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Lisbon strategy, Euro area economic outlook, and Greek debt crisis

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European Growth and Jobs Monitor 2010

I. THE PAST TEN YEARS

The past ten years brought high macroeconomic volatility, also in the EU. The boom in the late nineties led to optimistic growth forecasts and over-ambitious goals when the heads of state met 10 years ago. The first sobering event of the decade was the bursting of the tech bubble, knocking progress towards the Lisbon targets off track, although the European Union was less affected than the US. After the recovery of 2003 a catch-up process started, bringing Europe on par with the Lisbon targets in 2007 and early 2008. While some political reforms (on taxes, labor markets and social security) played a role in improving the situation in those years, we now can see that the cyclical momentum created by the financial boom was a major force that led to compliance with the Lisbon goals. The financial crisis has unveiled that fact, with the result that the targets set by the Lisbon Agenda back in the year 2000 were not reached. But despite this disappointment on the overall performance, there are also some some positive encouraging outcomes.

- A particularly positive outcome is delivered by the sub-indicator on human capital. The participation rate of university graduates within the workforce has continuously improved in the first decade across all countries analysed.

- The labor force participation rate paints a similarly positive picture. All countries have continuously expanded their labor markets in such a way as to include a higher number of individuals in the age-group of 15 to 65 year olds. While the financial crisis has dampened this trend, the latest data seem to support the stability and absorption capacity of the labor market. Of course, one must add that some European countries still need reform on their labor markets that could create more employment. Due to strong labor protection employers in some countries are very cautious in their hiring processes. The so-called 'insiders' – those in permanent jobs, in trade unions or in privileged positions – benefit at the expense of 'outsiders' – the unemployed and those in temporary work. Particularly young people and immigrants suffer from this limited labor market access.1

On the negative side, the most serious failure of the past ten years was on the fiscal sustainability front. In some of the Union's member states the debt to GDP ratio has not only breached the 60% limit set out by the Maastricht criteria, but has even crossed the 100% mark. This has led market participants to reconsider sovereign default risk, thereby driving a dispersion in government bond spreads and rapidly increasing refinancing costs for more indebted countries. A correction of this development will be the challenge for the next decade.

II. EVALUATING THE EU 2020 AGENDA

As the European Commission in its November 2009 consultation paper on EU 2020 did not mention any specific quantitative targets which could serve as goalposts for development achievements, some preliminary skepticism regarding the measurability of performance emerged. The official proposal by the Commission, released in early March 2010, countered some of these fears by proposing the following targets:

[1] As Graph A1in Annex – comparing youth and adult unemployment rates in 2008 – illustrates, youth unemployment in all European countries under observation strongly exceeds adult unemployment. Spain, Greece, Italy and Sweden even registered youth unemployment rates of more than 20% in 2008, whereas youth unemployment rates in the Netherlands, Denmark and Austria at least stayed below 10%.

- 75% of the population aged 20-64 should be employed
- 3% of the EU's GDP should be invested in R&D
- Greenhouse gas emissions should be reducedby at least 20% compared to 1990 levels or by 30% if the conditions are right; the share of renewable energy in final energy consumption should be increased to 20%, and a 20% increase in energy efficiency achieved
- The share of early school leavers should be under 10% and at least 40% of the younger generation should have a tertiary degree
- 20 million fewer people should be at risk of poverty

In addition, the Commission also proposes that these overall targets be translated into national ones, so as to take individual structural differences into account.

We are pleased to see that specific targets have been included in the agenda. We believe it to be of utmost importance that, over the ten years, evolution can be monitored. Nevertheless, there are two major shortcomings we would like to draw attention to:

First, the overall tone of the agenda is rather dirigistic. Given the government expenditure to GDP ratio in many European countries exceeding the 50% threshold, we believe that including ideas and variables on how to make the public administration more efficient and business-friendly would be important. One possibility here could be to set targets on improving Europe's performance in the Doing Business indices constructed by the World Bank, since they measure the set up costs (time and money), amount of bureaucracy involved, investor and property rights protection, as well as tax burdens and closing business procedures. It is imperative for the maintenance of economic strength and the existence of a functioning welfare system that the competitiveness of European industry vis-á-vis its international competition is guaranteed.

Second, we would like to see some variables measuring the economic performance and the sustainability of public finances included. While we understand that the Lisbon Agenda 2010 had too strong a focus on measurable variables linked to the business cycle, excluding them fully, as has been practically suggested in the EU 2020 proposal, would be a mistake. A sustainable and energy-efficient society is no doubt an aim to be kept high on the policy agenda, but economic growth is also essential to maintain and increase social wellbeing. On the same tune, making sure public finances are sustainable in the long run is essential for all other goals envisaged in the reform agenda.

