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**Assessment of the 2011 national reform programme and convergence programme for
ROMANIA**

Accompanying the document

Recommendation for a

COUNCIL RECOMMENDATION

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

{SEC(2011) 825 final}

1. INTRODUCTION

Between 2002 and 2008 the Romanian economy grew strongly, with above-potential real GDP growth rates averaging 6.3%. Economic growth was primarily driven by domestic demand, as strong credit and wage growth boosted private consumption and investment. However, labour market participation did not reflect the favourable economic conditions, the employment rate remaining practically at the same level for the whole period and being one of the lowest in the EU (63.3% in 2010 as against 68.6% in the EU average). The boom, which was fuelled by foreign capital inflows also led to overheating and unsustainable external and fiscal imbalances. The current account deficit peaked at 13.6% of GDP in 2007 and decreased only marginally to 11.4% of GDP in 2008.

The high external borrowing was driven by a pro-cyclical fiscal policy. During the demand boom, headline deficits rose from 1.2% of GDP in 2005 to 5.7% of GDP in 2008. This was due to a large degree to a generally weak budgetary planning and execution and a lack of predictability of fiscal policy with frequent budgetary rectifications. This contributed to recurrent budgetary slippages, notably with respect to current spending. Public-sector wage growth became the driver of private-sector wage increases, with wage levels higher in the public sector. Over the period 2005-2008, the public sector wage bill doubled in nominal terms.

The global economic downturn and an increased investor risk-aversion to home-grown vulnerabilities led to a significant tightening of capital flows to Romania. Pressures on the exchange rate increased which led to a more than 30% depreciation of the RON against the euro between August 2007 and January 2009. In addition, economic activity contracted by 7.1% in 2009 after having increased by 7.3% in 2008 in a context of an already low employment rate (63.5% in 2009). Given these developments, the Romanian authorities requested international financial assistance.

2. MAIN FEATURES OF THE PROGRAMME

On 5 May 2009, the Council adopted a decision to make available to Romania medium-term financial assistance of up to EUR 5 billion using the Balance of Payments (BoP) facility available for non-euro area Member States. This came in conjunction with loans from the IMF (EUR 13 billion), the World Bank (EUR 1 billion) and the EIB and the EBRD (EUR1 billion). In exchange, the authorities implemented a comprehensive adjustment programme aimed at consolidating public finances and preserving the stability of the financial sector. In addition, the programme also included a number of structural reforms that were necessary for macroeconomic stability. The Romanian authorities successfully implemented the adjustment programme which led to the disbursement of the EU financial assistance in five instalments (the disbursement of the last instalment of EUR 150 million is pending).

In order to lock in these positive achievements, consolidate them further and lay the foundations for sustainable higher growth in the future, a joint European Commission, IMF and World Bank mission negotiated the policy conditions for a follow-up precautionary programme. On 12 May 2011, the Council adopted a decision to make available precautionary medium-term financial assistance of up to EUR 1.4 billion for Romania. This EU assistance under the Balance of Payments facility comes in conjunction with IMF support through a Stand-by Arrangement (SBA) for SDR 3.090 billion. (about EUR 3.5 billion, 300% of Romania's IMF quota), approved on 25 March 2011, which the authorities will also treat as precautionary. The World Bank will continue to provide support committed earlier: EUR 400

million under its development loan programme (DPL3) and EUR 750 million in results-based financing for social assistance and health reforms.

The EU precautionary assistance will be conditional upon the implementation of a comprehensive economic policy programme, with a particular focus on structural reform measures aiming at improving the functioning of product and labour markets (through the amendment of the Labour Code, streamlining wage setting institutions, increasing labour supply incentives while reducing undeclared work) and at increasing the absorption of EU funds as well as the resilience and the growth potential of the Romanian economy. In parallel, the programme ensures the continuation of fiscal consolidation, the reform of the tax administration, improvements in public financial management and control and external, monetary, financial stability, and financial market reform. As a whole, the programme is geared towards: (i) putting an end to the excessive deficit by 2012; (ii) improving the growth potential of the economy; and (iii) decreasing the future likelihood of renewed excessive imbalances in the Romanian economy.

