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COMMISSION STAFF WORKING PAPER

**Assessment of the 2011 national reform programmes and stability programmes for the
EURO AREA**

Accompanying the document

Recommendation for a

COUNCIL RECOMMENDATION

**on the implementation of the broad guidelines for the economic policies of the Member
States whose currency is the euro**

{SEC(2011) 828 final}

1. INTRODUCTION

The first decade of the euro underlined the many benefits of the common currency. The removal of transaction costs and of country-specific exchange rate risks fostered financial and product market integration. Macroeconomic stability in the euro area as a whole in the pre-crisis period was supported by stable inflation, well-anchored inflation expectations, largely appropriate wage developments and some improvement in fiscal positions. In the face of widening global imbalances, the euro area maintained an almost balanced current account and experienced a phase of sustained labour market improvements, with a rate of job creation not seen in decades.

At the same time, macroeconomic imbalances started to build up within the euro area. A number of euro area Member States suffered losses in competitiveness due to high nominal wage growth coupled with only moderate productivity gains. Varying combinations of inappropriate fiscal policies, benign debt financing conditions and housing bubbles created demand booms that fuelled current account deficits. Some euro area members thus went into the crisis from a weak starting position with already stressed fiscal positions and significant imbalances that made it more difficult to cushion.

For these reasons, and with the added impact of the crisis, the euro area now faces several challenges:

- The intertwined crisis of the financial sector and sovereign debt in some Member States has created risks to stability in the euro area as a whole. The need to avoid a financial meltdown has led to explicit government guarantees and capital injections into the banking sector and hence to the transfer of risk from the private to the public sector, resulting in a deterioration of public finances. At the same time, banks hold a significant portion of sovereign debt, meaning that they have a high exposure to developments in sovereign debt markets.
- While economic recovery is returning to the euro area, future growth is not expected to accelerate much and may be uneven. With the euro area as a whole having grown by 1.8% in 2010, the Commission services' spring 2011 forecast is pointing to a likely expansion in euro area output of 1.6% in 2011 and 1.8% in 2012, varying considerably between Member States. Weaker growth is in particular apparent in those Member States needing to address their macroeconomic imbalances. The size of this correction undertaken may not always be sufficient and may prove, in some cases, to be temporary.

From an international perspective, the nature of these challenges is comparable to those in other advanced economies. The UK and the US share the challenge of weak growth, accompanied by high unemployment (see Table 1). However, with regard to the current account, which was almost balanced in 2010, consumer price inflation and general government deficit and debt, the euro area is performing at least as well as the others and on several indicators considerably better.

Table 1: Main macroeconomic indicators in the euro area, Japan, the UK and the US in 2010

	EA-17	JP	UK	US
GDP at constant prices, annual change in %	1.8	3.9	1.3	2.9
Unemployment rate, %	10.1	5.1	7.8	9.6
Consumer Price Index, annual change in %	1.6	-0.7	3.3	1.6
Net lending (+) or net borrowing (-) of general government, % of GDP	-6.0	-9.3	-10.4	-11.2
General government consolidated gross debt, % of GDP	85.4	223.1	80.0	92.0
Current account balance, % of GDP	-0.1	3.5	-2.5	-3.3

Source: Commission services, 2011 spring forecast

These challenges require a coordinated and comprehensive policy response by the euro area. Past experience shows that close policy coordination can bring substantial benefits. In the crisis the ECB provided additional liquidity and the Member States' coordinated response in the form of the European Economic Recovery Programme supported economic activity and significantly mitigated the impact of the crisis on the euro area. In addition to measures already agreed in 2010 to improve economic surveillance in the EU, the comprehensive policy response agreed by the European Council in March 2011 further strengthened the governance of the euro area and, by reinforcing the financial backstops, proved essential to safeguard stability in the euro area and to address its low growth performance and the adjustment of imbalances. By acting together and setting up adequate governance structures in all three stages of the policy response of crisis control, resolution and prevention, the euro area is thus coming out stronger from the crisis. Still, the largest part of the comprehensive policy response remains a matter of national responsibility and needs to be effectively implemented by Member States.

The aim of this paper is to assess from a euro area perspective the adequacy of Member States' economic policy programmes as submitted in the context of the first European Semester in addressing these challenges. The perspective on the euro area as a whole enables shortcomings to be identified in Member States' actions that could have spillover effects on the euro area as a whole. Such shortcomings could be followed up by the Euro Group by giving policy guidance to euro area Member States.

2. MAIN ECONOMIC CHALLENGES AND POLICY RESPONSES

The euro area faces a set of intertwined policy challenges that relate to (i) restoring and maintaining stability, and (ii) enhancing the growth potential and adjusting imbalances in the euro area. This section assesses to what extent euro area Member States' policy responses as envisaged in their fiscal and structural reform programmes are adequately addressing these challenges.

