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The Euro Monitor 2012

Indicators for Balanced Growth

Allianz

Working Paper

No. 157

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1. INTRODUCTION

In the summer the crisis in Europe was at a peak. But with the ECB's commitment to "do whatever it takes" the gloom started to lift. This was supported by political progress towards enhanced fiscal and economic integration, prompting an extended period of calm on the financial markets – despite recessionary trends and high unemployment.

The Euro Monitor 2012 shows that, behind the less pretty headlines, genuine progress is being made towards restoring the health of the eurozone economy. Competitiveness is on the rise, external imbalances are shrinking, and fiscal rectitude is returning. The road ahead is still long and arduous, but an admirable distance towards a brighter future has already been travelled. Although many of the Euro Monitor indicators for 2012 still show the ravages of recession and austerity drives, there are also early signs of improvement, suggesting that the fruits of structural reforms are set to emerge in 2013 or 2014 at the latest. Encouragingly, problem countries such as Portugal, Spain and Greece managed to boost their overall rating.

But is it premature to claim that the eurozone is turning the corner? With so much still up in the air, and growth still absent, it is certainly too early to sound the all-clear. This year's Euro Monitor shows that many indicators are still weak and the prospects for significant improvement next year are modest at best. Nonetheless, there are encouraging signs that the eurozone is emerging from the brambles, even if it is not yet out of the woods. Corporate spreads and issuance, and the funding of EMU problem countries are all in better shape than they were earlier this year. Even more encouragingly, policymakers have demonstrated greater determination to get to grips with the underlying causes of the malaise, helped by strong support from the ECB, with the announcement of its new unlimited government bond purchasing programme (under stringent conditions) and Draghi's forceful statements on the irreversibility of the euro.

The Allianz Euro Monitor provides a very useful tool to assess whether the EU's improved control mechanisms and the national reforms undertaken are starting to have an effect. At the same time, the Euro Monitor is intended to provide an effective macroeconomic monitoring system aimed at ensuring growth devoid of imbalances in order to flag up at an early stage the sort of adverse developments that fuelled the eurozone debt crisis. The objective of the Euro Monitor, which is calculated for all EMU member states, is to deliver a highly comprehensive set of 14 indicators for balanced growth (the Institut für Wirtschaftsforschung Halle has attested the Allianz Euro Monitor with a high predictive quality[1]). It is also a helpful complement to the Macroeconomic Imbalances Procedure launched by the EU Commission this year, with its scoreboard of 10 economic indicators. A number of these overlap with the indicators we chose. While the Commission operates with thresholds, we defined ranges for good, middle and bad performance for each indicator. Unlike our Monitor, the Commission issues neither a ranking nor a rating: There is no aggregate result based on the full set of indicators, but merely an assessment of whether the country in question is a) not experiencing any imbalances, b) experiencing imbalances or c) experiencing excessive imbalances, depending on how many thresholds are breached.

[1] IWH Discussion Paper No. 12, „Macroeconomic Imbalances as Indicators for Debt Crises in Europe", August 2011.

Box: 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.[2]

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.

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 rule, we include the need to adjust state finances to reflect the ageing population as another indicator under the "fiscal sustainability" category.[3] This year, however, we have decided to exclude this indicator due to insufficient data availability. The latest Sustainability Report was published by the European Commission in 2009. Therefore, the reforms approved within the last three years in a number of EMU countries such as Spain, Portugal and Italy, to name but a few, which heavily affect a country's long-term fiscal sustainability, have not yet been taken into account. We are looking forward to the Commission's forthcoming report, which is due to be released in late 2012 / early 2013.

[2] 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.

[3] 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.

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.

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.[4] 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.[5] As a result, we have included the energy intensity of aggregate output in our indicator.

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.

[4] 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.
[5] 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.

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.[6]

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

Evaluating balanced growth on the basis of 14 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

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 years in 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

Consequently, all 14 individual indicators are quantitative indicators. Countries are given a rating score ranging from 1 to 10 in each of the 14 indicators.[7] 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 14 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 2011 and estimates for 2012. We have defined three rating classes: values 1-4 (coded in the charts in grey) signal poor performance, 5-7 (coded in light blue) indicate middling performance and 8-10 (coded in dark 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.

How much progress was made in 2012?

The central messages from this year's Allianz Euro Monitor are:

- The top-rated three countries in the euro area in terms of balanced growth remain Germany, with an overall rating of 7.7, followed by Austria and Luxembourg, which share the second spot with ratings of 7.0. Once again, no single country achieves a

[6] 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.

[7] Scales for each indicator are listed in the appendix on p. 34-35.

score of 8 or more which would signal a good performance across the board. Given the current harsh economic environment, this is not surprising. Cyprus, Greece and Ireland, in contrast, give cause for concern, as indicated by an average rating of less than 4.

- Despite the crisis, four out of the 17 eurozone countries were able to improve their rating. Apart from Belgium, Portugal, Spain and Greece, often dubbed as "problem countries", managed to boost their overall rating. This can be interpreted both as an encouraging sign that adjustment in those countries is already well under way and as a very early indication that reform measures are paying off.

- However, concerning reform successes it has to be acknowledged that a) at present, the economic weakness is masking possible positive reform effects and b) by nature, the far-reaching structural reforms in the crisis countries need time to unfold their full effect. 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.

- Furthermore, three countries, namely France, Germany and Ireland, managed to defy the unfavourable environment, with their overall score staying the same compared to 2011.

Euro Monitor Rating 2012

Rank 2012	EMU Member State	Average Rating 2012	Rank 2011	Average Rating 2011	Rank 2007	Average Rating 2007
1	Germany	7.7	1	7.7	2	8.0
2	Austria	7.0	3	7.1	4	7.9
2	Luxembourg	7.0	2	7.5	1	8.9
4	Netherlands	6.6	4	7.0	2	8.0
5	Belgium	5.9	9	5.8	7	7.2
5	Estonia	5.9	6	6.0		
7	Malta	5.8	8	5.9	12	6.1
8	Finland	5.8	5	6.1	6	7.8
9	Slovakia	5.6	6	6.0	8	6.9
9	France	5.6	10	5.6	10	6.6
11	Slovenia	5.4	10	5.6	4	7.9
12	Spain	5.0	13	4.6	13	5.9
13	Italy	4.5	12	4.7	11	6.1
14	Portugal	4.1	15	3.7	15	5.0
15	Ireland	3.9	14	3.9	9	6.9
16	Greece	3.4	17	2.7	16	4.9
17	Cyprus	3.0	16	3.6	6	5.9

- Cyprus and Greece saw the biggest shifts in the overall rating. But while the Greek rating improved from 2.7 to 3.4, Cyprus's overall rating plummeted further, down from 3.6 to 3.0.

- As regards the country ranking, Belgium climbed up four rungs from 9th to 5th while both Finland (down from 5th to 8th) and Slovakia (down from 6th to 9th) lost ground. Luxemburg, Germany and the Netherlands maintained their rankings.

- Looking at the indicator level, the weakest points are the indicators domestic demand and unemployment. Pivotal now is to strike the right balance between belt-tightening and avoiding a vicious circle of consolidation measures and a faltering economy.

- On a more positive note, deleveraging of private households and non-financial corporations is clearly under way. The shadows cast by the euro-area sovereign-debt crisis have prompted households to delay consumption and increase their precautionary savings, while weaker capital formation, a higher propensity to retain earnings as well as tighter credit standards are driving the gradual decline in corporate debt ratios.

- In addition, external imbalances are shrinking. With the exception of Finland, where the deficit is already comparatively low, all countries with a current-account deficit in 2011 are projected to have moved towards a more balanced current account in 2012.

Austria

- Austria's average rating is practically unchanged (7.0 points after 7.1 points). Together with Luxembourg the country is ranked second best.
- The country has improved in the category "private and foreign debt", but has lost some ground in the category "competiveness and domestic demand".
- Labour productivity is the only indicator with a low value.

Belgium

- Belgium has improved its average rating marginally (5.9 points after 5.8 points)
- Significantly better than last year is the performance in the category "private and foreign debt".
- The development of labour productivity still shows a poor performance.

Finland

- Finland's average rating declined from 6.1 in 2011 to 5.8 in 2012. The country received moderately lower scores in "fiscal sustainability", "competitiveness and domestic demand" and "jobs and productivity".
- On the fiscal sustainability front, Finland, alongside Estonia and Luxembourg, is still one of the three best performing countries.

France

- With a stable rating of 5.6 points in 2011 and 2012 the French economy has been weathering the crisis quite well. In our ranking France climbed one step on the ladder, but at position 9 is still only in the lower midfield.
- France's strengths among our indicators are government interest payments, the current account balance and its international investment position. The outstanding weakness is the global merchandise trade share and, to a lesser extent, the unemployment rate.
- Compared to last year France now has better scores for the indicators government deficit as well as household and corporate indebtedness – i.e. deleveraging in the private sector is taking place. In contrast, the rating for domestic demand, the unemployment rate and employment ratio has deteriorated.
- First and foremost, French policy has to address high youth unemployment and companies' problems in world export markets (not to mention the oversized public sector, which is not considered in our indicators).

Germany

- Germany defended its top ranking with an unchanged average rating of 7.7.
- It reached the highest score 10 in 6 of the 14 indicators.
- Its best performing category is "private and foreign debt".

- Labour productivity is fairly poor, declining by 0.1% on annual average over the last five years.

Greece

- Greece managed to improve its average rating (from a very low level) more than any other country. But with a score of 3.4 it is certainly not out of the woods.
- 5 of the 14 indicators still have the lowest score 1.
- The best performing indicator for Greece is (surprisingly) unit labour costs, which have now fallen below the eurozone average (index 2000=100).
- Another good performer is the indicator debt to GDP ratio of non-financial corporations.

Italy

- Italy's Euro Monitor rating has been declining since 2007 and now stands at 4.5 owing to lower scores in "fiscal sustainability" (debt-to-GDP ratio second-highest in the euro area) and "jobs, productivity and resource efficiency".
- The recession has triggered a marked increase in unemployment and Italy has not yet overcome its problem of chronically low productivity growth. Looking ahead, however, the Italian labour market reforms should start to bear fruit.
- Italy's best performing category is, "private and foreign debt", where deleveraging of the already relatively low indebted private sector is ongoing, while the best performing indicator is Italy's current account (rated at 9) which has been narrowing further.

Ireland

- Ireland's average rating (3.9) has (surprisingly) not improved in 2012.
- The indicator debt-to-GDP ratio of private households shows a markedly improved performance, but the government interest burden has increased significantly.

