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**Assessment of the 2011 national reform programme and stability programme for
IRELAND**

Accompanying the document

Recommendation for a

COUNCIL RECOMMENDATION

**on the National Reform Programme 2011 of Ireland and delivering a Council Opinion
on the updated stability programme of Ireland, 2011-2014**

{SEC(2011) 809 final}

1. INTRODUCTION

Ireland's strong pre-crisis growth was increasingly unsustainable. Excessive credit growth and investment in unproductive capital pushed asset prices up to an unsustainable level. House-price inflation was the highest among euro area countries between the mid-1990s and 2006. Credit growth and asset price inflation also fuelled consumer expenditures, putting strong upward pressure on wages and non-tradable prices. As a result, external competitiveness deteriorated markedly during the domestic boom, leading to a continuous loss of export market share. Vis-à-vis the euro area, Ireland's real effective exchange rate based on unit labour cost appreciated by some 16% between 2003 and 2008 as wage growth remained high, while productivity gains declined to rates more comparable with those in the euro area.

Fiscal policy did not sufficiently lean against the wind. While the period 2000-2007 saw the general government position in surplus in all but one year, boom-related windfall revenues were largely spent, contributing to overheating and loss of competitiveness. When the bubble burst, the correction in property prices exposed severe vulnerabilities in the Irish banking sector. High expected, and since confirmed, losses for 2009 and 2010 raised strong concerns among investors about bank solvency already in late 2008. To maintain an adequate level of capitalization, banks needed massive capital injections by the state. The total cost of bank rescue amounted to some 29% of GDP in 2009-10, pushing up the budget deficit and debt sharply. Between 2007 and 2010 real GDP declined by 12% and employment by nearly 13%, with unemployment increasing from 4.6% in 2007 to 13.7% in 2010. By November 2010, spreads on 10-year Irish government bonds reached almost 700 basis points as concerns about the intertwined sovereign and banking sector mounted, in effect locking Ireland out of capital markets. On 21 November 2010, the Irish authorities requested financial assistance from the EU and IMF. A joint European Commission-ECB-IMF team reached agreement at technical level on 28 November 2010 on a comprehensive policy package for the period 2010-13 supported by financing for a total amount of EUR 85 billion.

2. MAIN FEATURES OF THE PROGRAMME

On 7 December, the Council adopted the formal decision allowing for financial assistance to Ireland¹ and a recommendation extending the deadline for the correction of the excessive deficit by one year to 2015². The programme is financed by contributions from the EU (EUR 45 bn.), the IMF (SDR 19.5 bn, about EUR 22.5 bn.) and the use of Irish financial assets (EUR 17.5 bn.). The latter includes the Treasury cash balances and assets of the National Pensions Reserve Fund. The IMF financing is on the basis of an arrangement under the Extended Fund Facility (EFF). The EU financing comes from the EFSM (EUR 22.5 bn.), together with EUR 22.5 bn. from the EFSF and bilateral loans from the UK, Sweden and Denmark (together EUR 4.8 bn., EFSF EUR 17.7 bn.). The EU and IMF have provided EUR 17.8 bn. to Ireland in the first quarter of 2011. Further disbursement of EUR 20.7 bn., 19.0 bn. and 10.0 bn. are planned in 2011, 2012 and 2013, respectively.

¹ http://ec.europa.eu/economy_finance/articles/eu_economic_situation/pdf/2010-12-07-council_imp_decision_en.pdf

² http://ec.europa.eu/economy_finance/articles/eu_economic_situation/pdf/2010-12-07-council_recommendation_en.pdf

The main objective of the programme is to restore financial market confidence in the Irish banking sector and the sustainability of public finances.³ Breaking the pernicious feedback loops between the fiscal and financial crises should enable the economy to return to sustainable growth. To achieve this goal, the programme comprises three main elements: i) a financial sector strategy, ii) a fiscal consolidation strategy and iii) a structural reform agenda. Fundamental downsizing and reorganization of the banking sector, complemented by the availability of capital to ensure solvency, is required to restore confidence. The fiscal plan builds on the government's National Recovery Plan which provides for a consolidation of EUR 15 bn. between 2011 and 2014 with a frontloading of EUR 6 bn. in the 2011 budget. Notwithstanding these efforts, it will require further action in 2015 to bring the deficit below 3% in that year. Structural reforms to the labour market include greater activation measures, better targeting of benefits and a review of the sectoral wage setting arrangement. Restrictions to trade and competition in sheltered sectors will be removed to boost growth in the outer years of the programme.