Euro area economic snapshot and forecast

The economic picture in the euro area has brightened up. Coordinated and sweeping fiscal measures helped turn around the steep slump seen in the winter months of 2008/2009. The combination of stimulus packages, automatic stabilizers and the massive liquidity injections by the ECB prevented a sustained downturn in consumption.

In the course of 2009 leading economic indicators pointed to a swift and vigorous recovery. However, at the end of 2009 this was not fully confirmed. From the spring of 2009 Germany helped pull the euro area out of recession. France, which experienced a relatively weak slump in economic activity, saw steady GDP growth in the last three quarters of 2009. The economic picture in Italy was more mixed.

With regard to the economic outlook up to the end of 2011, we take a closer look at government consumption, exports, investment and private consumption:

- The stimulus measures pushed up government consumption in 2009. Although we saw a decline of 0.1% in Q4 2009, the stimulus packages will continue to have an impact in 2010. However, in the shadow of the current debt crisis debate raging in many European capitals, the issue of consolidation has moved back up to the top of the agenda.

- From their peak in April 2008, merchandise exports tumbled by 24.9%, down from EUR 136bn to EUR 102bn in May 2009. However, from May to December exports recorded growth of 11.8%, climbing back to their August 2006 level.

  The marked rebound in the world economy, coupled with upbeat growth expectations in the emerging markets Brazil, China and India, will help underpin the economic upswing in the euro area. For most euro area countries external trade is a pivotal engine of growth. Once foreign demand starts to push up industrial resource utilization, the propensity to invest is likely to pick up again.

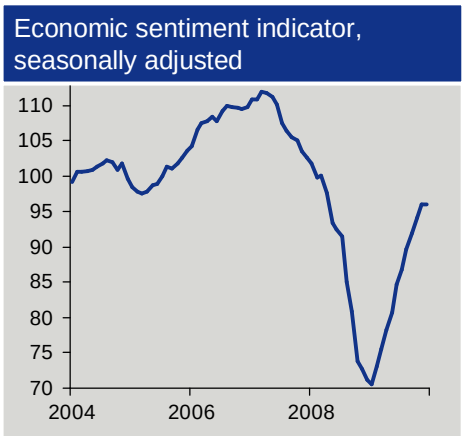
- Machinery and equipment investment closely reflects business reaction to the crisis. The steepest drops were recorded in Q4 2008 and Q1 2009, at -4.1% and -5.4% respectively. Thereafter the downward trend slowed markedly to -0.8% in Q4 2009. Although consumer and business confidence indicators started to pick up in the second half of 2009, surveys show that capacity utilization at 72% in Q1 2010 is still well below the average 82% recorded between 2000 and 2008.

- Private consumption stagnated in Q4 2009, after rising by 0.1% in the second quarter and falling by 0.2% in the third. The increase seen in the second quarter was attributable not least to the cash for clunkers scheme which was implemented successfully in a number of euro area countries. Given the high levels of household debt in a number of member states, households are unlikely to see any great opportunity to step up consumption. Up to 2011 we do not expect any pronounced boost to growth from private consumption.

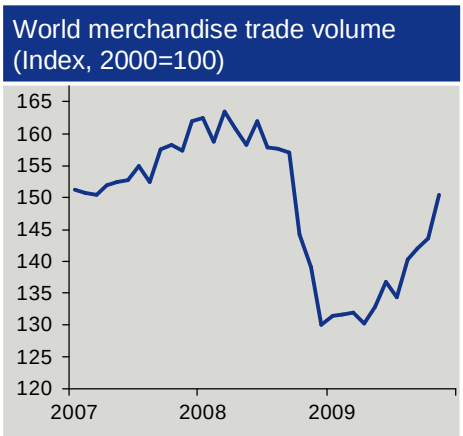
In view of the trends in the individual GDP components outlined above, we expect to see overall growth in the euro area of 1.7% in 2010 and 1.5% in 2011.

Chart 1

Euro area economic rebound



Source: DG ECFIN.



Source: CPB Netherlands Bureau for Economic Policy Analysis.