Portugal

- Portugal improved its average rating from 3.7 in 2011 to 4.1 in 2012. The new score is still meagre, but the best since 2008.
- Good progress was made by Portugal in the categories "competitiveness" and "private and foreign debt".
- Unit labour costs and the current account balance are now actually quite satisfying.
- Portugal's gravest deficiencies are still to be found in "jobs and productivity".

Spain

- Spain's rating and ranking improved for the second year running. The country now ranks No. 12.
- Four indicators remained mired at a rock-bottom score of 1: domestic demand, unemployment, employment and the international investment position.
- On five indicators Spain managed to move up from the middle to good performance range: unit labour costs, current account balance, productivity, indebtedness of private households and non-financial corporations.
- This fairly divided picture (with only three indicator scores in the middle range) shows that, in some areas, adjustment processes have already made considerable progress. On the labour market front, a return to economic growth is essential if the situation is to improve. Otherwise the comprehensive labour market reforms undertaken cannot unfold their full impact.

The Netherlands

- The Netherlands lost some ground in the average 2012 rating (6.6 after 7.0).
- The setback was caused by a lower rating in the categories "competitiveness and private demand" and "jobs, productivity and resource efficiency".
- The Netherlands has improved its performance in the category "private and foreign debt".

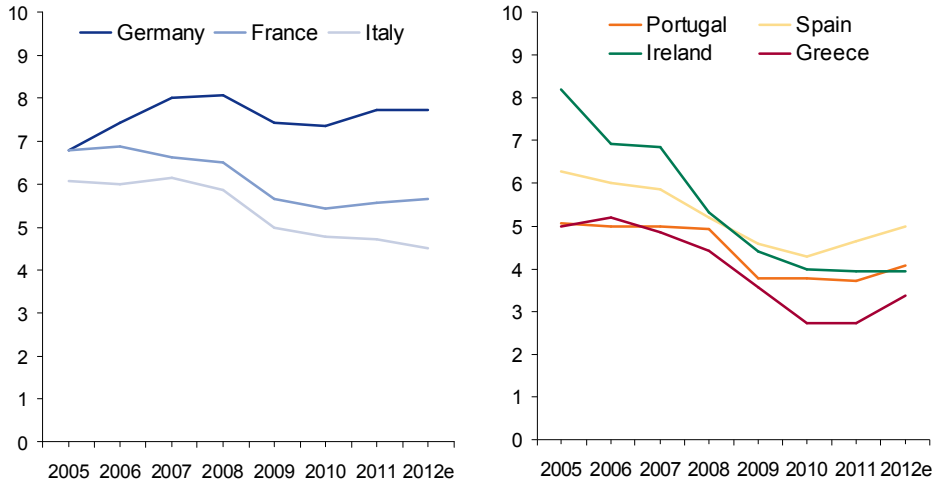
In the following chapters we take a detailed look at the ratings in the four different categories and underlying individual indicators, enabling us to make a more differentiated analysis of how the economic fundamentals of each member country are affecting their balanced growth path.

2. RANKING AND RESULTS

Euro Monitor Rating over time – turning the corner?

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 below compares the development of the overall ratings from 2005 to 2012 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.

Euro Monitor Rating over time



As can be seen, with the exception of Germany, all of these countries had suffered a downgrade since 2005. Ireland deviated the most from its formerly balanced growth path, falling steeply from the No. 2 spot in 2005 (with an overall score of 8.2) to 15th in 2012, with an overall score of 3.9. Between 2009 and 2011, all of the peripheral countries recorded a mediocre to poor performance throughout. This year, however, Portugal, Spain and above all Greece are turning the corner as structural adjustment in these countries is already well under way. The Irish overall score, in the meantime, stabilised at its 2011 level. In Italy, where the reform process was set in motion just one year ago, structural reforms will need more time to filter through in full.

Box: Euro-Monitor attested with high predictive quality

In a report entitled "Macroeconomic Imbalances as Indicators for Debt Crisis in Europe" released in 2011, academics at the Institut für Wirtschaftsforschung Halle have examined whether indicator sets are able to send early 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 initially encompassed 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 as a rule of 15 indicators (this year 14, see Box on page 4 for explanation), 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.

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 initial version of 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%.

	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%

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

Fiscal sustainability

In the category fiscal sustainability there are in part opposing developments at work: whereas many countries improved their budget balance in relation to GDP from 2011 to 2012, spurred on by pressure from the European level and from the financial markets, all analyzed countries with the exception of Germany show a rising trend in the public debt ratio. Concerning the third component of this category "General government interest payments as % of total government expenditure" in some cases the indicator results mask the fact that government expenditure in relation to GDP shrank more than interest payments as a % of GDP. Please note that we have not included indicator 1d "Required adjustment in the primary balance due to demographic changes" in our assessment of fiscal sustainability this year due to insufficient data availability (see Box: How can balanced growth be measured?).

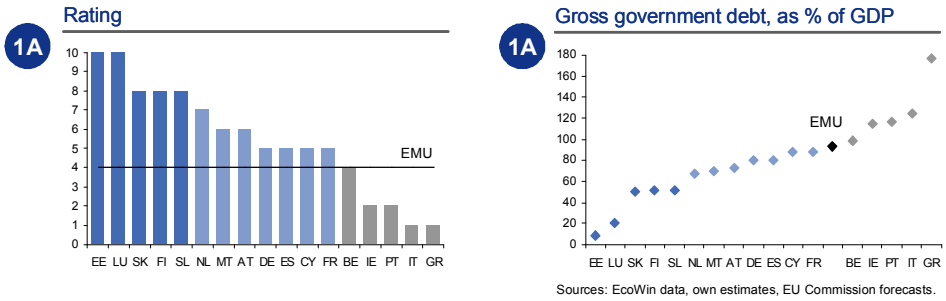
Fiscal Sustainability Rating 2012

Rank 2012	EMU Member State	Rating 2012	Rank 2011	Rating 2011	Rank 2007	Rating 2007
1	Estonia	9.3	1	10.0		
1	Luxembourg	9.3	2	9.7	1	10.0
3	Finland	8.7	3	9.3	4	9.7
4	Germany	7.7	4	7.7	8	7.7
5	Netherlands	7.0	6	7.0	6	9.0
5	Slovakia	7.0	5	7.3	7	8.7
5	Slovenia	7.0	6	7.0	1	10.0
8	Austria	6.3	8	6.7	8	7.7
9	France	6.0	10	5.7	11	7.0
9	Malta	6.0	9	6.3	12	6.3
11	Belgium	5.7	11	5.3	14	6.0
12	Cyprus	4.7	11	5.3	8	7.7
13	Spain	4.3	13	5.0	5	9.3
14	Italy	3.3	15	3.7	15	4.3
14	Portugal	3.3	14	4.0	12	6.3
16	Greece	2.0	17	1.0	16	2.7
16	Ireland	2.0	16	3.3	1	10.0

The four countries registering good fiscal sustainability last year have not changed: Estonia, Luxembourg, Finland and Germany. The four poor performers also stayed the same: Ireland, Greece, Portugal and Italy. Greece's rating increased from 1.0 in 2011 to 2.0 in 2012, but its debt ratio has not fallen this year as had been expected in the wake of the haircut. For the other three problem countries mentioned, and also for Spain, a scenario-based analysis we conducted concludes that reversing the debt momentum is not an insurmountable task. Even in a not overly optimistic macroeconomic environment, the member states that are currently plagued by debt could make a return to long-term debt sustainability by 2025. This will, however, require the eurozone countries to resolutely pursue their consolidation drives over an extended period and to successfully implement economic reforms. It is also important that the EU provides the necessary support for the amount of time needed for these countries to prove that their consolidation efforts have been successful.

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

Government debt indicator 2012

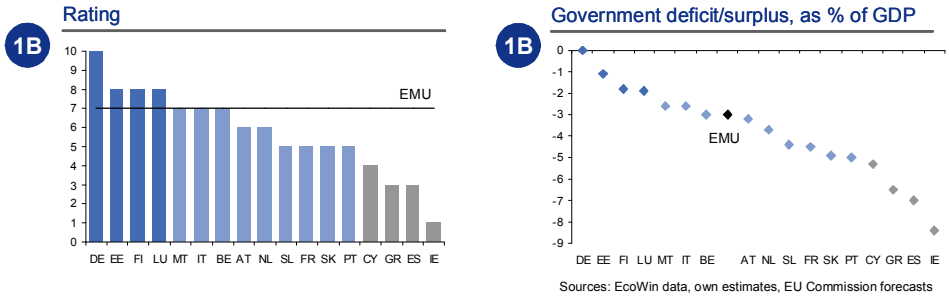


(1a) Gross government debt as % of GDP

Regarding gross government debt as a % of GDP Estonia and Luxemburg really stand out positively, with figures of 9% and 20.3% respectively for 2012, compared with the EMU average of 93%. Finland, Slovakia and Slovenia still show good results, scoring 8 although their debt to GDP ratios have climbed above 50% – however, all remain well below the 60% Maastricht threshold. Austria, Cyprus, France, Germany, Malta, the Netherlands and

Spain are in the midfield, with public debt ratios ranging from 70 to 90% (but Cyprus is forecast to breach the 90% mark next year). Germany is the only country under review where public debt in relation to GDP has remained relatively stable since 2010. All other countries show rising debt dynamics into next year. Debt ratios above 100% in 2012 are recorded in Ireland (114.9%), Portugal (116.8%) and Italy (124.1%). Greece's debt ratio has not fallen this year as expected in the wake of the haircut but looks set to rise to 176.8% (based on Troika figures). The further increase has led to calls, from the IMF among others, for a further haircut and calls into question the medium-term debt sustainability. However, there is a lack of transparency as to why the debt ratio has risen. The deep recession cannot be solely to blame.

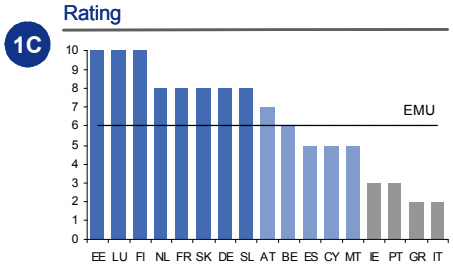
Government deficit/surplus indicator 2012

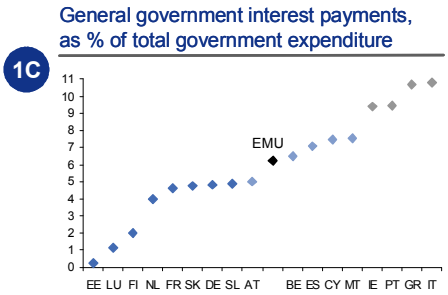


(1b) General government deficit/surplus, as % of GDP

The development of general government balances clearly shows that Europe is sticking to its consolidation course, spurred on by pressure from the European level and from the financial markets. This holds true even though some deficit goals proved beyond reach and EU-concessions had to be granted. Out of the 17 countries we looked at, 11 managed to improve their budgetary position from 2011 to 2012. Only in Austria, Estonia, Finland and Luxembourg did our indicator deteriorate – but none of these countries is at the centre of the European debt crisis and all are performing relatively well in terms of public deficits. Portugal, where the deficit ratio was also bigger in 2012 than in 2011, is a special case because the huge reduction seen in 2011 was largely due to a one-off effect (transfer from bank pension funds to the state). The winner in our ranking is Germany, with a rating of 10 and the sole eurozone country with a balanced budget. At the other end of the scale Ireland is the only country still with a score of 1, whereas Greece and Spain managed to better their results, now having scores of 3. All in all, it is of course important to pursue consolidation efforts further. We forecast that the overall EMU deficit ratio will fall to 2.5% next year, i.e. clearly below the threshold of 3%. However, for some countries further EU-concessions might be required given the need to strike the right balance between belt-tightening and avoiding a vicious circle of consolidation measures and a faltering economy.

