Furthermore, the government has been targeting a reform of the wage-setting system and the retirement system. These are crucially important measures, as further fiscal consolidation will otherwise be needed to manage the increasing costs associated with Finland’s aging population.

While the Finnish economy continues to perform fairly well in several measures of economic freedom, the country’s overall performance has been in decline. Finland’s economy was ranked 19th worldwide in the Heritage Foundation’s 2015 Index of Economic Freedom, slipping several places from its 2012 rank of 16th; in 2016 Finland was ranked in a mediocre 24th place. The relative decline can be attributed

to deteriorations in fiscal freedom, business freedom and the management of government spending. The Finnish economy is forecasted to grow by 1.1% in 2016, and economic growth for the years is also expected to increase by some 1% annually. For 2018, GDP is forecasted to be nearly 3% below its 2008 level and industrial production just over 5% above. Still, during the assessment period, the government successfully maintained monetary stability and encouraged entrepreneurship.

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Israel

Score 7

The economy is solidly growing and early estimates expect 3.8% growth in 2016. The inflation rate has declined by 0.6%. A general employment rate of 62% in 2010 (among those aged 15 to 64) has steadily grown to 64.23% in the first nine months of 2016. Also, the unemployment rate dropped to 4.3% at the end of 2016. Regarding Israel’s deficit, it remains a concern. Although fiscal stability was a key factor in the country’s ability to withstand the global financial crisis, it suffered from a high deficit of around 3% between 2010 and 2015; this may increase by another percentage point in 2016.

While Israel’s growth rate has improved over the last decade, a 2016 OECD assessment notes several longstanding major challenges that may harm financial stability. First, many sectors, including banking, suffer from high centralization and remain inefficient. To address this weakness, an expert committee was created in 2015 to increase competitiveness in the banking and financial services sector. The committee recommended that, among other changes, the major banks sell their credit card businesses. The committee also recommended easing regulations on the entrance of new banks to the retail field.

Second, the OECD assessment determined that current regulations on food and apartment market prices (among the highest in the OECD) are inefficient and to blame for the high cost of living, which has deepened the burden on the middle and lower classes. In recent years, the housing market has shown a clear propensity to increase home and rental prices. This increase disproportionately impacts the middle and lower classes, and was one of the main causes of protests in 2011.

Also, there is a significant gap between socioeconomic classes in Israel. Roughly 20 families control companies accounting for half of the total value of Israel’s stock market. According to research by the Taub Center in 2014, there is also a significant

variance in average income among the middle class. This variance divides the Israeli middle class into two distinct groups: “middle lower” and “middle higher”. The Taub Center’s research finds that one of the main causes for this gap is cuts to social services.

In general, while Israel’s economic policy has shortcomings, it retains strong fundamentals and largely provides for a reliable economic environment, fostering the country’s competitive capabilities and preserving its attractiveness as a location for economic activity.

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Luxembourg

Score 7

Luxembourg is a small and open economy. For some time, it has ranked highly on international competitiveness indices. Similar to last year, Luxembourg was ranked 20 out of 140 countries in the International Institute for Management Development’s index (World Economic Forum, 2016). Luxembourg also ranked highly for macroeconomic environment (7th position), goods market efficiency (4th position) and technological readiness (2nd position). On the other hand, Luxembourg underperformed in health and primary education (43rd position) and higher education and training (47th position), which are important drivers of economic competitiveness and job creation.

However, Luxembourg implemented the U.S. Foreign Account Tax Compliance Act (2010) in July 2015. This law will require financial institutions in Luxembourg to provide U.S. authorities with information on the accounts held by U.S. taxpayers. Furthermore, changes to EU legislation regulating VAT rates across the European Union will reduce VAT revenue for Luxembourg from e-commerce. In 2015,

Luxembourg lost about €650 million in VAT revenue from e-commerce companies. Although this change will start to be effective from 2015, following negotiations with the European Commission, the policy will only be fully implemented by 2018. These changes will have a negative impact on future government budgets. In response, the government has increased general VAT rates and new business clusters have been created to generate new revenue sources.

The country's generous welfare model has to be reformed to adapt to a reality of reduced public resources. Luxembourg's long-term fiscal sustainability is moderately secure. In its evaluation of Luxembourg's Stability Program 2020, the European Commission highlighted concerns over the country's overly optimistic economic-growth outlook and its inability to address age-related expenditures.

The financial sector remains an important driver of economic growth and sustainable development. Unfortunately, the proportion of cross-border workers to resident workers continues to increase. To expand the national labor force, Luxembourg is planning to change its immigration and naturalization policy in 2017.

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Norway

Score 7

The decline in oil prices has affected the Norwegian economy, with the sharp fall in prices over the last two years creating a strong impact. The economy is struggling with reduced investments in the offshore industry, with the implications being felt across the economy. The long-term plan to diversify the economy has gained momentum. However, there are growing concerns that rising housing prices and private debt levels will pose a challenge if interest rates increase.

The economy remains strong, but is on less-steady footing now than was the case a year ago. Public finances are still solid, although the parliament has had to relax its self-imposed constraints on the use of petroleum revenues to cover current spending. The country has long enjoyed strong economic growth and near-full employment, and has benefited from a well-functioning system of tripartite cooperation. However, growth rates are slowing and unemployment rates are increasing in the country’s western region, which is most affected by reduced activity in the petroleum sector. The management of petroleum revenues – which are used domestically with prudence and otherwise invested abroad through a sovereign fund focused on equity, bonds and property assets – is held in high regard by international standards. In the course of 2016, the currency lost about a third of its value. This loss reflects waning international confidence in the economy but has, on the other hand, helped bolster competitiveness.

The state wields strong influence within the economy. About 40% of the equity on the Oslo stock exchange is under state ownership. Combined with the additional 30% under foreign ownership, this means the remaining indigenous private-capital sector is relatively small. When the state makes its investments, it most often does so on market terms. Economic policy is generally considered to be fair and transparent. Regulatory arrangements are generally seen to be sound, although the Oslo stock exchange is volatile, and has been plagued by rumors of insider trading.

The primary strength of Norway’s economy lies in the public sector, particularly with respect to employment. The strongest areas are petroleum and petroleum-related industries such as maritime activities, as well as fisheries and fish-farming. It is a high-cost economy, both in terms of wages and taxes, and international competitiveness suffers in industries outside the petroleum sector. However, the high level of welfare benefits and high costs also represent challenges in a period of declining revenues from petroleum activities.