Greek debt crisis

I. THE SITUATION AS IT STANDS

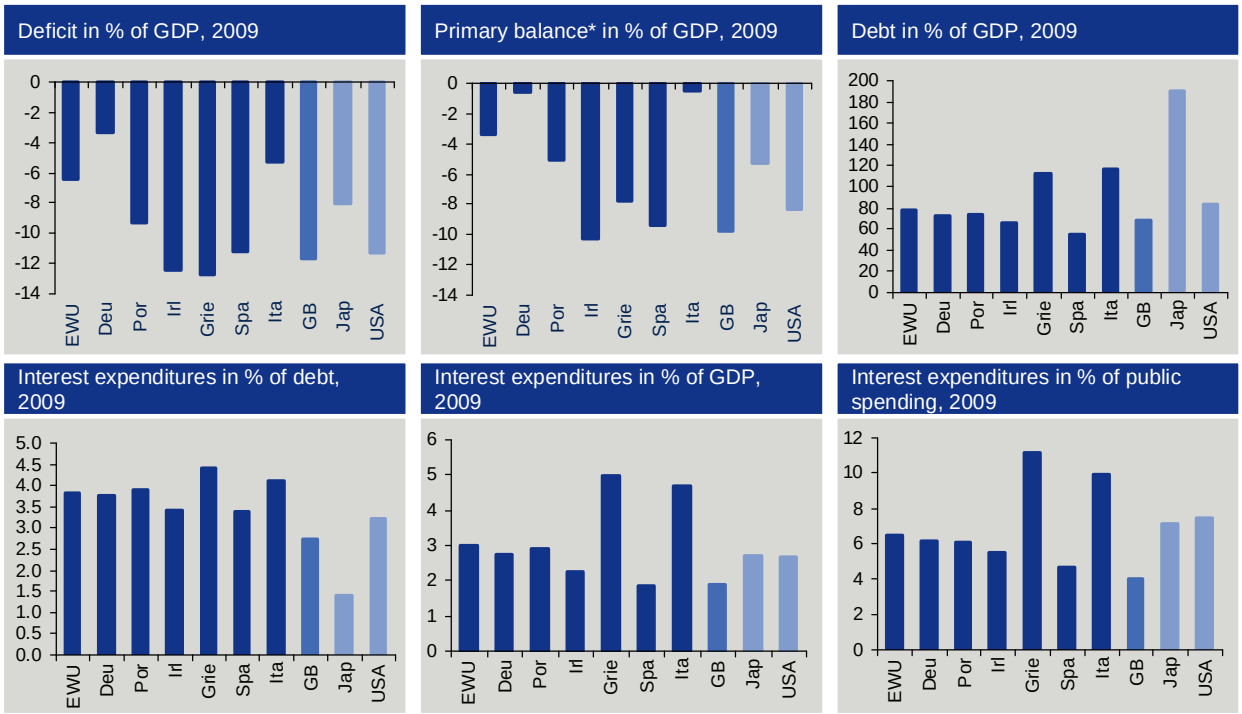
The fiscal policy credibility of European Monetary Union (EMU) and, in particular, of Greece has been thrust into the spotlight of current political and public interest. Any assessment of the state of the EMU public budgets requires a differentiated analysis of the countries in the public eye – including a comparison with industrialized nations beyond Europe's borders.

Developments in Greece give cause for concern as far as all of the fiscal policy indicators are concerned. We do not, however, take the view that it is justified to lump the other countries taking center stage in the debate – Portugal, Ireland, Spain and Italy – into the same category as Greece.

With government debt that corresponds to 78.2% of gross domestic product (GDP), the euro area fares relatively well in an international comparison as far as its debt-to-GDP ratio is concerned (see Chart 1).[2] Japan, which has been locked in a spiral of debt for years now, had a debt-to-GDP ratio in the region of 190% in 2009. Even compared with the US (83.1%), the average debt shouldered by the EMU countries still appears moderate. In this context, the two sore thumbs that really stick out are Greece and Italy, where debt levels exceed 100% of GDP.

Chart 2

Fiscal picture 2009



Sources: Ameco, own calculations. *) The primary balance is the difference between revenue and expenditure minus interest payments on outstanding debt.

