Economy Report

Economic Policy

Sustainable Governance Indicators 2019

SGI Sustainable Governance Indicators

BertelsmannStiftung

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 acountry'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

Following years of slow or stagnating economic growth, Canada's economy has recently gained speed. The Bank of Canada, in its fall 2018 Monetary Policy Report, projected real GDP growth of 2% in 2019, a slight decrease from 2.1% in 2018 and 3% in 2017. Real GDI growth was projected to be even higher at 4.0% in 2019, down from a breakneck 8% in 2018, because of strong business sentiment. Yet, it is unclear how much of this upturn can be attributed to the Liberal government's policy of increased infrastructure spending and other stimulative programs. While these policy initiatives were praised by both the IMF and the OECD, fiscal stimuli cannot be expected to foster economic development in the long run.

Canada has implemented market-oriented policies that have enhanced the country's attractiveness to business. Yet, there are areas where Canada's economic framework could be more conducive to productivity growth, as exemplified in the most recent 2018 World Bank Doing Business Report, which ranked Canada 18 out of 190 countries for the ease of doing business, down from 8 out of 181 countries in 2009. The report highlights some of the country's weaknesses in getting electricity, contract enforcement, cross-border trade regulations and in dealing with construction permits.

A key challenge for Canada involves the coordination of regulatory policy across federal and provincial jurisdictions. In many areas, changes require different levels

of government to corporate, which frequently impedes progress.
Productivity growth continues to be relatively weak as well.
Another factor is the country’s dependence on natural resources, which account for roughly 20% of GDP. Aside from risks associated with high price volatility in this sector, uncertainties regarding policies and regulations surrounding major projects (e.g., the duty to consult with Indigenous groups) have the potential to stall investment.

Other regulatory weaknesses affecting Canada’s competitiveness include interprovincial barriers to trade and labor mobility, and marketing boards, which set production quotas. While these issues came to the fore during the recent NAFTA re-negotiations, no major party has made a commitment to significantly reduce these barriers.

Household debt remains high. The current ratio of household debt to disposable income in Canada is above 169% and housing affordability continues to decline. Although the federal government has repeatedly tightened mortgage lending rules over recent years and provincial governments enacted legislation to curb foreign real estate investment, housing markets in Canada’s largest cities, Vancouver and Toronto, remain unbalanced. A possible correction in the housing market would pose a significant risk, and there appears to be room for additional measures to mitigate speculative investment activity, and improve coordination between federal and provincial regulators.

A final concern involves the lack of talent and innovative ability. In the World Economic Forum’s most recent Global Competitiveness Report, Canada ranked below many of its OECD peers for quantity of education, technological readiness, business sophistication and capacity to innovate. The extent to which the federal government can address these issues, however, is limited. Education policy is under provincial jurisdiction and, historically, government-led attempts to actively promote technological innovation have largely been unsuccessful.

Citation:
The World Bank, Doing Business 2018. http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2018-Full-Report.pdf

OECD Economic Surveys: Canada July 2018, https://read.oecd-ilibrary.org/economics/oecd-economic-surveys-canada-2018_eco_surveys-can-2018-en#page9

Canada: 2016 Article IV Consultations, International Monetary Fund, June 2016, https://www.imf.org/external/pubs/ft/scr/2016/cr16146.pdf
World Economic Forum, The Global Competitiveness Report 2017–2018.

Bank of Canada, Monetary Policy Report, October 2018 https://www.bankofcanada.ca/wp-content/uploads/2018/10/mpr-2018-10-24.pdf

Denmark

Score 9

The economy has now fully recovered from the Great Recession, and actual output is currently slightly above capacity output (positive output gap). Employment has been growing and unemployment is close to the structural level, which is comparatively low.

Growth in GDP is projected to be above 2% for the coming years, and thus comparable to growth in many other OECD countries. Per capita income has grown more than in most other countries, not least due to terms of trade improvements. Productivity growth is low by historic comparison, but similar to the OECD average.

The Danish labor market is characterized by rather high levels of turnover and flexibility. Remaining unemployment is mainly structural and concentrated on specific groups, mainly low-skilled workers (among whom immigrants are overrepresented). The social safety net and labor market policies have recently been reformed to strengthen work incentives. Challenges relate to ongoing technological change and globalization.

Public finances are meeting budget norms, although only by a small margin for the last few years. Fiscal policies are considered sustainable, as 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 are increasingly turning to the risk of overheating. Structural discussions focus on ensuring that the labor force has the right mix of qualifications as well as the problems of improving the position of immigrants in the labor market. Efforts to improve productivity raise questions concerning education, research, industrial and tax policies. While the conditions for fiscal sustainability are met, there are political discussions about the appropriate balance between taxes and expenditures. On the expenditure side, there is much discussion about demographic change (aging) and increasing demand, not least on health care.

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 2018.

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

"Ny 2025-plan: Med disse fem greb vil regeringen få danskerne til at arbejde mere," https://www.b.dk/politiko/ny-2025-plan-med-disse-fem-greb-vil-regeringen-faa-danskerne-til-at-arbejde-mere (accessed 22 Octiber 2017).

Luxembourg

Score 9

Ten years after the outbreak of the financial crisis, the financial markets regained trust and the economy grew strongly. In particular for Luxembourg's exports and services, the euro zone's economic recovery has resulted in a stronger GDP growth than before the crisis. The economy of the Grand Duchy is strengthening, domestic demand is increasing and the workforce is expanding.

According to the figures forecasted by STATEC, the National Institute of Statistics and Economic Studies in Luxembourg, economic growth in Luxembourg will reach a peak over the next four years of 4.5% in 2018/2019, before converging toward 3% in 2022. This forecast for the Grand Duchy is well above the average forecast growth for the euro zone.

Based on a hypothesis of 2% to 2.5% growth across the euro zone in 2018 and 2019, as well as the very favorable development of the European stock market index, STATEC has predicted a strong and balanced expansion scenario for Luxembourg's economy. Luxembourg's economy should thus grow by around 4.5% this year and next year. Nevertheless, in the medium term, there probably will be a slowdown, due to a rise in interest rates and a general weakening of the cycle, bringing Luxembourg's economic growth rate to around 3% by 2022.

In 2018, the real gross domestic product in Luxembourg is estimated to grow by about 4.3% over the previous year.

The vote for Brexit in June 2016 may hamper access to European markets for banks and financial institutions based in the United Kingdom. Consequently, some companies have announced plans to relocate their activities from London to other favorable locations in Europe. Thirty-one companies have already announced or implemented plans to relocate to the Grand Duchy. A large proportion of these companies are engaged "in the areas of insurance and fund management," according to an economic survey published by STATEC.

"Compared to other EU countries, this is a relatively high number: 18 in Ireland, 15 in Germany, ten in France, nine in the Netherlands," comments STATEC. The statistical institute estimates that these relocations have already created around 250 jobs in Luxembourg. This is by no means insignificant compared to the 1,280 jobs created in the financial sector last year.

Luxembourg is a small and open economy. For some time, it has ranked highly on international competitiveness indexes. Similar to last year, Luxembourg was ranked 3rd in the Comparative Performance index (World Economic Forum, 2018/ Advances economies).

Since 2015, changes to EU legislation regulating VAT rates across the European Union reduced Luxembourg's VAT revenue from e-commerce. Following negotiations with the European Commission, the policy will be fully implemented in Luxembourg by the end of 2018. In response, Luxembourg's government has increased general VAT rates and new business clusters have been created to generate new revenue.

The financial sector remains an important driver of economic growth and sustainable development. At the same time, the proportion of cross-border workers to resident workers continues to increase. To expand the national labor force, Luxembourg changed its immigration and naturalization policy in 2017, making it easier for foreign nationals to be naturalized. It now only requires five years of residence (with interruptions) to qualify for citizenship. In addition, a new regulation voted on in February 2017 aims to offer investors a residence permit to set up family offices or to manage assets.

Nevertheless, the country's generous welfare model must be reformed to adapt to the reality of reduced public resources. Luxembourg's long-term fiscal sustainability is moderately secure. In the evaluation of its Stability Program of 2020, the European Commission highlighted concerns over the country's overly optimistic economic growth outlook and its inability to address age-related expenditures and resilient growth. Furthermore, in 2017, industrial output dropped by 0.9%, indicating considerable diversification deficiencies within an economy that focuses excessively on finance and banking.

Citation:
World Economic Forum: The Inclusive Development Index 2018. http://www3.weforum.org/docs/WEF_Forum_IncGrwth_2018.pdf. Accessed 23 Oct. 2018.

"2018 geht es wieder aufwärts für Luxemburg." L'essentiel. 3 May 2018. http://www.lessentiel.lu/de/luxemburg/story/2018-geht-es-wieder-aufwarts-fur-luxemburg-26189369. Accessed 23 Oct. 2018.

"Des projections économiques à moyen terme encourageantes – Le STATEC publie dorénavant les projections sous forme d'une étude annuelle." STATEC Luxembourg. 8 February 2018. http://luxembourg.public.lu/fr/actualites/2018/02/13-statec/index.html. Accessed 23 Oct. 2018.

"Luxemburg: Wachstum des realen Bruttoinlandsprodukts (BIP) von 2008 bis 2018 (gegenüber dem Vorjahr)." https://de.statista.com/statistik/daten/studie/14545/umfrage/wachstum-des-bruttoinlandsprodukts-bip-in-luxemburg/ Accessed 17 Dec. 2018.