3. IMPLEMENTATION

Following the adoption of the Council decisions setting up the precautionary programme, the latter will enter into force once the Memorandum of Understanding between the EU and Romania is signed and validated by both parties. In the meantime the new IMF programme has already entered into force and was the subject of a first review in April/May. Commission staff participated informally in the discussions and evaluated the conditions for the disbursement of the last instalment of the previous BoP programme. They concluded that the conditions had been met and disbursement is pending following the approval of the EFC¹. Romania submitted the National Reform Programme (NRP) and Convergence Programme (CP) on 2 May 2011. Both programmes reflect the objectives and actions required under the economic reform programme committed by the Romanian Government for the purposes of the EU financial assistance.

The macroeconomic assumptions on which the CP is based are plausible, although the projection of private consumption in 2011 may be slightly optimistic. Both the Commission services' Spring 2011 forecast and the CP assume an acceleration in GDP growth to 1.5% in 2011 and a further increase to 3.7% -4% in 2012. The main driver of growth in the projection period is domestic demand, with private consumption growth accelerating in 2012 while remaining relatively subdued in the Commission forecast in 2011. The acceleration in private consumption growth in 2012 is due to labour productivity increases which can be expected to translate into higher wages and additional employment opportunities. GDP growth for 2013-14 is expected to accelerate further in the CP when it will be significantly above the potential GDP estimated by the Commission services. The inflation path for 2011-12 is similar for the CP and the Commission services' forecast. Higher inflation in 2011 is due both to substantial food and commodity price increases and to the impact of the VAT increase in July 2010. Inflation should decelerate considerably in 2012 as the impact of energy and food price hikes fade.

Romania reached a budget deficit of 6.4% of GDP in 2010 which was significantly better than the revised 7.3% of GDP deficit target fixed within the BoP programme in May 2010. The authorities implemented ambitious fiscal consolidation measures in mid-2010, including an

¹ The documents linked to the old and new BoP programme with Romania can be found at the following link: http://ec.europa.eu/economy_finance/eu_borrower/balance_of_payments/romania/romania_en.htm.

increase in the VAT rate from 19% to 24%, a temporary 25% reduction in public wages and a 15% reduction in social spending excluding pensions. The World Bank is working with the authorities to improve the design of the social protection system in Romania as part of the new precautionary programme in order to target spending better on those most in need. In addition, the authorities also reduced public sector employment from 1.38 million at end-2009 to 1.27 million at end-2010. Commission services project that the budget deficit will be reduced further to 4.7% of GDP in 2011 which is within the deficit target of below 5% of GDP fixed within the context of the BoP programme. The CP aims to reach a budget deficit below 3% of GDP by 2012, in line with the Council recommendations given to Romania in the EDP procedure. It plans to reach this target by decreasing expenditure on wages, subsidies and goods and services, and through the reform of the public pension system. Revenues are expected to increase as a result of the economic recovery and a series of measures aimed at improving tax collection. However, additional measures may be needed to achieve the 2012 target. The deficit is expected to decrease further to 2.6% of GDP in 2013 and 2.1% of GDP in 2014. In terms of the structural balance, this implies an improvement in the deficit by 2.3% in 2011 and 1.5% in 2012, above the 0.5% of GDP benchmark. In contrast, there is no improvement in the structural balance in 2013-14. The programme therefore does not foresee the achievement of the MTO within the programme period. Overall, the adjustment path towards the medium-term budgetary objective is appropriate in 2011 and 2012, but not in 2013 and 2014. In the latter two years, when assessed against the projected rate of medium term potential output growth, the expenditure projections do not seem to ensure an appropriate adjustment path towards the MTO. The main risk to budgetary targets is the arrears of state owned enterprises which represent a serious contingent liability for the budget.

4. MONITORING PROCEDURAL ISSUES AND GOVERNANCE

Romania submitted a Convergence Programme and National Reform programme that are part of a coherent package. The National Reform Programme was the object of a series of consultations including the European Affairs Committee of the Parliament.

Monitoring of the National Reform Programme will be ensured by the Department of European Affairs, which will report to the Government. The Convergence Programme will be monitored by the Ministry of Finance. In 2013 the Department of European Affairs intends to launch an external evaluation of the NRP.

Romania has set targets, officially adopted by the Government, on the five headline areas defined in the Europe 2020 strategy.

