

The EU and its Neighbours: Challenges for Economic Freedom

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1. Introduction

The 2011 edition of the Economic Freedom of the World Report¹ has a special relevance.

First, it includes the results of the Economic Freedom Index calculated on 2009 data, and it allows a first assessment of the impact of the crisis on the levels of economic freedom. Overall, economic freedom decreased and the average score fell to 6.64 in 2009, the lowest in nearly three decades, from 6.67 in 2008. The worsening of the institutional environment is particularly relevant for the Western countries, whose governments tried to contrast the crisis through a wide range of interventions. The United States experienced one of the largest drops, falling to the 10th place overall from the 6th in 2010. The European Union, and particularly the countries that were hit more hardly by the financial crisis, experienced a similar decrease. The first focus of this report will therefore be the analysis of the impact of the crisis on the scores obtained by the EU countries.

Second, we noticed, within the EU, that some of the Eastern countries performed relatively better during the years of the crisis, and reached acceptable levels of economic freedom. This does not apply any more if one crosses the borders of the EU. The Eastern neighbouring countries are still stacked to low levels of economic freedom and show a weak institutional background. The second focus of the report will therefore be on the analysis of the results obtained by these countries; the gaps with the performances obtained by the Eastern European countries that joined the EU will be analyzed.

Finally, during the last months other European neighbours (the countries on the Southern shore of the Mediterranean Sea) were involved in a series of revolts and institutional changes. The former regimes were able to establish a certain level of economic freedom; however, further improvements were unrealistic with the corrupted government systems that were ruling these countries. The changes in the institutional setting in Egypt and Tunisia, and the promises of reform by the Moroccan king might have an impact on the evolution of economic freedom. However, it is still too early to predict whether this impact will be positive or negative. The third focus will be on these countries, and the results concerning economic freedom during the last decade will be discussed.

The institutional background of a country, and economic freedom *in primis*, is crucial in order to determine its competitiveness and its ability to attract investments. Along the report we will therefore analyze the relationship among the Economic Freedom Index, the Global Competitiveness Index (developed by the World Economic Forum), and the Doing Business Index (calculated by the World Bank).

The Economic Freedom of the World Index measures the degree to which policies and institutions are supportive of economic freedom. It uses 42 different measures to create an index ranking countries around the world on the basis of policies that encourage economic freedom. The cornerstones of economic freedom are personal choice, voluntary exchange, freedom to compete, and security of private property. Economic freedom is measured in five different areas:

- Size of Government
- Legal Structure and Security of Property Rights
- Access to Sound Money
- Freedom to Trade Internationally
- Regulation of Credit, Labor, and Business.

The construction of EFW index is based on two important methodological principles. First, objective components are always preferred to those that involve surveys or value judgments. Second, the data used

¹ J.D. Gwartney, R. Lawson and J. Hall with J-P. Chauffour and M.D. Stroup, *Economic Freedom of the World: 2011 Annual Report*, Vancouver, The Fraser Institute, 2011.

to construct the index ratings are taken from official sources such as the International Monetary Fund, the World Bank, and the World Economic Forum.

In order to achieve a high economic freedom rating, a country must provide strong protection of privately owned property, effective enforcement of contracts and a stable monetary environment. It must also keep taxes low, refrain from creating barriers to both domestic and international trade, and rely on markets rather than on the political process to allocate goods and resources.

The Global Competitiveness Index is a highly comprehensive index for measuring national competitiveness. It aims at providing benchmarking tools for business leaders and policymakers to identify obstacles to competitiveness and stimulate discussion on the best strategies to overcome them.

It is calculated through a weighted average of many different components grouped into 12 pillars of economic competitiveness: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication and innovation. While the results of the 12 data points are reported separately (because such details provide a sense of the specific areas in which a particular country needs to improve), they are not independent: they tend to reinforce each other, and a weakness in one area often has a negative impact on other areas.

Additionally, these pillars affect the economic performances of the countries in different ways, according to their stages of development, and therefore a different weight is given them for countries in different stage of development. The identified stages are:

- factor-driven economies. It is the first stage of development, in which competition is based on unskilled labor and natural resources;
- efficiency-driven economies, based on higher education and training and characterized by efficient goods markets, well-functioning labor markets and developed financial markets;
- innovation-driven, countries characterized by the most sophisticated and innovative production processes.

The Doing Business Report is an annual benchmarking of the regulations that enhance business activity and those that constrain it. The Doing Business Index includes quantitative indicators concerning economic environment and protection of property rights for 183 economies, taking the perspective of domestic, mainly SMEs, companies and measuring the regulations applying to them through their life cycle.

Economies are ranked on the basis of nine areas: starting a business, dealing with construction permits, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business. In addition, data are presented for regulations on employing workers and for a set of pilot indicators, such as the time required in order to get an electrical power connection. These indicators are used to analyze economic outcomes and identify what reforms have worked, where and why.

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The volume² is organized as follows. Chapter 2 discusses the challenges that the three areas are facing in this historical period. Chapter 3 analyzes the recent trends concerning economic freedom. Chapter 4 includes detailed country tables.

² Where not differently specified, data in the volume refer to the last edition of the different reports used as sources. In particular, data on Economic Freedom and data borrowed from the Global Competitiveness Index refer to 2009, while data on Doing Business refer to 2011.

Main references

The Fraser Institute, *Economic Freedom of the World, 2011 Annual Report*

The International Bank for Reconstruction and Development / The World Bank, *Doing Business 2011*

The World Bank, *World Development Indicators*

World Economic Forum, *The Global Competitiveness Report 2010-2011*

2. Economic Freedom: Three Areas, Three Challenges

The three areas considered in our report are facing different challenges. All of them will be crucial to determine the medium-long term level of economic freedom that will prevail in the analyzed countries.

The EU is confronting the current crisis through a wide set of government interventions. These interventions are weakening overall economic freedom performances. The challenge will therefore be, for European countries, to get out of the crisis reducing as far as possible the negative impact on economic freedom.

Eastern European countries will face a different critical challenge. While most Eastern countries that joined the EU improved their level of economic freedom during the last two decades, countries beyond the border are still performing poorly, especially in some areas of analysis. Therefore, the challenge these countries will face will be that of engaging on the path towards an improvement of the institutional setting and of the performances under this perspective.

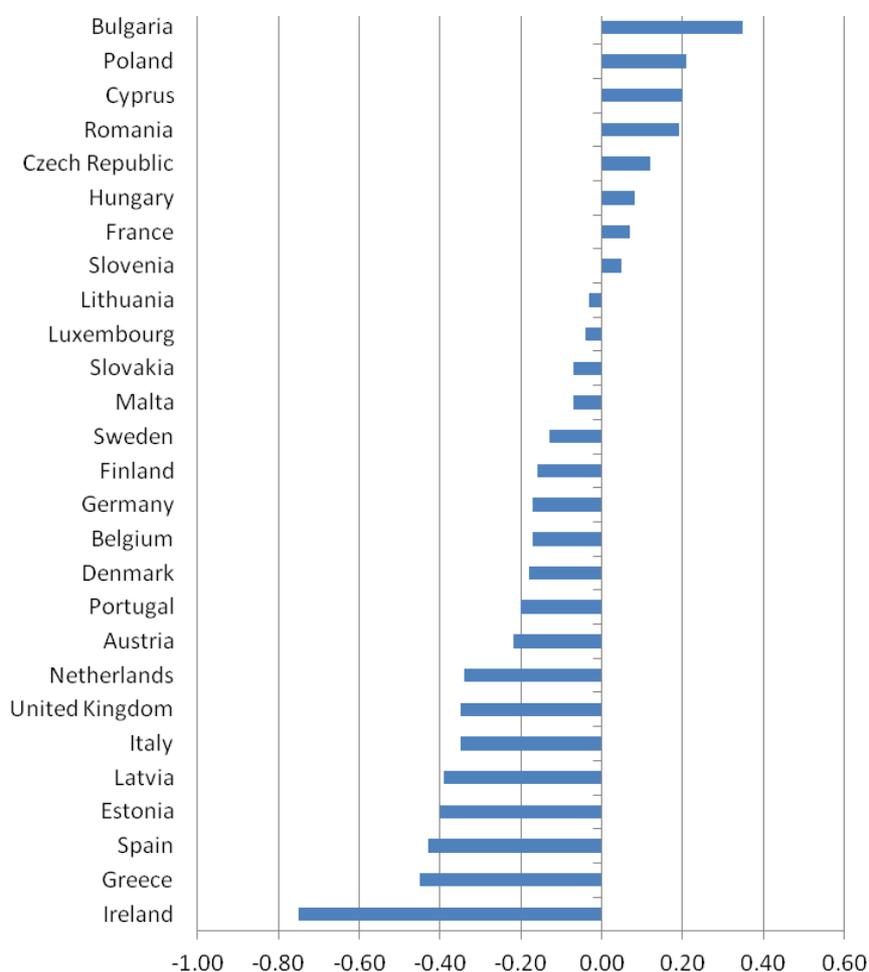
North African countries are going through relevant institutional changes. It will be interesting to see how these changes will affect their economic performance and their level of economic freedom.

This chapter briefly analyzes these three challenges and discusses the possible evolutions that we might expect. The following chapter discusses, for each area, the main evidence concerning economic freedom.

The EU, the crisis and economic freedom

The last five years did not represent a favourable period for what concerns economic freedom in the European Union.

Graph 2.1
Economic Freedom changes (2005-2009)



As shown in the graph, only eight out of 27 countries experienced an improvement in the economic freedom score. The majority of these is represented by Eastern European countries, that are performing relatively well in the various areas of analysis.

The countries that lost more ground on this respect are the ones that were hit more hardly by the financial crisis: Ireland and Greece. Spain, that in the previous decade had gained many positions, lost ground and it is no more the positive 'case study' it had been in the past. Italy obtains a lower score in 2009 than in 2005 notwithstanding an already weak starting position. The United Kingdom, still the first country at a European level, loses about 0.4 points in absolute values.

During the last year (2008-2009), Greece, Ireland and Portugal lost respectively eight, fourteen and six positions in the global ranking. France passed from being 34th to being 42nd. Germany, on the other hand, performed quite well and gained four positions, ranking 21st in 2009.

The interventions that the various governments undertook in order to face the economic crisis reduced economic freedom at least in two ways. On the one hand, European governments increased public spending and incurred budget deficits in order to stimulate demand and, in some cases, to save troubled financial institutions. On the other hand, in order to prevent new episodes such as those that led to the current crisis, tougher regulation, especially on financial markets, have been put in place.

European countries should be aware of the importance of exiting the crisis and restore, in a reasonable lapse of time, the previous economic freedom levels.

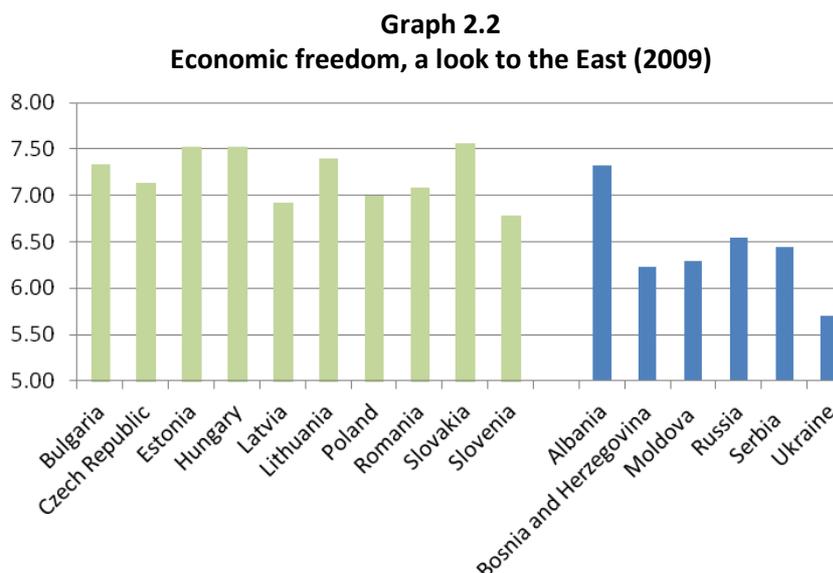
Countries with a higher level of economic freedom were in fact able, on average, to face the consequences of the crisis better, and there is a positive correlation between the score in the Economic Freedom Index and the growth of GDP through the years of the downturn (and up to 2010). In the long term, this relationship should be more marked. In the short term, economic freedom entails a certain degree of flexibility that might also emphasize the effects of the slowdown, while in the long term, vice-versa, the positive effect of a good institutional environment should always prevail.

Moreover, as it will be shown in the following chapter, there is a positive correlation between economic freedom, competitiveness and the conditions for doing business.

It is therefore important to understand in which area the European countries lost ground under this point of view, and whether this trend will be reversed in the next years. Chapter 3 analyzes the first issues, discussing the recent trends observed within European countries and underlying some of the causes that led to the worsening of the average performances. But only the observation of future data will allow to answer the second, and most critical, question.

Eastern countries, is a path to economic freedom possible?

Eastern countries are facing a radically different challenge. The issue, for these countries, is not to maintain economic freedom notwithstanding the crisis, but to enter the path to economic freedom seriously for the first time in their history.

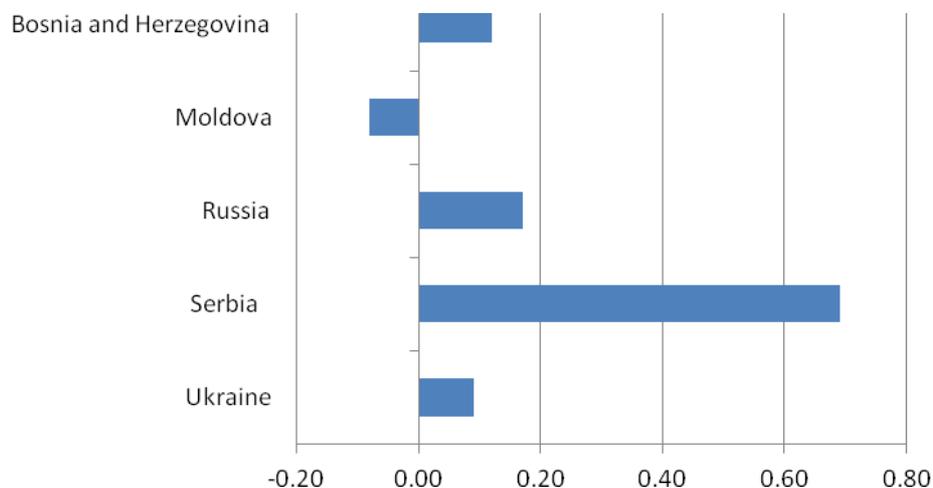


The graph shows economic freedom in the Eastern European countries that joined the EU (to the left) and Eastern European countries at EU border (to the right). Countries that joined the EU reached a good level of performances, and obtained scores between 6.68 (Slovenia) and 7.56 (Slovakia). Countries at the European border are stacked at a lower level of economic freedom. With the exception of Albania, that reaches a 7.32, their scores range between 5.7 (Ukraine) and 6.55 (Russia).

What are the sources of the weakness of this cluster of countries? As the analysis in the following chapter will clearly point out, the Legal Structure (with a low independence of the judicial, scarcely independent courts and weak protection of property rights) and the Size of Government (with a high level of transfers and subsidies and the presence of many government enterprises and investment) represent the two main weaknesses.

After a period in which all of these countries experienced a positive improvement, the positive trend has almost stopped in the last five years.

Graph 2.3
Changes in economic freedom levels, 2005-2009



As shown in the graph, with the exception of Serbia, that increased its score of more than half a point, the countries analyzed showed very slight increases in economic freedom (despite the non excellent starting point). Furthermore, Moldova experienced a worsening of the absolute value of the score obtained.

As underlined by Boris Begovic, President of the Center for Liberal-Democratic Studies, for the case of Serbia (see next chapter), notwithstanding an encouraging period at the beginning of last decade, characterized by privatization of the state owned enterprises, foreign trade liberalization and streamlining and simplification of the tax system, the implementation of reforms leading to economic freedom was largely incomplete. There were small, if any, improvements in areas like government, judicial system and protection of private property rights, and a general reform of the public sector was missing.

The same picture might describe almost all the countries in this cluster. Therefore, the challenge that the countries in this area will face in the next years will be to begin a roadmap towards higher levels of economic freedom in order to create better conditions for the development of entrepreneurial activities. However, and as we have seen, the conditions are not very promising.

Arab spring and economic freedom

The third challenge concerning economic freedom is the one faced by the countries on the Southern shore of the Mediterranean Sea.

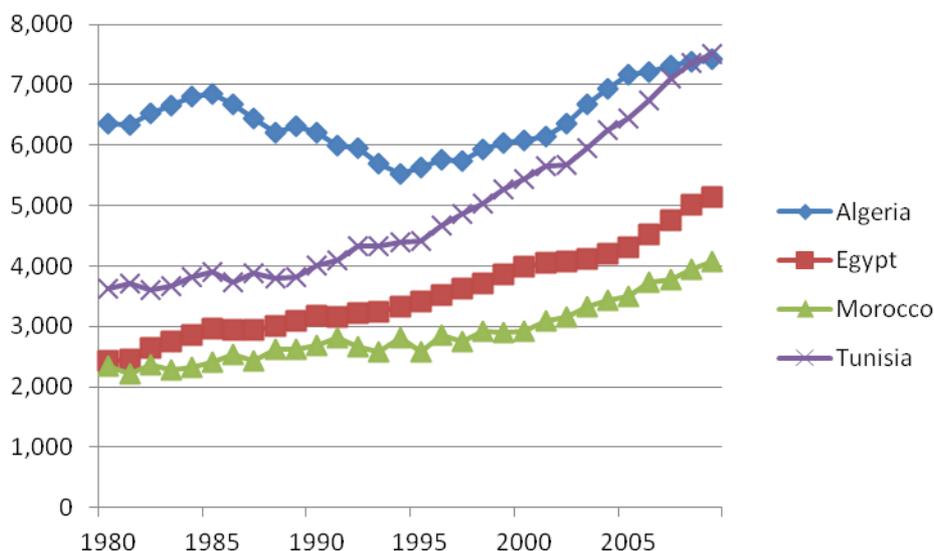
The average level of economic freedom in these countries increased during the eighties and the nineties. Dictatorships that were ruling these countries implemented some economic reforms that improved the background and created the conditions for a certain growth.

The fact that some economic reforms were pursued before the political ones is not, by itself, negative. As some contributions in the literature showed,³ countries that open their economies before opening their political systems, usually obtain better performances and maintain higher growth rates than the ones that follow the opposite path. This is due to the fact that, if property rights are well established and the level of income per-capita is acceptable before the political system is reformed, the risk

³ See F. Giavazzi and G. Tabellini, "Economic and Political Liberalizations", *Journal of Monetary Economics*, 52, 2005, pp. 1297-1330.

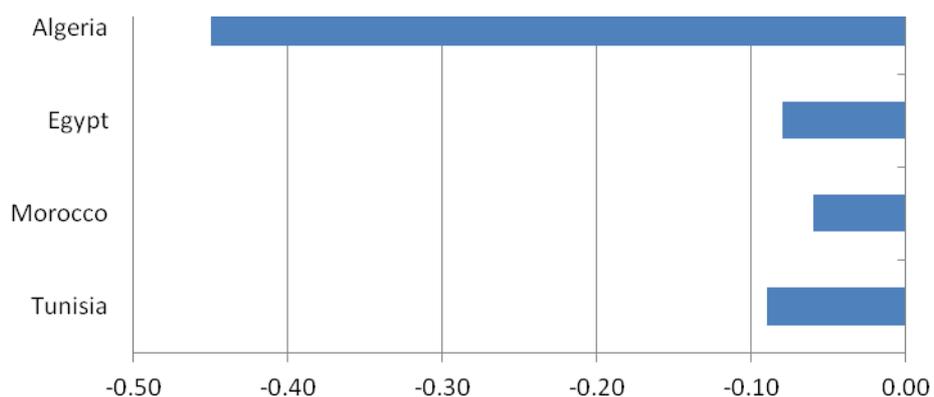
of engaging in high level of transfers and pork-barrel projects is lower when the passage to democracy occurs. And, in fact, in these countries income per capita was growing at an acceptable rate, as shown in the graph below.

Graph 2.4
GDP per capita (PPP constant values), 1980-2009



However, as it will be pointed out in the following chapter, the trend toward higher level of economic freedom almost stopped during the last five years. Without a minimum degree of democracy, corruption and the need to maintain stability through a high level of public spending prevailed on the need for further economic reforms.

Graph 2.5
Changes in economic freedom levels, 2005-2009



As shown in the graph, all the countries in the cluster decreased their levels of economic freedom. This decrease was very small in absolute value for Egypt, Tunisia and Morocco, but was quite relevant for Algeria, that lost almost half a point.

The Arab spring led to a regime change in Egypt and Tunisia and to promise of reforms in Morocco. Algeria, on the other hand, was not deeply involved.

However, there are at least three elements that make the future of economic freedom in the Arab countries quite uncertain:

- it is not clear, this is somewhat obvious in a rapidly evolving environment, what will be the real nature of the regimes that will rule these countries. Will Egypt and Tunisia really be able to establish a full democracy, and how long will it take? Will the reforms promised by Morocco's king be effective? Will Algeria be involved in similar developments in the future?
- As pointed out by Mohammed Nosseir, Chair of the Secretariat of International Relations and member of the Political Bureau of the Democratic Front Party (see next chapter), the round of liberalizations that took place during the first years of the last decade was characterized by a high degree of corruption, and therefore citizens do not have a good perception of liberalization processes.
- The new governments that will rule Tunisia and Egypt, and the regimes that are still in power in Algeria and Morocco, will search, more than in the past, a wide popular consensus. In order to pursue this objective, they will probably increase the level of transfers and engage in social policies that will increase the size of the government.

These issues will be crucial for the future of the countries on the Southern shore of the Mediterranean. As the next chapter will show, there is a certain degree of correlation among economic freedom, competitiveness and the ability to be appealing for the establishment of business activities.

It is therefore important, in order to attract foreign direct investments and to allow local entrepreneurial activities to recover, to improve the institutional quality, to maintain acceptable levels of economic freedom and, if possible, try to restart a positive trend such as the one experienced at the beginning of the last decade.

3. Area Analysis

This chapter analyzes the main evidence concerning Economic Freedom and competitiveness in the three relevant areas: European Union (and candidate countries), Eastern Europe and North African countries.

Economic Freedom in the EU

Macroeconomic environment

The single market is one of the EU's main achievements, and its 'four freedoms' of movement (of people, goods, services and capital) are worth defending. Nevertheless, the European Union is not a homogeneous area: a two-speed Europe has become an economic reality, especially within the euro area relying on trust that each member will run sound public finances.

When trust breaks down, integration is in trouble. The later confidence crisis, triggered by the severe financial difficulties of the Greek, Irish and Portugal governments, is confirming this general belief, putting into question the European Union's ability to keep intact the single currency.

Policymakers should adopt a coordinated strategy to boost growth, with two priorities.

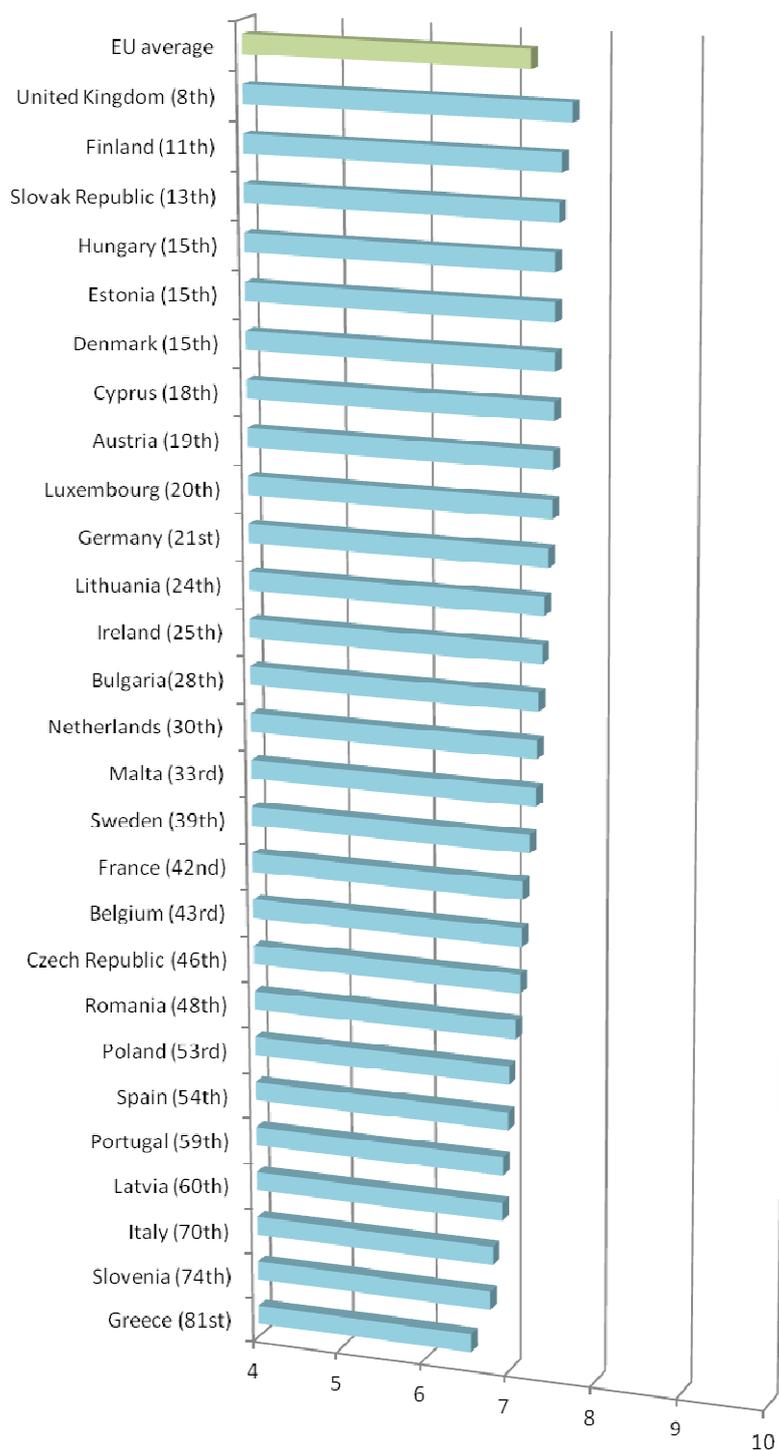
- First, a recalibration of fiscal policies. Additional effort should be devoted to put in place greater reforms that will improve the public finances over time without slamming too hard on the brakes today.
- Second, a big push on supply-side reforms. A joint commitment to productivity-boosting measures, such as cutting trade barriers or getting rid of excess regulation, would benefit the Member Countries.

