Economy Report

Economic Policy

Sustainable Governance Indicators 2022

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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 a country's competitive capabilities and attractiveness as an economic location.

8-6 = Economic policy largely provides a reliable economic environment and supports the objectives of fostering a country's competitive capabilities and attractiveness as an economic location.

5-3 = Economic policy somewhat contributes to providing a reliable economic environment and helps to a certain degree in fostering a country's competitive capabilities and attractiveness as an economic location.

2-1 = Economic policy mainly acts in discretionary ways essentially destabilizing the economic environment. There is little coordination in the set-up of economic policy institutions. Economic policy generally fails in fostering a country's competitive capabilities and attractiveness as an economic location.

Denmark

Score 9

The pandemic and the containment policies imposed triggered an unprecedented decline in economic activity that has recovered swiftly as restrictions have been lifted. Compared to many other similar countries, Denmark has been suffered less in terms of the pandemic's health and economic consequences. Economic policy during the pandemic – which includes the specific emergency measures and more traditional policies – have thus largely been successful in ensuring a quick recovery. It should be noted that Denmark entered the pandemic without any major economic imbalances, and sound public finances made it possible to act swiftly without raising concerns about the sustainability of public finances. By mid-2021, economic activity reached its pre-pandemic level, and the focus is now on a shortage of labor and a risk of overheating. The economic debate is increasingly focused on measures to increase labor supply.

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Ireland

Score 9

Prior to the arrival of the pandemic, the Irish economy seemed to go from strength to strength. Proxy indicators (e.g., labor market data, tax revenue, investment expenditure and consumption expenditure) were all positive. In 2021, GDP grew by 13.5%. This was driven by an increase of more than 16% in exports of goods and services. Gross national product increased by 11.5%. General government expenditure is forecast to reach €105 billion in 2022, with a forecast budget deficit of €8.3 billion, down from €13.3 billion in 2021. Personal spending increased to €105.2 billion, an increase from €99.5 billion in 2020, but lower than the €111.1 billion recorded in 2019. Total employment increased to 2.5 million (the first time it reached this mark in Ireland), with 229,000 more people in work compared to 2020, and the COVID-19-adjusted rate of unemployment fell to 7.4% of the labor force.

However, against this background of strong economic growth, Ireland faces some serious supply-side constraints, most notably in the area of housing.

In November 2021, the Irish Fiscal Advisory Council (IFAC), which was formally established as a statutory body in December 2012 under the Fiscal Responsibility Act, published its fifteenth Fiscal Assessment Report. The report, under the chairmanship of academic Dr 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 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 healthcare, as a major problem area and argued that the Health Service Executive had consistently and significantly exceeded its allocation by almost over the previous four years.

In its initial comments on the 2020 budget, IFAC stressed that the economy faces unusual uncertainty on two fronts, namely (1) overheating, because the economy is close to its potential, and (2) Brexit-related issues.

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Roantree, Barra, Doorley, Karina., Kakoulidou, Theano, and O' Malley, Seamus. Budget 2022, ESRI Special Article, Economic and Social Research Institute, https://www.esri.ie/system/files/publications/QEC2021WIN_SA_Roantree.pdf

Luxembourg

Score 9

Despite the coronavirus pandemic, which has unfolded since 2020, Luxembourg's economy is progressing. Given the structure of Luxembourg's economy, which is heavily dominated by services (in particular in the financial domain), as well as the support measures enacted by the government to keep the economy afloat, the slump due to COVID-19 was much lower than expected. According to the national statistical office STATEC, after a decline in GDP of 1.3% in 2020, economic growth is expected to return to the positive side with an initial rate of 4%. In medium term, the growth rate is expected to stabilize to at about 2.6%. The OECD's assessment is more optimistic, forecasting a GDP rise of 6.5% in 2021, followed by moderation to 3.7% in 2022 and 3.1% in 2023. However, the average growth rate of Grand Duchy's economy over the last five years amounted 2.1%, or almost four times higher than that of the euro area. Some of the support measures enacted by the government will have a deficit-increasing impact in 2020 and 2021. According to the European Commission, Luxembourg's public debt is expected to increase to 25.4% of GDP in 2020, 27.3% in 2021 and 28.9% in 2022.

Luxembourg is considered to be the third-most-open economy in the world, with an openness ratio of 158.2% of GDP. The country has an export-intensive economy, with a persistent trade deficit. The trade balance in 2020 stood at 10% of GDP, which represents a decrease compared with 2019 (when it stood at 11.9% of GDP). The ratio between exports and imports stands at 65.3%. While the Luxembourg's trade of goods is in deficit (10% of GDP), the balance of services is largely favorable (33% of GDP). Its volume in 2020 (totaling €172.8 billion) was almost six times higher than the volume of trade in goods (€30.2 billion.), driven essentially by financial services (which reached €17.4 billion in 2020, following a contraction of 4.6% from the year before).

The EU member states are Luxembourg's main trading partners. In 2020, its three direct neighbors – Germany, France and Belgium – accounted for 65.8% of the country's trade in goods. Luxembourg's main customer is Germany (more than 27.2% in 2020) and its top supplier is Belgium (34.1%). Its other important partners are all European, including the Netherlands (5.4% of trade), Italy (3.2%) and the United Kingdom (2.8%). Luxembourg's main non-EU partners are the United States (in seventh place with 2.5%), China (10th place with 1.6%) and Japan (11th place, 1.3%). The Grand Duchy exports manufactured goods including iron, steel, chemical and rubber products, glass, electrical and electronic equipment, but financial services hold the highest profitability level.

Luxembourg is pursuing its strategy of public investments. Direct and indirect investments are envisaged to reach 4.3% of GDP in 2021, a significantly higher level than the average of 3.7% during the 2015-2019 period. Environmental and climate

protection, public transport and soft mobility accounted for about 20% of non-COVID-19 investments in the 2021 budget, while other measures aimed to strengthen solidarity and affordable housing, and support the development of a sustainable and competitive economy.

Luxembourg's population grew by 31.45% between 2008 and 2022 (mainly driven by immigration). Eurostat expects further growth of 21.3% by 2028. The workforce of the country has two peculiar features: it is highly skilled (approximately 59.6% of the active population, according to World Economic Forum/ILO statistics), and it mainly consist of cross-border workers coming from the neighboring regions in France, Germany and Belgium (the so-called Greater Region), on which the country is highly dependent. In 2020, approximately 203,587 cross-border workers crossed the Luxembourg borders on a daily basis, rising to an estimated 209,014 in 2021 (+2.7%). Overall employment grew by 1.6% over the past 12 months, rising to 2.2% for cross-border employment. In 2021, is expected to stabilize at 2.5%, showing more dynamic growth than the euro area.

Following a contraction of 9.4% in 2020, Luxembourg private consumption was forecast to increase again in 2021, according to the European Commission. Real wages have risen moderately over the same period. Due to the fact that the annual consumer price index inflation rate reached 2.7% in September 2021, the automatic adjustment mechanism was activated, and salaries, wages and pensions were to increase by 2.5% as of 1 October 2021. Real estate prices are rising sharply, reducing the disposable income available for private consumption. Nevertheless, Luxembourg's per capita consumer expenditure in 2020 of €27,500 was by far the highest such level in the EU, as well as among the OECD member countries.

Luxembourg's government is pursuing various strategies to increase the country's attractiveness as a business location. Key activities include the provision of support for the fintech sector, the passage of cybersecurity measures, the digitalization of the public administration and the development of the country's technological infrastructure. With more than 20 data centers in place today, Luxembourg is already one of the largest data and internet hubs in Europe.

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Sweden

Score 9

The Swedish economy fared substantially better than expected in the spring of 2020 as a result of the economic measures adopted by the government with a view to alleviating the consequences of the COVID-19 pandemic (Finanspolitiska rådet 2021a). More specifically, Sweden's economic performance was in line with that of other Scandinavian countries and markedly better than that of the euro area as a whole. Even though GDP fell by 7.6% during Q2 of 2020 (the largest recorded contraction), the overall decrease in GDP for the year was 2.8%, compared to 6.8% in the euro area. A year later, in Q3 of 2021, GDP rose by 2.0% compared to Q2, an increase driven mainly by household consumption (SCB, 2021).

There is no question that the pandemic affected the Swedish economy. However, the state was well positioned to intervene with economic measures, which continued in 2021. The objectives fell broadly under three categories, seeking 1) to allow the economy to weather the crisis, 2) to alleviate the decrease in demand for goods and services, and 3) to protect the sectors of the population that suffered the greatest financially hardships (Finanspolitiska rådet, 2021a). The Swedish Fiscal Policy Council (Finanspolitiska rådet) posits that the government acted swiftly and appropriately, though it has been critical of blanket measures that may or may not have benefited people not in need of assistance. They also point out the lack of statistics generated among the public authorities tasked with administering the financial support, rendering evaluation difficult (Finanspolitiska rådet, 2021a).

The prognosis of the National Institute for Economic Research (NIER, Konjunkturinstitutet) forecasts that as of December 2021, the recession was over (Konjunkturinstitutet, 2021). 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. For example, there are still unused resources in the labor market, despite the swift recovery after the pandemic-induced downturn in 2020.

The housing market and increased household debt has been a concern over the past few years. In an attempt to cool the market, the government introduced mandatory mortgage repayment rules in 2018. In 2020, both the average size of the mortgage (in relation to the value of the property) and the ratio of the mortgage compared to household income increased, but at rates lower to those seen prior to 2018, before the mandatory mortgage repayment rules were introduced. Sweden's financial supervisory authority, Finansinspektionen, temporarily lifted these requirements, but this exception ended in August 2021 (Finansinspektionen, 2021). Together with increasing construction, these measures were intended to help cool off the real-estate market in metropolitan areas over 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.

Sustainability in the long run remains the departure point for the financial policy framework, both legislated and with regard to rules in use. In 2019, an acceptable debt level was adopted for the country's gross debt – the so-called Maastricht debt. This is not an operative target, but rather reflects the desired middle-range level, and is set at 35% of GDP. In 2021, Maastricht debt was at 38.9% (Finanspolitiska rådet 2021b; Konjunkturinstitutet 2021). More importantly, the economic policy framework states that public debt is to be brought down incrementally. Sweden's economy and the 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 area 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 extreme-right Sweden Democrats (SD) party holds a pivotal position between the Social Democratic-Green-Left bloc and the center-right "Alliance." In January 2019, the Social Democratic-Green government negotiated a 73-item agreement ("the January Accord") with the Center Party and the Liberals to secure parliamentary passage for major government bills (https://januariavtalet.se). The agreement indicated a shift toward neoliberal economic policy, including an overhaul of the tax system and reevaluation of public services across a large number of policy areas. This agreement broke down over a disagreement in housing policy in the summer of 2021, leading to a political crisis, when, for the first time in Sweden, a prime minister received a no-confidence vote.

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Canada

Score 8

Prior to March 2020, Canada's economy was stable, with low unemployment and controlled inflation. The onset of the pandemic plunged Canada into the deepest recession since the thirties. At its peak, GDP contracted by 17% and 3 million Canadians lost their employment. Moreover, previously thriving sectors such as travel were essentially shut down.