Although the country has managed its petroleum wealth responsibly, the economy is

strongly petroleum-dependent and entrenched at a high cost level, although costs have dropped significantly. Some observers are concerned that a lack of competitiveness in the mainland economy might pose a future challenge to maintaining the country's high standard of living and to expectations for continued high public-service standards. The downside of a petroleum-dominated economy, critics argue, is an economy that lacks entrepreneurship, is weak in terms of conventional industries and has less long-term strength than might be suggested by current favorable indicators. It also makes the economy vulnerable to changes in petroleum prices in world markets. These problems have now become strongly visible in the economy and a factor in economic policymaking.

Spain

Score 7

Spain's economic recovery was again solid in 2016, as the economy expanded by 3.2%, the same figure as the previous year. This figure is much higher than that featured in other large euro zone economies such as Germany (1.8%), France (1.2%) and Italy (0.9%) for 2016. Since 2013, Spain has shown strong performance, with the economy adjusting quickly after a deep double-dip recession that lasted five years (2008 – 2013). Spending cuts and some structural reforms as part of the government's National Reform Program (labor market, control of public finances, banking-sector recapitalization) proceeded at a rapid pace, unit labor costs fell significantly and productivity rose. Most encouragingly, exports began booming as early as 2011 despite the strength of the euro, and after 2012, FDI increased as well. The economy began to grow strongly once sovereign risk was reduced to sustainable levels and Spain's access to finance was expanded (a result of ECB policies that contrasted with rigid pre-2012 monetary and exchange-rate policies). The European Commission's decision to grant more flexibility in meeting fiscal targets was also of help, as was the decline in oil prices and the arrival of 75 million tourists in 2016. Finally, this recovery has been also driven by domestic demand. Yet dangers still lurk. The Spanish economy remained smaller in 2016 than in 2008, and Spaniards' income lower as well, but if projections are correct, the situation will be reversed in a few months. Anyhow, it remains to be seen if the country has embarked upon a truly sustainable economic path, as bank lending remains limited, the public deficit is high (forcing the retention of fiscal austerity policies), inequality is severe, and unemployment rates remain at astonishing levels (18.7% in autumn 2016).

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Belgium

Score 6

Belgium is a small, open and diversified euro zone economy highly exposed to international competition. This has traditionally prevented governments from imposing policies that would harm international competitiveness. As a result, it has avoided the major challenges suffered by the “crisis countries” in the euro zone.

In spite of this, its market share on the export market progressively eroded (in the same proportion as France and worse than Germany). With respect to neighboring countries, it suffers from a chronic inflation gap that is only partially compensated by higher productivity levels. The lack of higher productivity growth implies that this productivity advantage is also eroding.

The current government is aware of this challenge and has begun tackling some of the factors contributing to this erosion of competitiveness. The government has put limits on wage growth, tightened unemployment benefits and healthcare, and prioritized reducing labor costs rather than stimulating education and training. Most of these efforts, however, have put a weight on demand, repressing growth. According to the Federal Planning Bureau (a government watchdog), these policies have reduced unemployment, but weigh on the budget deficit and have had little or no effect on the inflation differential or the labor participation of those aged 55 and above.

One major challenge hindering international competitiveness is the relatively low level of entrepreneurship, which reduces the entry of the young, innovative firms that are typically at the core of product innovation and productivity growth. In addition, the government is unusually right-wing for country that has a tradition of middle-of-the-road, coalition governments. The current governments heavy-handed reform style has provoked substantial opposition and political unrest (e.g., demonstrations and strikes) which may have encouraged some multinational enterprises’ to shut down operations in the country.

Citation:

Productivity growth is slowing: <http://www.oecd.org/global-forum-productivity/country-profiles/belgium.htm>

Reforms and economic perspective:
http://www.plan.be/admin/uploaded/201606211317350.FOR_MIDTERM_1621_11276_F.pdf

Too little entrepreneurship: http://www.plan.be/admin/uploaded/201606240814370.WP_1606.pdf

Bulgaria

Score 6

The Bulgarian economy continues to be characterized by a discrepancy between macro- and microeconomic developments. Macroeconomically, the Bulgarian economy has performed well in recent years – surprising many – resulting in an

upward revision of all forecasts and initial data on growth. The currency board (in place since 1997) and government finances have significantly stabilized. Despite these developments, the European Commission continues to consider Bulgaria as featuring excessive macroeconomic imbalances. This contrast can be attributed to the fact that Bulgaria is a relatively poor economy integrating and catching up to a highly developed common market such as the EU. While this process is bound to generate temporary or even persistent imbalances, this does not necessarily mean that the process is unsustainable.

Microeconomically, doing business in Bulgaria continues to be problematic. While the country's score in the respective World Bank ranking has marginally improved, its relative position has sunk. Competition in many important sectors, especially energy, remains limited; red tape is reported by businesses to be a significant burden; the labor market is improving, but significant skills mismatches remain a challenge. Previously announced reforms in health care, education, and labor markets are yet to be implemented.

Citation:

European Commission (2017): Country Report Bulgaria 2017 including an In-Depth Review on the prevention and correction of macroeconomic imbalances. SWD(2017) 68 final/3, Brussels (https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-report-bulgaria-en_3.pdf).

World Bank (2017): Doing business 2017: Bulgaria. Washington, D.C. (<http://www.doingbusiness.org/~media/wbg/doingbusiness/documents/profiles/country/bgr.pdf>).

Czech Republic

Score 6

The Czech economy has experienced a post-crisis rebound since 2014. However, while real GDP grew by 4.3% in 2015, GDP growth reached only about 2.5% in 2016. The slowing of growth was largely caused by the weak drawing of EU funds at the start of the new programming period. As it stands, the performance of the Czech economy still strongly depends on EU co-financed investment activity, and the investment and exports of multinational companies, especially in the automobile sector. Multinationals continue to prefer to locate lower value-added activities in the Czech Republic, leading to productivity and wage levels around one-third of those in Western Europe. This pattern of growth will not bring income levels up to those in more wealthy EU member states and it leaves the Czech Republic vulnerable to downturns. While the Sobotka government has expanded R&D spending and started education reforms, it could have done more to promote diversification and higher added-value sectors.