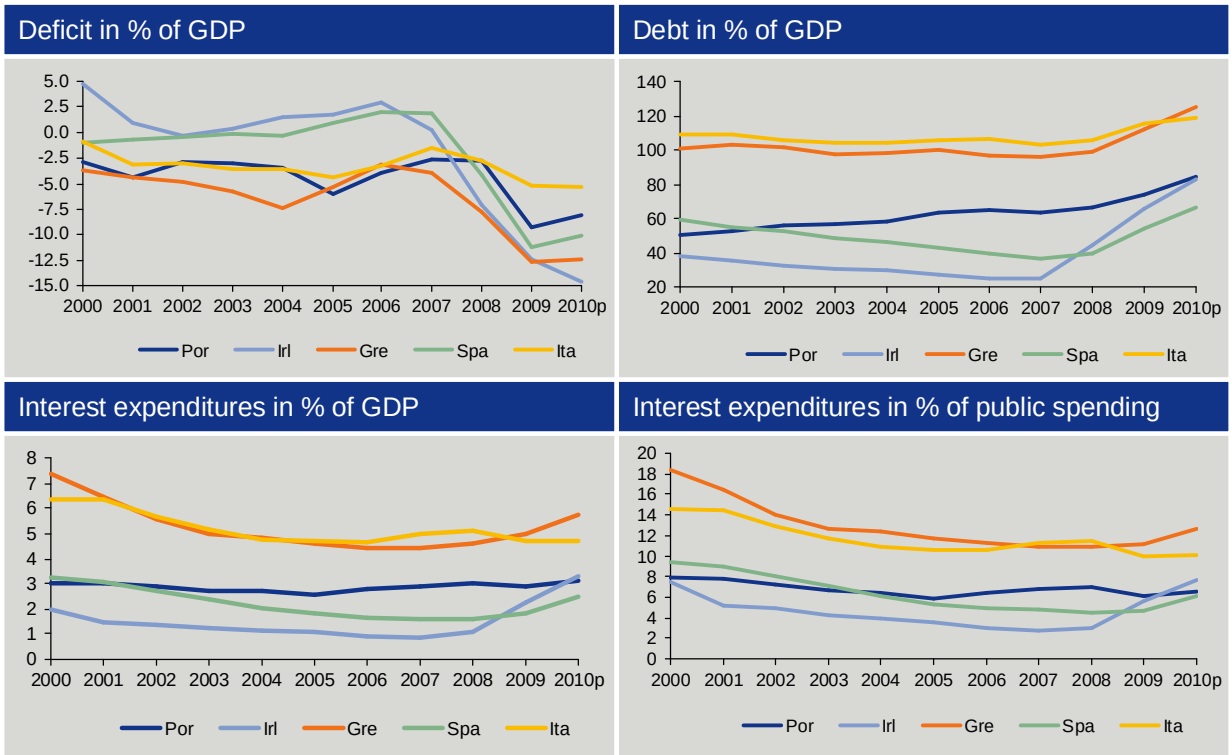
[2] Provisional Charts released by the European Commission.

Greece's massive government debt burden (which came in at 112.7% of GDP in 2009) means that the Hellenic state has an exceptionally high interest burden, accounting for just shy of 5% of GDP, or 11.2% of the entire government budget last year. This put Greece well above the euro-area average of 6.5%. In this respect, it is worth bearing in mind that the country's interest payments, expressed as a proportion of GDP/the government budget, had been on the decline over the course of the last decade, before they started to edge up again as a result of the crisis (see Chart 2). Particularly in times when economic growth is low, however, continued government borrowing goes hand-in-hand with adverse long-term consequences.

Ireland – a country with a debt-to-GDP ratio that is below the EMU average at 65.8% – fell victim to the most hefty increase in the ratio of interest payments to both GDP (+1.2 percentage points) and its government budget (+2.5 percentage points) in 2009, albeit from a low level. This development stems from the high levels of net borrowing and primary balances clocked up in the course of the financial crisis (-12.5% and -10.2% in 2009).

Chart 3

Public-sector finances 2000-2010



Source: Ameco, own calculations

Italy's sizeable interest expenditure also comes as little surprise against the backdrop of its substantial 115.8% debt-to-GDP ratio. Nevertheless, Italy's relatively modest levels of new borrowing set it apart from Greece. At -0.5%, the country's primary balance, expressed as a percentage of GDP, was actually well below the EMU average of -3.4%. The explanation lies in the fact that Italy's state budget was virtually balanced when the financial crisis took root, as well as in the fact that, for many years, the country starved its economy of any stimulus in real terms.

Although their new borrowing levels are fairly high, Spain and Portugal also enjoy a far better starting position than Greece thanks to a much lighter interest burden (interest expenditure of 1.8% and 2.9% of GDP respectively in 2009). A glance at the low level of government debt, as a proportion of GDP, puts Spain's high deficit ratio (-11.2%) and sizeable primary balance (-9.4%) into perspective. As Chart 2 shows, Spain had managed to slice 20 percentage points off its debt-to-GDP ratio since the start of the last decade, bringing it down to below the 40%-mark and making a fairly solid reputation for itself in terms of fiscal policy credibility as a result (rather more cause for concern is Spain's low economic growth).

The primary balance is an ideal parameter for assessing current fiscal policy, because it leaves interest payments on outstanding government debt out of the equation. At -7.7%, Greece's primary balance shows that the country's 2009 fiscal policy also fueled a massive increase in government debt.

A comparison with non-EMU countries shows that, in terms of new borrowing, the United Kingdom (net borrowing rate of -11.7% and primary balance of -9.8% in 2009) and the US (-11.3% and -8.6%) are no better, or only marginally better, than their much-berated EMU counterparts. What is more, unlike many member states like Greece, a number of major industrialized nations have failed to make any explicit commitment to consolidating their government budgets.