Government interest payments indicator 2012





Source: own estimates.

(1c) General government interest payments as % of total government expenditure

Compared to last year the top flight stayed the same: Estonia, Finland and Luxembourg receive a rating of 10, their estimated shares of general government interest payments in total government expenditure for 2012 lie between 0.2 and 2%. Next come France, Germany, the Netherlands, Slovakia and Slovenia, all scoring 8. Especially Germany, but to a lesser degree also other "EMU core countries", are benefitting from historically low interest rate levels, in part due to safe-haven effects. Ireland experienced the sharpest change for the worse in our indicator, its score slipping from 6 to 3. The poor performance is on the one hand related to the increase in the country's debt level, which drives the interest burden. But, on the other, the fact that Ireland slashed total government expenditure in relation to GDP – which in itself is a good thing – pushes up the weight of interest payments. The same reasoning applies to Portugal and Spain, with the only difference that expenditure cuts here were not as pronounced as in Ireland. Hence for these three countries indicator results are not as bad as they seem at first sight. The two "problem children", with a rating of 2, are Italy and Greece, both having shares of interest payments in government expenditure of almost 11% in 2012. This, however, is lower than in the early years of monetary union. In addition, compared to last year, the rating for Greece improved, with the interest expenditure to GDP ratio easing down from 7 to probably 5.2%.

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.

Competitiveness and Domestic Demand Ranking 2012

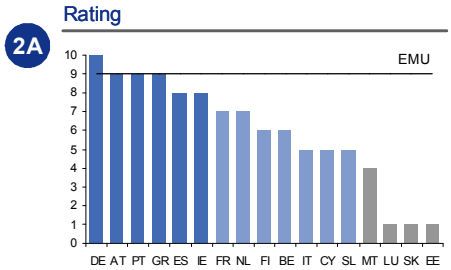
Rank 2012	EMU Member State	Rating 2012	Rank 2011	Rating 2011	Rank 2007	Rating 2007
1	Germany	7.5	1	8.0	4	8.8
2	Austria	7.3	1	8.0	1	9.5
3	Netherlands	6.5	3	7.5	6	8.5
3	Slovenia	6.5	4	7.0	7	8.0
5	Belgium	6.3	4	7.0	3	9.0
5	Slovakia	6.3	4	7.0	9	7.0
7	Spain	5.8	11	5.0	11	6.0
7	Luxembourg	5.8	7	6.5	2	9.3
9	Estonia	5.5	9	5.5		
9	Portugal	5.5	13	4.3	14	5.3
11	France	5.3	9	5.5	9	7.0
12	Finland	5.0	8	5.8	4	8.8
12	Ireland	5.0	11	5.0	15	5.0
14	Greece	4.5	16	3.5	12	5.8
15	Italy	4.3	13	4.3	8	7.3
15	Malta	4.3	13	4.3	13	5.5
17	Cyprus	2.8	17	3.0	16	4.3

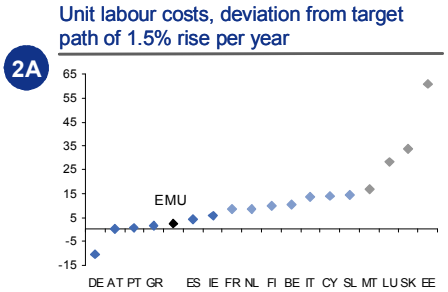
Opposing forces characterize the assessment in category 2. On the one hand, driven by gains in competitiveness that enhance export performance, but also by weakening imports, significant progress has been made in reducing current account deficits in the eurozone compared with the previous year. On the other hand, both private and public consolidation in highly indebted countries, unemployment and uncertainty are weighing heavily on domestic demand, which is one of the weakest performing Euro Monitor indicators in 2012. In addition, we expect global merchandise trade shares (exports) to fall in all eurozone countries.

Overall, 10 countries lost some ground in this category. In contrast to 2011, no single country achieves a score of 8 or more, which would signal a good performance across the board. On a more positive note, the Spanish, Greek and above all Portuguese category ratings improved significantly. All three countries are projected to rein in their current account deficits, while formerly buoyant unit labour cost developments are reversing, unit labour costs being the best performing indicator for Greece. Estonia, Ireland, Italy and Malta maintained their ratings. Regarding the ranking of EMU countries, the top of the table saw little change. Germany is first, followed by Austria and the Netherlands, with ratings of 7.5, 7.3 and 6.5 respectively. In this category, wage moderation and the attractiveness of German exports were the main factors helping the country to withstand the negative economic developments in the surrounding countries. Nonetheless, compared with 2000, Germany again lost global merchandise trade share. At the bottom we find Cyprus, where domestic demand plummeted, Malta, Italy and Greece (which nonetheless climbed up the ranking scale from No. 16 to No. 13).

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

Unit labour costs indicator 2012



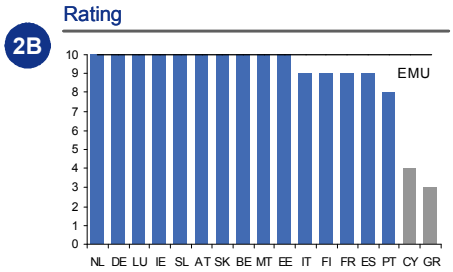


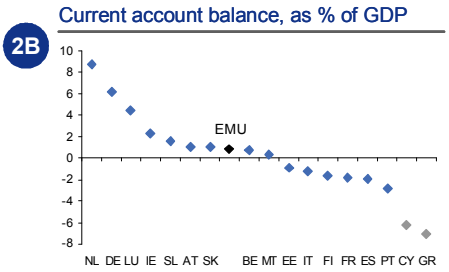
Sources: Eurostat projections, own estimates.

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

Unit labour cost developments have been diverging starkly within the eurozone. As our indicator 2a highlights, the deviation from the target path of 1.5% rise per year was especially low in Germany, which scores the maximum rating of 10, followed by Austria, Greece, and Portugal with a rating of 9. Greece has seen a significant improvement within the last year. Unit labour costs tumbled by 8.1% in 2012, shaving the deviation from the target path down from 14.2 index points in 2011 to only 1.7 in 2012 and pushing the rating up from 5 in 2011 to 9 in 2012. Spain and Portugal, whose unit labour costs declined by 3.6% and 3.3% respectively in 2012, have been able to upgrade their indicator ratings by two notches. This clearly shows crisis-driven adjustment progress. In contrast, nominal unit labour costs in Italy actually increased, driven by the poor development of labour productivity. In the lower range, Estonia, Slovakia and Luxembourg are expected to bring up the rear with a score of 1.

Current account balance indicator 2012





Source: own estimates.

(2b) Current account balance, as % of GDP[8]

Indicator 2b shows that external adjustment in the euro area is clearly under way, although high current account deficits and surpluses have not vanished altogether. Underpinned by changes in relative prices and competitiveness positions as well as gains in export market shares, significant progress has been made in reducing current account deficits in the eurozone compared with the previous year. All countries with a current-account deficit in 2011 are projected to have moved towards a more balanced current account in 2012 except for Finland, where both price and non-price

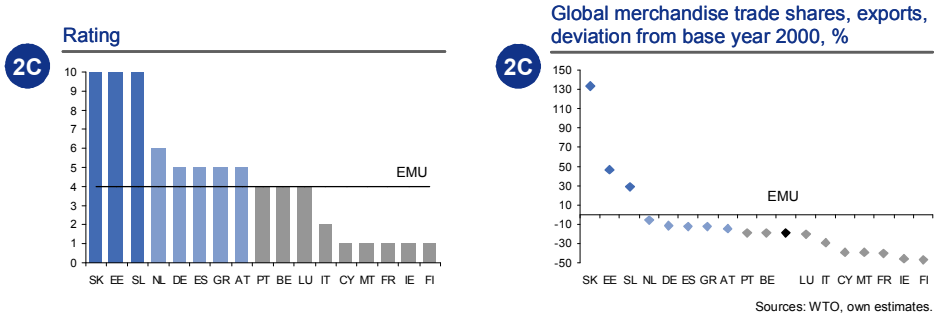
[8] A country's current account balance equals to the difference between aggregate saving (including the balance on the capital account) and overall net investment (gross investment less depreciation). Accordingly, a current account deficit corresponds to an aggregate savings gap which has to be closed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

competitiveness have deteriorated as some key export industries are undergoing structural changes. For the euro area as a whole, the current account is moving towards a significant surplus of 0.8% of GDP for the first time in a long while. This reflects, in particular, the painful but beneficial adjustment processes in the countries on Europe's periphery.

First and foremost, Portugal, which is often dubbed the model pupil among the program countries, is set to more than halve its current account deficit as a share of GDP from 6.4% in 2012 to 2.9% in 2012. As a result, Portugal's 2b rating shot up from a poor performing 4 to a good performing 8. Noteworthy, this development is not only stemming from weakening imports but also from stronger and more broad-based exports, especially outside the EU. In addition, the Cypriot current account which had been characterised by persistently high deficits over the past decade is set to improve appreciably from -10.4% of GDP in 2011 (rating of 1) to -6.3% in 2012 (rating of 4) as the formerly buoyant development of domestic demand is reverting (and the economy is shifting towards the tertiary sector). Moreover, Italy and Spain, where net exports as a % of GDP have turned positive this year, as well as crisis-torn Greece narrowed their current account deficits significantly, and will most likely improve their ratings by 2 notches each. The current account balances of the first two, which together with Cyprus belong to the circle of countries the Commission has placed under the Macroeconomic Imbalance Procedure (MIP) microscope that was launched last year, are now rated at 9. Although Greece, with a rating of 3, still belongs to the group of poor performers as regards external imbalances, the trimming of the Greek current account deficit by almost three percentage points to approximately 7% of GDP is remarkable.