Netherlands

Score 9

Having grown by 3.2%, the Dutch economy boomed in 2017, although the growth rate has declined somewhat since the third quarter of 2018 (with an overall estimate for 2018 at 2.8%). Such a high growth rate as in 2017/2018 had not been seen since 2006/2007. Overall, conventional indicators of the economic cycle are performing well – the highest among EU member states, according to the World Economic Forum’s Global Competitiveness Report 2017 – 2018. Trust indicators for business and consumers have declined from a peak in early 2018, but (in December 2018) are still quite optimistic.

The economy’s international standing has been steady, with the Netherlands still ranking 4th out of 138 countries, behind Switzerland, the United States and Singapore. The Netherlands scores highly for macroeconomic stability, labor market reforms and business dynamism. However, its performance has slightly declined with respect to infrastructure, labor force skills levels, product market efficiency (especially the complexity of tariffs) and innovation capability. There is still fierce political and policy debate about the success or failure of the new Work and Security Act.

In sum, although the Netherlands was caught in a long-term slump, strong economic recovery since 2013 has now led to a booming economy. Nevertheless, in terms of the euro zone, Dutch economic performance is average.

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Sweden

Score 9

Over the past several years the Swedish economy has been exceptionally strong. Growth in terms of GDP in 2017 was 2.3%. The projected growth for 2018 is roughly the same. Then again, GDP projections are influenced by demographic developments. There has been a debate whether, as the government suggests, growth should be measured in GDP per annum, or whether growth should be measured in terms of GDP per capita. Given the strong increase in immigration in 2015 and 2016, GDP per capita is quite modest; the IMF projects an annual growth in GDP per capita for 2018 of merely 0.7%.

Notwithstanding, most long-term economic indicators on Sweden assuage concern; particularly 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. However, there are some challenges. The National Bank of Sweden, fearing deflationist tendencies in the economy, lowered its “steering interest rate” to an unprecedented 0% in late October 2014, then to -0.35% in

September 2015. By November 2016, the interest rate had fallen to -0.5%, which is also the interest rate level in November 2018. Given the strength of the economy, the general expectation is that interest rates will increase moderately in 2019.

Another concern is household debt, which continues to increase. There are also growing fears (e.g., 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 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 areas in the longer term. Nonetheless, 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. In November 2017, the government announced plans to introduce a mortgage requirement, the exact date is yet to be decided, to help cool the real-estate market and curb household debt.

Economic growth and international competitiveness are closely linked to unemployment and labor market dynamics. 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 gradually decreased since 2015. In 2018, unemployment was down at approximately 6%.

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 center-right government (2006 – 2014) 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 2018 general elections. With 62 seats, the Sweden Democrats (SD) party holds a pivotal position between the Social Democratic-Green-Left bloc and the center-right “Alliance.” None of these parties is willing to negotiate with the SD. In November 2018, some two months after the general elections, Sweden was still waiting for a new government to be formed. In terms of economic policy, the parliament passed the budget proposal presented by the Conservative party and the Christian Democrats (with the support of the Sweden Democrats). This budget implies a reduction of taxes and an increase of transfers to local authorities.

Citation:
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Regeringen (2016), Överenskommelse om skuldankare, nytt överskottsmål och förstärkt uppföljning (http://www.regeringen.se/4a7bfa/contentassets/24a388a9a9994e67a706e0b91768bdd2/overenskommelse-om-skuldankare-nytt-overskottsmal-och-forstarkt-uppfoljning.pdf)

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Finland

Score 8

Having contracted for several years, the Finnish economy is currently experiencing a positive turnaround. The recent economic growth is mainly due to a strong increase in exports. However, the impact of the recession on public finances has been so strong that a full recovery will not be achieved for some time. Unemployment rates continue to be high in comparison with other Nordic countries. Fiscal policy has been a particular concern, as public debt has grown over recent years, although a slight decreased was reported in 2017. Government spending accounts for over half of GDP, among the highest ratios in the European Union.

Government efforts to restore economic growth, increase competitiveness and reduce public debt have continued to be at the top of the policy agenda. With the aim of restoring fiscal sustainability, the government has placed a priority on greater budgetary prudence and balancing the budget as well as sought to raise the minimum statutory retirement age, while improving incentives for people to continue working into later life. 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 26th worldwide in the Heritage Foundation’s 2018 Index of Economic Freedom, slipping several places from its 2015 rank of 19h and two places from its 24th place in 2017. This decline can be attributed to deteriorations in fiscal freedom, business freedom and the management of government spending. Still, the positive figures concerning the annual GDP growth rate and several other economic indicators engender optimism. According to the Economic Survey of the Ministry of Finance in April 2018, the economy is projected to grow by 2.9% in 2018, but 1.9% in 2019.

Citation:
“OECD Economic Survey of Finland 2018”, http://www.oecd.org/eco/surveys/economic-survey-finland.htm;
“The Heritage Foundation 2018 Index of Economic Freedom”, http://www.heritage.org/index/ranking;
“The Heritage Foundation 2017 Index of Economic Freedom”, heritage.org/index/country/Finland;
Ministry of Finance, “Economic Survey Summer 2018”,https://vm.fi/en/publication?pubid=26703

Germany

Score 8

Germany’s economy is experiencing one of its longest upswings in its postwar history. Prior to the current SGI reporting period, the economy had performed exceptionally well with high and stable economic growth rates, strong employment growth, and buoyant revenue growth for government budgets and the social security system. To some extent this performance was due to external factors like the very expansionary policy of the European Central Bank or massive capital outflows from euro zone crisis countries to “safe havens.” However, it was also due to an ambitious series of domestic reforms in the 2000s. These reforms adjusted labor market institutions, unemployment benefits, the pension system, corporate taxation, the constitutional debt brake and liberalized labor migration from outside the European Union. Combined, these reforms improved Germany’s competitiveness and increased its attractiveness as a destination for foreign investment.

Nevertheless, the German economy’s excellent performance over the last few years should not obscure the fact that it’s confronted with various internal and external challenges. The most important external risks concern uncertainties in the European and global economies. In Europe, the future of the European Internal Market, the euro and the European Union are at risk given recent developments, such as Brexit or the rise of populist and EU-skeptic parties and governments (e.g., in Italy). For the global economy, trade conflicts (as a result of U.S. policies under the Trump administration) are highly risky for export-dependent economies, such as Germany. Leading business indicators are pointing toward a deceleration in economic growth from the end of 2018 as a consequence of lower export dynamics. Internally, Germany is facing significant challenges associated with a rapidly aging population and the need to adjust to a digital economy. One should not take for granted that the continued success of the leading German industries (e.g., the automotive industry) given the enormous speed of technological change resulting from the move toward electric and digitalized cars.

The country’s current short-run economic success may have made voters and politicians blind to the extent of the challenges that lie ahead, as the current coalition government's economic and social policy agenda might not reflect the true necessities of the situation. In previous years, the policies of the grand coalition included the introduction of a statutory minimum wage, more generous pensions, an increase in state support for nursing care and plans to more tightly regulate temporary forms of employment. These examples indicate a strong focus on consumption and more regulation which could undermine competitiveness in the coming years. However, other examples signal that the government seems to be aware of the challenges of digitization. In late 2018, the federal government adopted an Artificial Intelligence (AI) Strategy, with the aim of becoming a global leader in the development and use of AI technologies. In August 2018, the federal government established a so-called digital council which consists of 10 members and will give advice on the most important issues concerning the new computer-based technologies. The digital strategy is based on a decision agreed upon by the federal cabinet on 18 July 2018.

In general, 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. However, this development so far does not seem to be a key risk factor for Germany's competitiveness as it mirrors the excellent labor market situation and increasing shortages of skilled labor. But the Sachverständigenrat, in its recent report, strongly insists on the need for further tax reform to relieve taxpayers and abolish the so-called solidarity tax contribution ("Solidaritätszuschlag"). Another relative weakness of the German situation concerns the quality of infrastructure. Increasingly, critics point to the inadequacy of existing digital networks, and more and more problems in the transport networks including both rail and road.

Citation:
Sachverständigenrat zur Begutachtung der Gesamtwirtschaftlichen Entwicklung (2018): Jahresgutachten 2018/2019. https://www.sachverstaendigenrat-wirtschaft.de/fileadmin/dateiablage/gutachten/jg201819/JG2018-19_gesamt.pdf

Bundesregierung (2018): https://www.bundesregierung.de/breg-de/aktuelles/digitalrat-experten-die-uns-antreiben-1504866

Ireland

Score 8

Despite the overstating of Ireland's economic performance through the activities of the multinational corporations, the underlying domestic economy performed extremely well in 2018. Proxy indicators such as labor market data, tax revenue, modified investment expenditure and consumption expenditure showed that underlying domestic demand had grown by at least 5.5% over the previous year . Total employment pushed over 2,260,000 million as employment rose by 3% (65,000) and unemployment fell to 5.3% of the labor force.
However, against this background of strong economic growth, Ireland faces some serious supply-side blockages, most notably in the area of housing. The 2019 Budget was particularly directed toward increasing public-sector capital expenditure. The government's gross capital expenditure, which had grown by 7% in 2018, is forecast

to increase by 8.4% in 2019.