In conclusion, the global economic crisis has hit a number of European countries particularly hard, leading to rising unemployment, plunging demand, and, in some cases, concerns about the sustainability of sovereign debt.

Recent trends concerning Economic Freedom

In this section we will analyze Economic Freedom in the European Union. In particular, the 27 sovereign Member States will be considered.

Graph 3.1
Economic Freedom in the European Union (2009)



The graph shows the Economic Freedom scores obtained by the EU countries in 2009. The average score (7.25) is well above the results recorded in the other areas considered in this report. United Kingdom, with a score of 7.71, reaches the 8th position at a worldwide level, being the best performer; vice-versa, Greece, ranking 81st globally, is the worst player with a score of 6.55.

The Size of Government represents the most critical area of analysis, both considering the EU and the Euro zone. Only few countries (Bulgaria, Cyprus, Lithuania, Slovak Republic, Romania and Hungary)

reach sufficient/passable marks. A high level of government consumption and a significant presence of transfers and subsidies as a share of GDP represent the main reasons of this unsatisfying performance. As a consequence, the extent to which EU countries rely on personal choice and free markets rather than government budgets and political decision-making is remarkably improvable.

For what concerns the Legal Structure, we observe mixed results. On the one hand, there are few troubled situations: just four (Romania, Italy, Greece and Bulgaria) out of 27 countries obtain a non-sufficient result. On the other hand, the Scandinavian countries (Finland, Denmark, Sweden), together with Austria and Germany, are the best in this area, thanks to outstanding scores in the following variables: Security of Property Rights, independent judiciary and impartial courts.

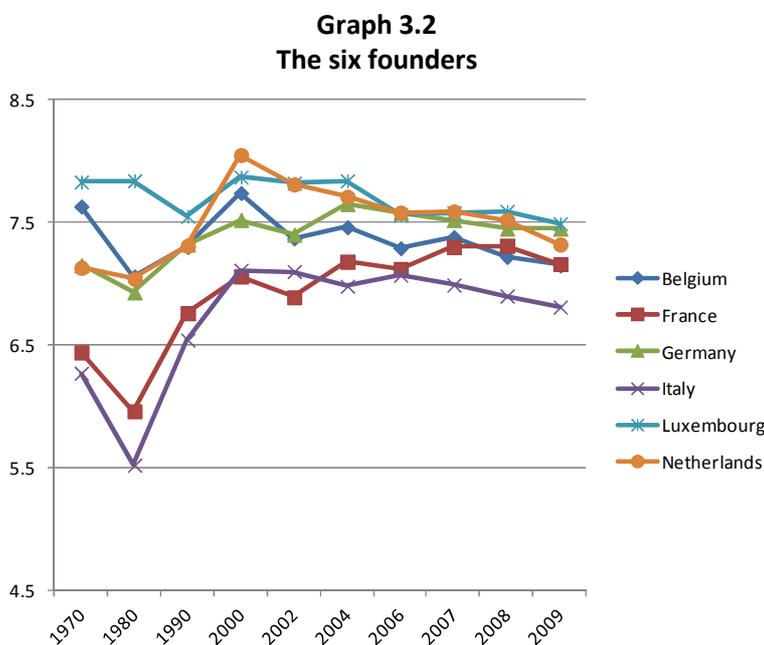
In the field concerning Access to Sound Money the judgments recorded across the entire 27 Member States are remarkably high, with the lowest grade (8.9) obtained by Latvia. The Euro system’s primary objective of maintaining price stability, avoiding inflation, has given, up to now, good results.

Good performances are observed concerning Freedom to Trade, thanks to low tariffs, a significant size of the trade sector on average (Slovakia topped the list), easy clearance and efficient administration of customs and few controls on the movement of capital.

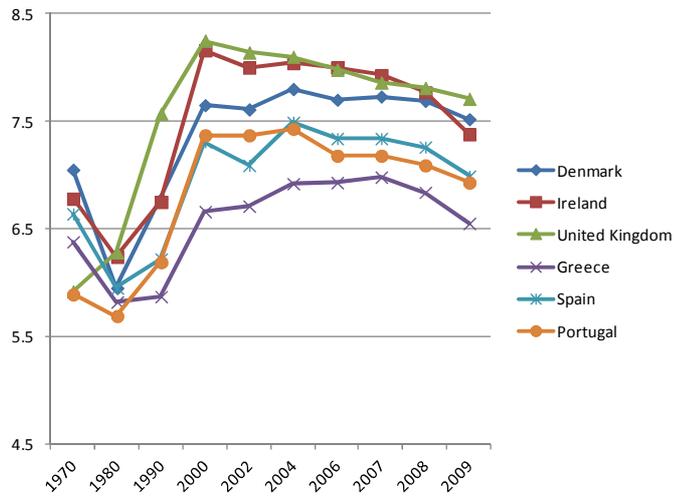
As far as the area Regulation of Credit, Labor and Business is concerned, limited variations across countries are observed. Only two nations, Greece and Portugal, report non-sufficient scores, due to voluntary exchanges restrictions. In contrast Denmark, Lithuania, Bulgaria, Estonia and Belgium topped the list, obtaining good scores.

A historical perspective

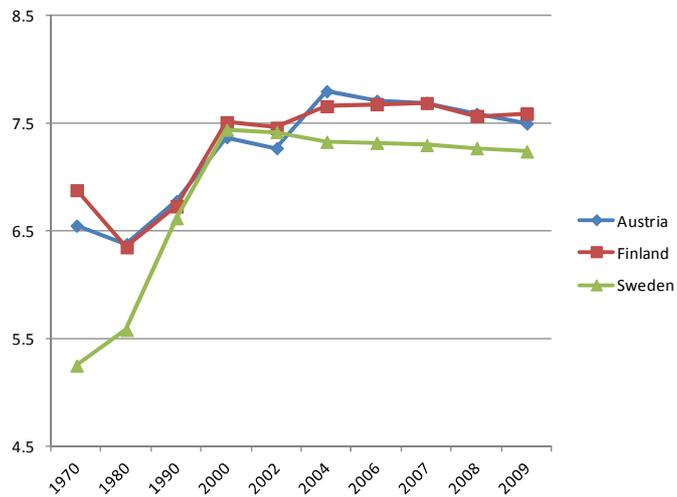
The graphs show the trend in Economic Freedom since 1970 for the countries considered, clustered according to their joining date.



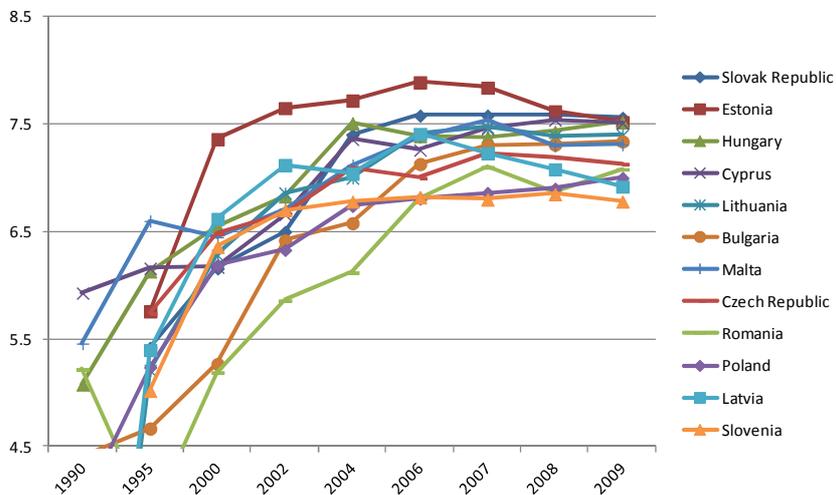
Graph 3.3
The first enlargement (1970-86)



Graph 3.4
Three new Members (1990-99)



Graph 3.5
A decade of further expansion (2000-today)



Some clearly identifiable trends emerge from these graphs:

- Most European countries recorded a sharp growth in Economic Freedom from 1980 to 2000, followed by a limited decrease. Finland, Austria, Portugal, Denmark, France, Germany and the 'twelve' new Members are the exceptions, showing an upward trend until 2004-2005. Overall, while in 1980 the countries for which the scores are available obtained results between 5.52 (Italy) and 7.84 (Luxembourg), in 2009 (the last year for which data are available) all the countries in the area scored between 6.55 (Greece) and 7.71 (United Kingdom).
- The ranking among countries changed considerably along the last four decades. Luxembourg, that was topping the list in the eighties, lost ground and is now behind the United Kingdom, Finland, Slovak Republic, Denmark, Estonia, Cyprus and Austria. Romania, Bulgaria and Poland have recovered in the last decades much of the ground lost during the communist era.
- The countries of Central and Eastern Europe, that joined the EU lately, generally obtain fairly good performances (between 6.78 and 7.41).

The EU weaknesses, mentioned above, were clear since 1995, the first year for which data for all the countries in the cluster are available. Regarding the Dimension and the Role of the Government in the Economy (the main 'fault' highlighted), in 1995 all the countries were showing not sufficient grades, with the exception of Cyprus (6.21). During the period 1995-2009 the major improvements have been recorded by the 'new entries'. In particular, Slovak Republic, Bulgaria, Hungary and Romania have made consistent enhancements. Vice-versa Latvia, Malta and Estonia worsened their marks in this area of analysis, and they do not reach sufficient grades (similarly to all the EU founders in the last year). As far as Italy is concerned, we can observe an overall score upgrading (5.27 vs. 3.75), without any relative position change.

For what concerns the area Access to Sound Money, where the EU is performing remarkably well (weighted average: 9.55), the analysis should be split into two clusters. The first, made up by the EU founders and first enlargers, displays outstanding grades throughout the period under consideration. The second, formed by the novel Member States from Eastern Europe, exhibits a gradual, but significant, increase between the years 1995-2009. In particular two countries, Estonia and Lithuania, have been object of first-rate growths across the period 1995-2000.

As far as the Legal Structure and the Security of Property Rights are concerned, no noteworthy changes have been recorded. The whole EU countries fell slightly throughout the last nine years, with the exception of Estonia, Lithuania, Cyprus and Latvia that exhibited an upward trend until 2007, followed by a marginal decrease over the last few years.

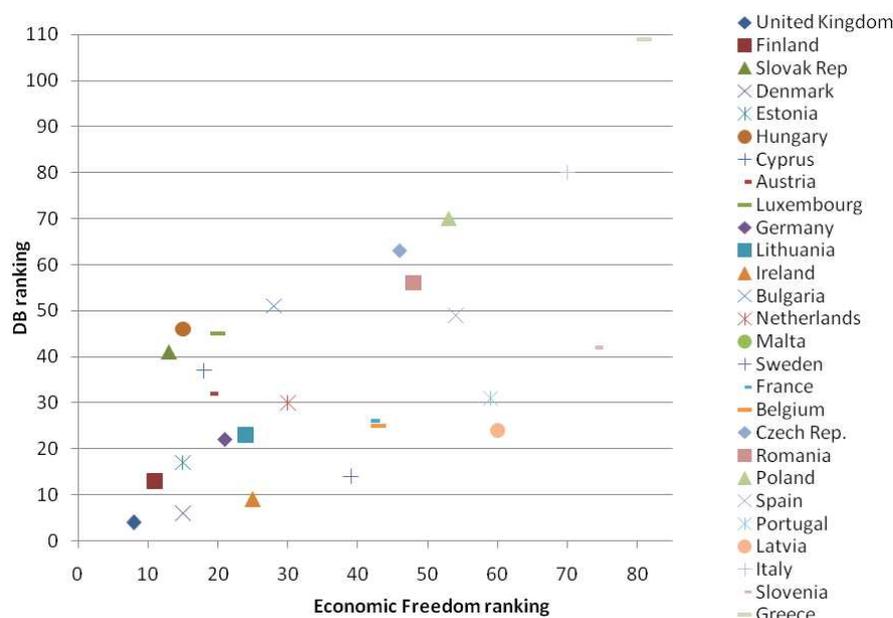
In the field Freedom to Trade Internationally, a similar trend to the one concerning the Legal Structure is observed. It can be clearly seen that most of the 27 sovereign member states declined gradually throughout the whole period, starting from 2001. The exceptions are made up by the following few countries, Slovak Republic, Cyprus, Malta, Romania and Poland, that showed a steady increase until 2007, at which point the figure began to decline and dropped slightly during the years 2008-2009. The best performer is Slovak Republic, ranking 3rd worldwide (with an overall score corresponding to 8.34, against a point of departure of 6.57) and the worst player is Lithuania 52nd (lost 38 rankings, scoring 6.94 in 2009 vs. 8.16 in 1995).

Finally, in the area of Regulation of Credit, Labor and Business, it is clear that the grades went gradually up throughout the whole period, with first-rate increases recorded by Romania, Lithuania, Latvia, Slovak Republic and Bulgaria. Ireland and the United Kingdom are the only countries showing a consistent worsening of the performance in the last period: both lost almost one point since 2005.

Economic Freedom, competitiveness and business environment

The graph below represents the position of the countries considered in the Economic Freedom ranking and its relationship with the position in the Doing Business ranking.

Graph 3.6
Economic Freedom and Doing Business rankings



There is a general positive correlation between the ranks in the Economic Freedom Index and in the Doing Business Index, but a few outliers are present. First, Slovenia is the second worst performer as far as the former index is concerned but exhibits fairly good marks regarding the latter one. Latvia and Portugal keep the same track, scoring between the 20th and the 30th position if we consider the conditions of Doing Business, but ranking around 60th in the area of Economic Freedom; Poland obtains the opposite result. Luxembourg, Hungary and Slovak Republic (that position in the top 20 as concern the Economic Freedom, but score between the 41st and the 46th position as regards Doing Business conditions) are the other main outliers.

The United Kingdom, Denmark, Finland and Estonia are among the front-runners in both the indicators. Vice-versa, Greece exhibits the worst performance. In the middle of the rankings we observe Germany, Lithuania, Netherlands and Austria with similar rankings (between the 21st and the 30th position) in the two indicators. Czech Republic, Romania and Spain are in a lower position.

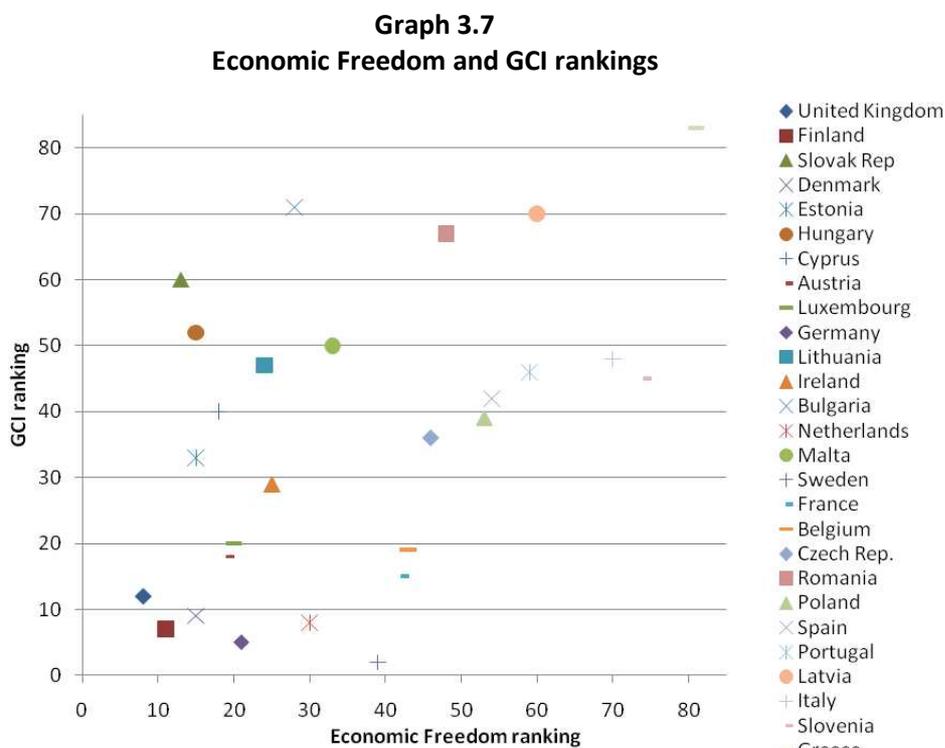
A similar picture emerges if we compare the Economic Freedom ranking with the Global Competitiveness Index (GCI), though with a wider dispersion of the countries in the second one (graph 3.7). Overall, Finland, the United Kingdom, Denmark and Germany top the list in both indexes, scoring between the 7th and the 21st place. Austria and Luxembourg come next (roughly 20th). Czech Republic, Poland, Spain, Portugal keep the same track, although located in a lower position in both rankings and exhibiting slightly superior performances as far as competitiveness is concerned.

In the back row we notice Greece, displaying the worst grades due to a severe deterioration of its macroeconomic environment, to a poor institutional setup and to low markets' efficiency. Latvia follows, exhibiting the third unhealthiest ranking as concern GCI and the fourth poorest status in the Economic Freedom Index. Likewise, Italy is the third last if we consider Economic Freedom, and the eight worst as regards competitiveness.

The Slovak Republic is an outlier: though obtaining the third best performance as far as Economic Freedom is concerned, it ranks fifth last if we consider the competitiveness conditions. Hungary and Bulgaria are in an analogous situation. Sweden represents, somehow, another exception: first-rate grade being shown in the GCI ranking, counterbalanced by worse performances as regards Economic Freedom.

In general, as far as the competitiveness conditions are concerned, it is notable that the group of countries showing second-rate grades distinguish themselves from the leaders particularly in that they have

considerably less innovation drivers and much poorer institutional environment, while their results as regards the macroeconomic stability and the population’s basic skills pillars is similar to that of the top performers. Additionally, existing studies point to large differences among the Member States within this middle group: countries from Eastern Europe have bet more heavily on open and flexible markets for both goods and labor, while Italy and Spain have relied on the economies of scales their markets’ size can provide.



Another major prerequisite for economic competitiveness is represented by a highly performing public sector able to deliver sustainable, modern, high-quality and reliable public services. Given the deteriorating public finances, many Member States see only limited room to manoeuvre, but, at the same time, they need to respond to changing citizens’ and businesses’ needs in an evolving society. An interesting example for considerable progress over the last decade is Estonia, currently scoring considerably above the EU average under this perspective. The general reform of public administration is high on the agenda of several other Member States (e.g. Bulgaria, Greece, Hungary, Portugal, Romania), for which weak administrative and judicial capacity as well as legal uncertainty constitute key impediments in addressing economic development challenges.

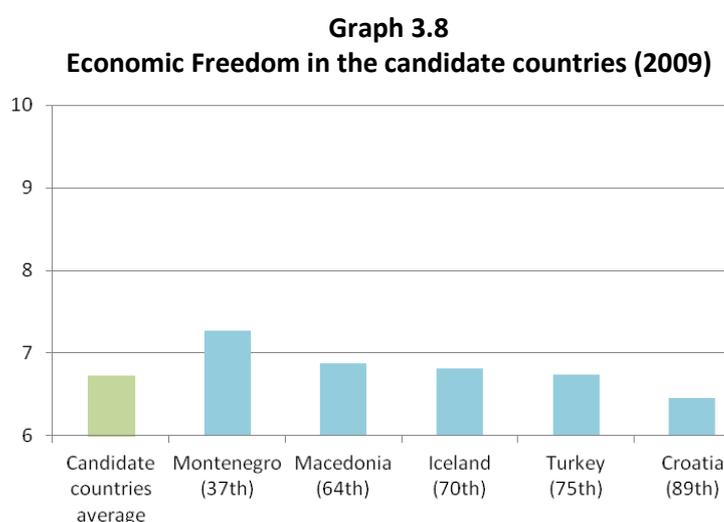
Concerning the conditions for doing business, improvements have been observed. Some governments have permanently reduced or abolished the minimum capital requirements to set up a company (e.g. Germany, Netherlands, Latvia, Luxembourg) and others relaxed the rules concerning business angels (e.g. Netherlands). Additionally, considerable progress has been pursued in the average time (15 days in 2009 according to the World Bank) and cost required to start up a company. Some 20 Member States have set up an operational physical one-stop-shop which is able to serve the creation of private limited companies and has developed pre-defined procedures (company registration, tax registration, etc.). Some Member States aim at a zero-stop shop with a simple online registration (e.g. Poland), but, at the same time, only few countries have procedures that are so simple that only one contact with a public administration is required (e.g. France, Ireland, Latvia, Sweden, Belgium). Denmark (which has one of the most efficient labor markets) and Hungary (where online registration of a company is now possible within one hour) are good example of significant improvement which have occurred in the last years.

However, despite the progress made over the last decade, weaknesses in the business environment, such as lack of innovation enhancers, fragmentation of the internal market and burdensome procedures for dealing with public administrations, are still inhibiting business activity and reducing the attractiveness of the EU as a location for international investment. In fact, Ernst & Young estimated in 2010 that Western Europe is still perceived as the second most popular destination for FDI, but in 2010 investors rank China as the world's most attractive country.

Definitely, in a globalised economic setting where markets often span over continents and where the division of labor has reached unprecedented levels, Europe's future welfare and growth depends crucially on its capacity to compete successfully on the international markets and to face the new global challenges.

A look at the candidate countries

The graph below shows the Economic Freedom scores concerning the EU candidate countries.



Montenegro, with a score of 7.27, is the best performing among the candidate countries. It reaches an enviable 37th position in the worldwide ranking on Economic Freedom. It performs better than the other EU candidates in the field of Regulation of Credit, Labor and Business (8.01) and it obtains an excellent performance concerning Access to Sound Money (9.49).

Macedonia follows in the ranking, obtaining a score of 6.88. It performs particularly well in the field of Regulation of Credit, Labor and Business, where it obtains a 7.86 (above the average of the other EU candidate countries) and shows an excellent performance in the field of Access to Sound Money (7.96).

Iceland obtains a score of 6.81 and ranks 70th worldwide. It performs fairly well, and better than the average of the EU candidate countries, in the areas of Legal Structure and Security of Property Rights and Regulation of Credit, Labor and Business (8.31 and 7.57 respectively). Moreover, it obtains excellent scores in the area Access to Sound Money (7.78).

Turkey, with a score of 6.74, ranks 75th worldwide. It obtains an excellent result in the area Access to Sound Money (8.92), an almost good result concerning the Size of Government (6.9) and a sufficient one in the area Freedom to Trade Internationally (6.4). Not sufficient, on the other hand, the performances in the fields of Legal Structure and Security of Property Rights (5.59) and Regulation of Credit, Labor and Business (5.9).

