Economic Research & Corporate Development

Allianz **Euro Monitor 2011**

Allianz

Indicators for Balanced Growth

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Content

Introduction

Few would question the assertion that 2011 was the most difficult year for the eurozone since it came into existence in 1999. The sovereign debt crisis, which first raised its head in early 2010, remains unresolved. Indeed, following the failure of a chain of measures aimed at getting a grip on the situation, the crisis appears more deeply-entrenched than ever. The original infection that was confined to Greece and then spread to Ireland and Portugal, has since spilled over into Spain and Italy, and France is now also starting to feel the heat. Summit after summit, and pronouncement after pronouncement, briefly stirred hopes that the corner had been turned only for the reality of the medicine's shortcomings to hit home shortly thereafter.

Given the critical impact that the domestic problems affecting specific countries had on the entire single currency area, there is a real need for an effective macroeconomic monitoring and early-warning system aimed at ensuring balanced growth devoid of imbalances in order to flag up the sort of adverse developments that resulted in the eurozone debt crisis at an early stage. This, of course, is also the aim of the strengthened Stability and Growth Pact (SGP) and its new complement, the Excessive Imbalance procedure (EIP) . From an economic perspective, it is without a doubt not sufficient to measure imbalances just through the current account balance. The objective of the Euro Monitor, which is calculated for all EMU member states, is to deliver a highly comprehensive set of indicators for balanced growth. The Institut für Wirtschaftsforschung Halle recently attested the Euro Monitor with a high early warning function. Indeed, those countries endangering the stability of the euro area within the last 18 months had already been hovering in the lower rating range before the sovereign debt crisis struck (see Euro Monitor Rating over time).

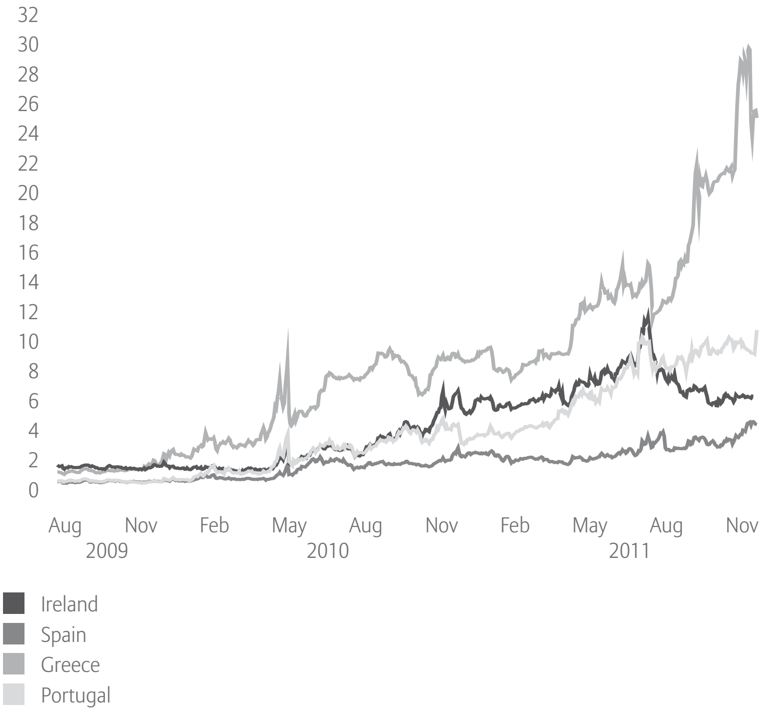
This year's Allianz Euro Monitor, the second edition of the successor to our long-running European Growth and Jobs Monitor, captures the picture in late 2011 as the eurozone endeavours to turn the tide. Both the Growth and Jobs Monitor and the Euro Monitor have long been flagging the need for fundamental reform in the eurozone and highlighting the risks emanating from unbalanced growth.

Last year's report concluded that, to overcome the crisis, the eurozone faced a long and difficult road ahead. Despite some early encouraging signs revealed by this year's Euro Monitor, the road ahead now looks steeper than ever, with a mountain or three still to climb. The challenges have mounted and the 'to-do' or 'must-do' list has grown longer.

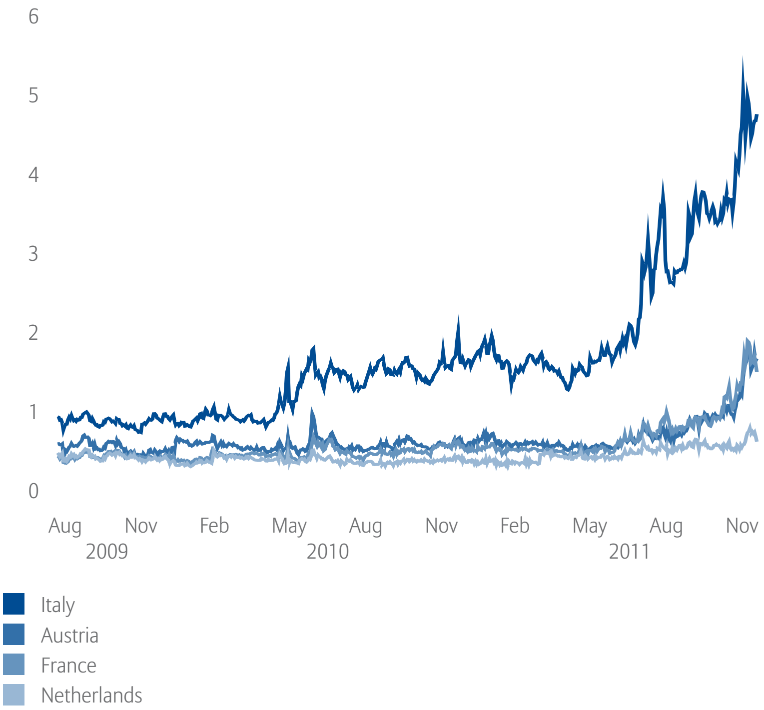
A year ago we had already welcomed important changes to the eurozone governance framework, with progress having been made in tightening up the Stability and Growth Pact and agreement reached on the new Euro Plus Pact aimed at boosting competitiveness. However, EU governments have so far failed to demonstrate that they mean business. And the latest measures agreed at the two-step summit in late October are also getting bogged down in the detail, with the partial insurance proposal for the European Financial Stability Facility (EFSF), for instance, still on the launch pad. The "Six Pack" set of legislative measures which aims not only at enhancing budgetary discipline under the Stability and Growth Pact but also at broadening the surveillance of macroeconomic imbalances is scheduled to come into force in mid-December 2011. But it remains unclear how it will operate with the relevant indicators in most member states currently on the wrong side of the benchmark.

Risk premiums on the rise – even for EMU core countries

Yield spread (over 10y German government bonds), percentage points



Yield spread (over 10y German government bonds), percentage points



Balanced growth - How much progress was made in 2011?

Concealed by the frantic discussions on financial markets about apocalyptic developments and a possible blow-up of the eurozone, there actually have been some encouraging developments. Some adjustments are showing progress despite an overall negative picture.

These are the main findings:

- For the first time since 2007 the macroeconomic imbalances within the eurozone as a whole have not widened further. 12 of the 17 member states saw a slight or moderate improvement in their ratings.

- Once again, no single country achieves a score of 8 or more which would signal a good performance across the board. Compared with 2010, the top three (Germany, Luxembourg, Austria) all managed to improve their overall rating. Cyprus, Greece and Slovenia were the only countries to move in the wrong direction, with their overall rating slipping further on last year. The steepest improvement was seen in Belgium, Estonia, Finland, Germany and Spain.

- France remains mired in a middling position at No.10, with several indicators flashing red.

- In particular, Greece, Ireland and Portugal give cause for concern as indicated by an average rating of less than 4.

- Italy, currently in the spotlight as a potential stumbler, actually edged up one place from 13th to 12th although its overall rating remained unchanged. With the new Monti government now in charge, it is to be hoped that the necessary reforms are tackled swiftly and resolutely.

- While Slovenia disappointed, the other two Eastern European relative newcomers to the eurozone, Estonia and Slovakia, made encouraging progress, taking their scores substantially higher.

- The most substantial improvement was seen in Category 4, “Private and foreign debt”, with deleveraging in the private sector making significant progress.

- Moreover, it is worth noting that the observed reduction in macroeconomic imbalances has taken place against the background of weak economic activity in a number of countries. In a host of indicators such as the government deficit, unit labour costs, domestic demand, and labour productivity, the cyclically-adjusted readings would probably be significantly better.

In the following chapters we take a detailed look at the ratings in the four different categories and underlying individual indicators, enabling us to make a more differentiated analysis of how the economic fundamentals of each member country are affecting their balanced growth path.

Euro Monitor vs. Rating Agencies

The risk premiums on the government bonds of all heavily indebted EMU countries have continued to rise steeply in the course of this year despite intensive political efforts to resolve the crisis. Essentially, higher risk premiums can be caused by:

1. An increase in the macroeconomic imbalances and the related heightened need for consolidation and reform in the respective countries.

2. The absence of convincing political concepts to tame the crisis,

3. a downgrade of the respective country by the rating agencies,

4. elevated risk aversion among investors towards the respective countries.

On its own the latter is not likely to fuel an increase in risk premiums, but serve to intensify crises in the wake of other deeper-lying causes. The results of this year's Euro Monitor show that an increase in imbalances (stripping out Greece as a special case) cannot be the reason behind rising risk premiums this year. Italy, Spain and Ireland have all managed to reduce the imbalances slightly, in Portugal they have not widened further.

That leaves points 2 and 3 as possible reasons. Without doubt, the loss of confidence in policymakers' crisis management is a key reason behind the further rise in risk premiums. But the rating downgrades by the rating agencies are likely to have also played a role in exacerbating the crisis. It needs to be asked why countries are downgraded without any deterioration in their economic fundamentals (see table). More transparency and forward-looking analysis is called for in justifying rating changes. Correlation to risk spreads on markets must be avoided. It is also difficult to understand why short-term cyclical changes are deployed as an argument for a revised assessment. For instance, one agency (Fitch) recently argued that France's Triple A rating could be jeopardized as the risk of an economic downturn was impairing its creditworthiness. Such pro-cyclical considerations should not play a role in any assessment.

Country	Year	Moody's Rating*	S&P Rating*	Euro Monitor Rating
Ireland	2010	Baa1	A	3.53
	2011	Ba1	BBB+	3.67
Portugal	2010	A1	A-	3.87
	2011	Ba2	BBB-	3.87
Spain	2010	Aa1	AA	4.00
	2011	A1	AA-	4.47
Italy	2010	Aa2	A+	4.87
	2011	A2	Au	4.87

* as of end 2010/November 2011

How can balanced growth be measured?

Balanced macroeconomic growth allows the countries in question to deliver prosperity to their people and contribute to the strength and stability of the entire euro area. Given the influence that the financial markets have over the stability of individual member states and, as a result, over the euro area as a whole, the criteria must by definition rely heavily on macroeconomic data which financial markets consider to be material. We believe that a whole number of aspects come into play when determining whether or not an economy is achieving balanced growth.[1]

As a result, we have come up with 15 quantitative indicators, which are themselves divided into four categories. The four thematic categories in which the indicators are gathered are:

- Fiscal sustainability
- Competitiveness and domestic demand
- Jobs, productivity and resource efficiency
- Private and foreign debt

A country's performance in these four areas is of critical importance in determining the trust that country will enjoy on financial markets and thus for the level of the risk premiums it will be demanded to pay by those markets.

1 Given the turbulent events that have shaped the past few years and the resulting confounding factors, we have opted not to perform a regression analysis. The composition of our Euro Monitor may evolve over time owing to changing threats to macroeconomic stability or advances in data availability.

Fiscal sustainability

There is no one single indicator to measure the solidity of government finances. However, we believe that new borrowing and existing debt are the two indicators of state finances that the financial markets keep a closest eye on. Nevertheless, high debt levels do not necessarily translate into a considerable interest burden for a country's budget if investors are prepared to lend the government money at a low interest rate, as in the case of Japan, for example. As a result, our indicator includes the ratio of interest payments to the budget as a whole as a measure of the extent to which sovereign debt can be financed. When assessing state finances, it is important to bear in mind that demographic change will place additional burdens on the state's shoulders, burdens that will result in higher government debt in the longer run. This burden, known as implicit government debt, varies from country to country depending on the specific demographic trends but also, and in particular, on the structure of the national pension systems. As a result, we have included the need to adjust state finances to reflect the ageing population as another indicator under the "fiscal sustainability" category.[2]

Competitiveness and domestic demand

When an economy becomes less competitive, it is more prone to imbalances, and moreover, loses growth potential in the longer term. We believe that the "competitiveness" category is just as important in ensuring balanced growth as the "fiscal sustainability" category. The current account balance is the main indicator of external equilibrium. The markets interpret hefty deficits as pointing towards a lack of competitiveness. However, the current account balance should not only be seen in terms of competitiveness. Although a member state with a current account surplus might benefit from its competitive export sector, its internal demand might leave something to be desired which in turn would enlarge the gap between deficit and surplus eurozone countries. Moreover, growth reliant solely on exports is possibly an indication of an imbalanced growth path. We therefore include medium-term domestic growth, measured as the average annual change in domestic demand over the last five years, in our set of indicators.

2 This is based on a sub-component of the European Commission's Sustainability Gap Indicator – the required adjustment due to the long-term changes in government expenditure. This component sheds light on the additional adjustment required to finance the increase in public expenditure due to ageing up to 2060.

The main reason behind a loss of competitiveness tends to lie in unfavourable cost developments. Consequently, we have used wage costs per unit of production as one of the individual indicators for assessing price competitiveness. This assessment looks at the difference between actual unit wage costs and a stable development rate of 1.5% expressed in index points.[3] But a lack of competitiveness is not only caused by cost disadvantages. The root can also lie in a lack of product innovation or a less attractive product range. We have therefore used the development of a country's global trade share as a further individual indicator, because this parameter particularly reflects changes in the quality and structure of the goods offered by a country on the global markets.

Jobs, productivity and resource efficiency

A country's economic performance is tied to its growth in employment and labour productivity. The financial markets generally consider countries boasting higher economic growth to be better equipped to tackle debt problems. This has prompted us to include the development in the employment rate and labour productivity per employee in our indicator. In this respect, we believe that a medium-term assessment showing the percentage change within a five-year period makes the most sense. We have chosen the unemployment rate as a further labour market indicator, because it is still the main parameter signalling imbalances on the labour market. Nowadays, economic efficiency is no longer measured in terms of labour productivity alone. The efficient use of resources has become a quality attribute for an economy, especially given that scarcer resources can translate into higher cost burdens.[4] As a result, we have included the energy intensity of aggregate output in our indicator.

3 Labour costs are the major domestic inflation determinant. The target path of a 1.5% increase in labour costs per year is approximately consistent with the ECB's price stability norm (close to but below 2%) if rising commodity prices which result in further inflation pressures are taken into account.

4 See Janez Potocnik: Resource Efficiency as a Driver of Growth and Jobs, The 2010 Jean-Jacques Rousseau Lecture, delivered at the Lisbon Council on 23 March 2010.

Private and foreign debt

For an economy to have a balanced economic outlook, moderate government debt is not the only prerequisite. It is also extremely important that private and foreign debt are not excessive. The property bubble that emerged in a number of countries triggered a dramatic rise in the demand for loans and a marked increase in household debt. Consequently, our indicator also looks at the development of private household debt ratios. Similarly, it also includes the development in the debt ratio of non-financial corporations. As far as foreign debt is concerned, we have used the "net international investment position", which is based on a concept developed by the IMF and serves as a sort of "external solvency ratio" that is expanded to include capital market positions.[5]

The following chart summarises the indicators that we will be using in our Monitor:

Evaluating balanced growth on the basis of 15 indicators out of 4 categories

C1 Fiscal Sustainability

- 1A Gross government debt, as % of GDP
- 1B General government deficit/ surplus,as % of GDP
- 1C General government interest payments, as % of total government expenditure
- 1D Required adjustment in the primary balance due to demographic ageing in percentage points

C2 Competitiveness and Domestic Demand

- 2A Unit labour costs, total economy, deviation from the target path of 1.5% rise per year in index points
- 2B Current account balance, as % of GDP
- 2C Global merchandise trade shares, exports, deviation from base year 2000 in %
- 2D Domestic demand, average annual change over the last five years

C3 Jobs, Productivity and Resource Efficiency

- 3A Harmonised unemployment rate, %
- 3B Employment ratio, change over five yearsin percentage points
- 3C Labour productivity per person employed, average annual change over the last five years
- 3D Gross inland consumption of energy divided by GDP (kilogram of oil equivalent per EUR 1000)

C4 Private and Foreign Debt

- 4A Debt-to-GDP ratio of households, change over five years in percentage points
- 4B Debt-to-GDP of non-financial corporations, change over five years in percentage points
- 4C Net international investment position,as % of GDP

5 According to the IMF, the net international investment position refers to the stock of external assets minus the stock of external liabilities. In much the same way that a corporate or national balance sheet does, the net position displays what the economy owns in relation to what it owes. As the international investment position viewpoint is that of the compiling economy, the assets of the rest of the world represent liabilities of the corresponding economy and vice versa.