In November 2018, the Irish Fiscal Advisory Council (IFAC), which was formally established as a statutory body in December 2012 under the Fiscal Responsibility Act (FRA), published its fifteenth Fiscal Assessment Report. The report, under the chairmanship of academic Seamus Coffey, was highly critical of government budgetary policy. It asserted that there had been no improvement in the budget balance, excluding interest costs, since 2015 and maintained that non-interest spending by the government has expanded at the same pace as government revenues. Arguing that a great deal of the improvement in government revenues has been cyclical or temporary, the IFAC report suggested that the overall structural position has deteriorated. Resulting from this, the IFAC report contended that opportunities to strengthen the budget balance during the upswing in the economic cycle have been missed. It identified unbudgeted increases most notably in the area of health care as a major problem area and argued that the Health Service Executive (HSE) has exceeded its allocation by almost €2 billion over the previous four years.

Citation:
Department of Finance, Budget 2019
Economic and Social Research Institute Quarterly Economic Commentary, September 2018 by Kieran McQuinn, Conor O'Toole and Philip Economides.
Irish Fiscal Advisory Council, Fiscal Assessment Report, November, 2018.

Latvia

Score 8

Following a difficult period of economic adjustment in 2009 and 2010, Latvia's economy has fully rebounded, returning to the international markets and to favorable economic growth rates. In 2016, Latvia's annual growth rate was 2.0%, in line with the EU average. In 2017 and 2018, the growth rate continued rising, with a 5.3% increase in GDP between the second quarter of 2017 and the second quarter of 2018.

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. The Fiscal Discipline Council (FDC) plays an oversight function, consulting with the government on fiscal planning issues and compliance with the budget deficit cap. In 2018, the FDC highlighted that the positive output gap trend observed in 2017 continued strongly through 2018. The FDC also emphasized the systematic practice of reallocating expenditure by the government, indicating unused appropriations as the source of funding, the amount of which was then used to calculate the maximum amount of government expenditure. According to the FDC, this practice was exemplified by the cabinet's decision to reallocate funds from the Ministry of Welfare's budget in October 2018.

Since meeting its policy goal of joining the euro zone in 2014, Latvia's focus has necessarily shifted to longer-term issues of maintaining competitiveness within the euro zone and addressing social inequalities. The Latvian economy is continuing to grow strongly and, while the growth rate is projected to moderate by 2020, Latvia will need to maintain progress with economic reforms and participate more actively in international trade to ensure continued progress. Domestically, there should be a stronger focus on innovation and research, and access to jobs, housing and health care services should be improved to promote inclusion. While a number of reforms are already underway, especially in key areas (e.g., health care, education and public administration), their effectiveness remains varied and rapid wage growth represents a further challenge to economic stability.

Citation:
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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 2019 Doing Business report, the World Bank ranked Lithuania 14 out of 190 countries overall. The country's position in this rating exceeded the target of 15th place set by the Skvernelis government after the parliamentary elections in late 2016. The criteria assessed most positively included registering property (ranked 3), enforcing contracts (ranked 7) and dealing with construction permits (ranked 7). Meanwhile, resolving insolvency (ranked 85) was assessed least positively, but the country is working on new insolvency legislation and flanking measures that should make the insolvency framework more effective in the next few years. Lithuania climbed two positions in the 2019 report from 16 out of 190 countries in 2018. This is attributable to a strengthening of minority investor protections, simplifying exporting and the payment of taxes, and changes to labor market regulations. In the Global Competitiveness Report 2018, the World Economic Forum ranked Lithuania 40 out of 140 countries, scoring well on macroeconomic environment (ranked 1) and ICT adoption (ranked 18), skills (ranked 31), and labor market (ranked 32). Lithuania dropped two positions in the 2018 report but increased its overall score by 0.7 points.

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 arose from Russia's ban on food and agricultural imports from the EU, 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 EU. However, Lithuanian companies managed to reorient their exports to other markets, demonstrating their flexibility. 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 and if euro zone growth continues this should drive Lithuanian exports. 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, but recovered again to reach 2.3% in 2016 and is estimated to have reached 3.8% in 2017.

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 a new liquefied-natural-gas terminal (LNG) was finished in December 2014; another important project establishing electric-power transmission connections with Sweden was completed in 2015 and the first electricity link to Poland became operational in 2016. These projects provide alternative energy-supply sources. Mostly due to low prices in the Nordic countries, electricity prices in Lithuania decreased in 2016 and 2017, providing evidence of the economic benefits of additional supply sources. However, the price of electricity increased substantially in the power market throughout 2018. Recent increases in energy prices and fast growing wages are becoming the main challenges for Lithuanian companies to maintain their competitiveness, in particular under the relatively restrictive labor immigration regime. Further infrastructural integration projects – including the completion of a second electricity link to Poland, withdrawal from BRELL (Russia managed electricity grid) and construction of a natural gas connection to Poland – are high on the agenda of the current government.

The 2012 to 2016 government presented Lithuania's accession to the euro zone in January 2015 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. A recent increase in the inflation rate – the central public concern as evidenced by Eurobarometer surveys – has been attributed in part to the introduction of the euro. Experts largely link the increase in inflation to Lithuania's need to catch up economically and the monetary policies of the European Central Bank.

Considerable political emphasis has been placed on structural reforms. Also, the Labor Code came into force on 1 July 2017, after the new government altered some provisions (via the Lithuanian parliament) in search of a better balance between labor market flexibility and employee protections. The Skvernelis government was also able to push through a few important reforms, including changes to the tax system and the second pillar of the pension system. Although reducing the overall tax burden on labor will have a negative short-term effect on revenues to the state and municipal budgets, the implementation of these structural reforms was estimated to generate a higher annual growth rate of 0.3% on average between 2019 and 2030. 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. However, inefficient government bureaucracy remains the second most problematic factor for doing business in the country, according to surveyed business executives. In the Global Competitiveness Report 2018, the World Economic Forum ranked Lithuania 93 out of 140 countries for efficiency of the legal framework in challenging regulations and 106 for the burdens imposed by government regulation.

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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, the economic planning ministry, and social partners exist through the Malta Council for Economic and Social Development (MCESD). This system has provided the ideal foundation for strong economic performance. Indeed, provisional GDP estimates for the second quarter of 2018 indicate an increase of 8.6% over the same period in 2017 and a 5.9% increase in real terms. Moving forward, growth is set to remain robust but moderate over the forecast horizon. Domestic demand was expected to be the main driver of growth during the second half of 2018, spearheaded by increases in both public and private consumption. Projects in the health, technology and telecommunications sectors are poised to drive a recovery in investment in 2019. Malta's labor market remains resilient, and the country's unemployment rate is currently among the European Union's lowest. Industrial legislation provides protection against dismissals and allows for open bargaining between employers and their unions, but few co-determination structures. Unit labor costs have remained moderate, but are projected to accelerate in 2018 and 2019.

Moody's Investors Services also confirmed Malta's A3 rating with a stable outlook in August 2018. However, the World Economic Forum's Global Competitiveness Report 2018 cited difficulties in finding skilled employees and the complexity of tariffs as significant obstacles to doing business in Malta. Nonetheless, the country was ranked 1st globally in terms of macroeconomic stability and 36th overall, which represents an improvement over the preceding reporting period, in which Malta ranked 37th.

The World Bank's Doing Business Report 2018 placed Malta's at 84th out of 190 countries with regard to the ease of doing business, a notable drop from the preceding year's 76th place. Nonetheless, the report still regards Malta's decision to remove trading licenses for general commercial activities favorably. In an effort to reduce red tape, the government has created the position of commissioner for simplification and reduction of bureaucracy, with the partial aim of reducing the administrative burden for investors setting up businesses in Malta. A total of 500 simplification measures have been implemented over a period of five years, while the "Business First" one-stop service was introduced for the industrial sector in 2017. The government is encouraging private industry to invest locally in the production of medical marijuana, and has stated that it is working to make the island a center of excellence for blockchain technology, which it believes will be the leading engine for growth in the future. Significantly, in July 2018, Malta became the first country in the world to implement a regulatory framework for stakeholders in the blockchain, cryptocurrency, and distributed ledger technology sector.

Rapid economic growth has brought several challenges to the fore. First, the continued dependence on financial services and property development, along with a widening trade deficit in 2018, highlight the need to diversify the economy. Second, this growth has depended on massive building programs and the import of labor, while also increasing demands on infrastructure and social services to a degree unsustainable for an island country that measures just 316 square kilometers. Indeed, Malta has dropped eight places in the UN sustainability index, registering a decline in the quality of overall infrastructure and sea cleanliness.

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SDG INDEX AND DASHBOARDS REPORT 2018

Spain

Score 8

Spain's economic expansion continued in 2018, showing a 2.7% growth rate, higher than the other four large EU member states and the rest of southern Europe (aside from the tiny Mediterranean islands of Malta and Cyprus). This means that the recovery that began in 2014 has remained robust for five years in a row, above the euro zone average. Growth was driven by strong private consumption, equipment investment and the positive contribution of net exports to growth. However, the rise in oil prices since spring 2018 is expected to have a negative impact on domestic demand. Other factors that supported growth, such as the improvement in financial conditions, will have less impact in the near future, and growth is expected to decline to an annual rate of 2.4% in 2019.

However, average household incomes remain lower than before the crisis, the public deficit is high, inequality is severe, and unemployment rates, while decreasing, remain at a very high level (15% of the labor force in 2018).

Tourism is an important sector for the economy, with a significant impact on the country's economic growth and employment. In the first half of 2018, Spain was on track to set a new record for foreign visitors. However, in July 2018 Spain saw its largest fall in visitor numbers in eight years. A total of 4.9% fewer tourists vacationed in the country in July than during the same period in 2017, mainly due to a decline in British and German visitors, and the competitiveness of other Mediterranean countries.