3. MONITORING, PROCEDURAL ISSUES AND GOVERNANCE

The Irish Government underlines the consistency between the National Reform Programme (NRP), the Stability Programme Update (SP) and the EU/IMF Financial Assistance Programme as well as with the overall Europe 2020 strategy. A review of the programme is foreseen for 2014 including for the targets. The Government also emphasises the link to other policies, notably on the regional dimension and the use of EU funds as well as in context of the National Sustainable Development Strategy for Ireland.

The Irish Government states that consultation and involvement of stakeholders, including social partners, relevant parliamentary committees and regional bodies, have been assured during the development of the National Reform programme. Whereas the Government acknowledges the need for further consultations and involvement of stakeholders in the implementation and further development of the National Reform Programme, it is not clear how this will be done and in which institutional set-up such a dialogue will take place.

Table 1: Irish Europe 2020 targets

Europe 2020 targets	Current situation in Ireland	Europe 2020 target in the NRP
R&D investment (% of GDP)	1,77 % (2010)	2,5 % of GNP (~ 2,0 % of GDP)
Employment rate (%)	64,9 (2009)	69-71 %
Early school leaving (%)	11,3 (2009)	8 %
Tertiary education attainment (%)	49 (2009)	60 %
Reduction of number of people in or at risk of poverty or exclusion	1.1 million people (25,7%)	186.000 people by 2016
Energy efficiency – reduction of energy consumption in MToe		Reduction in primary energy consumption: 2.75 Million tons of oil equivalent ⁴
Reduction in greenhouse gas	0% ⁵	-20% ⁶

³ Memorandum of Understanding on Specific Economic Policy Conditionality
http://ec.europa.eu/economy_finance/articles/eu_economic_situation/pdf/2010-12-07-mou_en.pdf

⁴ Estimated by the European Commission. MToe = Million tonnes of oil equivalent

emissions (from sources not covered by the Emission Trading System)		
Renewable energy (% of total energy use)	3,8 % (2008)	16 %

4. IMPLEMENTATION

A joint EC-ECB-IMF mission in April 2011 carried out the first review of policy conditionality of the programme, concluding that implementation of the programme was broadly on track⁷. The agreed fiscal measures have been implemented, the 2010 fiscal target was met, and fiscal outturns in the first quarter of 2011 have also been in line with the programme targets. The general government 2011 deficit is forecast to remain below the programme ceiling, despite a downward revision in the forecast for nominal GDP in 2011. Important progress has been made in reforming the banking system and steps have been taken to achieve the structural reform objectives.

Ireland has spelled out its consolidation strategy in the Stability Programme Update submitted to the European Commission on 29 April. Economic policy measures contributing to the achievement of Europe 2020 objectives are outlined in the National Reform Programme submitted to the Commission on 29 April.

The SP is based on plausible macroeconomic projections. The Commission services' spring 2011 forecast is marginally more conservative on real GDP growth and private consumption growth, especially in 2012. Both forecasts show an export-lead recovery with negative domestic demand in 2011-12 and positive net export contribution to growth. For 2013-15, the Commission services project a gradual pick up in real economic activity, with GDP growth reaching 3% in 2015, while the SP predicts real GDP growth to stay at 3% throughout this period.

The budgetary strategy of the SP is to reduce the general government deficit below 3% of GDP by 2015. A consolidation package of EUR 6 bn. (3.9% of GDP) was implemented in the 2011 budget, expected to lead to a deficit of 10% of GDP in 2011. The SP targets deficits of 8.6% of GDP in 2012, 7.2% in 2013, 4.7% in 2014 and 2.8% by the end of the programme period in 2015. This path is underpinned by broad consolidation measures of 5.75% of GDP in 2012-14 and a further unspecified consolidation effort of more than 1% of GDP in 2015. Nominal deficit targets of the SP are within the limits set by the EU Council recommendations in the context of the EDP. Structural deficit is projected to decline from 10.5% of GDP in 2010 to 9.5% in 2011 and 8.5% in 2012 in line with the Commission service's spring 2011 forecast. The SP restates the medium-term objective (MTO) for the budgetary position of -0.5% of GDP, but it may be revised following the updated long-term spending projections for the EU Member States. The MTO is not reached within the SP period. Ireland appears to be at high risk with regard to the long-term sustainability of public

