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Scenarios for government debt in Europe

The four EMU countries that have been ensnared by the debt crisis, Greece, Ireland, Portugal and Spain, embarked on austere consolidation programs last year. With the exception of Ireland, these programs are already starting to bear fruit, with preliminary figures suggesting that the 2010 targets for reducing new borrowing have been achieved. With government interest payments accounting for between 2½% and 4% of GDP, the interest burden in Spain, Portugal and Ireland is still at a manageable level, and even Greece currently has a lower interest burden ratio than back in 2000. On the economic front, too, not all of the news is bad. Incoming orders in the industrial sector as well as exports, for example, were recently well up on a year earlier in all four countries.

Nevertheless, the financial markets remain very scathing in their assessment of the four countries: sustained high risk premiums are testimony to the markets' lack of faith in their ability to get to grips with the debt crisis. In Ireland's case, this is likely due, to a considerable degree, to the uncertain political environment in the run-up to the parliamentary elections and the resulting risk that a change of economic policy course could be on the cards. In Spain, the bone of contention is the ongoing savings bank crisis. The scope of government support needed to prop up the country's savings banks could turn out to be greater than planned. The Portuguese economy is still considered to be somewhat "worn around the edges" with little in the way of growth prospects on the horizon, meaning that pulling itself out of the debt trap may be an uphill struggle. Finally, dizzied by the sheer scale of the country's debt problem, observers put little faith in Greece's ability to repay its debt on its own merits after the assistance dries up.

It is not, however, just the financial markets, but also policymakers that seem to be running short of patience. There are growing signs that the EU and major national governments are starting to consider radical measures to put a halt to the debt crisis. It would appear that a whole number of options are being sounded out - first to reduce Greece's sovereign debt on the whole and second, to limit the extent to which Greece will have to resort to the markets for financing when the rescue fund is wound down in 2013.

The debate spans a range of debt restructuring proposals. These include:

- Greece could buy back its own government bonds, which the ECB purchased at low prices, using loans provided by the EFSF rescue fund ¹.
- Greece could offer private investors the opportunity to buy back bonds at market-oriented prices that are well below the nominal value.
- Greece could obtain creditors' consent to convert bonds with short-term maturities into longer-term maturities.

But the more radical the debt restructuring proposals become, the more we start to ask ourselves whether this is really necessary. After all, drastic debt restructuring would also be likely to give rise to false incentives and negative secondary effects: consolidation would become a less pressing issue and the fundamental structural reforms that would boost the country's growth prospects in the medium term might well be shelved as no longer necessary. What is more, Greek debt restructuring would soon fuel speculation as to the inevitable debt restructuring of the other countries in the market spotlight.

¹ European Financial Stability Facility

The controversial nature of the debt restructuring debate calls for a measured analysis. We would like to do our bit in this respect by conducting a scenario-based analysis. We have produced forecasts for the debt and interest burdens of the countries in question for the period leading up to 2020 based on various scenarios.

SCENARIOS

Assumptions

We have applied three scenarios to estimate the development of government debt in the four crisis-ridden EMU member states, Greece, Ireland, Portugal and Spain, based on various assumptions.

The parameters used in our analysis are three factors that have a material impact on the government debt ratio: fiscal policy discipline, a country's economic growth and the average interest burden, which is defined as the average interest rate on sovereign debt. This is because, first of all, the extent to which consolidation measures can manage to push down government debt depends on the political resolve to implement savings measures that vary in both qualitative and quantitative terms. The focus is on how quickly primary budget surpluses can be achieved to get government debt back down to a lower level in the long term. As well as fiscal policy stamina, a country's growth outlook also exerts considerable influence over the government debt ratio. The financial markets generally consider those euro area countries that boast higher economic growth to be better equipped to tackle their debt problems. Third, the financing costs associated with the refinancing of existing debt and/or new borrowing on the capital markets also have an impact on debt levels. The relevant parameter in this case is the average interest rate paid on sovereign debt and not, as is often assumed to be the case, the current market rate.

Base scenario: "Spending discipline, moderate growth"

In our base scenario, we expect the government financing crisis in the EMU region to gradually taper off thanks to the resolve shown by fiscal policymakers in their consolidation efforts, helped along by moderate growth prospects.