An extensive array of fiscal and economic policy initiatives were introduced to gird against the worst impacts as lockdowns were introduced to control the spread of the virus. The Bank of Canada brought interest rates to 0.25% by 2020 year end and critical programming undertaken by the federal government included the Canada Emergency Response Benefit and the Canada Emergency Wage Subsidy. By December 2021, the government was reporting a budgetary deficit of CAD 327.7 billion for 2020-2021. While the full impact of economic measures taken has yet to be assessed, a report by the Parliamentary Budget Officer in May of 2021 estimated the impact of a select subgroup of budgetary measures (CAD $142.9 billion) would have increased real GDP growth by 0.6 percentage points in 2021. The emergency measures likely also alleviated a sustained unemployment rate above 12% into the end of 2021 (Canada 2020, 38).

By the third quarter of 2021 both the economy and employment began to recover, with GDP growth reaching 5.4%. However, a new wave of the pandemic associated with Omicron has necessitated another round of lockdowns and limited business capacity at the beginning of 2022. The full implications of this for economic growth have yet to be evaluated but the economy is still in a very fragile state, and the federal government has promised continuing support for businesses and workers even though most of the emergency programming measures taken have now ended. The rate of inflation, especially driven by supply chain shortages and the cost of food, has put further pressure on household incomes. In November of 2021, the Consumer Price Index rose 4.7% over the previous year. Together with the burgeoning deficit, the government will need to steer a careful course of responsible fiscal management and targeted stimulus measures.

Generally speaking, both the federal and provincial governments have implemented market-oriented policies that have enhanced the country's attractiveness to business. However, a continuing key challenge for Canada involves the coordination of

regulatory policy across federal and provincial jurisdictions, exacerbated by the presence of interprovincial barriers to trade and labor mobility. Another factor is the country's dependence on natural resources, which account for roughly 20% of GDP. Aside from the challenges posed by decarbonization and the risks associated with the high levels of 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. This factor may be mitigated by the current Liberal government's new Bill C-69 (the Environmental Assessment Act), which is aimed at reducing uncertainty in large-scale projects. The effectiveness of the bill has yet to be demonstrated, however.

A final concern focuses on the need for talent and innovative ability. In the World Economic Forum's 2019 Global Competitiveness Report, Canada continued to receive low rankings with regard to technological readiness, business sophistication and the capacity to innovate. Previous federal budgets in 2017 and 2018 attempted to stimulate innovation through the development of "innovation superclusters," but while focused on scaling and growth, these clusters have not yet made a major impact.

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Finland

Score 8

Sanna Marin's government published its program in December 2019, closely following her predecessor's program. Before the COVID-19 crisis hit, the goal of the Marin government was "ecologically and socially sustainable economic growth, high employment and sustainable public finances." This goal was not abandoned in 2020. However, the focus of the government shifted toward handling the COVID-19 crisis.
Before the COVID-19 crisis, the employment rate had grown for three years, with unemployment rates falling among all groups. According to the government program, the principal drivers of productivity in economies like Finland are skills and technological progress.
According a September 2021 Ministry of Finance (2021) forecast, Finland's gross domestic product was expected to grow by 3.3% in 2021. Before the arrival of the omicron variant, recovery from the COVID-19 pandemic had progressed rapidly

since spring 2021. The economic recovery was expected to continue in the autumn, especially in the sectors that were still subject to restrictions. Finland's GDP was expected to grow by 2.9% in 2022 and by 1.4% in 2023. In the forecast, the deterioration in pandemic conditions were not expected to slow down the economic recovery.
Growth in employment accelerated significantly in the first half of the year 2021. The demand for labor was sustained by economic growth, at least in the short term. It was expected that the economic recovery would boost the number of employed persons in 2022 and 2023, especially in the service sectors.
The general government deficit was expected to shrink substantially in 2021 and 2022, as the economic recovery and rapid rise in employment was expected to boost tax revenue and reduce unemployment expenditure. However, this expected temporary economic recovery was not enough to eliminate the structural imbalance affecting Finland's public finances.

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France

Score 8

France's economic outlook is improving. Since President Macron's election in May 2017, he and his administration have launched an ambitious reform agenda. Over the past two years, an impressive set of reforms (probably comparable in magnitude only to the 1958 – 1959 reforms undertaken at the beginning of the Fifth Republic) have been adopted or launched. However, the Yellow Vest protests from November 2018 to spring 2019 had the effect of slowing some reforms, and forced the government to postpone green taxes on oil, abolish taxes and social contributions levied on overtime hours, and increase transfers to single parents and workers with low salaries or pensions. The overall cost of these measures, due both to lower fiscal receipts and higher expenses, has been estimated at €17 billion.

The 2020 budget adopted additional changes, such as a decrease in company taxes, an elimination of the local residence taxes (taxe d'habitation) for 80% of taxpayers (with a complete elimination by 2022), a substantial cut in social-system contributions paid by employees, and a total €5 billion decrease in the income taxes paid by low-income families. The overall objectives are to increase the net incomes of low-income employees and workers, prevent capital flight and increase incentives for investors. The crucial feature is the consistency of the overall package, which favors the creation of jobs, erases some defects of the current unemployment-benefit system, and bolsters company competitiveness while slightly increasing workers' income due to the reduction in social-system levies or contributions.

Before the outbreak of the pandemic, business investment had been boosted by Macron's business tax cuts, favorable financing conditions and increases in labor

market flexibility. Meanwhile, lower labor taxes and improved job training opportunities have helped boost job creation, although the high unemployment rate was declining rather slowly. However, the country's structural problems – the budget deficit, the public debt, the difficulty in reforming a centralized and massive bureaucracy, and vested interests' fierce resistance to change – were all as acute as ever. The social security budget, which was supposed to be positively balanced in 2019, went into deficit due to the Yellow Vest movement. The financial consequences of Macron's social measures, announced on 10 December 2018 in order to calm the social unrest, had both positive and negative effects. On the one hand, growth has been sustained due to the stimulus effect of spending measures; on the other, this has compromised efforts to balance the budget and reduce the public debt, and a pension reform that was already jeopardized by strikes and protest had to be put on hold.

The pandemic radically modified the economic landscape. The government reacted swiftly to contain the negative economic consequences: First, an urgency plan (Plan d'urgence economique) was launched in March 2020, injecting €45 billion into the economy in order to avoid the collapse of companies and massive unemployment. Second, a comprehensive recovery program (France Relance) was introduced in September 2020 that involved a €100 billion investment, €40 billion of which was provided by the NextGenerationEU fund. The program targets three objectives: expediting the transition to a decarbonized economy, enhancing France's competitiveness and ensuring social cohesion. This recovery plan was in part a short-term response to the economic slowdown, but also contained reforms and measures aimed at overcoming structural weaknesses of the French economy (notably with a substantial reduction of production taxes on companies). Third, this approach was continued in October 2021 when the government published the investment program "France 2030," which foresees expenditure of €30 billion over the next five years on crucial manufacturing sector fields such as energy, transport and electronic components, with the goal of strengthening the industrial base and its innovation capacity.
Initial evaluations indicate that the implementation of the first two programs has been swift. Furthermore, the measures contributed to arresting the economic decline triggered by the pandemic. After a deep recession in 2020 (-9% GDP growth), the economy improved very strongly in 2021 (close to 7% GDP growth according to the latest data). By the fall of 2021, the economy had recovered to pre-crisis levels, and at the end of 2021, the unemployment rate was at its lowest level in the last 13 years. Finally, France remains the most attractive country in Europe for foreign investors. This being said, all these measures taken on the principle of "Whatever it costs" have raised the level of public debt, which was already high before the outbreak of the pandemic.

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F. Corti et al.: Comparing and Assessing Recovery and Resilience Plans – Italy, Germany, Spain, France, Portugal and Slovakia, CEPS, Brussels 2021
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Germany

Score 8

Germany's economic policies reflect the country's broad consensus on the so-called social market economy model. Policies are supported by strong and stable institutions that guarantee sound property rights, an open economy, an effective competition policy, and effective social protection through a developed and constantly evolving welfare state. Over recent years, the leitmotif of the social market economy has been increasingly augmented by the growing emphasis on ecological sustainability. While this trend has been visible already in the past legislative terms, the new German coalition government that took office in December 2021 has now made this an explicit objective. The new three-party coalition formed by the SPD, the Green Party and the liberal FDP have agreed to transform the German economic model toward a "social-ecological market economy" (Koalitionsvertrag 2021, p. 25) where each of the three partners stands for an emphasis on one of the three model dimensions (SPD for social justice, Green party for ecological sustainability, and FDP for liberal market principles). Hence, this approach appears to be consistent and credible.

The German economy has performed relatively well over the medium term of the past decade and has also proved its resilience since the outbreak of the pandemic at the beginning of 2020.

Prior to the crisis, the country was on a path of stable economic growth and steady growth in employment. Compared to other OECD countries, Germany has reached very high employment levels with an unemployment rate increasingly in the region of a full-employment economy. From 2012 to 2019, government budgets were balanced or in a comfortable surplus situation (AMECO Database 2022).

Severely hit by the pandemic lockdowns since March 2020, the German government swiftly engineered one of the largest fiscal stabilization packages among OECD countries (International Monetary Fund 2021). The package included the activation of familiar and tested instruments such as generous short-time work schemes but also new rescue packages that effectively supported firms through grants and liquidity. Both this massive response and the underlying financial health of the German corporate sector explain a relatively mild impact of the largest global economic shock in postwar history. Real GDP declined by 4.6% in 2020, which marked a deep recession that was nonetheless milder than that seen in other euro area countries; on average, real GDP declined by 6.4% in the euro area (European Commission 2021). Germany's recovery was hampered in 2021 by shortages of key industrial inputs and frictions in international supply chains. However, the prospect for a full recovery is good (Sachverständigenrat 2021) and further indicators such as the low number of

firm insolvencies and the mild impact of the crisis on the level of unemployment confirm an optimistic assessment on how Germany will finally cope with the pandemic crisis.

Leading indicators classify Germany's competitiveness as an investment location as good but not as excellent as, for example, the Scandinavian countries. A supportive economic policy mix is seen as a strength, but the country's deteriorating infrastructure, the backlog in digitalization, high energy prices, and a high effective corporate tax burden are seen as weaknesses (Dutt, 2021; IMD World Competitiveness Ranking 2021).

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Latvia

Score 8

Latvia's economic policy was initially shaped by parameters accepted as the price of financial assistance provided by the IMF and the European Union. Even though this assistance has since been repaid and the conditions withdrawn, they have provided a framework in which the economy established fiscal discipline. For example, in 2013, Latvia introduced legislation that placed a cap on the public budgetary 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 monitoring compliance with the budget deficit cap.

In the last decade, there have been no significant economic imbalances. The country has seen only moderate levels of inflation, with economic growth averaging around 3.5% (2.2% in 2019). The exception to was during the economic crisis triggered by the COVID-19 pandemic, which led to the activation of the EU Stability and Growth Pact's general exemption clause, allowing the general government deficit to increase in 2020.

Until the outbreak of the COVID-19 pandemic, Latvia's economic growth was stable, generally exceeding the EU average. GDP increased on average by 3.3% annually from between 2011 and 2019, and moderated in 2019. The pandemic has left a significant impact on the Latvian economy, with particularly strong effect on consumption, exports of goods and services, and the labor market. For example, private consumption was 10% lower in 2020 than in 2019.

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2. Central Statistical Bureau (2021) In 2020, general government budget deficit amounted to €1.3 billion, Available at: https://stat.gov.lv/en/statistics-themes/economy/government-finance/press-releases/7019-provisional-results-general, Last accessed: 07.01.2022.