Consequently, all 15 individual indicators are quantitative indicators. Countries are given a rating score ranging from 1 to 10 in each of the 15 indicators.[6] Since the individual indicators are assigned an equal weighting in the overall Euro Monitor rating score, the overall score for each country corresponds to the average rating of all 15 indicators, meaning that it is also expressed as a value from 1 to 10. The country rating in each category is calculated as the average of the indicator ratings in that category. Throughout, we have used annual values for all years until 2010 and estimates for 2011. We have defined three rating classes: values 1-4 (coded in the charts in red) signal poor performance, 5-7 (coded in dark blue) indicate middling performance and 8-10 (coded in light blue) good performance. Just as an alert threshold, values 1-4 can be seen as indicative values which guide the assessment but are to be complemented by economic judgment and country-specific expertise.

6 Scales for each indicator are listed in the appendix on p. 52-53.

Overall ranking and results

Overall results

As described above, the Euro Monitor evaluates the extent to which an EMU country is achieving balanced macroeconomic growth and thus contributing to the stability of the euro area. The overall score represents the average rating over all 15 indicators, enabling us to highlight and compare individual country performance.

Essentially, for the first time since 2007 the macroeconomic imbalances within the eurozone as a whole have not widened further. In a host of member states there has been a shift towards more balanced growth. 12 of the 17 member states saw a slight or moderate improvement in their ratings.

Euro Monitor Rating 2011

Rank 2011		EMU Member State	Average Rating 2011	Rank 2010	Average Rating 2010	Rank 2006	Average Rating 2006
1	DE	Germany	7.6	1	7.1	3	7.3
2	LU	Luxembourg	7.2	2	7.1	1	8.0
3	AT	Austria	7.0	3	6.7	2	7.5
4	NL	Netherlands	6.9	3	6.7	3	7.3
5	SK	Slovakia	6.3	5	6.0	10	6.3
6	FI	Finland	6.3	6	5.8	5	7.1
7	EE	Estonia	6.1	10	5.3		
8	BE	Belgium	6.0	8	5.5	8	6.6
9	MT	Malta	5.7	9	5.4	12	5.7
10	FR	France	5.7	11	5.3	8	6.6
11	SL	Slovenia	5.3	7	5.5	6	6.9
12	IT	Italy	4.9	13	4.9	11	5.9
13	ES	Spain	4.5	14	4.0	13	5.6
14	CY	Cyprus	4.3	12	4.9	13	5.6
15	PT	Portugal	3.9	15	3.9	16	4.7
16	IE	Ireland	3.7	16	3.5	6	6.9
17	GR	Greece	2.2	17	2.5	15	5.3

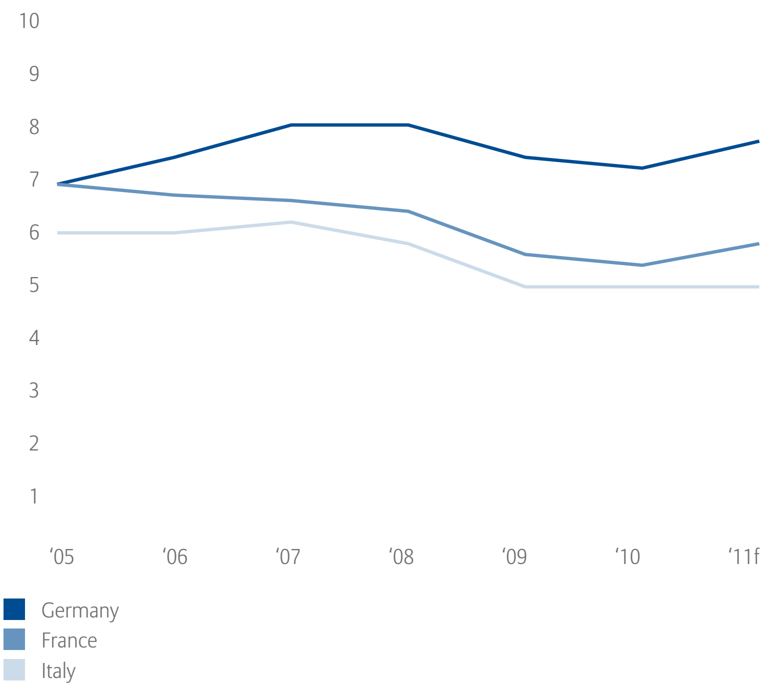
At the same time, the broad range of ratings shows that there are still large gaps to be bridged in the currency area. Encouragingly, the crisis-ridden peripherals Ireland and, in particular, Spain look set to end their downward trend this year. Besides Spain, the steepest improvement was seen in Belgium, Estonia, Finland and Germany. Meanwhile, Cyprus, Greece and Slovenia were the only countries to move in the wrong direction, with their overall rating slipping further on last year.

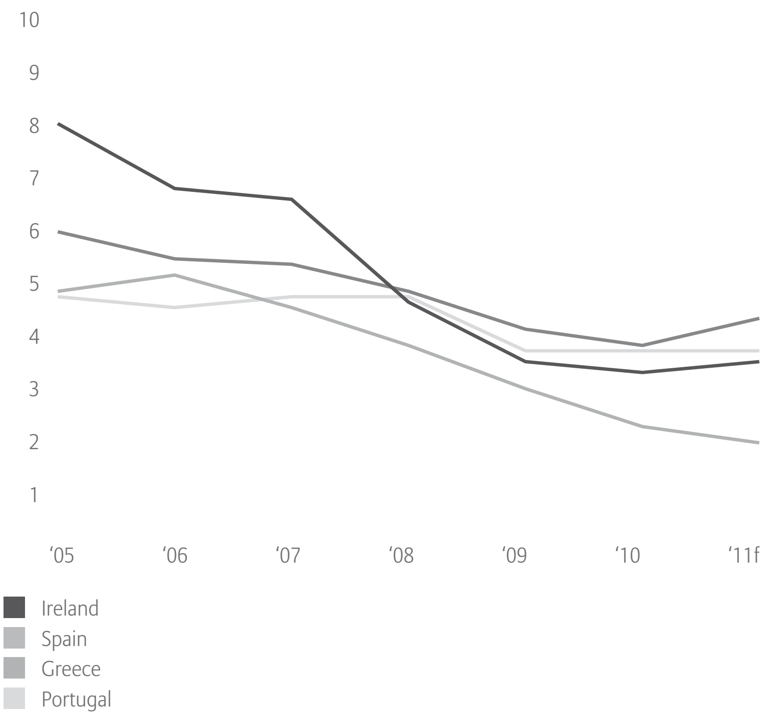
Newcomer Estonia not only belongs to the winners of this year's rating as regards its Euro Monitor rating, but also with respect to its overall ranking position. Theoretically ranked last year, it would have climbed up the ladder by three steps from the 10th to the 7th position. Slovenia, quite the reverse, could not keep pace with the progress that was being made in the euro area, and tumbled from rank 7 to rank No. 11. Overall, positions on the upper and lower bound remained broadly the same (i.e. the six best ranked countries stayed on No. 1 to 6 whereas the three worst rated countries are still left behind on No. 15 to 17).

Turning back to the rating scale, once again no single country achieves a score of a 8 or more which would signal a good performance across the board. Germany was able to maintain its place at the top of the ranking, after significant improvements on what was a weak performance for many years. An average rating over all indicators of 7.6 is a good score, but still not high enough to rank it among what would be "good performers" under more normal economic circumstances. Compared with 2010, the top three (Germany, Luxembourg, Austria) all managed to improve their overall ratings to some extent. The trio performs particularly well in the category "Competitiveness and domestic demand". In addition, Luxembourg can boast particularly sound public-sector finances (although newcomer Estonia gets the best marks in the category "Fiscal sustainability" this year).

It is of scant surprise that those countries at the focus of the debt debate come in at the bottom of the ranking and hence contribute little to the stability of the euro area. Two countries – Greece and Ireland – perform exceptionally poorly with regard to balanced growth. While the Greeks weigh in at No.17, based on a league-lagging score of 2.2 (2010: 2.5), Ireland ranks No.16 with a score of 3.7. Quite unsurprisingly, Greece's fiscal sustainability is the lowest in the euro area (rating of 1 in all public finance indicators). Moreover, austerity measures weigh heavily on the jobs and productivity front. On a more posi-

Euro Monitor Rating over time





tive note, the Hellenic Republic gained competitiveness as indicated by a more favourable unit labour cost development and a more balanced current account. Unlike Greece, Ireland was able to improve its Euro Monitor rating. For instance, although losing on the fiscal sustainability front, Ireland not only gained price competitiveness due to falling unit labour costs, but also improved its "Jobs, productivity and resource efficiency" category rating. In particular, Spain ended its downward trend this year, looking set to improve its score in three of four categories, namely "Fiscal sustainability", "Jobs, productivity and resource efficiency" as well as "Private and foreign debt". Although its overall rating remained unchanged, Italy, often counted among this circle of vulnerable EMU countries, performs moderately again (4.9) in 2011, and actually edged up one place from 13th to 12th.

Meanwhile, France was able to improve its overall rating owing to a slight reduction in its – still Maastricht criteria breaching – budget deficit, higher energy efficiency and projected lower private sector indebtedness. Nonetheless, the core country remains stuck in a middling position at No.10, with several indicators such as the budget deficit, global merchandise trade share, unemployment rate and labour productivity still flashing red.

Analysing the overall ratings over time offers valuable pointers as to whether member countries have either caught up with, maintained or lost track of their balanced growth path. The graph on the previous page compares the development of the overall ratings from 2005 to 2011 of the three biggest EMU countries in terms of GDP – Germany, France and Italy – along with Portugal, Spain, Ireland and Greece as the four countries whose financial and economic situation has been perceived as distinctly problematic by financial markets since the beginning of 2010.

As can be seen, with the exception of Germany, all of these countries had suffered a downgrade since 2005, with Ireland deviating the most from its formerly balanced growth path, falling precipitously from the No. 1 spot in 2006 (with an overall score of 8.3) to the No. 16 place in 2011, with an overall score of 3.7.

In 2011, not only Germany and France find themselves on an upward trend, but also Spain and Ireland have reached a turning point after having slipped gradually since 2005. The Italian and Portuguese overall rating score has more or less remained stable since 2009. Notably, Portugal had managed to hold its rating of below but close to 5 until 2008, but was attributed poor balanced growth thereafter. Greece, which performed mediocre to poorly throughout, has not yet been able to end the downward trend.

In the following chapters we take a detailed look at the ratings in the four different categories and underlying individual indicators, enabling us to make a more differentiated analysis of how the economic fundamentals of each member country are affecting their balanced growth path.

Euro Monitor attested with high early warning function

In a report entitled "Macroeconomic Imbalances as Indicators for Debt Crises in Europe"[7], academics at the Institut für Wirtschaftsforschung Halle have examined whether indicator sets are able to send early warning signals for public-sector debt crises. In their study they compared the forecast reliability of indicator sets proposed by the Federal Ministry for Economics and Technology, the European Commission, the European Central Bank along with our own Allianz Euro Monitor.

The European Commission developed its catalogue of indicators in the framework of the new macroeconomic surveillance regime. The Commission's indicator set encompasses seven indicators, including the real effective exchange rate and real house prices. The ECB proposes ten indicators, broken down into main indicators and qualitative control indicators. The Economics Ministry's indicator set comprises only five indicators, including price developments and the unemployment rate. Our Euro Monitor consists of 15 indicators, divided into four sub-categories "fiscal sustainability", "competitiveness and domestic demand", "jobs, productivity and resource efficiency", and "private and foreign debt". The authors of the report highlight the fact that the Allianz indicator set is the only one to be combined into a "scorecard". By contrast, the other three proposals do not contain any analysis on the performance of the proposed indicators and are therefore quite vague with respect to how they plan to establish macroeconomic surveillance.

	BMWI	ECB	European Commission	Allianz
Probability of correct crisis forecast	37%	30%	20%	62%
Probability of correct crisis/ non-crisis forecast	90%	88%	78%	96%

7 IWH Discussion Paper No.12, August 2011

The Euro Monitor gets the best marks on all quality measures. The study emphasizes that the measure “Probability of correct crisis forecast” would be of particular interest for policymakers. Whereas the European Commission’s indicator set identifies a crisis within the next 24 months with a likelihood of 20%, the Euro Monitor flags up a likelihood of 62%.

All told, this shows that a broad composite indicator such as the Euro Monitor is the most reliable.

Fiscal sustainability

Against the backdrop of the European debt crisis, the most prominent category to look at is of course fiscal sustainability. Nevertheless, it would be a mistake to improve public finances at any price. On the contrary, austerity packages should be accompanied by long-term programmes to foster growth. This not only makes sense economically but is also important if people are to accept painful policy measures. In what follows, we first elaborate on the overall ranking for fiscal sustainability, then we examine its four components: the government debt level, the net lending/borrowing position, the public interest burden and the required adjustment in the primary balance due to demographic ageing.

The "model pupil" is Estonia. The country achieves a score of 10 in the overall category as well as in each sub-indicator. Luxembourg and Finland show good performance in terms of fiscal sustainability, their only weak point being the necessary improvement in the primary balance due to the costs of ageing. The "problem child" is Greece with a rating of 1 in

Fiscal Sustainability Rating 2011

Rank 2011	EMU Member State	Average Rating 2011	Rank 2010	Average Rating 2010	Rank 2006	Average Rating 2006
1	Estonia	10.0	1	10.0		
2	Finland	7.5	3	7.0	1	8.0
2	Luxembourg	7.5	2	7.3	4	7.8
4	Slovakia	7.0	4	6.5	1	8.0
5	Germany	6.8	7	5.5	10	6.8
6	Austria	6.0	6	5.8	7	7.3
6	France	6.0	7	5.5	8	7.0
8	Netherlands	5.8	7	5.5	5	7.5
8	Slovenia	5.8	5	6.0	8	7.0
10	Malta	5.5	10	5.3	11	6.5
11	Spain	4.8	13	4.5	5	7.5
12	Belgium	4.5	15	4.3	12	5.3
12	Cyprus	4.5	11	5.0	12	5.3
14	Italy	4.3	13	4.5	15	4.8
14	Portugal	4.3	12	4.8	14	5.0
16	Ireland	2.8	16	3.8	1	8.0
17	Greece	1.0	17	1.0	16	4.5

all public finance indicators. Furthermore, Ireland, Italy and Portugal are in a critical position. Compared to last year, Germany managed to increase its rating considerably and climbed two ranks. Belgium even climbed three ranks but its rating remained almost unchanged. Slovenia, Spain and Portugal lost ground in the ranking, however, the sharpest deterioration in the rating was recorded by Ireland.

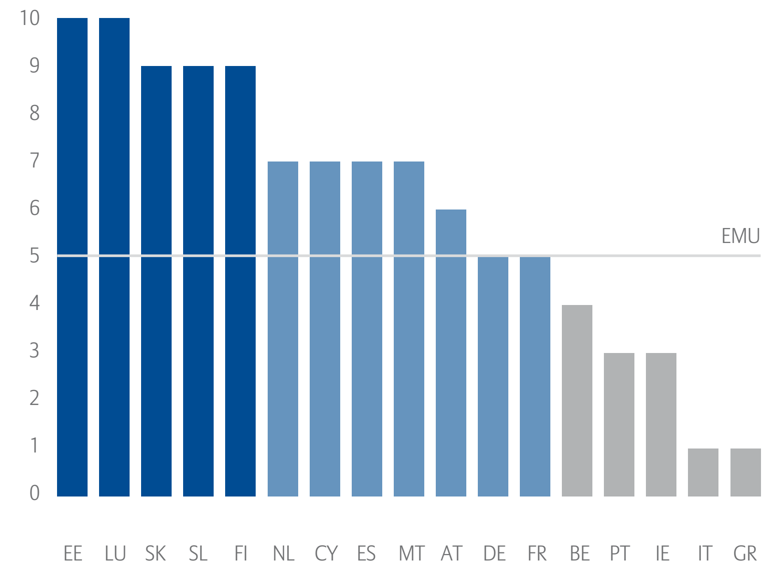
Overall, the eurozone rating for fiscal sustainability changed only marginally compared to last year, masking different developments in the category components: government debt level and interest burden rose somewhat, public deficit declined clearly and, since no new data was available, required adjustment in the primary balance due to demographic ageing remained unchanged. Looking ahead, for the euro area as a whole the net lending/borrowing position is set to improve further, but this will not be sufficient to turn rising debt dynamics around in 2012.