Overall, our current account forecasts indicate that a considerable rebalancing of external positions is taking place within the single currency area. This should help reduce adjustment needs in the context of the MIP.

Global merchandise trade share indicator 2012



(2c) Global merchandise trade shares, exports, deviation from base year 2000 in %

On the back of weakening economic activity, global trade decelerated in the first half of 2012 and lost further steam in recent months. Overall, with an increase of no more than 2%, global trade will be very subdued in 2012, well below the medium-term average of a good 6%.

On average, the performance of euro area countries, is in line with this global picture. Besides subdued global trade, weak intra-EMU exports are also putting a strain on eurozone countries. Although in some member states export growth was supported by competitiveness gains, we expect global merchandise trade shares (exports) 2012 to fall in all eurozone countries. According to our indicator, which measures the percentage

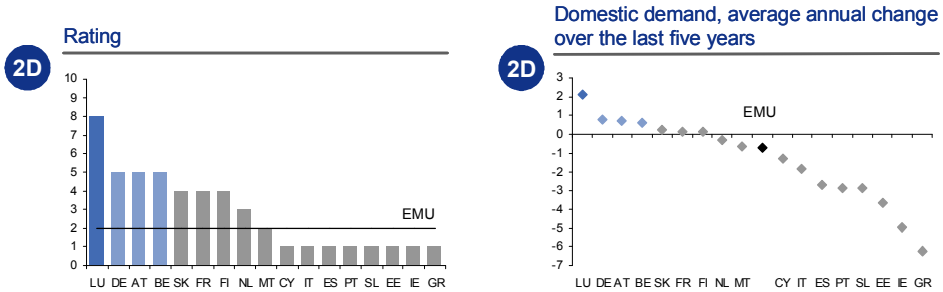
deviation of global merchandise trade shares from base year 2000, none of the member states was able to increase its trade share rating while nine countries were downgraded compared with 2011. It is also worth noting that the depreciation of the euro contributed to the drop in trade shares in comparison with the rest of the world.

Among the weak performers, with their share in world trade down more than 30% since 2000, we find Cyprus, Malta, France, Ireland and Finland.

In the middling performance group, which comprises countries that (marginally) lost trade shares, we find the Netherlands with a rating of 6, closely followed by former export world champion Germany, Spain, Greece and Austria (all rated at 5).

As in previous years, catch-up countries Slovakia, Estonia and Slovenia all finish with the top score 10. Compared with 2000, Slovakia's global merchandise trade grew by more than 130%, while Slovenia's and Estonia's shares increased by approximately 30% and 47%, respectively.

Domestic demand indicator 2012



Sources: EU Commission forecasts, own estimates.

(2d) Domestic demand, average annual change over the last five years

Domestic demand developments provide key pointers to the health of an economy and are a necessary complement to the current account picture as a current account surplus can be the result of weak demand and imports in the domestic economy. In this year's ranking, Luxembourg, where domestic demand has developed favourably (in contrast to exports), leads the field with a rating of 8. Austria, Belgium, and Germany follow some way behind with a rating of 5. Most countries saw their ratings drop compared with last year. Particularly striking was the massive drop in domestic demand in the Cypriot economy (with disposable income caught in the vice of rising unemployment and fiscal consolidation measures), with its rating nosediving to a miserable 1 from 7 last year. Cyprus, Estonia, Greece, Ireland, Italy, Portugal, Slovenia, and Spain all line up at the bottom end of the scale. It is therefore not surprising that, in 2012, the average annual change of domestic demand within the euro area as a whole over the last five years now stands at a disappointing -0.7%. Especially in Greece and Ireland, domestic demand remains deep in the doldrums compared with 2007, contracting by an average -6.2% and -5.0% respectively over the last five years. Overall, the poor performance is mainly due to adjustments on the labour market accompanied by income losses, ongoing deleveraging in the private sector, widespread uncertainty, unfavourable credit conditions, and in some cases high savings ratios. In other countries, where the labour market is performing particularly badly, savings rates are heading south. For the eurozone as a whole, this indicator, alongside indicator 3a, scores the worst (both rated 2).

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. The 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.

Germany (category rating of 7.3) leads this category, followed by Austria (6.8), Malta (6.5) and Luxembourg (5.8). At the bottom of the category, we find Greece and Estonia (both rated at 2.5) as well as Slovenia, Portugal and Cyprus (all rated at 3.0).

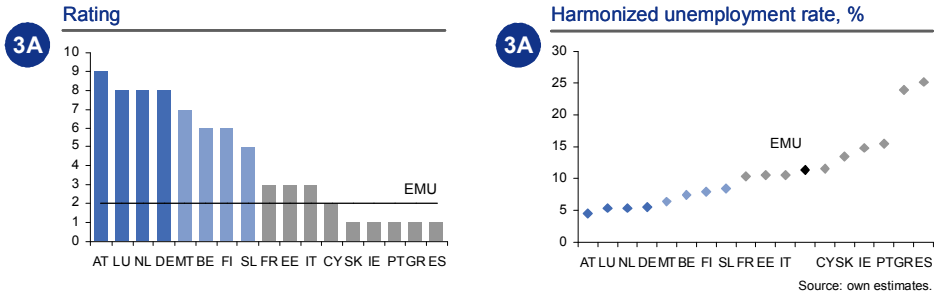
All in all, eurozone countries mostly show low and lower middling ratings in this category. This is mainly due to the weak development in the indicators unemployment rate and change of employment ratio, with labour markets being squeezed by low economic activity in the shadow of austerity measures. Not surprisingly, the unemployment indicator belongs to the weakest items in our indicator set, with nearly one third of EMU countries struggling with double-digit unemployment rates. Compared with last year, no single country was able to improve its category assessment, and more than two thirds of the member states experienced a downgrade in "jobs, productivity and resource efficiency" in 2012, above all Cyprus (from 5.0 to 3.0, tumbling 6 notches from rank 6 to rank 11). Apart from Germany (ranked No. 1 as in 2011) and Malta (No. 2), Ireland, Spain and Greece remained mired at their (already unsatisfactory) average category rating. Looking ahead, labour market reforms should start to bear fruit, helping to lift performance in this category.

Jobs, Productivity and Resource Efficiency Rating 2012

Rank 2012	EMU Member State	Rating 2012	Rank 2011	Rating 2011	Rank 2007	Rating 2007
1	Germany	7.3	1	7.3	9	6.8
2	Austria	6.8	2	7.0	3	7.8
3	Malta	6.5	3	6.5	14	5.8
4	Luxembourg	5.8	5	6.3	5	7.5
5	Netherlands	5.5	3	6.5	3	7.8
6	Ireland	5.0	7	5.0	1	8.5
7	Belgium	4.8	7	5.0	11	6.5
7	France	4.8	6	5.3	12	6.3
9	Spain	4.3	11	4.3	12	6.3
10	Italy	4.0	7	5.0	7	7.0
11	Finland	3.8	11	4.3	7	7.0
12	Slovakia	3.3	11	4.3	15	5.5
13	Cyprus	3.0	7	5.0	9	6.8
13	Portugal	3.0	15	3.8	15	5.5
13	Slovenia	3.0	14	4.0	2	8.0
16	Estonia	2.5	16	2.8		
16	Greece	2.5	17	2.5	6	7.3

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

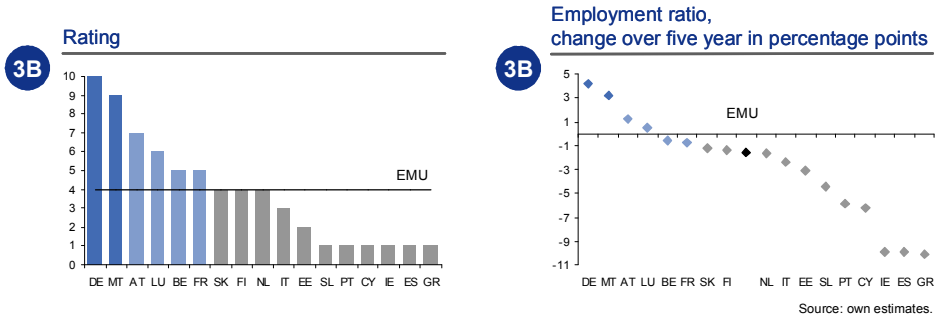
Unemployment rate indicator 2012



(3a) Harmonized unemployment rate in %

Turning to unemployment, Austria leads the field with a score of 9, closely followed by Germany, Luxembourg and the Netherlands, each reaching a score of 8. Despite the economic crisis, their jobless ratios remained relatively steady. Apart from Germany, only Malta (-0.2 percentage points in 2012) and, even more markedly, Estonia (down a full two percentage points to probably 10.5% in 2012) saw a decline in the unemployment ratio. The performance of Germany is quite impressive. After peaking in 2005 at an average of 11.2%, Germany's unemployment rate has since been in decline and is now down to 5.5%. In contrast, the other two EMU heavyweights, France and Italy, perform disappointingly, with a score of 3. However, the unemployment figures in other European countries are truly alarming. Spain, Greece, Portugal, Ireland and Slovakia are all grappling with double-digit rates, resulting in a poor rating of 1. Whereas the unemployment rate in Slovakia remained at the same level as last year (13.5%), the labour market situation in Spain and Greece is particularly precarious. Unemployment rates soared to 25.1% in Spain and 24.0% in Greece in 2012 and are now the highest in the euro area. Given the close ties with the Greek economy, Cyprus registered a painful jump in unemployment from 7.9% in 2011 to presumably 11.5% in 2012 (the biggest deterioration in our indicator among the analyzed countries).