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Lithuania

Score 8

Lithuania has demonstrated remarkable economic progress in the last decades. In 1995, its GDP per capita was second-to-last of all countries surveyed in the SGI report. By 2021, Lithuania had surpassed 13 more countries on this measure, including Spain. Furthermore, the country has been surprisingly resilient in the face of numerous shocks, such as the global financial crisis, the Russian embargo against EU goods and the COVID-19 crisis. During the first year of the pandemic in 2020, Lithuania's GDP growth was second-best in the EU. Lithuania's economic policies have created a reliable economic environment, thus enhancing the country's competitive capabilities and improving its attractiveness as an economic location.

In its 2020 Doing Business report, the World Bank ranked Lithuania at 11th place out of 190 countries. The criteria receiving the most positive assessments included registering property (ranked 4th), enforcing contracts (ranked 7th) and dealing with construction permits (ranked 10th). Meanwhile, resolving insolvency (ranked 89th) was assessed least positively. Lithuania climbed three positions in the 2020 report, from 14th place out of 190 countries in 2019. This is attributable to the fact that obtaining electricity services was made simpler through the launch of an integrated digital application and a reduction in the cost of new connections, as well as to the

fact that minority investor protections have been strengthened thanks to the clarification of ownership and oversight structures. In 2020, the government significantly reformed the insolvency regime, with Lithuania now having one of the most efficient insolvency regimes in the OECD. In the Global Competitiveness Report 2019, the World Economic Forum ranked Lithuania at 39th place out of 141 countries (up by one position), with the nation scoring particularly well with regard to its macroeconomic environment (ranked 1st) and ICT adoption (ranked 12th).

The European Commission has identified the following challenges to Lithuania's long-term competitiveness: unfavorable demographic developments, labor market deficiencies and high emigration rates, rising 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. Recent increases in energy prices and increasing wages in the labor market have raised potential concerns about the Lithuanian companies' competitiveness, although so far it has not hindered the very rapid expansion of exports. Lithuania has experienced a very rapid increase in prices – in November 2021, the annual inflation rate reached 9.3%, which was the highest rate in the euro zone.

The Šimonytė government has yet to start implementing substantial structural reforms, as its attention has been mostly focused on managing the twin crisis of the pandemic and the migrant flows from Belarus. Nevertheless, in 2022, it plans to start implementing significant reforms in the fields of education, taxation, the civil service and healthcare. Current discussions include increasing the rate and base of the real estate tax, eliminating certain personal-income tax exemptions, and restructuring automobile taxation to tackle pollution. Given that these reforms were postponed until the second half of the current parliament's term, there are doubts as to whether there will be enough resolve to push them through. The divergent positions on tax reform among even among the governing coalition partners is one sign of the potential difficulties ahead in implementing the planned reforms.

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 with regard to doing business in the country, according to surveyed business executives. In the Global Competitiveness Report 2019, the World Economic Forum ranked Lithuania at 85th place out of 141 countries with regard to the burdens imposed by government regulation, and 91st with regard to the efficiency of the legal framework in challenging regulations. Additional efforts are necessary to promote Lithuania's transition to a circular economy, as the country's economy remains very resource-inefficient, with landfill remaining the cheapest way of treating industrial waste.

A recent challenge has emerged as a result of Lithuania's stance vis-à-vis Taiwan. After Lithuania agreed in 2021 to let Taiwan establish a diplomatic office in the country, and further said it intended to open a trade office in Taiwan, Chinese reaction was very harsh. China recalled its ambassador to Lithuania, and the Lithuanian ambassador to China was asked to leave. Furthermore, Lithuanian businesses started encountering problems exporting goods into China. While Lithuanian bilateral trade with China is rather modest, a potentially much more worrying tendency for Lithuania's economy is that China apparently has informally signaled that it would also target any company from other EU countries that is doing business in Lithuania. As a result, business representatives have expressed grave concerns about the negative effects on FDI and Lithuania's participation in global supply chains. This factor, together with growing geopolitical tensions caused by Russia's invasion of Ukraine, has contributed to higher uncertainty.

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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 third quarter of 2021 indicate an increase of 11.9% over the same period in 2020 and a 9.7% increase in volume terms. The island is heavily dependent on tourism and therefore its economy was severely impacted by the pandemic in 2020. Nonetheless, the European Commission's 2021 autumn economic forecast places Malta's economic recovery on the path of robust growth for 2022 and 2023. The shift toward the provision of internationally focused services has undoubtedly contributed to the country's long-term economic prosperity and high employment rates. The pandemic-induced crisis did not have a negative impact on employment rates thanks to a comprehensive public package of incentives and subsidies. Indeed, employment rose by 2.7% during 2020. A moderate level of inflation due to international energy prices, increased domestic demand and tourism services is expected to characterize 2022 and 2023.

The country's recent grey listing by the Financial Action Task Force has significantly reduced the country's attractiveness to foreign investors. Nonetheless, the international ratings agency Fitch Ratings has confirmed an A+ rating for the island. Moreover, Malta received a score of 70.2 on the Heritage Foundation's 2021 Index of Economic Freedom, giving it an overall rank of 36th place. In Europe, Malta is ranked 21 out of 45 countries, a score which corresponds to the regional average.

The government is also working to diversify the economy and attract investment in leading technologies. The pandemic has highlighted even more the importance of a highly diversified economy, and – while tourism and aviation maintenance activities were hindered – the country's consolidated pharmaceutical and medical device production sector experienced an increase in demand.

Rapid economic growth has brought several challenges to the fore. First is the substantial dependence on financial services and property development. Second, this growth has sparked a massive building program and consequent import of labor, while also increasing demands on infrastructure and social services to a degree that may prove unsustainable for an island country measuring just 316 square kilometers. An IMF review mission cautioned against the risks associated with the country's fast-paced growth.

Finally, Malta ranked 33rd on the UN Sustainability Index 2021, with key indicators such as poverty and quality education performing well, but with challenges persisting on indicators such as the quality of overall infrastructure and sea cleanliness.

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Malta Today 20/11/2021 Fitch Affirms A+ Malta Rating with Stable Outlook
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https://whoswho.mt/en/the-pandemic-clearly-highlights-the-importance-of-having-a-well-diversified-economy
Malta Today 16/01/2019 Malta's Strong Economy Faces Infrastructure, Housing and Labour Challenges – IMF
https://dashboards.sdgindex.org/profiles/malta

Netherlands

Score 8

According to international economic watchdogs like the World Economic Forum and IMF the Netherlands is ranked fourth among economies with regard to being well prepared for post-COVID-19 recovery. This is largely due to generous government support to firms, combined with an excellent digital infrastructure and strong digital skills among the local population, which together allows the economy to stay afloat while people work from home. GDP growth for 2021 is estimated at 3.8%. In the fourth quarter of 2021, the economy was expected to surpass its pre-coronavirus level.

Generous government support, amounting to 3.6% of GDP, has prevented an unemployment increase of between 65,000 to 188,000 unemployed persons. The government's tax agency has become a crucial lender for Dutch firms: 274,000 firms and entrepreneurs (from restaurant and shop owners to multinationals with tens of thousands of workers) owe the government a total of €19.7 billion. Terms of repayment allow firms 60 months to pay off their debts. Only by then the real cost of government support, estimated as €1.5 billion, will become clear. There are indications that too much support has found its way to firms with low productivity and a weak financial position.

The rosy image of the Dutch economy is clouded by worries about inflation, which reached a rate of 5.6% during the last quarter of 2021 (due to stagnating supply chains, raw material shortages and the steep increase in energy prices); the lasting impact of ultra-low interest rates on savings and pensions; and persistent labor shortages. At the time of writing there were 126 vacancies for every 100 unemployed people. Together, these phenomena may cast a shadow on the optimistic expectations of post-COVID-19 recovery and the transition to a post-carbon, more sustainable economy.

A final observation is that political debate on economic policy has turned strongly toward issues of inequality, and especially the widespread feeling that in spite of the country's satisfactory macroeconomic performance and well-balanced state budget in recent years, Dutch households have yet to experience serious improvements with regard to inequalities in life chances, wages and wealth, housing, health, and work-leisure balance. Perhaps one is observing a lasting shift in economic debate from conventional macroeconomic indicators to greater weight being attributed to sustainable development and quality of life ("broad prosperity") criteria.

Citation:
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NRC, 25 November 2021 (Schinkel), Koopkrachtverlies in 2022 staat nu al vast

NRC, 20 July, 2021, De lage rente voedt de kater van de toekomst

NRC 26 June 2021, De vijf belangrijkste ongelijkmakers

CBS, 15 April 2021, Economische groei en het inkomen van Nederlanders

CBS, 28 May 2021, Aflevering 4: De Monitor Brede Welvaart. Over hier, nu en later

Spain

Score 8

The measures taken in response to the coronavirus pandemic from 2020 – 2021 resulted in an unprecedented contraction of economic activity, with the service sector – especially tourism – being most affected. During 2020 and 2021, relief packages were adopted for the sectors most affected by the crisis (e.g., hotel and catering

industry). However, relief packages were smaller than in other advanced economies, while the overall quantity of direct aid has been low compared to other EU member states. The crisis hit Spain at a time when the government had a very small spending margin (both in terms of the debt and the deficit), which prevented the government from adopting more aggressive measures, such as offering equity injections for businesses or paying the rents of restaurants.
Economic indicators improved in the second half of the year 2021, and the economic recovery gained traction through the review period, with private consumption as its main driver. Although indicators in 2021 have left the impression that the most critical stage of the crisis has passed, the economy is recovering less vigorously than previously estimated, and the OECD has sharply reduced the projected growth rate from 6.8% to 4.5% in 2021. In addition, health risks and other new risks still remain, such as the price of energy raw materials, which are at all-time highs, the emergence of manufacturing bottlenecks, and rising inflation. The forecast incorporates expenditures financed by RRF grants, and GDP is currently projected to grow by 5.5% in 2022 and by 3.8% in 2023.

On 16 June 2021, the European Commission adopted a positive assessment of Spain's Recovery and Resilience Plan (RRP). The commission noted that the balanced set of reforms and investments contained in the plan reflects the challenges the country faces. The RRP is based on four pillars: ecological transition, digital transformation, gender equality, and social and territorial cohesion. There are doubts as to whether the Spanish administration will be able to manage these funds; however, in order to increase administrative capacities, the government approved a royal decree-law for the modernization of the public administration and for the implementation of the RRP that establishes the principles and basic rules for the programming, budgeting, management and implementation of the funds. The law foresees new forms of public-private partnership, collaboration and coordination between all administrations and public bodies involved in the management of the projects.

Citation:
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Switzerland

Score 8

The Swiss economy is one of the most competitive economies in the world, according to rankings by the World Economic Forum (Schwab/Zah 2020) and the Lausanne based Management School (IMD, Lausanne, 2021). Switzerland has the third-highest GDP per capita (PPP), one of the highest employment rates and one of

the lowest unemployment rates in the OECD (2020). This economic success story is correlated with an excellent system of public education, which includes an efficient vocational training system that also allows for students to transition into tertiary education; an expensive, but functional public healthcare system; a welfare state that provides benefits in case of unemployment, sickness, retirement and invalidity, as well as some poverty protection. The economy benefits from a social partnership, with state and employers as the main axis, while trade unions are junior partners in the system. In addition, the economic system has proven to be very resilient over recent years as well as during the pandemic.