Table 1: Romanian Europe 2020 targets

<u>Europe 2020 targets</u>	<u>Current situation in Romania²</u>	<u>Romanian Europe 2020 target in the NRP</u>
R&D investment (% of GDP)	0.48%	2%
Employment rate (%)	63.5%	70%
Early school leaving (%)	16.3%	11.3%
Tertiary education attainment rate (%)	16%	26.7%
Reduction of the number of	9.1 million at risk of poverty or	Reduce by 580 000 number of

² Eurostat figures

people in or at risk of poverty or exclusion	exclusion 3.9 million at risk of poverty	people at risk of poverty.
Energy efficiency – reduction of energy consumption in Mtoe ³		Reduction in energy consumption: 10 Mtoe
Reduction in greenhouse gas emissions (from sources not covered by the Emissions Trading System)	+1% ⁴	+19% ⁵
Renewable energy (% of total energy use)	20% (2008)	24%

³ As estimated by the Commission. Mtoe = Million tonnes of oil equivalent.

⁴ 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).

⁵ 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.

ANNEX

Table I. Macroeconomic indicators

	1995- 1999	2000- 2004	2005- 2008	2009	2010	2011	2012
Core indicators							
GDP growth rate	0.6	5.4	6.4	-7.1	-1.3	1.5	3.7
Output gap ¹	-0.2	-2.5	7.0	-0.8	-4.0	-4.4	-2.8
HICP (annual % change)	74.6	26.0	7.1	5.6	6.1	6.7	4.0
Domestic demand (annual % change) ²	2.0	7.5	10.6	-12.9	-1.0	1.1	4.2
Unemployment rate (% of labour force) ³	5.5	7.6	6.7	6.9	7.3	7.2	6.8
Gross fixed capital formation (% of GDP)	20.1	20.8	27.9	26.2	22.7	23.2	23.7
Gross national saving (% of GDP)	14.0	17.6	16.9	21.1	22.3	22.2	22.8
General Government (% of GDP)							
Net lending (+) or net borrowing (-)	-3.5	-2.6	-2.9	-8.5	-6.4	-4.7	-3.6
Gross debt	14.1	22.7	13.5	23.6	30.8	33.7	34.8
Net financial assets	43.0	29.9	10.1	-11.8	n.a	n.a	n.a
Total revenue	31.9	32.8	33.0	32.1	34.3	34.1	34.5
Total expenditure	35.4	35.4	35.9	40.6	40.8	38.8	38.1
of which: Interest	3.4	2.6	0.9	1.5	1.6	1.8	1.8
Corporations (% of GDP)							
Net lending (+) or net borrowing (-)	-1.0	-5.4	-5.3	n.a	n.a	n.a	n.a
Net financial assets; non-financial corporations	-83.0	-84.7	-100.3	-120.9	n.a	n.a	n.a
Net financial assets; financial corporations	-2.5	-0.1	-1.2	8.4	n.a	n.a	n.a
Gross capital formation	10.3	17.0	21.4	n.a	n.a	n.a	n.a
Gross operating surplus	26.5	23.2	26.7	n.a	n.a	n.a	n.a
Households and NPISH (% of GDP)							
Net lending (+) or net borrowing (-)	-1.0	4.2	-2.4	n.a	n.a	n.a	n.a
Net financial assets	34.8	33.8	44.9	47.0	n.a	n.a	n.a
Gross wages and salaries	28.6	32.0	33.6	n.a	n.a	n.a	n.a
Net property income	5.0	3.5	1.0	n.a	n.a	n.a	n.a
Current transfers received	21.1	16.1	15.1	n.a	n.a	n.a	n.a
Gross saving	2.7	-1.8	-5.9	n.a	n.a	n.a	n.a
Rest of the world (% of GDP)							
Net lending (+) or net borrowing (-)	-5.6	-3.8	-10.6	-3.6	-4.0	-4.2	-4.6
Net financial assets	10.6	23.5	48.2	80.2	n.a	n.a	n.a
Net exports of goods and services	-6.4	-7.0	-12.3	-6.1	-5.4	-5.6	-6.0
Net primary income from the rest of the world	-1.1	-1.8	-3.2	-1.4	-1.2	-1.8	-1.8
Net capital transactions	0.3	0.4	0.6	0.6	0.2	0.2	0.2
Tradable sector	64.0	58.2	53.5	52.4	53.5	n.a	n.a
Non tradable sector	28.0	31.4	35.0	37.5	35.3	n.a	n.a
of which: Building and construction sector	5.5	5.5	8.4	9.9	8.9	n.a	n.a
Real effective exchange rate (index, 2000=100)	72.0	95.5	136.4	133.2	132.6	135.9	139.3
Terms of trade goods and services (index, 2000=100)	92.1	102.7	122.7	132.4	136.0	134.2	134.6
Market performance of exports (index, 2000=100)	92.4	123.6	150.8	175.2	178.8	183.2	185.6
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.							
<i>Source:</i>							
Commission services' spring 2011 forecast							