⁵ This quantity corresponds to the 2005-2008 evolution of the emissions not covered by the EU Emissions Trading System. As the scope of the Emissions Trading System evolved between 2005 and 2008, these emissions are estimated on the basis of the main relevant UNFCCC source categories (as opposed to the difference between total emissions and EU ETS verified emissions).

⁶ The national emissions limitation target defined in Decision 2009/406/EC (or "Effort Sharing Decision") concerns the emissions not covered by the EU Emissions Trading System. It is expressed as the minimum relative decrease (if negative) or the maximum relative increase (if positive) compared to 2005 levels.

⁷ http://ec.europa.eu/economy_finance/publications/occasional_paper/2011/pdf/ocp78_en.pdf

finances. Achieving sufficient primary surpluses over the medium-term and further reforming the Irish social security system would be necessary to improve the sustainability of public finances.

ANNEX

Table I. Macro-economic indicators

	1995-1999	2000-2004	2005-2008	2009	2010	2011	2012
Core indicators							
GDP growth rate	9.7	6.2	3.4	-7.6	-1.0	0.6	1.9
Output gap ¹	1.5	1.7	2.1	-5.7	-5.2	-3.3	-0.8
HICP (annual % change)	2.2	4.1	2.7	-1.7	-1.6	1.0	0.7
Domestic demand (annual % change) ²	8.7	6.1	3.9	-13.9	-5.6	-3.9	-0.4
Unemployment rate (% of labour force) ³	9.4	4.3	5.0	11.9	13.7	14.6	14.0
Gross fixed capital formation (% of GDP)	20.3	22.8	25.6	15.5	11.3	9.6	9.5
Gross national saving (% of GDP)	22.8	22.4	21.6	11.5	10.6	11.5	12.1
General Government (% of GDP)							
Net lending (+) or net borrowing (-)	0.8	1.4	-0.7	-14.3	-32.4	-10.6	-8.9
Gross debt	64.4	33.2	30.4	65.6	96.2	112.1	118.1
Net financial assets	-34.8	-12.7	-5.0	-27.7	n.a	n.a	n.a
Total revenue	37.9	34.4	36.3	33.9	34.6	34.9	35.0
Total expenditure	37.1	33.0	37.0	48.2	67.0	45.5	43.9
<i>of which: Interest</i>	3.9	1.5	1.1	2.1	3.3	3.7	4.6
Corporations (% of GDP)							
Net lending (+) or net borrowing (-)	n.a	2.6	3.5	6.1	23.0	4.1	4.5
Net financial assets; non-financial corporations	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Net financial assets; financial corporations	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Gross capital formation	n.a	9.3	9.7	4.7	4.0	3.9	4.2
Gross operating surplus	n.a	34.4	31.4	29.2	28.9	30.3	31.2
Households and NPISH (% of GDP)							
Net lending (+) or net borrowing (-)	n.a	-5.5	-7.3	5.3	8.4	8.8	7.2
Net financial assets	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Gross wages and salaries	n.a	36.1	38.9	42.5	41.8	40.5	39.8
Net property income	n.a	2.0	0.4	-0.3	-0.6	-0.2	-0.8
Current transfers received	n.a	14.4	14.8	20.2	21.0	20.7	19.4
Gross saving	n.a	4.5	4.4	10.0	11.0	10.8	9.2
Rest of the world (% of GDP)							
Net lending (+) or net borrowing (-)	2.6	-0.5	-4.5	-3.4	-1.6	0.9	1.4
Net financial assets	n.a	17.9	30.3	99.0	n.a	n.a	n.a
Net exports of goods and services	12.4	15.4	9.9	15.3	18.9	22.6	24.6
Net primary income from the rest of the world	-10.9	-15.0	-13.2	-16.9	-18.1	-19.9	-21.3
Net capital transactions	1.0	0.4	0.1	0.0	-0.9	-0.3	-0.5
Tradable sector	51.1	45.8	38.1	40.3	40.2	n.a	n.a
Non tradable sector	38.5	42.9	49.9	50.5	50.3	n.a	n.a
<i>of which: Building and construction sector</i>	5.2	7.1	8.4	5.1	5.1	n.a	n.a
Real effective exchange rate (index, 2000=100)	109.6	107.6	130.0	135.5	124.5	122.0	120.1
Terms of trade goods and services (index, 2000=100)	100.8	100.6	97.1	95.2	94.4	94.1	94.3
Market performance of exports (index, 2000=100)	78.7	106.5	105.9	116.5	116.1	116.7	116.1
Notes:							
¹ The output gap constitutes the gap between the actual and potential gross domestic product at 2000 market prices.							
² The indicator on domestic demand includes stocks.							
³ Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.							
Source:							
<i>Commission services' spring 2011 forecast</i>							