However, productivity growth (GDP growth per capita) remains low, which is partially due to the dual structure of the Swiss economy. On the one hand, a highly competitive and innovative export industry. On the other hand, relatively sheltered domestic industries, where most employees find a job (Eberli et al. 2016; Müller 2019; OECD 2019). Finally, tourism plays a limited, but growing role in overall employment (4%). However, tourism's contribution to gross value added was hit hard by the pandemic (3% before the pandemic, 2% in 2020). An important industry, particularly in the mountainous regions, tourism suffered from declining international demand during the pandemic (BfS 2020). In addition, critics 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 is at least partially a result of population growth (1% per year, mostly due to immigration).

The success of the Swiss economy is due to a number of factors. At the core of this success is the highly pragmatic and heterodox economic policy pursued at the federal and cantonal levels, with a tradition of successful "muddling through" (Armingeon 2017; Emmenegger 2021). In contrast to textbook economics, public policy does not care much about principles, except principles that move the economy forward and create a favorable politico-institutional context for economic development.

The major elements of the Swiss heterodoxy policy regime are protectionism, the social partnership, export-driven growth and sheltered domestic industries, a lean state and prudent fiscal policy, and hesitant active industrial policymaking.

Protectionism: Throughout the 20th century, Switzerland maintained a highly protectionist policy regime, which allowed for cartels and monopolies. The main beneficiaries of the policy regime 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 that produced 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 – which increasingly produced negative economic and environmental side effects – has lessened considerably since the mid-1990s due to a deliberate strategy of market liberalization, which reduced the influence of special interest groups, in particular agriculture. (Sciarini 1994).

Social partnership: Employers' organizations and trade unions cooperate and coordinate with governments on the federal and cantonal levels, although this has varied over time (Armingeon 2011; Mach et al. 2020). This relieved the cantonal and federal states in many respects, such as mobilizing expertise, and designing and implementing labor policies. Historically, the federal government subsidized central interest organizations of capital, labor and agriculture in return for providing information and statistics, which the lean federal bureaucracy could not collect itself (Gruner 1954, 1956, 1959).

Export-driven growth and sheltered domestic industries: Like many other small nations, Switzerland opted for export-driven economic growth (Katzenstein 1985). With very few exceptions, Switzerland's current account balance has been positive since the 1970s, implying that exports exceed imports. Until 2015, the Swiss current account balance (percentage of GDP) usually exceeded that of export-oriented Germany. In the second quarter of 2021, the balance was 5% of GDP, while Germany recorded 8% of GDP (OECD 2022). 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, meaning that Switzerland very dependent on export markets. However, most employees work in firms that produce for the domestic market and these domestic industries have been largely sheltered from international pressures.

A lean state that is hesitant to actively intervene in the economy, and a prudent fiscal policy that supports price stability and low debt levels: The government levies low taxes on both labor and capital, which produces relatively small tax wedges. In January 2022, the Federal Ministry of Finance reported that the tax burden at the cantonal and municipal level fell for the eighth year in a row (EFD 2022). In addition, the state generally does not intervene significantly in the business cycle. Rather, it has traditionally pursued a prudent and largely procyclical fiscal policy. The major anti-cyclical effects of public policy are due to the automatic stabilizers (in particular unemployment insurance). During the pandemic, cantonal and federal administrations provided credits to industries, which created significant anti-cyclical demand. In addition, the federal administration maintained and even expanded automatic stabilizers. For example, the federal administration supported the labor market through generous short-time work allowances and prolonged the period during which unemployment compensation could be requested. 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.

Hesitant to pursue active industrial policies: 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.

The Switzerland's economic policy regime has changed somewhat in recent years due to international pressure for liberalization, EU pressure to adopt European Single Market rules, rising tensions within the policy regime, Switzerland's rocky relationship with the European Union, and the fact that the country's welfare state is based on economic growth and immigration.

International pressure for liberalization: In general, decision-makers have pursued a very pragmatic and heterodox economic policy approach, 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.

EU pressure to adopt European Single Market rules: Liberalization has been accelerated by bilateral treaties with the European Union. Almost all new economic policies have followed EU standards. As a consequence of globalization and Europeanization, most sectors increasingly liberalized, particularly between the mid-1990s and 2005. Agriculture offers a major case in point, though Switzerland's agricultural sector remains one of the most subsidized in Europe.

Rising tensions within the policy regime: 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 has 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's rocky relationship with the European Union: Switzerland has not yet determined its long-term relationship with the European Union. While its export-oriented economy is heavily dependent on the European Single Market and hence has to obey its rules, the majority of Swiss citizens and politicians insist on national sovereignty. In this regard the bilateral arrangement with the European Union faces major challenges. The European Union has requested new institutional structures to complement and support the bilateral relationship. It argues that the implementation and updating of bilateral agreements has become too costly as a result of delays generated by domestic conflicts. Specifically, the European Union has insisted on the creation of independent authorities to settle disputes as well as mechanisms for updating bilateral agreements without having to resort to full-scale renegotiations. In November 2018, the negotiators on both sides finished their draft of an institutional agreement. However, it turned out that there is no majority for this agreement in parliament. In May 2021, the Federal Council declined to accept this draft agreement. The European Union retaliated by cancelling research cooperation,

cutting Swiss exports of medical products to the European Union and withdrawing its recognition of the Swiss stock market equivalence. In addition, negotiations to update current and future bilateral agreements (e.g., in the field of electricity markets) have basically stalled, except these updates are in the obvious interests of the European Union. Given the country's close integration with the European Single Market, which accounts for 48% of Swiss exports and 66% of imports (2020), Switzerland is highly dependent on a well-functioning relationship with its much larger economic partner. In contrast, the European Union is much less dependent on Switzerland.

A welfare state that is based on economic growth and immigration: 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 will be realized in the future, in particular if the inflow of foreign labor from and trade with the European Union is constrained.

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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 generally featured low tax rates, less regulation, lower levels of unionization and greater openness to foreign trade. The country has enjoyed superior levels of growth, capital formation and competitiveness. The country’s economic situation deteriorated very rapidly in the early spring of 2020, as the COVID-19 pandemic hit the United States. Yet, this dramatic and sudden economic downturn did not last and the economy recovered swiftly to reach a stunning projected GDP grow of nearly 7% in 2022. Simultaneously, starting in spring 2021, high inflation became a major issue in the United States.

During Trump’s first two years in office, Congress passed a major tax reform that 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 created a sharp increase in the already unsustainable long-term federal budget deficit. In the aftermath of the pandemic, massive emergency public spending contributed to a further increase in the size of the federal deficit, which reached a record of $1.7 trillion during the first half of 2021.

During 2018, as the Federal Reserve (also known as “the Fed”) began to raise interest rates, Trump repeatedly questioned the Fed’s expertise and accused it of doing harm to the economy. The Fed lowered interest rates during 2019, accounting for signs of slowdown in the world economy. In the aftermath of the COVID-19 pandemic, the Fed furthered lowered its interest rates to virtually zero while moving forward with a bold quantitative easing campaign.

The Biden-Administration implemented the American Rescue Plan Act in 2021 to get the economy going again. The $1.9 trillion package included $1,400 check per adult, an expanded child tax credit, extended unemployment benefits, and expanded

eligibility for healthcare benefits. Biden second major economic legislation, the Infrastructure Investment and Jobs Act was signed into law in November 2021. His Build Back Better Act, which would expand major welfare and child support programs passed the House in November but failed to pass the Senate in December 2021. Biden's economic policy proposal is designed to strengthen the role of the state in the economy.

Citation:
Jeff Stein, Trump's quest to shatter GOP economics reached its culmination in 2019, Washington Post, Dec. 27, 2019.

Austria

Score 7

The Austrian economic situation remains within the general European context, despite significantly greater political uncertainty. The former government, a coalition between the center-right ÖVP and the right-wing populist FPÖ, with a stable parliamentary majority, initiated some (neo-)liberal policies, such as a (comparatively) moderate liberalization of working time regulations. Those steps did not have much time to significantly impact on the country's economic performance before the center-right coalition collapsed in early summer 2019. Following the coalition's collapse, the non-partisan/expert government – appointed by the head of state on 3 June 2019 – refrained from formulating any specific economic policies.

The new ÖVP-Green government, which emerged from the September 2019 parliamentary election and took office on 7 January 2020, presented a complex governing program, containing several major economic policy reforms. However, as the coronavirus pandemic, which hit the country hard, set in less than two months after the government's inauguration, economic policymaking since the beginning of 2020 has been in an almost permanent crisis mode. The government spent enormous sums of public money to support key industries, despite the recurrent coronavirus lockdowns (no less than four complete lockdowns by the end of 2021), and the question as to who will have to settle the bill has become a key political issue. Compared to the country's performance in previous global crises (e.g., the global financial crisis of 2008/9), Austria is no longer a so-called outperformer.

However, in line with the general European trend during the pandemic, Austria followed Keynesian policies to keep the country running, and its industries and businesses afloat. In addition, short-time labor regulations have been put in place to avoid mass-layoffs. This approach has been rather successful in mitigating the effects of the crisis. In line with these policies, government debt has risen to around 83% of GDP, according to the latest official estimates by the Austrian national bank. But current debt is still below the level for 2015 and is predicted to fall significantly by the end of 2023 (back to around 78%, which is equivalent to numbers from the year 2017). In this regard, economic policies during the COVID-19 pandemic can be considered successful.

The government's long announced ecological tax reform, passed in late 2021, was greeted by a mix of praise and skepticism from most observers.

Citation:
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Debt-to-GDP values: https://www.oenb.at/isaweb/report.do?report=10.17

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.

The rise of social unrest by the end of 2019, the subsequent COVID-19 pandemic and the uncertainty that a new constitution might imply all had an impact on markets and international competitive indicators. However, economic policy has provided a reliable and relatively stable economic framework given the circumstances.

Studies by Chile's central bank indicate that GDP increased between 10.5% and 11.5% in 2021, but underline that this significant growth followed a severe recession caused by the COVID-19 pandemic in 2020, when GDP dropped by about 5.8%. During 2021, inflation increased up to 6.7%, but is likely to stabilize at around 3% again in the years to come. The International Monetary Fund's adjusted forecast indicates a subsequent growth rate of about 1.8% to 2.5% through 2025. Something similar applies for the unemployment rate. Whereas during the second half of 2020 the unemployment rate reached 12.9%, by the end of the period under review it had returned to 7.5%.

Major structural weaknesses can be observed. Low labor productivity represents a persistent problem. This is especially the case in small and medium-sized businesses (SMEs), which are Chile's main employers. Low levels of labor productivity are – among other factors – connected to low average skill levels within 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 research and development (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.

Economic stability and growth in Chile depend primarily on the export of commodities (e.g., copper as well as agricultural and silvicultural products) with relatively limited 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 still highly dependent on energy imports; however, major efforts have been undertaken in order to produce renewable energy.

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Estonia

Score 7

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 between 2019 and 2021 was dictated by the COVID-19 crisis, and the efforts of the government and the European Union to mitigate its effects. It has led to robust fiscal support programs, responsible for increased fiscal deficits and national debt. Overall, the Estonian economy has proven resilient to the COVID-19 crisis, except for some sectors such as hospitality and transport. While the Estonian economy runs in high gear, rising inflation, labor shortages and high pressure to boost wages could erode its competitiveness. Although income taxes are

low, high tax rates on labor and strict policies on hiring immigrant workers prevent Estonia from attracting foreign labor, which is urgently required due to Estonia's aging population.