Table II. Macroeconomic scenario for the budgetary projections

	2010		2011		2012		2013	2014
	COM	CP	COM	CP	COM	CP	CP	CP
Real GDP (% change)	-1.3	-1.3	1.5	1.5	3.7	4.0	4.5	4.7
Private consumption (% change)	-1.7	-1.7	0.6	1.9	3.1	3.9	4.2	4.4
Gross fixed capital formation (% change)	-13.1	-13.1	3.5	3.4	5.9	5.8	7.8	8.5
Exports of goods and services (% change)	13.1	13.1	8.4	8.1	7.3	9.7	9.5	9.6
Imports of goods and services (% change)	11.6	11.6	6.6	7.1	8.1	8.3	8.7	9.5
<i>Contributions to real GDP growth:</i>								
- Final domestic demand	-5.1	-5.2	0.9	1.8	3.6	4.1	4.8	5.1
- Change in inventories	4.1	4.1	0.3	-0.2	0.8	-0.2	-0.2	-0.2
- Net exports	-0.2	-0.2	0.3	0.0	-0.8	0.1	0.0	-0.2
Output gap ¹	-4.0	-4.4	-4.4	-5.3	-2.8	-3.9	-2.3	-0.7
Employment (% change)	-1.8	-1.8	0.1	0.4	0.6	0.6	0.5	0.4
Unemployment rate (%)	7.3	7.3	7.2	6.4	6.8	6.2	6.0	5.8
Labour productivity (% change)	0.5	0.5	1.3	1.1	3.0	3.3	3.9	4.2
HICP inflation (%)	6.1	6.1	6.7	6.5	4.0	3.5	3.2	2.8
GDP deflator (% change)	4.5	4.5	4.4	3.9	4.2	4.8	4.4	4.5
Comp. of employees (per head, % change)	1.3	1.3	2.2	3.9	6.0	6.5	6.7	6.4
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-4.0	-3.9	-4.2	-3.9	-4.6	-4.0	-3.4	-3.2
<u>Note:</u>								
¹ In percent of potential GDP, with potential GDP growth according to the programme as recalculated by Commission services.								
<u>Source :</u>								
Commission services' spring 2011 forecasts (COM); Convergence programme (CP).								

Table III. Composition of the budgetary adjustment

(% of GDP)	2010	2011		2012		2013	2014	Change: 2010-2014
	COM	COM	CP	COM	CP	CP	CP	CP
Revenue	34.3	34.1	34.3	34.5	34.5	34.6	34.7	0.4
<i>of which:</i>								
- Taxes on production and imports	12.1	12.3	12.4	12.2	13.6	13.6	13.6	1.5
- Current taxes on income, wealth, etc.	6.2	6.4	6.1	6.8	6.1	6.1	6.1	-0.1
- Social contributions	9.6	9.6	9.6	9.5	9.1	8.8	8.8	-0.8
- Other (residual)	6.4	5.8	6.2	6.0	5.7	6.1	6.2	-0.2
Expenditure	40.8	38.8	39.2	38.1	37.6	37.2	36.7	-4.1
<i>of which:</i>								
- Primary expenditure	39.2	37.0	37.4	36.3	35.8	35.4	35.0	-4.2
<i>of which:</i>								
Compensation of employees	9.6	8.6	8.5	8.4	8.3	8.0	7.9	-1.7
Intermediate consumption	7.0	5.5	7.5	5.4	6.6	6.4	6.4	-0.6
Social payments	13.8	13.1	13.1	12.7	12.7	12.2	11.9	-1.9
Subsidies	0.8	0.7	0.6	0.6	0.5	0.4	0.3	-0.5
Gross fixed capital formation	5.5	5.6	6.1	5.6	6.4	6.9	7.2	1.7
Other (residual)	2.6	3.4	1.5	3.6	1.4	1.5	1.3	-1.3
- Interest expenditure	1.6	1.8	1.8	1.8	1.8	1.8	1.7	0.1
General government balance (GGB)	-6.4	-4.7	-4.9	-3.6	-3.0	-2.6	-2.1	4.3
Primary balance	-4.9	-2.9	-3.1	-1.8	-1.2	-0.8	-0.4	4.5
One-off and other temporary measures	0.2	0.0	n.a.	0.0	n.a.	n.a.	n.a.	n.a.
GGB excl. one-offs	-6.7	-4.7	n.a.	-3.6	n.a.	n.a.	n.a.	n.a.
Output gap ²	-4.0	-4.4	-5.3	-2.8	-3.9	-2.3	-0.7	3.3
Cyclically-adjusted balance ²	-5.2	-3.3	-3.2	-2.8	-1.8	-1.9	-1.9	3.4
Structural balance³	-5.5	-3.3	-3.2	-2.8	-1.8	-1.9	-1.9	3.6
<i>Change in structural balance</i>		<i>2.1</i>	<i>2.3</i>	<i>0.6</i>	<i>1.5</i>	<i>-0.1</i>	<i>0.0</i>	
Structural primary balance ³	-3.9	-1.5	-1.4	-1.0	0.0	-0.1	-0.2	3.7
<i>Change in structural primary balance</i>		<i>2.4</i>	<i>2.5</i>	<i>0.6</i>	<i>1.5</i>	<i>-0.1</i>	<i>-0.1</i>	
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:								
Convergence programme (CP); Commission services' spring 2011 forecasts (COM); Commission services' calculations								