Table II. Comparison of macroeconomic developments and forecasts

	2010		2011		2012		2013	2014	2015
	COM	SP	COM	SP	COM	SP	SP	SP	SP
Real GDP (% change)	-1.0	-1.0	0.6	0.8	1.9	2.5	3.0	3.0	3.0
Private consumption (% change)	-1.2	-1.2	-1.9	-1.8	-1.0	0.0	1.0	1.3	1.4
Gross fixed capital formation (% change)	-27.7	-27.8	-13.5	-11.5	2.0	1.0	4.4	5.1	5.5
Exports of goods and services (% change)	9.4	9.4	6.0	6.8	5.2	5.7	5.0	4.5	4.1
Imports of goods and services (% change)	6.6	6.6	3.2	4.7	4.0	4.1	3.7	3.3	3.1
<i>Contributions to real GDP growth:</i>									
- Final domestic demand	-5.5	-5.3	-3.3	-2.8	-0.4	-0.3	0.6	0.8	1.0
- Change in inventories	0.8	0.9	0.2	0.5	0.1	0.3	0.0	0.0	0.0
- Net exports	3.6	3.6	3.5	3.0	2.2	2.6	2.3	2.1	2.0
Output gap ¹	-5.2	-5.8	-3.3	-4.4	-0.8	-2.2	-0.4	1.0	2.1
Employment (% change)	-4.1	-4.2	-1.5	-1.6	0.4	0.5	1.2	1.8	2.0
Unemployment rate (%)	13.7	13.6	14.6	14.4	14.0	13.7	12.7	11.5	10.0
Labour productivity (% change)	3.2	3.3	2.2	2.4	1.5	2.1	1.7	1.2	1.0
HICP inflation (%)	-1.6	-1.6	1.0	1.0	0.7	0.9	1.5	1.7	1.8
GDP deflator (% change)	-2.6	-2.6	0.6	0.6	0.9	0.5	1.0	1.3	1.5
Comp. of employees (per head, % change)	-1.9	0.3	-0.3	0.0	0.7	0.6	1.4	1.8	2.2
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-1.6	n.a.	0.9	n.a.	1.4	n.a.	n.a.	n.a.	n.a.
Note:									
¹ In percent of potential GDP, with potential GDP growth according to the programme as recalculated by Commission services.									
Source:									
Commission services' spring 2011 forecasts (COM); Stability programme (SP).									