Citation:

European Commission (2017): Country report Czech Republic 2017. SWD(2017) 69 final, Brussels. (https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-report-czech-en_1.pdf).

OECD (2016): Economic Survey Czech Republic. Paris.

Iceland

Score 6

Eight years after the 2008 economic collapse, Iceland's economic policy is still marked by the fallout from the collapse. The capital controls imposed to stabilize the Icelandic króna and a fiscal adjustment strategy equivalent to about 10% of GDP between 2010 and 2017 are still in place for the most part. After several postponements, the gradual relaxation of capital controls was announced in June 2015 and started in 2016, with further relaxation promised for 2017. This announcement followed an agreement between the windup committees representing creditors in the failed banks and government task forces. The agreement enables creditors to withdraw assets from Iceland, equivalent to 20% of GDP, in exchange for paying an exit tax and a commitment not to sue the government. Whether this agreement will maintain the stability of the króna, while avoiding litigation proceedings against the government, remains to be seen. Not all stakeholders accepted the agreement. The government had previously announced that creditors either had to reach an agreement with the government task forces or pay an exit tax equivalent to 39% of Iceland's GDP, approximately \$6.5 billion, in 2016. The relaxation of controls will be slow and seems likely to take several years. The Icelandic króna strengthened vis-à-vis foreign currencies during 2016, by 15% vis-à-vis the US dollar and the euro during the period under review from November 2015 to November 2016. This resulted from strong foreign exchange earnings from tourism and, it appears, the return of funds to Iceland that had fled the country before the collapse of 2008. During 2012-2015, the Central Bank held several auctions at which holders of offshore currency were invited to bring their monies back to Iceland at a discounted exchange rate. It has been reported that several jailed bankers were among those who took advantage of these controversial Central Bank auctions.

Following the 2008 economic collapse, the government sought to strengthen the Financial Supervisory Authority (Fjármálaeftirlitið, FME). The FME had performed before the collapse in 2008 as though it had been "designed to fail." The number of FME personnel increased significantly after the collapse. However, the FME's annual budget was halved for 2013 and then again for 2014. By late 2016, the efforts of the FME and the Special Prosecutor had led to the successful prosecution of 34 individuals for legal violations connected to the 2008 collapse. The Supreme Court sentenced these individuals to a combined total of 87 years in prison, equivalent to about 2.5 years on average. The Office of the Special Prosecutor was abolished in 2016 and merged with the office of the District Prosecutor under the directorship of the former Special Prosecutor.

Inflation is on the rise, according to the Central Bank, but still only 2% during 2016 and expected to reach 4% in 2017. Employers blame labor unrest, including strikes, which have led to wage increases causing an overall increase in prices. In late 2016, a fishermen strike brought the entire fishing fleet to shore.

The future of the banking sector remains uncertain. The government has not presented any plans for restructuring the banks. At the time of writing, the government owned a majority stake in one of Iceland's three largest banks. Meanwhile, foreign venture funds own significant stakes in the other two banks, a temporary situation. Iceland is one of very few countries in the world without any foreign competition in its domestic banking sector.

Iceland applied for EU membership in 2009. The previous government had signaled its intention to abide by EU standards and to strengthen Iceland's institutional environment, including its regulatory policy. Due to disagreements between the government's coalition partners at that time, the application process was put on hold in January 2013. In 2013, the government expressed its intention to unilaterally retract Iceland's membership application. A formal withdrawal was announced in the spring 2015. However, the EU and the Icelandic government seem to disagree on whether this means that Iceland has fully withdrawn from the process. Specifically, the EU has questioned the authority of Iceland's foreign minister to unilaterally withdraw an application approved by parliament. This question is most likely going to remain unanswered for some time. Some of the parties running for parliament have promised to organize a national referendum on whether to continue the application process.

Citation:

The Annual Reports of the Financial Supervisory Authority 2009, 2011, 2012 and 2014. (Ársskýrslur Fjármálaeftirlitsins 2009, 2011, 2012 and 2014).

Annual report on Competition Policy Developments in Iceland 2011. THE ICELANDIC COMPETITION AUTHORITY
(http://en.samkeppni.is/media/reports/ICA_2011_en.pdf).

Gylfason, Thorvaldur (2015), Iceland: How Could This Happen?, in Reform Capacity and Macroeconomic Performance in the Nordic Countries, eds. Torben M. Andersen, Michael Bergman, and Svend E. Hougaard Jensen, Oxford University Press. — Also available as CESifo Working Paper No. 4605, January 2014.

Italy

Score 6

During the period under review, the Renzi government pursued its economic policy agenda to accelerate Italy's economic recovery, which began in the fourth trimester of 2014. Due to a fairly solid parliamentary majority and despite some grumblings from the left wing of the prime minister's party, the Renzi government was able to adopt most of its proposed economic measures. Some of the measures introduced during the previous period have slowly started to take effect, including a monthly €80 tax credit for lower income earners, tax reductions for businesses (IRAP reduction) and a new ambitious labor law reform aimed at stimulating the economy. Fiscal policy has had to follow a careful path between respect for the euro zone's rules and support for the domestic economy. Using some of the flexibility granted by the European Union, the government has prolonged the expansionary measures of the previous year (e.g. the €80 monthly tax credit and the IRAP reduction). On top of

this, the Renzi government has introduced new incentives to encourage firms to hire new employees on a permanent contract, lowered the costs of employing young people, added a new bonus for young people, and cut state and local authorities' expenditures. The government has also launched an important reform of public administration to reduce complexity and increase effectiveness. Efforts to further reduce inefficiencies in state expenditure were continued by the spending review. However, the overall impact on economic recovery has been less than expected in part because of slowing economic growth internationally.

New Zealand

Score 6

New Zealand is widely known for the significant structural policy reforms introduced in the 1980s and 1990s. Despite strong early public opposition, these reforms have had a largely positive impact, and the resulting policies have remained largely intact. Yet New Zealand is also often cited as a country for which free-market reforms have not yielded the improvements in productivity, economic growth and living standards that were anticipated and promised by reformers. Yet the demand for a return to growth became more insistent after the National government took office in 2008, substantive policy change since then has been relatively modest. Some have blamed the minority nature of the National government for the slow and incremental nature of change. However, given that National has been able to implement a vast majority of its economic initiatives, responsibility may have less to do with lack of support from its junior support parties than with the cautious, pragmatic and poll-driven nature of the government's economic agenda under the leadership of Prime Minister John Key (2008-2016). This is not to ignore the wider context of the global financial crisis, which drove the New Zealand economy into recession, albeit less severely than in many other OECD countries. Fiscal surpluses, due in part to earlier reforms, swung to deficits. Getting back to a balanced budget has since been the pre-eminent issue on the government's agenda. Data from Statistics New Zealand indicates that the economy grew by 3.6% in the year to June 2016, which is the third highest growth rate in the OECD group. According to the OECD Economic Outlook for New Zealand, economic growth is projected to slow to 3% in 2016 and 2.7% in 2017. Inflation is currently low, but is forecast to reach 2% in 2017.