Our analysis of key fiscal indicators therefore leads us to two overarching conclusions: first, care should be taken not to jump in too soon and condemn the budget situation and fiscal policy credibility of Portugal, Ireland, Spain and Italy to the same ranks as the very serious situation that prevails in Greece. The fiscal policy problems facing these countries do not affect all of the fiscal indicators. Second, the fiscal difficulties hanging over the EMU countries are by no means any more harrowing than those facing the US or the UK.

The turbulence surrounding Greece is reflected in the risk premiums on the financial markets. Risk premiums on Greek government bonds, as well as on the bonds of other euro-area states, have soared. The increased premiums for credit default swaps (CDS) suggest that financial market players expect a higher probability of default, putting a higher price tag on hedging against default risks (see Chart 3). This means that the standing enjoyed by government bonds to date, namely as a relatively low-risk form of investment, is being put to the test on the financial markets.

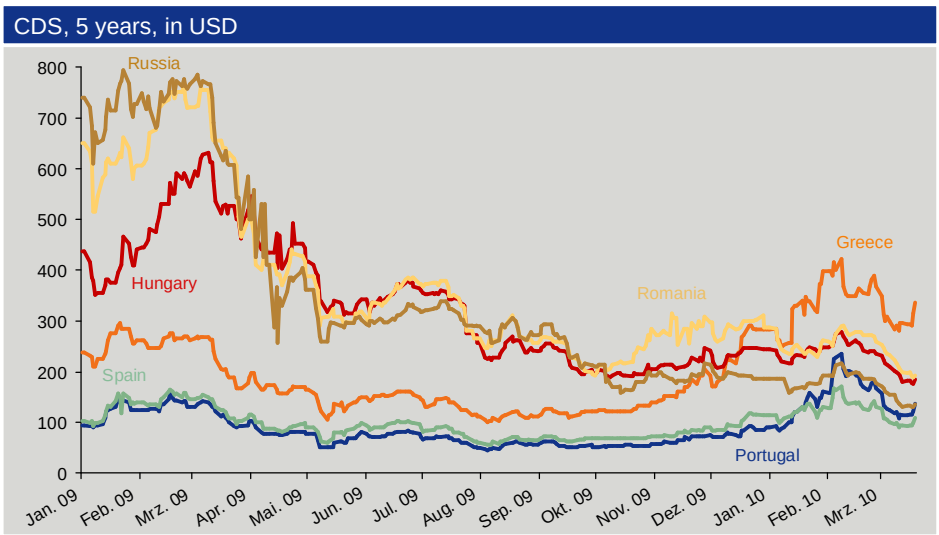
The financial and economic crisis has been the first development to really expose the EMU's structural weak points. It no longer appears possible to finance the resulting fiscal burden in the environment of increased risk awareness that now prevails in the wake of the financial crisis. Into the bargain, doubts as to the viability of government finances are mounting as a result of extensive economic policy aid programs and the labored recovery on the real economy. The uncertainty surrounding possible rescue measures is another explanation for the lofty price of credit insurance.

In this respect, investors are making considerable distinctions as far as individual countries are concerned – the cost of hedging against default by Greece is now far higher than for the country's southern European neighbors (see Chart 3). Higher capital market premiums for bad debtors are part and parcel of the market's disciplinary mechanism, and should be supported as a general rule. What is important is that the right distinctions are made. At the moment, however, the financial markets are rife with contradictory and excessive behavior. One of the questions that spring to mind is to what

extent the risk premiums on the capital markets are an appropriate mirror of the actual default risks of individual countries. The fact that the cost involved in hedging against default by some EMU countries has, in some cases, been higher than the default hedging costs for Romania and Russia over the past few weeks, virtually defies explanation. It is also important to steer away from projecting the scenario of potential state bankruptcy in Greece on to numerous other EMU countries. As explained above, Portugal, Ireland, Spain and Italy are certainly facing their own fiscal challenges, but they are nowhere near a situation that is as bleak as in Greece.

Chart 4

Hedging costs against default



Source: Reuters

Given the above, the reaction of the capital markets looks overdone – the euro is better than its reputation. The market's tendency to overreact at times had already come to light in the form of the extremely steep hedging costs for eastern European bonds in early 2009, which was followed by a significant slump in CDS activity. Support offered by the international community, which is what the finance ministers have hinted at in their statement, will narrow the spreads. Given, however, that consolidation policy takes some time to bear fruit, it makes little sense to expect risk premiums to fall back to the level seen prior to the crisis any time soon.

II. SCENARIOS FOR THE GREEK DEBT CRISIS

There is no doubt that Greece will be able to claw its way back out of the debt crisis primarily as a result of its own efforts. The only question is what particular way out the country will choose. In this section, we have provided a fairly pragmatic overview of the scenarios which we deem to be the most plausible at present.