Employment ratio indicator 2012

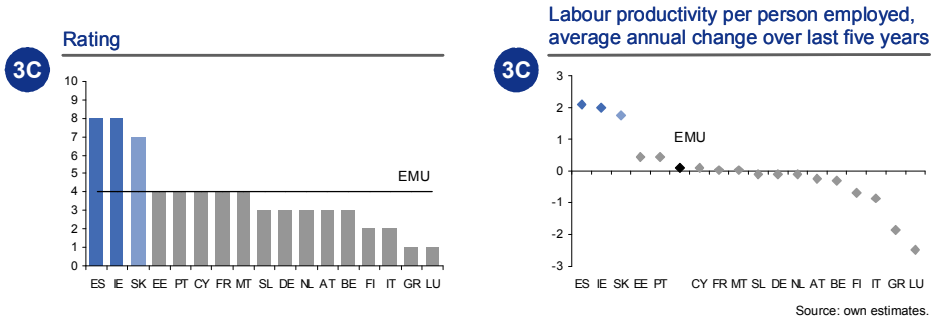


(3b) Employment ratio, change over five years in percentage points

Although this indicator is by nature quite stable, as it consists of a medium-term assessment showing the percentage change in each country's employment ratio over five years, in a host of European countries it nonetheless shows the scars of the crisis. It should be noted that the employment rate represents persons in employment (a person is considered employed if he has spent at least 1 hour in "gainful" employment in the

most recent week) as a percentage of the population of working age (15 to 64 years). In this category, Germany again leads the field with a rating of 10, followed by Malta and Austria with ratings of 9 and 7 respectively. All three show employment figures above 70%. However, other countries again fell short of the former Lisbon Agenda goal of a 70% employment ratio. Especially European peripheral countries, where labour markets are being squeezed by low economic activity in the shadow of austerity measures and structural problems, performed very poorly. Slovakia (59.5%), Ireland (59.3%), Malta (57.8%), Italy (56.3%), Spain (55.7%) and Greece (51.3%) bring up the rear with employment figures below 60%. Greece hovers at the bottom of the ranking. From 2007 to 2012 its employment ratio slid by 10.1 percentage points from 61.4% to 51.3%. Similar stories can be told for Ireland with a drop in employment from 69.2% in 2007 to 59.3% in 2012, for Spain down from 65.6% in 2007 to 55.7% in 2012, and for Cyprus where the employment rate slipped from 71.0% in 2007 to 64.7% in 2012. Structural reforms, once adopted, require considerable time before they can unfold their full impact on economic development. In Spain and Portugal, the reform process started about two years ago, in Italy about a year ago. We therefore expect the first positive effects to feed through to the labour market within the next two years – if implementation is carried through.

Labour productivity indicator 2012

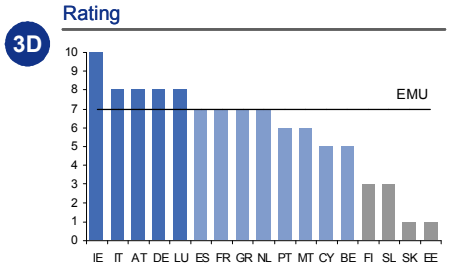


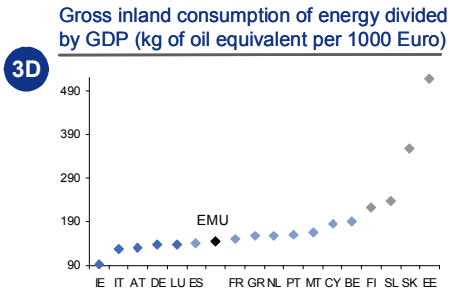
(3c) Labour productivity per person employed, average annual change over the last five years

On the back of low economic activity, indicator 3c, which covers average annual growth in labour productivity, defined as real output divided by total employed persons, is flashing red. 14 countries belong to the poor performing rating group, Luxemburg and Greece being rated at 1 with an annual average slump in productivity of more than 1%. In the middling range, we find Slovakia (rated at 7), while only Spain and Ireland belong to the group of top-performing countries with respect to our labour productivity indicator. Both are rated at 8, with labour productivity over a five-year-horizon set to rise between 2 and 2.5% on average. Compared with 2011, ten countries were downgraded – Spain is the only country with a higher rating in 2012.

From a shorter-term perspective, we expect labour productivity to rise in the peripheral countries Ireland, Spain and Portugal compared with 2011. Italy, on the other hand, has not yet overcome its problem of chronically low productivity growth, with the result that labour productivity is projected to fall in 2012. Looking ahead, however, the Italian labour market reforms should start to bear fruit.

Inland consumption of energy indicator 2012





Source: own estimates.

(3d) Inland consumption of energy divided by GDP

This indicator, which assesses the level of energy intensity as measured by kilogram of oil equivalent per EUR 1000, is mainly influenced by long-term technologies and investments that reduce energy demand. (As such, it is less vulnerable to short-term changes than the other indicators in our "Jobs, Growth and Resource Efficiency" category.) The performance of most EMU countries was quite good but there is still room for improvement on the energy intensity front. Not least since increasing the energy efficiency by 20% is one of the five main goals of the Europe 2020 strategy. Since 2004 Ireland has enjoyed the highest indicator rating of 10 with an inland consumption of energy of 92.4 per EUR 1000 in 2012, the lowest level of energy consumption per GDP. Besides Ireland, our indicator highlights Austria, Italy, Luxembourg, and Spain (all rated at 8) as energy-efficient economies, whereas Estonia and Slovakia (both rated at 1) stand out as laggards on the energy intensity front. Although they have recorded the biggest reduction, their inland energy consumption still stands at very high levels of about 534 and 364 per EUR 1000, respectively.

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.

Private and Foreign Debt Rating 2012

Rank 2012	EMU Member State	Rating 2012	Rank 2011	Rating 2011	Rank 2007	Rating 2007
1	Germany	8.7	1	8.0	1	9.0
2	Austria	7.7	4	6.3	6	6.0
2	Netherlands	7.7	2	7.0	4	6.7
4	Estonia	7.3	2	7.0		
5	Belgium	7.0	8	5.7	2	7.0
5	France	7.0	5	6.0	5	6.3
7	Finland	6.7	5	6.0	7	5.7
7	Italy	6.7	5	6.0	8	5.3
7	Slovakia	6.7	8	5.7	2	7.0
10	Spain	5.7	10	4.3	14	1.7
10	Slovenia	5.7	10	4.3	8	5.3
12	Greece	4.3	12	3.7	11	2.7
12	Portugal	4.3	13	2.7	11	2.7
14	Ireland	3.0	14	1.7	13	2.5
15	Cyprus	1.7	15	1.0	10	5.0
	Luxembourg					
	Malta					

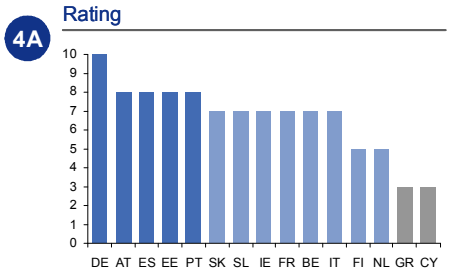
Compared with 2011, all EMU countries analyzed in this category were able to improve their "Private and foreign debt" rating. While deleveraging in the private sector is making headway, there has been practically no change in the ratings compared with 2011 regarding external debt positions.

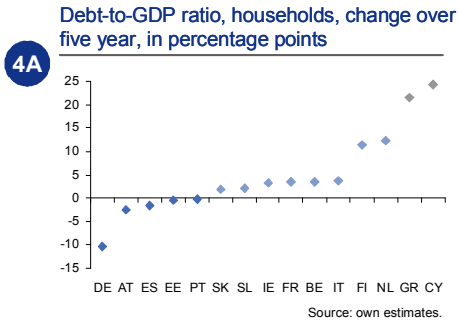
Germany, which stands out as regards its decreasing household indebtedness over the medium term as well as its high stock of net external assets, is the only top-rated country in this category, achieving an average category rating of 8.7. Austria, which compared with 2011, was able to catch up as regards corporate debt dynamics, and the Netherlands share rank No. 2. Although rated at 8 with respect to corporate indebtedness and 10 with respect to foreign debt, the medium-term debt development of Dutch private households is still a matter of concern (rated at 5) and pushes the Netherlands below Germany.

At the lower end, we find Cyprus with a score of 1.7, having still ranked No. 10 in 2007 with a score of 5.0. Ever since, the indebtedness of Cypriot non-financial corporations and the economy's net external liabilities as a share of GDP have deteriorated. Public and private debt developments go hand in hand not only in Ireland (score of 3.0) but also in Portugal and Greece, which tie for the No. 12 spot with a score of 4.3, on the brink to the middling performance group. Quite the opposite, Italy and Spain, ranking No. 7 and 10 respectively, suffer from a poor fiscal sustainability-rating on the one hand but enjoy a middling private and foreign debt-rating on the other. Although Spanish net foreign liabilities still clearly exceed net foreign assets, the deleveraging of non-financial corporations in particular should help ease the pressure on the Spanish economy.

Let us now have a detailed look at the individual country ratings per indicator in 2012 as illustrated by the graphs below.

Debt-to-GDP ratio of households indicator 2012





(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. While in Italy, Slovakia and Slovenia, household debt as a share of GDP stands at less than 50%, the stock of private sector debt amounts to more than 100% of GDP in Cyprus, Ireland (where the property bubble had spawned a dramatic rise in the demand for loans and a steep increase in household debt) and the Netherlands.

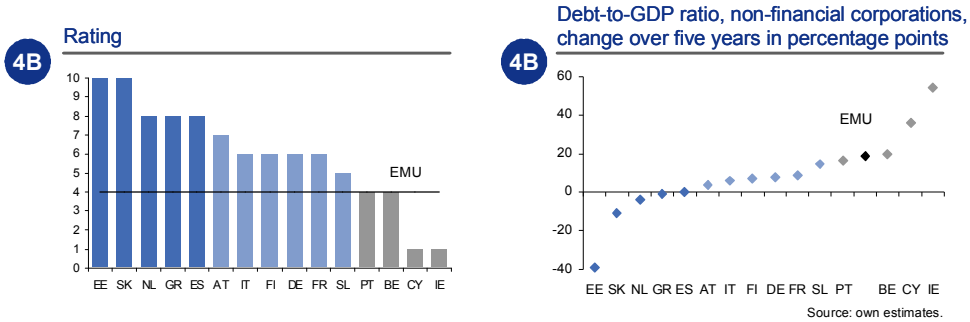
Overall, deleveraging of private households is making clear headway as the shadows cast by the euro-area sovereign-debt crisis have prompted households to delay consumption and increase their precautionary savings.

Compared with last year's rating, our assessment of the change in household indebtedness over the last five years is more positive in all member countries with the

exception of Greece (down by one rating point to 3) and Finland (standstill at 5). Above all, medium-term debt dynamics slowed down considerably in program country Ireland which left the low performance group behind and whose rating shot up by 4 notches to 7. We project Irish households' debt-to-GDP ratio to rise by less than five percentage points compared with 2007. In addition, France, Portugal and Cyprus were able to improve their rating by 2 notches to 7, 8 and 3, respectively.

15 out of the 17 member states are medium or high performers. Only in Greece and Cyprus, where private household debt in 2012 is projected to amount to roughly 74% and 151% of GDP, respectively, are debt dynamics over a five-year horizon still worrying (both rated at 3), although they slowed down significantly in Cyprus (see above). Compared with 2007, the debt-to-GDP ratio is projected to increase by more than 20 percentage points, leaving them in the group of poor performers. In contrast, we expect household indebtedness in Germany, rated best, to have fallen by approximately 10 percentage points since 2007.