2.1 RESTORING AND MAINTAINING STABILITY

The external balance and inflation are currently less acute risks to euro area stability. On the external side the euro area has a broadly balanced current account, but the crisis failed to sustainably reduce global imbalances, and the outlook points towards some further widening. A sudden unwinding of these imbalances could not only jeopardise global growth, but also put a major part of the adjustment burden on the euro area even if it did not contribute to these imbalances. Price stability is currently less of a problem in the euro area, even if headline inflation has increased recently, largely due to high commodity prices, and assuming that second-round effects can be avoided.

Macro-financial risks are more of a concern, with the euro area's banking sector having revealed its vulnerability during the crisis. In addition to other channels such as trade, banks played a crucial role in the transmission from an essentially asset-price-based subprime crisis through to credit provision to the wider economy. Partly also following a decline in credit demand, drastically reduced new lending was one of the main responses of banks in order to shrink their balance sheets, especially given the difficulties in raising sufficient amounts of new capital. With many governments being forced to step in to prop up their banks, the extent of public contingent liabilities now represented by the euro area banking sector underlines the central importance of adequate levels of bank capitalisation.

The deterioration of public finance triggered a sovereign debt crisis in some euro area countries. Government revenues collapsed on the back of a sharp contraction in economic activity, while government expenditures were broadly kept at previously planned levels, allowing automatic stabilisers to fully function, and complemented by discretionary fiscal stimulus measures. Moreover, the risks of a financial meltdown triggered large public capital injections and guarantees for financial institutions. Interest rates on some Member States' sovereign bonds soared, thus greatly complicating financing conditions for the Member States concerned. Worries about sovereign debt sustainability quickly spread to other euro area members, and were fuelled by uncertainties about the true state of both public finances and the banking sector in some countries.

The consolidation path of the euro area as a whole, as derived from an aggregation of targets set out in the Stability Programmes, should lead to a reduction of debt after 2012. The aggregation of euro area countries' budgetary targets results in a frontloaded reduction of the general government deficit to 1.3% of GDP by 2014 and in a debt-to-GDP ratio regaining a declining path over the current programme period (Table 2).

Table 2: Euro area general government position, % of GDP

	2007	2008	2009	2010	2011	2012	2013	2014
Total revenue	45.2	44.8	44.5	44.4	44.7	45.0	45.0	45.0
Total expenditure	45.9	46.9	50.8	50.4	49.0	48.2	47.5	46.8
Balance	-0.7	-2.0	-6.3	-6.0	-4.3	-3.1	-2.1	-1.3
Debt	66.2	69.9	79.3	85.4	87.4	87.8	87.0	85.1

Source: Commission services for the years 2007-2010; euro area Member States' 2011 Stability Programmes for the years 2011-2014; EU/IMF support programmes for Greece and Portugal as of beginning of June 2011.

Such a path of fiscal consolidation would be broadly compatible with the strengthening of recovery in the euro area. As the recovery is on track, the aggregate fiscal stance will turn countercyclical for most of the euro area Member States. After being broadly neutral in 2010, the fiscal stance is projected to turn restrictive in 2011, as a result of the exit from (i) stimulus measures taken in recent years by several Member States to promote investment, (ii) help to the financial sector, and (iii) support to households' purchasing power and labour markets. In terms of the main components, a more pronounced decline in the expenditure-to-GDP ratio is projected, while the revenue ratio is expected to slowly converge towards its pre-crisis level from 2011 on.

In many euro area Member States there is still scope to improve tax structures by shifting direct to indirect taxation. The Stability Programmes and National Reform Programmes show that euro area Member States with problems of debt sustainability intend to raise taxes, in addition to curbing public spending. Some Programmes also indicate efforts to reduce the tax burden on labour, especially on low incomes, by shifting revenue sources towards indirect taxation. This often takes the form of reducing the scope of reduced VAT rates and increasing excise duties, including energy taxes. In some Member States new special provisions have been introduced, generally to support R&D, green innovation or SMEs in general. Few Member States envisage reducing tax loopholes in order to broaden tax bases and lower tax rates, thus supporting both growth and fiscal sustainability.