All of the scenarios are based on the following assumptions:

- The Greek government will have to make massive budget cuts that will have a sustained impact on the country's growth prospects over the next few years.

- Since Greece does not have its own currency, which would offer some degree of flexibility vis-à-vis other currencies, the adjustments made to the current account will relate mainly to a pronounced contraction in imports as opposed to a rise in exports. At the same time, however, corresponding import substitution will be virtually impossible, suggesting that the economy will take a nasty tumble this year.

- All in all, Greece's real GDP is likely to contract by more than the -2% the government expects in 2010. Contrary to the government's forecasts, 2011 is unlikely to be the bearer of good news on the growth front either.

Scenario 1 – Consolidation without international financial assistance (probability: 40%)

Scenario 2 – Consolidation with international financial assistance (probability: 55%)

Scenario 3 – Debt restructuring (probability: max. 5%)

An extensive discussion of these three scenarios can be found in our Working Paper 135 entitled "Government debt in Europe – analysis and options".

Quo vadis Greece?

In line with the probability scores that we have assigned to the different scenarios, we believe that the Greek government can avoid the worst-case scenario, namely debt restructuring. In our view, it has a more than 95% chance of achieving this. If we turn our attention to the question as to whether or not this will require international financial assistance, we would tend, at present, to say "yes", which basically means that Greece will probably transition from scenario 1 to scenario 2 in the not-too-distant future. Whether or not this will actually happen, however, remains anybody's guess, and will depend, not least, on the extent to which the financial markets give Greece the time that it needs to show that its budget consolidation efforts are actually bearing fruit. In this respect, however, it is also worth pondering how the financial markets will react to Greece's slide down the rating agency ladder – something that is already emerging. One thing is, nonetheless, certain: unless the financial markets settle down soon, financial assistance for Greece will become inevitable.

Both scenario 1 and scenario 2 are subject to the proviso that Greece manages to implement the consolidation program that it unveiled at the start of this year. As mentioned above, however, we expect the tighter strings on the country's purse to result in economic performance in 2010 that falls considerably short of the government's current expectations. 2010 is likely to see the economy contract not by a mere 0.3%, but rather by 3%. This means that, despite the implementation of the consolidation program, new borrowing is also likely to be somewhat higher than planned at 10% of GDP (planned: 8.7% of GDP), a trend that is likely to continue in the medium term, too. As a result, new borrowing will frustrate the government's plans by coming in above the 3% mark in 2012. In line with this trend, the debt-to-GDP ratio will continue to climb in the period leading up to 2012, accounting for more than 130% of GDP from 2011 onwards. This means that interest payments will consume an ever-expanding proportion of the government budget, namely an estimated 16½% in 2013 compared with 11.2% in 2009.

Given the above, a need for additional improvements to the consolidation program would appear to be the logical consequence. This is exactly what Greece did of late when it announced additional savings proposals accounting for around 2% of GDP. Any more ambitious savings program will, however, put more of a damper on macroeconomic demand in 2010. If Greece manages to implement its more vigorous savings program in

full, we expect the government to hit its target as far as reducing the budget deficit is concerned, but also predict a 5% slide in GDP. The economic downturn would likely start slowing down as early as 2011/2012. The markets would reward the country for reducing its new borrowing levels, and risk premiums on Greek government bonds would be cut considerably. Debt levels would likely start declining slightly as early as 2013. Although interest expenditure would also increase as a proportion of the government budget, it would reach a high of around 15% in 2012/2013. All in all, this means that, while Greece's government finances will remain in something of a predicament for some time to come, even if the country sticks to its rigorous savings regime, the rising tide of debt can be halted fairly soon.

Chart 5

Greece: Forecast of public-sector debt

Assumption: Consolidation program tightened as announced in March

	2000	2009	2010	2011	2012	2013
real GDP growth (in %)	4.5	-2.0	-5.0	-2.0	1.0	2.0
Public-sector deficit (in % of GDP)	-3.8	-12.7	-8.7	-5.6	-2.8	-2.0
Debt ratio (in % of GDP)	100.7	112.7	126.0	133.0	134.0	132.0
Interest expenditures (in % of public-sector debt)	7.4	4.4	4.6	4.8	4.9	5.0
Interest expenditures (in % of public spending)	18.4	11.2	12.6	14.2	15.3	15.3
Interest expenditures (in % of GDP)	7.4	5.0	5.8	6.4	6.6	6.6

III. OPTIONS FOR CRISIS PREVENTION

The Greek debt crisis comes as a major watershed for European Monetary Union. What conclusions will have to be drawn so that member states can avoid similar difficulties in the future?