Debt-to-GDP ratio non-fin corporations indicator 2012



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

Corporate debt ratios in the eurozone are substantial by historical standards. This can be seen, above all, in long-term comparisons with non-financial businesses in the US.[9] In eight of the 15 countries covered, and especially in Ireland and Belgium, the corporate sector is still over-indebted with a ratio of more than 100% of GDP. As with government and private households, this high level of indebtedness renders non-financial corporations vulnerable to interest rate developments and negative credit risk assessments by market participants.

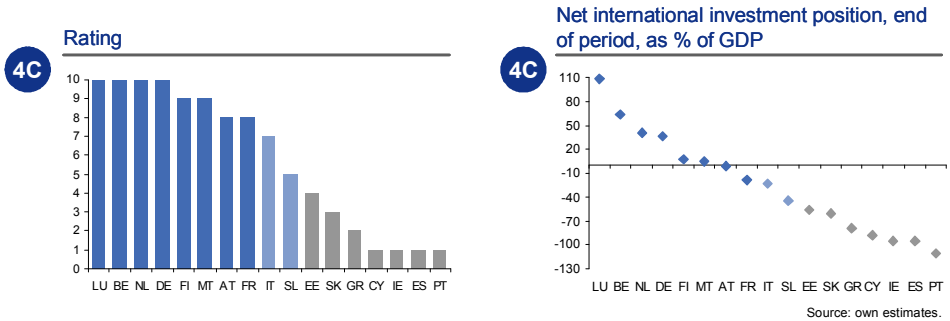
Encouragingly, indicator 4b shows that deleveraging of non-financial corporations is clearly under way. Both demand-side factors, such as weaker capital formation and a higher propensity to retain earnings, and supply-side factors, such as tighter credit standards, are driving the gradual decline in debt ratios.

As regards the change over five years in percentage points, Estonia and Slovakia (both rated at 10) as well as Greece (where the debt-to-GDP ratio of non-financial corporations is comparatively low at roughly 53%), Portugal and Spain (all rated at 8) were able to reduce corporate indebtedness the most. Striking once again is how well situated Estonia is in terms of its debt position not only in the public but also in the private sector.

[9] See ECB Monthly Bulletin February 2012, p. 87.

At the opposite end of the scale, in four countries, namely Cyprus and Ireland (rated at 1 with increases of more than 30 percentage points over 2007) as well as Belgium and Portugal (both rated at 4 with increases of more than 15 percentage points), debt dynamics are still a cause for concern. On a more positive note, leveraging slowed down in Belgium and Portugal such that both countries are projected to lift their ratings by three notches. Besides Belgium and Portugal, member countries Austria, Slovenia and Spain most significantly reversed their medium-term corporate debt dynamics in 2012 and climbed up the rating scale by 3 points to 7, 5 and 8, respectively.

Net international investment position indicator 2012



(4c) Net international investment position, as % of GDP

To measure foreign debt we use the net international investment position (NIIP), 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 2011. Only Greece made up ground on the back of the private sector involvement, improving its rating by one notch to 2 (with a reduction of its international investment position of more than 16 percentage points since 2010). Cyprus, on the other hand, had already experienced a steep 4-notch downgrade to a rating of 1 in 2010 and has not been able to reduce net external liabilities ever since.

Nearly half of the evaluated countries, namely Austria, Belgium, Finland, France and Germany, Luxemburg, Malta and the Netherlands still belong to the top performers with ratings of at least 8, while the remaining countries, with the exception of Slovenia (rated at 5), are considered poor performers (with a rating of 4 or lower).

Especially Luxembourg (with net assets of more than 100% of GDP), Belgium, the Netherlands and Germany, which are all rated at 10, the stock of external assets exceeds the stock of external liabilities by far.

By contrast, stubborn current account deficits had implied deteriorating NIIP over time in Ireland, Spain, Greece, Cyprus and above all Portugal, where net liabilities amount to 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. As already mentioned above, Cyprus experienced the steepest rise in net liabilities within the last two years as net liabilities as a share of GDP nearly doubled, coming in at almost 90%. On a more positive note, Ireland's net international investment position, although still at a very high level, is set to decrease slightly to around -95% in 2012.

3. CONCLUSION AND OUTLOOK

Not unexpectedly, the Euro Monitor 2012 fails to issue a clean bill of health for the eurozone economy. The inescapable austerity needed to rein in runaway public finances was bound to cause pain and curb growth. Nonetheless, genuine progress is being made towards restoring the health of the eurozone economy, with encouraging signs that the reforms are beginning to bear fruit.

Last year's Euro Monitor bemoaned the continued absence of a coherent strategy on the way forward. Progress on this front has doubtless been made this year, but the details remain hazy. A great deal hinges on the upcoming EU summit in mid-December when concrete progress needs to be made on central pillars of governance reform such as the envisaged European banking union and the time-bound roadmap towards enhanced integration. Unless the road to Europe's future is staked out more clearly, people will lose faith in the benefits to be gained from the painful reforms currently in place.

One of the main tasks of the empowered EU institutions is fiscal guidance: strong mutual control of fiscal policies and an enforceable commitment of all euro-countries to stable and sustainable debt policies. Countries must accept EU-level interference if they breach the rules. The lack of meaningful fiscal controls has been the biggest flaw of the Monetary Union. In the past, compliance was basically based on persuasion. It was doomed to fail.

An effective enforcement of the EU's fiscal rules requires some transfer of sovereign fiscal rights from the national to the EU-level. On their own, sanctions intended to punish sovereign debtors deviating from fiscal rules will not do the job. What is needed is an EU institution (e.g. EU finance commissioner) with the power to directly intervene in national tax or expenditure policies if countries do not stick to their commitments. Such intervention could entail the earmarking of a percentage of taxes for debt reduction or the enforcement of linear expenditure cuts.

Control of national fiscal policies is necessary but not sufficient. Just as important is the consistency of national economic policies. One of the main lessons of the crisis has been that focusing only on fiscal deficits and public debt dynamics risks overlooking dangerous macroeconomic imbalances that were at the core of the crisis in some countries. Excessive risk-taking by banks, huge private sector leveraging, booms and busts in real estate and mortgage markets, enormous current account deficits are some of the most prominent examples.

Therefore, the EU Council has already added an Excessive Imbalance Procedure (EIP) to the Stability and Growth Pact to monitor and to correct such imbalances. Again, this process needs more teeth. The monitoring of these indicators should be done by the empowered finance commissioner in co-operation with the ESRB (European Systemic Risk Board). Member states' counter-measures and reforms promoting growth and competitiveness should be defined by contractual arrangements giving the EU-Commission the power to force member states to take corrective actions.

Furthermore, the mandate of the ESRB should be expanded, too: from analyzing the evolution of systemic risks in the respective financial systems to monitoring economic imbalances as well; and its powers and instruments to correct these developments (e.g. by tightening regulation or capital requirements in times of financial booms) should be strengthened: recommendations of the ESRB should be binding. In the EU of 2022 the ESRB should be a major factor for macroeconomic and financial stability. A beefed-up

macro-prudential policy implies that the new single banking supervisor is also provided with macro-prudential policy tools.

The ambition of policymakers should be to eliminate the flaws in the present institutional framework of the euro, to foster integration and unity among the EMU and the EU members. In short: to unite and not to divide the old continent. In the world we live in, European unity is the only way forward if we want to preserve our influence on the international world order, safeguarding our living standards for the coming generations.

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 64.8% 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 2012 to 2007.

Euro Monitor 2012

Country Rating 2012

European Monetary Union Member State	(1a) Government debt	(1b) Government deficit/surplus	(1c) Government interest payments	(1d) Adjusted primary balance	(2a) Unit labor costs	(2b) Current account balance	(2c) Global merchandise trade share	(2d) Domestic demand	(3a) Unemployment rate	(3b) Employment ratio	(3c) Labour productivity	(3d) Inland consumption of energy	(4a) Dept-to-GDP ratio of households	(4b) Dept-to-GDP of non-fin corporations	(4c) International investment position	Sum over all indicators	Number of indicators observed	(C1) Fiscal Sustainability = sum 1a 1d / obs 1a 1d	(C2) Competitiveness and domestic demand = sum 2a - 2d /obs 2a - 2d	(C3) Jobs, Productivity and Resource Efficiency = sum 3a - 3d /obs 3a - 3d	(C4) Private and Foreign Debt = sum 4a-4c /obs 4a-4c	Monitor Rating= sum /obs	Euro Monitor Ranking
	1a	1b	1c	1d	2a	2b	2c	2d	3a	3b	3c	3d	4a	4b	4c	sum	obs	C1	C2	C3	C4	EM12	Rank
Germany	5	10	8	#	10	10	5	5	8	10	3	8	10	6	10	108	14	7.7	7.5	7.3	8.7	7.71	1.
Austria	6	6	7	#	9	10	5	5	9	7	3	8	8	7	8	98	14	6.3	7.3	5.8	7.7	7.00	2.
Luxembourg	10	8	10	#	1	10	4	8	8	6	1	8	#	#	10	84	12	9.3	5.8	5.8	#	7.00	2.
Netherlands	7	6	8	#	7	10	6	3	8	4	3	7	5	8	10	92	14	7.0	6.5	5.5	7.7	6.57	4.
Belgium	4	7	6	#	6	10	4	5	6	5	3	5	7	4	10	82	14	5.7	6.3	4.8	7.0	5.86	5.
Estonia	10	8	10	#	1	10	10	1	3	2	4	1	8	10	4	82	14	9.3	5.5	2.5	7.3	5.86	5.
Malta	6	7	5	#	4	10	1	2	7	9	4	6	#	#	9	70	12	6.0	4.3	3.5	#	5.83	7.
Finland	8	8	10	#	6	9	1	4	6	4	2	3	5	6	9	81	14	8.7	5.0	3.8	6.7	5.79	8.
Slovakia	8	5	8	#	1	10	10	4	1	4	7	1	7	10	3	79	14	7.0	6.3	3.3	6.7	5.64	9.
France	5	5	8	#	7	9	1	4	3	5	4	7	7	6	8	79	14	6.0	5.3	4.8	7.0	5.64	9.
Slovenia	8	5	8	#	5	10	10	1	5	1	3	3	7	5	5	76	14	7.0	6.5	3.0	5.7	5.43	11.
Spain	5	3	5	#	8	9	5	1	1	1	8	7	8	8	1	70	14	4.3	5.8	4.3	5.7	5.00	12.
Italy	1	7	2	#	5	9	2	1	3	3	2	8	7	6	7	63	14	3.3	4.3	4.0	6.7	4.50	13.
Portugal	2	5	3	#	9	8	4	1	1	1	4	6	8	4	1	57	14	3.3	5.5	3.0	4.3	4.07	14.
Ireland	2	1	3	#	8	10	1	1	1	1	8	10	7	1	1	55	14	2.0	5.0	5.0	3.0	3.93	15.
Greece	1	3	2	#	9	3	5	1	1	1	1	7	3	8	2	47	14	2.0	4.5	2.5	4.3	3.36	16.
Cyprus	5	4	5	#	5	4	1	1	2	1	4	5	3	1	1	42	14	4.7	2.8	3.0	1.7	3.00	17.
Euro Area 17	4	7	6	#	9	10	4	2	2	4	4	7	#	4	#	63	12	6	6	4	4	5.3	
EU27	5	6	6	#	10	10	4	#	3	4	4	7	#	4	#	63	11	6	8	5	4	5.7	