The last country among the EU candidate ones is Croatia (6.46, 89th position worldwide). It obtains an excellent performance for what concerns the area Access to Sound Money (8.49), and a sufficient or more than sufficient performance for what concerns Freedom to Trade Internationally and Regulation of Credit,

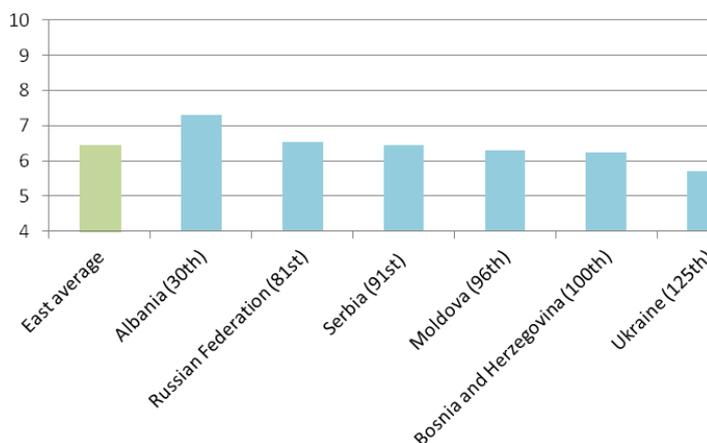
Labor and Business (6.3 and 6.82 respectively). Its scores are not sufficient, vice-versa, for what concerns the Size of Government (5.13) and the Legal Structure and Security of Property Rights (5.55).

Economic Freedom in Eastern Europe

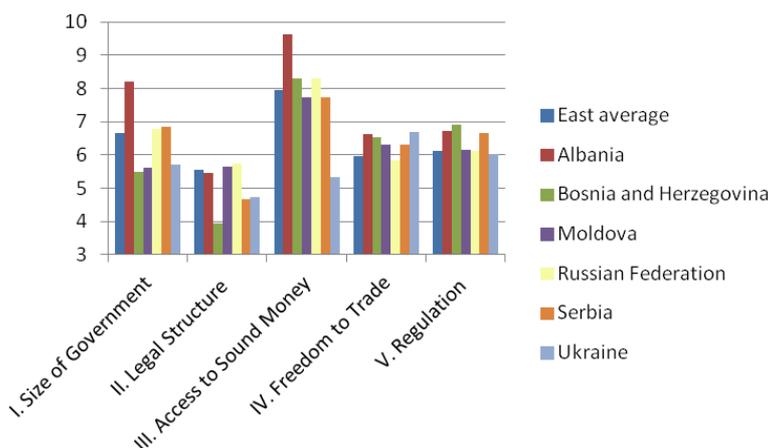
Recent trends concerning Economic Freedom

In this section we will analyze Economic Freedom in Eastern Europe. In particular, Albania, Bosnia and Herzegovina, Moldova, the Russian Federation, Serbia and Ukraine will be considered. Belarus, though being at the Eastern border of the EU, will not be included since data concerning Economic Freedom are not available for this country.

Graph 3.9
Economic Freedom in Eastern Europe (2009)



Graph 3.10
Economic Freedom in Eastern Europe, area analysis



The Legal Structure represents the most critical area, in which none of the considered countries reaches a sufficient score. A low independence of the judicial, scarcely independent courts and weak protection of property rights lead to this unsatisfying performance.

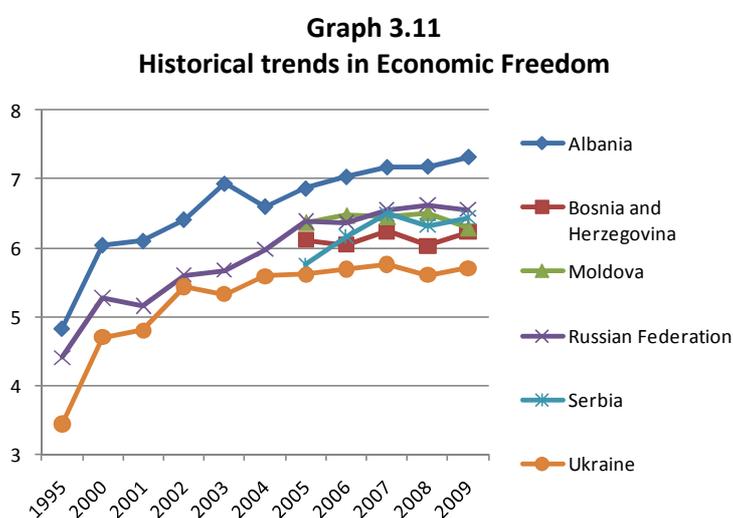
Also for what concerns the Dimension and the Role of the Government in the Economy, three out of six countries (Bosnia and Herzegovina, Moldova and Ukraine) obtain a non sufficient result. The causes

are mainly ascribable to a high level of transfers and subsidies and to the presence of many government enterprises and investments.

Almost all the countries obtain scores between 6 and 7 in the areas of analysis concerning Freedom to Trade Internationally and Regulation of Credit, Labor and Business. Notwithstanding, there are still many areas in which the performances are quite weak. For what concerns the Freedom to Trade Internationally, it is still possible to observe a high level of nontariff trade barriers, the size of the trade sector is generally quite limited, there are restrictions to foreign ownership and investments and controls to capital movements. On the other hand, for what concerns regulation we observe mixed results. In the field of credit markets regulation the countries considered obtain fairly good scores. If we examine labor market regulation the scores are often scarcely sufficient, while the results are clearly not sufficient in the context of business regulation.

A historical perspective

The graph shows the trend in Economic Freedom since 1995 for the countries analyzed.



Some evidence clearly emerges from this graph:

- there is an upward trend in Economic Freedom. While in 1995 the three countries for which the scores are available obtained results between 3.44 and 4.83, in 2009 (the last year for which data are available) all the countries in the area scored between 5.7 and 7.32;
- the ranking among countries did not change much along the last 15 years. Albania, Russian Federation and Ukraine, for which scores are available since 1995, maintain the same relative positions (Albania 1st, Russian Federation 2nd and Ukraine by far the last in the cluster);
- the countries emerged from the dissolution of Yugoslavia obtain generally poor performances; however, Serbia shows an upward trend and its score grows from 5.75 in 2005 to 6.44 in 2009.

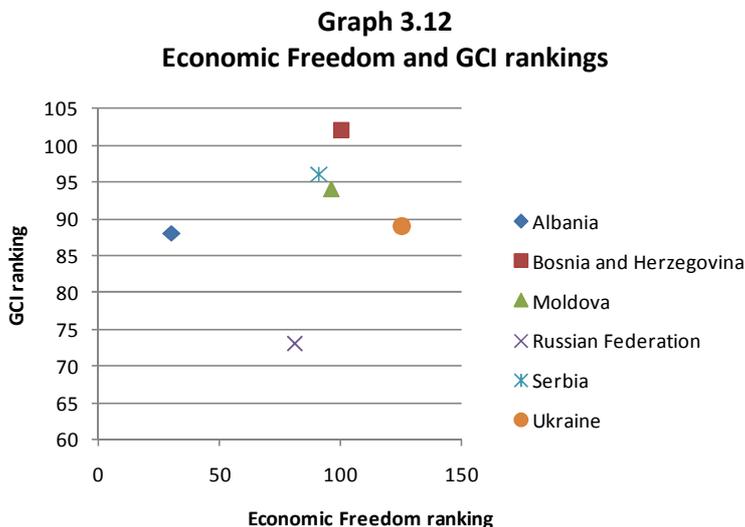
The weaknesses previously noted were clear from 2005, the first year in which data for all of the countries in the cluster were available. Concerning the Legal Structure (the main weakness highlighted by the analysis) the results of all the countries were not sufficient. The improvement in the period 2005-2009 were consistent (but not impressive) for Albania and Bosnia and Herzegovina, but very low for Moldova, the Russian Federation and Serbia (and Ukraine worsened its results in this area of analysis).

For what concerns the Dimension and the Role of the Government in the Economy, we observe a consistent improvement in Ukraine (that reaches an almost sufficient score against a score of 4.9 in 2005) and minor improvements in Albania, Bosnia and Herzegovina and, especially, in Serbia. On the other hand,

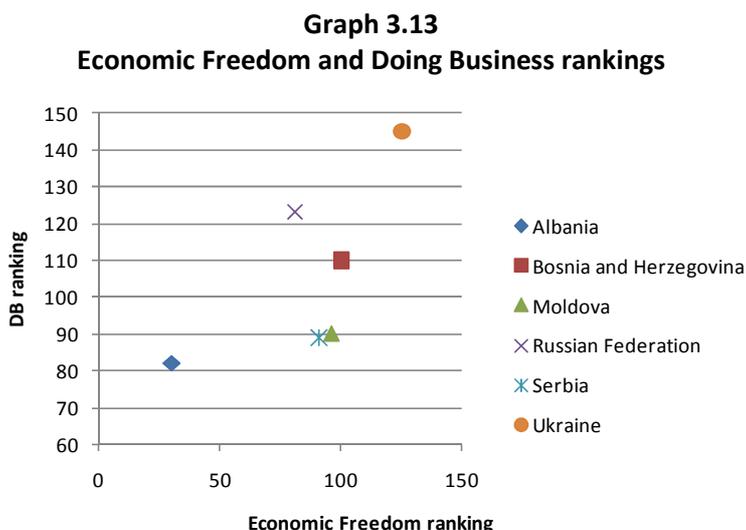
in Moldova and in the Russian Federation we observe a consistent worsening of the performance (both countries lost almost half point since 2005).

Economic Freedom, competitiveness and business environment

The graphs below represents the position in the Economic Freedom ranking and its relationship with the position in the Global Competitiveness Index.



There is a general positive correlation between the rank of the analyzed countries in the Economic Freedom Index and in the Global Competitiveness Index. The Russian Federation is among the best in the cluster, concerning Economic Freedom and competitiveness alike. Moldova and Serbia rank near the 100th position in both the indicators, while Bosnia and Herzegovina obtain a worse performance under the two point of view. Albania and Ukraine represent, somehow, an exception. Both rank between the 85th and the 95th position as far as competitiveness is concerned. However, Albania obtains a good performance in the Economic Freedom Index, while Ukraine obtains the worst performance among the countries considered.



A similar picture emerges if we compare the Economic Freedom ranking with the Doing Business one, though with a wider dispersion of the countries in the latter. Albania obtains the best position in both

rankings. Moldova and Serbia obtain a similar ranking if we consider both indexes, Bosnia and Herzegovina and Ukraine are positioned in a lower position in both rankings. The Russian Federation is an outlier: though reaching the second best performance as far as Economic Freedom is concerned, it ranks second last if we consider the conditions for Doing Business.

The point of view of a country expert – Serbia

Interview to Boris Begovic

Dr. Boris Begovic is President of Center for Liberal-Democratic Studies (CLDS) and a professor of economics at the School of Law, University of Belgrade. He received his education at the University in Belgrade, London School of Economic and JFK School of Government, Harvard University. His field of expertise includes industrial organization, economic analysis of law, economics of regulation/antitrust, theory of economic growth and urban economics. He published numerous articles in international journals, three books (*Economic Approach to Optimal City Size*, 1991; *Economic of Town Planning*, 1995; *Corruption: An Economic Analysis*, 2007) and he contributed to numerous edited volumes including *Greenfield FDI in Serbia* (2008) and *From Poverty to Prosperity* (2008). Dr. Begovic is currently working on Institutional Aspects of Economic Growth.

Mr. Begovic, in the last years, which were the main trends you observed concerning the evolution of economic freedom in your country? Has any significant change been enacted in terms of laws, regulations, privatizations?

It depends on what you mean by 'last years'. From 2000 to 2005 the main trends were encouraging: privatization of the state owned enterprises via competitive tendering and auctions, wholesale foreign trade liberalization, streamlining and simplification of the tax system (including the introduction of the VAT with reasonable low rate) and improvement of some segments of the business environment, particularly areas like financial mediation and sound money. The problem was that there was no improvement whatsoever in some areas, like expenditure side of the public finances, judicial system and protection of private property rights. In general, reform of the public sector (apart from the privatization of commercial enterprises) was missing. Hence, although there were some accomplishments regarding economic freedom, it seems that these accomplishments were not sustainable.

The lack of reforms in these areas backfired in the second half of the period (2006 onward). The share of the public sector in the GDP remains very high and with the recession it became even higher. Privatization stopped and about one third of the privatized firms was renationalized as buyers did not meet privatization requirements. Subsidies and size of the government increased in terms of number of civil servants and public expenditures. Reforms of the public sector stalled. Nonetheless, the level of economic freedom in Serbia is much higher than it was ten years ago, but it is very low comparing to other countries, particularly to the other countries in the region and in the EU.

Do you think that the EU has had or will have any impact on the level of economic freedom in your country? If so, why, and in which direction?

The crucial advantage of the EU regarding the economic freedom is in the area of free trade with the Union. Since most of Serbian foreign trade is with the EU Member States, free trade area with the EU is the most important beneficial effect of the EU. The level of trade will go up, not down, and some special trade relations (like the one with Russia for oil and gas) are not so important to overshadow the EU trade relations.

The other benefit regarding economic freedom is the political pressure that the EU is exercising in the process of Serbia's accession to the Union regarding the rule of law, in particular reform of the judiciary,

which will improve protection of private property rights and contract enforcement. This is particularly important, taking into account that there is no domestic endogenous driving force of such a reform. Also, EU is pushing Serbia and other countries in the region to deal with high-level corruption cases.

EU-style competition policy and law that is adopted by Serbia (in the process of accession) probably violates economic freedom of entrepreneurs more than it promotes it. Strict enforcement of the EU-style competition law in Serbia does not have the 'safety valves' that exist in the EU, like ECJ rulings and competent bureaucracy including judiciary.

An additional negative impact of the EU legislation on economic freedom in Serbia can probably be expected in the years to come as the accession process speeds-up, especially with adoption of the EU-style legislation in the areas of consumer protection, food safety, agricultural production standardization, environmental protection and the compulsory environmental impact assessment. The last two will substantially affect new industrial developments, especially taking into account the quality of Serbian administration and its levels of corruption and incompetence.

Which are the main strengths/weaknesses concerning economic freedom in Serbia?

The strength is that Serbia is so close to the EU (not only in the geographical sense), its economy is already so deeply integrated to the EU single market, that the free trade area with the EU is something that is already taken for granted. Taking into account that Serbian economy is so small, it has no other option but to be open and to be exposed to the competition from the free foreign trade.

The main weakness is that there is still a weak constituency for economic freedom, as the general public is still confused, with the level of the income per capita still lower than it was during the 1980s with non-market economy. That puzzles a substantial number of people, making non-market, socialist economy as an example of 'good old times'. Furthermore, leading domestic entrepreneurs prefer murky and nontransparent deals with the government to economic freedom and unrestrictive competition. As they prefer various rent seeking deals, they have no incentive to stand for economic freedom and free access principles.

The sheer size of the government made public procurement one of the most profitable business opportunities, and leading domestic entrepreneurs have no incentives to push for the reduction of the government consumption and the size of the public sector.

Finally, governments in Serbia, usually short lived heterogeneous coalitions, are pursuing populist economic policies with next elections as their preoccupation. Serbian political life is kind of a constant pre-election campaign—not a good time for economic freedom. For Serbian government there is no such thing as 'too big to fail'. However small the undertaking is, it will be subsidized and supported not to fail.

Could you provide three motivations for a potential investor to choose Serbia as a destination for an economic activity?

The first motive is a rather well educated and fast learning labor force. There is a substantial flexibility and adaptability of the labor to the new rules and regulations. Contrary to the South Eastern Europe stereotypes, Serbian labor force is rather well disciplined. These features are predominantly features of younger employees, but it is reasonable to assume that the new generations will be even better.

The second motive is linked to the substantial positive spillover effects of the new private sector, developed either through domestic investments or FDIs. There are efficient clusters in some industries with various services specific to these industries being developed, as well as general business services. Soft drinks industry is one example, the other is automotive industry, that is now under development.

The third motive is the location of the country, close to the EU in every sense (not only geographically, but also in the sense of culture and day by day life) with huge EU market and with all the benefits of such a location. Serbia, particularly some of its cities, is not a bad place for living and that could be a decisive factor in some cases to make a decision on the location of the investment.

Could you provide three motivations for a potential investor NOT to choose Serbia as a destination for an economic activity?

The first is everything that deals with urban land and its development. The ownership issue is still not resolved as there is no restitution law and it is uncertain what will be the provisions of the law regarding the previous owners—whether they will be restituted or financially compensated. Furthermore, even if the plot of land could be purchased without uncertainty, the procedures of getting the various development permits are time and money consuming and local authorities, who are in charge of these issues, can exercise huge discretion. There is a substantial lack of transparency of the process, hence all of these factors can deter investors, particularly in the case of greenfield investors. Some municipalities are better than others, but it can still be too difficult for an investor to find an adequate plot of urban land.

The second reason are the courts (judiciary) and their performances. The courts are inefficient, court officials (including judges) are not competent in the matters that are important for investors (i.e. dealing with private property right protection and contract enforcement) and they do not have strong incentives to be efficient and unbiased. Due to various procedural issues, courts are overwhelmed with various cases, some of them not meriting being at the court one way or the other. Because of all these issues there are a substantial number of back-log cases. Justice in Serbia is not swift, particularly not for outsiders.

Tax administration is the third reason, i.e. lack of efficiency and competence, resulting in huge compliance effort of the undertakings. Although nominal tax burden and its structure are not so bad, effective tax burden (including tax compliance costs) is substantial due to inefficient tax administration. It is disappointing that tax administration was more efficient five years ago, at the time when VAT was introduced, than it is today.

What trend do you expect as far as it concerns the advances in economic freedom in the next future in your country, also in the light of the ongoing economic crisis?

In the short run, more interventionism can be expected. Not only related to the ongoing economic crisis, but also with the electoral campaign for 2012. That will mean increased public spending, bigger budgetary deficit, more borrowing and increasing subsidies to many economic activities and undertakings. Also, there is no strong and sustainable political constituency for advancing economic freedom, hence there is no optimism regarding economic freedom in the short run.

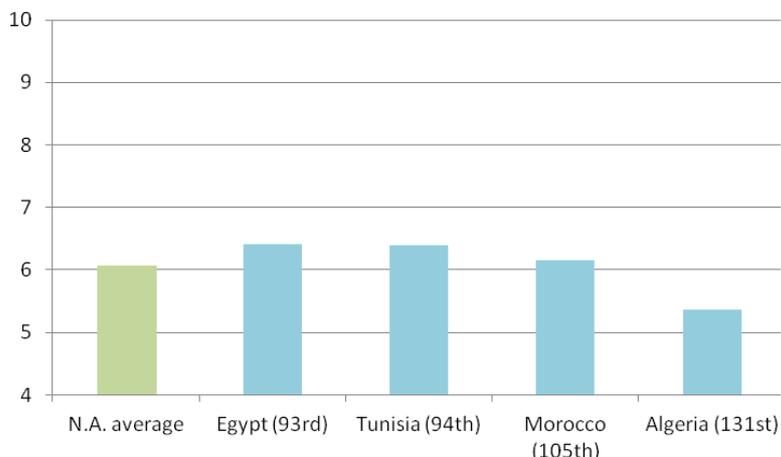
In the long run, however, it seems that things are much better. New generation of entrepreneurs will mature. New generations of labor force will replace those with 'sweet memories' of socialism. More FDIs will materialize. That will create a strong and sustainable constituency for economic freedom, irrespectively of the EU and the accession process. And what about politicians? They are always 'corks in the storm'. Storm of economic freedom can be expected, but it would be too early to be joyful about that.

Economic Freedom in North Africa

Recent trends concerning Economic Freedom

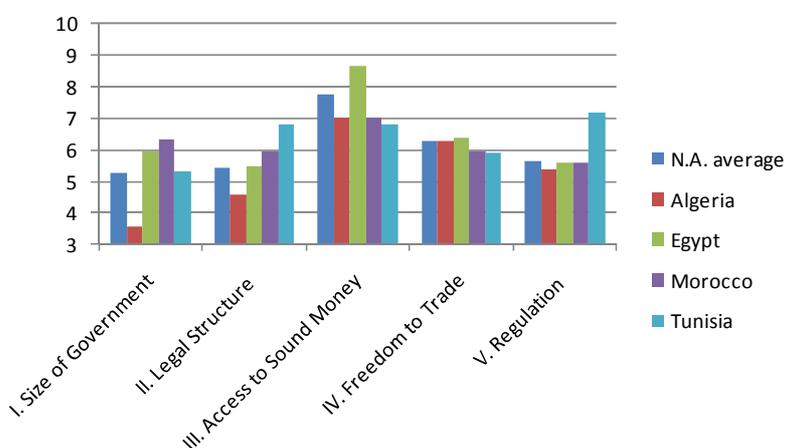
In this section we will analyze Economic Freedom in North Africa. In particular, Algeria, Egypt, Morocco and Tunisia will be considered. Libya, though being part of the region, will not be included since data concerning Economic Freedom are not available for this country.

Graph 3.14
Economic Freedom in North Africa (2009)



The graph shows the Economic Freedom scores obtained by North African countries in 2009. The average score is sufficient (6.07), and, as for Eastern European countries, quite lower than the average of the EU countries. Egypt, with a score of 6.42, is the most performing country among those considered; Algeria, that ranks 131st worldwide, is the worst, with a score of 5.36. As it is clear from these results, the range of scores is quite reduced, since there is just about one point of difference between the best and the worst country in the cluster.

Graph 3.15
Economic Freedom in North Africa, area analysis



The main weakness of North African countries is represented by a prominent role of the government in the economy, a weak legal structure and regulation.

Concerning the Size of Government, Algeria is the worst performing, followed by Tunisia: both obtain a non sufficient score (3.6 and 5.3 respectively). High government consumption and the existence of government enterprises and investment drive the result in the Algerian case (the scores obtained in the two sub-indicators are 2.5 and 0). In the Tunisian case, the existence of government enterprises and investment together with a high top marginal tax rate are the two main problems. Egypt and Morocco obtain a sufficient grade (6 and 6.3).

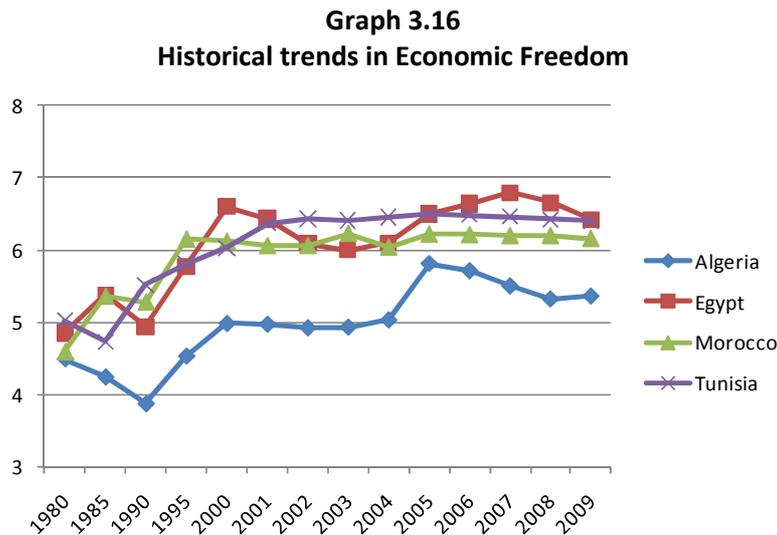
Concerning the Legal Structure, Algeria and Egypt do not reach a sufficient performance, Morocco has an almost sufficient score (5.93), while Tunisia is by far the best one (6.78). A low independence of

the judicial, scarcely independent courts and weak protection of property rights lead to the unsatisfying performance of Algeria and Egypt, together with military interference in the economy.

All the four countries considered do not reach a sufficient score for what concerns the Regulation of Credit, Labor and Business. In particular, all the countries with the exception of Tunisia have an insufficient score in the sub-indicators concerning labor market regulation and business regulation.

A historical perspective

The graph shows the trend in Economic Freedom since 1980 for the countries analyzed.



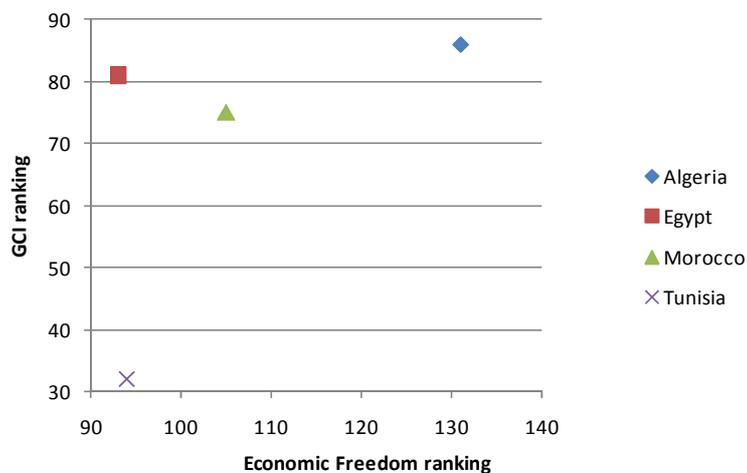
All the countries experienced an increase in Economic Freedom between 1980 and 2000. None of them had a sufficient score at the beginning of the period, while all of them, with the exception of Algeria, obtained a sufficient performance in 2000. After 2000, this trend almost stopped. Algeria and Tunisia had a very low increase in Economic Freedom in the last decade (+0.38 and +0.37 respectively), while Morocco remained substantially stable (+0.04) and Egypt lost some ground (-0.18).