Citation:
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Switzerland

Score 8

The Swiss economy is highly competitive, ranking again at the top – fourth out of 135 countries – in the World Economic Forum's 2018 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. In contrast, government policies were quite illiberal and politicized with regard to the flow of foreign labor and with regard to farming in the past. 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 organized 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-1990s 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. It would have reduced the influence of major economic actors within the competition agency's governing board. Similarly, farmers were successful in being spared from austerity measures; they continue to enjoy a comparatively high level of protection. In 2018, a conflict escalated between farmers and the federal government when the latter published its intention to allow for a reduction (in the range of 30% to 50%) in the price difference between domestic and foreign agricultural products. A powerful pro-farmer coalition in the parliament rejected this proposal in summer 2018.

Between 1960 and 2005, Swiss real GDP growth rates have exceeded the average of the 23 advanced-democratic OECD nations in only nine of 44 years. Between 2005 and 2014, Swiss economic growth rates were above average; since 2015 they have returned to below average. 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. In the second quarter of 2018, the balance was nearly 13% of GDP, while Germany, for example, recorded less than 7% of GDP. Switzerland's main export industries are the chemical, pharmaceutical and metal industries (e.g., machines and watches). 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 European Union poses imminent dangers to the continued success of its export-oriented economy. However, Swiss economic growth is very robust. Although the Swiss franc appreciated considerably following the decision of the Swiss National Bank to abandon the peg to the euro in January 2015, the effect on the national economy has been limited with few repercussions.

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.

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, one of the drivers 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. In October 2018, negotiations for these new institutional arrangements stalled due to domestic conflicts within Switzerland. In the event no agreement has been reached by the close of 2018, the EU has threatened to no longer recognize Swiss stock market equivalence. This would imply major losses for the Swiss stock market. Given the country's close integration with the EU market – accounting for 53% of Swiss exports and 71% of imports (2017) – 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 States

Score 8

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, the country has enjoyed superior levels of growth, capital formation and competitiveness.

Although the Trump presidency began in January 2017, President Obama's economic policies remained without major alteration for most of that year. The United States thus continued a moderately expansionary fiscal policy with the Federal Reserve Board (the Fed) maintaining steady, comparatively low interest rates. The moderately strong economic growth established during the Obama administration continued through Trump's first two years.

But in late 2017, the Republican Congress passed a major "tax reform" which included a tax cut for corporations and high-income individuals. Along with increases in defense spending and Trump's rejection of spending cuts for middle-class social benefits (Medicare and Social Security), the tax cut produced a sharp increase in the already unsustainable long-term budget deficit. During 2018, as the Federal Reserve began to raise interest rates, Trump repeatedly accused it of harming the economy and questioned its expertise.

Throughout 2017 and 2018, Trump carried on a sustained attack on foreign trade, holding firm to his campaign claims that the United States has been treated unfairly in most of its trading relationships. The United States pulled out of the Trans-Pacific Partnership trade agreement. Trump demanded that revisions be made to the North American Free-Trade Agreement with Canada and Mexico, after imposing major increases in tariffs affecting both countries. He provoked a trade war with China, imposing major tariffs that China met with firm retaliatory measures, along with lesser conflicts with the European Union and Japan.

Austria

Score 7

The Austrian economy has remained in the general European context. The economic upswing – expressed in economic growth and, at last, lower unemployment – has affected Austria. Austrian politics has not prevented that general trend from benefiting the Austrian economy. Nevertheless, more significant steps toward 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 member states, however, an ever-more-significant portion of economic policy falls under the European Union's jurisdiction, thereby creating an increasingly harmonized European economic framework.

At the end of 2017, a new Austrian government was formed without the Social Democrats who continue to dominate organized labor. The new center-right government may have an impact on the balance of Austria's social partnership. The national-liberal FPÖ, in coalition with the conservative ÖVP, intends to weaken the main chambers (business, labor, agriculture) by weakening or abolishing obligatory membership laws. This will provoke a reaction from the chamber of labor, united with the ÖGB (Austrian Trade Union Federation) – which will include labor conflicts – as well as the chamber(s) of commerce.

The Austrian export industry has contributed significantly to the country’s overall success. Austria’s economy has profited from the inclusion of former communist, central and eastern European countries in 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. The Austrian finance (banks, insurance) and construction industries play an important role in the four Visegrád countries and in most former Yugoslav republics.

A process of fiscal consolidation is currently underway, with the goal of keeping the government deficit below 3% of GDP. Future burdens may arise from the ever-more-significant redistribution of resources to people aged over 50 (to the disadvantage of younger generations), a trend that clouds the outlook for the young generation and the future of Austria’s economy more generally.

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 euro zone, 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.

As the implications of the innovations introduced by the new coalition government between the ÖVP and the FPÖ are not yet visible, no reliable evaluation regarding the new government’s performance is possible. The tendency of the government’s economic policy seems to favor market liberalization, but within strict limits. The present government has not as yet tried to break with the policies of its predecessor. However, while the new labor law (which allows more flexibility concerning the daily and weekly workload of employees) is not a substantial legislative break, it must be seen as a procedural break as the law was passed without the consent of organized labor.

Belgium

Score 7

Located at the heart of the euro zone and the European Union, Belgium is a small, open and competitive economy. Its performance depends as much on the actions of its federal and local governments as on the general economic climate of the euro zone.

The high degree of exposure to global competition forces governments to keep an eye on the country's international competitiveness, with mixed results. Belgium's competitiveness eroded over the last decade, with production costs and market distortions progressively worsening in comparison with those of immediate neighbors. To compensate, the country offered increasingly generous tax deals to multinational enterprises. As these have recently been criticized as illegal state aid, the Michel government initiated a set of structural and tax reforms meant to 1) reduce the inflation gap (focusing more on wage-cost cuts than on product-market structural reforms), 2) partially remedy the labor-tax distortions that contribute to the competitiveness handicap and 3) reduce corporate taxation across the board – this latter policy being a recent development not initially planned by the government.

These efforts essentially represent the positive side of current efforts. On the negative side: public infrastructure investment remains low, as much as a full GDP point below levels in France and the Netherlands (see the World Economic Forum's Global Competitiveness Report and the OECD's economic survey of Belgium); employment rates remain consistently low (see P2); and the higher-education sector remains chronically underfunded, meaning that Belgium's previously strong position in terms of worker skills is eroding.

Another major challenge hindering international competitiveness is the relatively low level of entrepreneurship, which hinders the market entry of young, innovative firms. In addition, the government is unusually right-wing for a country with a tradition of middle-of-the-road coalition governments. The current government's heavy-handed reform style has provoked substantial opposition and political unrest (e.g., demonstrations and strikes) that has done little to contribute to the investment climate.

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Chile

Score 7

Chile has an advanced macroeconomic and financial policy regime in place. This is rule-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 foreign 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 regulation 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. As studies by Chile's central bank indicate, economic growth increased about 4.0% during the period under review (2018). A similar scenario is expected for 2019.

At about 7.2%, the unemployment rate increased slightly in comparison with the previous period under review, despite the registered economic growth. Therefore, the unemployment rate remains at a relatively high level in comparison to the past 10 years.

At the same time, major structural weaknesses can be observed. Low labor productivity represents a persistent problem. This is especially the case in small- and middle-size businesses, which are the main employer in Chile. Low labor productivity is – among other factors – connected to the qualification of the workforce. 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. The highly bureaucratic public administration is a further factor impairing productivity.

In Chile, economic stability and growth primarily depend on the export of commodities (e.g., copper, and agricultural and silvicultural products) with relatively low or no added value at all. Thus, this South American country shows a comparatively 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.

Citation:
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http://www.ine.cl

Czechia

Score 7

The Czech economy has been among the fastest growing in Europe, with real GDP up by more than 4.3% in 2017 relative to 2016. However, growth slowed to about 2.9% in 2018. Stagnating motor vehicle exports, previously the main driver of growth, account in large part for the slower export growth. There may have been an effect from a higher exchange rate, following the decision in 2017 to abandon the commitment to a lower rate, but this remains to be proven. Consumer spending has continued to increase, thanks to pay increases across the economy, partly stimulated by an 11% increase in the minimum wage in January 2018, higher public sector pay, especially in education and public administration, and effectively zero interest rates on consumer credit. These pay increases marked a continuation of the previous Social Democratic government's support for higher wages government and led to a return to slight budget deficit in the first half of 2018.

The competitiveness of the Czech economy is based on low wages, and the country acts more as a subcontractor than end-producer. This means economic stakeholders in the Czech economy lose out on the added-value of sales to the end customer and the profits associated with spare parts supply, service, training and future innovations. More than 60% of Czech exports belong to foreign companies; as a supplier of manufacturing services, the country is poorly connected to the world of innovation. The Czech Chamber of Commerce emphasizes the need introduce an appropriate tax policy that would compel foreign-owned companies to reinvest their profits in the country and thereby strengthen the competitiveness of Czech products. The Sobotka government sought to increase investment in education, R&D and the development of an environment for innovative activities within the domestic economy. In practice, however, improvements in these areas remain inadequate and have depended on EU funding.

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. Similarly, labor policy falls under the purview of the Ministry of Economic Affairs, Ministry of Education and Ministry of Social Affairs. Due to growing labor shortages, the Ministry of Interior, responsible for immigration, has also become an important actor in economic policy.

The global economic climate has been mostly favorable in the period under review. This trend is echoed in improved performance of the national economy. Yet, high tax rates on labor and strict immigration policies prevent Estonia from attracting the foreign labor urgently required due to Estonia's aging population. The sharp increases in motor fuel and alcohol excise duties since 2015 have met heavy criticism, as the increases boost cross-border trade and make Estonian businesses vulnerable.