Citation:

OECD Economic Outlook, Volume 2016 Issue 1 (Paris: OECD 2016).

OECD Economic Surveys – New Zealand (Paris: OECD 2015) <http://www.oecd.org/economy/surveys/economic-survey-new-zealand.htm> (accessed June 30, 2016).

Budget 2016. Fiscal Strategy Report. Hon Bill English, Minister of Finance. 26 May 2016 <http://www.treasury.govt.nz/budget/2016/fsr> (accessed July 4, 2016).

Poland

Score 6

While the Polish economy is still on a strong footing and has continued to grow well above the EU average, GDP growth has slowed in 2016 and has not met the government's target. Boosted by a strong increase in social transfers, improving labor market conditions, low lending rates and low inflation, it has largely been driven by the growth of personal consumption. By contrast, investment has declined significantly. One reason was the low utilization of EU structural funds at the start of the new programming period. However, investment has also suffered from the uncertainty over the PiS government's economic policy and the general development of the country. PiS chairman Jarosław Kaczyński has denounced the decline in investment as a deliberate attempt to weaken the PiS government by the part of the business community allegedly connected to the former government.

Citation:

European Commission (2017): Country report Poland 2017. SWD(2017) 86 final, Brussels (<https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-report-poland-en.pdf>).

OECD (2016): Economic Survey Poland. Paris.

Portugal

Score 6

The socialist minority government of António Costa (2015 to present) has sought to turn the page on austerity, while maintaining Portugal's EU commitments to reducing public debt. The Costa government has reversed several austerity measures, including a reduction to public sector wages and an income surtax, while increasing welfare benefits and the minimum wage. Yet, it has still sought to achieve fiscal consolidation through increasing several indirect taxes, notably on fuel. It has also attempted to facilitate investment through the SIMPLEX+ program, which aims to simplify bureaucratic processes,.

The government's goal is to foster economic growth, and reduce Portugal's very high and increasing public debt. In the second quarter of 2016, public debt was equivalent to 131.7% of GDP, which as an increase from 128.7% at the end of the second quarter of 2015.

The economy has grown during the period under review. Quarterly economic growth rates for 2016 were 1% in the first quarter, 1.1% in the second quarter, and 1.5% in the third quarter. However, these rates fall short of government's 2016 budget forecast, which was 1.8% GDP growth over 2016. These rates are also lower than the equivalent 2015 rates (1.7% in Q1, 1.5% in Q2, 1.6% in Q3 and 1.6% in Q4), and below the EU28 and euro zone averages.

The change in government strategy has done little to foster a reliable economic environment during the period under review. Though the Costa government has yet to fully implement its economic policy and its measures have yet to effect macroeconomic indicators.

Citation:
Eurostat, “Gross domestic product, volumes” available online at:
<http://ec.europa.eu/eurostat/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=teina011&language=en>

Romania

Score 6

The growth of the Romanian economy further accelerated in 2016. Following a real GDP growth of 3.9% in 2015, growth in 2016 is estimated at almost 5%. Growth was driven mainly by private consumption supported by wage increases, cuts in indirect taxes and low interest rates, thus raising fears of overheating. Overall investment increased despite a decline in public investment caused by a low draw of EU funds at the beginning of the new programming period. As continued high levels of foreign direct investment indicate, the Ciolos government succeeded in maintaining investor confidence. It adopted a number of measures aimed at strengthening growth and innovation, especially in the booming ICT sector, which is one of the biggest and most dynamic in the EU. However, the economy remains dogged by high levels of corruption and a relatively inefficient public administration. Moreover, the steep wage hike, favored by the lifting of the minimum wage and strong wage increases in the public sector, has raised concerns about future competitiveness and the sustainability of economic growth.

Citation:
European Commission (2017): Country report Romania 2017. SWD(2017) 88 final, Brussels (<https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-report-romania-en.pdf>).

Slovakia

Score 6

With GDP growing by more than 3% in 2015 and 2016, the Slovak economy was among the strongest growing EU and OECD countries in the period under review. In 2016, growth has been largely driven by external demand and household spending growth. By contrast, overall investment fell markedly in 2016 compared to 2015 as public investment normalized after the end of the previous programming period for EU funds. In December 2015, the Fico government succeeded in signing a major agreement with the British carmaker Jaguar Land Rover (JLR). While production won't start before 2018, investments associated with construction increased GDP by about 0.3% already in 2016. Despite these successes, however, long-term growth prospects have suffered from the government's failure to enhance the business and investment climate by improving infrastructure and labor force skills, strengthening administrative capacities and fostering R&I. As the automotive sector already now makes up about 43% of the Slovak industry, the JLR deal is to further increase the dependence of the Slovak economy on a single sector and on export performance.

Citation:
European Commission (2017): Country Report Slovakia 2017. SWD(2017) 90 final/2, Brussels (https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-report-slovakia-en_0.pdf).

Liptáková, J. (2016): Economy grows, but policies lacking, in: Slovak Spectator, March 1, 2016 (<http://spectator.sme.sk/c/20105571/economy-grows-but-policies-lacking.html>).

South Korea

Score 6

South Korea has shown higher growth rates than the OECD average, with annual GDP growth of 3.3% in 2014 and 2.6% in 2015. Despite a rebound in the growth rate in 2016, the Korean economy has experienced sluggish domestic consumption, weak exports and rising household debts. Analysts project that the restructuring of shipbuilding and shipping industry combined with troubles at Samsung Electronics and Hyundai Motor will have negative impacts on future economic growth. Pressure is rising to reform major industries, most of which are led by large conglomerates, as well as to streamline red tape deemed to be hurting competition. Although growth rates are high compared to other developed countries, they are lower than in the past. Korea still depends on economic growth to solve social problems, and has struggled to adjust to a lower-growth environment. The Park government's key economic initiative, the "creative economy project," has shown little progress. Against this backdrop, the National Assembly approved an extra budgetary package worth KRW 11 trillion won in September 2016 with the aim of stimulating the economy. The Bank of Korea has kept its benchmark interest rate at a record low of 1.25%, after cutting the rate several times following government pressure.