Euro Monitor 2011

Country Rating 2011

European Monetary Union Member State	(1a) Government debt	(1b) Government deficit/surplus	(1c) Government interest payments	(1d) Adjusted primary balance	(2a) Unit labor costs	(2b) Current account balance	(2c) Global merchandise trade share	(2d) Domestic demand	(3a) Unemployment rate	(3b) Employment ratio	(3c) Labour productivity	(3d) Hand consumption of energy	(4a) Debt-to-GDP ratio of households	(4b) Debt-to-GDP of non-fin corporations	(4c) International Investment position	Sum over all indicators	Number of indicators observed	(C1) Fiscal Sustainability = sum 1a-1d / obs 1a-1d	(C2) Competitiveness and domestic demand = sum 2a-2d / obs 2a-2d	(C3) Jobs, Productivity and Resource Efficiency = sum 3a-3d / obs 3a-3d	(C4) Private and Foreign Debt = sum 4a-4c / obs 4a-4c	Monitor Rating = sum/obs	Euro Monitor Ranking
	1a	1b	1c	1d	2a	2b	2c	2d	3a	3b	3c	3d	4a	4b	4c	sum	obs	C1	C2	C3	C4	EM11	Rank
Germany	3	9	3	5	10	10	3	6	8	10	4	7	3	5	10	108	14	7.7	8.0	7.3	8.0	7.71	1.
Luxembourg	10	9	10	1	1	10	3	9	9	7	1	8	#	#	10	90	12	9.7	6.5	6.3	#	7.50	2.
Austria	3	7	7	5	10	10	3	6	9	7	4	8	7	4	3	99	14	6.7	8.0	7.0	6.3	7.07	3.
Netherlands	7	5	3	2	7	10	3	5	9	6	4	7	4	7	10	98	14	7.0	7.5	6.5	7.0	7.00	4.
Slovakia	3	5	3	6	1	10	10	7	1	6	3	1	3	8	3	84	14	7.3	7.0	4.3	5.7	6.00	6.
Finland	3	9	10	2	7	9	1	6	6	5	3	3	5	4	3	86	14	9.3	6.8	4.3	6.0	6.14	5.
Estonia	10	10	10	10	1	10	10	1	1	0	0	1	7	10	4	94	14	10.0	5.5	2.0	7.0	6.00	6.
Belgium	4	6	3	2	7	10	5	6	6	6	3	5	3	1	10	81	14	5.3	7.0	5.0	5.7	5.79	9.
Malta	7	7	5	3	4	9	1	3	7	9	4	6	#	#	3	71	12	6.3	4.3	6.5	9.0	5.92	8.
France	5	4	3	7	7	9	1	5	4	6	4	7	5	5	3	78	14	5.7	5.5	5.3	6.0	5.57	10.
Slovenia	3	3	3	1	5	10	10	3	5	3	5	3	3	2	5	78	14	7.0	7.0	4.0	4.3	5.57	10.
Italy	2	6	3	7	5	7	3	2	5	4	3	8	3	5	7	66	14	3.7	4.3	5.0	6.0	4.71	12.
Spain	7	1	7	2	3	7	3	1	1	1	7	8	7	5	1	65	14	5.0	5.0	4.3	#	4.64	13.
Cyprus	3	3	7	1	3	1	1	7	6	4	5	5	1	1	1	51	14	5.3	3.0	5.0	1.0	3.64	16.
Portugal	3	5	4	7	7	4	5	1	1	2	5	7	3	1	1	52	14	4.0	4.3	3.8	2.7	3.71	15.
Ireland	3	1	3	2	3	10	1	1	1	1	3	10	3	1	1	55	14	3.3	5.0	5.0	1.7	3.93	14.
Greece	1	1	1	1	5	1	7	1	1	1	1	7	4	0	1	30	14	1.0	2.5	2.5	0.7	2.71	17.
Euro Area 17	5	5	3	5	3	10	5	4	3	5	4	7	7	4	#	74	13	5	7	5	6	5.69	
EU27	5	5	7	5	10	10	5	#	4	5	4	7	7	4	#	73	12	6	3	5	6	6.08	

Euro Monitor 2010

Country Rating 2010

European Monetary Union Member State	(1a) Government debt	(1b) Government deficit/surplus	(1c) Government interest payments	(1d) Adjusted primary balance	(2a) Unit labor costs	(2b) Current account balance	(2c) Global merchandise trade share	(2d) Domestic demand	(3a) Unemployment rate	(3b) Employment ratio	(3c) Labour productivity	(3d) Inland consumption of energy	(4a) Debt-to-GDP ratio of households	(4b) Debt-to-GDP of non-fin corporations	(4c) International investment position	Sum over all indicators	Number of indicators observed	(C1) Fiscal Sustainability = sum 1a-1d /obs 1a - 1c	(C2) Competitiveness and domestic demand = sum 2a - 2d /obs 2a - 2d	(C3) Jobs, Productivity and Resource Efficiency = sum 3a - 3d /obs 3a - 3d	(C4) Private and Foreign Debt = sum 4a-4c /obs 4a-4c	Monitor Rating = sum /obs	Euro Monitor Ranking
	1a	1b	1c	1d	2a	2b	2c	2d	3a	3b	3c	3d	4a	4b	4c	sum	obs	C1	C2	C3	C4	EMM	Rank
Germany	5	5	7	5	10	10	7	6	6	10	5	7	9	6	10	103	14	6.7	8.3	7.0	8.3	7.36	2.
Luxembourg	10	9	10	1	2	10	7	7	9	7	1	7	#	#	10	89	12	9.7	6.5	6.0	#	7.42	1.
Austria	6	5	7	5	10	10	7	5	9	9	4	8	7	2	8	97	14	6.0	8.0	7.5	5.7	6.93	4.
Netherlands	7	4	9	2	7	10	8	6	9	7	4	7	4	8	10	100	14	6.7	7.8	6.3	7.3	7.14	3.
Slovakia	9	2	9	6	1	8	10	9	1	7	10	1	6	8	3	84	14	6.7	7.0	4.3	5.7	6.00	6.
Finland	9	7	10	2	7	10	1	6	6	6	4	3	4	3	9	82	14	8.7	6.8	4.3	6.3	5.86	7.
Slovenia	10	4	9	1	4	10	10	6	6	6	6	3	5	1	10	90	14	7.7	7.5	5.3	5.3	6.43	5.
Belgium	4	6	6	2	7	10	6	6	5	6	4	5	6	1	10	82	14	5.3	7.3	5.0	5.7	5.86	7.
Malta	7	6	5	3	4	5	1	6	6	8	5	6	#	#	9	68	12	6.0	4.0	6.3	#	5.67	9.
Estoria	10	10	10	10	1	10	10	1	1	2	8	1	4	7	2	77	14	10.0	5.5	3.0	4.3	5.50	10
France	6	2	8	7	7	9	1	6	4	6	4	7	6	6	8	76	14	6.0	6.6	6.3	6.0	5.43	11
Cyprus	7	4	8	1	4	1	1	10	7	7	6	6	2	1	5	69	14	6.3	4.0	6.5	2.7	4.93	12
Italy	2	5	4	7	5	7	3	3	5	5	3	8	5	5	7	67	14	3.7	4.5	5.3	5.7	4.79	13
Spain	7	1	8	2	5	6	6	4	1	1	6	8	5	1	1	60	14	5.3	5.3	4.0	2.3	4.29	14
Portugal	4	1	7	7	7	1	4	4	1	4	6	7	5	1	1	53	14	4.0	4.0	4.5	2.3	3.79	16
Ireland	4	1	8	2	6	10	1	1	1	1	7	10	1	1	#	52	13	4.3	4.5	4.3	1.0	4.00	15
Greece	1	1	1	1	3	1	3	3	1	5	3	7	3	5	1	38	14	1.0	2.5	4.0	3.0	2.71	17
Euro Area 16	5	3	7	5	8	10	5	5	3	6	4	7	6	4	#	73	13	5	7	5	5	5.62	
EU27	5	3	7	5	10	10	5	#	4	6	4	7	6	4	#	71	12	5	8	5	5	5.92	