France

Score 7

France's economic outlook is improving. 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 had characterized President Hollande's term (2012 – 2017). Three major changes explain the recent improvements. First, the international environment has improved in recent years. Second, some of Hollande's policies, such as the attempt to improve companies' competitiveness by reducing their tax burden, have begun to take effect. Third, the election of Emmanuel Macron in May 2017 on a liberal and pro-EU platform has radically changed both expectations and the policy agenda.

The new president and his administration have launched an ambitious reform agenda. The first step was completed by the end of September 2017 with the publication of ordinances (executive orders) reforming substantial parts of the labor law code. Over the past 18 months an impressive set of reforms (probably comparable in magnitude only to the 1958/9 reforms prompted at the beginning of the Fifth Republic) have been adopted or launched.

In parallel, the draft 2019 budget (currently under discussion) proposes additional changes, such as consolidating the lowering of company taxes, abolishing local taxes on housing for 80% of taxpayers with a complete elimination by 2022, substantially cutting social taxes paid by employees, and transforming the wealth tax into a much more modest tax on real estate assets for more wealthy owners and a flat-rate tax (30%) on capital gains. The overall philosophy is to increase the net income of low-income employees and workers, avoid capital flight and increase incentives for investors. The crucial feature is the consistency of the overall package, which favors the creation of jobs and reinforces the competitiveness of companies while slightly increasing workers' incomes due to the reduction of social levies on employees.

These structural measures need time to take effect. In the short run, the economic situation has improved, even if the scheduled economic growth rates for 2018 and 2019 have been reduced to 1.6%. Business investment has been boosted by Macron's business tax cuts, supportive financing conditions and greater labor market flexibility. Meanwhile, lower labor taxes and improved job training opportunities have helped job creation, albeit the high unemployment rate is declining very slowly. The public deficit will take time to come down. While the overall budget deficit was planned to be below the 3% ceiling for the first time in several years, it will be higher than expected in 2018 and the public deficit target set for 2019 (2.8% of GNP) may not be met. The financial consequences of Macron's social measures, announced on 10 December 2018 as an end to the gilets jaunes riots and including an additional expenditure of about €10 billion, are still to be calculated.

Citation:
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Iceland

Score 7

Ten years after the 2008 financial collapse, Iceland's economic policy has still not fully dealt with the fallout. Capital controls imposed to stabilize the Icelandic króna following the financial crash have for the most part been rescinded. The relaxation of capital controls was accomplished without a sudden outflow of capital or depreciation of the króna. Output per person has been restored to its pre-collapse level. Unemployment, at 3% in late 2018, is low. Even so, the economy is still dealing with the consequences of the harsh post-crash fiscal adjustment strategy, which imposed a retrenchment equivalent to about 10% of GDP between 2010 and 2017. Public services, especially health care and education, have suffered serious underfunding as a result.

In 2016, the Icelandic króna strengthened significantly due to strong foreign exchange earnings from tourism and the return of funds to Iceland that had fled the country before and during the financial collapse of 2008. However, between November 2017 and November 2018, the króna depreciated by 17% vis-à-vis the U.S. dollar and by 13% vis-à-vis the euro. Fiscal and monetary policies are largely neutral as inflation increases due to full employment. At 3%, inflation exceeded the official target of 2.5% in 2018 and is projected to rise further as labor unions, under new and determined leadership, demand large wage increases in the next round of wage negotiations. These negotiations will take place against the background of huge wage increases granted by the Wage Council to members of parliament, senior public officials and the president of Iceland. (Though the president refused to accept the salary increase and donated the increase to charity). The salaries of members of parliament increased by 111% between 2011 and 2018. The Wage Council has since been disbanded. The council did not keep minutes of its meetings. Under these circumstances, and in view of ever higher CEO compensation, the trade unions are not likely to accept the 4% increase currently on offer. Consequently, distributive justice will loom large in the upcoming wage negotiations.

The future of the banking sector remains uncertain. The government, which still owns two-thirds of banking sector assets in Iceland, has not yet presented any concrete plans for restructuring the banks. 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 preceding 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 European Union and the Icelandic government seem to disagree on whether this means that Iceland has fully withdrawn from the process. Specifically, the European Union 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.

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Israel

Score 7

As in previous years, while Israel's economic policy has some shortcomings, it is fundamentally strong. It largely provides for a reliable economic environment, renders the country internationally competitive and ensures it remains attractive as a location for economic activity.

According to the OECD, Israel's economic growth rate was 3.6% in 2018 and is expected to be 3.5% in 2019. The economic growth rate in 2018 was up by 0.5 percentage point from 2017's growth rate. The inflation rate in 2017 was 0.4% and

2018's average inflation rate was 0.6%, up from the negative inflation of 2014 to 2016. In addition, the general unemployment rate (3.7% in January 2018) remains one of the lowest in the western world. The budget deficit has declined in recent years, from 3.9% in 2012 to 2.2% in 2017. While Israel's growth rates have improved over the last decade, productivity performance has been weak. As stated in the 2018 OECD economy survey, "overall productivity growth remains slow, and the cost of living is currently somewhat higher than the OECD average despite GDP per capita being more than 15% lower." Product-market regulation and competition, particularly in the food, banking and electricity sectors, has undermined economic productivity.

In addition, poverty rates are still high, especially among the elderly. Income inequality ratios are also high. According to the annual report of Israel's social security institute, 1,802,800 people in 462,100 families were living in poverty in 2016, including 838,500 children. Although the incidence of poverty declined from 19.1% in 2015 to 18.6% in 2016 to 17.7% in 2017, Israel has the second highest poverty rate within the OECD (after the United States). The cost of living also remains high relative to the OECD average, particularly for housing. Housing prices have increased in recent years, making home ownership hard to attain for young and middle-class people. Yet, the rate of growth declined in 2017, which might have been as a result of aggressive government housing subsidies for middle-class buyers. In addition, rent costs also increased, though not as sharply as ownership costs. This trend mostly affects the middle and lower classes, and was one of the main causes of the 2011 social-justice protest. According to a 2018 OECD report, public transport deficiencies also play a role in worsening the cost of living, as residents of Israel's peripheral areas cannot easily commute to central regions for work despite Israel being a relatively small country.

Citation:
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Norway

Score 7

The economy is in a long-term transition. The long-term goal is to promote greater diversification, and to reduce dependence on oil and gas revenues. The rise in oil and gas prices has made the transition smoother, but also more protracted. There are growing concerns that rising housing prices and private debt levels will pose a challenge if interest rates increase.

The economy remains strong. Public finances are still solid. The country has long enjoyed strong economic growth and near-full employment and has benefited from a well-functioning system of tripartite cooperation.

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.

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 that the share of 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.

Citation:
I see no sign that the economy has improved. Therefore I do not change the score.

Poland

Score 7

The Polish economy is still on a strong footing. With real GDP up by about 5% in 2018, it has continued to grow well above the EU average. Boosted by a strong increase in social transfers, improving labor market conditions, low lending rates and moderate inflation, it is still largely driven by the growth of personal consumption. By contrast, uncertainty over the PiS government's economic policy and the general development of the country has led to a decline in private investment, denounced by PiS chairman Jarosław Kaczyński as a deliberate attempt to weaken the PiS government by the part of the business community allegedly connected to the former government. At the same time, the government has interpreted the strong increase in outward investment of Polish firms as a sign that the Polish economy is maturing. In order to compensate for the decline in private investment, the government, within the framework of its Strategy for Responsible Development, has expanded its own investment programs and increased the utilization of EU funds. Economic growth rates are likely to suffer somewhat as a result of the upcoming Brexit. Accounting for 6.4% of all exports, the United Kingdom is Poland's second-largest export market, and a large portion of the remittances from Poles working abroad comes from the United Kingdom.

Citation:
European Commission (2019): Country Report Poland 2019. SWD (2019) 1020 final. Brussels (https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-poland_en.pdf).

Portugal

Score 7

In a country marked by considerable policy discontinuities across governments, the stability of the Costa government has helped foster and maintain a reasonably reliable economic environment, at least in contrast to the 2015 and 2016 periods.

The government has maintained its strategy of gradually reversing previous austerity measures without generating adverse impacts on budgetary policy or the country's overall fiscal consolidation. It has also sought to facilitate investment through the SIMPLEX+ program, which aims to simplify bureaucratic processes.

The economy grew during the period under review. Quarterly economic growth rates for 2018 were 0.4% in the first quarter and 0.6% in the second quarter. Eurostat has provided a provisional annual growth rate of 2.8% in 2017, up from 1.9% in 2016. For 2018, the European Commission has estimated a growth rate of 2.2%.

After three years of economic downturn (2011 – 2013), 2017 marked the fourth consecutive year of economic growth. Moreover, economic growth has also improved in relation to EU and euro zone averages. While the economy grew in 2014 and 2015, it did so at a lower rate than the EU-28 and euro zone averages. In 2016, economic growth in Portugal was equal to the euro zone average and 0.1 percentage points below the EU-28 average, but the 2.8% growth rate for 2017 exceeds both the EU-28 and euro zone averages (2.4% in both instances).

At the same time, there are some notes of caution. First, the estimates for 2018 and 2019 point to a slowing down of economic growth, and an economy that is not converging with the EU and euro zone averages.