During the period 1980-2009, the countries in the cluster improved their performances in all the area of analysis, with the exception of Algeria for what concerns the area Size of Government (it passed from a score of 4.32 in 1980 to a score of 3.56 in 2009). However, these increases in the scores were relevant only in a few areas of analysis and for few countries. We observe only four success stories involving an increase in the score of more than two points. Egypt, as far as the areas Size of Government (+2.03) and Legal Structure (+2.73) are concerned; Morocco, in the area Legal Structure (+3.69); Tunisia, in the area of Regulation of Credit, Labor Markets and Business (+2.48).

Economic Freedom, competitiveness and business environment

The graphs below represent the position in the Economic Freedom ranking and its relationship with the position in the Global Competitiveness Index.

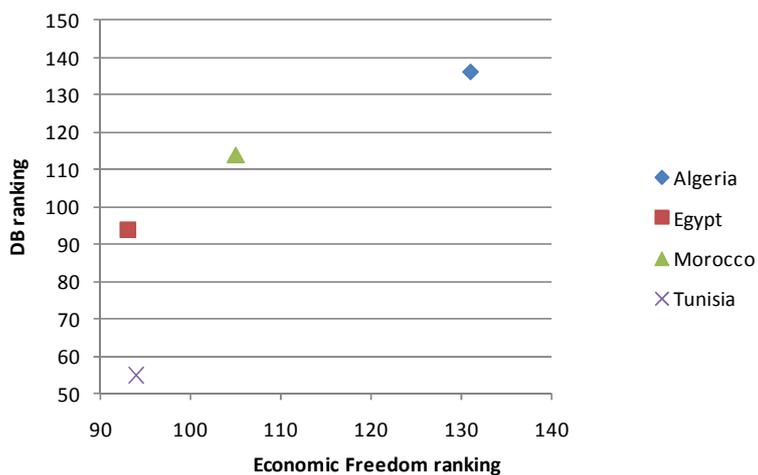
Graph 3.17
Economic Freedom and GCI rankings



Within the analyzed countries, Tunisia and Egypt rank better as far as Economic Freedom is concerned. While Tunisia scores quite well also considering the Global Competitiveness Index, Egypt is not positioned within the first 80 countries worldwide. Morocco ranks behind both in Economic Freedom, but a bit better than Egypt in competitiveness. Algeria, on the other side, obtains the worst performance under both points of view.

A similar relationship holds, as it is shown in the graph below, as far as the relationship between Economic Freedom and conditions for Doing Business are concerned.

Graph 3.18
Economic Freedom and Doing Business rankings



The point of view of a country expert – Egypt

Interview to Mohammed Nosseir

Mohammed Nosseir is Chair of the Secretariat of International Relations and member of the Political Bureau of the Democratic Front Party, established in 2007 to promote liberal democracy in Egypt. In this role he is working to establish relationships with international liberal organizations and parties and,

additionally, to develop the party as a professional institution with the goal of advancing liberalism, political participation, and globalization in Egypt. Mohammed Nousseir writes a monthly article that is published on his web site, and some of his articles are reissued in *Liberal Matters* magazine. Moreover, he participates and talks at several international events that often address liberal democracy from political and economic perspectives, which take places in Europe and the United States. Mr. Nousseir also has extensive experience in the private sector, and is general manager of Global Marketing Consultancy, which he founded in 1997.

Mr. Nousseir, could you please provide a comment on the latest political evolutions that involved your country? In particular, which could be the potential effects on economic freedom?

Perhaps, the best definition for the recent political evolutions that has begun on January 25th is incomplete revolution. There was a strong demand by millions of Egyptian protestors who expressed their interests in Change, Freedom, Dignity, Justice and Rule of Law. Egypt is now in the early stage of meeting these demands.

With regard to economic freedom, I am expecting that the current government and the future ones, regardless of their economic ideologies, will step away from economic freedom.

In the last years, which were the main trends you observed concerning the evolution of economic freedom in your country? Has any significant change been enacted in terms of laws, regulations, and privatizations?

There were major steps taken by the former regime towards economic freedom; however, it was often accompanied with a strong element of corruption. Most of the key public sector companies were privatized to a few business people who were affiliated with the former regime.

This process has caused Egyptians losing confidence in economic freedom and misperceiving the real essence of economic freedom.

The main challenge that the Egyptian economy has been facing for decades is the ambiguity of economic laws and regulations. The recent incident of nationalizing the famous retail outlet 'Omar Fendi' by the court of law is a substantial step back from economic freedom and poor indication of the Egyptian laws and regulations, especially when it comes to privatization. This will discourage FDI from acquiring any public sector company that may lead to be nationalized in a future.

Do you think that the EU has had or will have any impact on the level of economic freedom in your country? If so, why, and in which direction?

In my opinion, the EU has a very low impact on the economic freedom in general, and consequently it has little impact on influencing economic freedom in my country.

The EU has high restrictions on imported products, which get more difficult when it comes to importing products from a developing country.

Which are the main strengths/weaknesses concerning economic freedom in Egypt?

Strengths

- Emerging market with a large number of business opportunities.

Weaknesses

- Egyptians tend to prefer jobs at government organizations on private sector jobs, even if better paid.
- Economic freedom is perceived very poorly due to the high corruption that marked privatizations.
- Coming governments will be hesitant to take further steps towards economic freedom due to previous experiences.

Could you please provide some motivations for a potential investor to choose Egypt as a destination for an economic activity?

- Emerging country with plenty of inexpensive resources.
- Plenty of business opportunities in specific sectors such as tourism, construction, real estate and others.
- Most of the Egyptian products can be exported to all the Arab countries and to a large number of the African countries without paying any customs duties.

Could you please provide some motivations for a potential investor NOT to choose Egypt as a destination for an economic activity?

- Low labor productivity.
- High bureaucracy and corruption.

What trend do you expect as far as it concerns the advances in economic freedom in the next future in your country, also in the light of the ongoing economic crisis?

I am strongly expecting that Egypt will take a number of decisions that will restrict its economic freedom such as increasing taxes, slowing down with the privatization process up to the possibility of nationalizing a few companies. Most of the political parties that are recently emerging are talking about social justice and stepping away from economic freedom.



4. Country Tables

In this chapter we will show, for each country belonging to the three areas included in the analysis, a synthesis of the main results concerning economic freedom, and a description of the competitiveness of the business environment, together with some fundamental macroeconomic data.

Macroeconomic data are taken from the online version of the World Development Indicators available at August 2011. Data concerning economic freedom, competitiveness and the business environment are taken, as usual, from the sources described in the introduction and listed within the references.

Polity data are taken from the Polity Index developed by the researchers of the Center for Systemic Peace and by the ones of the George Mason University. The Index uses values among –10 (complete autocracy) and 10 (full democracy).

EU Countries

Austria

Economic Freedom Index: 7.50 (19th)

Polity Index: 10

Population: 8.4 MLN

GDP: 290,009 (MLN, PPP constant 2005 international \$)

GDP per capita: 34,673 (PPP constant 2005 international \$)

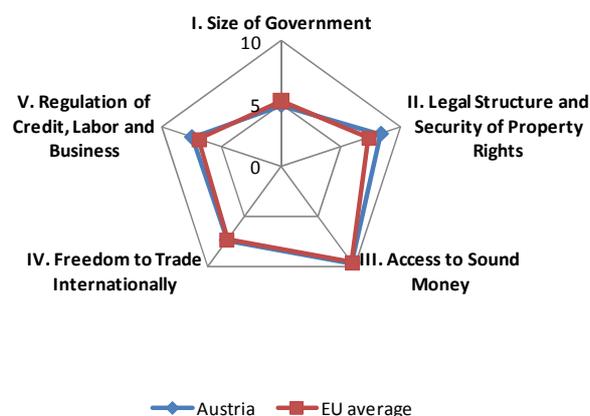
GDP as a share of world GDP: 0.46

Unemployment: 4.8%

Economic freedom

Austria exhibits the highest EU summary rating, with first-rate performance as concerns Access to Sound Money and Legal Structure and good results in the field of Freedom to Trade Internationally and Regulation (obtains noteworthy scores: 9—'Price controls' and 10—'Hiring Regulations and Minimum Wage'). The judgment regarding Size of Government is, vice-versa, not sufficient.

A good economic performance, institutional and financial strength allowed Austria's strong expansion momentum from the recession (GDP growth expected to accelerate further this year to 2.4%, mainly driven by exports and private consumption).



Competitiveness and business environment

GCI 2011 – 18th

One of the top 20 most competitive regions in the world, with admirable performance as concerns Business Sophistication (6th, the best local supplier quality, outstanding control of international distribution production and value chain breadth), Macroeconomic Environment (government debt burden compensated by low interest rate spread thanks to the country credit rating, AAA with stable outlook) and Institutions (7th Property Rights, weak Investor Protection). Not sufficient the score recorded in Labor Market Efficiency: 139th. The most problematic factor is represented by low flexibility of wage determination and hiring/firing practices. Unemployment rate is falling, from an average of 7.2% in 2009 to an expected 6.7% in 2011, but not fast enough. Overall, Austria's figures roughly correspond to the average scores recorded across all the Innovation-driven economies.

DOING BUSINESS – 32nd

Onerous time and procedures required to start a business and high total tax rate are offset by a high degree of customer orientation, border cooperation agreements (cargo movable freely, without stop for customs) and avoided additional controls at border posts (transport cost decreased, despite the geographical position, since Austria is a landlocked economy). The government introduced online procedures (electronic communication between notaries and the registry), courts' "data highway" (documents sent electronically, huge savings in postage) and strict disclosure provisions only for "material" transactions not carried out "in the ordinary course of business" (law does not define under this label even a related party representing 10% of the company's assets). Credit reports widely available allow utilities to ask secure deposit only to weak credit history customers.

Belgium

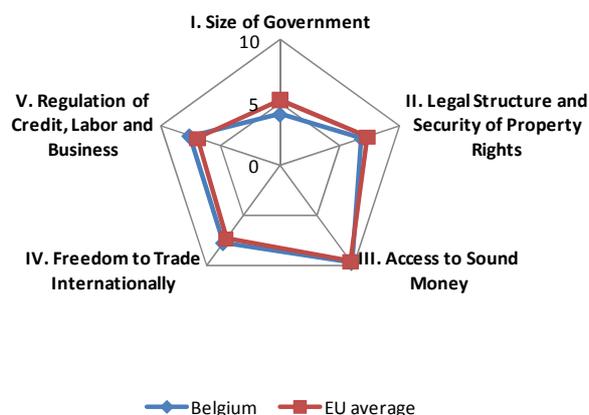


Economic Freedom Index: 7.15 (43rd)
Polity Index: 8
Population: 10.8 MLN
GDP: 349,498 (MLN, PPP constant 2005 international \$)
GDP per capita: 32,394 (PPP constant 2005 international \$)
GDP as a share of world GDP: 0.55
Unemployment: 7.9%

Economic freedom

Belgium exhibits an excellent performance on Access to Sound Money (9.6). Good or fairly good judgments have been recorded, respectively, on the fields of Freedom to Trade Internationally, Regulation and Legal Structure, with relevant scores on the variables ‘Nontariff trade barriers’ (8.1) and ‘Starting a business’ (9.8). Insufficient grades as far as Size of Government is concerned (4.06).

Belgium is one of the richest countries in Europe: a solid international lender (being a model for debt-crippled governments with strong economic fundamentals), a diversified economy, a high level of per capita income and low levels of debt in the private sector, threatened by the absence of a speedy resolution of the world longest political crisis (“Ceci n’est plus un pays”).



Competitiveness and business environment

GCI 2011 – 19th

Belgium is within the top20 most competitive economies in the world, counterbalancing the lack of labor market efficiency (restrictive regulations with inflexible wage determination and low productivity), macroeconomic environment (AA– negative outlook: government debt burden enlarged by negative government budget balance and high interest rate spread) and market size with first-rate skill sets. Excellent quality of educational system (primary, math, science and management schools, matched with local availability of research and training services) leads to a healthy and well-educated workforce able to move up the value chain (by producing value intensive goods) and to develop an intensive local competition associated with superior production process sophistication.

DOING BUSINESS – 25th

Burden of government regulation (Brussels made more difficult to transfer property by requiring a clean-soil certificate) offset by strengths in the field of investor and minority shareholders’ interest protection (clear provisions on director liability and minority investors allowed to sue directors for misuse of corporate assets) and infrastructure’s quality (primarily port and railroad). It reformed the insolvency regimes by introducing a new law promoting and facilitating the survival of viable businesses experiencing financial difficulties, and encouraged an electronic process of starting a business by setting lower fees for online registration vs. paper registration.

Bulgaria



Economic Freedom Index: 7.34 (28th)

Polity Index: 9

Population: 7.6 MLN

GDP: 86,893 (MLN, PPP constant 2005 international \$)

GDP per capita: 11,455 (PPP constant 2005 international \$)

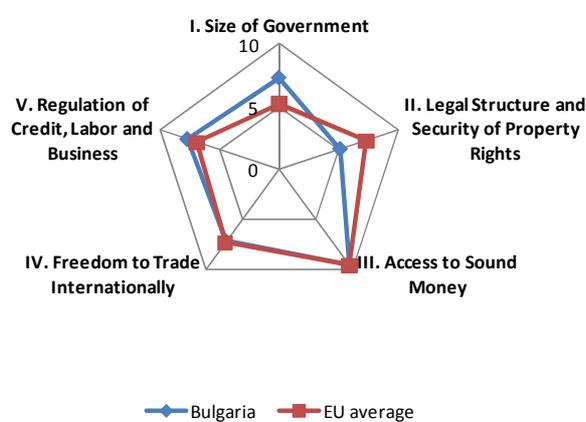
GDP as a share of world GDP: 0.13

Unemployment: 6.8%

Economic freedom

Bulgaria exhibits an excellent performance regarding Access to Sound Money and good judgments in the fields Size of Government, Freedom to Trade Internationally and Regulation, with admirable ranks in the variables 'Top Marginal income tax rate' (10), 'Money growth' (9.6), 'Credit market regulation' (9.7) and 'Bureaucracy costs' (6.4). However, it recorded the lowest EU grade in the Legal Structure area.

It suffered a shallow recession compared to its neighbours. Credit score lifted one notch to Baa2 with stable outlook, because of strong track record in managing public finances, increasing institutions' strength and strong liquidity. Expected growth mainly driven by external demand, public investments (supported by EU funds) and competitive wages.



Competitiveness and business environment

GCI 2011 – 71st

Bulgaria ranked, among the efficiency-driven economies, with fairly good performances as concerns the macro-economic environment. It exhibited low debt burden and small budget deficit backed by the implementation of the latest pension reforms and the new financial stability pact. Therefore it is likely to keep the government finances balanced over the medium to long-term. It has a noticeable health, primary education and labor market efficiency (low redundancy costs). The government did not sufficiently deal with corruption and organised crime. The monitoring system put in place is not working: the Bulgarian judiciary is still too slow with cases taking longer than they should. This results in significantly poor institutions and a lacking transparency in government policymaking.

DOING BUSINESS – 51st

The country made starting a business, register property and getting credit easier by, respectively, reducing the minimum capital requirement from 5,000 leva (\$3,250) to 2 leva (\$1.30), offering expedited procedures. It improved the paying taxes process, by reducing employer contribution rates for social security. It improved the process of enforcing contracts by replacing state officers with self-employed private bailiffs and by computerizing the court records system. The directors' liability for abusive related party transactions is not clearly regulated, and as a consequence there were no significant enhancements in investor protection.

Cyprus

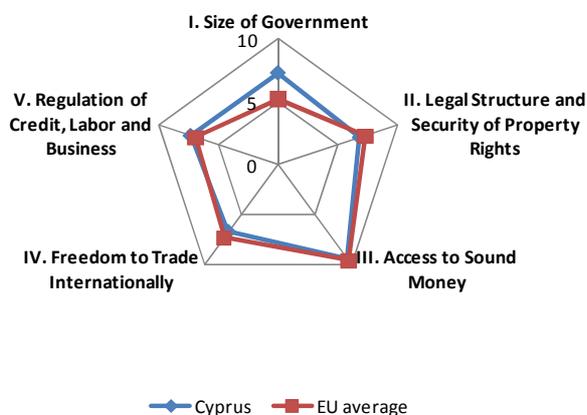


Economic Freedom Index: 7.51 (18th)
Polity Index: 10
Population: 0.9 MLN
GDP: 20,619 (MLN, PPP constant 2005 international \$)
GDP per capita: 25,759 (PPP constant 2005 international \$)
GDP as a share of world GDP: 0.03
Unemployment: 5.2%

Economic freedom

Cyprus obtains outstanding judgments in the areas Size of Government and Access to Sound Money, where more than sufficient scores were recorded on the variables ‘Transfer and subsidies’ (6.5) and ‘Top marginal income and payroll tax rates’ (7). Good or fairly good results as concerns, respectively, Regulation, Legal Structure and Freedom to Trade.

It is among the less risky countries in the Middle East & North Africa regions, but one of the riskier in the euro-zone. Even though the single currency adoption increased economic stability, political tension between the Greek and Turkish Cypriots and economic downturn remain actual issues.



Competitiveness and business environment

GCI 2011 – 40th

Overall figures are lower than the average scores recorded across all the innovation-driven economies, with significant market size, institutions (burden of government regulation, inefficacy of corporate boards, low investor protection and intellectual property rights not adequately safeguarded in Turkish Cypriot area) and macroeconomic environment (high level of government spending increased debt burden) being the main weakness. These critical issues are partially offset by a good educational system and a relatively sound financial sector (high legal right degree, efficient finance supervision and not constrained access to credit). However, the financial sector is penalized negatively by the stock exchange size, one of the smallest in Europe.

DOING BUSINESS – 37th

It has a low investors protection, still allowing directors with a conflict of interest to vote. This weakness is partially counterbalanced permitting shareholders (potentially prejudiced) to request the appointment of a government inspector with full powers to verify and obtain copies of any corporate document. Importing and exporting are easier compared with the other developed economies, generating opportunities for domestic firms to be part of the global production network. Highly developed infrastructures made the country a base for several offshore businesses. Closing a business is made effortless by providing a legal framework for out-of-court workouts, but the time required to deal with construction permits remains considerably high.

Czech Republic



Economic Freedom Index: 7.13 (46th)

Polity Index: 8

Population: 10.5 MLN

GDP: 231,803 (MLN, PPP constant 2005 international \$)

GDP per capita: 22,097 (PPP constant 2005 international \$)

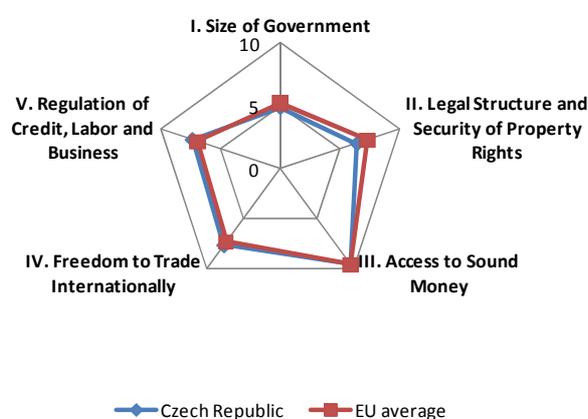
GDP as a share of world GDP: 0.37

Unemployment: 6.7%

Economic freedom

Czech Republic obtains good judgments in the area of Freedom to Trade Internationally and Regulation and excellent score on Access to Sound Money, offset by sufficient grades on the field of Legal Structure and an inadequate figure as concerns the Size of Government. The major first-rate rankings are recorded on the variables of 'Nontariff trade barriers' (7.8), 'Hours regulations' (10) and 'Price controls' (8).

One of the most developed and industrialized economies in Central and Eastern Europe, with strong industrial tradition dating back to the 19th century. Economic recession gave rise to a deeply negative output gap. Recovery is driven by foreign trade and by a moderate domestic demand growth (notwithstanding an unfavorable income situation of households).



Competitiveness and business environment

GCI 2011 – 36th

Czech Republic is the best performer within Eastern Europe (after Estonia), relying on excellent education and highly efficient and well-developed markets for goods, labor, and financial services, as well as a good macroeconomic environment. Deficit is expected to be reduced to 4.2% of GDP due to a faster growth of certain tax revenues and expenditures cuts. The exchange rate is gradually appreciating and the balance surplus is slightly increasing. Poor institutions (low public trust in politicians, lack of transparency by government policymaking and favouritism in decision of government officials), total tax rate and low control of international distribution represent the main weaknesses.

DOING BUSINESS – 63rd

It approved major structural reforms. First, it reformed the insolvency regimes (being the country that obtained the better improvement in the Closing business topic) by introducing further legal amendments to restrict setoffs in insolvency cases and suspending the obligation to file for bankruptcy for some insolvent debtors. It increased transparency by introducing an online register for documents produced in the course of proceedings. Second, it enhanced the easiness of getting credit, deciding to outsource the credit information services in 2002. Third, it simplified the labor tax processes and reduced employer contribution rates for social security. Finally, it improved the easiness of enforcing contracts by allowing electronic filing of complaints.

Denmark

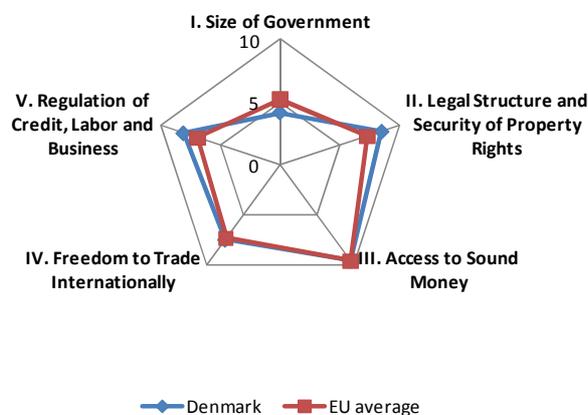


Economic Freedom Index: 7.52 (15th)
Polity Index: 10
Population: 5.5 MLN
GDP: 178,329 (MLN, PPP constant 2005 international \$)
GDP per capita: 32,251 (PPP constant 2005 international \$)
GDP as a share of world GDP: 0.29
Unemployment: 6.0%

Economic freedom

Denmark obtains outstanding grades as concerns Regulation, Access to Sound Money and Legal Structure, with relevant scores, compared with the EU peers, recorded in the variables ‘Compliance cost of importing and exporting’, ‘Hiring and firing regulations’ and ‘Business regulations’. The judgments regarding Freedom to Trade Internationally are good, but inadequate figures emerge in the area Size of Government.

Wealthy, well balanced and globally competitive economy, with reputation ranking among the best in Europe as a result of solid balance of payments surplus, public debt lying well below the Maastricht criteria and correlated ‘AAA’ rating. Lately Danish banks’ received a credit rating cut, primarily driven by a clear reduction in the levels of systemic support and difficulties to apply the rules of Bank Packagell to big lenders with complex exposures.



Competitiveness and business environment

GCI 2011 – 9th

Denmark has one of the most efficient labor markets (more flexibility in setting wages, firing and hiring workers than in the other Nordic and in most European countries). It has a healthy macroeconomic environment (government budget approximately in balance through 2009) and functioning/transparent institutions (tradition of consensus politics, long-term reforms in health, defence, welfare and education need cross-party agreement, ensuring continuity when governments change). Additionally, it reached positive results thanks to a strong focus on education over recent decades (skilled workforce adaptable rapidly to a changing environment).

DOING BUSINESS – 6th

Denmark is among the top ranking concerning the ease of doing business, with excellent positions in several pillars (Closing a business, Trading across borders, Exporting and importing procedures and Dealing with construction permits). Lately, it issued reforms related to Registering property and Starting a business, it cut by half the number of procedures required to register property, it introduced a new one-stop shop establishment and land registry’s computerization. Finally, it eased business start-up by reducing the minimum capital requirement for limited liability companies from \$22,850 to \$14,620.

Estonia



Economic Freedom Index: 7.52 (15th)

Polity Index: 9

Population: 1.3 MLN

GDP: 21,623 (MLN, PPP constant international \$)

GDP per capita: 16,132 (PPP constant 2005 international \$)

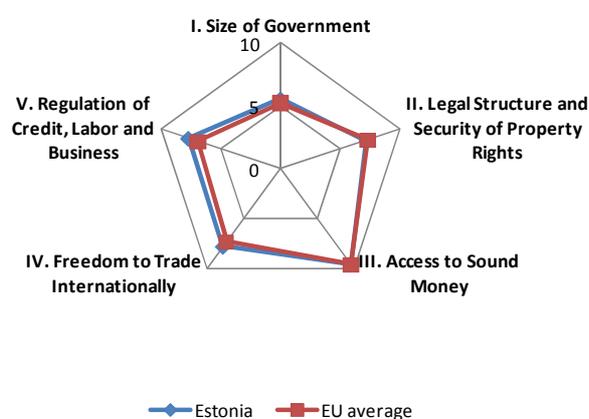
GDP as a share of world GDP: 0.04

Unemployment: 13.7%

Economic freedom

Estonia obtains a first-rate performance regarding Access to Sound Money and good judgments in the areas Legal Structure, Regulation and Freedom to Trade Internationally, with the highest EU's judgments on the variables 'Compliance cost of importing and exporting', 'Credit market regulation' and 'Administrative requirements'. The main weakness is represented by the Size of Government (5.51).