Most euro area Member States have recently implemented, or envisage doing so in 2011 or 2012, new fiscal rules or announce the strengthening of existing ones. Since the mid-1990s, and in the context of the introduction of EMU, most euro area Member States have introduced significant reforms to strengthen their national fiscal frameworks. Most of these changes seek to ensure consistency between national fiscal rules and the SGP provisions, making sure that these are taken into account in the domestic fiscal policy making. Likewise, several euro area Member States have adopted reforms or announce their intentions of implementing them to upgrade the medium-term fiscal planning. In most cases, these measures reinforce the binding character of the domestic medium-term budgetary framework by setting up expenditure limits over the period covered. In parallel, some Member States report the introduction of measures to improve the preparation of the annual budget, mainly relating to the use of top-down and performance budgeting. Last but not least, the Stability Programmes of some euro area countries present plans to set up a new independent body entrusted with technical tasks related to fiscal policy.

These measures on fiscal governance are steps in the right direction, but will in some cases require some additional efforts. They are generally in line with the draft Directive on minimum requirements for national fiscal frameworks currently under discussion. However, past experience and the need for a time-consistent fiscal consolidation to reverse the current debt trends suggest that additional efforts to improve the conduct of fiscal policy are necessary. More specifically, some euro area Member States with weak fiscal frameworks do not show sufficient ambition to strengthen their fiscal governance, thus failing to set up the necessary institutional features (i.e. monitoring and enforcement mechanisms or the binding nature of medium-term fiscal planning).

Ensuring the long-term sustainability of public finances will require further steps. A mere withdrawal of the discretionary fiscal stimulus and a rebound in tax revenues from the crisis-related lows will not be enough to restore sustainable fiscal trends. The combination of high debt ratios, low potential growth and unfavourable demographic developments calls for

urgent action in terms of both fiscal consolidation efforts and structural reform measures. Simple simulations indicate that with an annual improvement of the structural budget balance of 0.5 p.p. of GDP per year until the medium-term budgetary objectives (MTOs) are reached, the euro area on average would need two decades to bring debt down to 60% of GDP. Fiscal corrections of more than 1 p.p. of GDP per year would be needed on average to put debt levels relative to GDP on a firm downward path, and to reach the 60% of GDP threshold by 2020. Sustainability gap indicators show that debt dynamics would not be sustainable in view of the implicit liabilities arising from, notably, pension schemes, health care and benefit systems, taking into account demographic factors. Assuming that the fiscal consolidation plans in the Stability Programmes are implemented in full over the coming years, the sustainability gap would be significantly reduced and amount to 2.7 % of GDP in the euro area. But to make progress towards fiscal sustainability, more needs to be done on reforms of public expenditure programmes, in particular in relation to pension arrangements.

Moreover, repairing the banking sector is necessary for financial as well as fiscal stability. It will reduce the stress on public finances, and is also indispensable to support recovery. Banks have now engaged in balance sheets repair, which, together with a muted economic outlook, has contributed to sluggish credit growth. Moreover, public interventions in the banking sector, while necessary to avoid a financial meltdown, have the potential of creating distortions to competition. For that reason the measures are closely scrutinised by the Commission. It is therefore a challenge to remove the public support to banks while ensuring a healthy credit provision to the economy once the recovery is sustained and investment opportunities arise.

Although EU banks have generally continued to repair their balance sheets, the recovery of the banking sector still appears fragile in some Member States. Progress in restructuring of the banking sector is essential to improve cost efficiency, restore competitiveness and return to normal lending. The situation of the banking sector has recently shown improvement, with higher profits and a strengthening of the capital buffers in many countries. Bank lending to non-financial corporations has gradually recovered in the euro area, while lending to households has remained surprisingly strong. However, potential risks arise from a domestically weak economy and deteriorating labour markets, continued adjustment on real estate markets and tensions in the sovereign debt market. Moreover, from a global perspective the level of high-quality capital remains low on average in European banks, which tends to weigh on confidence in the European banking system. Bank refinancing conditions are not yet completely back to normal, in particular as regards the availability of medium to long-term financing. It seems that some banks still seek to reduce leverage by constraining their lending in some segments of firms and households, rather than by raising new capital.

The EU policy response has brought further improvements to the functioning and stability of the financial system. A European System of Financial Supervisors, including the European Systemic Risk Board to monitor and assess macro-financial systemic risk and three European Supervisory Authorities to ensure a more rigorous and consistent micro-prudential supervision across the EU, started their work in January 2011. The overhaul of the supervisory framework is complemented by improvements in the financial regulatory environment, including for banks, hedge funds and credit rating agencies, by the development of crisis resolution mechanisms for banks and by improvements in consumer protection. New capital requirements will be introduced in line with Basel 3 and Member States commit to putting in place national legislation for banking resolution, in full compliance with the

Community acquis. Strict bank stress tests, coordinated at EU level to assess the resilience of European banks to hypothetical external shocks, will be undertaken on a regular basis. A new round of stress tests, foreseen for mid-2011, will help to identify remaining weaknesses in the euro area banking sector