As an EU member state, Estonia forms its economic policy in accordance with EU strategies and has adopted the long-term Estonia 2035 strategy, which describes a set of visionary targets with the overall objective of improving social well-being and sustainability. However, Estonia 2035 lacks a clear set of reforms that can be implemented and an aim for such reforms. Even if in some areas measurable targets are defined, the path to achieve them is not outlined.

Israel

Score 7

Economic policy in the last year has mainly focused on coping with the effects of the COVID-19 pandemic and has substantially diverged before and after the formation of the new government in June 2021. To compensate for the negative impact on economic activity of the lockdown policies, the previous government implemented various short-term plans to support households and businesses. These included extended unemployment benefits, ad hoc universal cash benefits for households, support for the self-employed, and compensation and employee retention grants for businesses (Israel Ministry of Finance, 2020). Government assistance effectively met the needs of businesses and offset the high costs of operation, allowing them to survive the enforced closures and increase employment once the crisis began to subside (Bank of Israel, 2020).

A central shortcoming in the previous government's economic policies was the lack of timeliness and clarity. The government did not act fast enough to provide businesses and self-employed workers with the necessary assistance at the outbreak of the crisis. Instead, in the first few months, the government provided only short-term, limited financial assistance (Ilan, 2020). Consequently, about 70,000 businesses were expected to close in Israel in 2020 – an increase of about 50% compared to 2019 (Dovrat-Meseritz, 2020).

In contrast to the previous government, the new government has focused primarily on keeping the economy open and on avoiding lockdowns. Concurrently, instead of the wide-ranging compensation mechanisms adopted by the previous government, the new government stopped the continuous extension of unemployment benefits and focused support for businesses. Like the previous government, the current government has committed to decreasing government regulation on economic activity. It has also committed to reducing the rising cost of living in Israel by lowering tariffs on agricultural products.

Israel's strong external balance sheet has been resilient to the pandemic. Israel has recorded current account surpluses (CAS) each year since 2003 and the surplus

increased to 5% of GDP in 2020. Fitch Ratings expects annual CAS to be 4% of GDP on average between 2021 and 2023, as growth in service exports remains robust, driven primarily by high-tech sectors. CAS combined with strong net FDI inflows has led to appreciation pressures and contributed to a sharp increase in foreign-exchange reserves since 2019. Due to the Bank of Israel's interventions to contain the appreciation, foreign-exchange reserves reached $200 billion in mid-2021 (approximately two years of estimated current external payments, well above the peer median of four months) from $126 billion in 2019 (Fitch Ratings 2021).

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Italy

Score 7

The period under review saw dramatic political changes, which led to important economic policy changes. The second Conte-led government – supported by the Five Stars Movement, the Democratic Party, and several smaller parties of the left and center – faced, between the end of 2020 and the beginning of 2021, increasing internal difficulties and was widely perceived as unable to face the economic challenges deriving from the COVID-19 pandemic. More specifically, the first draft of the Recovery and Resilience Plan (PNRR), which was presented in January 2021 and outlined how Italy would profit from the substantial amount of funding allocated to the country by the Next Generation EU program, was seen as insufficiently specific. There were also serious doubts about the ability of the Conte government to ensure the implementation of the final plan. The government crisis and the formation

of a new cabinet under the guidance of Mario Draghi – which is supported by a grand coalition that includes all the important parties, except Fratelli d'Italia (Brothers of Italy, FdI) – led to a deep change in economic policies. The new government swiftly revised the PNRR and submitted it in time to the European Commission. The final version of the plan strengthened the weight of economy stimulating investments and delineated a number of structural reforms (in the field of legal and administrative procedures, and digital and environmental transformations) with the purpose of eliminating obstacles to economic recovery. The economic policy and the effective management of the pandemic crisis contributed to an economic recovery which proved to be one of the fastest in Europe by the end of the year.

New Zealand

Score 7

New Zealand is generally rated relatively highly in terms of international economic competitiveness. For example, the latest World Economic Forum Global Competitiveness Index ranked New Zealand as the 19th most competitive nation in the world, giving the country first place in the area of macroeconomic stability, budget transparency, corporate governance, the time needed to start a business and social capital (World Economic Forum 2019). New Zealand also achieved positive ratings in the World Economic Forum's Global Competitiveness Report Special Edition 2020, which analyzed 37 countries on the basis of their readiness for economic transformation and their ability to revive their economies in the wake of the COVID-19 pandemic. In particular, New Zealand was lauded for its delivery of public services –with this process marked by governance principles and transparency – and its financial stability (World Economic Forum 2020).

In fact, New Zealand's economy rebounded much more rapidly from the COVID-19 pandemic than many other OECD countries. GDP surged by 2.8% in the three months through June 2021, Statistics New Zealand said, well ahead of a Reuters poll forecast of a 1.3% increase and the Reserve Bank of New Zealand's (RBNZ) estimate of 0.7%. This rebound can be explained in part by New Zealand's success in eliminating COVID-19 (at least until the arrival of the delta variant in late August 2021), which allowed the country to reopen its domestic economy well before other advanced nations did, boosting employment and consumer spending (Menon 2021).

Large-scale government support matters to explain New Zealand's rapid economic recovery. The Labour government's fiscal support package (among the largest in the world relative to the size of the economy) featured large wage subsidies to retain employment during the lockdown and beyond, allowing businesses to rapidly reopen once conditions permitted. Moreover, the RBNZ also played a key role by easing monetary policy and creating special facilities to ensure that credit continued to be available during the crisis. For the first time, New Zealand used unconventional monetary policy, featuring large-scale bond purchases to lower longer-maturity

interest rates. Together, the unprecedented fiscal and monetary stimulus prevented large-scale unemployment and insolvencies while preserving financial stability (Raman et al. 2021).

However, beneath New Zealand's V-shaped economic recovery lie deeper structural issues of international competitiveness. For one, the economy suffers from poor productivity. The Productivity Commission's "Productivity by the Numbers" report released in May shows that New Zealanders worked an average of 34.2 hours per week, higher than the average 31.9 hours per week worked in other OECD countries, and produced $68 of output per hour, less than the $85 per hour in other OECD countries (New Zealand Productivity Commission 2021). Moreover, New Zealand has higher barriers to foreign direct investment (FDI) than other OECD countries, which impedes entry to foreign firms. The government passed a reviewed Overseas Investment Act in mid-2021, with the aim of streamlining approval procedures, but critics have noted that the changes do not go far enough in fixing the flaws in the current system (RNZ 2021). On the other hand, New Zealand has continued to take a lead in championing multilateralism rather than nationalism in its approach to free trade agreements (FTA), and has initiated new approaches to inclusive trade. In late 2021 the terms of the new Regional Comprehensive Economic Partnership (RCEP) were finalized, coming into force on 1 January 2022. The Agreement includes 15 regional economies, including seven of New Zealand's top 10 trading partners, and is designed to address non-tariff barriers to trade in the Indo-Pacific and increase market access for New Zealand business. Alongside this, New Zealand continued to advance negotiations for FTAs with the United Kingdom and the European Union while also hosting APEC 2021. The latter resulted in agreement from all 21 APEC leaders to the Aotearoa Plan of Action, which details two decades of work to advance peace, prosperity and well-being. It represents a commitment to making trade more inclusive and sustainable. In all of these economic negotiations, the government has sought to preserve the state's right to regulate in the public interest, while preserving the preeminence of the Treaty of Waitangi and Māori interests.

Citation:
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Norway

Score 7

The economy is in transition. The goal is to reduce dependence on oil and gas revenues, and to promote a transition to green, ecologically sustainable industries. The government has developed plans for raising taxes on carbon emissions and hydro and wind-based electrification of the petroleum extraction. 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 solid, but high welfare costs represent a challenge in the long term. The country has long enjoyed strong economic growth and near-full employment and has benefited from a well-functioning system of cooperation between the social partners.

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. 35 % 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 domestic private-capital sector is relatively small. When the state makes its investments, it does so on market terms. Economic policy is generally considered to be fair and transparent. Regulatory arrangements are generally seen to be sound.

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 not related to 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 still heavily dependent on petroleum. 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

alternative industries and has less long-term strength than might be suggested by current favorable indicators. It also makes the economy vulnerable to changes in energy prices in world markets. These problems have now become strongly visible in the economy and a factor in economic policymaking.

Portugal

Score 7

In a country marked by considerable policy discontinuities across governments, the recent governmental stability, with António Costa serving as prime minister of a minority Socialist-led government since November 2015 and throughout the period here under analysis, helped foster and maintain a reasonably reliable economic environment.

The government continued 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 in 2019. Following three years of economic downturn (2011 – 2013) during the bailout, 2019 marked the sixth consecutive year of economic growth. Moreover its growth rate of 2.7% in 2019 exceeded both that of the euro zone (1.6%) and the EU-27 as a whole (1.8%) for the third consecutive year.

However, the pandemic highlighted some hitherto unforeseen vulnerabilities of the Portuguese economy, notably its dependence on foreign tourism. For example, the country's hospitality sector was particularly affected. Eurostat's provisional data points to a GDP contraction of 8.4% in 2020: well above the EU-27 (-5.9%) and euro zone (-6.4%) averages, and exceeded only by Spain and Greece in the EU.

The economy bounced back well in 2021, especially as COVID-19-related restrictions were lifted. Eurostat's provisional quarterly GDP data points to a growth rate of 4.4% in Q2 and 2.9% in Q3 of 2021. Not only are both of these above the euro zone and EU-27 averages, the former is the second highest among the EU-27, and the latter is the third highest. This bounce-back was sustained, inter alia, by a very successful vaccination program, the reopening of international travel and the first flows of funds from the EU's Recovery and Resilience Plan (RPP).

The latter will be particularly important moving forward. As previous SGI reports have noted, the Portuguese economy faces a number of structural constraints that had hitherto remained largely unaddressed. A recent Bank of Portugal study on potential output (i.e., the highest total GDP that an economy could sustainably produce) found that Portugal's potential output has been decelerating since the 2000s and diverging from the euro area since 2003. The study concluded that "(t)he results reinforce the case for structural reforms if policymakers desire to resume a sustainable economic

convergence." A central plank of the government's strategy for the RPP is to foster innovation and the digital transition, for instance by financing projects involving companies and research centers that seek to generate high-level innovation. While the goals of the RPP are very positive, the one open question is whether the economy has the ability to adequately absorb such a high level of investment in such a short time.

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United Kingdom

Score 7

The UK economic framework was substantially reformed after 1979 in a market-friendly direction. After the "leave" vote in the June 2016 EU referendum, the fall in the exchange rate helped to cushion the initial shock. But, in 2017, economic growth slowed and the United Kingdom shifted from being one of the fastest growing mature western economies to one of the slowest. Heading into 2020, however, the UK economy was on a modest economic growth path again (1.3% in 2019) and – following the clear general election victory of Prime Minister Johnson – renewed political stability was expected to improve economic growth prospects, even though ongoing negotiations with the European Union and the projected exit from the European Single Market still left areas of uncertainty.