Second-highest country credit rating in Eastern Europe, with the biggest drop in unemployment, the fastest growth rate and the lowest debt (6.6% of GDP, strong public finances, austerity measures) in the EU; plus declining external debt ratios and signs of increasing stabilization in the banking sector with large currency mismatches in banks loan portfolios neutralized, capital adequacy ratios and asset quality improving.



Competitiveness and business environment

GCI 2011 – 33rd

Performances well above the average scores recorded across the economies in transition, thanks to excellent education, highly efficient (even with low market size index) and well-developed markets for goods, labor (noteworthy flexibility of wage determination and female labor force participation), and financial services (although restrictive regulations are in place related to international capital flows). Despite sharp economic crisis impact, it bears a strong commitment to advance technological readiness, it has solid institutions (relevant government policymaking transparency and clean-government rankings) and a good macroeconomic stability (A+ stable outlook, V-shaped recovery consisting in robust growth without imbalances generated).

DOING BUSINESS – 17th

A rare bit of good news from a euro-zone economy with strong export (up by 53% y/y, with excellent trade across borders practices), industrial production growth (26%), and several reforms been issued. Improved access to credit (Code of Enforcement Procedure amended and allowed secured creditors out-of-court enforcement of collateral); it issued a new insolvency law and changing insolvency administrators' qualification requirements. It boosted public offices efficiency by increasing technology utilization (documents filled online no longer have to be notarized); it adopted the new Employment Contracts Act in 2009 (no priority rules for rehiring admitted, notice periods and severance payments reduced) and enlarged the unemployment insurance contribution rate, balancing flexibility and worker protection.

Finland

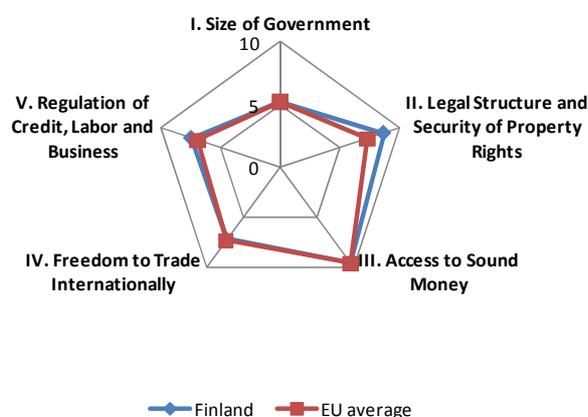


Economic Freedom Index: 7.59 (11th)
Polity Index: 10
Population: 5.3 MLN
GDP: 164,340 (MLN, PPP constant 2005 international \$)
GDP per capita: 30,784 (PPP constant 2005 international \$)
GDP as a share of world GDP: 0.26
Unemployment: 8.2%

Economic freedom

Finland exhibits excellent performances as concerns Legal Structure (recording the highest EU area grade) and Access to Sound Money. It has good judgments in the fields of Freedom to Trade Internationally and Regulation, with first-class scores in the variable 'Protection of property rights' and 'Credit market regulation'. On the other hand, it has low scores regarding the Size of Government.

It is the only Nordic country to have adopted the euro. Its competitive economy (primarily driven by manufacturing and exportation) bounced back in the wake of the crisis, by using expansionary fiscal policy but without large deficits (the government's prudent macroeconomic policy and the national pension fund surplus contributed to overall fiscal balance and high levels of prosperity).



Competitiveness and business environment

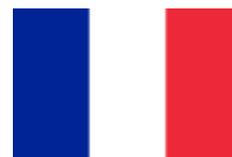
GCI 2011 – 7th

Finland ranked among the most competitive economies in the world, performing well above the scores achieved across the innovation-driven economies, except for what concerns the market size. It has a healthy macroeconomic environment, with government budget approximately in balance through 2009, narrow interest rate spreads and excellent country credit ratings (AAA stable outlook). A strong focus on higher education (top positions recorded in quality of primary, math and science education, in tertiary education enrolment rate and in scientists and engineers availability) leads to a dynamic workforce (adaptable, rapidly, to a changing environment with high levels of technological adoption and innovation) and to a noteworthy university-industry collaboration in R&D. Its institutions are among the best-functioning and most transparent at worldwide level.

DOING BUSINESS – 13th

Finland has solid institutions (reliable police services and firms' ethical behaviour), ease to access to loans, high level of venture capital availability, effectiveness of anti-monopoly policies, major tax systems' reforms announcement (corporate income tax rate from 26% to 22%). The introduction of benchmarks of the courts' quality and the strengthening of insolvency regimes (creditors committee over bankruptcy/reorganization proceedings) made up the proper foundations for starting a business, despite inflexible wage determination. It has efficient e-government systems in place that reduced paying taxes' compliance time and strong property rights' protections.

France



Economic Freedom Index: 7.16 (42nd)

Polity Index: 9

Population: 62.6 MLN

GDP: 1,908,912 (MLN, PPP constant 2005 international \$)

GDP per capita: 29,577 (PPP constant 2005 international \$)

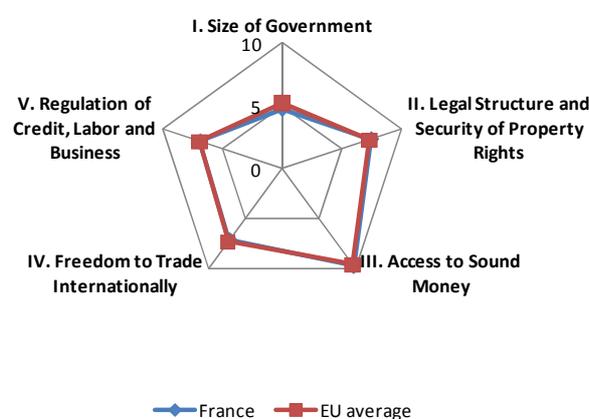
GDP as a share of world GDP: 3.03

Unemployment: 9.1%

Economic freedom

France exhibits an excellent performance as far as Access to Sound Money is concerned (it shows the highest EU rank), and good or fairly good judgments in the fields of Legal Structure, Freedom to Trade Internationally and Regulation (first-rate grade been recorded in the variable 'Starting a business': 9.8). Non sufficient rankings were obtained in the area of Size of Government (4.72).

The second biggest economy in the euro-zone needs, in the face of anaemic economic growth, to make meaningful deficit reductions (and tackle the debt burden) in order to hit budget targets and avoid credit score downgrade. The nation's banks are the biggest holders of debt issued by the region's so-called peripheral countries (posing possible 'systemic risks') and costs to insure French government debt trebled over 2011.



Competitiveness and business environment

GCI 2011 – 15th

France's figures roughly correspond to the average scores recorded across the innovation-driven economies, with the exception of excellent infrastructures quality (outstanding transport links, energy and communications infrastructure ranked among the best in the world) and major market size. Educated workforce, highly developed financial markets (superior financing through local equity market), contribute positively to the creation of a sophisticated and aggressive business environment, able to reach leadership rankings in the area of innovation. Low flexibility in the labor markets (strict rules on firing and hiring and poor labor-employer relations), extent and effect of taxation and government debt still constitute the major structural weaknesses.

DOING BUSINESS – 26th

Business regulations improvements have been recorded to avoid bureaucratic formalities: France introduced electronic property registration, it offered strong minority investor protections (by clearly regulating approval and disclosure of related-party transactions and by allowing shareholders to request a government inspector appointment with full powers to verify and obtain copies of any corporate document). It made trading across border easier and few documents (only two) are required for exportation; it achieved short customs clearance times (hours or even minutes). Moreover, it distributed more data on loans and strengthened insolvency regimes along the principles of the U.S. Chapter 11 process, improving the conditions of doing business.

Germany

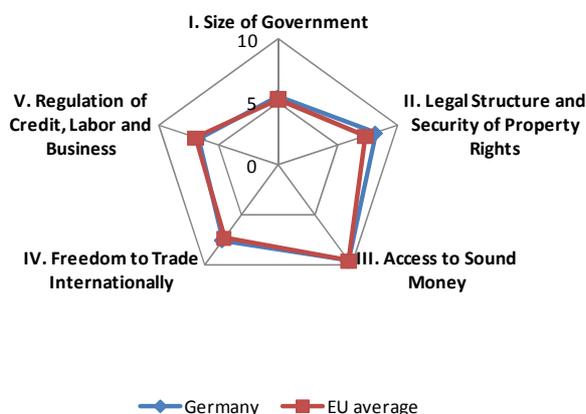


Economic Freedom Index: 7.45 (21st)
Polity Index: 10
Population: 81.9 MLN
GDP: 2,641,018 (MLN, PPP constant 2005 international \$)
GDP per capita: 32,254 (PPP constant 2005 international \$)
GDP as a share of world GDP: 4.03
Unemployment: 7.7%

Economic freedom

Germany obtains excellent judgments in the fields of Access to Sound Money and Legal Structure: first-rate scores were recorded in the variables ‘Judicial independence’ (8.9) and ‘Protection of property rights’ (8.5). Good or fairly good the results as far as Freedom to Trade Internationally and Regulation are concerned. Not sufficient rankings were achieved in the area Size of Government.

Strong economy, negative banking system, and municipalities strapped for cash, only partially offset by a flourishing economy (number of unemployed falling below three millions for the first time since 1992).



Competitiveness and business environment

GCI 2011 – 5th

Overall performances are well above the score recorded across the innovation-driven economies. It shows an excellent infrastructure quality (first-rate grades as concerns air infrastructure, telephony and electricity), a sophisticated and aggressive business environment (outstanding innovation capacity, value chain breadth and R&D’s company spending, ranked slightly below Japan and Sweden) and significant market size. All these advantages are coupled with intense local competition and effective antitrust policy. Macroeconomic environment enhancement (‘AAA stable’ even with noteworthy debt burden), threatened by labor market rigidity (inflexible wage determination, hindrance to job creation) and poor financial market efficiency (fragmentation, intrinsic balance sheet vulnerabilities, large exposures to cyclical industries and volatile foreign markets).

DOING BUSINESS – 22nd

It eased business start-up issuing several reforms. It increased the efficiency of communications between the notary and the commercial registry and eliminated the need to get public announcement exposure. It adopted a stimulus package in November 2008 (temporarily expanding special depreciation allowances) and in February 2009 (tax cuts). It introduced a new legal form of limited liability company (UG—with no minimum capital requirement). Moreover, Germany shortened electricity connection time, set up fast-track online procedures (risk-based building approvals, electronic processes for filing claims in commercial disputes and automatically storing court documents on microfilm) and maintained specialized commercial courts. Finally, it extended until 2013 the suspension of over indebted companies’ obligation to file for insolvency when business would be likely to continue.

Greece



Economic Freedom Index: 6.55 (81st)

Polity Index: 10

Population: 11.3 MLN

GDP: 298,807 (MLN, PPP constant 2005 international \$)

GDP per capita: 26,482 (PPP constant 2005 international \$)

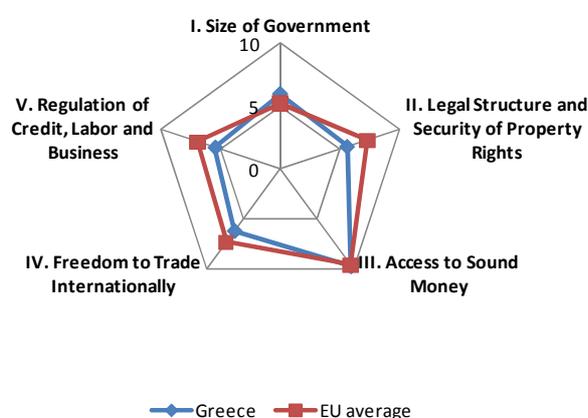
GDP as a share of world GDP: 0.49

Unemployment: 9.5%

Economic freedom

Greece exhibits the lowest overall score in the EU area, as a consequence of roughly sufficient rankings recorded across all the economic freedom pillars. The only exception is represented by the area Access to Sound Money, performing fairly well; however the results in this area are mainly ascribable to the European monetary policy. The major weaknesses lie under the variables 'Size of trade sector' (0.5), 'Foreign bank competition' (6), 'Credit market regulation' (6) and 'Labor market regulations' (4.5).

Despite the harsh austerity measures implemented and the proposed restructuring of government debt, few believe the latest bail-out plan (a mix of cash loans, bond swaps and debt rollovers) will do enough to make the country's debt pile manageable.



Competitiveness and business environment

GCI 2011 – 83rd

Greece's weakening competitiveness, over the past years, has been a root cause of dismal performance in 2010. It lost 12 places, being the lowest ranked country within the EU. Its fundamental problems are the severe deterioration of the macroeconomic environment (123rd, with an economy set to shrink by another 3.8-4% this year, after dwindling by 4.5% in 2010, and a budget deficit that, without austerity measures, could reach 13.5% of GDP, compared to the 7.5 target) and a particularly poor institutional setup. Moreover, Greece' economy is characterized by the low efficiency of its labor market. To overcome the present difficulties, the main strength to build upon is represented by a reasonably well educated workforce.

DOING BUSINESS – 109th

Significant downgrades affected Greece's rankings on the ease of doing business in 2009/10. Starting a business, registering property and protecting investors pillars scored among the lowest worldwide. The law requires shareholder approval only if the transaction does not take place "in the ordinary course of business", without defining that concept. The recent reforms making transferring property more costly (the transfer tax increased from 1% of the property value to 10%) constrained business activity. To shore up its own position quickly, Greece needs to move up through the liberalization process.

Hungary

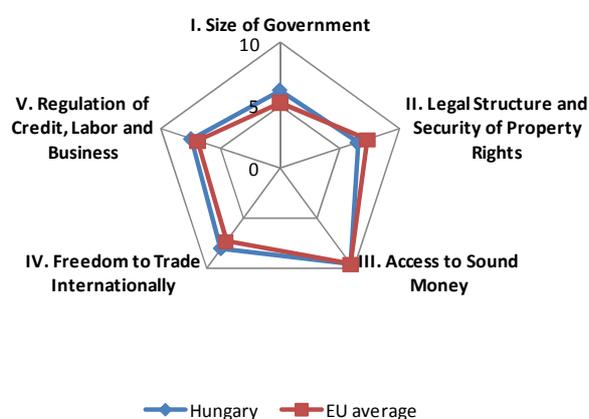


Economic Freedom Index: 7.52 (15th)
Polity Index: 10
Population: 10.02 MLN
GDP: 169,339 (MLN, PPP constant 2005 international \$)
GDP per capita: 16,896 (PPP constant 2005 international \$)
GDP as a share of world GDP: 0.27
Unemployment: 10.0%

Economic freedom

Hungary obtains an excellent performance as concerns Access to Sound Money and good results in term of Freedom to Trade Internationally and Regulation (outstanding in ‘Size of trade sector’ and ‘Starting a business’). Sufficient score in the field Size of Government and Legal Structure, despite the highest EU score exhibited on ‘Government consumption’.

The country, particularly affected by the financial crisis, received a two-year standby loan agreement of 20bn euros in late 2008. Rating downgrade primarily driven by gradual but significant loss of financial strength coupled with material worsening in the underlying medium-term budget position; relatively high levels of public, external and domestic foreign-currency debt leave the country vulnerable to negative shocks.



Competitiveness and business environment

GCI 2011 – 52nd

Scores concerning institutions, infrastructures, macroeconomic environment, goods market efficiency, financial market development, and business sophistication are lower than in other economies in a comparable stage of development. Tax regulations, corruption matched with unethical firms’ behaviour, the need of a new constitution (today’s document is a legal mishmash) and the current reviewing process lack of transparency represent the main problematic factors. Negative banking system outlook is primarily driven by asset quality deterioration, weak profitability, uncertain operating environment and high level (> 70%) of foreign-currency lending, especially in Swiss francs. Hungary has a high public debt (about 80% of GDP—the largest in Central and Eastern Europe).

DOING BUSINESS – 46th

Between the ten economies more improving in the ease of doing business in 2009/10, with streamlined procedures to start a business (allowing firms to check and reserve the company name at the time of company registration), time limit for the issuance of building permits, new building regulations adoption and registering property simplification (reduced the property registration fee by 6% of the property value). It offered easy access to corporate documents (both directly and through a government inspector) and improved paying taxes procedures (simplified taxes and tax bases and reduced employers’ social security contribution rate from 29% of gross salaries to 26%).

Ireland



Economic Freedom Index: 7.38 (25th)

Polity Index: 10

Population: 4.5 MLN

GDP: 161,452 (MLN, PPP constant 2005 international \$)

GDP per capita: 36,277 (PPP constant 2005 international \$)

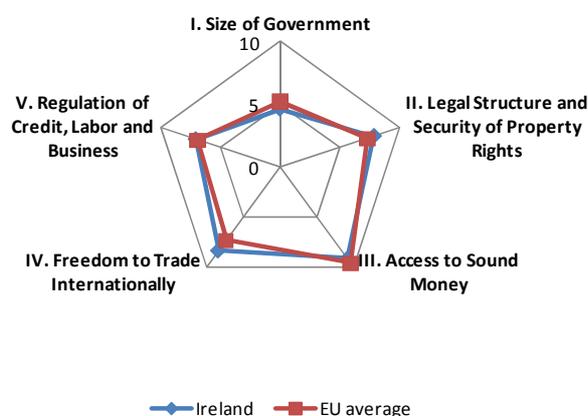
GDP as a share of world GDP: 0.25

Unemployment: 11.7%

Economic freedom

Ireland obtains first-rate judgments as concerns Access to Sound Money and Freedom to Trade Internationally (8.3, the highest EU grade), with outstanding score recorded on the variables 'Capital controls' and 'International capital market controls'. Good figures related to Regulation and Legal, counterbalanced by inadequate ranking regarding Size of Government.

Extraordinarily open economy (far more open than either Greece or Portugal), with exports coming mainly from multinationals (American companies in particular). These strengths are overwhelmed by home weaknesses, with consumers and government reining in their spending and domestic businesses unable to raise money for investment.



Competitiveness and business environment

GCI 2011 – 29th

Ireland declined in the rankings for the second year in a row. It continues to benefit from a number of strengths: well-functioning goods and labor markets (announcements from IT companies expanding are appearing on a near weekly basis and financial services companies are struggling to attract candidates), excellent health and primary education and strong higher education and training, fostering a sophisticated and innovative business culture and a growing reputation as centre for research and development. These attributes are considerably offset by a weakening macroeconomic environment (public debt exponential growth and recent sovereign-debt rating downgrade into junk territory, lead to the need of another round of official financing before Ireland can rely on the private debt market) and continuing concerns related to financial markets.

DOING BUSINESS – 9th

Ranked between the top ten on largest part of the nine topics of doing business, with primary position reported on getting credit (100% of adults borrowers covered by credit registries), protecting investors (allowing access to all corporate documents during the trial), paying taxes (total tax rates averaging less than 30% of profit) and closing a business. It improved the process of enforcing contracts establishing a specialized commercial section within the high court.

Italy

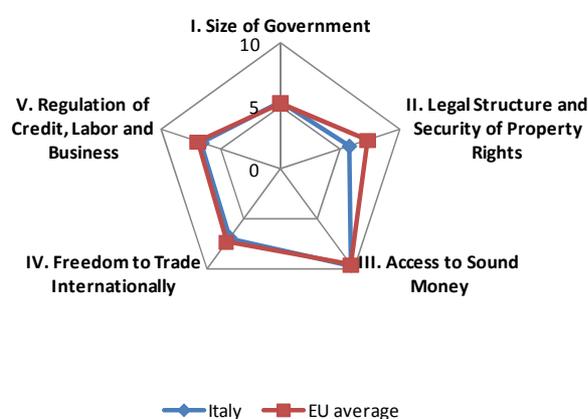


Economic Freedom Index: 6.81 (70th)
Polity Index: 10
Population: 60.2 MLN
GDP: 1,600,533 (MLN, PPP constant 2005 international \$)
GDP per capita: 26,577 (PPP constant 2005 international \$)
GDP as a share of world GDP: 2.51
Unemployment: 7.8%

Economic freedom

Italy exhibits an excellent performance regarding Access to Sound Money and sufficient scores in the fields Freedom to Trade Internationally and Regulation of Credit, Labor and Business (6.88 and 6.58 respectively). It obtains a 5.76 in the evaluation of the Legal Structure and Security of Property Rights (it shows the lowest EU ranking on the variable 'Legal enforcement of contracts', 3.2). Also the results concerning the Size of Government are not sufficient.

It is the world sixth-largest industrial base, export-led economy, and the biggest country on the euro-zone's troubled Southern flank. Tax avoidance, low productivity, family ownership of enterprises, shallow capital markets, lack of competitiveness are well documented problems. The economy is underperforming since at least two decades.



Competitiveness and business environment

GCI 2011 – 48th

Italy is still, by far, the lowest-ranked G-7 member country, even though it has a sophisticated businesses environment and a large market size (significant economies of scale). It has a moderate education quality (good primary schools, average secondary schools and poor universities). Lack of growth, high labor market inefficiency, insufficiently developed financial markets and poor institutions are key structural weaknesses. It ranks 48th worldwide for what concerns competitiveness. Inefficient government bureaucracy, access to financing and high tax rates are seen as the main concerns for potential investors. It ranks only 118th worldwide in the field 'Labor market efficiency', due to a scarce flexibility in the wage determination process, inflexible hiring and firing practices and low productivity.

DOING BUSINESS – 80th

Italy ranks 80th worldwide as far as the conditions for doing business are concerned, losing four positions with respect to the previous year. It implemented several regulatory reforms in areas where results might be seen only in the longer term, such as judiciary or insolvency reforms (introducing good practices to make effortless the closure of a business by providing a legal framework for out-of-court workouts). It introduced online procedures concerning the process of starting a business. It eased starting a business and getting credit by, respectively, making online filing mandatory and introducing a one-stop shop, and by providing a credit bureau with repayment information. It strengthened investors protection, improving the disclosure of related-party transactions.

Latvia



Economic Freedom Index: 6.92 (60th)

Polity Index: 8

Population: 2.3 MLN

GDP: 28,970 (MLN, PPP constant 2005 international \$)

GDP per capita: 12,846 (PPP constant 2005 international \$)

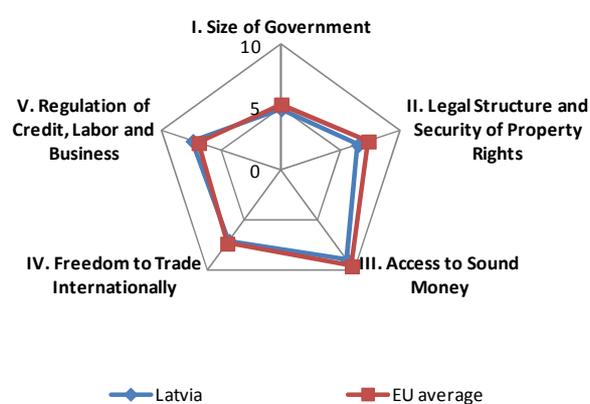
GDP as a share of world GDP: 0.08

Unemployment: 17.1%

Economic freedom

Latvia exhibits good scores regarding Access to Sound Money (although the lowest in the EU area), Freedom to Trade Internationally and Regulation. These results are offset by an inadequate figure as concerns the Size of Government (4.84), obtained despite brilliant scores in the variable 'Top marginal income tax rate' (9). It reached sufficient judgment on the field of Legal Structure.

The small Baltic country clawed its way back from a huge economic bust and bank crisis that followed a breakneck boom. Competitiveness was regained through wage cuts and fiscal restraint, rather than by devaluation. An upward growth (after a 20%-plus fall in GDP) and raised credit rating (to BB+ positive outlook) are coupled with unemployment, that is still high.



Competitiveness and business environment

GCI 2011 – 70th

The performance, across all the 12 competitiveness pillars, is fairly below the average of the economies in transition. A negative banking system soundness (persistent difficulties on the variables venture capital availability, ease to access to loan and financing through local equity market), poor institutions (inefficiency of legal framework) and low business sophistication are some of the main issues.

DOING BUSINESS – 24th

Latvia scored 24th in the year 2010/11, gaining three positions with respect to the previous year thanks to relevant reforms influencing the business environment. It adopted EU regulations triggering the implementation of electronic customs systems technology. It reformed property registration (land registry can now check municipal tax databases directly, saving entrepreneurs a step). It reduced the time to export and import by introducing electronic submission of customs declarations (complying with 2009 EU requirements on paperless customs). Finally, it introduced a mechanism for out-of-court settlement of insolvencies to alleviate pressure on courts and tightened some procedural deadlines.