1A Gross government debt as % of GDP

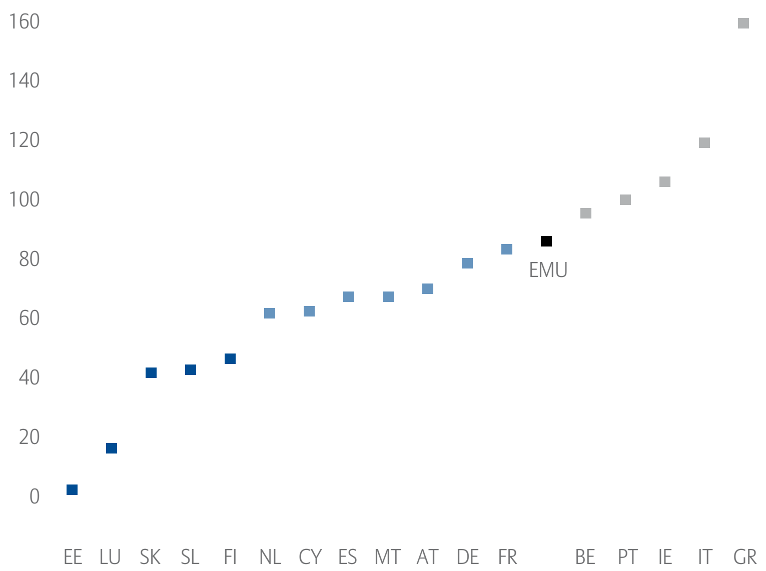
In 2011, two countries, Luxembourg and Estonia, achieve a rating of 10 in our indicator measuring gross government debt as percentage of GDP. Estonia, the top-rated country in cat-

Government Debt Indicator 2011

1A Rating



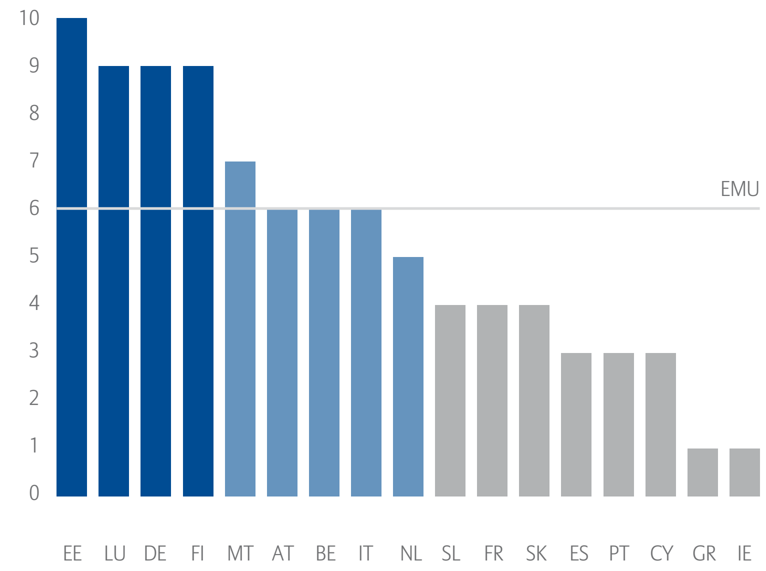
1A Gross government debt, as % of GDP



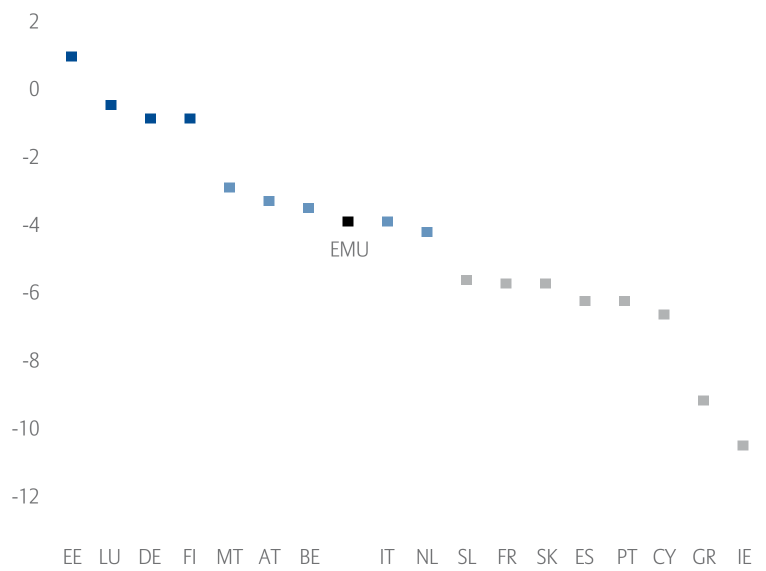
Source: EcoWin data, own estimates, EU Commission forecasts.

Government Deficit/Surplus Indicator 2011

1B Rating



1B Government deficit/surplus, as % of GDP



Source: EcoWin data, own estimates, EU Commission forecasts.

egory 1A, only recently joined the eurozone on January 1, 2011 and its gross debt is expected to amount to a mere 5.8% of GDP in 2011. The country has done noticeably well over the last decade, achieving budget surpluses from 2002 to 2007. Estonia and Luxembourg are followed by Finland, Slovakia and Slovenia which perform well with a score of 9 in 2011. Among the bigger EMU countries, the best performing are the Netherlands and Spain with a score of 7. Although the two heavyweights France and Germany show the same rating of 5, debt dynamics are different: rising in France, tending to fall in Germany. On the negative side, Greece and Italy, with gross debt towering well above 100% of GDP, get the lowest rating of 1. Ireland and Portugal, in 2011 facing government debt set to amount to 108% and 102% of GDP respectively, are not doing much better and are thus left with a score of 3.

1B General government deficit/surplus, as % of GDP

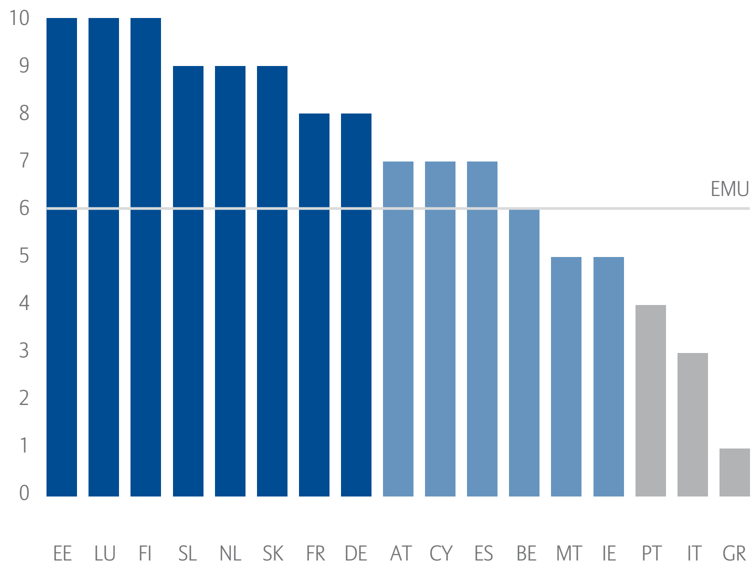
A look at government deficits/surpluses reveals that some countries' public finances might be less sustainable than their debt levels suggest. While Estonia is the only euro country with a budget surplus in 2011. Luxembourg, together with Finland, is also doing well with a rating of 9. However, Slovakia and Slovenia trail behind with a score of only 4. Spain's budget development also points to a continuation of the rising public debt trend. On the other hand, the performance of Germany in category 1B is noticeably better than in category 1A (Germany has shaved its public deficit to 1% and is likely to inch closer to a balanced budget next year). And Italy, its high debt level notwithstanding, lies in the middle with a deficit ratio of probably -4.0% in 2011. For the country's future performance, resolute implementation of the recently agreed reform packages is essential. The installation of the new government has boosted the chances for this considerably. Greece and Ireland find themselves at the bottom of the league, their government deficits hovering close to the 10% mark. Overall it should be noted that, compared to 2010, all countries with the exception of Cyprus have improved their budget balances and that this belt-tightening is also likely to continue next year under ongoing financial market pressure. In addition, the recent commitments by Portugal and Spain, for instance, to introduce a debt limit prove that a rethink towards more sustainability in public finances is under way.

1C General government interest payments as % of total government expenditure

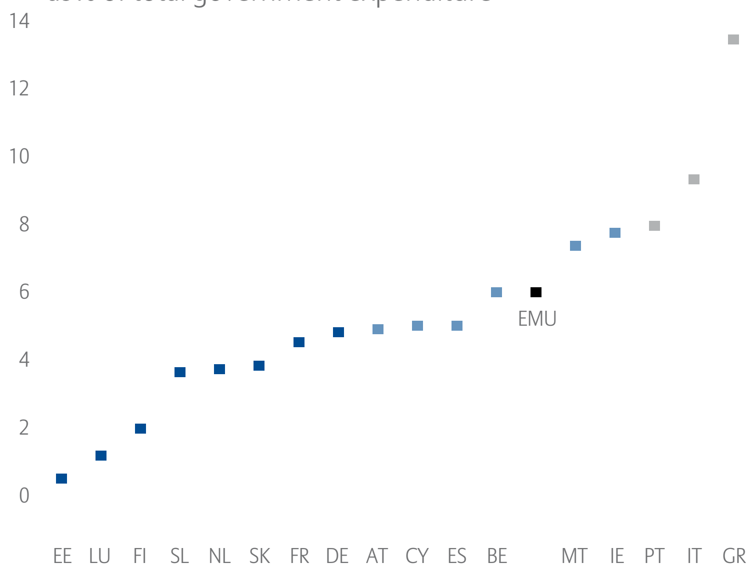
The weight of interest payments in total government expenditure is the lowest in the new member state Estonia (0.5%). Luxembourg and Finland also receive a rating of 10. The Netherlands, Slovakia and Slovenia come next with a score of 9. France and Germany also belong to the group of good performers. Due to high debt levels on which interest has to be paid, it comes as no surprise that Greece, Italy and Portugal deliver poor results for the indicator 1C: their interest burden accounts for about 14, 10 and 8% of total government expenditure respectively. Ireland, where public debt also exceeds 100%, is doing slightly better with a rating of 5 because its debt level was relatively low until 2009 and exploded only since then. Next year, however, Ireland will certainly belong to the group of poor performers as well. Compared to the early days of monetary union, when the process of interest rate convergence and the decline in borrowing costs for the southern countries was under way, the share of interest payments in total government expenditure today in Greece, Italy and Spain is still lower. Provided that the situation on the financial markets does not escalate further, there is no reason for exaggerated worries about present

Goverment Interest Payments Indicator 2011

1C Rating



1C General government interest payments, as % of total government expenditure



Source: Own estimates.

Italian or Spanish bond rates nor calls for comprehensive ECB intervention, since the two countries can cope with temporarily higher borrowing costs.

1D Required adjustment in the primary balance[8] due to demographic ageing in percentage points

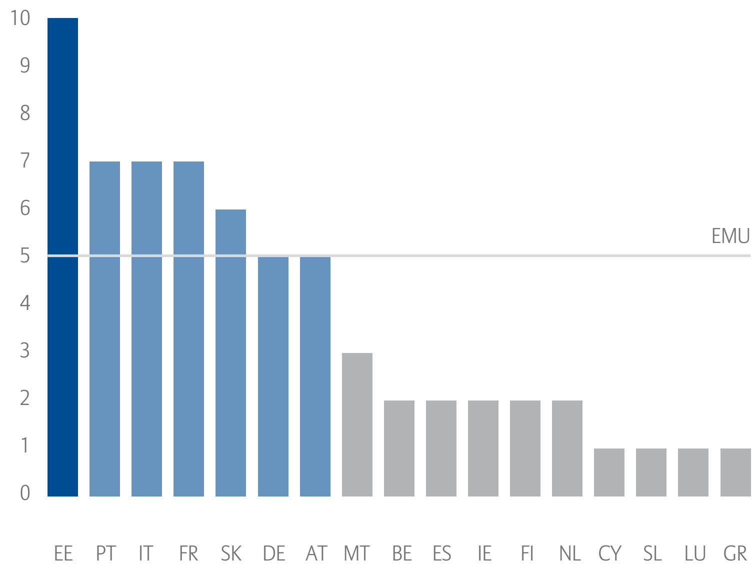
Indicator 1D quantifies the additional adjustment in the primary balance required to finance the increase in public expenditure due to ageing up to 2060. It is based on a sub-component of the European Commission's Sustainability Gap Indicator 1.[9] The Commission updates its estimates regularly but with longer intervals. Hence, new data will only be available next year and the latest figures published are for 2009. Estonia leads the field by some distance with the top rating, followed by France, Italy and Portugal all with a score of 7 (where the necessary adjustment amounts to between 1 and 1.5 percentage points). The biggest need to improve the primary balance in order to cope with demographic trends exists in Cyprus, Greece, Luxembourg and Slovenia (by more than 7 percentage points in the case of Greece and Luxembourg). In this context the euro debt crisis probably has its positive aspects: with backs to the wall and enormous pressure on poli-

8 The primary balance is defined as the difference between revenue and expenditure minus interest payments on outstanding debt.
9 It should be noted that values for 2007-2008 are interpolated estimates. In addition, no pension projections were available in Greece so that the rise in age-related expenditure is underestimated in 2006-2008.

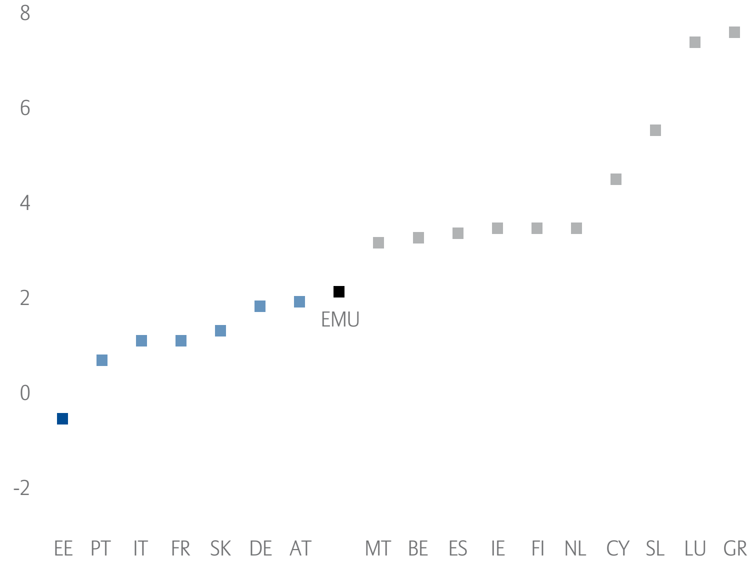
cymakers, sweeping reforms are more likely to be implemented than in "normal times". And one of the focuses in recent reform packages has been on pension systems which would help to reduce the long-term cost of ageing.

Required Adjustment in Primary Balance Indicator 2011

1D Rating



1D Required adjustment in the primary balance due to demographic ageing



Source: EU Commission, own estimates.

Competitiveness and domestic demand

Both competitiveness and domestic demand reflect an economy's health and its quality of location. To measure competitiveness, we use the indicators: unit labour costs, current account balance and global merchandise trade shares. The competitiveness indicators are complemented by our assessment of domestic growth, thus taking account of its influence on the current account balance.

Despite the grave debt crisis, competiveness and domestic demand in the eurozone are on average still stable, achieving this year an average rating of 5.8. On the other hand, the deviation in this indicator is still high, reflecting the heterogeneity of the economic structures within the union.

In this year's rating, the top of the table did not witness a big change. Germany is first, followed by Austria and the Netherlands with ratings of 8.3, 8.0 and 7.5 respectively. In this category, it is mainly the wage moderation and the attractiveness of German exports that helped the country withstand the negative economic developments in the surrounding countries.

Competitveness and Domestic Demand Rating 2011

Rank 2011	EMU Member State	Average Rating 2011	Rank 2010	Average Rating 2010	Rank 2006	Average Rating 2006
1	Germany	8.3	1	8.3	5	8.3
2	Austria	8.0	2	8.0	1	9.0
3	Netherlands	7.8	3	7.8	5	8.3
3	Slovakia	7.8	3	7.8	9	6.8
5	Belgium	7.3	5	7.3	4	8.5
5	Luxembourg	7.3	5	7.3	1	9.0
7	Finland	6.3	8	6.0	3	8.8
7	Slovenia	6.3	7	6.8	7	7.8
9	Estonia	5.5	9	5.5		
10	Spain	5.3	10	5.3	11	6.3
11	France	5.0	10	5.3	8	7.3
11	Ireland	5.0	12	4.5	12	6.0
13	Italy	4.3	13	4.3	9	6.8
13	Malta	4.3	15	4.0	16	4.0
13	Portugal	4.3	16	3.8	15	4.8
16	Cyprus	4.0	13	4.3	14	5.5
17	Greece	2.5	17	2.5	13	5.8

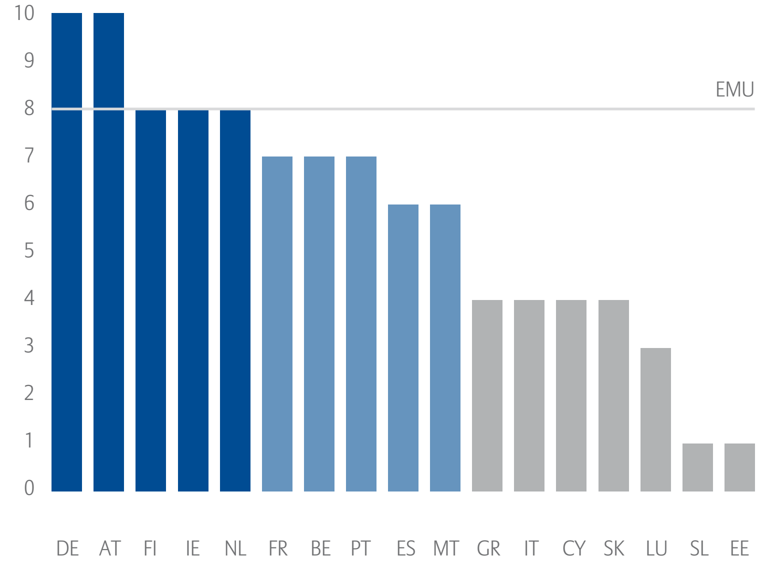
The highly indebted countries of the periphery did not perform well this year. Especially domestic demand is still suffering from private and public consolidation. At the same time high unemployment and wealth losses are still heavily affecting the labour markets and, indirectly, incomes and domestic demand.