Second, and most salient, the Portuguese economy still faces a number of structural constraints that remain largely unaddressed by government policy during this period. As the Bank of Portugal noted in March 2018: "In Portugal, structural weaknesses persist, which cannot be ignored, reflecting various challenges (demographic, technological and institutional) to potential growth in the Portuguese economy."

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United Kingdom

Score 7

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 then endured a deep recession during the financial crisis before recovering from 2013 onwards, despite weak demand from the euro zone, the United Kingdom's largest export market. There are concerns that the economy is too reliant on consumers' expenditure, fueled by overly high household debt and sustained by very loose monetary policy.

The change in government in 2010 led to the adoption of an economic policy framework ostensibly focused on budgetary consolidation, but there has been a substantial watering down of the fiscal rules put in place by previous governments; targets for returning to fiscal balance have repeatedly been pushed to later dates. This has meant the squeeze on public spending has been less than is often claimed because the government also chose to protect key areas of public services, 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. Insufficient public investment is reflected in creaking infrastructure and skills shortages.

The economy initially appeared to shake off the political shock of the "leave" vote in the June 2016 EU referendum, with the fall in the exchange rate helping to absorb the shock. In 2017, however, economic growth slowed such that the United Kingdom shifted from being one of the most rapidly growing mature western economies to one of the slowest. The labor market has remained buoyant, with the number of people in work reaching another all-time high at 32.4 million toward the end of 2018. This labor-market performance partly reflects a job-friendly economic policy, but nominal wages have not kept pace with inflation, leading to falling real incomes until the last few quarters. Moreover, disappointing productivity figures have led the independent Office of Budget Responsibility to reduce its estimate for the long-term growth potential of the economy. The current account deficit exceeded 5% of GDP between 2013 and 2016, but decreased in 2017 and 2018, and is expected to be around 35% in 2018. This is indicative of the continuing export weakness of the UK economy. Uncertainty about future UK-EU relations and threats to the future access of UK financial services to the continental market are weighing on the economy.

Citation:
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Australia

Score 6

Australia’s economy experienced moderate improvement in the year-long period to 8 November 2018. GDP growth returned to its long-term trend. However, real household disposable income per capita was stagnant, and as of mid-2018 remains 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 decline in terms of trade has hit wages, and hence household incomes, hard. The end of the boom also saw a decline in tax revenue as a share of GDP, resulting in a succession of substantial budget deficits from 2009. However, tax revenue has picked up in the last year, primarily due to growth in company tax receipts, in turn reflecting improvements in commodity prices. A lack of microeconomic and tax reforms over the last decade nonetheless continues to act as a drag on Australia’s economic growth prospects. The housing boom, which was a significant driver of economic growth for almost three decades, has come to an end. House prices may well decline further, and even a dramatic reduction of property prices cannot be completely discounted.

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 proven to be a barrier to achieving cooperation across 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), then 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.

Citation:
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Bulgaria

Score 6

The recent macroeconomic performance of the Bulgarian economy has been mixed. On the positive side, GDP continues to grow by a moderately high rate (3% – 4%), the unemployment rate continues to fall for all social groups and government finances are stable following three years of low surpluses in a row. On the negative side, exports decreased in 2018, foreign direct investment has dropped to levels unprecedented for this century and there is a visible acceleration of inflationary processes that are expected to continue into the near future. The European Commission has stressed the positive developments. In early 2018, it changed its opinion about the Bulgarian economy and no longer classifies Bulgaria's macroeconomic imbalances as excessive.

In terms of the microeconomic environment, businesses complain about several problems that are not adequately addressed by the government. One is the state of the judicial system, and the resulting uncertainty in property rights and contracts. Another problem is the difficulty in dealing with the state due to the unpredictable behavior of public administrators and rampant corruption. A third is the lack of adequately qualified labor.

In the coming year Bulgaria is poised to undergo a strict check on its financial system, state-owned enterprise governance and insolvency framework. The check forms part of the requirements for Bulgaria joining the European Exchange Rate Mechanism 2 and the European banking union. The results will be highly indicative about the state of the country's governance of the financial system and the monetary regime.

Citation:
European Commission (2019): Country Report Bulgaria 2019 including an In-Depth Review on the prevention and correction of macroeconomic imbalances. SWD(2019) 1001 final, Brussels (https://ec.europa.eu/info/sites/info/files/2019-european-semester-country-report-bulgaria-en.pdf).

Italy

Score 6

During the period under review, there was a major change in the executive following the national election of March 2018. The center-left Gentiloni government was replaced in June 2018 by a new government based on the coalition between the Northern League (Lega Nord) and the Five Star Movement (Movimento Cinque Stelle). The new government has promised substantial changes in economic and social policies, but has had little time so far to introduce them. The Gentiloni government pursued an economic policy agenda oriented to driving economic recovery. Fiscal policy followed a careful path between respect for the euro zone's rules and support for the domestic economy. Using some of the budgetary flexibility granted by the European Union, the government has prolonged the expansionary measures of previous years (e.g., the €80 monthly tax credit for low-income earners and the reduction of business taxes) and has added significant incentives for innovative investments in industry (the so-called Industry 4.0 program). The policies of the government have also encouraged public investment by local authorities, which in previous years had been severely constrained by the internal stability pact. Though public investment in infrastructure remains seriously below required levels. The costs of employing young people have been reduced and measures to tackle poverty have been strengthened.

The budget targets presented by the new Conte government in the revised

Documento di Economia e Finanza (NADEF) introduce a significant change in budgetary policies, with higher deficits for the next three years deriving from increases in social expenditure, pension costs and tax reductions. The government's declared goal is to fight poverty and provide a stronger stimulus for the economy, which started to slow down in 2018. For most expert observers, however, the measures envisaged are not the most apt for driving economic growth, particularly as investments are not at the core of this program.

Citation:
http://www.mef.gov.it/inevidenza/documenti/NADEF_2018.pdf

New Zealand

Score 6

Under the previous National government (2008-2017), New Zealand experienced a steady recovery from the 2008-2009 global financial crisis, which saw the national economy enter into recession, albeit less severely than in many other OECD countries. The National government pursued a cautious, pragmatic and poll-driven economic agenda. The new Labour-led government has also followed a cautious approach, with prudent fiscal policy despite increased welfare and health spending. However, New Zealand was hardly immune to economic trends found elsewhere. Data from Statistics New Zealand indicates that economic growth slowed from around 3% over the three years 2014-2016 to 2.7% in the year to June 2018. In the third quarter of 2018 growth slumped to its lowest rate since 2013, with manufacturing and farm business particularly hard hit. Consequences included a weakening of the local dollar and low business confidence due to headwinds from U.S.-China trade tensions. Business investment slowed in the third and fourth quarters of 2018, driven by falling investment in plant, machinery and equipment. According to the OECD, economic growth is projected to edge down to 2.6% by 2020, mainly reflecting a slowdown in private consumption, which can be partly attributed to an unintended consequence of government policies such as diminished net immigration and increased financial support for families. Export growth is also set to decline. Inflation increased to 2% – the mid-point of its target range – in the second quarter of 2018. This represented a slight increase on the 1.7% rate of inflation experienced in the second quarter of the previous year; the CPI 2018-2019 forecast is 1.9%, and the inflation rate is projected to increase to slightly over 2% in 2019/20. Housing is a substantial social problem, driven by high costs, especially in Auckland, where it exceeds the OECD average. Inevitably, the cost of housing affects the poor most. Although the Labour party had campaigned during the 2017 election on the need to make housing more affordable, especially for low-income and first-time house buyers, the promise of a comprehensive program of low-cost housing construction proved excessively ambitious, especially in the short term. Despite the passing of the Overseas Investment Amendment Act 2018, which bans the sale of existing homes to non-residents as a means of easing the housing shortage in New Zealand (Singaporeans and Australians are exempt from the ban), house prices continued to grow in most urban centers. On a positive note, in the September 2018 quarter, the seasonally adjusted unemployment rate fell to 3.9 percent from 4.7 percent in September 2017. Despite an expansionary fiscal policy, the government deficit was projected to be 0.0% of GDP in 2018 (down from 1.2% in 2016), and government gross debt declined from 37.6% in 2016 to 36.0% in 2018. Further decline is projected. The government has started to address the need for improved economic and social well-being, especially in the area of child poverty, and the need to transition toward a more environmentally sustainable economy.

Citation:
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Key facts https://www.stats.govt.nz/information-releases/labour-market-statistics-septembe r-2018-quarter
CTU Montly Economic Bulletin – September 2018.

Slovakia

Score 6

With real GDP growing by at a robust pace of 3.4% in 2017 and more than 4% in 2018, the Slovak economy remains among the strongest growing in the EU and the OECD in the period under review. Growth continues to be driven by solid household spending growth and a strong labor market recovery. Moreover, the economy displays a solid rise in exports. Both private and government investment is likely to accelerate in 2018 and 2019. The British-Indian carmaker Jaguar Land Rover (JLR) launched its brand-new production plant in Nitra end of October 2018. More than 1,300 people are currently working at the plant; in 2020 2,800 are intended to be employed. This development strengthens Slovakia's position as the world's largest per capita producer of cars, but will further increase the already-high dependence of the Slovak economy on a single sector and on export performance. Moreover, long-term growth prospects still suffer from weak infrastructure, a lack of skilled labor, low R&D spending and deficits in public governance.

Citation:
European Commission (2019): Country Report Slovakia 2019. SWD(2019) 1024 final, Brussels (https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-c ountry-report-slovakia_en_0.pdf).