Lithuania

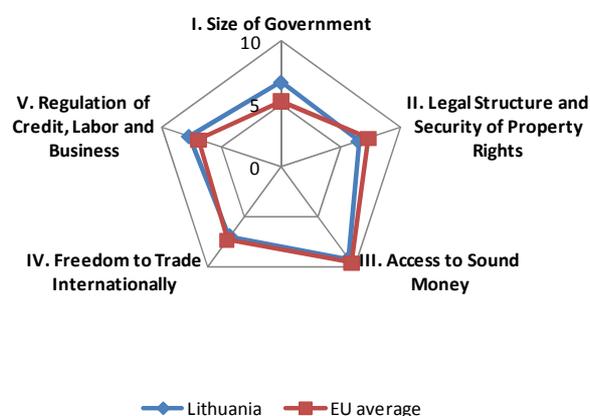


Economic Freedom Index: 7.40 (24th)
Polity Index: 10
Population: 3.3 MLN
GDP: 50,128 (MLN, PPP constant 2005 international \$)
GDP per capita: 15,010 (PPP constant 2005 international \$)
GDP as a share of world GDP: 0.08
Unemployment: 13.7%

Economic freedom

Lithuania obtains good or fairly good judgments, respectively, in the fields of Regulation, Freedom to Trade Internationally, Size of Government and Legal Structure, with first-rate grades in the variables ‘Top marginal tax rate’ (7.5), ‘Regulatory restrictions on the sale of real property’ (9.7) and ‘Centralized collective bargaining’ (8.2). Like its EU peers, it has an excellent score as concerns Access to Sound Money.

It made great efforts to enhance the economic and financial integration with the EU countries and to develop an economic system with a high level of market-orientation, liberalization and openness. These efforts, while promoting economic growth, had the partial drawback of originating a problem of heavy foreign-reliance of the economic and financial system and poor self-development capability.



Competitiveness and business environment

GCI 2011 – 47th

Lithuania exhibited performances fairly correspondent to its peers’ ones. It shows a moderate macroeconomic environment (BBB stable outlook with reasonably good financial record), the economy is likely to slowly stabilize in the medium term and the fiscal deficit to reduce gradually. These results were primarily driven by stronger-than-expected recovery and high institutional steps forward (progress made in improving the country’s public administration and policymaking over the past decade). Good higher education and training represent important features, partially offset by poor transport infrastructure’s quality and a low financial market development.

DOING BUSINESS – 23rd

It gained three positions as compared to the previous year as a result of several reforms being issued. It made trading across border easier (introducing an electronic system for submitting customs declarations), it enhanced the process of getting credit (expanding the set of information collected, enforcing cooperation between public and private credit bureaus, distributing both positive and negative information concerning firms and individuals), and it reduced the corporate tax rates. Furthermore, it tightened the time limit for completing the registration of a company and eased the process of closing a business (by introducing regulations, relating to insolvency administrators, setting out clear rules of liability for violations of law and by eliminating a three month statutory pre-filing waiting period).

Luxembourg



Economic Freedom Index: 7.49 (20th)

Polity Index: N.A.

Population: 0.5 MLN

GDP: 34,300 (MLN, PPP constant 2005 international \$)

GDP per capita: 68,853 (PPP constant 2005 international \$)

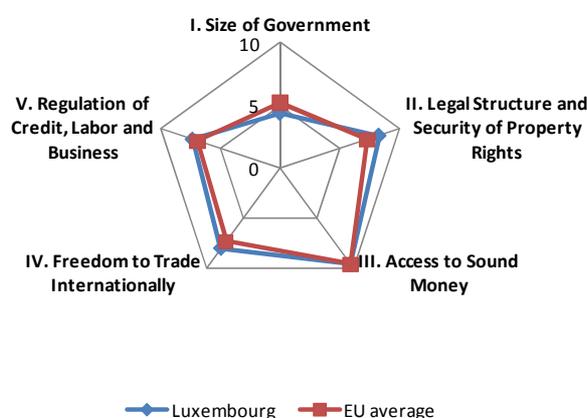
GDP as a share of world GDP: 0.06

Unemployment: 5.1%

Economic freedom

Luxembourg exhibits excellent performance as concerns Access to Sound Money and good results related to Freedom to Trade Internationally, Regulation and Legal Structure, where it obtains the highest EU's scores on the variables 'Tax compliance', 'Regulatory trade barriers' and 'Legal enforcement of contracts'. Not sufficient the score record in the field of Size of Government.

The smallest EU founder member, economy based on substantial international activity (exports and imports are both very large in relative terms and financial services sector makes up more than a quarter of GDP) and recovery pace closely tied to the global economic upturn. Fiscal policy tightened and fiscal stimulus (being pumped into the economy during 2008/09) withdrawn since early 2011.



Competitiveness and business environment

GCI 2011 – 20th

Among the 20 most competitive economies in the world, with outstanding market efficiency, a strong financial market development (roughly 160 banks operating, over 90% foreign-owned institutions), a superb availability of financial services and ease to access to loans, good technological readiness, infrastructure, institutions and macroeconomic environment (excellent credit rating: AAA stable outlook, favourable current account balance maintained, government finances deteriorated somewhat during testing years). It shows weak performances in areas such as market size, labor market efficiency and higher education and training.

DOING BUSINESS – 45th

Favourable climate for entrepreneurial activities with high levels of openness, flexibility and prudent financial regulations. Political stability, good communications, easy access to other European financial centers, and skilled multilingual staff positively contributed to the financial sector's growth (coupled with relative decline in the steel sector). A pastoral land coexists with highly industrialized, export-intensive, and high-tech services business environment, with a degree of economic prosperity almost unique among industrialized democracies. A certain number of reforms were issued during the last year: it eased business start-up (by speeding up the delivery of the business license), paying taxes, enforcing contracts and exporting processes. Government incentives concerning taxes, construction, and plant equipment attracted foreign new investment in medium, light, and high-tech industry.

Malta

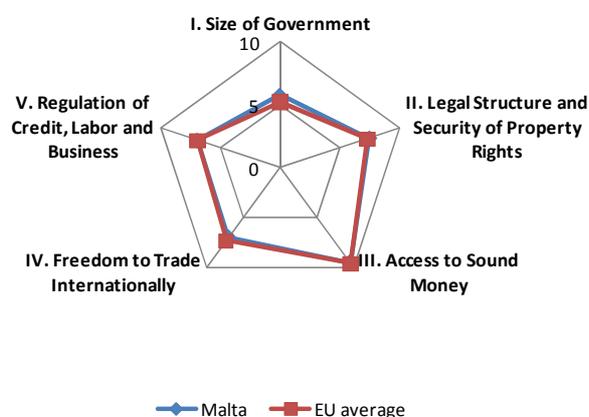


Economic Freedom Index: 7.31 (33rd)
Polity Index: N.A.
Population: 0.42 MLN
GDP: 9,124 (MLN, PPP constant 2005 international \$)
GDP per capita: 21,987 (PPP constant 2005 international \$)
GDP as a share of world GDP: 0.01
Unemployment: 6.9%

Economic freedom

Malta registers an excellent performance regarding Access to Sound Money and good or fairly good scores in the fields of Legal Structure, Freedom to Trade Internationally and Regulation, with the highest EU judgments on the variables ‘Top marginal income and payroll tax rates’ and ‘Standard deviation of inflation’. Almost sufficient result related to Size of Government.

It maintained macroeconomic policy objectives aimed at pursuing sustainable economic growth (following the latest significant downturn in the export-oriented manufacturing sectors and tourism industry) and further convergence towards EU average income levels, fiscal sustainability over the medium term, stable inflation, leaner economy and continued structural reform.



Competitiveness and business environment

GCI 2011 – 50th

Malta’s performance, across all the 12 competitiveness pillars, is significantly below innovation-driven economies’ scores, with the exception of the variables ‘Health and primary education’ and ‘Macroeconomic environment’ (first-class government debt rating signal of high levels of economic, government financial and institutional strengths and very low susceptibility to event risk). It obtains a superb performance as concern Financial market development thanks to sound financial services regime, attributed greatly to the increased attention to Maltese shores by overseas companies to the extent that a number of fiscal incentives have been developed to attract expatriate talent, despite Moody’s negative banking system outlook reflecting expectations of weakening credit conditions.

DOING BUSINESS – N.A.

Malta’s institutional strength and its high economic resiliency have clearly benefited from its accession to the EU in 2004 and to the EMU in 2008 through the related improvement of its economic and social institutions. Political risk decreased with the election of the moderate Joseph Muscat as a ‘new labor’ party leader. Education remains a key priority for the financial services industry that is located in Malta. As a European financial centre, it is well aware of the importance of sustaining the availability of a highly educated and skilled workforce as well as ensuring suitable academic training.

The Netherlands



Economic Freedom Index: 7.32 (30th)

Polity Index: 10

Population: 16.5 MLN

GDP: 601,044 (MLN, PPP constant 2005 international \$)

GDP per capita: 36,358 (PPP constant 2005 international \$)

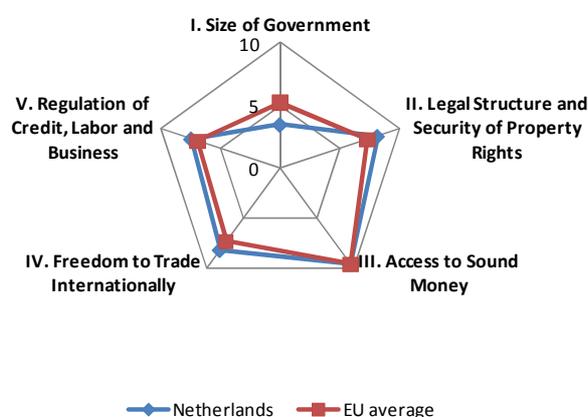
GDP as a share of world GDP: 0.95

Unemployment: 3.4%

Economic freedom

The Netherlands obtain good scores in the fields of Freedom to Trade Internationally, Regulation and Legal Structure, with outstanding ranking on the variables 'Capital controls' and 'International capital market controls'. Excellent performance regarding Access to Sound Money. The judgment concerning the Size of Government (second lowest EU grade) is not sufficient.

Open and capitalist economy characterized by stable relations in the industrial sector, fiscal surplus maintained over the past several years and high dependence from foreign trade and investment from outside countries. Favourable economic environment for long term economic growth thanks to high scores on government transparency and economic diversity.



Competitiveness and business environment

GCI 2011 – 8th

Topped the list (in the top 20 most competitive economies in the world), moving up two positions, with first-rate performances across almost all the 12 competitiveness pillars. Highly sophisticated and internationally among the most aggressive in absorbing new technologies for productivity enhancements. Excellent educational system, reasonably stable macroeconomic environment (improving on a relative basis compared with last year) and efficient factor markets, especially goods markets, highly supportive to business activity. Competitiveness would be further enhanced by introducing more flexibility into the labor market, improving access to financing and shrinking government bureaucracy burden.

DOING BUSINESS – 30th

It improved significantly the conditions for doing business. It introduced an innovative system that ties budget allocation to court performances measured in terms of number of cases resolved in each category and judicial quality, including proceedings' timeliness, expertise, independence and judges impartiality. It reduced the frequency of filing and paying value added taxes from monthly to quarterly and allowed small companies to use their annual accounts as the basis for computing their corporate income tax. It brought into effect good practices supporting access to credit (distributing credit information from retailers, trade creditors or utilities as well as financial institutions) and electronic property registration.

Poland

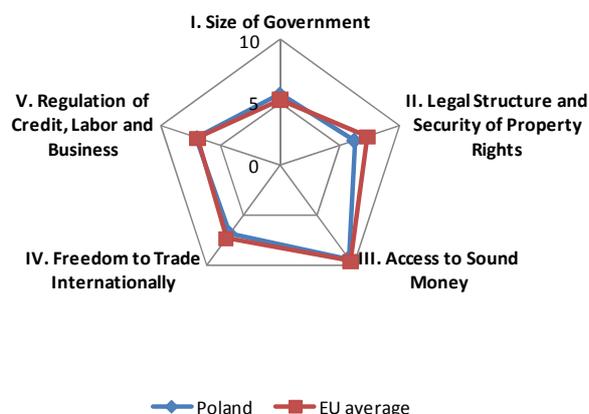


Economic Freedom Index: 7.00 (53rd)
Polity Index: 10
Population: 38.1 MLN
GDP: 637,295 (MLN, PPP constant 2005 international \$)
GDP per capita: 16,705 (PPP constant 2005 international \$)
GDP as a share of world GDP: 0.98
Unemployment: 8.2%

Economic freedom

Poland obtains an excellent judgment as concerns Access to Sound Money and almost good scores in the areas of Freedom to Trade Internationally and Regulation, with an outstanding achievement on the variable ‘Standard deviation of inflation’. It has sufficient or roughly sufficient results related to Legal Structure and Size of Government.

Home to the largest economy in Eastern Europe, that kept growing all the way through the crisis, thanks to a strong ability to insulate itself from external shocks, to a government serving out full term, to stodgy banks’ lending, to a favourable floating exchange rate and to classic Keynesian response to the downturn.



Competitiveness and business environment

GCI 2011 – 39th

The only European economy to register positive growth in 2009, with fairly even performance across all 12 pillars of competitiveness. Growing domestic market size, high educational standards (in particular enrolment rate), open and well regulated banking sector (most rated banks remained overall profitable throughout the crisis, leading to improved capitalization and markedly enhanced expected losses absorbing ability), dominant role in the financial services industry played by foreign owners and increasingly mature institutions (NBP’s credibility enhanced by the implementation of a number of effective monetary initiatives) were evident during the last years.

DOING BUSINESS – 70th

It achieved a lowering of administrative burden and it reduced compliance time, by easing paying taxes and property registration (land registry computerized) and switching to fixed registration fees (independent of the property value). It improved bankruptcy systems’ infrastructure (implementing an international comprehensive training program for insolvency judges) and helped businesses adjustments (allowing employers, when work volumes decline, to reduce working hours or to use temporary leave with reduced pay). It introduced a fixed-term contracts’ maximum duration of 24 months. On the other hand, significant upgrading of transport infrastructure (quality of roads dire), widening labor-market participation, mastering public finances and dealing with the red tape (that currently drag down its international ranking), are mandatory in a future-oriented development path.

Portugal



Economic Freedom Index: 6.93 (59th)

Polity Index: 10

Population: 10.6 MLN

GDP: 227,205 (MLN, PPP constant 2005 international \$)

GDP per capita: 21,369 (PPP constant 2005 international \$)

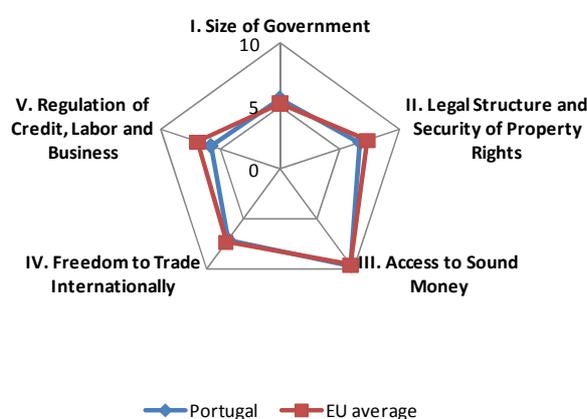
GDP as a share of world GDP: 0.08

Unemployment: 9.5%

Economic freedom

Portugal exhibits an excellent performance regarding Access to Sound Money and good or fairly good judgments, respectively, in the fields of Freedom to Trade Internationally and Legal Structure, with top-rate score recorded only on the variable 'Inflation: most recent year'. Almost sufficient the results related to Size of Government (5.56) and Regulation (5.73).

It became the third euro-zone country to request a bailout (defined 'vital, if depressing, step'). It faced a tough economy future after Moody's statements concerning its struggling fiscal health. The cost of market funding is likely to remain high until long-term solutions (deficit reduced to a sustainable level and improved prospects for economic growth) will be achieved.



Competitiveness and business environment

GCI 2011 – 46th

Portugal's overall scores are considerably below others innovation-driven economies' performances, with the exception of roughly parallelisms as concerns 'Health and primary education', 'Infrastructure' and 'Market size'. A negative macroeconomic environment (with rating slipped from A1 to A3 as the economy struggled to grow and the government was not able to fully achieve the deficit and debt stabilization targets set out in its loan agreement with the EU and the IMF) coupled with labor market inefficiency (highly segmented, protection against dismissal has to be improved, working hours extended and maximum amount of the compensation payments set up) and poor institutions (burden of government regulation and inefficiency of legal framework) remain the main weaknesses.

DOING BUSINESS – 31st

Portugal positions itself at the 31st place worldwide, gaining two positions with respect to last year thanks to several reforms that were implemented. It eased business start-up (time reduced from 54 days to five that lead to a 60% increase in new business registrations) by allowing to publish information about the company registration electronically and introducing one-stop shop (Empresa no dia). It is among the countries that improved the most in registering property: new customer service center and new one-stop shops (merged three procedures) introduced, allowing users not only to register property transfers but also to complete all due diligence, including checking tax payments, ownership and encumbrances, in one step. Lastly, it lowered corporate tax rates, introduced a new social security code and good practices supporting access to credit by distributing both positive and negative credit information.

Romania

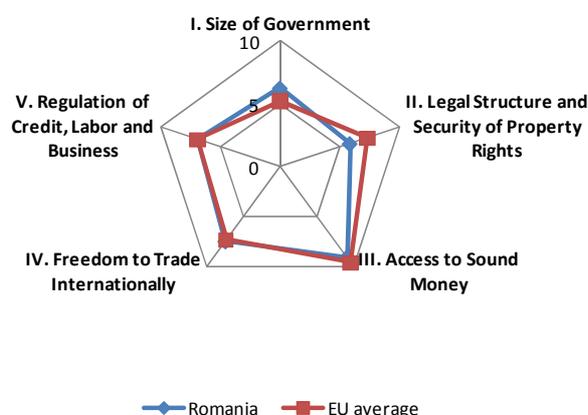


Economic Freedom Index: 7.08 (48th)
Polity Index: 9
Population: 21.5 MLN
GDP: 231,879 (MLN, PPP constant 2005 international \$)
GDP per capita: 10,793 (PPP constant 2005 international \$)
GDP as a share of world GDP: 0.36
Unemployment: 6.9%

Economic freedom

Romania exhibits good or almost good performances in the field of Access to Sound Money (despite being the second poorest in the EU area), Freedom to Trade Internationally and Regulation. It obtains sufficient or roughly sufficient judgments as concerns Size of Government and Legal Structure, with the highest EU's score on the variable 'Transfer and subsidies'.

Sovereign rating raise to BBB- with stable outlook reflects progress in recovery, including return to economic growth (ending a two-year contraction), current-account and budget deficits reduction (after two international bailouts since 2009), with related downside risks easing. Leu appreciation, the best performer among 25 emerging-market currencies, leads to dropping financing costs.



Competitiveness and business environment

GCI 2011 – 67th

Romania, among the efficient-driven economies, exhibited performances roughly similar to its pairs' ones, with the exception of market size and higher education (fine tertiary education enrolment rate and quality of math education). Several weaknesses affect substantial economic growth and competitiveness: non transparent institutions (low politicians' public trust, favouritism in government officials' decisions), poor overall infrastructure quality (it lags behind international standards by a significant margin) and lack of business sophistication and innovation (limited university-industry collaboration in R&D). Its macroeconomic environment improved, but short term fiscal adjustment and household deleveraging will have their consequences on private consumption.

DOING BUSINESS – 56th

It introduced substantial amendments to bankruptcy laws' (introducing out-of-court workouts, taking steps to prevent abuse and promoting specialized courts) and improved dealing with construction permits (reducing fees and expediting the process). It improved secured transactions system and unified registry (helping clarify priority) without increasing costs (it has the 2nd lowest registration fees in the world). It faced unemployment by exempting employers hiring previously unemployed workers from paying workers' social insurance contributions for six months. Fiscal burden increased, with the introduction of a new minimum tax on profit.

Slovakia



Economic Freedom Index: 7.56 (13th)

Polity Index: 10

Population: 5.42 MLN

GDP: 104,042 (MLN, PPP constant 2005 international \$)

GDP per capita: 19,202 (PPP constant 2005 international \$)

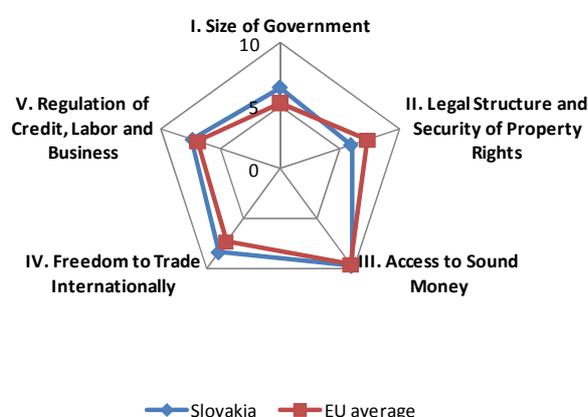
GDP as a share of world GDP: 0.17

Unemployment: 12.5%

Economic freedom

Slovakia exhibits an excellent performance as concerns Access to Sound Money and Freedom to Trade Internationally (the highest EU's scores, mainly driven by the variable 'Size of trade sector'). Good results related to Regulation and sufficient score in the field of Size of Government and Legal Structure, notwithstanding a 9.7 'Regulatory restrictions on the sale of real property'.

The second-poorest country in the euro-zone (after Estonia), with export-centred economy, accounting for barely 1% of the zone GDP, recovered quickly from the financial crisis, through sound economic fundamentals firmly established. Government cutting spending and raising taxes to the tune of 2.5% of GDP, following two years of budget deficits.



Competitiveness and business environment

GCI 2011 – 60th

The country exhibits favourable sovereign's ratings and macroeconomic environment underpinned by deep economic and financial integration with core Europe, that facilitates income convergence, moderate government debt ratios, high debt affordability and a captive, albeit underdeveloped, domestic debt market. It shows a moderate growth in financial market, not dependent on the supply of liquidity from the Eurosystem, soundness of banks and increased foreign banks deposits. These strengths are counterbalanced by competitiveness challenges (export concentration, hiring and firing practices rigidities, an ageing population and negative debt dynamics resulting from large fiscal imbalances), tin-pot educational system, poor institutions (inefficient government bureaucracy, noteworthy corruption) and infrastructure's quality.

DOING BUSINESS – 41st

The economy's impressive real macroeconomic background, low wages, high educational attainment and close proximity to core Europe, have made the country an attractive place for foreign direct investment. A certain number of reforms were issued last year. The government eased registering property and established electronic registries for movable property as collateral. It reduced fixed-term contracts limit (from 36 months to 24), it made easier enforcing contracts (introducing specialized courts deciding cases relating to bankruptcy, securities, maritime transport or intellectual property), introduced technology to track court processes and training programmes to improve case management in the high court (the Bratislava district court keeps cases moving by allowing adjournments only when there is a compelling reason).

Slovenia

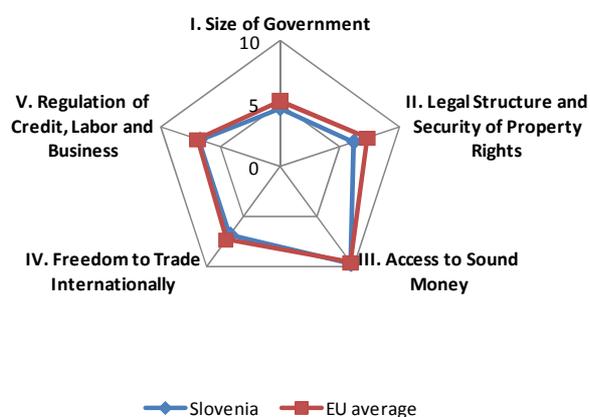


Economic Freedom Index: 6.78 (45th)
Polity Index: 10
Population: 2.0 MLN
GDP: 50,700 (MLN, PPP constant 2005 international \$)
GDP per capita: 24,806 (PPP constant 2005 international \$)
GDP as a share of world GDP: 0.08
Unemployment: 5.8%

Economic freedom

Slovenia exhibits an excellent performance regarding Access to Sound Money, counterbalanced by an inadequate figure as concerns Size of Government (4.6). Passable results related to Freedom to Trade Internationally, Regulation and Legal Structure, notwithstanding excellent scores obtained on the variables ‘Military interference’ (9.17) and ‘Starting a business’ (9.66).

Tradition of prudent macroeconomic policies and steady economic performance with government debt kept on a tight rein. Integration within EU strongly supported the country’s institutional and credit worthiness; euro adoption eliminated risk of specific foreign currency crisis. Key area of risk concerns the need to maintain export competitiveness.



Competitiveness and business environment

GCI 2011 – 67th

Performance, across all 12 competitiveness pillars, fairly below innovation-driven economies scores, excluding roughly parallelisms as concerns ‘Health and primary education’ and ‘Higher education and training’ (significant tertiary education enrollment rate). Deficient banking system soundness (persistent difficult operating conditions, ongoing asset-quality deterioration, banks’ limited capital resources to absorb further loan losses and significant reliance on international market funding), inflexible labor market (reforms delayed), inefficacy of corporate boards and poor protection of minority shareholders’ interest, are only partly offset by governmental funding support, broader implied systemic support, qualified innovation capacity and strong economic base (despite 2009 sharp contraction coupled with depressed demand for exports).