It is striking that in most of these countries, major progress with respect to unit labour costs and current account balances has been made. Especially Ireland was again a star in these categories, achieving high ratings and signalling that its economy is undergoing a radical structural overhaul, putting it back on track again. Slovenia and Estonia have also done well in the indicators current account balances and trade shares, achieving ratings of 10 in both. This is mainly due to the flexibility of the labour markets, allowing these countries to enact significant cost adjustments during the crisis. A warning signal comes from the neighbours, Greece and Cyprus, which hover at the bottom of the category. Greece could only achieve an average rating over all indicators of 2.5 and Cyprus slipped 3 notches with a rating of 3.8.

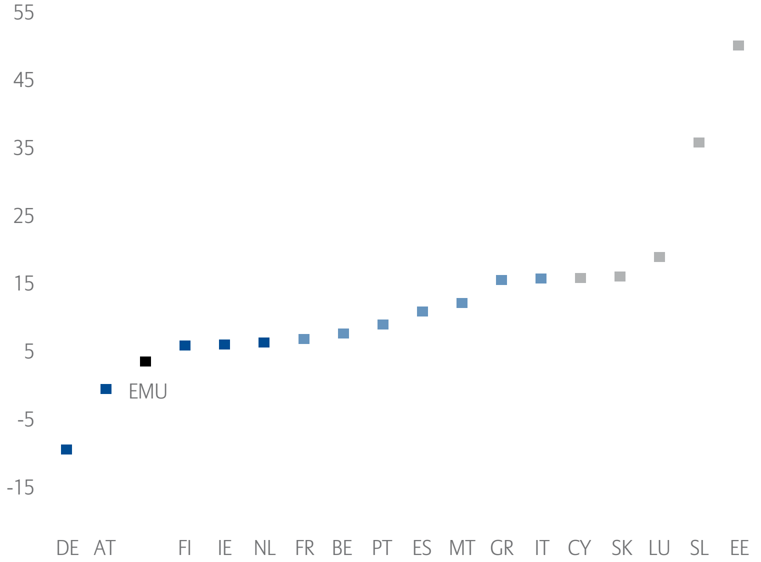
Let us now turn to the individual country ratings per indicator in this year's Monitor.

Unit Labour Costs Indicator 2011

2A Rating



2A Unit labour costs, deviation from target path of 1.5 % rise per year



Source: Eurostat projections, own estimates.

2A Unit labour costs, deviation from the target path of 1.5% rise per year in index points

Looking at indicator 2A, we find that unit labour cost developments have been diverging starkly within the union. As our indicator highlights, the deviation from the target path of 1.5% rise per year was especially low in Austria and Germany, which score the maximum rating of 10. The German labour market in particular has been characterised by wage moderation in order to counter previously misaligned labour costs. Finland and the Netherlands follow up with a score of 8. In the lower range, Slovenia and Estonia are expected to bring up the rear with a score of 1. Luxembourg deviates by 18.8 index points, leading to an even poorer rating than 2010 of 3. Greece, on the other hand, whose unit labour costs are projected to decline by about 4 percentage points in 2011, has been able to achieve to improve its indicator rating by two notches to 4.

Looking at historical results, developments in especially three countries seem interesting:

- After a poor performance at the begin of the millennium, Ireland is witnessing a very positive development since 2008, with unit labour cost inflation falling and nearing the levels achieved by the core European countries. Ireland, which deviated sharply from the target path, sliding from a rating of 8 in 2001 to 2 in 2008, has been improving ever since. Between 2008 and 2011 the deviation from the target path has astonishingly changed from 22.2 index points in 2008 to only 5.7 in 2011, resulting in a rating of 8.

- Since 2009 Slovenia has witnessed a normalisation in the growth rate of the unit labour costs. However, the deviation is still at very high levels, currently amounting to 36 index points.

- At first sight, Estonia's price competitiveness as measured by the development of unit labour costs seems worryingly low with a substantial deviation from the defined target path of 50.6 index points in 2011. Compared with 2000, Estonia had witnessed an exponential cumulated rise in unit labour costs of 80% in 2009. However, this development not only has to be put in the context of a catching-up country. Moreover, its flexible labour market allowed the eurozone's newcomer to undergo significant cost adjustments during the crisis. As a result, unemployment has declined rapidly (see indicator 3A).

2B Current account balance, as % of GDP[10]

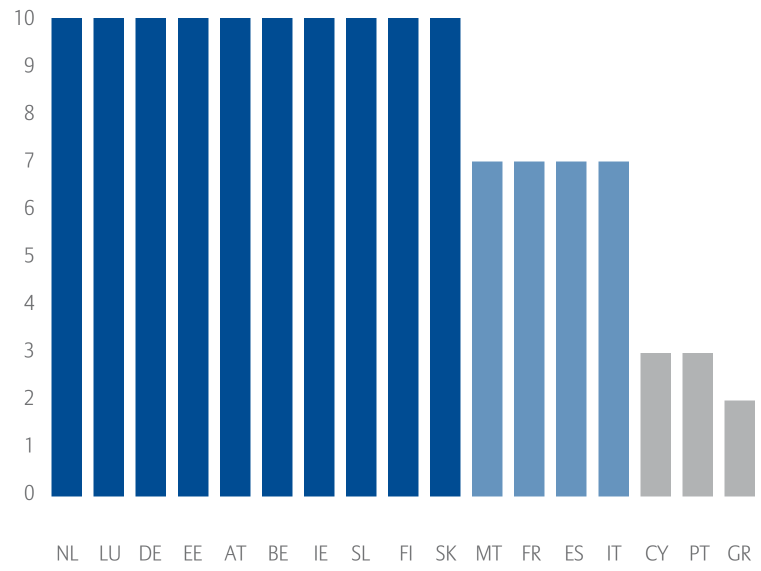
Significant progress has been made in reducing current account imbalances in the euro area. With the exception of France (rating of 7), all countries with a current account deficit in 2010 are projected to have moved towards a more balanced current account in 2011.

Ten of the 17 eurozone countries – namely Austria, Belgium, Estonia, Finland, Germany, Ireland, Luxembourg, the Netherlands, Slovakia and Slovenia – belong to the top performers with a rating of 10. While eight of those countries are expected to deliver a surplus in the current account, Finland's and Slovakia's negative external balances are projected to amount to less than 1% of their economic output. In comparison with last year, Slovakia was even able to improve its rating by three notches, rein-

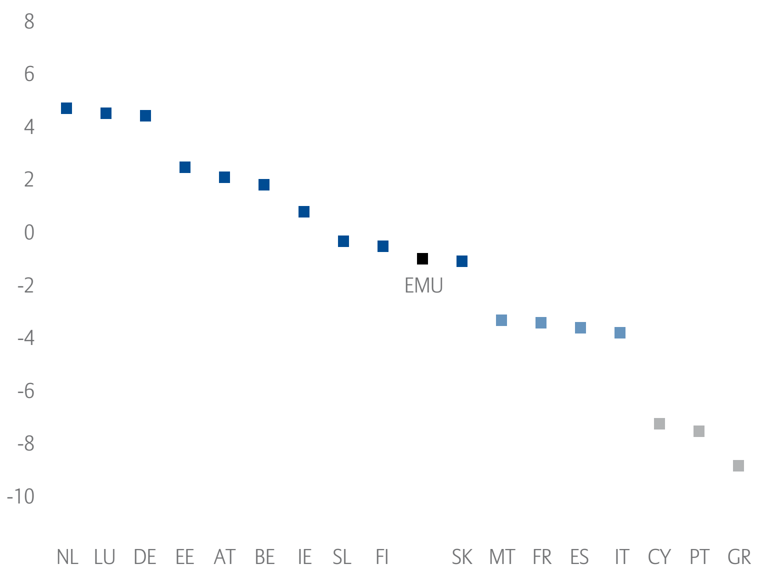
10 A country's current account balance equals to the difference between aggregate saving (including the balance on the capital account) and overall net investment (gross investment less depreciation). Accordingly, a current account deficit corresponds to an aggregate savings gap which has to be closed either by lowering balances or by borrowing abroad.

Current Account Balance Indicator 2011

2B Rating



2B Current account balance, as % of GDP



Source: Own estimates.

ing in the current account deficit by 2.9 percentage points to -0.7% of GDP.

Alongside France, Italy, Malta and Spain also belong to the group of upper mediocre performers (all rated 7). Whereas France lost one rating point, Malta and Spain managed to improve their rating by 1 notch.

Encouragingly, crisis-ridden Ireland's external position is rebalancing. In 2010, the country achieved its first surplus since 1999 (0.5%). Underpinned by a strong export performance we forecast another surplus of 1.3% this year. In contrast to Ireland, Greece still belongs among the poor performers in this indicator, with an expected current account deficit of 9%. However, it is notable that, despite a savage recession, Greece was able to improve its rating by one notch to 2. In addition, ongoing structural reforms carry potential of an even faster adjustment in the current account. Portugal – another country at the very bottom of the ranking last year due to a current account deficit of more than 9% – is projected to improve its rating from 1 to 3 (current account deficit of 7.6%).

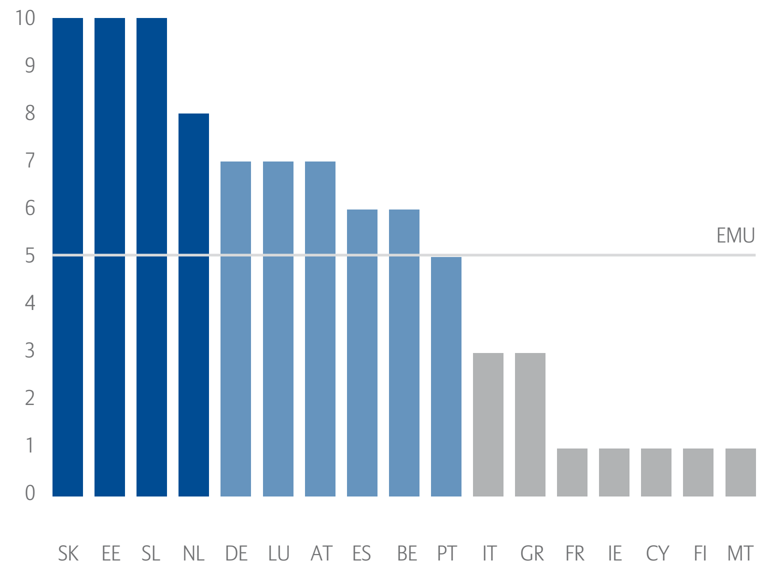
Overall, our current account forecasts indicate an ongoing adjustment of current account imbalances within the single currency area. This should help reduce adjustment needs in the context of the recently launched Excessive Imbalance Procedure (EIP).

2C Global merchandise trade shares, exports, deviation from base year 2000 in %

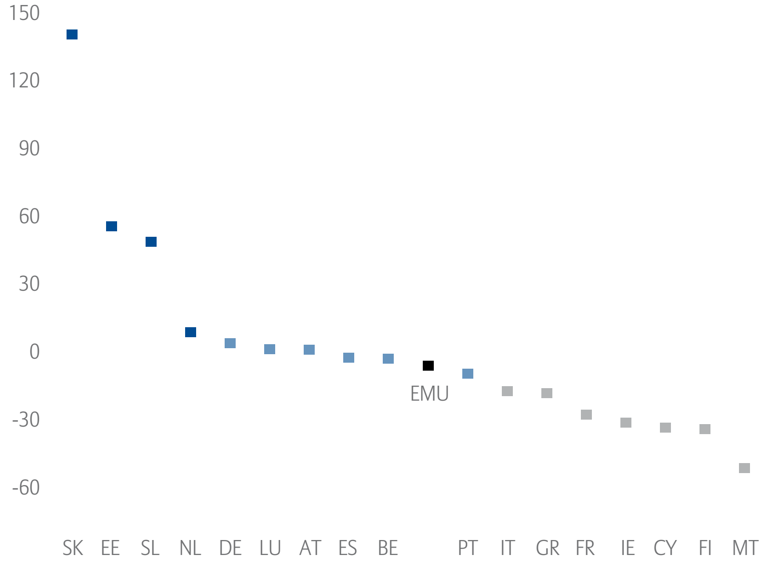
Sluggish domestic demand and slowing global economic activity are reflected in the modest growth in world trade this year. Average eurozone performance was in line with the global picture, with export volumes up by 6.1% year-on-year. Although their trade shares are small in absolute terms, Estonia, Slovakia and Slovenia all finish with the top score 10 in our indicator measuring the percentage deviation of global merchandise trade shares from base year 2000. The Netherlands follows with a rating of 8 and the export world champion Germany achieves a deviation of -1.1% and a score of 7. Although scoring only 6 this year, Spanish exports have so far maintained their momentum and remain the main driver of the Spanish economy. Year-on-year, exports are expected to grow by around 8.3% - the second best performance in the eurozone after Estonia (25.2%). This growth in exports is being driven mainly by the intermediate and capital goods sectors. In 2011, Irish exports grew by 4.5% and neared the high rates achieved in 2008, fuelled mainly by buoyant demand in the agri-food and pharmaceuticals sectors. However, compared to 2000, export shares are still languishing, down by 37% to give

Global Merchandise Trade Share Indicator 2011

2C Rating



2C Global merchandise trade shares, exports, deviation from base year 2000 in %



Source: WTO, own estimates.

a rating of 1. Another weak performer this year was France, with its share in world trade down more than 33% on its level in the year 2000. This was mainly due to soft domestic demand in the eurozone.

2D Domestic demand, average annual change over the last five years

As an important dynamo of economic growth, a country's performance in terms of domestic demand is a key indicator of the health of its economy. In this year's ranking, Slovakia, having scored top marks for the last seven years, has slipped two notches to 8, losing its crown to Luxembourg with a rating of 9. Germany and France stay practically unchanged, with an average annual change over the last five years of 1.1% and 0.9% and ratings of 6 and 5 respectively. At the bottom end of the scale come Greece, Ireland and Estonia, all with a rating of 1. Year-on-year, domestic demand grew in 2011 by an average rate of 1% across the eurozone, producing an average annual change over the last five years of 0.4% after 0.8% in 2010.

Especially in those countries in the thick of the current economic turmoil, a closer look at this indicator is essential to assess the economic progress achieved. Our results show that domestic demand is set to contract again this year. Common characteristics dragging down domestic demand were: High saving rates, with households and corporations repairing their balance sheets, the widespread uncertainty and developments on the labour market. By way of example, we find:

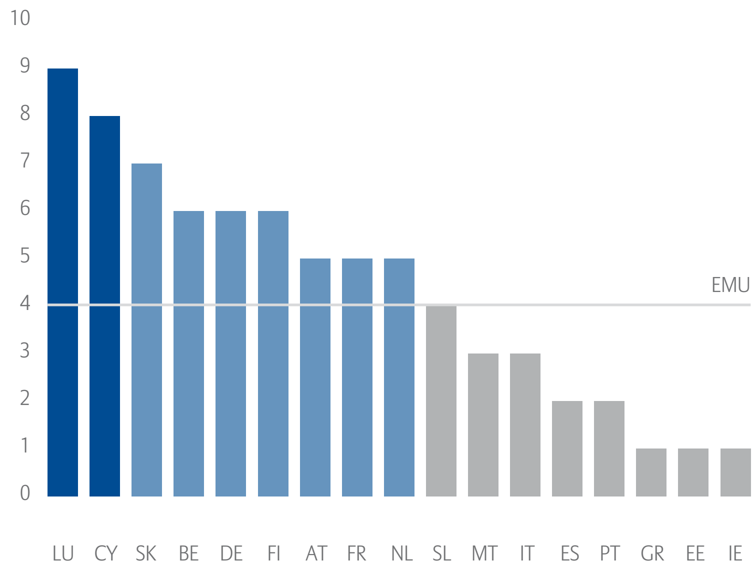
- Greece: Domestic demand remains deep in the doldrums. Year-on-year, domestic demand is expected to sag by 7.7% in 2011. This poor performance is mainly due to the adjustments on the labour market, the income losses and extremely tight credit conditions. Overall, this will result in a negative contribution to annual GDP growth to the tune of -9% this year.

- Ireland: Consolidation and deleveraging are still weighing down domestic demand, with private saving rates still elevated. This resulted in a contraction in domestic demand over the last five years of 3.9%. (But we should not forget that buoyant external demand is driving economic growth in a positive direction.)