The UK economy contracted sharply in 2020 as a result of lockdown measures. However, current projections suggest it has recovered more rapidly than had been expected as recently as the spring of 2021 and the economy has now overtaken its pre-pandemic level of GDP. In parallel, the formal completion of the Brexit process led to a number of difficulties, such as friction at EU borders and disruptions to supply chains. As in many other countries, inflation has surged, but it remains unclear whether this is a temporary or more enduring phenomenon. In the medium and long term, the government faces a substantial challenges. In particular, the government will have to find solutions to the country's labor market problems (where there are shortages in areas such as care and agriculture), the continuing export weakness of the UK economy, the challenge of reducing the pandemic-induced increase in the budget deficit and formulating policies for "leveling- up" to reduce regional disparities (Begg, 2021).

Citation:
https://obr.uk/download/october-2021-economic-and-fiscal-outlook-executive-summary/
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https://www.instituteforgovernment.org.uk/blog/levelling-up-white-paper-delay
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Australia

Score 6

Australia's economy went into recession in the quarter beginning June 2020, as a result of lockdowns introduced in response to the COVID-19 pandemic. However, since then, the economy has performed quite strongly, despite continued lockdown measures, and the severe curtailment of travel and an effective freeze on immigration since March of 2020. The unemployment rate rose from 5.1% in February 2020 to a peak of 7.4% in July 2020, but has since trended downward, reaching 4.6% in November 2021. Moreover, in November 2021 the employment rate reached 63%, the highest level on record (exceeding even the peak of the mid-2000s' mining boom).

Provision of income supports and other fiscal stimulus measures, as well as monetary policy settings, have been important drivers of this performance. Most notably, the government implemented a massive AUD 180 billion wage subsidy scheme called JobKeeper that ran from March 2020 to March 2021. The unemployment benefit, JobSeeker Payment, was temporarily doubled in value, while a variety of other income supports and expenditure measures were also introduced in response to the pandemic. State governments additionally introduced their own income supports for individuals and businesses. The Reserve Bank of Australia was quick to reduce the cash rate to 0.25% in March 2020 and subsequently reduced it to 0.1% in November 2020, where it has since remained. It has also engaged in quantitative easing since November 2020 via the purchase of over AUD 200 billion of Australian government bonds.

The immigration freeze and travel restrictions have also been contributors to the strength of the labor market. Restrictions on travel have provided a net boost to domestic demand (since Australians typically spend considerably more overseas than foreign tourists spend in Australia). Meanwhile, the immigration freeze has reduced the supply of workers, resulting in employment growth and declines in unemployment for the incumbent population.

Australia's monetary policy is one of the country's economic bright spots. The Reserve Bank of Australia (RBA) has steered a convincing course between the ultra-loose policies of the European Central Bank (ECB) and the more sustainable approach of the U.S. Federal Reserve. The RBA has sought to prevent a sharp appreciation in the value of the Australian dollar, while also avoiding a situation in which it was providing liquidity too cheaply. It has been quite successful in recent years, but has been unable to contain rising asset prices, real estate in particular.

Nonetheless, a lack of microeconomic and tax reforms over the last decade continues to act as a drag on Australia's economic-growth prospects. Both the slowdown in the growth of the Chinese economy and the political conflict with China, which continued unabated in 2020 and 2021, dampen the economy's future prospects.

Citation:
Details on the operation of National Cabinet: https://federation.gov.au/

Belgium

Score 6

Located at the heart of the euro area and the European Union, Belgium is a small open economy. It thus faces very strong external competition from foreign producers. This motivated the Belgian government in July 1996 to enact a law for the "promotion of employment and preventively safeguard competitiveness" (see Bogaert 2012 for a detailed historical overview). This law both supports and limits wage negotiations across the country; wages may increase above the inflation rate, but by an amount that is limited to the wage increases in neighboring countries. This upward limit is of course regularly challenged by trade unions, but the authorities in charge of implementing them are systematically careful to maintain the safeguards in place (see also the communiqué by Pieter Timmermans, the Enterprises Union's director, in 2021).

A second pillar of the Belgian policy is the goal of increasing private and public R&D spending combined to above 3% of GDP (a European Target since 2002). Data released in 2021 showed that this milestone was reached in 2019.

In terms of total economic impact, these policies are in some senses effective, but have failed to make Belgium more competitive than its neighbors. Indeed, while Belgian exports are expected to grow by about 3% per annum over the medium term; and corporate investment by about 2% (their share in the Belgian GDP should thus keep expanding), the market share of Belgium within the EU is not progressing, and is indeed falling behind that of the Netherlands or Germany, two of the reference neighbors in the 1996 law (see also "Tax Policy"). Belgium's trade balance has moderately degraded since the early 2000s. The coronavirus crisis provided a boost to exports, since the country is home to vaccine production factories. But this risks being only a temporary reversal to a long-term trend of falling market shares in the area of high-value-added exports.

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

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

Bulgaria

Score 6

Ahead of the 2021 elections and in the midst of evolving pandemic impacts and public discontent with Prime Minister Borisov's cabinet and the prosecutor general's performance, economic policies deteriorated. The government shifted toward an arms-length treatment of different economic sectors and players; loopholes in the legal framework widened and sizable public procurement of at least 4.5-5% of GDP proceeded on a non-competitive basis.

Nearly one-half of this (i.e., 2% of GDP) was paid in advance to beneficiaries involved in the construction and maintenance of highways and roads. Of these projects, 50% have yet to be launched and have been, since May-June 2021, subject to an audit.

Despite a sizable scope of action (20% government debt-to-GDP ratio, fiscal reserves exceeding 10% of GDP) in 2020 and early 2021, the government's economic policies have not helped improve the economy's international competitiveness.

Before the April 2021 elections, a sizable sum (3% of GDP) was paid from public reserves to GAZPROM for a pipeline to Serbia (and the EU) with unclear prospects of an even modest recovery of investment. Some 2.8% of GDP was allocated to combined state-budget/private-sector job saving measures, credit lines for SMEs and self-employed individuals, as well as VAT allowances. In addition, support to the healthcare sector totaled some 0.5% of GDP. In light of the aforementioned record-level mortality rates for 2021, the latter allocation, which arrived late, seems particularly ineffective. In addition, the government wasted its relative advantages in terms of the country's health infrastructure allowing it to meet the first wave of COVID-19.

The new cabinet appointed at the end of 2021 was set to promptly restore transparency and accountability, leveling back the playground for domestic and

foreign investors. It is, however, unclear how much time would be needed to compensate for the sunk-costs of the economic and fiscal policies of the mid-2020 to mid-2021 period, and, especially, the negative impacts of population decline.

The 2020 Global Competitiveness Report published by the World Economic Forum found that Bulgaria was among the four countries showing the largest improvements in terms of its competitiveness scores. Negative policy developments during the pandemic were further aggravated by the electoral instability of 2021. These developments were noted in the International Institute for Management Development's 2021 World Competitiveness Report, which showed Bulgaria taking the largest dive in the competitiveness ranking (along with Slovenia and Poland).

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Czechia

Score 6

The economic policies of successive Czech governments over the past 20 years have focused on achieving broad macroeconomic stability and attracting inward investment by multinational manufacturing companies drawn by wage levels about half the level of those in wealthier Western European neighbors. This strategy has ensured growth in most years. However, these growth rates have gradually slowed, as the inflow of foreign direct investment has declined markedly since 2008.

At the outset of the COVID-19 pandemic, the Czech government assumed that the pandemic would lead only to a "V-shape"' recession, meaning a rapid drop followed by a rapid recovery that would return life to normal. Therefore, it focused on weathering the crisis in the short run and did not draw up an explicit economic recovery package. While the crisis has proved to be more protracted than originally thought, its measurable economic cost for Czechia was less than that recorded in many other European countries, with Czech GDP down by only 5.8% in 2020 before rebounding to around 3% growth in 2021. This was partly because of the country's low share of vulnerable service sector activities and partly because of the strong showing of export-oriented manufacturing. One lasting cost of the COVID-19 pandemic will be higher public indebtedness. Gross public debt rose from about 30% of GDP in 2019 to 38% in 2020 to about 42% in 2021, following lower tax revenues during economic depression and higher spending to counter the effects of the pandemic. That should be a manageable level that poses no serious threat. Another change has been higher inflation, driven by oil, gas and raw material imports, reaching 6.6% in December 2021 over the previous year.

The biggest strategic issue remains the economy's dependence on the export-oriented motor-vehicle sector. The Babiš government failed to develop a new

strategy to reduce the economy's dependence on multinational companies that consume a high proportion of imported components. Czechia's National Recovery Program drawn up for the European Commission has been criticized by business organizations and environmental groups alike for its vagueness and its lack of ambition. The failure to develop a new strategy for economic development poses a danger to economic growth and the external balance at a time of transformation toward the production of electric vehicles, for which Czech industry is poorly prepared.

Iceland

Score 6

It took the Icelandic economy eight to nine years to recover from the harsh IMF-engineered fiscal adjustment to the 2008 financial crash. Recent years saw brisk GDP growth, which abruptly turned negative due to the COVID-19 pandemic in 2020. Real GDP contracted by 6% in 2020 as earnings from tourism collapsed by 60%, but real GDP is expected to expand by 4% in 2021 and 5% in 2022. Unemployment doubled to 6% of the labor force in 2020 and 2021, and inflation rose to 4% in 2021 and 6% in early 2022. The króna depreciated by 15% vis-à-vis the euro in 2020. In real terms, the effective exchange rate depreciated by 16% from 2017 to 2020. The current account of the balance of payments remains roughly in equilibrium. While remaining roughly balanced between 2016 and 2019, the government budget turned sharply into a deficit equivalent to 9% of GDP in 2020, as public expenditure rose above 50% of GDP for the first time since 2008–2011. Gross public debt rose from 60% of GDP in 2018 to 80% of GDP in 2019 and 2020. Public services, especially healthcare and education, remain hampered by a significant shortage of funds. The central bank, which lowered interest rates at the beginning of the pandemic in 2020 to stimulate the economy, has reversed course and started to increased interest rates to counter inflation.

With inflation at its highest level in a decade and the risk of more to come, labor unions, under new leadership, continue to demand compensatory wage increases, egged on by the large wage hikes granted earlier to members of parliament and senior public officials. To wit, the salaries of members of parliament increased by 111% between 2011 and 2018. Under these circumstances, and in view of generous CEO compensation, concerns about distributive justice in the labor market continue to loom large.

The government has taken a first step toward reducing its stake in one of the three main banks, but in a way that recalls the botched privatization of the banks that led to their demise shortly afterward in 2008. The local banks face no foreign competition. No specific reforms have been implemented to provide a more reliable economic framework or promote international competitiveness.

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Poland

Score 6

In the years before the COVID-19 pandemic, the Polish economy was characterized by high and stable rates of GDP growth. Economic growth was largely driven by growth in personal consumption, which was boosted by a strong increase in social transfers, good labor market conditions, low lending rates and moderate inflation. When the COVID-19 pandemic hit, the Polish government reacted quickly and comprehensively in order to limit the economic fallout. From March to December 2020, it adopted a series of six “Anti-Crisis Shields.” The government’s stimulus measures, along with the Polish National Bank’s accommodating policies, helped mitigate the output decline. Real GDP declined by a mere 2.5% in 2020, much less than in most OECD and EU countries, and recovered strongly in 2021. As elsewhere, inflation has accelerated since 2021.