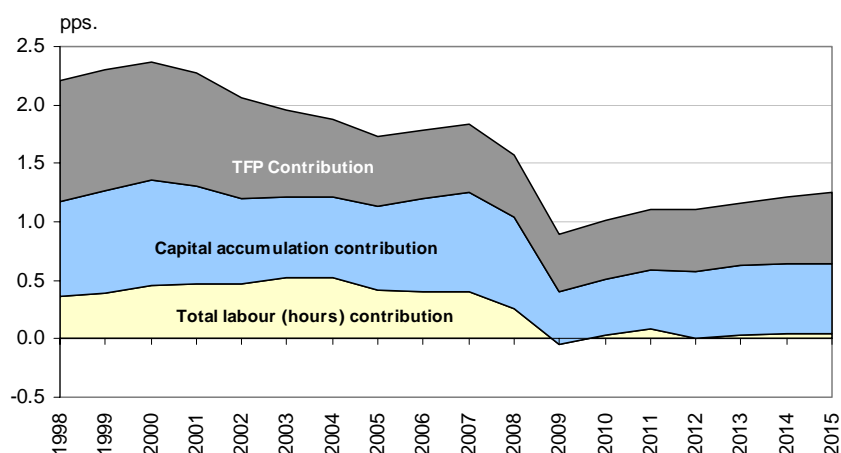
In implementing reforms in the financial sector, several challenges remain to be addressed in euro area Member States. In the light of remaining imbalances in the housing and construction sectors, as revealed by the financial crisis, the banking sector is exposed to possible further losses on asset holdings in several Member States and the impact on the solvency of the banks concerned will need to be addressed. In this context, particularly, the tightening of conditions on refinancing markets is a risk for some banks. Cross-border financial activities have to be monitored closely where banks have strong exposure to debtors in some vulnerable countries. Furthermore, an intensive banking sector restructuring and recapitalisation process is currently ongoing, notably in Germany, Ireland, Greece and Spain. Finally, public sector support to the banking sector will have to be phased out in a prudent manner and, as far as market conditions permit, especially in countries where the banking sector rescue measures have been significant.

2.2 ENHANCING THE GROWTH POTENTIAL AND ADJUSTING IMBALANCES WITHIN THE EURO AREA

Prospects of potential growth remain inherently uncertain for the euro area and are likely to have suffered a permanent negative shock from the crisis. As Figure 1 illustrates, two likely sources of potential growth reduction relative to the pre-crisis period are lower rates of capital deepening due to the adverse impact of long-term balance sheet repair and permanently higher credit risk premia on investment activity, and slower potential labour supply growth due to hysteresis effects stemming from the significant rise in unemployment and increasingly from adverse demographic developments.¹ By contrast, total factor productivity (TFP) appears to have been on a declining trend already in the pre-crisis years. This relatively weak TFP trajectory may result from diminishing impulses to productivity from the business environment (including the degree of industrial competition), as well as from education, R&D and innovation activity, and the extent of technology transfer. Cross-country differences within the euro area are also marked, with Member States such as Finland and Sweden standing out in terms of continually high TFP growth against the almost negligible rates of projected TFP growth in e.g. Spain and Italy. The crisis response itself may also affect potential growth, for example when fiscal or private sector consolidation includes reductions in R&D spending.

¹ See also European Commission (2009): *Impact of the current economic and financial crisis on potential growth*, European Economy, Occasional Paper No. 49, June 2009