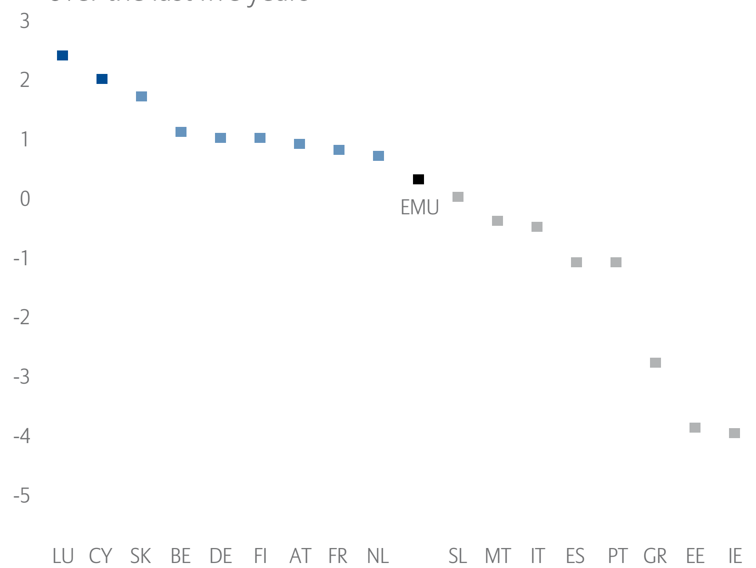
- Spain: Against the backdrop of record-high unemployment and wealth losses in the wake of tumbling housing prices, domestic demand is expected to slip by 1% in 2011.

Domestic Demand Indicator 2011

2D Rating



2D Domestic demand, average annual change over the last five years



Source: EU Commission, own estimates.

Jobs, productivity and resource efficiency

The extent and quality of a country's human capital and its state of technological progress are pivotal factors for achieving a balanced economic growth path. These input factors are studied in the third category of the euro monitor. Like the first two, this category is composed of four indicators: The unemployment rate, employment ratio and labour productivity reflect the health and efficiency of the labour market, while the inland consumption of energy mirrors the sustainability of economic growth and to some extent the level of technological progress.

Being mostly factors with low elasticity, depending on the structure of the population and production and reacting to short-term economic developments with a time lag, not much has changed in the rankings in this year's indicator. Turning to the rating, Austria and Germany lead this category with rankings of 1 and 2 respectively, followed by Malta and the Netherlands sharing rank 3 with an average rating of 6.5. At the bottom

Jobs, Productivity and Resource Efficiency Rating 2011

Rank 2011	EMU Member State	Average Rating 2011	Rank 2010	Average Rating 2010	Rank 2006	Average Rating 2006
1	Austria	7.3	1	7.5	3	7.0
2	Germany	7.0	2	6.8	9	5.8
3	Malta	6.5	4	6.0	12	5.5
3	Netherlands	6.5	3	6.5	4	6.8
5	Luxembourg	6.3	4	6.0	4	6.8
6	Belgium	5.8	8	5.0	12	5.5
7	France	5.3	8	5.0	12	5.5
8	Finland	5.0	11	4.8	9	5.8
8	Italy	5.0	7	5.3	7	6.5
10	Cyprus	4.8	4	6.0	8	6.0
11	Ireland	4.5	13	4.3	1	8.3
11	Slovakia	4.5	11	4.8	15	5.0
11	Slovenia	4.5	8	5.0	4	6.8
14	Spain	3.8	16	3.5	9	5.8
15	Portugal	3.5	14	4.0	16	4.8
16	Estonia	2.5	17	2.8		
17	Greece	2.3	15	3.8	2	7.3

of the category, we find the European peripheral countries where the labour markets are being squeezed by low economic activity mainly due to austerity measures and the negative economic outlook. In this group of low performers we find Spain, Portugal, Estonia and Greece with ranks of 14 to 17 respectively. Two countries did witness a big change in their ranking within this category. Finland jumped from rank 11 to 8, whereas Cyprus tumbled 6 notches from rank 4 in 2010 to rank 10 this year.

All in all, the eurozone shows mostly low middling ratings in this category, with a maximum average rating of 7.3 and a mean rating of 4. This is mainly due to the weak development in the indicators unemployment rate and change of employment ratio. After achieving high average ratings of 6 and 9 respectively in the years 2007 and 2008, the average performance in these indicators has been weakening ever since, sliding gradually over the years to ratings of 3 and 5 respectively in this year's rating.

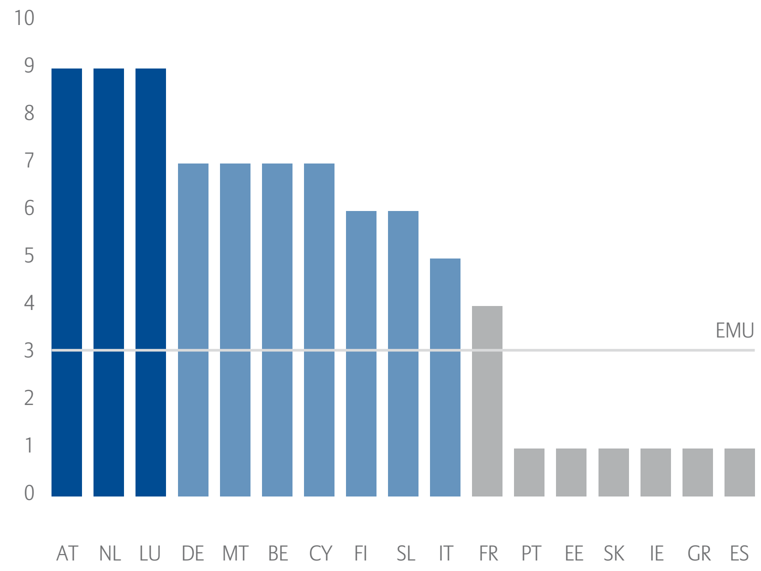
Let's now look more closely at the individual indicators in this category.

3A Harmonised unemployment rate in %

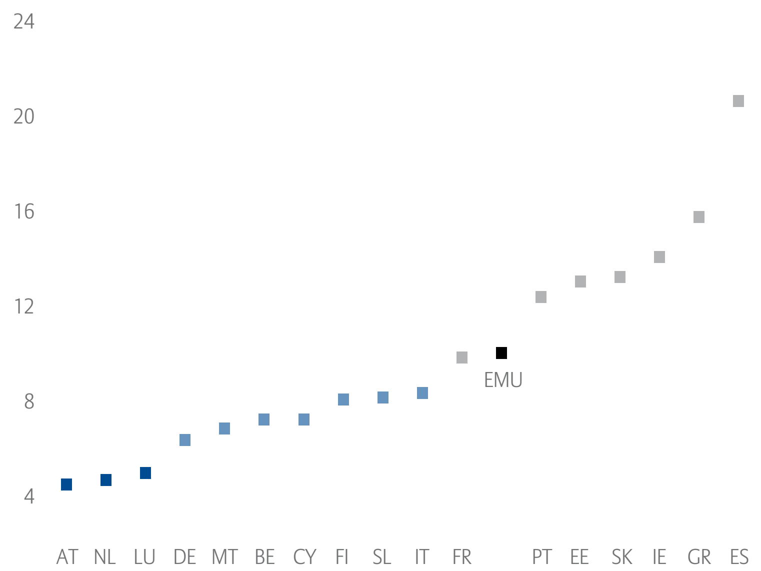
In the realm of unemployment, Austria, the Netherlands and Luxembourg lead the field, each reaching a score of 9 with comparatively low unemployment rates of 4.1%, 4.3% and 4.6%, respectively. Germany, whose unemployment rate peaked at 11.2% in 2005, has made significant progress ever since, performing relatively well with a score of 7 in 2011 (6.1%). However, the unemployment figures of six member countries are truly alarming, reflected in a poor rating of 1. In Spain, Greece, Ireland and Portugal, austerity measures are weighing heavily on aggregate demand, resulting in unemployment figures being stuck in the double-digit percentage range. In Spain, in particular, the precarious situation on the labour market is a weak spot. The unemployment rate, which shot up from 8.3% in 2007 to 21.3% in 2011, will again be the highest in the euro area by a long chalk. On a more positive note, if the largest country on the Iberian Peninsula manages to successfully implement its labour market reform, which should serve to bring wages more into line with productivity, there is nothing to prevent an improvement in Spain's rating in the future. The situation in Estonia and Slovakia is also worrying, given unemployment rates of 13.2% and 13.4%

Unemployment Rate Indicator 2011

3A Rating



3A Harmonised unemployment rate in %



Source: Own estimates.

respectively. Despite its poor performance, the positive developments in Estonia's labour market are worth mentioning. Compared with last year, the newcomer has managed to slash the unemployment rate by 3.6 percentage points to 13.2%, reflecting the robust recovery in exporting manufacturing sectors. Such a strong rebound was possible owing to the high flexibility of Estonia's labour market as well as to significant adjustments in labour costs.

3B Employment ratio, change over five years in percentage points

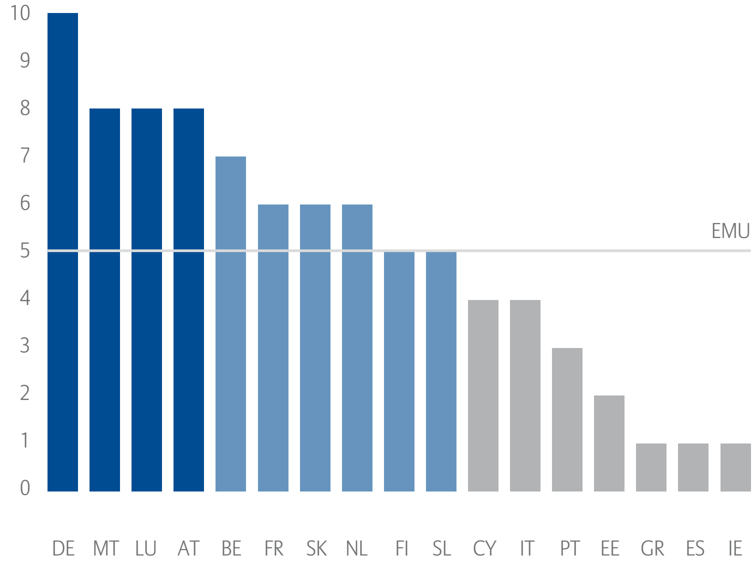
Turning to the 3B indicator, Germany leads the way for the fifth time in a row with a rating of 10, followed by Malta, Luxembourg and Austria with ratings of 8. Compared with 2006, the German employment ratio has risen by 4.6 percentage points. Meanwhile, after peaking in 2008 at an average of 65.2%, the employment ratio in the euro area as a whole has since been in decline and looks set to come in at 64.2% this year, again missing the former Lisbon Agenda goal of 70% employment in 2010. The deterioration stems not least from developments in the periphery countries. Ireland once again hovers at the bottom of the rankings, with the employment ratio having slid by 10.1 percentage points over the last five years. Encouragingly, as Ireland's population is the youngest in the euro area – with an average age of only 34. 7 and 21.8 % of the population under the age of 15 – the Irish economy's future capacity in human resources terms is high. Although scoring only 6 this year, the performance of the Netherlands in this category is impressive. It is still the only country to have maintained an employment ratio of over 70% since joining the euro area in 1999.

3C Labour productivity per person employed, average annual change over the last five years

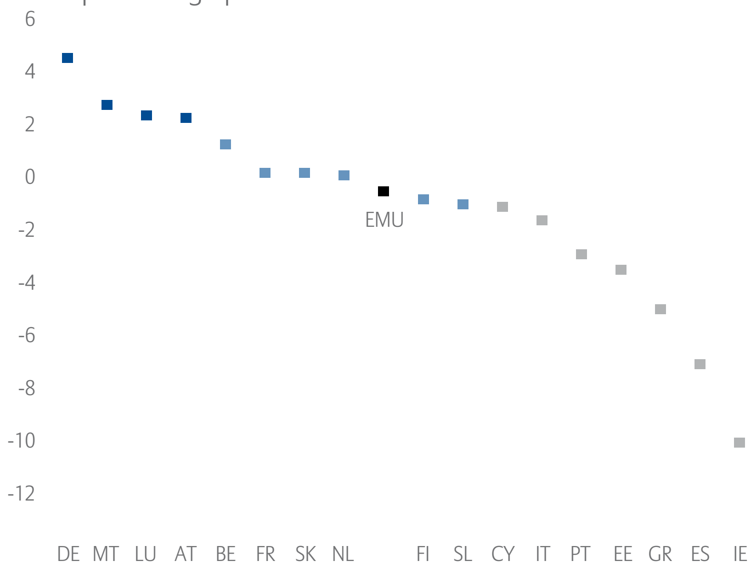
Indicator 3C – covering growth in labour productivity – shows an interesting pattern. In the race for labour productivity, the core European countries have performed poorly, reaching a maximum rating of 5 this year, whereas on average the periphery countries did better. This is the upside of a trade-off between unemployment and labour productivity.[11] While, for example, Germany prominently fought to keep employment as steady as possible by enhancing short-time work to bridge the slump in business activity, countries with less robust economies saw unemployment rates

Employment Ratio Indicator 2011

3B Rating



3B Employment ratio, change over five years in percentage points

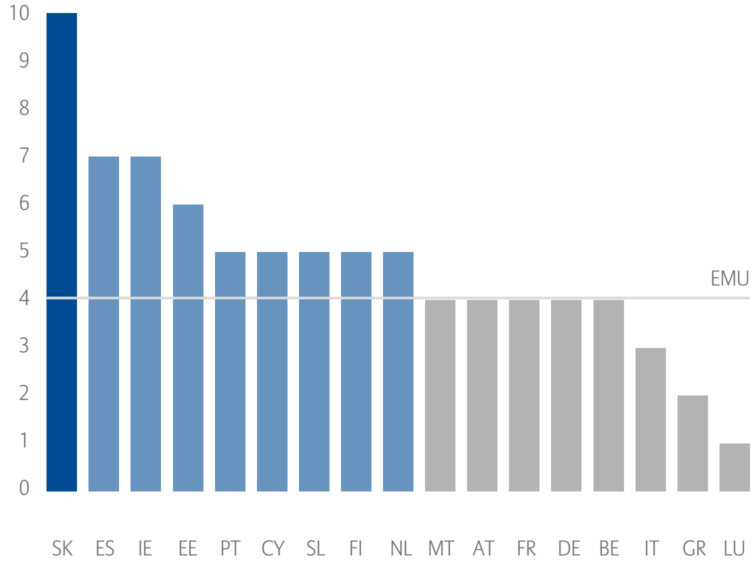


Source: Own estimates.

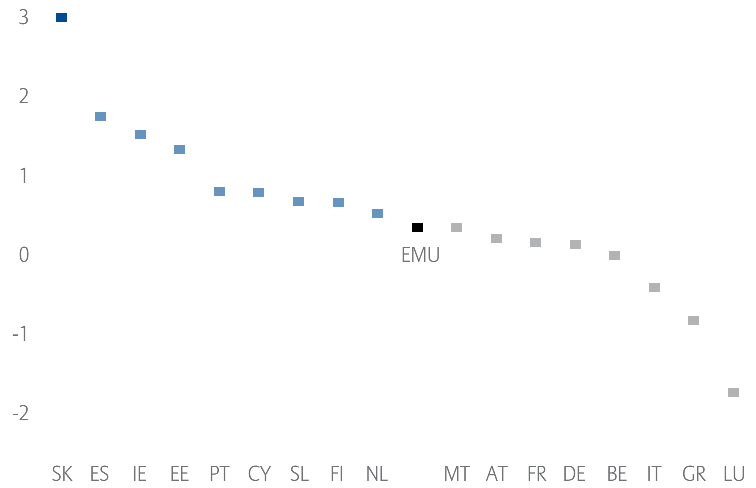
11 Productivity and employment are the two key determinants driving economic growth. However the relationship between the two is complex and not straight forward. An increase in productivity, leading to more output produced with the same amount of input, can stem either from higher labour productivity or from general technological progress. Generally, this increasing return to the scale leads to decreasing prices, increasing sales and higher employment. On the other hand, an increase in productivity will lead to a reduction in employment if the additional output cannot be sold on the market.

Labour Productivity Indicator 2011

3C Rating



3C Labour productivity per person employed, average annual change over last five years



Source: Own estimates.

soar. As a result, these nations did not experience the same slowdown in labour productivity growth.

Looking at the results, Slovakia once again comes out on top with an average annual change of around 3 percentage points over the last five years – giving a rating of 10 and with a huge gap over its competitors Spain and Ireland which are expected to end this year with a rating of 7 and an annual change of 1.78 and 1.55 percentage points respectively. In the group of weak performers we find the big European economies. Netherlands is expected to finish with a rating of 5, while Austria, Germany, France and Belgium all record a rating of 4 and productivity growth rates slightly above zero. Italy, Greece and Luxembourg are actually on course to finish with negative rates and ratings of 3, 2 and 1 respectively. While the change in labour productivity rates in the euro area was under 1% in the years 2000 to 2008, Estonia's labour productivity saw rates rocket at an average of more than 7%. This positive development in labour productivity is losing steam, with values falling steadily. Although achieving an average rise of 1.36% and a relatively good rating of 6 in 2011, labour productivity growth has been falling sharply since 2008, reaching an average of around 1.6% in the last three years and with a weaker outlook for next year.