Table III. Composition of the budgetary adjustment

(% of GDP)	2010	2011		2012		2013	2014	2015	Change: 2010-2015
	COM	COM	SP	COM	SP	SP	SP	SP	SP
Revenue	34.6	34.9	35.5	35.0	35.1	35.1	35.4	35.1	0.5
<i>of which:</i>									
- Taxes on production and imports	11.6	11.3	11.8	11.2	11.4	11.1	10.9	10.6	-1.0
- Current taxes on income, wealth, etc.	10.7	12.6	12.5	13.1	13.7	14.3	14.8	15.1	4.4
- Social contributions	7.4	6.1	6.4	6.1	6.1	6.1	6.1	5.9	-1.5
- Other (residual)	5.0	4.9	4.8	4.7	3.9	3.6	3.6	3.5	-1.5
Expenditure	67.0	45.5	45.5	43.9	43.7	42.4	40.1	37.8	-29.2
<i>of which:</i>									
- Primary expenditure	63.8	41.8	41.7	39.4	39.0	36.3	33.8	31.6	-32.2
<i>of which:</i>									
Compensation of employees	11.8	11.5	11.6	11.1	10.9	10.4	9.7	9.0	-2.8
Intermediate consumption	6.0	5.3	5.2	5.0	4.7	4.2	3.7	3.5	-2.5
Social payments	18.0	17.8	17.2	16.4	16.3	15.3	14.2	13.3	-4.7
Subsidies	0.7	0.7	0.7	0.6	0.6	0.5	0.5	0.4	-0.3
Gross fixed capital formation	3.9	3.0	2.9	2.7	2.6	2.3	2.0	1.8	-2.1
Other (residual)	23.4	3.5	4.1	3.5	3.9	3.6	3.6	3.7	-19.7
- Interest expenditure	3.3	3.7	3.8	4.6	4.7	6.1	6.3	6.2	2.9
General government balance (GGB)	-32.4	-10.6	-10.0	-8.9	-8.6	-7.2	-4.7	-2.8	29.6
Primary balance	-29.2	-6.8	-6.2	-4.3	-3.9	-1.1	1.7	3.4	32.6
One-off and other temporary measures	-19.8	0.3	0.0	0.0	0.0	0.0	0.0	0.0	19.8
GGB excl. one-offs	-12.6	-10.9	-10.0	-8.9	-8.6	-7.2	-4.7	-2.8	9.8
Output gap ²	-5.2	-3.3	-4.4	-0.8	-2.2	-0.4	1.0	2.1	7.4
Cyclically-adjusted balance ²	-30.3	-9.2	-8.3	-8.6	-7.7	-7.1	-5.1	-3.6	26.7
Structural balance³	-10.5	-9.6	-8.3	-8.6	-7.7	-7.1	-5.1	-3.6	6.9
<i>Change in structural balance</i>		0.9	2.3	1.0	0.5	0.7	1.9	1.5	
Structural primary balance ³	-7.2	-5.8	-4.5	-4.0	-3.0	-1.0	1.2	2.6	9.8
<i>Change in structural primary balance</i>		1.4	2.8	1.8	1.4	2.1	2.1	1.4	
Notes:									
¹ On a no-policy-change basis.									
² Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission services on the basis of the information in the programme.									
³ Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.									
Source:									
Stability programme (SP); Commission services' spring 2011 forecasts (COM); Commission services' calculations									

Table IV. Debt dynamics

(% of GDP)	average 2005-09	2010	2011		2012		2013	2014	2015
			COM	SP	COM	SP	SP	SP	SP
Gross debt ratio¹	37.4	96.2	112.1	111	118.1	116	118	116	111
Change in the ratio	7.2	30.6	15.9	15.0	6.0	5.0	2.0	-2.0	-5.0
<i>Contributions²:</i>									
1. Primary balance	2.1	29.2	6.8	6.2	4.3	3.9	1.1	-1.7	-3.4
2. "Snow-ball" effect	1.5	5.7	2.5	2.5	1.5	1.4	1.7	1.6	1.2
<i>Of which:</i>									
Interest expenditure	1.3	3.3	3.7	3.8	4.6	4.7	6.1	6.4	6.2
Growth effect	0.1	0.7	-0.6	-0.8	-2.1	-2.7	-3.3	-3.4	-3.3
Inflation effect	0.1	1.7	-0.6	-0.6	-1.0	-0.6	-1.1	-1.4	-1.7
3. Stock-flow adjustment	3.7	-4.3	6.6	6.3	0.2	-0.3	-0.7	-1.8	-2.7
<i>Of which:</i>									
Cash/accruals diff.	-0.1	-1.6		-0.6					
Acc. financial assets	3.8	-2.3		6.5					
<i>Privatisation</i>	0.0	0.0							
Val. effect & residual	0.0	-0.4							