DOING BUSINESS – 42nd

It enhanced a lot the conditions of doing business, with fairly even performance in all the nine topics of doing business ranking. It made starting a business easier (improvements to one-stop shop allowing more online services), reduced by 75% delays in property registration (greater computerization in land registry), merged or eliminated taxes other than profit tax (abolished payroll tax and reduced corporate income tax rate) and introduced electronic data interchange (allowing traders to submit some of their export and import declarations and manifests to authorities electronically). New laws on labor markets were issued: government reimburses employers for education expenses and wages paid to employees on temporary leave because of work shortages.

Spain



Economic Freedom Index: 6.99 (54th)

Polity Index: 10

Population: 45.9 MLN

GDP: 1,243,892 (MLN, PPP constant 2005 international \$)

GDP per capita: 27,066 (PPP constant 2005 international \$)

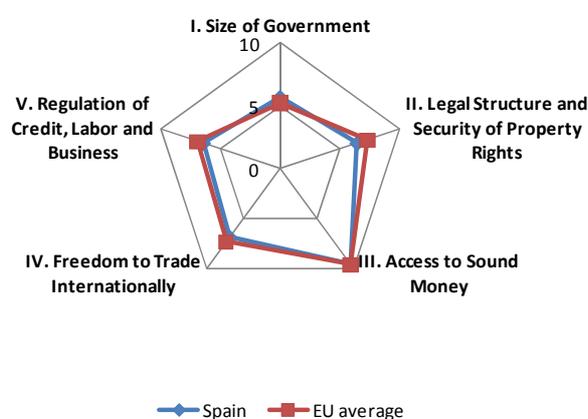
GDP as a share of world GDP: 1.96

Unemployment: 18.0%

Economic freedom

Spain exhibits an excellent performance as concerns Access to Sound Money (9.6), achieving a score of 9.9 on the variable 'Inflation: most recent year'. It shows passable results in the Freedom to Trade Internationally (albeit with the lowest EU ranking being recorded on the field of 'Starting a business'), Regulation and Legal Structure, and insufficient grades on the Size of Government.

There are, in effect, two Spains, one vibrant and one sick. The public debt is boosting (36% in 2007 vs. an estimated 68% in 2011) and the need to replace the *caja* model with a standard banking template is mandatory for an economic upturn. There are huge differences between the productivity of big exporting companies and the one of small domestic oriented firms.



Competitiveness and business environment

GCI 2011 – 42nd

Spain has a highly inflexible labor market (130th) that discourages job creation and boost persistent unemployment rate: youth unemployment is the highest in Europe. Financial markets negative assessment (*caja* model), access to financing declared as the most problematic factor, and unsustainable public deficits corresponding to a potential insolvency, constitute the major structural weaknesses. Spain's competitiveness performances are enhanced by first-class infrastructure, by a large market size (economies of scale and optimum trade tariffs) and by a strong degree technological progress.

DOING BUSINESS – 49th

Spain ranked 9th among the countries with major improvements. It reduced the number of trade documents and streamlined the documentation for imports, including tax-related information on a single administrative record. It amended regulations governing insolvency proceedings and out-of-court workouts (through a new law, passed in 2009 and concerning debt restructuring). It ensured register property time limit compliance in an innovative way (the registry's fees are cut by 30% if registration takes more than 15 days) and increased efficiency in getting credit by clarifying priority among creditors and by providing objective information on whether assets are already subject to the security right of another creditor.

Sweden

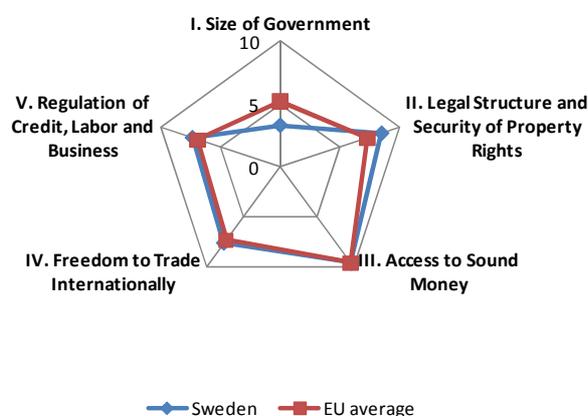


Economic Freedom Index: 7.24 (39th)
Polity Index: 10
Population: 9.3 MLN
GDP: 300,590 (MLN, PPP constant 2005 international \$)
GDP per capita: 32,314 (PPP constant 2005 international \$)
GDP as a share of world GDP: 0.48
Unemployment: 8.3%

Economic freedom

Sweden obtains excellent/good judgments in the fields of Access to Sound Money, Legal Structure, Freedom to Trade Internationally and Regulation, with an outstanding performance on the variables 'Judicial independence', 'Extra payments/bribes/favoritism' and 'Foreign investment restrictions'. Size of Government exhibits inadequate figure: the lowest in the EU area.

Unlike the greater part of Europe, Sweden is roaring ahead: annual growth as high as 6.4% in the first quarter of 2011, unemployment falling fast, budget in surplus in the same year and public debt heading to below 40% of GDP. Drivers: prudent pro-market policies (having learned a lot from its banking bust in the early 1990s it strengthened budgetary rules and bank supervision), tight fiscal strategy and luck.



Competitiveness and business environment

GCI 2011 – 2nd

Sweden moved ahead of Singapore and the United States, claiming the 2nd position and being one of the most productive and competitive economies in the world, with several positive features: the world's most transparent and efficient public institutions, with very low levels of corruption and undue influence; the government is considered one of the most efficient; private institutions are receiving excellent marks, with firms demonstrating the utmost ethical behavior (1st), strong auditing and reporting standards and well-functioning corporate boards. Efficient goods and financial markets (and, lately acquired, status of big creator of private-sector jobs, narrowing the 'tax wedge') and strong focus on education over the years, have created a very sophisticated business culture (ranked 2nd) and made the country one of the world's leading innovators (5th).

DOING BUSINESS – 14th

Within the group of top 25, Sweden improved the most in the ease of doing business, escalating four positions. It made starting a business, dealing with construction permits and registering property easier, respectively cutting the minimum capital requirement for limited liability companies by half, eliminating the requirements to obtain a preemption waiver from the municipality, and streamlining procedures by using electronic database for encumbrances. It strengthened investors protection by requiring more corporate disclosures and regulating the approval of transactions (new NASDAQ Stockholm Stock Exchange rulebook adopted in January 2010), and by allowing access to all corporate documents before a trial. It reached top grades in easiness to pay taxes (having only one tax per tax base), trading across borders and credit/legal rights information for borrowers and lenders.

United Kingdom



Economic Freedom Index: 7.71 (8th)

Polity Index: 10

Population: 61.8 MLN

GDP: 1,987,896 (MLN, PPP constant 2005 international \$)

GDP per capita: 32,146 (PPP constant 2005 international \$)

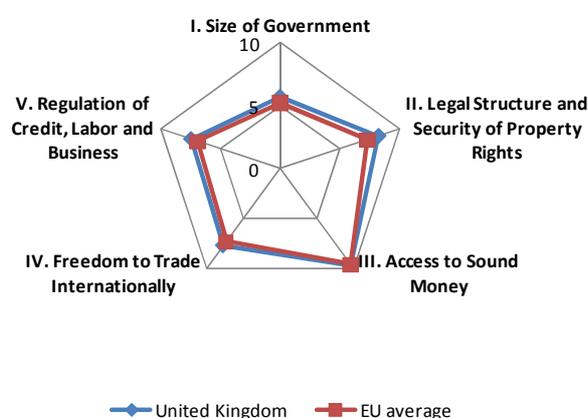
GDP as a share of world GDP: 3.10

Unemployment: 7.7%

Economic freedom

The United Kingdom shows excellent/good grades as regard Access to Sound Money, Freedom to Trade Internationally, Regulation and Legal Structure, with outstanding figures reported on the following variables: 'Foreign investment restrictions' (8.1), 'Labor market regulation' (8.2) and 'International capital market controls' (8.2). Roughly sufficient the judgment recorded in the area Size of Government.

Called 'a safe haven in the storm' of worldwide instability, despite lacklustre growth, that was the slowest since the 1930s. In the second quarter of 2011 it reached just a 0.2%, because of an economy knocked on to a lower, less productive path, with weak demand, high inflation, falling real wages and fears for the future household consumption.



Competitiveness and business environment

GCI 2011 – 12th

After falling down four positions over the past two years, the United Kingdom moves up one spot to 12th place, with clear strengths spurring productivity enhancements: financial market efficiency (recently new prudential legislation set out to ensure compliance with capital-adequacy rules), goods and labor market efficiency, sophisticated and innovative businesses (through university-industry collaboration), superior higher education and very large market size. The greatest competitive weakness remains the macroeconomic environment with a high budget deficit, rising national debt and an economy not strong enough to withstand a rise in interest rates.

DOING BUSINESS – 4th

At top ranking concerning the ease of doing business, with primary position as concerns starting a business, getting credit (distributing both positive and negative credit information) and investors protection (strict regulations on the transparency of related-party transactions). It improved the process of enforcing contracts and closing a business by, respectively, modernizing civil procedures in the commercial court (through online procedures, allowing filings 24 hours a day, and introducing specialized divisions) and streamlining bankruptcy processes (through amendments to the insolvency rules favouring the sale of the firm as a whole and improving the calculation of administrators' fees). Additionally, it eased the process of registering property by using electronic database for encumbrances, and by allowing paying taxes through self-assessment.

EU Candidate Countries

Croatia



Economic Freedom Index: 6.46 (89th)

Polity Index: 9

Population: 4.4 MLN

GDP: 71,681 (MLN, PPP constant international \$)

GDP per capita: 16,166 (PPP constant 2005 international \$)

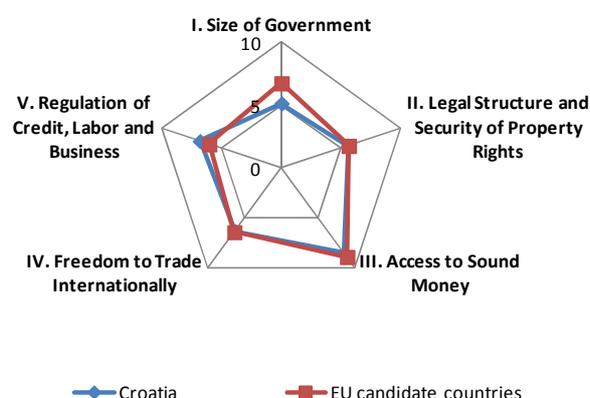
GDP as a share of world GDP: 0.11

Unemployment: 8.4%

Economic freedom

Croatia obtains an excellent performance for what concerns the area Access to Sound Money (8.49), a sufficient or more than sufficient performance for what concerns Freedom to Trade Internationally and Regulation of Credit, Labor and Business (6.3 and 6.82 respectively). Its scores are not sufficient, vice-versa, for what concerns the Size of Government (5.13) and the Legal Structure and Security of Property Rights (5.55).

Especially for what concerns the Size of Government, it scores far behind the other EU candidate countries, due to a high level of government consumption together with many transfers and subsidies.



Competitiveness and business environment

GCI 2011 – 77th

Croatia scores 77th in the worldwide ranking, losing 16 positions in the last two years. An inefficient government bureaucracy together with high tax rates and bad tax regulations are seen as the main issues that limit the country's competitiveness. It scores badly in the indicators concerning innovation and sophistication factors and in the sub-indicators concerning the burden of government regulation, efficacy of corporate boards, the extent and effect of taxation and the business impact of rules on FDI, where it is not even included in the top 130 countries.

DOING BUSINESS – 84th

Croatia positions at the 84th place worldwide, gaining five positions with respect to last year thanks to two reforms. Contrary to what observed in the GCI index, it is among the ten countries that have made the largest strides in making their regulatory environment more favourable to business. In particular, it ranked 2nd in improving the conditions for starting a new business. More possibilities to use online procedures and easier constructions permits contributed to this advancement in the ranking. In particular, it takes just seven days following six different procedures in order to start a business. It is still weak as far as conditions for registering properties and construction permits (notwithstanding the observed improvements) are concerned.

Iceland

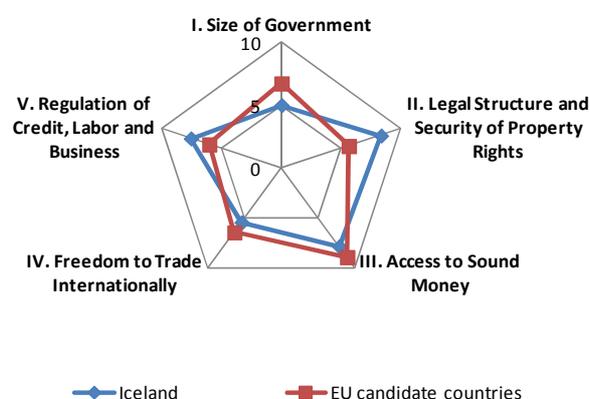


Economic Freedom Index: 6.81 (70th)
Polity Index: N.A.
Population: 0.3 MLN
GDP: 10,841 (MLN, PPP constant 2005 international \$)
GDP per capita: 33,980 (PPP constant 2005 international \$)
GDP as a share of world GDP: 0.02
Unemployment: 7.2%

Economic freedom

Iceland performs fairly well, and better than the average of the EU candidate countries, in the areas of Legal Structure and Security of Property Rights and Regulation of Credit, Labor and Business (8.31 and 7.57 respectively); it obtains excellent scores in the area Access to Sound Money (7.78), while the scores concerning the Size of Government and the Freedom to Trade Internationally (5.01 and 5.4) are not sufficient.

The excellent performance in the Legal Structure is driven by the independence of the judiciary system and by the integrity of the legal system. High top marginal income tax rates and payroll taxes drive the bad performance concerning the area Size of Government.



Competitiveness and business environment

GCI 2011 – 31st

Iceland ranks 31st at a worldwide level for what concerns competitiveness, losing five positions with respect to last year and 11 with respect to 2009. Access to financing, foreign currency regulations and inflation are seen as the most problematic issues for investors. It scores fairly well in the area of innovation and sophistication factors (20th at a worldwide level), thanks to a background relatively favourable to innovations. However, for what concerns the macroeconomic environment and the financial market development, the performance is bad and the country positions in the 138th and 122nd place. Another disadvantage is clearly represented by the limited market size.

DOING BUSINESS – 15th

Notwithstanding a loss of one position, Iceland is still at the top of ranking of the better nations where to run a business. No significant reform was registered in the last year concerning the business environment. In particular, it ranks 3rd worldwide, behind Luxembourg and Hong Kong, for what concerns enforcing contracts (especially thanks to low costs of the procedures). During the last year, at least two worsening conditions of doing business were registered. On the one hand, Iceland made dealing with construction permits more costly by increasing the fees to obtain the design approval and receive inspections. On the other hand, it increased the corporate income tax rate from 15% to 18% and raised social security and pension contribution rates.

Macedonia, FYR



Economic Freedom Index: 6.88 (64th)

Polity Index: 9

Population: 2.0 MLN

GDP: 16,906 (MLN, PPP constant international \$)

GDP per capita: 8,282 (PPP constant 2005 international \$)

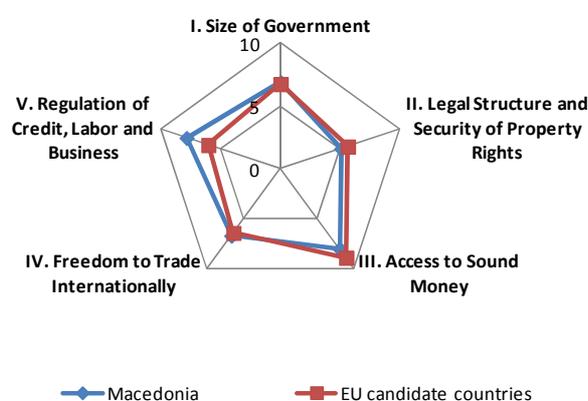
GDP as a share of world GDP: 0.03

Unemployment: 33.8%

Economic freedom

Macedonia, with a score of 6.88, ranks 64th at a worldwide level. It performs particularly well in the field of Regulation of Credit, Labor and Business, where it obtains a 7.86 (above the average of the other EU candidate countries). It obtains an excellent performance in the field of Access to Sound Money (7.96), and passable for what concerns the Size of Government (6.88) and Freedom to Trade Internationally (6.66). The performance in the Legal Structure and Security of Property Rights is, vice-versa, not sufficient (5.05).

This last, negative performance is mainly due to three factors: not sufficient judicial independence, scarcely independent courts, weak protection of property rights.



Competitiveness and business environment

GCI 2011 – 79th

Macedonia gained five positions in each of the last two years and ranks 79th in the competitiveness ranking. It scores better for what concerns the basic requirement of the economy, in particular ranking 47th for what concerns the economic environment. The performances for what concerns efficiency enhancing factors and innovation are less satisfying (83rd and 97th position respectively). The market size penalizes the competitiveness of the economy, together with poor labor market efficiency and higher education system. Also for what concerns the infrastructures, the country does not perform well, and ranks only 91st.

DOING BUSINESS – 38th

Macedonia loses two positions with respect to last year, ranking 38th worldwide. It improved the conditions concerning one-stop shop. Moreover, it increased the number of online procedures and lowered the corporate tax on undistributed profits from 10% to 0%, so that currently only distributed profits are taxed. As far as the issue of paying taxes is concerned, Macedonia simplified significantly the tax compliance process. The main weakness is in the area 'Closing a business', where Macedonia positions at the 116th place.

Montenegro

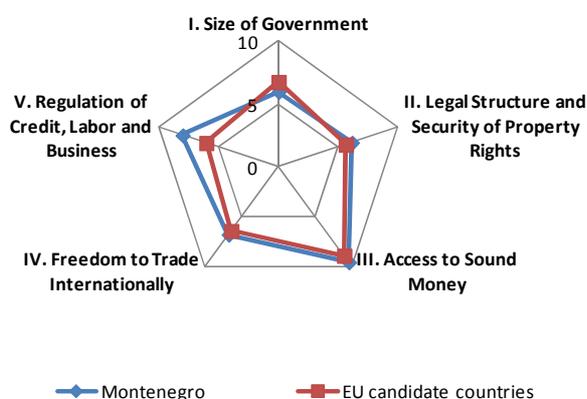


Economic Freedom Index: 7.27 (37th)
Polity Index: 8
Population: 0.6 MLN
GDP: 6,299 (MLN, PPP constant international \$)
GDP per capita: 10,122(PPP constant 2005 international \$)
GDP as a share of world GDP: 0.01
Unemployment: N.A.

Economic freedom

Montenegro scores 7.27 and reaches an enviable 37th position in the worldwide ranking on economic freedom. It performs better than the other EU candidates in the field of Regulation of Credit, Labor and Business (8.01), and obtains an excellent performance concerning Access to Sound Money (9.49) and Regulation of Credit, Labor and Business (8.01). Sufficient or more than sufficient the scores regarding Legal Structure and Security of Property Rights (6.13), Freedom to Trade Internationally (6.75) and almost sufficient the ones on Size of Government (5.96).

The excellent results concerning regulation are driven by the variables ‘Credit market regulation’ and by relative flexibility in the labor market.



Competitiveness and business environment

GCI 2011 – 49th

Montenegro scores 49th in the competitiveness ranking, gaining 16 positions within the last two years. Inadequate supply of infrastructure, access to financing and inefficient government bureaucracy are seen as the main concerns for investors. The country scores fairly well (also as compared to the stage of development in which it currently is) in many areas, but in particular it excels for what concerns the ‘Legal rights index’, in which is positioned 6th. The limited market size penalizes the overall performance. Improvements might be sought in the field of strength of auditing and reporting standards, efficacy of corporate boards and protection of minority shareholders’ interests.

DOING BUSINESS – 66th

Montenegro scores 66th worldwide as far as the conditions for starting and continuing a business are concerned. It has improved in a relevant way the conditions for starting a business, especially thanks to simplified post-registration procedures (tax registration, social security registration, licensing), to a simplified tax compliance process and to the reduced number of trade documents necessary to make trading across borders. In particular, it eliminated several procedures for business start-up by introducing a single registration form for submission to the tax administration, and it eliminated the requirement to present a terminal handling receipt for exporting and importing. It still ranks in the last positions in the fields of dealing with construction permits, paying taxes and enforcing contracts.

Turkey



Economic Freedom Index: 6.74 (75th)

Polity Index: 7

Population: 73.9 MLN

GDP: 881,935 (MLN, PPP constant 2005 international \$)

GDP per capita: 11,931 (PPP constant 2005 international \$)

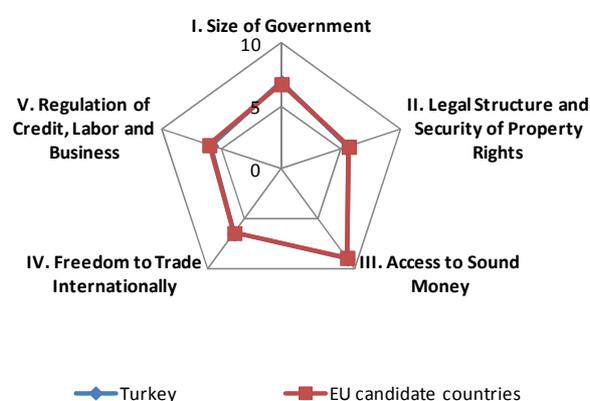
GDP as a share of world GDP: 1.25

Unemployment: 9.4%

Economic freedom

Turkey's performance is crucial in establishing the average of the candidate countries scores, given the relative weight of its GDP. It obtains an excellent result in the area Access to Sound Money (8.92), an almost good result concerning the Size of Government (6.9) and a sufficient one in the area Freedom to Trade Internationally (6.4). Not sufficient, on the other hand, the performance in the fields of Legal Structure and Security of Property Rights (5.59) and Regulation of Credit, Labor and Business (5.9).

Military interference and scarcely independent judicial system and scarcely impartial courts bring down the score concerning the structure of the economy. Labor market regulation represents the main weakness concerning the last area considered (Regulation of Credit, Labor and Business).



Competitiveness and business environment

GCI 2011 – 61st

Turkey ranks 61st in the ranking on competitiveness, and this position was quite stable during the last two years. It performs better in the area of efficiency enhancers (where it ranks 55th) and of innovation and sophistication factors (57th) than for what concerns the basic requirements (68th). Inefficient government bureaucracy, followed by policy instability and tax regulations are seen as the main concerns that limit its competitiveness. The poor performance regarding the basic requirements for a competitive economy is due to the poor quality of the institutions, to a weak macroeconomic environment and to a non excellent performance in the field of health and primary education. Also the results concerning labor market efficiency are unsatisfying, and Turkey ranks only 127th worldwide in this field.

DOING BUSINESS – 65th

Turkey loses five positions and ranks 65th at a worldwide level (last year it scored 60th). Turkey performs quite well as far as registering property and enforcing contracts issues are concerned, but it performs badly in the fields of dealing with construction permits and of closing a business.

Eastern European Countries

Albania



Economic Freedom Index: 7.32 (30th)

Polity Index: 9

Population: 3.2 MLN

GDP: 23,505 (MLN, PPP constant 2005 international \$)

GDP per capita: 7,449 (PPP constant 2005 international \$)

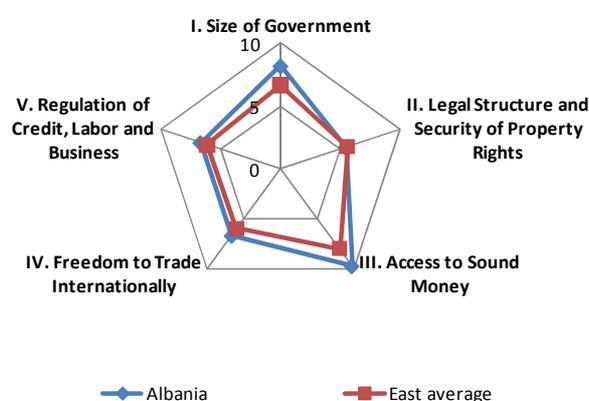
GDP as a share of world GDP: 0.03

Unemployment: 12.7%

Economic freedom

Albania scores 7.32 concerning economic freedom and ranks 30th worldwide. It is an excellent result, better than the average of the other countries in the Eastern cluster. This result is driven by the excellent performances in the fields Size of Government (8.2) and Access to Sound Money (9.63) where Albania is among the top10. Quite good the performance in the field Regulation of Credit, Labor and Business (7.32) and more than sufficient the ones concerning Freedom to Trade Internationally (6.62) and Regulation of Credit, Labor and Business (6.72).

The only score that is not sufficient is in the area Legal Structure and Security of Property Rights (5.45), mainly due to a scarcely independent judicial system and scarcely impartial courts and by a weak protection of property rights.



Competitiveness and business environment

GCI 2011 – 88th

The country gained 20 positions during the last two years, and ranks 88th worldwide as far as competitiveness is concerned. Access to financing, corruption and tax regulation represent the most critical aspects that limit its competitiveness. The country is not included among the top 100 worldwide in the areas macroeconomic environment and innovation. Within the first, the main critical issues are represented by weak government balances and low national savings rate. The main problems in the field of innovation are represented by a low quality of scientific research institutions, scarce university-industry collaboration in R&D and a limited availability of scientists and engineers.

