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Press

Allianz Euro Monitor 2012: Reforms in peripheral countries starting to bear fruit

- Belgium, Greece, Portugal and Spain improve their overall score on last year
- Germany, Austria and Luxembourg top the ranking
- Germany, France and Ireland maintain their overall score
- 10 of 17 eurozone countries see their overall score drop

The Allianz Euro Monitor, based on 14 indicators, measures macroeconomic imbalances in the eurozone. The results for 2012 show above all an encouraging picture for the peripheral countries. Prof. Dr. Michael Heise, chief economist of Allianz SE, on the results of this year's report: "Apart from Belgium, Greece, Spain and Portugal are the only eurozone countries to record an improvement in their overall score compared with last year. The results show: reforms take time, but the 'problem countries' are on the right path. We therefore expect the economy to stabilize gradually next year."

Peripheral countries returning to health despite severe recession

Looking at the reform drives in the peripheral countries, it should be noted that possible positive results are being masked by the current economic weakness. The sweeping structural reforms need time to unfold their full impact. This includes indicators such as the public-sector deficit, unit labor costs, domestic demand and labor productivity. The latest edition of the Euro Monitor nonethless shows that genuine progress is being made towards restoring the health of the eurozone economy. The only countries that managed to improve their overall score were Belgium (5.9), Spain (5.0), Portugal (4.1) and Greece (3.4). From a low level, Greece in fact managed to record the largest improvement of any eurozone country, helped for instance by a drop in unit labor costs. Private sector debt levels also improved. "All told, though often overlooked in the public debate, Greece is making progress," said Heise. Portugal raised its score from 3.7 in 2011 to 4.1, clocking up its best score since 2008. Progress was recorded in the fields "competitiveness" und "private and foreign debt". Unit labor costs and the budget situation are also in good shape. Spain, which moved up one place from last year and whose overall score rose from 4.6 to 5.0, was able to make progress on five indicators. Cyprus is for the first time the new backmarker in the overall ranking, seeing a sharp deterioration in three of the four categories and its overall score slip to 3.0 from 3.6 last year.

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Assessment of ten eurozone countries worsens

Once again, no single country achieves a score of 8 or more, which would signal a good performance across the board. Germany again leads the field (7.7), followed by Austria and Luxembourg (both with 7.0). Germany defied the difficult environment to maintain last year's score, as did Ireland and France, and achieved the highest score in 6 of the 14 indicators. Germany performed best in the category "private debt and net international investment position". By contrast, on the labor productivity front Germany recorded an average decline of 0.1 percent over the last five years. France (5.6) moved up to No. 9, while Italy (4.5) slipped a rung to No.13. Belgium managed the biggest leap forward, climbing four places to No. 5. By contrast, Finland (5.8) slipped three places to No. 8.

The ten countries that saw their score worsen compared with last year include smaller northern EMU member states such as Luxembourg, Finland and the Netherlands. Looking ahead, these countries, along with Germany and France, could come under increased pressure from the financial markets to enact structural reforms on the lines of those in the crisis countries.

Looking at the detailed results, the weakest indicators are "domestic demand" and "unemployment rate". This reflects the overriding impact of government austerity drives and private deleveraging on macroeconomic developments. Striking the right balance between belt-tightening and avoiding a vicious circle of consolidation measures and a faltering economy remains the main challenge. Austerity alone will not suffice to get the embattled EU economies back on track. Heise: "It is imperative that governments stick resolutely to the path adopted. A long and arduous road still lies ahead. But we can also see that the structural reforms in the eurozone are starting to bear fruit."

On the positive side, 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. This should render the private sector less vulnerable to interest rate developments and negative credit ratings. External imbalances are also continuing to shrink: 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.

EU reform: Clear objectives needed

A specific and time-bound roadmap on EU reform is scheduled to be tabled at the forthcoming EU summit in mid-December. Ahead of the next important decisions at the political level, Heise sees progress in overcoming the challenges. "We are not among the skeptics – there is progress, the eurozone countries are making headway towards greater integration. Policymakers have regained the initiative in the battle for the euro. Decisive action with clear objectives remains the order of the day," according to Heise. "We believe that, above all, political progress towards more European integration and the ongoing external adjustment in the problem countries will contribute to a gradual easing of the debt crisis," Heise explained. Recent measures give grounds for optimism: the single banking supervisor envisaged as part of the banking union for the single currency area will pave the way for the recently installed permananent rescue fund ESM to recapitalize banks directly – a move that will sever the negative loop between banking crisis and rising government debt.

About the Euro Monitor

The Allianz Euro Monitor evaluates and ranks the 17 eurozone countries based on their contribution to balanced growth, that is growth devoid of macroeconomic imbalances, and thus to overall euro-area stability. The publication provides a comprehensive overview of the current state of all eurozone countries. It ranks them according to 14 quantitative indicators in four key categories: fiscal sustainability; competitiveness and domestic demand; jobs, productivity and resource efficiency; and private and foreign debt. The Euro Monitor is designed to serve as a macroeconomic surveillance tool, flagging up existing and emerging imbalances.

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You can download the Euro Monitor 2012 from the internet at
https://www.allianz.com/en/economic_research/ under Publications/Working Papers

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In 2011, around 142,000 employees in over 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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