Figure 1: Contributions to potential growth in the euro area (EA-17), 1998-2015



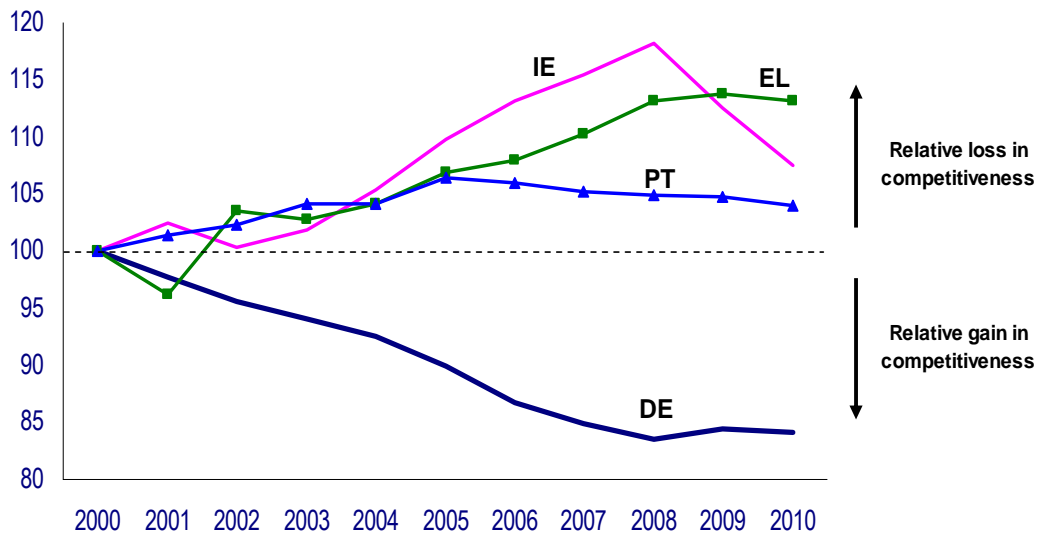
Source: Commission services

As labour resources have been hit hard by the crisis, productivity increases will become the most important source of growth in the coming decades. Demographic projections show a falling working-age population in the euro area. Moreover, although policies to raise the participation rate can bear fruit, increasing productivity will remain key, as the currently idle labour resources will probably exhibit lower productivity. The sharp increase in unemployment from 7.6% in 2007 to 10.1% in 2010 has been accompanied by a considerable rise in long-term unemployment, increasing the risk of a lasting exclusion from the labour market and a permanent loss of human capital. The surge in youth unemployment is a potential threat for the future of the quality of human capital and labour market and earning prospects. Long-term projections suggest that employment growth would be close to nil over the coming decade in the absence of resolute policies, while labour resources are expected to start declining in the beginning of the next decade owing to the population ageing.

The importance of these growth challenges varies among the euro area countries and contributed to the build-up of macroeconomic imbalances within the euro area. The imbalances that built up before the crisis amplified the impact of the crisis on the vulnerable economies, but also had significant negative spillover effects across the euro area. Without appropriate policies, imbalances may reappear, involving high social costs, notably in terms of unemployment, when they subsequently start unwinding in a disorderly manner. The policy response will have to differ significantly across Member States and will have to be carefully designed to address the specific vulnerabilities and needs of the country concerned while taking into account potential spillovers.

Member States showing large current account deficits due to a structural loss of competitiveness will need large price and cost adjustments and a reallocation of resources across sectors. Costs and prices will have to adjust to increase the competitiveness of the export sector and reduce imports (Figure 2), even if non-price competitiveness is also important. Measures increasing price and cost flexibility will reduce the required adjustment in domestic demand and employment. This price adjustment should lead not only lead to improvements in external competitiveness but should be associated with rechanneling of capital and labour resources from the non-tradable to the tradable sector. Therefore, capital and labour mobility needs to be improved both across sectors and across countries.

Figure 2: Real effective exchange rates (based on unit labour costs) relative to the rest of the euro area
(indices; 2000 = 100, increases represent losses in competitiveness)



In Member States with large current account surpluses due to deficient domestic demand, the sources of the latter need to be identified. Recent data are encouraging and indicate that an adjustment is ongoing, with domestic demand increasingly gaining strength and past (corporate) balance sheet adjustment processes coming to an end. However, where domestic demand remains subdued due to policy or market failures, appropriate policies should be put in place.

In the medium term, the reoccurrence of imbalances has to be avoided. A key challenge for policy makers will be to devise and put in place measures that limit the occurrence of credit and asset price excesses, but also to devise specific instruments to mitigate demand if necessary. The pro-cyclicality of credit supply and structural features of the housing market that increase the likelihood of bubbles require particular attention. This holds in particular for countries in a process of income convergence or catching-up where external finance has often been used for public or private consumption to satisfy pent-up demand, whereas priority should be given to capital formation that enhances the productive capacity of the economy and thereby the sustainability of external debt. Moreover, increasing the adjustment capacity and market flexibility would accelerate the correction of existing imbalances, reduce the risks of imbalances in the future and hence improve the functioning of the whole euro area. Improved flexibility and adjustment capacities of the economies, including fiscal and financial buffers, will render them more resilient and facilitate the necessary adjustments in case of major shocks.

According to their National Reform Programmes, euro area Member States are implementing only limited reforms to respond to challenges affecting the functioning of their product markets. Member States are taking very heterogeneous approaches to reform in this area, and the measures adopted to reform product markets often lack ambition. In particular, reforms in euro area Member States are often insufficient in their large and therefore economically important service sectors, notably professional services but also retailing and network industries. Increasing the effectiveness of competition authorities is also an area where often more could be done.