Table IV. Debt dynamics

(% of GDP)	average 2005-09	2010	2011		2012		2013	2014
			COM	CP	COM	CP	CP	CP
Gross debt ratio¹	15.5	30.8	33.7	33.3	34.8	33.2	32.8	31.9
Change in the ratio	1.0	7.2	2.9	2.5	1.1	-0.1	-0.4	-0.9
<i>Contributions²:</i>								
1. Primary balance	3.0	4.9	2.9	3.1	1.8	1.2	0.8	0.4
2. "Snow-ball" effect	-0.8	0.8	0.1	0.2	-0.6	-0.9	-0.9	-1.0
<i>Of which:</i>								
Interest expenditure	1.0	1.6	1.8	1.8	1.8	1.8	1.8	1.7
Growth effect	-0.4	0.3	-0.4	-0.4	-1.1	-1.2	-1.4	-1.4
Inflation effect	-1.4	-1.0	-1.3	-1.2	-1.3	-1.4	-1.3	-1.3
3. Stock-flow adjustment	-1.2	1.5	0.0	-0.8	0.0	-0.4	-0.2	-0.2
<i>Of which:</i>								
Cash/accruals diff.	-1.1	1.3		-0.1		-0.1	-0.1	0.0
Acc. financial assets	-0.1	-0.1		0.0		0.0	0.0	0.0
<i>Privatisation</i>	-0.6	0.0		0.0		0.0	0.0	0.0
Val. effect & residual	0.0	0.3		-2.3		-3.0	-2.9	-3.0
Notes:								
¹ End of period.								
² The 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:								
Convergence programme (CP); Commission services' spring 2011 forecasts (COM); Commission services' calculations								

Table V. Long-term sustainability indicators

Romania	Baseline scenario (2010)			Programme scenario		
	S1	S2		S1	S2	
Value	7.4	9.5		3.8	6.1	
of which:						
Initial budgetary position (IBP)	4.1	4.4		0.7	1.0	
Debt requirement in 2060 (DR)	-0.2	-		-0.4	-	
Long-term change in the primary balance (LTC)	3.5	5.1		3.5	5.1	
	2010	2015	2020	2010	2015	2020
Debt as % of GDP	30.8	48.4	70.9	30.8	32.3	36.6