The recent events have brought those voices skeptical of European Monetary Union back to life. The economist Nouriel Roubini has even warned that monetary union could disintegrate completely, with a number of economies marred by fiscal imbalances and dwindling competitive appeal. The critics believe that the recent events have confirmed their conviction that the economic differences within the euro area are too stark to allow monetary union to survive without other far-reaching coordination and adjustment mechanisms being embedded in economic policy.

At the core of the debate is the "no bailout" clause, which prevents EMU member states from assuming liability for the debt of other member states. The idea behind the clause is that responsibility for ensuring solid state finances should remain in the hands of the national governments, even within monetary union. There is no doubt that the latest promise of assistance for Greece in the event of an emergency leaves the EU treading a very fine line as far as the "no bailout" clause is concerned. From a political perspective, the commitment has shaken the very core of the clause. But if this does, in principle,

imply that every EMU state is promised the help of the community in the event of an emergency, it is all the more important to ensure that a recipient's decision to make use of this help comes at a price. Otherwise, the offer of help would be tantamount to a reward for bad political decisions.

A number of proposals have come up for discussion in this respect. One of these proposals is the idea of a European Monetary Fund, which would grant loans to countries experiencing financial difficulties subject to certain conditions. This would require the establishment of an institution that would monitor the policies pursued in the EMU states. In our view, the main problem surrounding this idea is the fact that yet another EU institution would have to be set up, tying up budgetary funds in the long term and with a remit that would most likely overlap with the responsibilities of the international organizations that are already in place.

But an even more compelling argument is the fact that the availability of a permanent rescue fund would eliminate the incentive for member states to aim for genuinely systematic policies, causing the moral hazard problem to rear its head. The euro area should be a region of unconditional stability. As a result, we believe that the debate should start by focusing less on how to manage debt crises, and more on how to prevent them in the first place. A whole host of improvements could be made in this respect. It is not even as if the EU would have to reinvent the wheel. The Stability and Growth Pact has a preventive arm that could be expanded.

In our view, it is important to bear in mind that high levels of new borrowing in the wake of a financial crisis only become problematic for a country if debt levels were high even before the crisis. In addition to its lack of credibility, it is precisely this long-standing heavy debt burden that is Greece's main problem. Interestingly enough, all of the excessive deficit procedures (EDPs) launched within the EU to date have been successful in the sense that the countries affected have managed to push their new borrowing down to less than 3% of GDP within the space of a few years. Nevertheless, this has done nothing to change the high debt levels of some countries. Accordingly, the primary goal of any crisis prevention program must be to reduce debt levels, which are now well above 60% of GDP in the majority of EU countries. It will not be enough to simply adopt the EDP requirement of reducing new borrowing to less than 3% of GDP. The 3% threshold was set at a time when Europe was operating in a different macroeconomic environment – high growth, higher inflation – to that which prevails today. In a climate of lower growth and very low inflation, however, budgets have to be as good as balanced over a prolonged period before the debt-to-GDP ratio can be reduced to any considerable degree.

Each and every EU country already has to draw up income and expenditure projections for the current year, and the next three years, showing how it intends to achieve the medium-term objective of eliminating any structural budget deficit. In our view, however, asking every country to submit projections does not go far enough as a means of prevention. As a result, we propose the following:

- The incorporation of a clearly worded debt ceiling into EU agreements stipulating that, from a certain year onwards (preferably 2016, although this may vary from country to country), the EU countries must have a zero deficit (after adjustments for economic fluctuations). States should submit country-specific medium-term plans.

- The debt ceiling should be supplemented by specific spending regulations. One such regulation could state that the countries in question have to ensure that the average annual increase in government spending is at least two percentage points lower

than the nominal GDP growth rate. Differences from country to country could be taken into account here, too. The German Council of Economic Experts (Sachverständigenrat) referred to positive experience with spending regulations in European countries in its most recent annual report.

In the long term, countries with hefty debt burdens will have to face sanctions if their budget is not balanced and/or if they fail to take sufficient measures to reduce their debt. Thought should also be given to the idea of "rewarding" countries that are particularly successful in curbing debt. This could involve providing them with financing from European Community bonds, which would be launched specifically for this purpose, based on favorable conditions.