The specific policy actions envisaged to foster employment vary among euro area countries. All euro area Member States include in their NRPs plans to ease labour market matching via improved active labour market policies. A considerable number of countries plan reforms aimed at reducing the tax wedge on labour, in most cases targeted to low-wage earners or long-term unemployed. The reduction in early retirement entitlements planned in a significant number of Member States would encourage labour participation by the elderly. Employment protection is being reformed in a series of countries with a view to making open-ended contracts more attractive and fighting segmentation. In a few Member States unemployment benefits are reformed to strengthen job search incentives for the long-term unemployed. A number of National Reform Programmes include plans to reform wage setting systems, notably in countries with stronger external adjustment needs, and most often with a view to promoting wage setting decentralisation and better aligning real wage developments with productivity.

Cross-border mobility within the euro area, even if currently at low levels compared to within-country mobility, can further boost the efficiency of labour markets. An important step forward was taken with the termination on 1 May 2011 of the last exemptions to the free movement of labour from Member States that acceded the EU in 2004, of which three are now euro area members (Estonia, Slovakia and Slovenia), into two euro area members (Germany and Austria). However, estimations on how many people will actually make use of these new opportunities vary considerably.

Given the urgency, structural reforms are most ambitious in the three euro area Member States that benefit from EU/IMF financial support. A strict and frontloaded implementation of their programmes is essential for turning around these Member States' weak growth and employment prospects. In Greece, the removal of unnecessary hurdles to the entry into and exercise of professions is a flagship reform of the whole adjustment programme. A number of business environment-related measures, such as a new investment law, a new competition law and new rules on licensing have been adopted or are approaching parliamentary proceedings. In Ireland, the structural focus is on labour market reforms, given the large increase in (mainly unskilled) unemployment during the crisis and to prevent a rise in structural unemployment. Building on the authorities' National Recovery Plan, reforms to the labour market include a cut in the minimum wage, greater activation measures and better targeting of benefits. In Portugal, structural reforms whose implementation is expected already in 2011 include measures aimed at strengthening labour market functioning by limiting severance payments and making working time arrangements more flexible as well as measures to deepen the markets and promote competition and flexibility in the energy sector and other network industries.

3. STRENGTHENING POLICY COORDINATION IN THE EURO AREA

The challenges and their policy response, as outlined in section 2, underline the possible risks from contagion effects and other negative spillovers across euro area Member States. The Single Market and the single currency have led to a high degree of economic integration between euro area members. Financial integration increased during the pre-crisis period with a marked increase in cross-border positions and, in some Member States, higher rates of overall leverage. As a result, the international exposure of financial institutions across the euro area widened, increasing the scope for cross-border contagion via the financial

channel. At the same time, financial sector supervision, regulation and resolution at national level in many cases proved inadequate.

In drawing these lessons, a comprehensive and permanent overhaul of economic policy coordination at the EU and euro area level was agreed in the wake of the crisis. Policy action designed to mitigate the adverse effects of the crisis and reducing future risks has spanned virtually all realms of economic and financial policy in the euro area. It has also involved a combination of the immediate crisis management response, aimed at responding to pressing needs in specific countries or sectors, and more systemic measures aimed at improving the euro-area's governance system. The crisis management measures are the result of a search for a comprehensive approach to the immediate adverse effects and threats posed by the crisis. The aim of safeguarding the integrity of the euro and all economies of the euro area in the face of unprecedented market turmoil lies at the heart of this strategy:

- An integrated annual surveillance cycle enshrined in the European Semester draws together many of the aspects of EU economic surveillance, including policies to ensure fiscal discipline, macroeconomic stability, and to foster growth.
- A strengthened surveillance framework comprising six legislative proposals. These aim to overhaul the EU economic policy framework by reinforcing the rules of the Stability and Growth Pact (SGP), strengthening national budgetary frameworks, preventing and correcting harmful macroeconomic imbalances, and establishing an effective enforcement arm for euro-area countries. The new surveillance framework is expected to be enacted in mid-2011, once agreement between Council and Parliament has been reached.
- On 24-25 March 2011 the European Council adopted the 'Euro Plus Pact' (EPP) which, in addition to euro area members, six non-euro area Member States have decided to join. Its principal objectives are to foster competitiveness, foster employment, contribute further to the sustainability of public finances, and reinforce financial stability. The EPP is fully embedded in the institutional set-up of the EU, including the European Semester, and adds a political impetus to the objectives of the Europe 2020 growth strategy and the steps taken to reinforce economic governance in EMU.
- The risks of contagion of financial market concerns about sovereign debt solvency in some Member States have been contained by creating the European Financial Stability Facility (EFSF) and the European Financial Stabilisation Mechanism (EFSM) which will be replaced in 2013 by the European Stability Mechanism (ESM) as a permanent mechanism. For the three Member States receiving financial assistance, rigorous economic adjustment programmes have been agreed and their implementation is being monitored strictly in order to prevent any policy slippage.