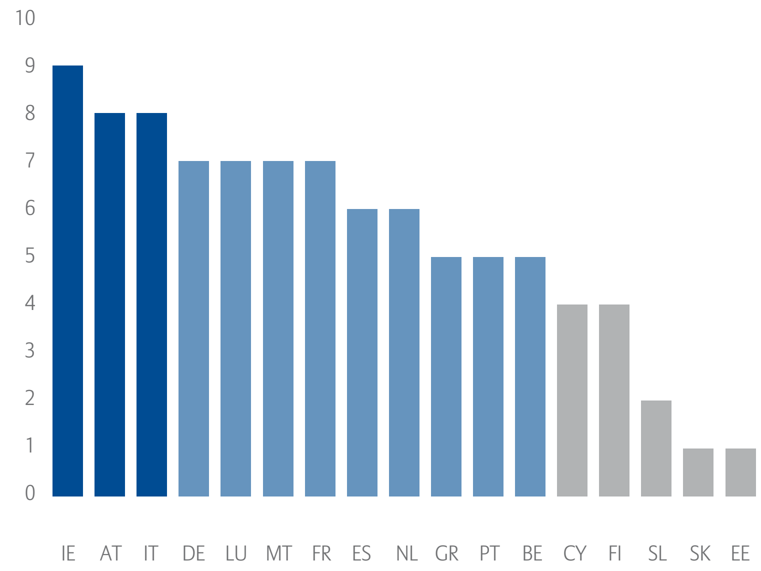
3D Inland consumption of energy divided by GDP

Indicator 3D, which looks at the level of energy intensity, as measured by kilogram of oil equivalent per EUR 1000, is the least vulnerable to short-term changes in the category as it not only influenced by real GDP but also by long-term technologies and investments.

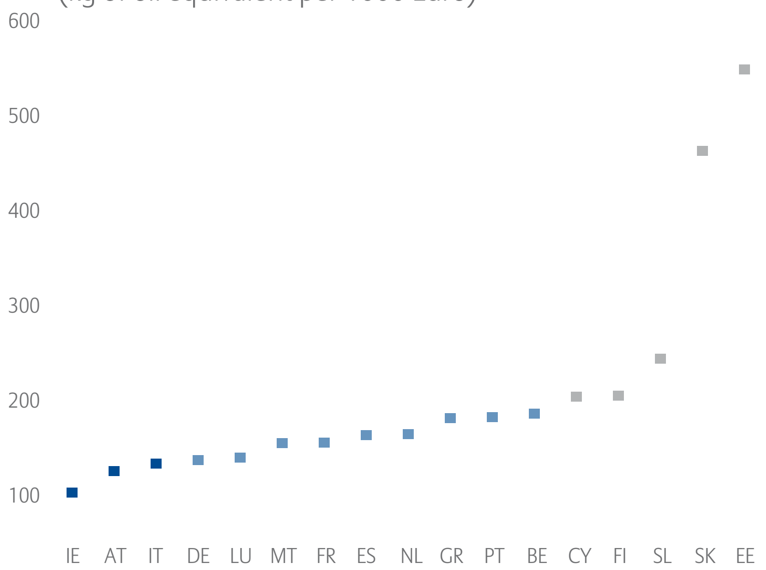
Although the majority of EMU member states are registering a middling performance – showing that there is still room for improvement on the energy intensity front – inland consumption of energy divided by GDP is projected to have fallen in all countries except recession-plagued Greece and Portugal in 2011. In the last decade, Ireland constantly exhibited the lowest level of energy consumption per GDP. In 2011, Ireland once again enjoys the highest indicator rating of 9, with an inland consumption of energy of 107 per EUR 1000. Besides Ireland, our indicator highlights Austria and Italy (both rated at 8) as energy efficient economies, whereas Slovakia, Slovenia, Estonia and Cyprus stand out as laggards on the energy intensity front. Although Slovakia has recorded the biggest reduction (down 28.5%) over the last five years, with energy consumption per GDP more than four times that of leader Ireland it still has a long way to go.

Inland Consumption of Energy Indicator 2011

3D Rating



3D Gross inland consumption of energy divided by GDP (kg of oil equivalent per 1000 Euro)



Source: Own estimates.

Private and foreign debt

For a country to achieve balanced growth, avoiding excessive private and foreign debt is inalienable. Our Monitor measures private and foreign debt with the help of three indicators: the development of the debt-to-GDP ratio of households, the development of the debt-to-GDP ratio of non-financial corporations and, last but not least, the net international investment position as % of GDP.

Compared with 2010, all eurozone countries (except Cyprus) were able to improve their "Private and foreign debt" rating as deleveraging in the private sector is making significant progress. Germany and the Netherlands are the only top-rated countries in this category, however, achieving an average category rating of 8.7 and 8.0 respectively. Germany stands out as regards its decreasing household indebtedness over the medium term as well as its high stock of net external assets. Austria, Belgium and France share rank No. 3. Although rated at 8 with respect to household indebtedness and foreign debt, Austria's medium-term non-financial corporations' debt development is still

Private and Foreign Debt Rating 2011

Rank 2011	EMU Member State	Average Rating 2011	Rank 2010	Average Rating 2010	Rank 2006	Average Rating 2006
1	Germany	8.7	1	8.3	1	9.0
2	Netherlands	8.0	2	7.3	3	6.7
3	Austria	6.7	4	5.3	5	6.3
3	Belgium	6.7	4	5.3	2	7.3
3	France	6.7	4	5.3	3	6.7
6	Estonia	6.3	13	2.3		
6	Finland	6.3	4	5.3	6	5.7
6	Italy	6.3	3	5.7	6	5.7
9	Slovakia	6.0	8	4.7	10	5.3
10	Slovenia	4.7	10	4.0	6	5.7
11	Spain	4.0	13	2.3	14	2.0
12	Cyprus	3.7	9	4.3	6	5.7
13	Greece	3.3	11	3.0	13	3.3
13	Portugal	3.3	12	2.7	12	4.3
15	Ireland	2.0	15	1.0	11	4.7
	Luxembourg					
	Malta					

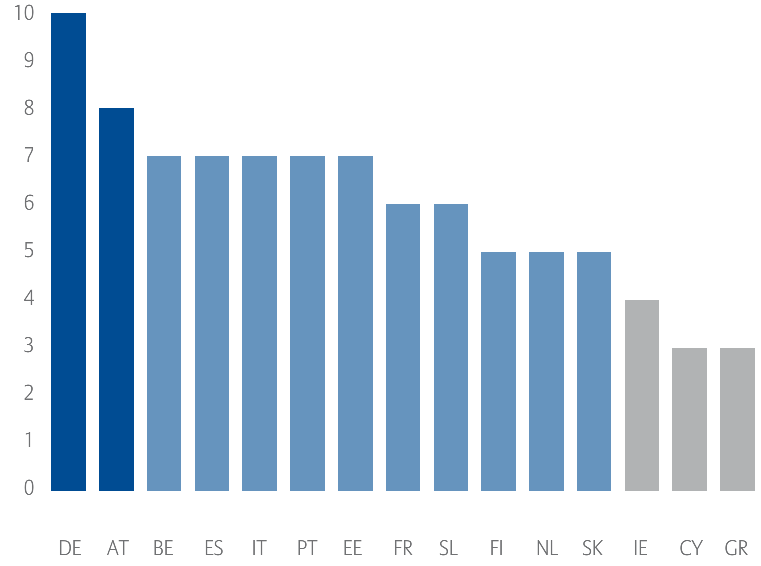
a matter of concern (rated at 4) and lets Austria fall behind Germany and the Netherlands.

At the lower end, we find Ireland, which is performing poorly in all three indicators. Particularly, Irish non-financial corporations suffer from the highest debt-to-GDP ratio in the eurozone. Public and private debt developments go hand in hand not only in Ireland but also in Portugal and Greece, which tie for the No. 13 spot with a score of 3.3. Evidently, countries who were worst hit by the economic (and sovereign debt) crisis are also those which relied excessively on private and public debt to boost domestic demand. In contrast, Belgium suffers from a poor fiscal sustainability-rating on the one hand but enjoys a middling private and foreign debt-rating on the other. It is worth noting that Spain is projected to have improved its category rating by 1.7 points, ready to climb to the middling performance group. Although net foreign liabilities still clearly exceed net foreign assets, the deleveraging of both households and non-financial corporations over the medium-term should disburden the Spanish economy.

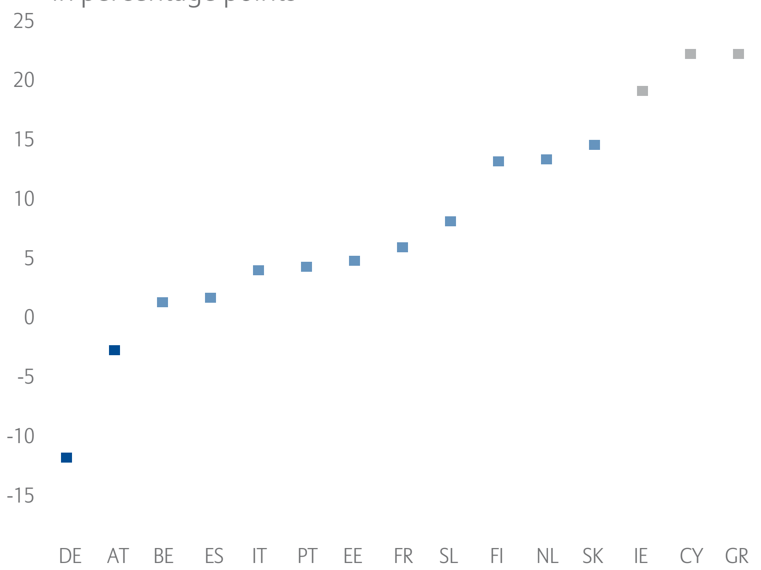
Let us now have a detailed look at the individual country ratings per indicator in 2011 as illustrated by the graphs below.

Debt-to-GDP Ratio of Households Indicator 2011

4A Rating



4A Debt-to-GDP ratio, households, change over five years, in percentage points



Source: Own estimates.

4A Debt-to-GDP ratio of households, change over five years in percentage points

Initial positions in terms of private indebtedness in the currency area are manifold. In a number of EMU countries such as Ireland and Spain, for instance, the property bubble had spawned a surge in the demand for loans and a steep increase in household debt.

Overall, compared with last year's rating, our assessment of the change in household indebtedness over the last five years paints a friendlier picture. All member countries, except for Cyprus (down one rating point) and Greece (standstill), managed to improve their ratings. Only three countries are considered to be performing poorly, namely Cyprus, Greece and Ireland. Private households deleveraging is thus clearly progressing. We expect this trend to continue. Households' willingness to save should at least remain stable if not increase as the private sector is now growingly anticipating the consequences of fiscal consolidation needs both on a national level and abroad.

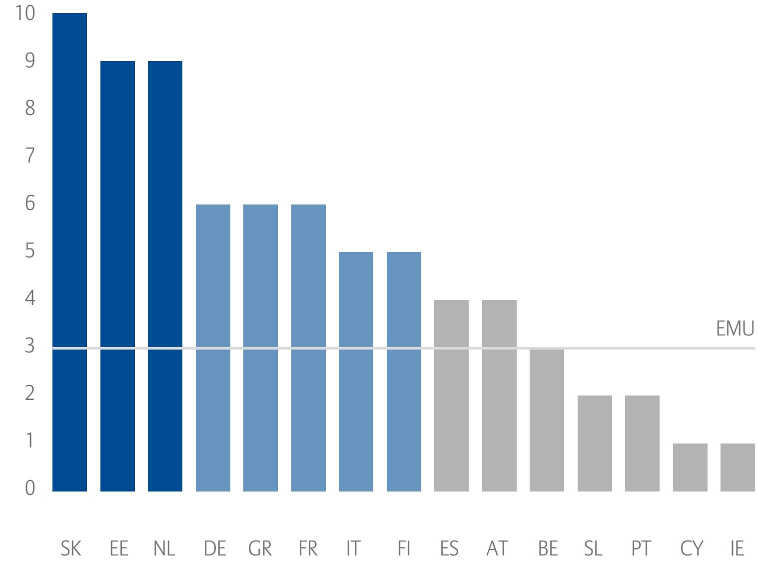
Household indebtedness in Germany, rated best, and Austria, rated at 8, has declined by 11.5 and 2.5 percentage points respectively since 2006. Moreover, Belgian and Italian household balance sheets are comparatively sound (both rated at 7). Household debt-to-GDP ratios increased only moderately over the last five years and are set to decline in 2011 (to roughly 47.5%). While central eastern European member states Slovenia (rated at 6) and Slovakia (5) exhibit even lower ratios of 34.4 and 47.2% respectively, household indebtedness has risen more steeply over the last five years. Because medium-term growth of French households' debt-to-GDP-ratio has slowed down, France was able to improve its rating by two notches to 6, leaving the low performance group behind. After a projected peak in 2010, we expect household indebtedness to decline in 2011 as the savings rate of French households is expected to stay on an elevated level.

4B Debt-to-GDP ratio of non-financial corporations, change over five years in percentage points

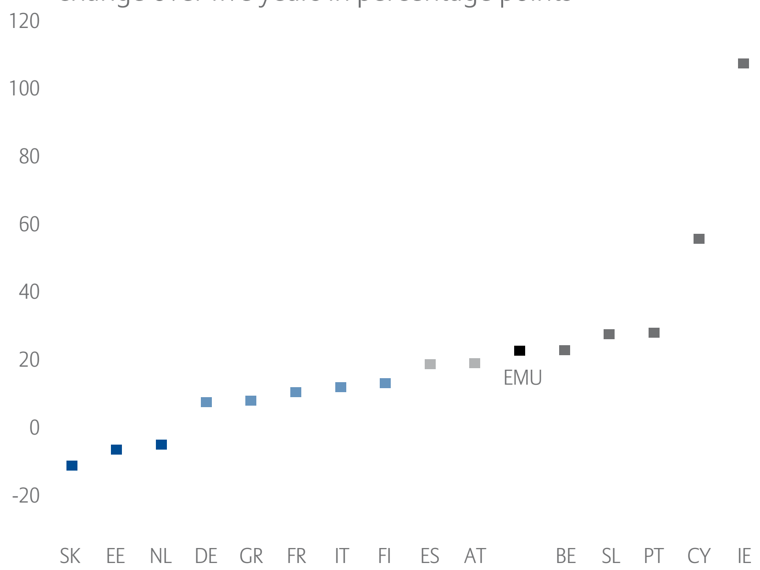
Indicator 4B covers the development of non-financial corporations' debt-to-GDP ratios. On a positive note, corporate indebtedness is projected to plummet in 2011 (against the background of tightened credit conditions). However, eight of the 15 countries covered in this indicator still suffer from corporate indebtedness of more than 100% of GDP. In Ireland, we even expect the debt-to-GDP ratio to remain

Debt-to-GDP Ratio non-financial Corporations Indicator 2011

4B Rating



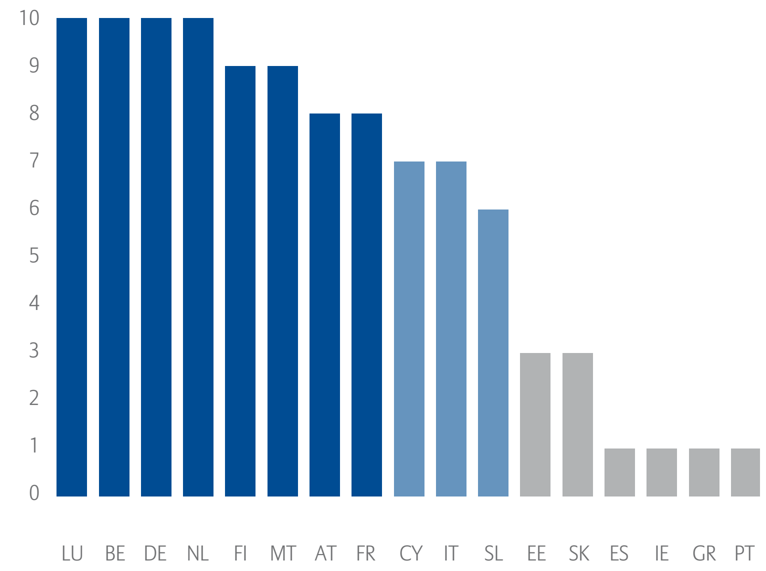
4B Debt-to-GDP ratio, non-financial corporations, change over five years in percentage points



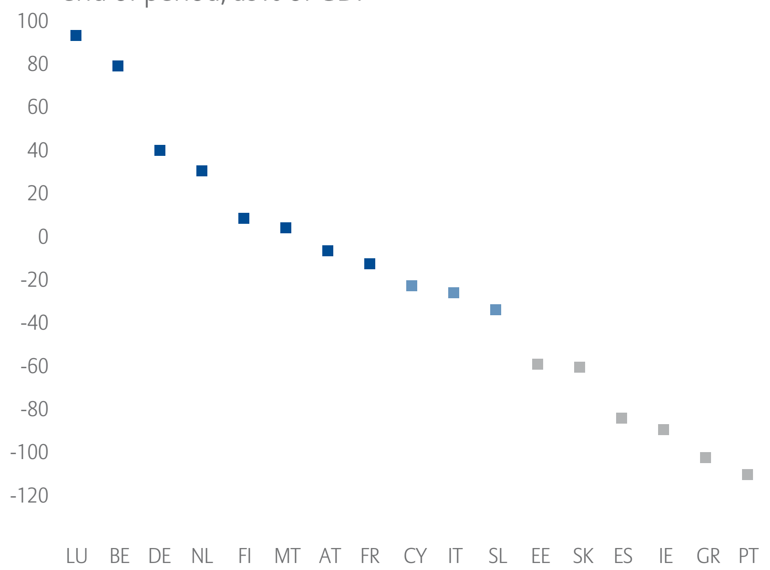
Source: Own estimates.