Over the course of her administration, Park sought to reduce the "cancer of red tape," through streamlining regulation primarily within the business sector. Other measures included housing-market deregulation aimed at revitalizing the housing market and stimulating growth. These policies included a relaxation of loan-to-value and debt-to-income ratios; however, critics warned that aggressive policies designed to prop up the anemic housing market could exacerbate a real-estate bubble as well as the country's heavy household-debt burden.

Citation:

OECD, Economic Survey of Korea 2016, <http://www.oecd.org/korea/economic-survey-korea.htm> Economic Democratization: Needs of the Times, BusinessKorea, June 20, 2013, <http://www.businesskorea.co.kr/article/152/economic-democratization-needs-times>

Park Warns South Korea: Change or Perish, The Diplomat, February 28, 2014, <http://thediplomat.com/2014/02/park-warns-south-korea-change-or-perish/>

Segye Ilbo

<http://www.segye.com/content/html/2015/10/25/20151025002090.html?OutUrl=naver>

Concerns grow over GDP contraction in Q4, Korea Times, October 19, 2016.

http://www.koreatimes.co.kr/www/news/biz/2016/10/488_216410.html

S. Korea has room for more fiscal spending, monetary easing to boost economy: OECD chief, Yonhap News, October 25, 2016.

<http://english.yonhapnews.co.kr/national/2016/10/23/0302000000AEN20161023002300315.html>

France

Score 5

France still faces a bleak economic outlook. Structural problems, such as a rigid labor market, high unemployment, growing public debt, insufficient funding of

social security systems, an unfriendly entrepreneurial environment and a lack of competitiveness, are ingrained and acute. Together they form a considerable barrier to the growth potential of the French economy – the key issue for economic policy.

The Hollande government (2012-2017) initially failed to correctly assess the seriousness of the situation and was thus ill-prepared to address the problems both in terms of strategy and sectoral measures. Faced with a rapidly deteriorating situation, President Hollande gradually altered his policies. Two major changes have been the so-called Competitiveness Pact (2013) and the Responsibility and Solidarity Pact (2014), which alleviate the fiscal burden on companies by €30 billion; first results were observed in 2015 (showing no real impact on unemployment as yet). In addition, the Macron bill (2015) introduced more flexibility in regulations, somewhat decreased the protection of regulated professions, alleviated some procedures in case of redundancies, and strengthened competition within oligopolistic sectors. In 2016, in spite of lacking a majority in the Parliament and of street protests organized largely by the Unions (and at times marked by violence), the Valls government managed to pass the Labor Law (Loi Travail) which introduced modest changes. In particular, Article 2 allows company agreements to prevail over sectoral or national agreements in some circumstances, related to the company's operations. In summary, the measures announced, and partly implemented, since 2013 are steps in the right direction and should generate positive mid-term growth effects, as OECD impact evaluations have shown. These company agreements are, however, insufficient and constrained by legal and financial conditions. They need to be complemented by additional reforms, especially those concerning the labor market and the high tax/contribution burdens of companies. Furthermore, a clear commitment to these reforms and a commitment to implementation is needed in order to restore confidence within the business community.

These structural measures need time to demonstrate their effects. In the short run, the economic situation will remain poor, with low growth, high unemployment, public deficits above the 3% ceiling of the European Stability and Growth Pact, and rising public debt. Faced with these problems, and with strong political and ideological opposition to liberal reforms, the Hollande government, like its predecessors, is inclined to furtively implement reforms in an attempt to appease its electoral and party base. By doing so, his government is blurring its message and risks weakening the impact of reform policies. Former Prime Minister Valls and minister of economic affairs, Emmanuel Macron, tried to adopt more frankness, pointing to the necessity of structural reforms, but this message remains highly contested within the Socialist Party majority.

Citation:

OCDE: France. Évaluation de certaines mesures de la Loi pour la croissance, l'activité et des chances économiques et perspectives de futures réformes. Paris, September 2015 (série "pour des politiques meilleures")

Mexico

Score 5

The quality of macroeconomic management in Mexico is good. Economic and financial stability in the last decade represents a real achievement given the frequency and depth of macroeconomic crises in the 1980s and 1990s. The Finance Ministry and the central bank (Banco de México) benefit from a considerable wealth of technical expertise with many Mexican officials having internationally recognized qualifications in economics. However, the central bank's governor announced he is leaving his post this year to run the Bank for International Settlements. This further weakened the peso amidst a general climate of uncertainty about the Trump administration's impact on the Mexican economy.

Mexico has the OECD's lowest tax-to-GDP ratio. For decades, low fiscal capacity was compensated for with oil revenues. The 2014 Tax Reform aimed to reduce the country's dependency on oil revenues by cutting expenditures and raising non-oil revenues. The public debt proposed in the reform, however, assumed an ambitious GDP growth rate that did not materialize. Furthermore, it contemplated an increase in oil prices to compensate for any revenues not collected. While this was a reasonable assumption at the time of the reform, it did not accomplish the goal of increasing fiscal autonomy from oil revenue and contributed to increasing the debt-to-GDP ratio.

The fall in international oil prices and increasing uncertainty about the future of economic relations with its northern neighbor largely explain Mexico's GDP growth deceleration in the past year as well as national and international organizations' downward revision of economic growth forecasts. The peso's rapid depreciation after elections in the United States, along with tax increases on gasoline, account for most of the increase in inflation rates in the past year (from 2.82% in February 2016 to 4.86% in February 2017).

Despite ongoing reforms geared towards boosting productivity, the microeconomic picture is less positive. The economy lacks competition in key domestic sectors. Mexico remains a low-skilled, export-oriented economy tied to the North American market. The uneven distribution of income is among the worst in the OECD; despite sound macroeconomic reforms, inequality was not reduced in 2016. High levels of corruption and violence are also severe impediments to inclusive economic development.