The potential for additional measures to strengthen policy coordination in the euro area could be further explored. Although the EU already has a number of instruments for the co-ordination of economic policy, the crisis has shown that these have not always been used to the full and that there are gaps in the current governance system. Recent decisions have shown a broad political agreement that this has to change and that the EU is becoming equipped with a broader and more effective set of policy instruments. It is important to bring all relevant instruments together to ensure that future policy decisions are coherent and, once decided, are implemented and enforced. In particular, as the largest part of the policy response in addressing the current challenges remains a matter of national responsibility and needs to be implemented by Member States, the Euro Group could take a stronger role in giving policy guidance and monitoring the implementation of policy recommendations addressed to euro area Member States.

4. SUMMARY

The experience of the first decade of the euro generally underlined the many benefits of the single currency. However, as a result of the global crisis public finances in the euro area deteriorated, triggering a significant reassessment of sovereign debt risks in some Member States and bringing about risks to macro-financial stability. Growth is recovering in the euro area as a whole, but remains uneven between Member States. The crisis triggered an unwinding of macroeconomic imbalances within the euro area which had developed before the crisis, while the size of the correction may not be sufficient and may, in some parts, prove temporary. These interlinked challenges of restoring and maintaining stability and enhancing the growth potential and adjusting imbalances within the euro area need to be addressed forcefully. To do so, a further strengthening of policy coordination in the euro area could be envisaged, notably by giving the Euro Group a stronger role in providing policy guidance to euro area Member States.

Looking at the euro area as a whole reveals possible shortcomings in Member States' policy responses to these challenges that could have negative spillover effects on the euro area as a whole. The assessment of the Stability and National Reform Programmes for Euro Area Member States show the importance of a strict adherence to budgetary targets. In some Member States consolidation efforts may need to be reinforced, alongside further measures to strengthen fiscal rules and sustainability. Shortcomings were also identified regarding financial stability, growth-friendly fiscal consolidation, wage setting mechanisms, the efficiency of service sectors, and euro area governance.

5. STATISTICAL ANNEX

Table 1. Macro economic indicators

	1995- 1999	2000- 2004	2005- 2008	2009	2010	2011	2012
Core indicators							
GDP growth rate	2.5	1.9	2.0	-4.1	1.8	1.6	1.8
Output gap ¹	0.2	0.9	1.0	-4.1	-3.2	-2.7	-2.0
HICP (annual % change)	1.4	2.3	2.5	0.3	1.6	2.6	1.8
Domestic demand (annual % change) ²	2.6	1.7	2.0	-3.5	1.0	0.9	1.6
Unemployment rate (% of labour force) ³	10.2	8.6	8.2	9.6	10.1	10.0	9.7
Gross fixed capital formation (% of GDP)	20.4	20.6	21.4	19.7	19.2	19.4	19.7
Gross national saving (% of GDP)	21.5	21.1	21.6	18.2	18.7	19.1	19.7
General Government (% of GDP)							
Net lending (+) or net borrowing (-)	-3.1	-2.1	-1.6	-6.3	-6.0	-4.3	-3.5
Gross debt	72.7	68.7	68.6	79.3	85.4	87.7	88.5
Total revenue	46.2	45.2	45.1	44.5	44.5	44.9	44.9
Total expenditure	49.4	47.3	46.7	50.8	50.4	49.1	48.5
<i>of which: Interest</i>	4.9	3.5	2.9	2.8	2.8	3.0	3.2
Rest of the world (% of GDP)							
Net lending (+) or net borrowing (-)	n.a	0.8	0.1	-0.6	-0.2	n.a	n.a
Net exports of goods and services	1.8	1.7	1.3	1.3	1.3	1.5	1.7
Net primary income from the rest of the world	-0.4	-0.5	-0.2	-0.7	-0.4	-0.4	-0.4
Net capital transactions	n.a	0.1	0.1	0.1	0.2	n.a	n.a
Tradable sector	41.9	40.4	38.6	36.2	n.a	n.a	n.a
Non tradable sector	48.0	49.4	51.0	53.8	n.a	n.a	n.a
<i>of which: Building and construction sector</i>	5.2	5.2	5.6	5.7	n.a	n.a	n.a
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 2. European Commission Spring 2011 Forecast