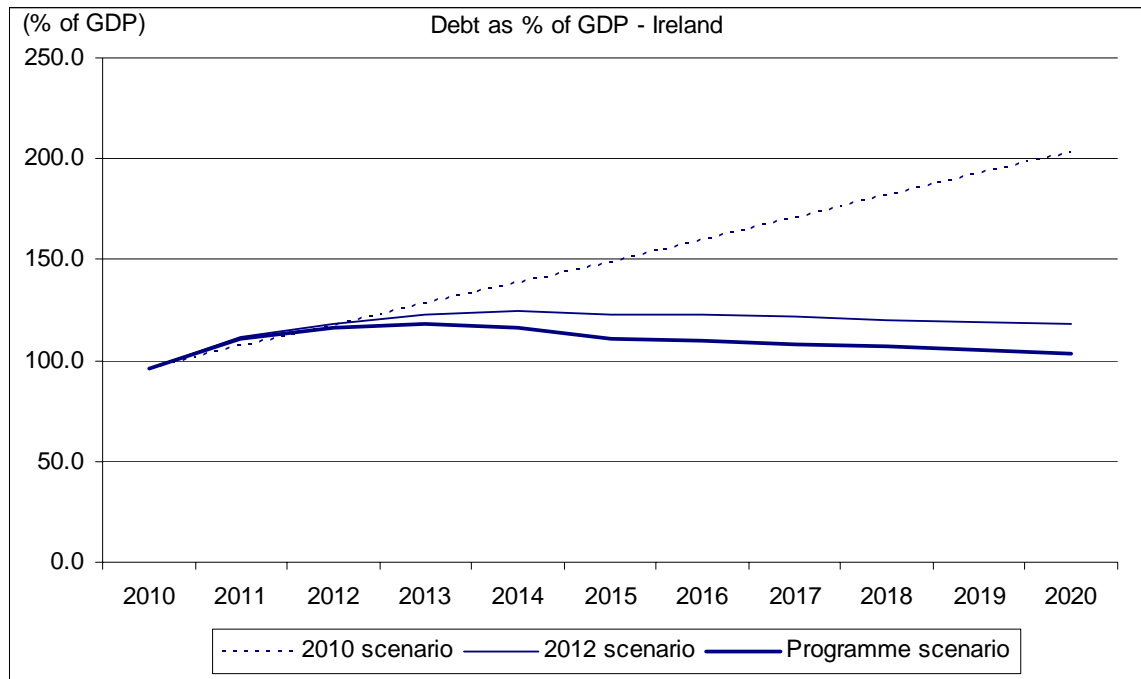
Notes:
¹End of period.
²The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.
Source:
Stability programme (SP); Commission services' spring 2011 forecasts (COM); Commission services' calculations.

Table V. Long-term sustainability indicators

Ireland	Baseline scenario (2010)		Programme scenario			
	S1	S2	S1	S2		
Value	13.4	15.2	3.1	5.6		
<i>of which:</i>						
Initial budgetary position (IBP)	8.3	8.9	-1.4	-0.7		
Debt requirement in 2060 (DR)	1.5	-	0.9	-		
Long-term change in the primary balance (LTC)	3.6	6.3	3.6	6.3		
	2010	2015	2010	2015	2020	
Debt as % of GDP	96.0	148.7	203.2	96.0	111.0	103.8

Note: The 'baseline' scenario (2010) depicts the sustainability gap under the assumption that the 2010 budgetary position remains unchanged over the medium-term (until the end of the period covered by the programme). The 'programme' scenario depicts the sustainability gap under the assumption that the budgetary plans of the programme are fully implemented.