Figure: Medium term debt projection

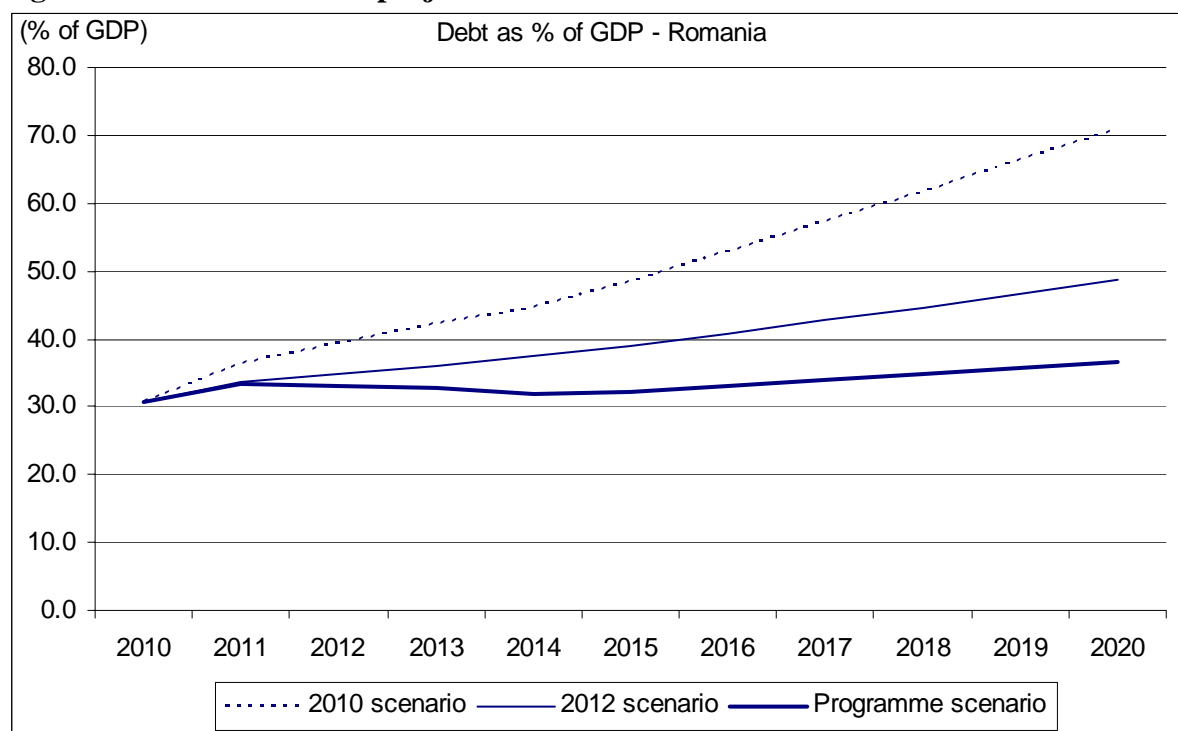


Table VI. Financial market indicators

	2006	2007	2008	2009	2010
Total assets of the banking sector (% of GDP)	43.1	49.7	57.8	71.9	71.5
Share of assets of the five largest banks (% of total assets)	60.1	56.3	54.0	52.4	52.7
Foreign ownership of banking system (% of total assets)	84.5	82.2	79.4	76.0	...
Financial soundness indicators:					
- non-performing loans (% of total loans)	1.8	2.6	2.8	7.9	11.9
- capital adequacy ratio (%) ¹⁾	18.1	13.8	13.8	14.7	14.7
- profitability - return on equity (%) ²⁾	10.2	9.4	17.0	2.9	-1.0
Private credit growth (annual % change)	59.5	59.3	38.8	-1.7	2.6
Residential property prices (y-o-y % change)					
Exposure to countries receiving/repaying official financial assistance (% of GDP) ³⁾
Private debt (% of GDP) ⁴⁾	28.0	32.9	35.3	40.1	40.3
Gross external debt (% of GDP)					
- Public	...	...	7.7	11.3	14.7
- Private	...	...	27.6	33.5	33.0
Long term interest rates spread versus Bund (basis points)*	346.8	291.8	371.3	647.2	459.3
Credit default swap spreads for sovereign securities (5-year)*	...	...	593.9	387.8	299.0

Notes:

¹⁾ The capital adequacy ratio is defined as total capital divided by risk weighted assets.

²⁾ Net income to equity ratio. After extraordinary items and taxes.

³⁾ Covered countries are IE, EL, PT, RO, LV and HU.

