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Group Economic Research

Media Release

Euro Monitor 2018: As good as it gets?

- *Level indicator* posted a mild improvement
- *Progress indicator* in reverse gear
- Key laggards are the four Eurozone heavyweights
- Germany maintains Eurozone pole position – for now

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A decade after the onset of the great financial crisis, the Eurozone as a whole appears to be in relatively good shape again. Unemployment has dropped sharply, the current account now boasts a robust surplus and the positive trend in public finances meant that in 2018, for the first time ever, all Eurozone countries respected the 3% Maastricht criterion with the average Eurozone budget deficit coming in at 0.6% in relation to GDP.

This positive economic development is reflected in the results of this year's Euro Monitor, in which we assess the stability or health of the Eurozone economies on the basis of 20 indicators in four categories: fiscal sustainability, competitiveness, employment & productivity and private & foreign debt. Despite no further improvement in 2018, at 6.8 points, the Euro Monitor rating for the Eurozone sits towards the solid middle of the scale (which ranges from 1 to 10). The last time the Eurozone received a higher Euro Monitor score was in 2001.

However, the Euro Monitor also shows major areas of concern. In 2018, only the Euro Monitor's *level indicator*, which aggregates longer-term level parameters, posted a mild improvement. Meanwhile, the *progress indicator*, which reflects the shorter-term reform advances, actually declined. This trend reversal was largely driven by lower grades for indicators that measure competitiveness, namely the annual change in labor productivity and unit labor costs, as well as the performance of Eurozone exports compared to global trade dynamics.

"When taking a country perspective, it is the four biggest Eurozone economies that are cause for particular concern – albeit for different reasons," said Michael Heise, chief economist at Allianz.

First there are Italy and France, both of which have largely treaded water over the past decade with their Euro Monitor scores, even as their peers recovered (first from the great financial crisis and then the Eurozone debt crisis). As a result, France and Italy have been the Euro Monitor tail lights since 2016.

Spain, meanwhile, has seen its rating improve notably in recent years. However, reform momentum has reversed markedly in 2018, judging by the deterioration in its Euro Monitor ranking as well as its rating, which saw the country come in third from the bottom just above France and Italy.

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“The fourth laggard, as identified by our Euro Monitor rating, is Germany, despite once again occupying the pole position in the 2018 overall ranking. This verdict is based on the sharp deterioration in German reform momentum relative to its peers,” said Heise. In the Euro Monitor’s *progress indicator* sub-ranking, Germany has fallen back to place 13, mainly as a result of weaker export growth relative to global trade dynamics and barely-there productivity growth. This is Germany’s worst placement since the inception of the euro and down from the second rank it held as recently as 2014. Political complacency is clearly putting Germany’s economic prosperity at risk.

Prospects for further Euro Monitor rating improvements are rather dim. For one, macro imbalances will no longer just melt away as the Eurozone economic upswing continues to slow. In addition, Eurozone reform momentum has clearly passed its peak and is unlikely to reaccelerate any time soon. In fact, the rising political instability at the national as well as the EU level – driven by the surge in populism, evaporating mainstream majorities and the rising fragmentation of the political landscape – is undermining the already-weakened European consensus in favor of macroeconomic convergence and fiscal discipline. This development poses a clear threat to the stability of the Eurozone. Only a marked political rethink, at the national as well as the European level, could help turn this trend around. Without it, the 2018 Euro Monitor results are probably a case of “as good as it gets”.

The most important results of the Euro Monitor 2018 in detail:

- **Individual country performance is showing dispersion:** Twelve countries were able to improve on their rating in 2018 compared with 2017. Five countries lost ground on their rating and two saw their overall assessment remain unchanged. In most countries, corporate debt ratios improved and the positive labor market trend shifted up another gear. There were backward steps, however, due to sluggish export growth in relation to global trade dynamics and a less favorable trend around unit labor costs in the short as well as the long-term.
- **Improvement in the level indicator:** The overall assessment in 2018 was supported by an increase in the *level indicator*. The indicator rose from 6.3 to 6.6 points in 2018 to reach the highest level since 2007.
- **The shorter-term trend is weakening:** The shorter-term progress indicator reversed slightly in 2018. But it is still in favorable territory with 7.1 points, compared to 7.2 points in 2017 for the Eurozone as a whole. By way of comparison: in the crisis-ridden year of 2009, the sub-indicator was still stuck in critical territory at only 2.8 points.
- **Winners…:** Germany remains in pole position within the Eurozone in terms of economic stability, with an overall score of 8.0 in 2018. The overall good result for 2018 is due to the country's solid performance in the fiscal sustainability and private and foreign debt categories. Germany is the only EMU country that falls into the Euro Monitor’s ‘good’ category, which requires an overall rating of 8 or higher. However, its score has dropped by 0.1 points compared to 2017 and, more alarmingly, the clear reversal in the *progress indicator* since 2015 is evidence of Germany’s reform complacency. In 2018, Slovenia and the Netherlands share the second place with 7.9 points. The positions of the top three countries remain unchanged from last year despite Germany and Slovenia witnessing a slight deterioration in the overall rating.

- **…and losers:** France and Italy take the bottom spot in our overall ranking this year with 5.5 points. This poor placing is due to the fact that France and Italy have made virtually no progress in reducing economic imbalances since 2015, whereas countries such as Greece, Ireland and Portugal have made clear advances. Together with Spain, this puts three EMU heavyweights at the bottom of our Eurozone comparison table.
- **Shooting stars:** Looking at ranking improvements alone, the country that moved up the most was Greece, which jumped up four places in our ranking. Cyprus, meanwhile, made the biggest leap in terms of the overall score, which rose by 0.6 points to 6.5. As a result, the former crisis country has climbed up two notches in our overall ranking to 15th place, having taken the bottom spot in 2014. As far as the level indicator is concerned, Germany leads the field with 9.1 points. Ireland (9.0 points) and Greece (8.8 points), on the other hand, top the progress indicator table.
- **Weaknesses:** For the first time, no individual indicator registers in the critical zone with a rating of 4 or less for the Eurozone as a whole. The individual indicators that receive the lowest scores are public debt, unemployment rate, productivity growth, export performance in relation to global trade dynamics, and corporate debt as a percentage of GDP.
- **Strength:** Once again, the best results were achieved in the current account indicator (average EMU rating: 10 points).The interest burden as percent of GDP, the budget deficit, and exports in relation to GDP have also been positive on the whole, with an average Eurozone rating of 9 points.

Euro Monitor Rating 2018

Rank 2018	Country Code	EMU Member State	Rating 2018	Rank 2017	Rating 2017	Rank 2013	Rating 2013
1	DE	Germany	8.0	1	8.1	2	7.5
2	NL	Netherlands	7.9	3	7.9	8	6.1
2	SL	Slovenia	7.9	2	8.0	10	5.7
4	EE	Estonia	7.7	5	7.4	3	7.0
5	IE	Ireland	7.6	6	7.2	15	5.0
6	MT	Malta	7.5	4	7.6	9	6.0
7	LT	Lithuania	7.3	6	7.2	1	7.6
8	AT	Austria	7.2	8	7.1	7	6.2
9	LV	Latvia	7.1	10	6.9	6	6.5
9	SK	Slovakia	7.1	9	7.0	5	6.7
11	LU	Luxembourg	6.9	13	6.6	4	6.8
12	GR	Greece	6.8	16	6.3	18	4.3
12	PT	Portugal	6.8	14	6.4	17	4.5
14	FI	Finland	6.6	11	6.8	11	5.4
15	CY	Cyprus	6.5	17	5.9	19	3.6
16	BE	Belgium	6.4	15	6.4	14	5.3
17	ES	Spain	6.4	12	6.6	13	5.3
18	FR	France	5.5	19	5.5	11	5.4
18	IT	Italy	5.5	18	5.5	16	4.7
	EZ19	Eurozone	6.8		6.8		5.6

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https://www.allianz.com/en/economic_research/publications/working_papers.html

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