International Investment Position Indicator 2011

4C Rating



4C Net international investment position, end of period, as % of GDP



Source: Own estimates.

extremely high at over 200%, though it is now declining. As regards the change over five years in percentage points, seven countries are rated at or below 4 (low performance group). At the other end of the scale, non-financial corporations in Slovakia and the Netherlands (both top rated) lowered their debt-to-GDP ratios by 11.8 and 10.6 percentage points respectively when compared with 2006. In addition, our figures show once more how well situated Estonia (rated at 9) is in terms of its debt position both in the public and in the private sector.

4C Net international investment position, as % of GDP

To measure foreign debt we use the net international investment position, which is defined as the stock of external assets minus the stock of external liabilities. Unlike the current account position, the international investment position is thus a size of stock. Regarding foreign debt, there has practically been no change in the ratings compared with 2010. Only Cyprus, formerly rated at 8, is projected to slip down to the middling performance class (net liabilities of more than 20% of GDP), whereas Estonia made up leeway, improving its rating by one notch to 3 (less than 70% of GDP). Apart from that, half of the evaluated countries still belong to the top performers with ratings of at least 8, while more than one third of the remaining countries are considered poor performers (rating of 4 or lower). Especially in Belgium, Luxembourg, Germany and the Netherlands, which are all rated at 10, the stock of external assets exceeds the stock of external liabilities by far. In Belgium, net assets as a percentage of GDP nearly doubled when compared with 2009, as total liabilities continued to decrease. By contrast, we expect the external financial position of Spain, Portugal, Greece and Ireland to remain problematic, leaving them in the last position. Stubborn current account deficits had implied considerably increasing net liabilities over time. In Portugal and Greece, in particular, the net external position deteriorated drastically, resulting in net liabilities of more than 100% of GDP. Whereas increasing net foreign debt in Ireland and Spain was driven by investments, in Greece and Portugal declining savings activity in the economy as a whole was the main driver. On a positive note, Ireland's net international investment position, although still at a very high level, is set to decrease slightly to around -93.8% in 2011 (2010: -96.2%).

Conclusion and Outlook

As the Allianz Euro Monitor 2011 shows, the challenges are still enormous. However, the observed reduction in macroeconomic imbalances against the backdrop of weak economic activity is worth noting. Europe's single currency is at a crossroads and the decisions made in the coming months will seal its fate. Either it is forged into a workable entity that deserves and enjoys the confidence of the people and the financial markets or it is doomed to wither and perish, with all the disruptive consequences that a return to national currencies would entail. A failure of the euro would jeopardise the whole European project and undermine, possibly fatally, the founders' vision of ever closer union.

October's two-step summit brought major changes in the way the debt crisis can be handled. The council decisions offer new instruments to shape a sustainable solution for the Greek situation. But implementation has once again proved wanting. The workings of the expanded and leveraged EFSF are still unclear and the markets remain skittish/sceptical.

The final destination of the journey is still elusive. The future shape of the eurozone will depend not only on economic and financial market developments in the EU and the world economy but also on whether steps are taken to establish an effective defence shield to buy the necessary time to advance the monetary union, i.e. to enforce mechanisms that create discipline in fiscal and economic policies and that foster progress towards an "ever closer union". There is no time to lose.

A key part of the story will be the effectiveness of the Commission's new "Excessive Imbalance Procedure" in ensuring more balanced growth within the eurozone. Our own Euro Monitor, which digs deeper than the scoreboard devised by the EU Commission, is designed to support this by flagging up errant developments at an early stage.

Once it becomes clear to what extent the treaties need to be changed, care will also need to be taken that a wedge is not driven between the euro “ins” and the “outs”. Most of the “outs” (with the exception of the UK, Denmark and special case Sweden) are in fact “pre-ins”, treaty-bound to join the euro once the entry criteria are met. They will not take kindly to being excluded from negotiations about the future structure of the eurozone and its governance structure.

Europe must not squander the achievements of the past sixty years. However, we must be careful that crisis fatigue does not cause us to sleepwalk into a full-blown transfer union. That is not what the people were promised.

It is now time to end the discord and put a coherent strategy in place. The eurozone needs to reverse the divergence in competiveness seen since its launch and eliminate the structural flaws that fuelled the debt crisis in the first place. Austerity alone will not be sufficient. Measures to promote growth must also be fast-tracked, not only to get a grip on public finances but also to convince the people that there is light at the end of the tunnel.

Appendix

Scaling

For each indicator the countries are rated on a scale from 1 to 10:

- Ratings from 1 to 4 are considered poor performance
- Ratings from 5 to 7 are considered middling performance
- Ratings from 8 to 10 are considered good performance

The scales define which value is translated into what rating score. For example on Indicator (1A) a gross government debt ratio which is greater than or equal to 60% but smaller than 70% is rated with 7. So the Netherlands, which reported a gross government debt ratio of 62.9% in 2010, is rated with 7 for that year, while in 2008 it achieved a rating of 8 in line with a debt ratio of 58.5%.

On the following pages the scales for each indicator are listed as well as the Euro Monitor country ratings for 2010 to 2005.

Indicator Rating Spectrum

1A Gross government debt, as % of GDP

%	Rating
40 > x	10
50 > x ≥ 40	9
60 > x ≥ 50	8
70 > x ≥ 60	7
80 > x ≥ 70	6
90 > x ≥ 80	5
100 > x ≥ 90	4
110 > x ≥100	3
120 > x ≥110	2
x ≥120	1

1B General government deficit/ surplus, as % of GDP

%	Rating
x ≥ 0	10
0 > x ≥-1	9
-1 > x ≥-2	8
-2 > x ≥-3	7
-3 > x ≥-4	6
-4 > x ≥-5	5
-5 > x ≥-6	4
-6 > x ≥-7	3
-7 > x ≥-8	2
-8 > x	1

1C General government interest payments, as % of total government expenditure

%	Rating
3 > x	10
4 > x ≥ 3	9
5 > x ≥ 4	8
6 > x ≥ 5	7
7 > x ≥ 6	6
8 > x ≥ 7	5
9 > x ≥ 8	4
10 > x ≥ 9	3
11 > x ≥ 10	2
x ≥ 11	1

1D Required adjustment in the primary balance due to demographic ageing in percentage points

%-points	Rating
0.0 > x	10
0.5 > x ≥ 0.0	9
1.0 > x ≥ 0.5	8
1.5 > x ≥ 1.0	7
2.0 > x ≥ 1.5	6
2.5 > x ≥ 2.0	5
3.0 > x ≥ 2.5	4
3.5 > x ≥ 3.0	3
4.0 > x ≥ 3.5	2
x ≥ 4.0	1

2A Unit labour costs, total economy, deviation from the target path of 1.5% rise per year in index points

index points	Rating
0 > x	10
3 > x ≥ 0	9
6 > x ≥ 3	8
9 > x ≥ 6	7
12 > x ≥ 9	6
15 > x ≥ 12	5
18 > x ≥ 15	4
21 > x ≥ 18	3
24 > x ≥ 21	2
x ≥ 24	1

2B Current account balance, as % of GDP

%	Rating
x ≥-1	10
-1 > x ≥-2	9
-2 > x ≥-3	8
-3 > x ≥-4	7
-4 > x ≥-5	6
-5 > x ≥-6	5
-6 > x ≥-7	4
-7 > x ≥-8	3
-8 > x ≥-9	2
-9 > x	1

2C Global merchandise trade shares, exports, deviation from base year 2000 in percent

%	Rating
x ≥ 10	10
10 > x ≥ 5	9
5 > x ≥ 0	8
0 > x ≥-5	7
-5 > x ≥-10	6
-10 > x ≥-15	5
-15 > x ≥-20	4
-20 > x ≥-25	3
-25 > x ≥-30	2
-30 >x	1

2D Domestic demand, Index 2000=100, average annual change over the last five years

%	Rating
x ≥ 3	10
3.0 > x ≥ 2.5	9
2.5 > x ≥ 2.0	8
2.0 > x ≥ 1.5	7
1.5 > x ≥ 1.0	6
1.0 > x ≥ 0.5	5
0.5 > x ≥ 0.0	4
0.0 > x ≥-0.5	3
-0.5 > x ≥-1.0	2
-1.0 > x	1

3A Harmonised unemployment rate in %

%	Rating
4 > x	10
5 > x ≥ 4	9
6 > x ≥ 5	8
7 > x ≥ 6	7
8 > x ≥ 7	6
9 > x ≥ 8	5
10 > x ≥ 9	4
11 > x ≥ 10	3
12 > x ≥ 11	2
x ≥ 12	1

3B Employment ratio, change over five years in percentage points

%-points	Rating
x ≥ 4	10
4 > x ≥ 3	9
3 > x ≥ 2	8
2 > x ≥ 1	7
1 > x ≥ 0	6
0 > x ≥ -1	5
-1 > x ≥ -2	4
-2 > x ≥ -3	3
-3 > x ≥ -4	2
-4 > x	1

3C Labour productivity per person employed, average annual change over the last five years

%	Rating
x ≥ 3	10
3.0 > x ≥ 2.5	9
2.5 > x ≥ 2.0	8
2.0 > x ≥ 1.5	7
1.5 > x ≥ 1.0	6
1.0 > x ≥ 0.5	5
0.5 > x ≥ 0.0	4
0.0 > x ≥ -0.5	3
-0.5 > x ≥ -1.0	2
-1.0 > x	1

3D Gross inland consumption of energy divided by GDP (kilogram of oil equivalent per EUR 1000)

kg/EUR 1000	Rating
100 > x	10
120 > x ≥ 100	9
140 > x ≥ 120	8
160 > x ≥ 140	7
180 > x ≥ 160	6
200 > x ≥ 180	5
220 > x ≥ 200	4
240 > x ≥ 220	3
260 > x ≥ 240	2
x ≥ 260	1

4A Debt-to-GDP ratio of households, change over five years in percentage points

%-points	Rating
-10 > x	10
-5 > x ≥ -10	9
0 > x ≥ -5	8
5 > x ≥ 0	7
10 > x ≥ 5	6
15 > x ≥ 10	5
20 > x ≥ 15	4
25 > x ≥ 20	3
30 > x ≥ 25	2
x ≥ 30	1

4B Debt-to-GDP of non-financial corporations, change over five years in percentage points

%-points	Rating
-10 > x	10
-5 > x ≥ -10	9
0 > x ≥ -5	8
5 > x ≥ 0	7
10 > x ≥ 5	6
15 > x ≥ 10	5
20 > x ≥ 15	4
25 > x ≥ 20	3
30 > x ≥ 25	2
x ≥ 30	1

4C Net international investment position, as % of GDP

%	Rating
x ≥ 20	10
20 > x ≥ 0	9
0 > x ≥ -20	8
-20 > x ≥ -30	7
-30 > x ≥ -40	6
-40 > x ≥ -50	5
-50 > x ≥ -60	4
-60 > x ≥ -70	3
-70 > x ≥ -80	2
-80 > x	1

Euro Monitor 2006-2011
Country Rating 2011

Country Code	European Monetary Union Member State	Government debt	Government deficit/ surplus	Government interest payments	Adjusted primary balance	Unit labor costs	Current account balance	Global merchandise trade share	Domestic demand	Unemployment rate	Employment ratio
		1A	1B	1C	1D	2A	2B	2C	2D	3A	3B
DE	Germany	5	9	8	5	10	10	7	6	7	10
LU	Luxembourg	10	9	10	1	3	10	7	9	9	8
AT	Austria	6	6	7	5	10	10	7	5	9	8
NL	Netherlands	7	5	9	2	8	10	8	5	9	6
SK	Slovakia	9	4	9	6	4	10	10	7	1	6
FI	Finland	9	9	10	2	8	10	1	6	6	5
EE	Estonia	10	10	10	10	1	10	10	1	1	2
BE	Belgium	4	6	6	2	7	10	6	6	7	7
MT	Malta	7	7	5	3	6	7	1	3	7	8
FR	France	5	4	8	7	7	7	1	5	4	6
SL	Slovenia	9	4	9	1	1	10	10	4	6	5
IT	Italy	1	6	3	7	4	7	3	3	5	4
ES	Spain	7	3	7	2	6	7	6	2	1	1
CY	Cyprus	7	3	7	1	4	3	1	8	6	4
PT	Portugal	3	3	4	7	7	3	5	2	1	3
IE	Ireland	3	1	5	2	8	10	1	1	1	1
GR	Greece	1	1	1	1	4	2	3	1	1	1
	Euro Area 17	5	6	6	5	8	10	5	4	3	5
	EU27	5	5	7	5	10	10	5	#	4	5

Labour productivity	Inland consumption of energy	Debt-to-GDP ratio of households	Debt-to-GDP of non-fin corporations	International investment position	Sum over all indicators	Number of indicators observed	Fiscal Sustainability = sum 1A-1D / obs 1A - 1D	Competitiveness and domestic demand = sum 2A - 2D / obs 2A - 2D	Jobs, Productivity and Resource Efficiency = sum 3A - 3D / obs 3A - 3D	Private and Foreign Debt = sum 4A-4C / obs 4A- 4C	Monitor Rating = sum / obs	Euro Monitor Ranking
3C	3D	4A	4B	4C	sum	obs	C1	C2	C3	C4	EM10	Rank
4	7	10	6	10	114	15	6.8	8.3	7.0	8.7	7.60	1.
1	7	#	#	10	94	13	7.5	7.3	6.3	#	7.23	2.
4	8	8	4	8	105	15	6.0	8.0	7.3	6.7	7.00	3.
5	6	5	9	10	104	15	5.8	7.8	6.5	8.0	6.93	4.
10	1	5	10	3	95	15	7.0	7.8	4.5	6.0	6.33	5.
5	4	5	5	9	94	15	7.5	6.3	5.0	6.3	6.27	6.
6	1	7	9	3	91	15	10.0	5.5	2.5	6.3	6.07	7.
4	5	7	3	10	90	15	4.5	7.3	5.8	6.7	6.00	8.
4	7	#	#	9	74	13	5.5	4.3	6.5	9.0	5.69	9.
4	7	6	6	8	85	15	6.0	5.0	5.3	6.7	5.67	10.
5	2	6	2	6	80	15	5.8	6.3	4.5	4.7	5.33	11.
3	8	7	5	7	73	15	4.3	4.3	5.0	6.3	4.87	12.
7	6	7	4	1	67	15	4.8	5.3	3.8	#	4.47	13.
5	4	3	1	7	64	15	4.5	4.0	4.8	3.7	4.27	14.
5	5	7	2	1	58	15	4.3	4.3	3.5	3.3	3.87	15.
7	9	4	1	1	55	15	2.8	5.0	4.5	2.0	3.67	16.
2	5	3	6	1	33	15	1.0	2.5	2.3	3.3	2.20	17.
4	#	#	3	#	64	12	6	7	4	3	5.33	
4	6	#	3	#	69	12	6	8	5	3	5.75	

Euro Monitor 2006-2011
Country Rating 2010

Country Code	European Monetary Union Member State	Government debt 1A	Government deficit/ surplus 1B	Government interest payments 1C	Adjusted primary balance 1D	Unit labor costs 2A	Current account balance 2B	Global merchandise trade share 2C	Domestic demand 2D	Unemployment rate 3A	Employment ratio 3B
DE	Germany	5	5	7	5	10	10	7	6	6	10
LU	Luxembourg	10	8	10	1	4	10	7	8	9	7
AT	Austria	6	5	7	5	10	10	7	5	9	9
NL	Netherlands	7	4	9	2	7	10	8	6	9	7
SK	Slovakia	9	2	9	6	4	7	10	10	1	7
FI	Finland	9	7	10	2	8	10	1	5	5	5
SL	Slovenia	10	4	9	1	1	10	10	6	6	6
BE	Belgium	4	5	6	2	7	10	6	6	5	6
MT	Malta	7	6	5	3	5	6	1	4	6	8
EE	Estonia	10	10	10	10	1	10	10	1	1	2
FR	France	5	2	8	7	7	8	1	5	4	6
CY	Cyprus	7	4	8	1	4	2	1	10	7	7
IT	Italy	2	5	4	7	4	7	3	3	5	5
ES	Spain	7	1	8	2	5	6	6	4	1	1
PT	Portugal	4	1	7	7	6	1	4	4	1	4
IE	Ireland	4	1	8	2	6	10	1	1	1	1
GR	Greece	1	1	1	1	2	1	3	4	1	5
	Euro Area 17	5	3	7	5	8	10	5	5	3	6
	EU27	5	3	7	5	10	10	5	#	4	6