Slovenia

Score 6

The Slovenian economy has been growing ever more robustly since 2014, registering an annual GDP growth rate of between 2.3% and 3.2% for the period from 2014 to 2016, and about 5% in 2017 and 2018. While Slovenia's export performance has remained strong, as evidenced by a current account surplus of about 5% of GDP, 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 signs of recovery. In 2017 and 2018, the government paved the ground for two major investment projects, the construction of a huge paint shop near Maribor by the Austro-Canadian automotive giant Magna and the construction of a second railway line between Divača and the port of Koper. However, both projects are controversial. While Magna received large subsidies and almost unconditional support from the government for its investment, it failed to exercise transparency in managing the project and to honor initial job promises, and consequently, slowly lost public support. In October 2018, Magna also came into conflict with environmental NGOs over the environmental permit the plant needs to start production in early 2019. The railway project has likewise been criticized for being miscalculated and prone to corruption, and has been delayed because of the need to hold a second referendum on the issue in May 2018. Concerns about the reliability of economic policy have been raised by the limited implementation of the privatization program presented in 2015. The planned sale of 20 companies has progressed slowly. The Cerar government tried to win consent from European Commission and the European Central Bank (ECB) to postpone the sale of the New Ljubljana Bank (NLB) because of inadequate market prices, but failed to gain the support of Brussels or Frankfurt. As a result, the Cerar government handed the controversial topic onto Šarec government, which proceeded with the sale process in late October 2018.

South Korea

Score 6

South Korea has shown higher growth rates than the OECD average, with annual GDP growth of 2.8% in 2016 and 3.1% in 2017. Korea also posted record current-account surpluses in 2018, signaling a high degree of international competitiveness. The Moon government’s cornerstone economic initiative is the “people-centered economy,” which focuses on job creation, income-driven growth and welfare expansion. Key initiatives include the transition of precarious job contracts into permanent positions and a gradual increase in the minimum wage. The government has also promised to reform the country’s business environment by reforming the dominant business conglomerates (chaebol), although few concrete plans have emerged. At the time of writing, the primary focus was on “self-regulation” by the chaebol. The level of household debt remains a major economic problem, and the government has implemented various comparatively modest measures aimed at cooling down the real-estate sector. Despite increasing interest rates in the United States, along with healthy growth and inflation rates, the Bank of Korea has been very cautious in increasing interest rates by just 0.25% to 1.5% in November 2017. With the country still overly dependent on exports for economic growth, the global protectionist trend and the ongoing crisis conditions in many emerging economies are casting a cloud over the Korean economy. On the other hand, conflicts with North Korea and China have subsided.

Citation:
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Japan

Score 5

Recent macroeconomic developments have been mixed. Japan has experienced an extremely long business-cycle upswing, dating since late 2012. But growth rates have remained relatively modest, while structural constraints such as demographic conditions and labor-market rigidities continue to cast a shadow on future growth prospects. The real growth rate in the year 2017 was 1.7%, with the IMF in October 2018 forecasting lower rates of 1.1% and 0.9% respectively for 2018 and 2019. The goals of a 2% annual inflation rate and concomitant increases in inflation expectations have still not been achieved, and the target for reaching these goals has been moved to fiscal year 2019/20.

Despite this consistent government and central-bank activity, and despite the presence of significant cash holdings within companies deriving from retained profits, consumption and domestic investment levels remain low. The New Economic Policy Package for 2018 contains supply-side measures aimed at strengthening childcare and promoting innovation. These are welcome expenditures insofar as they may boost much-needed productivity growth, but their actual effectiveness remains to be seen. Moreover, it is proving to be extremely challenging to compensate for the negative effects of an aging and shrinking workforce.

In terms of trade policy, the Japanese government was able to achieve significant progress in 2017 by leading efforts to conclude a revised trans-Pacific free-trade agreement (dubbed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, CPTPP) without the United States, and including exemptions in some controversial areas. Moreover, after four years of negotiation, it signed a bilateral free-trade agreement (FTA) with the European Union in mid-2018. However, the China-U.S. trade conflict is casting a shadow over future growth prospects, and it remains unclear whether the Trump administration's intention of negotiating an FTA with Japan will create further problems for Japan's exports.

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Mexico

Score 5

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, there are persistent uncertainties regarding Mexico's high rate of inflation, which was the second highest in the OECD in 2017 and 2018. This is due to the combined effects of exchange rate fluctuations, and the increased price of gasoline due to the phasing out of gasoline subsidies and the subsequent liberalization of prices in 2016.

Mexico has the OECD's lowest tax-to-GDP ratio. For decades, the country's low fiscal capacity was mitigated by 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 anticipated in the reform, however, assumed an ambitious GDP growth rate, which did not materialize. Furthermore, the government assumed that an increase in oil prices would 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. Nevertheless, the dept-to-GDP ratio decreased slowly from 56.76% in 2016 to 53.82% of GDP in 2018.

In comparison with most of the other OECD countries, Mexico's GDP growth over the last decade has been rather slow. This situation – and national and international organizations' downward revision of economic growth forecasts – was due to the fall in international oil prices and the increasing uncertainty over Mexico's future of economic relations with the United States. In particular, the renegotiation of the North American Free Trade Agreement (NAFTA) added major doubts to this difficult situation. These doubts were finally addressed when Mexico reached a trilateral agreement with the United States and Canada in the summer and fall of 2018. Although the member states have stated that the agreement hasn't been signed yet, it seems likely that a new USMCA (United States, Mexico and Canada Agreement) will replace NAFTA.

In addition to the USMCA, Mexico renewed the free trade agreement with the European Union in 2018. This agreement guarantees, with a few exceptions, the free circulation of goods and services between Mexico and the European Union.

Despite ongoing reforms geared toward boosting productivity, the microeconomic picture is less positive. There is a lack of competition in key domestic economic sectors. Mexico remains a low-skilled, export-oriented economy tied to the U.S. market. The uneven distribution of income is among the worst in the OECD. Despite sound macroeconomic reforms, inequality was not reduced in 2018. High levels of corruption and violence are also severe impediments to inclusive economic development. Though the travel and tourism sectors, which account for 7.4% of the GDP, are growing, despite the high rate of violence in some parts of the country.

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Croatia

Score 4

After six consecutive years of recession (2009–2014) the Croatian economy returned to growth in 2015. By the end of 2017, nominal GDP had returned to its 2009 value. While the growth of the Croatian economy continued in 2018, the real GDP growth rate slowed from 3.5 % in 2016 to 2.9 % in 2017 and 2.8 % in 2018. Investment has shown a downward trend, with the ratio of gross fixed capital formation falling from 25.1 % in 2009 to just 20.9 % in 2017. The economy is additionally burdened by €38 billion of external debt, amounting to about 82% of GDP. While tourism, which now accounts for almost 20% of Croatian GDP, grew strongly, industrial production lost momentum. In mid-2018 it turned out that the shipyards in Pula and Rijeka were on the verge of financial disaster. Now that the European Union has rejected the restructuring plans created by management, it remains unclear whether two of three biggest shipyards in Croatia will manage to survive.

Economic policy under the Plenković government had initially been preoccupied with the economic problems of Agrokor, a large and politically well-connected food-and-retail chain whose 143 companies and almost 60,000 employees have made it the biggest private holding in Croatia and the western Balkans. Although the creation of a receivership based on a controversial April 2017 law left some loose ends behind, the company successfully completed the out-of-court settlement process in July 2018, with Russian banks Sberbank and VTB banka gaining the largest share of ownership (approx. 47%). While the Agrokor case has been settled and the quality of economic policy has somewhat improved under the guidance of the European Semester process, the Plenković government has so far failed to raise productivity, to create a reliable economic framework and to foster the international competitiveness of the country. In the World Bank's Doing Business survey, Croatia dropped from the 51st place down to 58th and was overtaken even by some regional non-EU members.

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Kotarski, K., Petak, Z. (2018): Croatia's Post-communist Transition Experience: The Paradox of Intial Advantage Turning into a Middle-Income Trap, in: Z. Petak, K. Kotarski (eds.), Policy-Making at the European Periphery: The Case of Croatia. Cham: Palgrave Macmillan, 17-25.

Cyprus

Score 4

Some 30 months after Cyprus exited its bailout program, its creditors, the European Commission, European Central Bank and IMF, praised the successful implementation of policies which secured a quick recovery, sustained growth and robust fiscal performance, in a relatively improved environment. Nonetheless, the country still rates low in competitiveness and lost four places in the "doing business" index of the World Bank.

Following the failure of its economic system in 2011, Cyprus continues to search for a new model. It offers important assets to investors, such as a quality services sector, a favorable taxation system, good geographic location and EU membership. However, it still needs to step up reforms and upgrade its infrastructure, technological readiness, health and education systems, and the legal environment.

The implementation of reforms as well as efforts to reestablish confidence and stabilize the financial system has yielded a downsized financial sector governed by stricter rules. Policy responses to the default of the Cooperative Bank in mid-2018 further shrank the banking sector; it remains fragile, though new rules related the NPLs and other issues may benefit it.

Economic performance in 2018 continued to rely on traditional sectors, though diversification based on sustainability is much needed. Tourism growth, large construction projects, and private consumption pushed growth to over 4% in 2017 and 2018, which was above IMF's forecast of 3.6% for 2017 and 3.75% for 2018. However, the creditors continue to warn that risks and major challenges are weighing over economic sustainability. These require reforming the public sector, improving public management, privatizing state-owned enterprises and reforming the judiciary. The creditors also note the continued risks from the still very high NPLs ratio, high private and public debt, and higher levels of uncertainty regarding the external environment. Finally, the IMF notes that the high dependency of growth on investments through the citizenship-by-investment scheme poses risks to sustainability.