In May 2021, the Morawiecki government presented a new economic reform package (Richter 2021). The “Polish deal” (Polski Ład) has envisaged a comprehensive tax reform, new family benefits, increased spending for the healthcare sector and additional public investment. Aimed at attracting voters ahead of the 2023 parliamentary elections, the package has been criticized for the massive additional spending commitments, the higher tax burden for entrepreneurs and the middle class, and the vague investment plans (Richter 2021). The controversies over the package have intensified the rifts within the governing coalition, and led to the sacking of minister of economic development, labor and technology, and Deputy Prime Minister Jarosław Gowin in August 2021. The implementation of the new tax rules in early 2022 resulted in chaos (Makowski 2022). Already in November 2021, the government reacted to soaring inflation by announcing a first anti-inflation shield, consisting of tax and excise reductions on fuels and electricity, and vouchers for lower income households.

Citation:
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Slovakia

Score 6

The new center-right government took over during the first wave of the COVID-19 pandemic. It tried to dampen the output decline by pursuing substantial fiscal expansion and by keeping firm insolvencies low through loan payment deferrals, loan guarantees and sectoral aid to compensate for the lockdown's adverse effects (IMF 2021; OECD 2022; Simons 2022). Along with resilient export demand, these measures helped mitigate economic contraction in 2020, which was lower than the euro area average.

In its April 2020 government manifesto, the new government also committed itself to far-reaching structural reforms aimed at improving the business environment by stepping up investment in infrastructure, R&I, human capital and public services. In October 2020, the Ministry of Finance published a working document called "Modern and Successful Slovakia" which also served as first draft of Slovakia's national recovery plan. However, this draft was not coordinated with OL'aNO's coalition partners and led to protracted negotiations within the coalition. Investments and reforms adopted in 2020 and 2021 remained modest. From 2022 to 2024, the EU's Recovery and Resilience Facility could bring Slovakia around €4.59 billion. However, Slovakia performs rather poorly when it comes to drawing EU funds; during the programming period between 2014 and 2020, the government only drew 30.71% of the available funds. Hence, the expected boost by the Recovery and Resilience Fund will very much depend on a more efficient performance of the government in this regard. At the end of 2021, Slovakia was behind schedule in implementing those reforms agreed upon as preconditions for the release of the first tranche of money from the Recovery and Resilience Facility.

As COVID-19 restrictions were eased and economies gradually reopened, the Slovak economy rebounded in spring 2021 (OECD 2022). Real GDP grew by 3% in 2021. This was less than in most other East-Central European countries, as Slovakia's industry-heavy economy has been heavily hit by global supply chain disruptions and especially the semiconductor shortage which constrained the automotive industry in 2021 and will continue to do so in 2022.

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Slovenia

Score 6

The Slovenian economy has been growing robustly from 2014 to 2019. However, real GDP growth declined from more than 4.8% in 2017 to about 3.2% in 2019, largely because of the high export propensity of the Slovenian economy and its strong dependence on development in larger European economies. However, the COVID-19 pandemic and extensive closures of the economic activity hampered growth and caused a drop of GDP in 2020 for more than 4.2%.

The Šarec government stuck to the controversial infrastructure projects initiated by its predecessor. These projects included the construction of a second Karavanke highway tunnel toward Austria, and the construction of a second railway line between Divača and the port of Koper. However, development struggled, as the projects continued to suffer from mismanagement, corruption and delays in implementation. The Šarec government was more successful in privatizing state banks, which has been on the agenda for some time. It sold 75% minus one share in the largest Slovenian bank (NLB) to institutional investors and the third largest bank (ABanka) to the U.S. fund Apollo, which also owns Slovenia's second largest bank, Nova KBM d.d. The Janša government placed strong emphasis on economic recovery following the pandemic-induced shock in 2020, with GDP growth forecasted to be 6.4% in 2021 and 4.2% in 2022. While the Janša government did not decide to sell any of the remaining state-owned companies, it did put additional emphasis on improving the efficiency of major state-funded infrastructure projects, as well as further expanding the list of projects that are being funded by the government or from EU recovery and cohesion funds.

South Korea

Score 6

South Korea has weathered the COVID-19 crisis well, with an economic downturn of just 0.9% in 2020 (among the smallest declines in the OECD); and economic growth of 4% in 2021 (which outpaces its average growth rate of 2.9% over the period 2013-2019). Strong demand for Korean digital technology exports (particularly semiconductors and IT products) in the pandemic era and robust, counter-cyclical government spending have helped stabilize the Korean economy.

From the outset, the Moon government's cornerstone economic initiative was the "people-centered economy," which focused on job creation, income-driven growth and welfare expansion. Aligned with this priority, one of the three pillars of Korea's New Deal-based response to COVID-19 was to enhance the social safety net (the Human New Deal). The other two pillars – the Digital New Deal and Green New Deal – focus on accelerating Korea's economic transformation in line with the Fourth Industrial Revolution.

The government has also promised to reform the country's business environment by reforming the dominant business conglomerates (chaebol). While progress has been slow and further delayed given the country's reliance on chaebol-produced exports to lead economic recovery (from the pandemic-induced downturn), Korea has introduced regulatory sandboxes (including 21 regulation-free zones) since 2019 to facilitate market entry and access for new and small firms.

High levels of household debt remain a major economic problem. Korea's household debt-to-GDP ratio reached a high of 104% in 2021 – the highest among 37 major economies. A significant portion of Korea's household debt has gone into the real estate sector, which remains overheated despite the Moon administration's attempt to regulate the market to make housing more affordable. The Korean stock market remains shallow (few high-quality stocks), volatile and speculative. As the U.S. and China remain mired in trade rivalry, Korea is attempting to pursue strategic autonomy by expanding and balancing its economic networks, including via its New Northern and New Southern Policies.

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Croatia

Score 5

The Croatian economy generally withstood the test of the COVID-19-induced recession. However, the relatively favorable employment and growth statistics in 2021 have more to do with the government's decision to offer furlough schemes throughout 2020, as well as to impose one of the mildest sets of epidemiological restrictions in Europe. There was no fundamental restructuring of the way product

markets, social protection, collective bargaining or the financial sector work. The decision to open the country to tourists in the summer of 2021 brought about excellent tourist figures, indeed among the best across the EU, if we compare the figures for 2021 with those from 2019. On the fiscal front, the pandemic response was aided by the willingness of Andrej Plenković's government to signal its commitment to deeper policy integration with the core of the EU, specifically through the pending euro adoption, which has positively affected bond yields and exchange-rate stability.

A look at the internal structure of GDP and the relative contribution to real growth rate shows that personal consumption was the most important factor in propelling the economy during 2021. The Guidelines for Economic and Fiscal Policy 2022-2024 issued by Ministry of Finance point out than personal consumption and gross capital investment will play the most prominent role in the economy through 2024. One of the biggest challenges in the years ahead will be how to spend the large sums of money flowing from the NextGenerationEU (NGEU) program and the EU budget productively. Croatia invested more than 22% of its GDP in 2020 (more than the EU-27 average); 5.63% of GDP was invested by the government, the third-highest such share in the EU. It is noteworthy that Croatia received the highest per capita allocation from the NGEU. There is a risk that the record inflow of money, free of external conditionalities, will weaken the willingness to undertake long-awaited reforms in the healthcare, education and pension systems, or to try to lift the disappointingly low productivity rate. On the other hand, this is a historic opportunity to boost economic convergence and close the development gap. In 2020 Croatia had the third-lowest GDP per capita in the EU-27, with just 64% of the average EU-27 GDP per capita. With regard to goods exports, Croatia boasts one of the highest growth rates with regard to both intra-EU and extra-EU trade over the course of 2021, which is a welcome sign given the existing dependence on the export of services via tourism.

State-owned enterprises remain bloated and unreformed. There is no clear strategy or set of key performance indicators for managing state-owned assets. Moreover, Croatia's score in implementing the country specific recommendations (CSR) issued by the European Commission prior to the onset of the global pandemic shows a lack of political commitment to structural reforms. The reluctance to propose an elaborate healthcare reform in 2021 vindicates those who predicted the continuation of the muddle-through approach. However, given the fact that there are no major elections in sight until 2024, the timing for reforms seems to be ideal.

Among the set of risks which might negatively impact economic growth in the following years is imported inflation in the form of rising energy prices. Currently, Croatia imports 53.6% of all energy consumed (82.6% of its oil needs, 53.2% of its natural gas, 32.5 % of its electricity, and 100% of its coal needs). It remains to be seen whether this threat will be used as an opportunity to speed up the green transition.

Hungary

Score 5

Hungary achieved relatively rapid economic growth in the second half of the 2010s. Economic growth before the COVID-19 pandemic strongly benefited from EU transfers worth 4–5% of GDP, high remittances from Hungarians working abroad and the favorable global economic climate. In a regional comparison of competitiveness indicators, however, the Hungarian economy has lost ground relative to other new EU member states. The reliability of the economic framework has suffered from pervasive corruption, the state capture by the "(royal) court" (udvar) around Orbán and erratic government interventions. In spite of massive foreign and domestic investment, labor productivity relative to the EU average has remained low. The Orbán governments have sought to promote investment and economic development by keeping wages low and disciplining labor, while neglecting human capital and R&I (Pogátsa 2021, Scheiring 2020).

The Orbán government did relatively little to limit the economic fallout of the first wave of the COVID-19 pandemic. It has seized the opportunities presented by the pandemic to further redistribute resources to oligarchs close to the government, and to push through economically and politically dubious infrastructure projects, such as the Chinese-backed modernization of the Budapest-Belgrade railway link.

With the parliamentary elections in 2022 approaching, the Orbán government has turned populist. In 2021 and 2022, it has kept fiscal deficits high in order to buy political support. At the beginning of 2022, the monthly minimum wage increased from HUF 167,400 (€473) to HUF 200,000 (€542). With almost 20%, this was the highest increase in the European Union in 2022. Along with a lax monetary policy, these measures have helped to boost economic recovery in the short-term. However, they have also aggravated the inflationary pressures associated with higher energy prices. The government reacted to soaring inflation by imposing a politically popular, but economically controversial fuel price cap in November 2021, which was further extended in February 2022.

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Japan

Score 5

Recent macroeconomic developments have been mixed. Japan has experienced an extremely long business-cycle upswing, lasting 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. According to the IMF, the real growth rate in 2019 was only 0.5%. The COVID-19 pandemic, which hit Japan in January 2020, has made the situation worse. The real growth rate in 2020 fell to -4.6%, a contraction of 29% on an annualized basis. However, there are some signs of pandemic recovery in late 2021, with the IMF projecting 2.4% economic growth in 2021 and 3.2% in 2022.

The policy goals of a 2% annual inflation rate and concomitant increases in inflation expectations remain elusive. In mid-2019, the Bank of Japan trimmed its 2020 inflation target and hinted that it would not hesitate to take additional easing measures if the economic situation worsened. After conducting an assessment of the economic activities in March 2021, the bank introduced new policy framework that would strengthen quantitative and qualitative monetary easing that it had led previously. This signals that existing measures remain insufficient, particularly as the global economy continues to remain shaky due to the COVID-19 pandemic. The pandemic has depressed all inflationary potential. The inflation rate in 2020 stood at 0%, down from 0.5% in 2019, and in 2021, it fell further to -0.2%. In November 2021, the new LDP government led by Prime Minister Kishida announced a ¥56tn/0bn stimulus package to support families and businesses affected by the pandemic. While this reflationary monetary policy promises some immediate and longer-term investments, it will contribute to increased national debt.