DOING BUSINESS – 82nd

Albania is positioned at the 82nd place in the Doing Business ranking 2010/11. It is among the top 10 countries worldwide for what concerns the time that is necessary to start a business and it realized in the last years important reforms to improve investors protection. It recently made the process of paying taxes easier, enhancing the electronic systems to lower the cost of compliance and reducing labor taxes and mandatory contributions. It is still among the worse countries worldwide for what concerns the issues of dealing with construction permits and closing a business.

Bosnia and Herzegovina

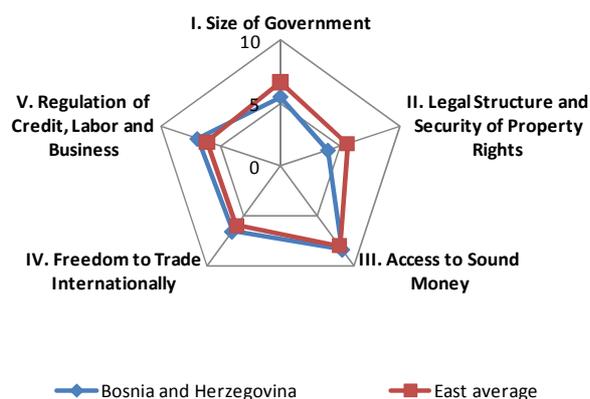


Economic Freedom Index: 6.23 (100th)
Polity Index: N.A.
Population: 3.8 MLN
GDP: 27,367 (MLN, PPP constant 2005 international \$)
GDP per capita: 7,265 (PPP constant 2005 international \$)
GDP as a share of world GDP: 0.04
Unemployment: 23.8%

Economic freedom

Bosnia and Herzegovina, with a score of 6.23, ranks 100th worldwide as far as economic freedom is concerned. It obtains a good performance in the area of Access to Sound Money (where it scores 8.3), sufficient or more than sufficient in the fields of Freedom to Trade Internationally (6.53) and Regulation of Credit, Labor and Business (6.91). Not sufficient the results concerning the other two areas considered: Size of Government (5.49) and Legal Structure and Security of Property Rights (3.94).

This last area (Legal Structure) represents the most critical issue, where Bosnia and Herzegovina performs quite worse than the other countries in the region.



Competitiveness and business environment

GCI 2011 – 102nd

The country gained seven positions since last year, but still does not manage to be included among the first 100 countries worldwide as far as competitiveness is concerned. Access to financing, high tax rates and an inefficient government bureaucracy represent the most critical aspects that limit its competitiveness. If we consider the quality of the infrastructures, the transparency of government policymaking, the ethical behaviour of firms, the protection of minority shareholders’ interests, the country performs among the worse at a worldwide level.

DOING BUSINESS – 110th

Bosnia and Herzegovina maintains its 110th position in the Doing Business ranking 2010/11, as in the previous edition. Notwithstanding this low rank, at least two reforms that improved the business environment were observed during the period. On the one hand, it increased administrative efficiency making the registration of property easier. On the other hand, for what concerns fiscal aspects, it merged or eliminated taxes other than profit tax as to make the tax paying process leaner, it reduced labor taxes and contributions and it abolished its payroll tax. The country still scores badly as far as the conditions for starting a business are concerned (160th).

Moldova



Economic Freedom Index: 6.29 (96th)

Polity Index: 8

Population: 3.6 MLN

GDP: 9,241 (MLN, PPP constant 2005 international \$)

GDP per capita: 2,592 (PPP constant 2005 international \$)

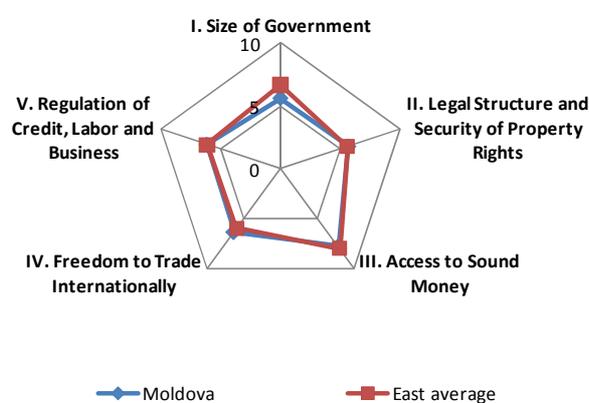
GDP as a share of world GDP: 0.01

Unemployment: 6.0%

Economic freedom

Moldova ranks 96th at a worldwide level for what concerns economic freedom. This bad performance is ascribable to a non sufficient performance for what concerns the Size of Government (5.61) and the Legal Structure and Security of Property Rights (5.65) and to a slightly sufficient performance in the fields of Freedom to Trade Internationally (6.32) and Regulation of Credit, Labor and Business (6.14). The only area in which it obtains a good score is Access to Sound Money (7.74).

A high level of government enterprises and investment, scarce judicial independence and court impartiality, together with a weak protection of property rights, represent some of the main problems the country should face.



Competitiveness and business environment

GCI 2011 – 94th

It is the first year that scores for Moldova are available for what concerns the Global Competitiveness Index, and the results are not satisfying. The country ranks 94th globally, being 97th in the area of basic economic requirements, 99th in the area of efficiency enhancers and 123rd in the area of innovation and sophistication factors. Policy instability, difficult access to financing and corruption represent three main critical issues for investors. The country does not figure within the first 100 countries for what concerns the quality of institutions, goods market efficiency, financial market development, market size, business sophistication and innovation.

DOING BUSINESS – 90th

Moldova ranks 90th worldwide as doing business conditions are concerned. It lost three positions notwithstanding reforms involving the reduction of labor taxes and mandatory contributions. As in most Eastern European countries, property can be registered quite fast (ten days for \$38, three days for \$111 or one day for \$185), so that it ranks 18th in this area. It also performs quite well as far as the issue of enforcing contracts is concerned (20th). The main weakness that Moldova exhibits concerns the issue of dealing with construction permits (159th) and trading across borders due to the high costs incurred in order to import and export to and from the country.

Russian Federation

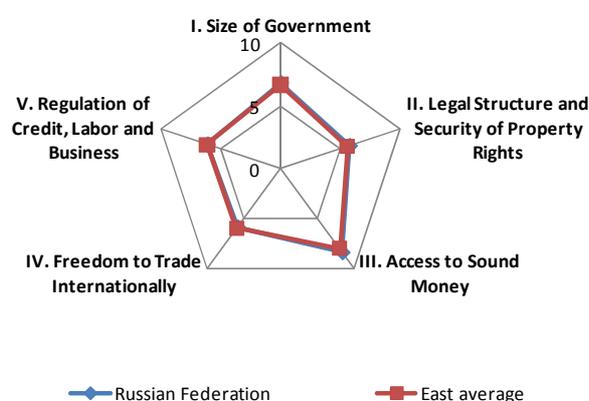


Economic Freedom Index: 6.55 (81st)
Polity Index: 4
Population: 141.8 MLN
GDP: 1,930,774 (MLN, PPP constant 2005 international \$)
GDP per capita: 13,611 (PPP constant 2005 international \$)
GDP as a share of world GDP: 3.05
Unemployment: 8.16%

Economic freedom

Russia obtains an excellent score for what concerns Access to Sound Money (8.3), a sufficient or more than sufficient score in Size of Government (6.78) and Regulation of Credit, Labor and Business (6.11), a non sufficient one in the areas of Legal Structure and Security of Property Rights (5.73) and Freedom to Trade Internationally (5.82).

The weakness of the legal structure is determined by a scarcely independent judicial system and scarcely impartial courts and by a weak protection of property rights. For what concerns the freedom to trade, the unsatisfying result is driven by the existence of high revenues for trade taxes (as a percentage of the trade sector), a relevant standard deviation of tariff rates, taxes on international trade and non-tariff barriers.



Competitiveness and business environment

GCI 2011 – 63rd

The Russian Federation ranks 63rd worldwide for what concerns competitiveness, losing 12 positions in the last two years. The main concern for investors is corruption, followed by access to financing and tax regulations. Weak institutions, limited goods market efficiency, financial markets development and business sophistication represent the main weaknesses of the country. It scores particularly badly (not even among the top 130 countries) for what concerns the protection of minority shareholders' interests, the prevalence of trade barriers and the burden of customs procedures. Good results, vice-versa, are obtained in the area of primary and tertiary education enrolment rate and female participation in labor force.

DOING BUSINESS – 123rd

The Russian Federation loses seven positions and passes from the 116th to the 123rd position during the last year. It pursued some interesting reform in the last year, making dealing with construction permits easier (implementing a single window for all procedures related to land use) and making improvements in a series of other areas, from regulation of insolvency administrators to the prevention of fraud and abuse in insolvency proceedings. Notwithstanding these reforms, it still ranks very low in the areas of dealing with construction permits and trading across borders. Vice-versa, it performs relatively well in enforcing contracts (18th).

Serbia

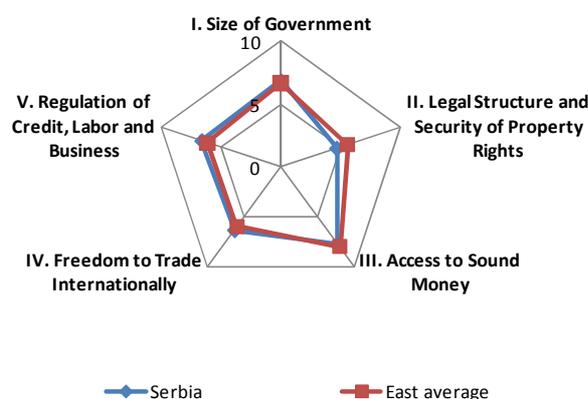


Economic Freedom Index: 6.44 (91st)
Polity Index: 8
Population: 7.3 MLN
GDP: 72,953 (MLN, PPP constant 2005 international \$)
GDP per capita: 9,966 (PPP constant 2005 international \$)
GDP as a share of world GDP: 0.11
Unemployment: 16.7%

Economic freedom

Serbia scores 91st at a worldwide level. It obtains a good result in the field of Access to Sound Money (7.72), sufficient or more than sufficient in the fields Size of Government (6.85), Freedom to Trade Internationally (6.3) and Regulation of Credit, Labor and Business (6.64). The performance concerning the Legal Structure and Security of Property Rights is not sufficient (4.68).

This last unsatisfying performance is the result of very low scores concerning the sub-indicators 'Judicial independence', 'Impartial courts', 'Protection of property rights' and 'Legal enforcement of contracts'.



Competitiveness and business environment

GCI 2011 – 96th

Serbia loses 11 positions in the last two years and scores 96th at a worldwide level for what regards competitiveness. The main concerns for investors are represented by corruption, inefficient government bureaucracy and policy instability. The country performs badly in field such as the quality of institutions, the macroeconomic environment, goods and labor market efficiency and business sophistication. The efficiency of the legal framework is heavily questioned by the results of the survey. Also the sub-indicators concerning corporate governance suggest some potential criticalities for investors.

DOING BUSINESS – 89th

Serbia ranks 89th and gains one position with respect to the previous year. The country took several steps to improve its business environment. The registry can now publish information about the company registration, so companies no longer have to arrange with a newspaper to advertise it. Moreover, Serbia improved its one-stop shop policies. It established or promoted reorganization procedures or pre-packaged reorganizations in order to make the closing of a business easier and it took steps to prevent abuses in this field. The country performs quite well in the area concerning the provision of credit (20th), but still lacks competitiveness in the field of dealing with construction permits (176th), procedures to pay taxes (138th) and registering property (100th).

Ukraine

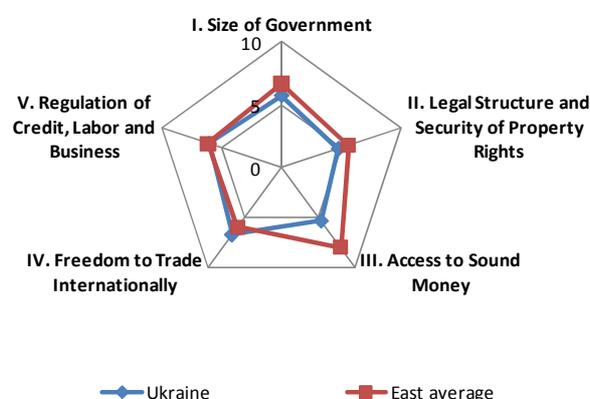


Economic Freedom Index: 5.70 (125th)
Polity Index: 7
Population: 46.0 MLN
GDP: 263,950 (MLN, PPP constant 2005 international \$)
GDP per capita: 5,737 (PPP constant 2005 international \$)
GDP as a share of world GDP: 0.42
Unemployment: 8.8%

Economic freedom

Ukraine obtains a globally not sufficient score for what concerns economic freedom (5.70) and ranks only 125th worldwide. In particular, its performance is worse than the average performance of other Eastern countries in the areas Access to Sound Money (5.32 against 7.96), Size of Government (5.72 against 6.66), Legal Structure and Security of Property Rights (4.74 against 5.56), Regulation of Credit, Labor and Business (6.03 against 6.13). The result in the Freedom to Trade Internationally area (6.68) is almost good.

Ukraine should manage to improve its performances in all the considered areas. For what concerns the worst result, in the field Legal Structure and Security of Property Rights, the scarce judicial independence together with partial courts and weak protection of property rights represent the main problems.



Competitiveness and business environment

GCI 2011 – 89th

Ukraine scores 89th in the worldwide ranking on competitiveness, losing 17 positions in the last two years. Policy instability, corruption and access to financing are seen as the main critical issues for investors. The country performs badly in the areas related to the basic requirements for competitiveness (where it ranks 102nd) and in the areas related to innovation and sophistication factors (88th). In particular, for what concerns the basic requirements, a low quality of institutions and a non favourable macroeconomic environment represent the two main weaknesses. It is also observed a bad performance concerning labor markets efficiency and financial market development.

DOING BUSINESS – 145th

Ukraine ranks 145th at a worldwide level in the doing business indicator. Notwithstanding this very poor performance, the country tried some steps to improve its business environment. It introduced streamlined procedures in order to deal with construction permits, it simplified the tax compliance process and it introduced or enhanced electronic systems. Moreover, it eased business start-up by substantially reducing the minimum capital requirement. However, the country still ranks poorly in the majority of the areas of analysis.

North African Countries

Algeria

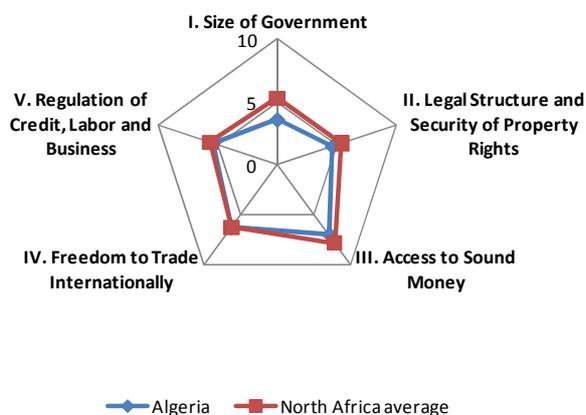


Economic Freedom Index: 5.36 (131st)
Polity Index: 2
Population: 34.9 MLN
GDP: 258,963 (MLN, PPP constant 2005 international \$)
GDP per capita: 7,421 (PPP constant 2005 international \$)
GDP as a share of world GDP: 0.35
Unemployment: 11.3%

Economic freedom

Algeria scores badly in all the areas considered, apart from Access to Sound Money (7.01) and Freedom to Trade Internationally (6.27). In particular, the scores reached by the country in the area Size of the Government are very low, leading to a global 3.56, which is far below the average of the other countries in the area. The scores concerning Legal Structure and Regulation of Credit, Labor and Business are, as well, not sufficient (4.58 and 5.37 respectively).

After an improvement in economic freedom in the middle of the last decade, Algeria regressed to a non sufficient overall performance, scoring worse than the other North African countries.



Competitiveness and business environment

GCI 2011 – 86th

Notwithstanding an improvement in the last years (Algeria ranked 99th in 2008), the country still positions in the lower part of the ranking. Particularly critical are the areas related to efficiency enhancers (especially concerning goods and labor markets efficiency and financial markets development). There is an inefficient government bureaucracy, access to credit is difficult and corruption in the country is widespread. As a consequence, the GDP per capita, that was at the beginning of the nineties at the same level of other North African and Middle East countries, is now significantly lower.

DOING BUSINESS – 136th

Algeria continues to rank 136th worldwide as a place where to start and run a business, and no significant reform in this field was registered during the last year. The country is among the ones where it is more difficult registering property, paying taxes and starting a business: it does not perform well in any of the analyzed areas. The field where Algeria scores better is the one referring to the conditions to close a business, where it ranks 51st. It ranks badly for what concerns the enforcement of contracts (127th) and dealing with construction permits (113th); slightly better (74th) for what concerns investors protection.

Egypt



Economic Freedom Index: 6.42 (93rd)

Polity Index: -3

Population: 82.9 MLN

GDP: 427,532 (MLN, PPP constant 2005 international \$)

GDP per capita: 5,151 (PPP constant 2005 international \$)

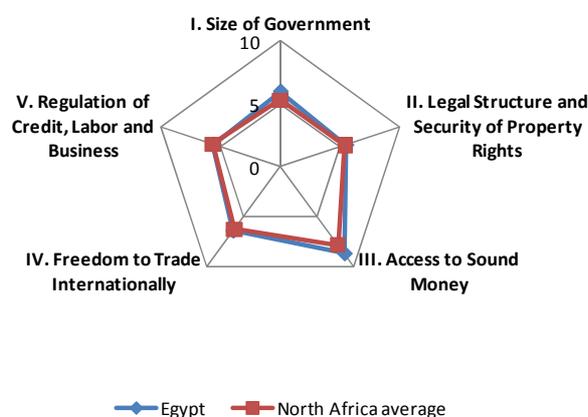
GDP as a share of world GDP: 0.68

Unemployment: 9.0%

Economic freedom

Egypt obtains an excellent score in the area Access to Sound Money (8.66) and exhibits a fairly good performance as far as Freedom to Trade Internationally is concerned (6.4). Its main weakness is represented by Regulation of Credit, Labor and Business where, with a score of 5.59, it classifies just 124th at a worldwide level. It is not sufficient the performance in the field of Legal Structure and Security of Property Rights (5.49) too, while it reaches an almost sufficient judgment regarding Size of Government (5.98).

Globally, the country performs better than the average of North African countries (6.42 against a 6.07 average).



Competitiveness and business environment

GCI 2011 – 81st

The country ranked 81st in the worldwide ranking on competitiveness. Corruption, inflation and an inadequately educated workforce were seen as the main problems from an investor point of view. The country ranks 133rd in the field of labor market efficiency, due to high redundancy costs and to a scarce female participation in the labor force. The performance is also unsatisfying for what concerns the macroeconomic environment, where it ranks 129th; with respect to this issue, the main problems are represented by high inflation, high government debt, low national savings rate and government deficits.

DOING BUSINESS – 94th

Egypt scored 94th in the year 2010/11 (prior to the revolution that led to Mubarak's removal), gaining five positions with respect to the previous year thanks to two relevant reforms influencing the business environment. On the one hand, it made starting a business easier by cutting and simplifying the post-registration procedures (tax registration, social security registration, licensing) and launching a new system to establish companies electronically. On the other hand, it made trading across borders easier through improved customs administration and introducing an electronic system for submitting export and import documents.

Morocco

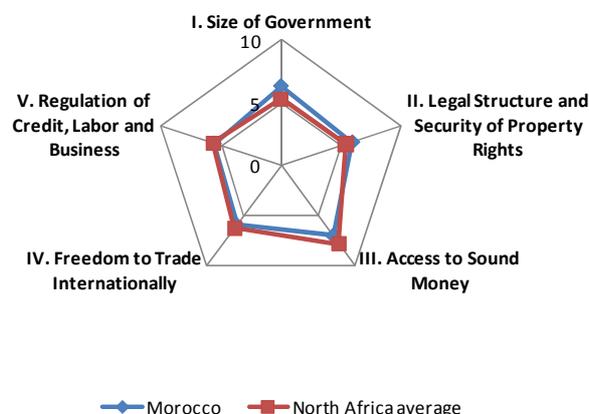


Economic Freedom Index: 6.16 (105th)
Polity Index: -6
Population: 31.9 MLN
GDP: 132,663 (MLN, PPP constant 2005 international \$)
GDP per capita: 4,081 (PPP constant 2005 international \$)
GDP as a share of world GDP: 0.21
Unemployment: 10%

Economic freedom

Morocco ranks 105th with a global score of 6.16. It performs better than the average of the other North African countries for what concerns Size of Government (6.33) and Legal Structure and Security of Property Rights (5.93, almost sufficient). It reaches an acceptable discrete score for what concerns Access to Sound Money (7.02), almost sufficient also in the field of Legal Structure and Security of Property Rights (5.95), not sufficient in the Regulation of Credit, Labor and Business (5.57).

Concerning the last field, the country is penalized by many labor market regulations, widespread price controls and the extra payments/bribes/favoritism which are often observed.



Competitiveness and business environment

GCI 2011 – 75th

At a 75th place worldwide, Morocco is quite stable in this position since the last few years. Access to financing, corruption and inadequate supply of infrastructure are considered as critical aspects for investors. It ranks 64th for what concerns the basic economic requirements, 88th in the efficiency enhancers, and 79th in terms of innovation and sophistication factors. Labor market inefficiency represents the main weakness of the country, and is ascribable to poor cooperation in labor-employer relations, rigidity of employment, redundancy costs, scarce reliance on professional management and scarce female participation in labor force. The country performs badly also on investors protection (where it ranks 127th) and trade tariffs (128th).

DOING BUSINESS – 114th

Morocco scores 114th worldwide in the Doing Business ranking, as in the previous year. It improved, during the last year, some of the practices concerning access to credit and the protection of investors (by requiring greater disclosure in companies' annual reports). Notwithstanding these efforts, it still ranks quite badly in the last area (investors protections, as already pointed out by the GCI), in the area concerning the procedures to pay taxes (124th) and in the area concerning the registration of profits (124th). It is one of the 50 countries worldwide that follow the simplifying practice of having only one tax per tax base.

Tunisia



Economic Freedom Index: 6.40 (94th)

Polity Index: -4

Population: 10.4 MLN

GDP: 78,368 (MLN, PPP constant 2005 international \$)

GDP per capita: 7,512 (PPP constant 2005 international \$)

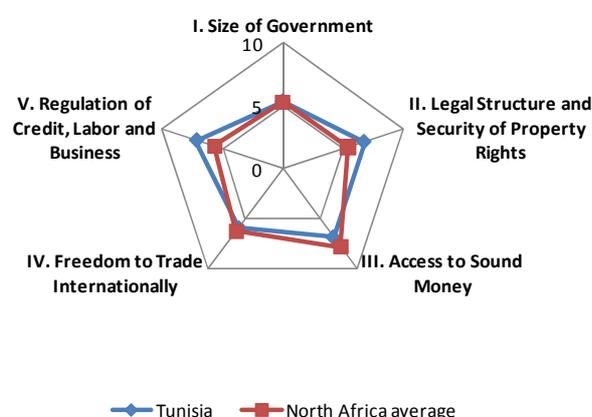
GDP as a share of world GDP: 0.12

Unemployment: 14.2%

Economic freedom

Tunisia scores 6.40 and ranks 94th at a worldwide level in economic freedom. It performs better than the average of North African countries in the areas Legal Structure and Security of Property Rights (6.78 against 5.41) and Regulation of Credit, Labor and Business (7.18 against 5.66). It obtains a passable result for what concerns Access to Sound Money (6.81) and a non sufficient one in the areas Freedom to Trade Internationally (5.92) and Size of Government (5.31).

The satisfying results in the field of regulation are given by a good result in the field of credit market regulation and to a sufficient result for what concerns labor market regulation. In this last topic Tunisia performed better than the average of the other countries in the area.



Competitiveness and business environment

GCI 2011 – 32nd

Tunisia ranks quite well (32nd), and better than the other countries in the area, for what concerns competitiveness. The results refer to the period prior to the recent uprising. Access to financing, restrictive labor regulations and an inefficient government bureaucracy are seen as the main concerns for investors. In particular, labor markets, despite being better structured than in other countries in the area, remained a critical issue. Scarce flexibility of wage determination, rigidity of employment and a limited female participation in labor force were among the main problems observed. Despite all the problems that led to the change of regime, Tunisia was not scoring badly for what concerns the quality of its institutions.

DOING BUSINESS – 55th

Tunisia ranked 55th in 2010/11, prior to the surges that occurred in the country. It was the country that improved more, during the past year, the procedures to pay taxes, by introducing an e-system for this purpose. Thanks to this filing and payment system, businesses spend 37% less time complying with corporate income tax and value added tax. It also improved electronic data interchange system concerning trading across borders, speeding up the assembly of import documents.