Slovenia

Score 5

The Slovenian economy has been growing robustly since 2014, with an annual GDP growth rate of about 2.5 % in 2016. While Slovenia's export performance has remained strong, the economic recovery has become broader-based as private

consumption growth has accelerated thanks to an improving labor market, rising consumer confidence and low energy prices. In addition, public investment in infrastructure projects co-funded by the EU, mostly on the municipal level, have helped to boost growth, and private investment has shown some signs of recovery. However, concerns about the reliability of economic policy have been raised by the limited implementation of the privatization program presented in 2015. Controversies within the governing coalition over the future development of the port of Koper led to the resignation of Marko Jazbec, the head of Slovenian Sovereign Holding (SDH), the public company vested with the management and privatization of state-owned assets. The planned sale of 20 companies, including the country's biggest bank Nova Ljubljanska Bank (NLB), has progressed slowly. Prime minister Cerar called for postponing the sale of NLB in mid-October 2016, citing Brexit and unfavorable conditions on the financial market as the main reasons. Concerns about the independence of the Bank Asset Management Company (BAMC), raised by the dismissal of the bank's leadership in October 2015, were overlain by revelations by the online journal "Pod Črto" that BAMC managers had flaunted executive pay rules.

Citation:

European Commission (2017): Country Report Slovenia 2017 Including an In-Depth Review on the prevention and correction of macroeconomic imbalances. SWD(2017) 89 final, Brussels (<https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-report-slovenia-en.pdf>).

Australia

Score 4

Australia's economy remained relatively weak through the year-long period to 8 November 2016. GDP growth was well below the long-term trend, while real household disposable income per capita remained stagnant, currently 1% below its 2012 level. The economy has struggled to adapt to the end of the mining boom, when record-high commodity prices delivered substantial growth in national income. The end of the boom has seen a decline in tax revenue as a share of GDP, resulting in a succession of substantial budget deficits since 2009. A lack of microeconomic and tax reforms over the last decade has also contributed to the recent slowdown in economic growth. The current government does not have a strategy for economic development beyond stimulating exports of primary products.

The review period was marked by the continued inability of the Liberal-National coalition government to secure the passage of budget measures through the senate, which would have reduced government expenditure. This has contributed to increases in economic uncertainty and a reduction in business and consumer confidence. This situation has not improved, despite a change in prime minister from Tony Abbott to Malcolm Turnbull in September 2015 (though the government remained a Liberal-National coalition) and the Liberal-National coalition's narrow victory in the July 2016 federal election. Since assuming office, Turnbull has stressed the need for innovation and research, but there has been little concrete action on this policy front.

The main barrier to integrated economic policy continues to be the federal structure of government, and the duplication of many services and regulatory functions between the federal government and the governments of the six states and two territories. The federal system has also proved to be a barrier in achieving cooperation across the jurisdictions. As a result, reform of many social services, most notably health and education, has reached an impasse. The core of the problem is the limited revenue-raising powers held by the states, which are dependent on block grants from the federal government. Prior to the 2016 meeting of the Council of Australian Governments (COAG), Prime Minister Turnbull floated a proposal to reintroduce state income taxes as a way of eliminating the “vertical fiscal imbalance.” However, all but one of the state and territory leaders quickly rejected the proposal.

Cyprus

Score 4

In March 2016, Cyprus exited its bailout program and is now in a post-programme surveillance period within the framework of the European Stability Mechanism (ESM). A successful implementation of basic terms coupled with positive forecasts made the government very optimistic, albeit levels of confidence in the economy and competitiveness remain low.

The recourse to the ESM followed the failure of an economic model that had ensured sustained growth for three decades. That model was founded on a market-oriented economic system and macroeconomic policies. Its main assets, a skilled labor force and a system of trilateral bargaining secured productivity and labor market stability. It enabled the country to face the disaster associated with the 1974 Turkish army invasion and contributed to economic success. Moreover, it turned Cyprus into an attractive business center, offering foreign firms an advanced technological and telecommunications infrastructure, high-quality legal and accounting support services, and favorable tax terms. The island’s geographic location and EU accession in 2004 furthered these advantages.

Reliance on sectors affected by seasonality, unproductive investments and rising labor costs, out of line with productivity gains, compromised the model’s sustainability. Failure to rein in a large offshore sector and balancing public finances, along with banks overexposure to Greek debt, severely damaged an already vulnerable economy. Ultimately the country was excluded from international markets, and belatedly called the ESM for assistance (July 2012).

The agreement struck with the creditors by the government elected in March 2013 imposed severe credit constraints, and demanded new policies and extensive reforms. Efforts to stabilize and reestablish confidence have so far led to a downsized financial sector controlled by stricter rules and enforcement mechanisms,

and have ensured the viability of the struggling banking sector.

Strict compliance with the terms of the MoU, assisted by tourism growth and private consumption, set economic growth forecast at 2.8% (IMF), or >2.5% (EU) in 2016 and 2.2% in 2017. However, responding to major challenges that are key to sustainability moves slowly. These include balancing economic activity against seasonality, reforming the public sector, increasing the efficiency of mechanisms for settling non-performing loans, and reforming and privatizing the electricity market.

To improve prospects, reaching a new social consensus is needed so that key social actors and political forces engage in the reform process. Such a consensus is hindered by political considerations and sectoral interests, but most importantly by the negative impact new policies on employment, health care, wages and welfare in general have on society.

Citation:

1. Post-programme surveillance results, 2016, Press Release, <http://www.ecb.europa.eu/press/pr/date/2016/html/pr160930.en.html>
2. IMF World Economic Outlook - Subdued Demand, Symptoms and Remedies, October 2016, <https://www.imf.org/external/pubs/ft/weo/2016/02/pdf/text.pdf>
3. Bulletin on Survey of Economic Conjecture 9/2016 (in Greek), Economy Unit - University of Cyprus, 2016, http://ucy.ac.cy/erc/documents/EOS_09_2016.pdf
4. Global Competitiveness Index - Cyprus, World Economic Forum, 2016, <http://reports.weforum.org/global-competitiveness-index/country-profiles/#economy=CYP>
5. Warning of new 'crash and burn', Cyprus Mail, 19.10.2016, <http://cyprus-mail.com/2016/10/20/warning-new-economic-crash-burn/>
6. European Commission, Commission Staff Working Document, Country Report Cyprus 2016, http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_cyprus_en.pdf

Japan

Score 4

The LDP-led government, which took office in December 2012, embarked on a so-called “three arrows” strategy, consisting of aggressive monetary easing, a highly ambitious deficit-financed spending program (despite record levels of public debt), and a program of structural reforms. In the short term, the first two arrows led to a surge of optimism in the economy, although their unorthodoxy entails grave hazards that would have been deemed irresponsible even a year before. A strong devaluation of the yen in response to the monetary easing played a considerable role in creating some positive momentum for the economy.