	2009		Annual percentage change							
	bn EUR	Curr. prices	% GDP	92-06	2007	2008	2009	2010	2011	2012
GDP	8971.0		100.0	2.0	2.9	0.4	-4.1	1.8	1.6	1.8
Private consumption	5174.9		57.7	1.9	1.7	0.4	-1.1	0.8	0.8	1.2
Public consumption	1985.4		22.1	1.7	2.2	2.3	2.5	0.7	0.2	0.3
Gross fixed capital formation	1763.9		19.7	2.1	4.7	-0.8	-11.4	-0.8	2.2	3.7
Exports (goods and services)	3258.8		36.3	6.3	6.3	0.9	-13.1	11.2	6.9	6.2
Imports (goods and services)	3140.0		35.0	5.7	5.8	0.8	-11.9	9.3	5.4	5.9
Contribution to GDP growth :	Domestic demand			-	2.4	0.5	-2.6	0.5	0.9	1.5
	Inventories			-	0.2	-0.2	-0.9	0.5	0.0	0.1
	Net exports			-	0.2	0.1	-0.7	0.8	0.7	0.2
Employment				0.7	1.7	0.6	-2.0	-0.5	0.4	0.7
Unemployment rate (a)				9.4	7.6	7.6	9.6	10.1	10.0	9.7
Real unit labour costs				-0.6	-0.9	1.5	2.9	-1.3	-0.6	-0.4
Savings rate of households (b)				-	14.2	14.7	15.8	14.7	14.3	14.3
Output gap				0.2	2.1	1.0	-4.1	-3.2	-2.7	-2.0
Harmonised index of consumer prices				-	2.1	3.3	0.3	1.6	2.6	1.8
Current-account balance (c)				0.4	0.2	-0.8	-0.6	-0.4	-0.2	-0.1
General government balance (c)				-3.0	-0.7	-2.0	-6.3	-6.0	-4.3	-3.5
General government gross debt (c)				-	66.2	69.9	79.3	85.4	87.7	88.5
(a) Eurostat definition (b) gross saving divided by gross disposable income (c) as a percentage of GDP										

Table 3. Long-term sustainability indicators

Euro Area	Baseline scenario (2010)			Programme scenario		
	S1	S2		S1	S2	
Value	6.0	6.4		2.1	2.7	
<i>of which:</i>						
Initial budgetary position (IBP)	2.9	3.0		-0.8	-0.7	
Debt requirement in 2060 (DR)	0.5	-		0.4	-	
Long-term change in the primary balance (LTC)	2.6	3.4		2.6	3.4	
	2010	2015	2020	2010	2015	2020
Debt as % of GDP	85.3	95.3	111.5	85.3	81.7	77.3

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.

Table 4. Labour market and social indicators

	2005	2006	2007	2008	2009	2010
Employment rate (% of population aged 20 - 64)	68.0	69.0	70.0	70.4	69.0	68.4
Employment growth (% change from previous year)	1.0	1.7	1.8	0.8	-1.9	-0.5
Employment rate of women (% of female population aged 20 - 64)	59.4	60.5	61.7	62.5	62.1	61.7
Employment rate of men (% of male population aged 20 - 64)	76.7	77.5	78.3	78.2	75.9	75.2
Employment rate of older workers (% of population aged 55 - 64)	40.4	41.7	43.2	44.3	45.1	45.8
Part-time employment (% of total employment)	18.6	19.1	19.3	19.4	20.0	20.4
Fixed term employment (% of employees with a fixed term contract)	16.0	16.7	16.6	16.3	15.4	15.6
Unemployment rate ¹ (% of labour force)	9.1	8.5	7.6	7.6	9.6	10.1
Long-term unemployment ² (% of labour force)	4.1	3.9	3.3	3	3.4	4.3
Youth unemployment rate (% of youth labour force aged 15-24)	18.1	16.9	15.3	15.8	20	20.7
Youth NEET ³ rate (% of population aged 15-24)	12.0	11.2	10.7	11	12.5	:
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training) - EA 16 data	17.7	17.4	16.8	16.6	15.9	:
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	29.0	29.7	30.8	31.5	32.3	:
Labour productivity per person employed (annual % change)	1.0	1.7	1.2	-0.2	-2.1	2.2
Hours worked per person employed (annual % change)	-0.4	-0.3	0.0	-0.2	-1.5	0.8
Labour productivity per hour worked (annual % change; constant prices)	1.1	1.7	1.0	-0.2	-0.9	1.4
Compensation per employee (annual % change; constant prices)	0.2	0.6	0.2	1.3	0.8	0.8
Nominal unit labour cost growth (annual % change)	1.2	1.0	1.5	3.6	3.9	-0.5
Real unit labour cost growth (annual % change)	-0.7	-1.0	-0.9	1.5	2.8	-1.3
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:						
Comission services (EU Labour Force Survey and European National Accounts)						