Despite consistent government and central-bank activity, and despite the presence of significant corporate cash holdings deriving from retained profits, consumption and domestic investment rates remain sluggish. Compensating for the negative effects of an aging and shrinking workforce has proven to be extremely challenging. The initiation of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the free-trade agreement with the EU in 2019 may be interpreted as positive signals. The much hoped-for economic boost from the 2020 Tokyo Olympic Games was undermined by the COVID-19 pandemic, which resulted in a one-year postponement and the eventual banning of audiences and spectators. While the actual impact of the 2021 Tokyo Olympic Games is difficult to calculate, many argue that its cost was likely greater than its benefits.

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Mexico

Score 5

In comparison with most other OECD countries, Mexico's GDP growth over the last decade has been rather slow. This situation 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. In June 2019, Mexico ratified the new United States, Mexico and Canada Agreement (USMCA), which came into force on 1 July 2020.

López Obrador (commonly known as AMLO), who is a proponent of economic nationalism, pledged to achieve an average growth rate of 4% in each year of his presidency until 2024. Halfway through his term, this goal can be seen as unrealistic and impossible to meet. The coronavirus crisis hit the country hard. While GDP fell massively by 8.31% in 2020, the Mexican economy was able to grow again by 6.25% in 2021. However, this is still short of the level seen before the coronavirus pandemic. However, AMLO has already made it clear that his government will not focus so much on economic growth, but on improving the quality of life of the people in general. He described his motto as a departure from "growing for the sake of growing, but rather growing with well-being."

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. The debt-to-GDP ratio reached an all-time high of 57.6 %. However, this increase was mainly due to the additional expenditures resulting from the coronavirus pandemic. These expenditures were much lower in Mexico than in other countries. Under Lopez Obrador's government, an unexpectedly conservative course in spending policy was thus pursued.

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. High levels of corruption and violence are also severe impediments to inclusive economic development. However, the travel and tourism sectors, which account for a significant share of GDP, are growing despite the high rate of violence in some parts of the country.

Citation:
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Romania

Score 5

Romania's economy contracted by 3.9% in 2020, because of the economic effects brought on by the COVID-19 pandemic. However, Romania's contraction was one of the lowest in the European Union. In the first half of 2021, Romania's economy recovered strongly, growing 6.5%, due partly to business and consumer sentiment remaining strong, relatively strong growth of wages in the first months of 2021, and an uptick in public and private sector investment. The sharp increase in energy prices, stemming from both the liberalization of the domestic electricity market and the increase in global oil prices, as well as the recovery in aggregate demand, contributed to inflationary pressures in 2021. From the end of the fiscal year 2020 to the April 2021, Romania's inflation rate increased from 1.8% to 2.7%. As energy prices decline and demand cools down, inflation was reported to reach 2.9% in early 2022. The central bank has raised interest rates to accommodate these developments. At the end of 2020, the fiscal deficit reached 9.2%, driven to a lesser degree than in fellow EU economies by the COVID-19 fiscal stimulus. The government responded to the pandemic by providing a fiscal stimulus of 4.4% of GDP in 2020 and 1.2% in the first half of 2021. According to the 2021 edition of the IMD World Competitiveness Ranking, Romania's international competitiveness has dramatically improved. Improvements were noted for government and business efficiency. The performance was supported by broad economic performance and export growth, given the country's relative resilience to the pandemic.

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Cyprus

Score 4

The strong growth and robust fiscal performance achieved prior to 2020 was abruptly interrupted by the COVID-19 crisis. Reports by the IMF, the ECB and the European Commission, among other institutions, stress that the main risk for the economy is uncertainty regarding the evolution of the pandemic. Other risks and weaknesses also persist. The improvement in the country's low competitiveness rating in 2019 was followed by a loss of ground in 2020.

EU membership, a strong services sector and favorable taxation system, could have made Cyprus more attractive to investors. The slow pace of long-overdue reforms – including infrastructural upgrades, digitalization, and changes to the education system and legal environment – has been an obstacle.

Some reforms along with efforts to re-establish confidence in the financial system have undermined the financial sector, which is governed by stricter rules today. The banking sector remains fragile, though significantly smaller following the default of two major banks since 2013. At present, major challenges are linked to operational costs, low margins and limited business opportunities.

Affected by the COVID-19 pandemic, economic performance in 2020 and 2021 rested on increased domestic demand. Revenue from tourism declined sharply, down to 35% of 2019 levels, and will need two years to fully recover. Growth is expected to be 5.4% in 2021 and 4.2% in 2022. While confident about the capacity of Cyprus to repay its debt, creditors note risks from the higher costs incurred as a result of the national healthcare scheme (NHS /GESY) and the expansion of KEDIPES (which manages the NPLs of the former state-owned Cyprus Cooperative Bank (CCB) into a national asset management company. They stress the benefits for the economy from realizing long-overdue reforms.

Though more NPLs have been removed from banks, the ratio of NPLs remains high. Despite the increase in public debt, fiscal reserves, and support from European Union’s recovery and resilience fund have mitigated the economy’s vulnerability.

With Cyprus engaged in early campaigning for the February 2023 presidential elections, effective collaboration between the government and the parliament, required in order to promote long-overdue reforms, is doubtful.

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Greece

Score 4

Compared to previous periods, Greek economic policy during the period under review was not restrained by externally imposed conditionalities. However, it was highly constrained by the impact of the COVID-19 pandemic, which reversed the moderate recovery that the Greek economy had achieved in 2019 (real GDP growth 1.9%).

The optimism due to the election of a pro-investment government was short-lived with the first lockdown in the spring of 2020 and with the second one in the winter of 2020–2021. Economic activity was curtailed, while small and medium businesses, as well as affected households relied on cash transfers from the Greek government. As a result, real GDP growth in 2020 fell to -9.0% (EU-27 -5.9%).

The government ran a primary deficit in 2020 and 2021 to counter the negative economic impact of the pandemic. Thus, the country's public debt, already the highest in the European Union, climbed from 191% of GDP in the second quarter of 2020 to 207% in the corresponding second quarter of 2021 (EU average: 90%). Greece's debt is primarily owed by official European creditors.

Despite the government's efforts, the most important macroeconomic indicators paint a bleak picture for Greece, reflecting long-term structural imbalances. For example, the current account deficit increased to 6.7% of GDP in 2020, its worst level since the peak of Greece's economic crisis (-8.8% in 2011). Gross capital formation remained among the lowest in the OECD.

Promising trends were visible in tourism. Despite a decline in 2020, the number of tourists visiting Greece in July and August 2021 reached 86% of the corresponding (high) level in 2019, which provided much hope for an economic recovery.

Besides tourism, the business climate has substantially improved. For instance, some multinationals (e.g., Microsoft) have announced large investments in the country.

More importantly, in June 2021, the European Commission endorsed Greece's recovery and resilience plan. This was an important step toward the disbursement of €17.8 billion in grants and €12.7 billion in loans under the European Union's new Recovery and Resilience Facility (RRF) over the period 2021–2026.

Substantial challenges remain, however. Due to the pandemic-induced negative economic growth rate, public debt remains high. It is currently serviced, but is unsustainable in the long run. Greece's creditors need to devise a plan for large-scale debt restructuring that may entail substantial losses for them. Although EU authorities still refuse to discuss such a prospect, it is an issue that will probably surface again if Greece's creditors want to see the country attain much higher growth rates. Finally. the rise of energy prices in late 2021 pose another challenge for the Greek economy, which relies very heavily on imports of natural gas and oil.

Citation:
Data on Gross Fixed Capital Formation and potential output are drawn on IMF's world economic outlook for 2020 and is available on this SGI platform. GDP growth, unemployment and public debt are available from Eurostat.
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On public debt: https://ec.europa.eu/eurostat/web/products-datasets/-/teina230
On current account deficit: https://tradingeconomics.com/greece/current-account-to-gdp
On inflation: https://tradingeconomics.com/greece/inflation-cpi
Data on tourism is drawn on the World Travel and Tourism Council (WTTC), available at https://news.gtp.gr/2021/10/11/wttc-commends-greece-for-safe-positive-tourism-opening/
Data on FDI is drawn on Bank of Greece, as officially reported in https://www.enterprisegreece.gov.gr/en/greece-

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On increasing business confidence: https://tradingeconomics.com/greece/business-confidence

Turkey

Score 3

Before the onset of the pandemic, Turkey's economy was already vulnerable to internal and external shocks. More specifically, as a result of decreasing confidence in the sustainability of Turkey's external debt, foreign capital flows, which have been crucial to financing the country's liquidity requirements, have dried up. At present, the country's trade and current account balances are unsustainable. According to the Ministry of Treasury and Finance, Turkey's gross external debt stock totaled $450 billion at the end of 2020, amounting to 62.8% of its GDP. The country's net foreign debt was $268.9 billion, amounting to 37.5% of its GDP. In addition, the short-term external debt stock had reached $126.9 billion as of August 2021. The short-term debt of the public sector was $25.5 billion, while that of the private sector was $74.4 billion. These numbers indicate that the private sector accounts for most of the debts.

The inflation rate is soaring again. The head of the Central Bank, Naci Ağbal, who replaced Murat Uysal in November 2020, increased the interest rates from 10.25% to 19% within four months. Ağbal was then replaced by Şahap Kavcıoğlu four months later. From September to October 2021, the interest rate was cut by 3 percentage points, and further reduced to 15%. As a response, between September 2021 and December 2021 alone, the exchange rate with the U.S. dollar rose from TRY 8.5 to TRY 18. The inflation rate, on the other hand, is expected to approach an annual rate of 40% in the first quarter of 2022. Due to deteriorating indicators, Minister of Treasury and Finance Lütfü Elvan resigned, and Nureddin Nebati was appointed in his place.

The government's rescue plan responding to the devaluation of the Turkish lira included using Treasury funds to offer compensation for possible losses against foreign currencies over periods of three, six, nine and 12 months. Experts argue that this new model creates serious risks for the public budget. Shortly after the announcement of the new plan, the dollar dropped sharply to TYR 11, a decrease of almost 40%. However, the exchange rate is far from being stabilized, as high levels of volatility persist in the capital market.

Despite this deteriorating picture, Turkey's GDP increased by 0.9% in 2019 and 1.7% in 2020. According to the three-year program crafted in 2019, the Turkish economy was expected to grow by 9% in 2021, 5% in 2022 and 5.5% in 2023 and 2024. However, these estimates are unrealistic. For example, the OECD (2021) expects that even in an absence of external shocks, the GDP growth would remain at 5.7% in 2021 and 3.4% in 2022, as the post-pandemic recovery continues. The biggest obstacle to sustainable growth has been the dynamics of the growth itself, which previously centered on the expansion of the construction sector. As

construction became costlier due to inflation and the rise of credit interest rates, the economic growth rate declined. September 2021 numbers indicated that mortgage-based house sales had dropped by 16.4% on an annual basis.

Turkey is far from creating resource-efficient economic activity that might promote social well-being and economic empowerment in the future. The government rarely backs eco-friendly policies in practice. The most notable exceptions include Turkey's investments in renewable energy and desire to produce its own electric car (TOGG). Turkey relies on imports for its energy needs. To reduce its import dependency, the government is now constructing the country's first nuclear power plant in Mersin, with the help of Russia. It is also making efforts to identify natural gas deposits in the Black Sea and the Mediterranean, despite the high geopolitical risks associated with such activity.

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