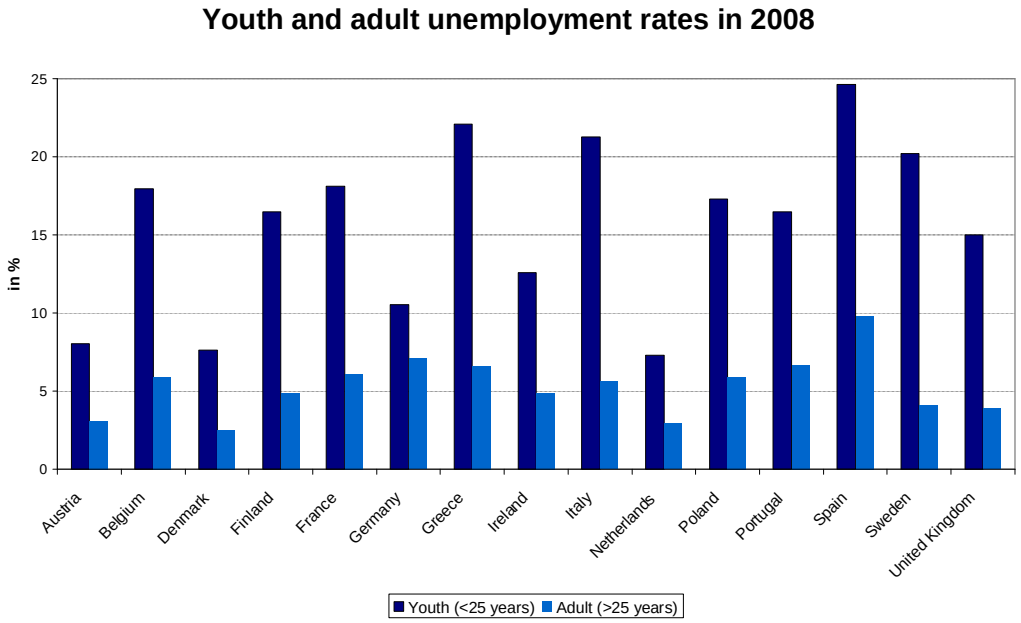
As far as crisis prevention is concerned, it is also crucial to look beyond the horizons of government finances. High foreign trade deficits can flag up countries that are "living beyond their means" and struggling in terms of competitiveness, factors which hinder economic recovery after a slump and stand in the way of successful state consolidation moves as a result. This is why reducing high foreign trade deficits should be incorporated into the preventive arm of the Stability Pact.

All of these precautionary measures are likely to be largely futile as long as the transparency surrounding government finances remains inadequate. The way in which Greece manipulated the statistics has shown that the Statistical Office of the European Union, Eurostat, has to be given extensive monitoring powers over the national statistics offices in the future. Effective crisis prevention will never make it into the realms of possibility unless national rights are restricted – at least not until all member states are equally committed to ensuring stability.

Furthermore, the processes set out in the Stability and Growth Pact are too long-winded and too complicated. The excessive deficit procedure described in Article 104 of the EU Treaty, for example, involves seven stages (1. Report on excessive deficit, 2. Decision on excessive deficit, 3. Recommendation on how to reduce the deficit, 4. Identification of insufficient measures, 5. Notice, 6. Non-interest bearing deposit, 7. Fine), and sanctions are not imposed until several years have elapsed. There is no doubt that this procedure is far too complex and involves a continual to-and-fro between the European Commission and the Ecofin Council, with the Council responsible for making the ultimate decisions. Many of these steps could be shortened or even dispensed with entirely.

Radical moves to streamline the procedure, coupled with the involvement of a commissioner responsible for coordinating and monitoring the financial policy of the member states is one possible reform model. This commissioner should be endowed with far-reaching powers, including the right to inspect countries' medium-term financial plans down to the small print, imposing requirements as regards amendments to these plans, identifying deviation from income and expenditure plans and, where appropriate, demanding that corrections be made and imposing sanctions. It goes without saying that the creation of a position with powers on this scale would make considerable inroads into the financial policy sovereignty of the EU states. Nevertheless, we believe that sweeping changes of this nature are a must for the Stability and Growth Pact if the EU wants to win back the lost confidence in the Pact's effectiveness.

ANNEX



Graph A1 Source: International Labour Organization, Key Indicators of the Labour Market.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The statements contained herein may include statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements which are forward-looking by reason of context, the words "may", "will", "should", "expects", "plans", "intends", "anticipates", "believes", "estimates", "predicts", "potential", or "continue" and similar expressions identify forward-looking statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) general economic conditions, including in particular economic conditions in the Allianz Group's core business and core markets, (ii) performance of financial markets, including emerging markets, and including market volatility, liquidity and credit events (iii) the frequency and severity of insured loss events, including from natural catastrophes and including the development of loss expenses, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the Euro/U.S. Dollar exchange rate, (ix) changing levels of competition, (x) changes in laws and regulations, including monetary convergence and the European Monetary Union, (xi) changes in the policies of central banks and/or foreign governments, (xii) the impact of acquisitions, including related integration issues, (xiii) reorganization measures, and (xiv) general competitive factors, in each case on a local, regional, national and/or global basis.
Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences. The company assumes no obligation to update any forward-looking statement.

NO DUTY TO UPDATE

The company assumes no obligation to update any information contained herein.