Progress on promised structural reforms (the “third arrow”) such as liberalizing labor markets and the agricultural sector has been much slower. In September 2015, Abe announced three new arrows, including a strong economy with a nominal economic output of JPY 600 trillion (about €5 trillion) by 2020. However, this vision lacked reference to specific instruments, thus diminishing its credibility. Many observers see it as an attempt to deflect attention from the earlier third-arrow agenda and its apparent underachievement.

Recent macroeconomic developments have strengthened disenchantment with Abenomics. Economic growth has not picked up significantly. In October 2016, the IMF predicted economic growth in 2016 to be 0.5%, the same as in 2015. The goals of a 2% annual inflation rate and concomitant increases in inflation expectations have not been achieved. The Governor of the Bank of Japan has signaled that the 2% inflation goal may be postponed even further to 2018, although it had been rescheduled several times before. Monetary policy has tried to create a positive stimulus by introducing negative interest rates in February 2016. However, the exchange rate surprisingly deteriorated in response, dimming positive expectations. In September, the central bank made another major move by switching from a numerical target for annual asset purchases of JPY 80 trillion annually – mainly government bonds – to influencing the yield curve to avoid an excessive flattening, thus supporting banks. Many observers doubt the functionality of this mechanism. Moreover, it could point to the fact that the Bank of Japan has developed doubts about the role of unconventional monetary policy in supporting the economy. In August 2016, the government announced a new multi-year JPY 28.1 trillion (€245 billion) stimulus program, of which only a small part will become effective in the 2016-2017 fiscal year. Despite government and central bank activity, consumption has declined recently and optimism seems to be waning further.

Citation:

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Turkey

Score 4

After rising 3% in 2014, Turkey's GDP expanded by another 4% in 2015. However, measured in U.S. dollars, GDP declined from \$823 billion in 2013 to \$717.9 billion in 2015 as a result of exchange rate depreciations. The country's slowdown since 2012 has been driven in part by the ongoing global financial crisis, and in part by Turkish policymakers' desire to slow the economy in order to bring current extreme deficits under control. The impacts of political instability and war in formerly booming regional Turkish export markets such as Syria, Iraq and Russian Federation are also key factors.

Turkey's inflation rate, based on the consumer price index, decreased from 8.9% in 2014 to 7.7% in 2015. The country's annual inflation rate in July 2016 was 7.8%. Thus, headline inflation rate remains well above the central bank target of 5%. However, according to Turkey's hourly-labor-cost index, the total hourly cost of employing labor increased by 12% in 2014 and 9% in 2015. According to the most recent figures, hourly labor costs increased by 14.4% on a year-over-year basis during the first quarter of 2016. Despite high inflation, the central bank lowered the

overnight lending rate considerably since March 2016. It also lowered the reserve requirements ratios for all maturities.

Turkey's most significant economic problems are related to external imbalances. The account deficit, which stood at \$63.6 billion in 2013 (7.7% of GDP), decreased both in 2014 (.6 billion, 5.5% of GDP) and 2015 (.2 billion, 4.5% of GDP). The latest publicly available annualized current account deficit amounted to \$31.2 billion (September 2015-August 2016). Thus, although moderate growth, a weaker lira and the fall in oil prices narrowed the current account deficit from close to 10% in 2011, Turkey still faces a considerable current account deficit. Net foreign direct investment had been on the decline until 2014, constituting 12.6% of the current account deficit. In 2015 net foreign direct investment as a proportion of current account deficit increased considerably to 36.7%.

According to the World Bank, the current account deficit is expected to fall to \$34.6 billion (4.4% of GDP) in 2016 as a result of lower oil prices. But Turkey's external financing requirement will still amount to about \$200 billion since, in addition to a current account deficit of \$34.6 billion, the country will need \$166 billion to roll over existing external debt.

Turkey's net international-investment position (NIIP), defined as the value of total external assets owned by Turkish diaspora minus the value of total external liabilities of Turkish diaspora, increased from -3.8 billion at the end of 2012 to -5.5 billion in 2013; it decreased again to -3.3 billion at the end of 2014, but again increased to -0 billion at the end of 2015. The country's net foreign debt at the end of August 2016 amounted to \$388.5 billion. Considering the August 2015 figure for net foreign debt and the IMF's estimate of GDP for 2016, the net-foreign-debt-to-GDP ratio for 2016 would be 52.8%.

Turkey's main assets include a young, dynamic population, a large domestic market, a geographically strategic location, strong infrastructure and much-improved public services. However, domestic and foreign investors remain deterred by unpredictability and a lack of transparency in the business climate, and a lack of trust in key institutions. Growth since 2012 has been moderate. In 2013-2016, election-related uncertainties, regional geopolitical developments, concerns over the government's handling of corruption allegations, elections in June and November 2015, escalation of tensions with Russia, imposition of Russian sanctions, the failed coup attempt of 15 July 2016 and the subsequently declared state of emergency with the large-scale replacement of public officials dampened confidence and weakened private demand. Furthermore, a series of terrorist attacks in Turkey has weakened tourist arrivals and foreign investment. Turkey has been vulnerable to changes in investor sentiment and, together with other emerging markets, has experienced significant currency and financial market volatility since mid-2013.

A major challenge facing Turkey is the reform of trade policy. Almost 20 years have

passed since the EU-Turkey Customs Union Decision (CUD) covering industrial commodities was signed. Comparison of the CUD with most open and encompassing international trade agreements such as the EU-Canada Comprehensive Economic and Trade Agreement (CETA) and Trans-Pacific Partnership (TPP) reveals that the CUD is outdated and that it does not meet the requirements of the 21st century trade relations.

Citation:

Dawar, K. and S. Togan (2016) 'Bringing EU-Turkey Trade and Investment Relations up to date?', Directorate General for External Policies, Policy Department, European Parliament, Brussels.

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World Bank (2016) World Bank Group - Turkey Partnership: Country Program Snapshot, Washington D.C.: The World Bank (April).