Euro Monitor 2009

Country Rating 2009

European Monetary Union Member State	(1a) Government debt	(1b) Government deficit/surplus	(1c) Government interest payments	(1d) Adjusted primary balance	(2a) Unit labor costs	(2b) Current account balance	(2c) Global merchandise trade share	(2d) Domestic demand	(3a) Unemployment rate	(3b) Employment ratio	(3c) Labour productivity	(3d) Inland consumption of energy	(4a) Debt-to-GDP ratio of households	(4b) Debt-to-GDP of non-fin corporations	(4c) International investment position	Sum over all indicators	Number of indicators observed	(C1) Fiscal Sustainability = sum 1a-1d / obs 1a - 1d	(C2) Competitiveness and domestic demand = sum 2a - 2d / obs 2a - 2d	(C3) Jobs, Productivity and Resource Efficiency = sum 3a - 3d / obs 3a - 3d	(C4) Private and Foreign Debt = sum 4a-4c / obs 4a- 4c	Monitor Rating = sum / obs	Euro Monitor Ranking
	1a	1b	1c	1d	2a	2b	2c	2d	3a	3b	3c	3d	4a	4b	4c	sum	obs	C1	C2	C3	C4	EM09	Rank
Luxembourg	10	9	10	1	2	10	10	5	8	8	1	8	#	#	10	91	12	6.7	6.8	6.3	#	7.58	1.
Germany	6	6	7	5	10	10	8	5	6	10	4	7	9	6	10	104	14	6.3	8.3	6.8	8.3	7.43	2.
Austria	7	5	7	5	9	10	9	6	10	9	4	9	6	3	9	100	14	6.3	9.3	7.9	5.7	7.14	3.
Netherlands	7	4	8	2	6	10	9	7	10	9	4	7	3	7	9	100	14	6.3	8.0	7.5	6.3	7.14	3.
Slovakia	10	2	9	6	1	8	10	10	1	9	10	1	6	8	3	88	14	7.0	7.3	5.3	5.7	6.29	6.
Slovenia	10	4	10	1	3	10	10	7	8	8	6	3	5	1	9	94	14	6.0	7.5	6.3	5.0	6.71	5.
Belgium	4	4	6	2	7	9	8	6	6	7	3	5	5	2	10	82	14	4.7	7.5	5.3	5.7	5.86	8.
Finland	9	7	10	2	6	10	2	6	5	7	3	4	3	3	8	83	14	6.7	6.0	4.8	4.7	5.93	7.
France	6	2	8	7	7	9	3	6	4	6	4	7	5	4	8	79	14	5.3	6.3	5.3	5.7	5.64	9.
Malta	7	6	5	3	3	3	1	8	7	7	5	6	#	#	9	67	12	6.0	3.8	6.3	#	5.58	10.
Italy	2	4	4	7	4	8	5	3	6	5	2	8	5	4	10	70	14	3.3	5.0	5.3	6.3	5.00	12.
Cyprus	8	3	7	1	4	1	1	10	8	6	5	5	1	1	6	66	14	6.0	4.0	6.0	2.7	4.71	13.
Spain	8	1	9	2	3	6	8	6	1	4	5	8	3	1	1	64	14	6.0	5.8	4.5	1.7	4.57	14.
Portugal	5	1	7	7	5	1	6	4	3	4	5	6	4	1	1	53	14	4.3	4.0	4.5	2.0	3.79	16.
Ireland	7	1	8	2	3	8	3	6	2	1	6	10	1	1	#	57	13	5.3	5.0	4.8	1.0	4.38	15.
Greece	1	1	3	1	3	1	5	7	4	7	4	7	3	3	1	50	14	1.7	4.0	5.5	2.3	3.57	17.
Estonia	10	8	10	10	1	10	10	3	1	6	7	1	1	2	1	71	14	8.3					
Euro Area 16	5	3	7	5	8	10	7	5	4	7	4	7	5	3	#	75	13	5	8	6	4	5.77	
EU27	6	3	7	5	10	10	7	#	4	7	4	7	5	3	#	73	12	5	9	6	4	6.08	

Euro Monitor 2008

Country Rating 2008

European Monetary Union Member State	(1a) Government debt	(1b) Government deficit/surplus	(1c) Government interest payments	(1d) Adjusted primary balance	(2a) Unit labor costs	(2b) Current account balance	(2c) Global merchandise trade share	(2d) Domestic demand	(3a) Unemployment rate	(3b) Employment ratio	(3c) Labour productivity	(3d) Inland consumption of energy	(4a) Debt-to-GDP ratio of households	(4b) Debt-to-GDP of non-fin corporations	(4c) International investment position	Sum over all indicators	Number of indicators observed	(C1) Fiscal Sustainability = sum 1a-1d /obs 1a - 1c	(C2) Competitiveness and domestic demand = sum 2a - 2d /obs 2a - 2d	(C3) Jobs, Productivity and Resource Efficiency = sum 3a - 3d /obs 3a - 3d	(C4) Private and Foreign Debt = sum 4a-4c /obs 4a-4c	Monitor Rating = sum /obs	Euro Monitor Ranking
	1a	1b	1c	1d	2a	2b	2c	2d	3a	3b	3c	3d	4a	4b	4c	sum	obs	C1	C2	C3	C4	EMR	Rank
Luxembourg	10	10	10	1	4	10	10	10	9	7	4	8	#	#	10	102	12	10.0	8.5	7.0	#	8.50	1.
Germany	7	9	6	6	10	10	8	6	6	10	6	7	10	8	10	113	14	7.3	8.5	7.3	8.3	8.07	3.
Netherlands	8	10	8	2	7	10	9	8	10	9	7	7	4	9	9	115	14	8.7	8.5	8.3	7.3	8.21	2.
Austria	7	9	7	6	10	10	9	7	9	9	6	8	6	3	8	108	14	7.7	9.0	8.0	5.7	7.71	4.
Finland	10	10	10	2	8	10	4	10	7	9	7	4	4	4	8	105	14	10.0	8.0	6.3	5.3	7.50	5.
Slovakia	10	7	9	7	1	4	10	10	4	10	10	1	7	9	4	96	14	8.7	6.3	6.3	6.7	6.86	8.
Belgium	5	9	5	2	8	9	8	9	6	8	5	5	6	5	10	98	14	6.3	8.5	6.0	7.0	7.00	7.
Slovenia	10	8	10	1	5	4	10	10	9	10	10	3	6	1	9	105	14	9.3	7.3	8.0	5.3	7.50	5.
France	7	6	7	6	8	9	3	8	6	6	6	7	5	5	8	91	14	6.7	7.0	6.3	6.0	6.50	9.
Malta	7	5	5	5	5	5	1	10	7	7	6	6	#	#	9	73	12	5.7	5.3	6.5	#	6.08	10
Italy	3	7	2	7	6	8	6	6	7	8	4	8	6	4	10	82	14	4.0	6.0	6.3	6.3	5.86	11
Cyprus	9	10	6	1	5	1	1	10	10	7	6	5	1	1	8	80	14	8.3	4.3	7.0	3.3	5.71	12
Spain	9	5	9	2	3	1	7	10	2	10	4	7	3	1	2	73	14	7.7	5.3	5.3	2.0	5.21	14
Portugal	6	6	6	5	6	1	6	7	5	6	6	7	4	2	1	69	14	6.0	5.0	6.0	2.3	4.93	15
Ireland	9	2	9	2	1	5	1	10	7	8	5	10	1	1	#	69	13	6.7	4.3	7.5	1.0	5.31	13
Greece	2	1	2	1	6	1	5	10	6	9	6	7	2	4	2	62	14	1.7	5.3	7.0	2.7	4.43	16
Estonia	10	7	10	10	1	1	10	10	8	10	10	1	1	1	2	82	14						
Euro Area 16	6	7	6	5	9	9	7	7	6	9	5	7	6	4	#	88	13	6	8	7	5	6.77	
EU27	7	7	7	6	10	8	7	#	6	9	6	7	6	5	#	95	12	7	8	7	6	7.08	

Euro Monitor 2007

Country Rating 2007

European Monetary Union Member State	(1a) Government debt	(1b) Government deficit/surplus	(1c) Government interest payments	(1d) Adjusted primary balance	(2a) Unit labor costs	(2b) Current account balance	(2c) Global merchandise trade share	(2d) Domestic demand	(3a) Unemployment rate	(3b) Employment ratio	(3c) Labour productivity	(3d) Inland consumption of energy	(4a) Debt-to-GDP ratio of households	(4b) Debt-to-GDP of non-fin corporations	(4c) International investment position	Sum over all indicators	Number of indicators observed	(C1) Fiscal Sustainability = sum 1a-1d / obs 1a - 1d	(C2) Competitiveness and domestic demand = sum 2a - 2d / obs 2a - 2d	(C3) Jobs, Productivity and Resource Efficiency = sum 3a - 3d / obs 3a - 3d	(C4) Private and Foreign Debt = sum 4a-4c / obs 4a- 4c	Monitor Rating = sum / obs	Euro Monitor Ranking
	1a	1b	1c	1d	2a	2b	2c	2d	3a	3b	3c	3d	4a	4b	4c	sum	obs	C1	C2	C3	C4	EM07	Rank
Luxembourg	10	10	10	1	7	10	10	10	9	6	7	8	#	#	10	107	12	10.0	9.3	7.5	#	8.92	1.
Malta	7	7	5	6	5	6	1	10	7	6	5	5	#	#	9	73	12	6.3	5.5	5.8	9.0	6.08	12.
Germany	7	10	6	6	10	10	10	5	5	9	6	7	9	9	10	112	14	7.7	9.9	6.9	9.0	8.00	2
Slovakia	10	8	8	7	3	5	10	10	2	9	10	1	7	10	4	97	14	8.7	7.0	5.5	7.0	6.93	8.
Belgium	5	9	4	2	9	10	9	8	6	8	6	6	6	5	10	101	14	6.0	9.0	6.5	7.0	7.21	7.
Netherlands	9	10	8	3	8	10	9	7	10	7	7	7	3	9	8	112	14	8.0	8.5	7.8	6.7	8.00	2.
France	7	7	7	6	8	9	3	8	5	7	6	7	5	6	8	93	14	7.0	7.0	6.3	6.3	6.64	10.
Austria	7	9	7	7	10	10	10	8	9	8	6	8	6	4	8	110	14	7.7	9.5	7.8	6.0	7.86	4.
Finland	10	10	9	3	10	10	5	10	7	8	9	4	4	6	7	109	14	8.7	8.8	7.0	5.7	7.79	6.
Slovenia	10	10	10	1	6	6	10	10	9	10	10	3	6	1	9	110	14	10.0	8.0	8.0	5.3	7.86	4.
Italy	3	8	2	7	7	9	7	6	7	9	4	8	5	4	7	86	14	4.3	7.3	7.0	5.3	6.14	11.
Cyprus	8	10	5	1	5	1	1	10	9	8	5	5	3	3	9	82	14	7.7	4.3	6.8	5.0	5.86	13
Portugal	7	6	6	3	7	1	7	6	5	5	6	6	3	4	1	70	14	6.3	5.3	5.5	2.7	5.00	15.
Greece	3	3	2	4	6	1	6	10	5	9	8	7	2	5	1	68	14	2.7	5.8	7.3	2.7	4.86	16.
Ireland	10	10	10	2	3	5	2	10	9	9	6	10	1	4	#	89	13	10.0	5.0	8.5	2.5	6.85	9.
Spain	10	10	8	2	5	1	8	10	5	10	3	7	2	1	2	82	14	6.3	6.0	6.3	1.7	5.86	13.
Estonia	10	10	10	10	1	1	10	10	9	10	10	1	1	1	2	86	14						
Euro Area 16	7	9	6	5	9	10	8	8	6	9	6	7	5	5	#	95	13	7	9	7	5	7.31	
EU27	8	9	7	6	10	9	8	#	6	8	6	7	5	5	#	88	12	8	9	7	5	7.33	

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

(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

Indicator Rating Spectrum

(3a) Harmonized unemployment rate, %	
%	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	
percentage 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 1000 Euro)	
kg/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	
percentage 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	
percentage 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

These assessments are, as always, subject to the disclaimer provided below.

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In 2011, around 142,000 employees in some 70 countries achieved total revenue of 103.6 billion euros and an operating profit of 7.9 billion euros.
Benefits for our customers reached 86.5 billion euros. This business success with insurance, asset management and assistance services is based increasingly on customer demand for crisis-proof financial solutions for an ageing society and the challenges of climate change. Transparency and integrity are key components of sustainable corporate governance at Allianz SE.

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