Figure: Medium-term debt projections for Ireland



Source: Commission Services' spring 2011 forecast and the SP

Table VI. Financial market indicators

	2006	2007	2008	2009	2010
Total assets of the banking sector (% of GDP)	730.3	830.9	985.7	1061.5	1048.5
Share of assets of the five largest banks (% of total assets)	49.0	50.4	55.3	58.8	...
Foreign ownership of banking system (% of total assets)	43.5	58.7	55.8	49.9	...
Financial soundness indicators:					
- non-performing loans (% of total loans) ¹⁾	0.7	0.8	2.6	9.0	8.6
- capital adequacy ratio (%) ²⁾	10.9	10.7	10.6	10.9	14.6
- profitability - return on equity (%) ^{1), 3)}	19.1	16.4	-8.0	-40.6	-46.0
Private credit growth (annual % change)	26.0	19.0	11.9	-5.7	-15.1
Residential property prices (y-o-y % change)	13.6	-0.5	-9.1	-13.7	-15.5
Exposure to countries receiving/repaying official financial assistance (% of GDP) ⁴⁾
Private debt (% of GDP) ⁵⁾	185.3	207.2	216.0	223.4	182.2
Gross external debt (% of GDP)					
- Public	15.7	16.2	33.9	45.9	50.6
- Private	365.3	392.6	482.6	528.5	589.4
Long term interest rates spread versus Bund (basis points)*	0.2	8.9	54.2	200.3	299.6
Credit default swap spreads for sovereign securities (5-year)*	89.2	202.1	299.6

Notes:

¹⁾ All licensed banks.

²⁾ The capital adequacy ratio is defined as total capital divided by risk weighted assets. Domestic banks.

³⁾ Net income to equity ratio.

⁴⁾ Covered countries are IE, EL, PT, RO, LV and HU.

⁵⁾ Due to data gaps on debt securities in 2006-2008, only the loans to GDP ratio is provided for these years.

* Measured in basis points.

Source:

Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission services (long-term interest rates), World Bank (gross external debt) and ECB (all other indicators).

Table VII. Labour market and social indicators

Labour market indicators	2005	2006	2007	2008	2009	2010
Employment rate (% of population aged 20 - 64)	72.6	73.4	73.8	72.3	66.7	64.9
Employment growth (% change from previous year)	4.9	4.3	3.7	-1.1	-8.2	-4.1
Employment rate of women (% of female population aged 20 - 64)	62.4	63.3	64.4	64.1	61.7	60.4
Employment rate of men (% of male population aged 20 - 64)	82.8	83.4	83.0	80.4	71.8	69.4
Employment rate of older workers (% of population aged 55 - 64)	51.6	53.1	53.8	53.7	51.0	50.0
Part-time employment (% of total employment)	0.0	0.0	17.7	18.6	21.2	22.4
Fixed term employment (% of employees with a fixed term contract)	3.7	6.0	8.1	8.5	8.5	9.3
Unemployment rate ¹ (% of labour force)	4.4	4.5	4.6	6.3	11.9	13.7
Long-term unemployment ² (% of labour force)	1.5	1.4	1.3	1.7	3.4	6.7
Youth unemployment rate (% of youth labour force aged 15-24)	8.6	8.6	8.9	13.3	24.4	27.8
Youth NEET ³ rate (% of population aged 15-24)	10.9	10.1	10.7	14.8	18.5	:
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	12.5	12.1	11.6	11.3	11.3	:
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	39.2	41.3	43.3	46.1	49.0	:
Labour productivity per person employed (annual % change)	1.0	0.9	1.9	-2.4	0.6	3.2
Hours worked per person employed (annual % change)	0.2	-0.5	-0.9	-1.8	-2.3	1.0
Labour productivity per hour worked (annual % change; constant prices)	0.8	1.4	2.8	-0.7	3.0	2.2
Compensation per employee (annual % change; constant prices)	3.6	0.9	4.2	4.9	4.2	0.7
Nominal unit labour cost growth (annual % change)	5.1	3.7	3.4	5.9	-0.6	-4.9
Real unit labour cost growth (annual % change)	2.5	0.0	2.3	7.5	3.6	-2.4

Notes:¹ According to ILO definition, age group 15-74)² Share of persons in the labour force who have been unemployed for at least 12 months.³ NEET are persons that are neither in employment nor in any education or training.**Sources:**

Commission services (EU Labour Force Survey and European National Accounts)

Table VII. Labour market and social indicators (continued)