Croatia

Score 3

After six consecutive years of recession (2009 – 2014) the Croatian economy returned to growth in 2015. Despite the country's lack of a functional government throughout most of the year, the economy recorded GDP growth of about 2.8% in 2016. The Croatian economy strongly benefited from favorable international circumstances: economic recovery in the EU contributed to the continued growth of exports, the fear of terrorist attacks in other Mediterranean countries led to an excellent tourist season and substantial tourism income, and falling oil prices contributed to the steady growth of personal consumption (the most important component of GDP).

In contrast, little progress has been made with economic reforms. In the runup to the 2015 parliamentary elections, the Milanović government largely confined itself to regulating the conversion of foreign-currency loans. The incoming Orešković government strongly criticized its predecessor for inaction, but only came up with its own comprehensive reform program at the end of April. This program included 60 reforms with four main goals: macroeconomic stability and economic security, an improved business and investment climate, public sector efficiency and transparency, and education aligned with the labor market. The list of measures was extensive, ranging from improving public debt management and increasing the efficiency of budget planning and expenditure control, to setting in order cadastral maps and land books, to stimulating higher investments in research and development, to reorganization of the courts, to curricular reform in education. The package came with clear implementation deadlines, most of which ranged from May 2016 to late 2017. As a result of conflicts in the governing coalition and the latter's eventual breakdown, the Orešković government's reform program was not implemented. The current Plenković government has emphasized its commitment to economic reform and launched a comprehensive tax reform.

Citation:

European Commission (2017): Country report Croatia 2017 Including an In-Depth Review of the prevention and correction of macroeconomic imbalances. SWD(2017) 76final, Brussels (<https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-report-croatia-en.pdf>).

Greece

Score 3

Greek economic policy is still bound by the Third Economic Adjustment Program (supported by a €86 billion bailout), based on an July 2015 agreement reached by Greece and its creditors and approved by the Greek parliament in August 2015. It is also an economic policy still constrained by the capital controls imposed in July 2015. Capital controls were put in place to avoid a bank run after the Syriza-ANEL government launched a referendum on one of the drafts of the economic reform proposals, which at the time the government was still negotiating with the EC.

The evaluation of economic policy measures required by the Greek government in the context of the third program is still under way. In fact, the evaluation, necessary for the disbursement of the next tranches of financial aid, has been delayed due to another round of prolonged negotiations between the government and its creditors. In the first half of 2016, negotiations pertained to privatization and reforming the pension system, while in the autumn of 2016, negotiators shifted their attention to reforming labor relations. The government wants to avoid the latter, but creditors want to pursue the issue. The third program's major goals are to save the Greek banking system, which still faces risks because of un-serviced loans to households and businesses, and rising government revenue.

To this effect, Syriza-ANEL government raised indirect and direct taxes, including private income and landed property taxes. While raising taxes has already started to increase government revenue, the key to economic development lies in private investment which is not forthcoming. On the one hand, in August 2016, the government successfully extended the privatization of the port of Piraeus through a new agreement with China Ocean Shipping Company (COSCO), a state-owned Chinese company. COSCO now holds 67% of the shares of the formerly state-owned Piraeus Port Authority. In the same vein, after a one and one-half year delay, the government also approved the sale of state-owned property at the former Athens airport to private investors. This is a huge project that is expected to create 70,000 jobs and boost Greek economic output by 2%. On the other hand, the same government is still unable or unwilling to proceed with measures of economic liberalization. For instance, in July 2016, after having agreed on the privatization and sale of 66% of the state-owned Hellenic Gas Transmission System Operator (the DESFA company) to the state-owned gas company of Azerbaijan (SOCAR), the government passed legislation that set a limit on gas tariffs, a move that was estimated by SOCAR to reduce DESFA future profits by 40-50%. In November 2016, the Greek government announced that it had failed to reach an agreement with SOCAR, creating another obstacle in reaching the privatization targets dictated by its

bailout agreement (€6 billion revenue through the sale of state-controlled assets). In the meantime, unemployment remains at a painfully high-level (23.1% in September 2016), prompting further fears of permanent social dislocation for the long-term unemployed.

In view of the above, the prospects of output growth and any increase of fixed capital formation are slim.

Given that the Greek public debt remains at forbiddingly high levels, the EU, the ECB and the IMF may soon need to devise a plan that unavoidably becomes a large-scale debt restructuring and may entail substantive losses for the creditors. In December 2016, Eurozone finance ministers, seeking to get the IMF to participate in Greece's bailout, agreed on a package of short-term measures that could ease the country's debt load by around one-fifth in 2060. A crucial issue is the participation of the IMF in the program. Germany sees the Fund's participation as critical to convince skeptical German lawmakers of the rigor and robustness of the program. At the same time, Germany remains reluctant to grant Greece major debt relief.

Citation:

Information on Gross Fixed Capital Formation and output growth is drawn on the SGI provided by this platform.

Hungary

Score 3

Growth of real GDP slowed from 3.1% in 2015 to 1.9% in 2016, largely due to a decline in EU-funded investment. As a matter of fact, the recovery of the Hungarian economy since 2013 has been strongly based on an influx of resources from European funds. Further doubts about the medium- and long-term growth prospects of the Hungarian economy are raised by the fact that growth is primarily generated by huge construction projects, i.e., by investment in stones rather than brains. Moreover, the Hungarian economy suffers from low trust in the government's economic and overall policy by foreign investors and the strong ongoing emigration. In a Eurobarometer survey in spring 2016, 72% of Hungarians described the economic situation as bad, three percentage points more than in the previous year.

Economic policy has been characterized by an increasing "re-nationalization" of the economy and a "refeudalization" of public procurement. In the war among the oligarchs, Lajos Simicska and Zoltán Spéder have lost to Lőrinc Mészáros, István Garancsi and István Tiborcz (Orbán's son in law). The Orbán government's decisions are largely meant to provide investments and business opportunities for this network. For this reason, the government has launched a series of megaprojects like the Paks-2 nuclear station or the construction of the site for the 2017 World Championship in Watersports on the Pest side of Danube. The bid for the 2024 Olympic games has to be seen in this light, too. In the Eurobarometer survey (spring 2016) 72% of Hungarians described the economic situation as bad, 3% more than a year ago.

Citation:

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(http://data.europa.eu/euodp/en/data/dataset/S2130_85_2_STD85_ENG).

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