⁴⁾ Due to data gaps on debt securities in 2007, 2008 and 2009, 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)	63.6	64.8	64.4	64.4	63.5	63.3
Employment growth (% change from previous year)	-1.5	0.7	0.4	0.0	-1.8	-1.8
Employment rate of women (% of female population aged 20 - 64)	56.9	58.5	57.9	57.3	56.3	55.9
Employment rate of men (% of male population aged 20 - 64)	70.4	71.2	71.0	71.6	70.7	70.8
Employment rate of older workers (% of population aged 55 - 64)	39.4	41.7	41.4	43.1	42.6	41.1
Part-time employment (% of total employment)	10.2	9.7	9.7	9.9	9.8	11.0
Fixed term employment (% of employees with a fixed term contract)	2.4	1.8	1.6	1.3	1.0	1.1
Unemployment rate ¹ (% of labour force)	7.2	7.3	6.4	5.8	6.9	7.3
Long-term unemployment ² (% of labour force)	4.0	4.2	3.2	2.4	2.2	2.5
Youth unemployment rate (% of youth labour force aged 15-24)	20.2	21.4	20.1	18.6	20.8	22.1
Youth NEET ³ rate (% of population aged 15-24)	16.8	14.8	13.3	11.6	13.9	:
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	19.6	17.9	17.3	15.9	16.6	:
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	11.4	12.4	13.9	16.0	16.8	:
Labour productivity per person employed (annual % change)	5.8	7.1	5.9	7.3	-5.4	0.5
Hours worked per person employed (annual % change)	0.4	0.9	0.5	0.0	0.2	0.2
Labour productivity per hour worked (annual % change; constant prices)	5.4	6.2	5.4	7.3	-5.6	0.3
Compensation per employee (annual % change; constant prices)	15.1	1.7	7.5	14.5	-10.3	-3.0
Nominal unit labour cost growth (annual % change)	22.0	4.9	15.2	22.9	-1.3	0.8
Real unit labour cost growth (annual % change)	8.8	-5.1	1.5	6.6	-5.2	-3.5

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)

Table VII. Labour market and social indicators (continued)

Expenditure on social protection benefits (% of GDP)	2004	2005	2006	2007	2008
Sickness/Health care	3.27	3.75	3.25	3.53	3.54
Invalidity	1.05	1.09	1.09	1.27	1.38
Old age and survivors	5.89	5.81	5.73	6.02	7.12
Family/Children	1.56	1.84	1.76	1.67	1.49
Unemployment	0.53	0.41	0.33	0.27	0.20
Housing and Social exclusion n.e.c.	0.22	0.31	0.30	0.44	0.33
Total	12.5	13.2	12.4	13.2	14.1
of which: Means tested benefits	0.95	0.92	0.80	0.84	0.68
Social inclusion indicators	2005	2006	2007	2008	2009
Risk-of-poverty or exclusion ¹ (% of total population)	:	:	45.9	44.2	43.1
Risk-of-poverty or exclusion of children (% of people aged 0-17)	:	:	50.5	51.2	52.0
Risk-of-poverty or exclusion of elderly (% of people aged 65+)	:	:	57.7	49.2	43.1
At-Risk-of-Poverty rate ² (% of total population)	:	:	24.8	23.4	22.4
Value of relative poverty threshold (single HH per year) - in PPS	:	:	1728	1836	2064
Severe Material Deprivation ³ (% of total population)	:	:	36.5	32.9	32.2
Share of people living in low work intensity households ⁴ (% of people aged 0-59 not student)	:	:	8.4	8.2	7.7
In-work at-risk-of poverty rate (% of persons employed)	:	:	17.3	16.8	17.3
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 %)	8.9	7.1	6.5	7.5	-4.7	0.7
Labour productivity ¹ in manufacturing (annual growth in %)	5.8	4.7	9.8	4.8	n.a.	n.a.
Labour productivity ¹ in electricity, gas, water (annual growth in %)	-0.7	2.6	12.2	19.0	n.a.	n.a.
Labour productivity ¹ in the construction sector (annual growth in %)	4.0	14.1	9.7	14.1	-17.5	-14.8
Patent intensity in manufacturing ² (patents of the EPO divided by gross value added of the sector)	0.2	0.2	0.1	n.a.	n.a.	n.a.
Policy indicators	2001-2005	2006	2007	2008	2009	2010
Enforcing contracts ³ (days)	n.a.	537	537	512	512	512
Time to start a business ³ (days)	n.a.	11	14	10	10	10
R&D expenditure (% of GDP)	0.4	0.5	0.5	0.6	0.5	n.a.
Tertiary educational attainment (% of 30-34 years old population)	9.7	12.4	13.9	16.0	16.8	n.a.
Total public expenditure on education (% of GDP)	3.4	n.a.	4.3	n.a.	n.a.	n.a.
	2003	2005	2006	2008	2009	2010
Product market regulation ⁴ , Overall (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Product market regulation ⁴ , Retail (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Product market regulation ⁴ , Network Industries ⁶ (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Notes:

¹Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.

²Patent 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.

³The methodologies, including the assumptions, of this indicator is presented in detail at the website <http://www.doingbusiness.org/methodology>.

⁴The 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.

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).