The urgency of the Cooperative Bank crisis forced collaboration between the government and the parliament to adopt long overdue regulations. There is, however, no indication that the same level of collaboration will continue, in particular on broader issues, such as the aforementioned much needed reforms of the public service and other sectors.

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2. Cyprus in the Global Competitiveness Report 2018, World Forum http://reports.weforum.org/global-competitiveness-report-2018/country-economy-profiles/#economy=CYP
3. World Bank, Doing business index 2019, Cyprus, http://www.doingbusiness.org/en/data/exploreeconomies/cyprus#

Greece

Score 4

In the period under review, Greek economic policy remained bound by a three year Economic Adjustment Program (supported by a €86 billion bailout), based on a July 2015 agreement reached by Greece and its creditors. The program officially ended in August 2018, but access to the public capital markets continues to be the largest hurdle facing Athens as it exits the era of bailouts.

The Greek economy is growing again (1.5% in 2017), though at a pace below the euro zone's average (2.4%). Tourism was the main contributor behind this growth: revenues exceeded €14.6 billion in 2017, showing an increase of 10.8% compared to 2016. Unemployment is slowly falling, though still close to 20%. The government achieved a spectacular 3.5% primary surplus (with a target of 1.75%) in the 2017 budget – mainly by raising taxes. Economic policy remains constrained by the capital controls imposed by the Syriza-ANEL government in July 2015 to avoid a bank run after a referendum on an austerity package under negotiation with the country's creditors. Capital controls were loosened the end of summer 2018 but will probably not be completely abolished, as the economy remains frail. In particular, there has been little progress in managing non-performing bank loans (more than €90 billion or 48% of all bank loans).

The Syriza-ANEL government continued a policy of imposing high taxes on income and assets, a policy which the government changes almost every year, creating an unstable tax environment. Increased taxation has helped achieve a state budget surplus, but has also acted as a further disincentive to investment and thus contributed to economic stagnation.

Prospects for future economic growth are better, although foreign investors still encounter significant bureaucratic obstacles when trying to implement their investment plans. In the period under review, this situation was reflected in the long delays in the progress of some major investments. With the exception of Chinese involvement in the management of the Port of Piraeus (one of the largest in the

Mediterranean) and Fraport's renovations in the 14 regional airports that it manages, several investments have once more been delayed. For example, the Eldorado Gold company, which had established its business in Halkidiki, filed in September 2018 for approximately €750 million in compensation for damages from the Greek state. Meanwhile, a consortium of companies that had bought land once belonging to the state (the former Hellenikon International Airport) witnessed some progress in its cooperation with Greek authorities and has announced that construction (i.e., office buildings, residences and hotels) will begin in early 2019.

Greek public debt remains at forbiddingly high levels (180% of the GDP in 2017). Almost 70% of it is owed to official European creditors, with some 70% to the European Financial Stability Facility. The IMF, along with most international observers, believe that this debt mountain is unsustainable and demands deep relief. The country's creditors may soon need to devise a plan for a large-scale debt restructuring that will entail substantial losses for them.

Citation:
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On GDP: https://ec.europa.eu/eurostat/web/products-datasets/-/tec00115&lang=en
On public debt: https://ec.europa.eu/eurostat/web/products-datasets/-/teina230

Hungary

Score 4

Real GDP has grown by more than 4% in 2017 and 2018. However, the strong growth is not sustainable, as Hungary has not followed the big innovative – industrial and digital – "revolutions" in the world. Instead, growth has been primarily based on a high level of EU transfers which will drastically decrease with the new EU financial framework. Moreover, economic policy has been subordinated to power politics and state capture by the "royal court" around Orbán. In 2018, Lőrinc Mészáros, a close friend of Prime Minister Orbán, seems to have purchased a new firm or won a new project in public procurement almost every day. The new wave of FDI by the German carmaker BMW in Hungary has been directed to Debrecen, a Fidesz stronghold under the absolute control of Lajos Kósa, a key figure in the party. Another case in point is the concentration of banks in the hands of pro-government oligarchs. After purchasing foreign-owned banks, the government has privatized them to its friends in nontransparent ways. With new mergers ahead, there is a danger of a financial collapse due to the cross ownership and lack of transparency in the banking sector. Because of the presence of state capture and the lack of legal certainty, Hungary normally ranks last in business environment rankings for the Visegrád countries.

In the new Orbán government, the Hungarian National Bank (MNB) has become the center of decision-making in Hungarian economic policy and other areas when it comes to general strategy-making. The latest Competitiveness Report by the MNB – written in 2017 and rewritten in 2018, after the elections, is a summary of the Orbán government's economic policy, or in practice, the main strategic tool in safeguarding the consolidation of the Orbán regime. György Matolcsy, the governor of MNB, is the strong man of the "royal court" around Orbán, accompanied by Lájós Palkovics, the new minister of the Innovation and Technology Ministry (ITM). They have recently elaborated a model of authoritarian modernization that involve making major changes to the budget's structure.

Citation:
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Romania

Score 4

Real GDP growth in Romania was almost halved within one year, falling from 7% in 2017 to 4% in 2018, and is expected to decline further in 2019. Private consumption, supported by tax cuts and strong increases in gross wages and pensions, has remained the main driver of growth, but has suffered due to strong inflation and the uncertainties associated with a shift in the distribution of social contributions from employers to employees. With an annual average of 4.1%, Romania's inflation has been the highest in the European Union. Both the Tudose and the Dăncilă government have done little to improve the medium- and long-term prospects of the Romanian economy by addressing long-standing problems such as a weak education system, poor infrastructure, cumbersome procedures for businesses and frequent regulatory changes. Public investment recovered only slightly from its post-EU accession low in 2017. Despite the political turmoil, private investment has remained high.

Citation:
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Turkey

Score 4

Turkey's most significant economic problems are related to external imbalances. While the current account deficit increased from $33.1 billion (3.8% of GDP) in 2016 to $47.4 billion (5.6% of GDP) in 2017, total external debt increased from $440.3 billion (51.7% of GDP) at the end of second quarter of 2017 to $457 billion (about 60% of GDP) at the end of second quarter of 2018. The plunge in the Turkish lira during August 2018, following economic sanctions imposed by the United States on Turkey due to severe bilateral political disputes, has increased pressure on Turkish corporations burdened with foreign currency debts and the banks that lent the corporations money.

The main factor causing the 2018 currency crisis has been foreign investors' increasing uncertainty regarding the sustainability of Turkey's external debt. Though external debt is said to be sustainable as long as the country does not need to default, renegotiate or restructure its external debt, or make implausibly large policy adjustments. As a result, foreign capital flows financing the liquidity requirements of the country have dried up. The U.S. administration's decision to inflict economic pain on Turkey has triggered the currency crisis, but it has not been a major factor causing the currency crisis.

On 20 September 2018, the government announced the "New Economic Program 2019 – 2021." Accordingly, the current account deficit in 2019 is expected to decline to $36 billion (4.7% of GDP) in 2018 and to $26 billion (2.7% of GDP) in 2019. Whether or not expectations will be met remains to be seen.

According to net international-investment position (NIIP) statistics published by the Central Bank of Turkey, Turkey's total gross external liabilities at the end of the second quarter of 2018 amounted to $633 billion, 76% of these liabilities were short term. On the other hand, according to external debt data published by the Ministry of the Treasury and Finance, Turkey's external debt at the end of the second quarter of 2018 amounted to $457 billion and the share of short-term debt in total external debt amounted to 26.2%.

According to Reuters, Turkey has to make $179 billion in external debt repayments over 12 months to July 2019, with most of this debt is owed by the private sector, especially banks. It has been emphasized that Turkey's financing needs are large and access to international markets has become problematic. Combining the expected current account deficit of about $40 billion and the $179 billion financing requirements totals approximately $220 billion, which is very large for a country like Turkey. The above considerations reveal that Turkey has to make implausibly large policy adjustments and that prospects of an IMF bailout have increased considerably.

Turning to considerations of recent developments in the Turkish economy, Turkey's GDP expanded by 7.4% in 2017. According to the Turkish Ministry of Treasury and Finance, the GDP growth rate during 2018 will be 3.8%. GDP has declined from $863.4 billion in 2016 to $851 billion in 2017, and is expected to decline further to $763 billion during 2019. In contrast, Turkey's inflation rate, based on the consumer price index (CPI), is expected to increase from 11.9% in 2017 to 20.8% in 2018. The country's annual inflation rate in September 2018 based on CPI was 24.5%. Thus, the headline inflation rate remains well above the central bank target of 5%. On the other hand, the producer price index has increased by 46.2% on a year-on-year basis in September 2018, indicating that the consumer price index will be increasing at more than 24.5% on a year-on-year basis over the next few months.

In the case of monetary policy, on 13 September 2018, the central bank announced that the bank funding provided through overnight lending will be provided via one-week repo auctions and that the policy rate has been increased from 17.75% to 24%. Thus, the central bank has returned to a conventional monetary policy approach.

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Address | Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Straße 256
33311 Gütersloh
Germany
Phone +49 5241 81-0

Dr. Christof Schiller
Phone +49 5241 81-81470
christof.schiller@bertelsmann-stiftung.de

Dr. Thorsten Hellmann
Phone +49 5241 81-81236
thorsten.hellmann@bertelsmann-stiftung.de

Pia Paulini
Phone +49 5241 81-81468
pia.paulini@bertelsmann-stiftung.de

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