Labour productivity 3C	Inland consumption of energy 3D	Debt-to-GDP ratio of households 4A	Debt-to-GDP of non-fin corporations 4B	International investment position 4C	Sum over all indicators sum	Number of indicators observed obs	Fiscal Sustainability = sum 1A-1D / obs 1A - 1D C1	Competitiveness and domestic demand = sum 2A - 2D / obs 2A - 2D C2	Jobs, Productivity and Resource Efficiency = sum 3A - 3D / obs 3A - 3D C3	Private and Foreign Debt = sum 4A-4C / obs 4A- 4C C4	Monitor Rating = sum / obs EM10	Euro Monitor Ranking Rank
4	7	9	6	10	107	15	5.5	8.3	6.8	8.3	7.13	1.
1	7	#	#	10	92	13	7.3	7.3	6.0	#	7.08	2.
4	8	7	1	8	101	15	5.8	8.0	7.5	5.3	6.73	3.
4	6	4	8	10	101	15	5.5	7.8	6.5	7.3	6.73	3.
10	1	2	9	3	90	15	6.5	7.8	4.8	4.7	6.00	5.
5	4	4	3	9	87	15	7.0	6.0	4.8	5.3	5.80	6.
6	2	5	1	6	83	15	6.0	6.8	5.0	4.0	5.53	7.
4	5	5	1	10	82	15	4.3	7.3	5.0	5.3	5.47	8.
4	6	#	#	9	70	13	5.3	4.0	6.0	#	5.38	9.
7	1	3	2	2	80	15	10.0	5.5	2.8	2.3	5.33	10.
4	6	4	4	8	79	15	5.5	5.3	5.0	5.3	5.27	11.
6	4	4	1	8	74	15	5.0	4.3	6.0	4.3	4.93	12.
3	8	5	5	7	73	15	4.5	4.3	5.3	5.7	4.87	13.
6	6	5	1	1	60	15	4.5	5.3	3.5	2.3	4.00	14.
6	5	5	2	1	58	15	4.8	3.8	4.0	2.7	3.87	15.
6	9	1	1	1	53	15	3.8	4.5	4.3	1.0	3.53	16.
3	6	3	5	1	38	15	1.0	2.5	3.8	3.0	2.53	17.
4	#	#	3	#	64	12	5	7	4	3	5.33	
4	6	#	3	#	68	12	5	8	5	3	5.67	

Euro Monitor 2006-2011
Country Rating 2009

Country Code	European Monetary Union Member State	Government debt	Government deficit/ surplus	Government interest payments	Adjusted primary balance	Unit labor costs	Current account balance	Global merchandise trade share	Domestic demand	Unemployment rate	Employment ratio
		1A	1B	1C	1D	2A	2B	2C	2D	3A	3B
LU	Luxembourg	10	9	10	1	4	10	10	7	8	8
DE	Germany	6	6	7	5	10	10	8	5	6	10
AT	Austria	7	5	7	5	9	10	8	5	10	9
NL	Netherlands	7	4	8	2	6	10	10	6	10	9
SK	Slovakia	10	2	9	6	2	7	10	10	1	9
SL	Slovenia	10	3	10	1	1	9	10	7	8	8
BE	Belgium	4	4	6	2	7	10	8	6	6	7
FI	Finland	9	7	10	2	6	10	2	6	5	7
FR	France	6	2	8	7	7	8	3	6	4	6
MT	Malta	7	6	5	3	4	4	1	7	7	7
IT	Italy	2	4	4	7	4	9	5	3	6	5
CY	Cyprus	8	3	7	1	4	1	1	10	8	7
ES	Spain	8	1	9	2	4	5	8	6	1	4
PT	Portugal	5	1	7	7	5	1	6	4	3	4
IE	Ireland	7	1	8	2	3	8	3	4	2	1
GR	Greece	1	1	3	1	1	1	5	7	4	7
EE	Estonia	10	8	10	10	1	10	10	2	1	6
	Euro Area 17	6	3	7	5	7	10	7	5	4	7
	EU27	6	3	7	5	10	10	7	#	4	7

Labour productivity	Inland consumption of energy	Debt-to-GDP ratio of households	Debt-to-GDP of non-fin corporations	International investment position	Sum over all indicators	Number of indicators observed	Fiscal Sustainability = sum 1A-1D / obs 1A - 1D	Competitiveness and domestic demand = sum 2A - 2D / obs 2A - 2D	Jobs, Productivity and Resource Efficiency = sum 3A - 3D / obs 3A - 3D	Private and Foreign Debt = sum 4A-4C / obs 4A- 4C	Monitor Rating = sum / obs	Euro Monitor Ranking
3C	3D	4A	4B	4C	sum	obs	C1	C2	C3	C4	EM10	Rank
2	7	#	#	10	96	13	7.5	7.8	6.3	#	7.38	1.
4	7	9	6	10	109	15	6.0	8.3	6.8	8.3	7.27	2.
4	8	6	2	8	103	15	6.0	8.0	7.8	5.3	6.87	3.
4	6	3	7	10	102	15	5.3	8.0	7.3	6.7	6.80	4.
10	1	2	8	3	90	15	6.8	7.3	5.3	4.3	6.00	5.
6	2	5	1	6	87	15	6.0	6.8	6.0	4.0	5.80	6.
3	5	5	2	10	85	15	4.0	7.8	5.3	5.7	5.67	7.
4	3	3	3	8	85	15	7.0	6.0	4.8	4.7	5.67	7.
4	6	4	3	8	82	15	5.8	6.0	5.0	5.0	5.47	9.
5	6	#	#	9	71	13	5.3	4.0	6.3	#	5.46	10.
2	7	5	4	7	74	15	4.3	5.3	5.0	5.3	4.93	11.
5	4	1	1	7	68	15	4.8	4.0	6.0	3.0	4.53	12.
5	6	4	1	1	65	15	5.0	5.8	4.0	2.0	4.33	13.
5	5	4	1	1	59	15	5.0	4.0	4.3	2.0	3.93	14.
4	9	1	1	1	55	15	4.5	4.5	4.0	1.0	3.67	15.
4	6	3	3	1	48	15	1.5	3.5	5.3	2.3	3.20	16.
7	1	1	1	1	79	15						
4	#	5	3	#	73	13	5	7	5	4	5.62	
4	6	5	3	#	77	13	5	9	5	4	5.92	

Euro Monitor 2006-2011
Country Rating 2008

Country Code	European Monetary Union Member State	Government debt	Government deficit/ surplus	Government interest payments	Adjusted primary balance	Unit labor costs	Current account balance	Global merchandise trade share	Domestic demand	Unemployment rate	Employment ratio
		1A	1B	1C	1D	2A	2B	2C	2D	3A	3B
LU	Luxembourg	10	10	10	1	6	10	10	10	9	7
DE	Germany	7	9	6	6	10	10	8	6	6	10
NL	Netherlands	8	10	8	2	8	10	9	8	10	9
AT	Austria	7	9	7	6	10	10	9	7	9	9
FI	Finland	10	10	10	2	9	10	4	10	7	9
SK	Slovakia	10	7	9	7	5	4	10	10	4	10
BE	Belgium	5	8	5	2	8	10	8	9	6	8
SL	Slovenia	10	8	10	1	1	4	10	10	9	10
FR	France	7	6	7	6	8	9	3	8	6	6
MT	Malta	7	5	5	5	6	5	1	9	7	7
IT	Italy	3	7	2	7	5	8	6	5	7	8
CY	Cyprus	9	10	6	1	6	1	1	10	10	7
ES	Spain	9	5	9	2	4	1	7	10	2	10
PT	Portugal	6	6	6	5	6	1	6	7	5	6
IE	Ireland	9	2	9	2	2	5	1	10	7	8
GR	Greece	2	1	2	1	3	1	5	10	6	9
EE	Estonia	10	7	10	10	1	1	10	10	8	10
	Euro Area 17	6	7	6	5	8	10	7	7	6	9
	EU27	7	7	7	6	10	8	7	#	6	9

Labour productivity	Inland consumption of energy	Debt-to-GDP ratio of households	Debt-to-GDP of non-fin corporations	International investment position	Sum over all indicators	Number of indicators observed	Fiscal Sustainability = sum 1A-1D / obs 1A - 1D	Competitiveness and domestic demand = sum 2A - 2D / obs 2A - 2D	Jobs, Productivity and Resource Efficiency = sum 3A - 3D / obs 3A - 3D	Private and Foreign Debt = sum 4A-4C / obs 4A- 4C	Monitor Rating = sum / obs	Euro Monitor Ranking
3C	3D	4A	4B	4C	sum	obs	C1	C2	C3	C4	EM10	Rank
5	7	#	#	10	105	13	7.8	9.0	7.0	#	8.08	1.
6	7	10	8	10	119	15	7.0	8.5	7.3	9.3	7.93	2.
7	6	4	9	9	117	15	7.0	8.8	8.0	7.3	7.80	3.
6	8	6	3	8	114	15	7.3	9.0	8.0	5.7	7.60	4.
7	4	4	4	8	108	15	8.0	8.3	6.8	5.3	7.20	5.
10	1	3	8	4	102	15	8.3	7.3	6.3	5.0	6.80	6.
5	5	6	5	10	100	15	5.0	8.8	6.0	7.0	6.67	7.
10	2	6	1	6	98	15	7.3	6.3	7.8	4.3	6.53	8.
6	6	5	4	8	95	15	6.5	7.0	6.0	5.7	6.33	9.
6	5	#	#	9	77	13	5.5	5.3	6.3	#	5.92	10.
4	7	5	4	7	85	15	4.8	6.0	6.5	5.3	5.67	11.
6	4	1	1	7	80	15	6.5	4.5	6.8	3.0	5.33	12.
4	6	3	1	2	75	15	6.3	5.5	5.5	2.0	5.00	13.
6	5	4	3	1	73	15	5.8	5.0	5.5	2.7	4.87	14.
4	9	1	1	2	72	15	5.5	4.5	7.0	1.3	4.80	15.
6	6	2	4	2	60	15	1.5	4.8	6.8	2.7	4.00	16.
10	1	1	1	2	92	15						
5	#	6	4	#	86	13	6	8	7	5	6.62	
6	6	6	4	#	89	13	7	8	7	5	6.85	

Euro Monitor 2006-2011
Country Rating 2007

Country Code	European Monetary Union Member State	Government debt	Government deficit/ surplus	Government interest payments	Adjusted primary balance	Unit labor costs	Current account balance	Global merchandise trade share	Domestic demand	Unemployment rate	Employment ratio
		1A	1B	1C	1D	2A	2B	2C	2D	3A	3B
LU	Luxembourg	10	10	10	1	7	10	10	10	9	6
DE	Germany	7	10	6	6	10	10	10	5	5	10
AT	Austria	7	9	7	7	10	10	10	8	9	8
NL	Netherlands	9	10	8	3	8	10	9	7	10	7
FI	Finland	10	10	9	3	10	10	6	10	7	8
SL	Slovenia	10	10	10	1	3	6	10	10	9	10
BE	Belgium	5	9	4	2	9	10	9	8	6	8
SK	Slovakia	10	8	8	7	6	5	10	10	2	9
IE	Ireland	10	10	10	2	4	5	2	10	9	9
FR	France	7	7	7	6	8	9	3	8	5	7
IT	Italy	3	8	2	7	6	9	7	6	7	9
MT	Malta	7	7	5	6	6	4	1	10	7	6
CY	Cyprus	8	10	5	1	6	1	1	10	10	8
ES	Spain	10	10	8	2	5	1	8	10	5	10
PT	Portugal	7	6	6	3	7	1	7	6	5	5
GR	Greece	3	3	2	4	5	1	6	10	5	9
EE	Estonia	10	10	10	10	1	1	10	10	9	10
	Euro Area 17	7	9	6	5	9	10	8	8	6	9
	EU27	8	9	7	6	10	9	8	#	6	9

Labour productivity	Inland consumption of energy	Debt-to-GDP ratio of households	Debt-to-GDP of non-fin corporations	International investment position	Sum over all indicators	Number of indicators observed	Fiscal Sustainability = sum 1A-1D / obs 1A - 1D	Competitiveness and domestic demand = sum 2A - 2D / obs 2A - 2D	Jobs, Productivity and Resource Efficiency = sum 3A - 3D / obs 3A - 3D	Private and Foreign Debt = sum 4A-4C / obs 4A- 4C	Monitor Rating = sum / obs	Euro Monitor Ranking
3C	3D	4A	4B	4C	sum	obs	C1	C2	C3	C4	EM10	Rank
7	7	#	#	10	107	13	7.8	9.3	7.3	#	8.23	1.
6	7	9	8	10	119	15	7.3	8.8	7.0	9.0	7.93	2.
6	7	6	4	8	116	15	7.5	9.5	7.5	6.0	7.73	3.
7	6	3	9	8	114	15	7.5	8.5	7.5	6.7	7.60	4.
9	3	4	6	7	112	15	8.0	9.0	6.8	5.7	7.47	5.
10	2	6	1	7	105	15	7.8	7.3	7.8	4.7	7.00	6.
6	5	6	5	10	102	15	5.0	9.0	6.3	7.0	6.80	7.
10	1	4	8	4	102	15	8.3	7.8	5.5	5.3	6.80	7.
6	9	1	6	8	101	15	8.0	5.3	8.3	5.0	6.73	9.
6	6	4	6	8	97	15	6.8	7.0	6.0	6.0	6.47	10.
4	7	5	4	7	91	15	5.0	7.0	6.8	5.3	6.07	11.
5	5	#	#	9	78	13	6.3	5.3	5.8	9.0	6.00	12.
5	4	3	3	9	84	15	6.0	4.5	6.8	5.0	5.60	13.
3	5	2	1	2	82	15	7.5	6.0	5.8	1.7	5.47	14.
6	5	3	5	1	73	15	5.5	5.3	5.3	3.0	4.87	15.
8	6	2	5	1	70	15	3.0	5.5	7.0	2.7	4.67	16.
10	1	1	1	2	96	15						
6	#	5	5	#	93	13	7	9	7	5	7.15	
6	6	5	5	#	94	13	8	9	7	5	7.23	

Euro Monitor 2006-2011
Country Rating 2006

Country Code	European Monetary Union Member State	Government debt 1A	Government deficit/ surplus 1B	Government interest payments 1C	Adjusted primary balance 1D	Unit labor costs 2A	Current account balance 2B	Global merchandise trade share 2C	Domestic demand 2D	Unemployment rate 3A	Employment ratio 3B
LU	Luxembourg	10	10	10	1	7	10	10	9	9	6
AT	Austria	7	8	7	7	10	10	9	7	8	7
DE	Germany	7	8	6	6	10	10	9	4	3	7
NL	Netherlands	9	10	8	3	8	10	9	6	9	6
FI	Finland	10	10	9	3	10	10	5	10	6	7
IE	Ireland	10	10	10	2	5	7	2	10	9	8
SL	Slovenia	10	8	9	1	3	8	10	10	8	8
BE	Belgium	5	10	4	2	9	10	8	7	5	7
FR	France	7	7	8	6	8	9	4	8	4	6
SK	Slovakia	10	6	9	7	5	2	10	10	1	8
IT	Italy	3	6	3	7	6	9	6	6	7	9
MT	Malta	7	7	4	8	5	1	1	9	7	5
CY	Cyprus	7	8	5	1	6	4	2	10	9	7
ES	Spain	10	10	8	2	6	2	7	10	5	10
GR	Greece	3	4	2	9	6	1	6	10	5	10
PT	Portugal	7	5	7	1	7	1	6	5	5	4
EE	Estonia	10	10	10	10	3	1	10	10	8	10
	Euro Area 17	7	8	6	5	9	10	7	7	5	8
	EU27	7	8	7	6	10	9	7	#	5	7

Labour productivity 3C	Inland consumption of energy 3D	Debt-to-GDP ratio of households 4A	Debt-to-GDP of non-fin corporations 4B	International investment position 4C	Sum over all indicators sum	Number of indicators observed obs	Fiscal Sustainability = sum 1A-1D / obs 1A - 1D C1	Competitiveness and domestic demand = sum 2A - 2D / obs 2A - 2D C2	Jobs, Productivity and Resource Efficiency = sum 3A - 3D / obs 3A - 3D C3	Private and Foreign Debt = sum 4A-4C / obs 4A- 4C C4	Monitor Rating = sum / obs EM10	Euro Monitor Ranking Rank
6	6	#	#	10	104	13	7.8	9.0	6.8	#	8.00	1.
6	7	6	6	7	112	15	7.3	9.0	7.0	6.3	7.47	2.
6	7	9	8	10	110	15	6.8	8.3	5.8	9.0	7.33	3.
6	6	2	9	9	110	15	7.5	8.3	6.8	6.7	7.33	3.
8	2	3	6	8	107	15	8.0	8.8	5.8	5.7	7.13	5.
7	9	1	5	8	103	15	8.0	6.0	8.3	4.7	6.87	6.
10	1	6	3	8	103	15	7.0	7.8	6.8	5.7	6.87	6.
6	4	6	6	10	99	15	5.3	8.5	5.5	7.3	6.60	8.
6	6	5	6	9	99	15	7.0	7.3	5.5	6.7	6.60	8.
10	1	4	8	4	95	15	8.0	6.8	5.0	5.3	6.33	10.
3	7	5	5	7	89	15	4.8	6.8	6.5	5.7	5.93	11.
5	5	#	#	10	74	13	6.5	4.0	5.5	#	5.69	12.
4	4	3	4	10	84	15	5.3	5.5	6.0	5.7	5.60	13.
3	5	2	1	3	84	15	7.5	6.3	5.8	2.0	5.60	13.
8	6	3	6	1	80	15	4.5	5.8	7.3	3.3	5.33	15.
5	5	4	7	2	71	15	5.0	4.8	4.8	4.3	4.73	16.
10	1	1	1	2	97	15						
5	#	5	6	#	88	13	7	8	6	6	6.77	
6	6	5	5	#	88	13	7	9	6	5	6.77	

Imprint

Published by

Allianz SE
Economic Research & Corporate Development
60329 Frankfurt/Main

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Closing Date

30 November, 2011

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