Expenditure on social protection benefits (% of GDP)	2004	2005	2006	2007	2008
Sickness/Health care	6.77	6.91	6.98	7.26	8.52
Invalidity	0.85	0.89	0.91	0.97	1.14
Old age and survivors	4.62	4.58	4.67	4.74	5.46
Family/Children	2.50	2.47	2.49	2.59	3.08
Unemployment	1.33	1.26	1.29	1.36	1.80
Housing and Social exclusion n.e.c.	0.73	0.69	0.69	0.70	0.85
Total	16.8	16.8	17.0	17.6	20.9
of which: Means tested benefits	4.08	4.06	4.15	4.35	5.25
Social inclusion indicators	2005	2006	2007	2008	2009
Risk-of-poverty or exclusion ¹ (% of total population)	25.0	23.3	23.1	23.7	25.7
Risk-of-poverty or exclusion of children (% of people aged 0-17)	29.9	28.0	26.2	26.6	31.4
Risk-of-poverty or exclusion of elderly (% of people aged 65+)	33.4	27.7	28.7	22.5	17.9
At-Risk-of-Poverty rate ² (% of total population)	19.7	18.5	17.2	15.5	15.0
Value of relative poverty threshold (single HH per year) - in PPS	9048	9564	10632	10896	10560
Severe Material Deprivation ³ (% of total population)	5.1	4.8	4.5	5.5	6.1
Share of people living in low work intensity households ⁴ (% of people aged 0-59 not student)	14.6	12.8	14.2	13.6	19.8
In-work at-risk-of poverty rate (% of persons employed)	5.9	6.2	5.5	6.3	4.9
Notes:					
¹ People at-risk-of poverty or social exclusion (AROPE): individuals who are at-risk-of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in household with zero or very low work intensity (LWI).					
² At-risk-of poverty rate: share of people with an equivalised disposable income below 60% of the national equivalised median income.					
³ Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour tv, or ix) have a telephone					
⁴ People living in households with very low work intensity: Share of people aged 0-59 living in households where the adults work less than 20% of their total work-time potential during the previous 12 months.					
Sources:					
For expenditure for social protection benefits ESSPROS; for social inclusion EU-SILC.					

Table VIII. Product market performance and policy indicators

Performance indicators	2001-2005	2006	2007	2008	2009	2010
Labour productivity ¹ total economy (annual growth in %)	2.3	0.8	2.2	-1.1	3.6	2.8
Labour productivity ¹ in manufacturing (annual growth in %)	6.1	3.8	9.9	n.a.	n.a.	n.a.
Labour productivity ¹ in electricity, gas, water (annual growth in %)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Labour productivity ¹ in the construction sector (annual growth in %) 5	-1.6	-6.4	-1.8	1.5	1.4	-11.0
Patent intensity in manufacturing ² (patents of the EPO divided by gross value added of the sector)	0.7	0.7	0.2	n.a.	n.a.	n.a.
Policy indicators	2001-2005	2006	2007	2008	2009	2010
Enforcing contracts ³ (days)	n.a.	515	515	515	515	515
Time to start a business ³ (days)	n.a.	13	13	13	13	13
R&D expenditure (% of GDP)	1.2	1.3	1.3	1.5	1.8	n.a.
Tertiary educational attainment (% of 30-34 years old population)	35.1	41.3	43.3	46.1	49.0	n.a.
Total public expenditure on education (% of GDP)	4.5	4.8	4.9	n.a.	n.a.	n.a.
	2003	2005	2006	2008	2009	2010
Product market regulation ⁴ , Overall (Index; 0=not regulated; 6=most regulated)	1.3	n.a.	n.a.	0.9	n.a.	n.a.
Product market regulation ⁴ , Retail (Index; 0=not regulated; 6=most regulated)	1.1	n.a.	n.a.	1.0	n.a.	n.a.
Product market regulation ⁴ , Network Industries ⁶ (Index; 0=not regulated; 6=most regulated)	3.2	3.1	2.8	2.6*	n.a.	n.a.
Notes:						
¹ Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.						
² Patent data refer to applications designated to the European Patent Office (EPO). They are counted according to the year in which they were filed at the EPO. They are broken down according to the inventor's place of residence, using fractional counting if multiple inventors or IPC classes are provided to avoid double counting.						
³ The methodologies, including the assumptions, of this indicator is presented in detail at the website http://www.doingbusiness.org/methodology .						
⁴ The methodologies of the Product market regulation indicators are presented in detail at the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1.00.html . The latest available product market regulation indicators refer to 2003 and 2008, except for Network Industries.						
5 Nace Revision 2 definition.						
6 Aggregate ETCR.						
*figure for 2007.						
Source:						
Commission services, World Bank Doing Business (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).						