In order to put the sovereign debt crisis behind them, the member states will commit themselves to more stringent fiscal policy in the long term and will meet the requirements imposed as part of the EU deficit procedure. Portugal, for example, should be able to push its new borrowing down to below the three-percent mark in 2013, followed by Greece and Spain in 2014 and Ireland in 2015. Against a backdrop of resolute spending discipline, we then (from 2016 onwards) expect to see new borrowing remain at a low level in the long term, coming in at between zero and two percent of GDP. A commitment to keeping the reins on spending, however, will not be enough. An agreement at EU policy level on increased fiscal and economic policy coordination and monitoring is equally important. In our base scenario, we expect suitable, results-oriented solutions that involve all of the institutions affected to emerge at the EU summit in March.

As the economy gets back on its feet after the financial and economic crisis, the fact that Europe's economies are still faced with a low capacity utilization rate means that higher growth rates could well be on the cards from 2012/2013 onwards, at least temporarily. In this respect, we have assumed that no additional restrictive measures will be imposed by the fiscal policymakers and expect structural reforms to make for a rosier outlook for the

countries in question. Assuming moderate inflation rates in line with the price stability norm of the European Central Bank (close to, but below 2%), we predict GDP growth rates of 2% in real terms and 4% in nominal terms as of 2016.

The need for consolidation will focus primarily on the spending side, meaning that the next few years (2011-2015) are likely to see declining government spending ratios². At the same time, the tax hikes that have been passed hint at increasing government revenue ratios³. As of 2016, when most of the fiscal adjustments have been put into practice, we expect government spending and revenue to move in tandem with the growth rates in economic output, meaning that the spending ratios will fall compared with the status quo while the revenue ratios will start to climb.

Our most likely scenario implies that the financial markets will reward the four euro area countries for their consolidation successes. Risk premiums are likely to decline gradually but remain high for some time to come. Consequently, we expect to see only a moderate increase in the interest burden, in the case of Greece and Ireland due to their use of the rescue fund. At the same time, this ought to have given the countries hit by the crisis time to reduce their debt further and improve their competitive edge. Greece and Ireland, the two countries that have been "shunned" by the capital market, are likely to return to the government bond markets, although in Greece's case, this is likely to be a very gradual process. In the second half of the decade, we expect bond creditors to be demanding premiums of 100 - 300 basis points on German government bonds (2.5% - 4%) from the countries affected.

Since the consolidation efforts of the member states have been planned around a medium-term time horizon, the relationship between the EFSF and its successor, the European Stability Mechanism (ESM), during the transition phase will have to be clear-cut to ensure that liquidity assistance can be offered, based on favorable interest rate conditions, at any time if need be. In our base scenario, we assume that an extensive, adequate overall package will be put together over the next few months.

Risk scenario: "Less spending discipline, sustained flat growth"

Our risk scenario adds fuel to the fire in respect of the current debate on the need for debt restructuring in the member states, especially in Greece. In this scenario, we have assumed a sluggish economic recovery, lax spending discipline and a lack of trust among market participants in the solidity of state finances, developments that would result in rising risk premiums, putting a consolidation success story for the four countries on the geographical periphery of the euro area in jeopardy.

Assuming laxer fiscal policy, we think it possible that government spending will rise at a rate that is one percentage point higher than in our base scenario. In this negative scenario, the countries in crisis will not manage to meet the requirements of the EU deficit procedure.

The economy will make only a sluggish recovery – for example because economic policy fails to implement the structural reforms needed to catapult the economies onto a higher growth path in the long run. Our negative scenario assumes growth rates for annual nominal and real GDP that lie two percentage points below those set out in the base scenario. In real terms, this equates to a stagnation in economic growth (nominal: 2%), sending government spending ratios on an upward trajectory.

² Total government spending as a % of gross domestic product

³ Total government revenue as a % of gross domestic product

Generally unconvincing consolidation and reform strategies, coupled with sustained flat growth, are unlikely to be able to silence concerns among financial market participants about major loan defaults in the EMU area. Finally, doubts as to countries' ability to get to grips with the debt crisis could result in higher financing costs and a higher interest burden for all four countries in the long term.

Positive scenario: "Spending discipline, stronger economic growth"

In our positive scenario, we expect stronger economic growth to result in a substantial reduction in government debt ratios and the favorable placement of future government bonds on the capital markets.

Brave structural reforms are likely to boost the competitive standing of the European economies under the microscope and pave the way for structural changes that will propel them onto a higher growth path in the medium term. For the period leading up to 2020, our assessment is likely to result in real and nominal economic growth that is one percentage point higher than in the base scenario in each case (at 3% and 5% respectively).

As in the base scenario, fiscal policymakers are likely to show resolve and staying power, allowing the countries to meet the consolidation requirements set out in the EU deficit procedure in full. While government spending will increase as in the base scenario (resulting in a lower government spending ratio), higher government revenue on the back of more positive growth prospects should allow all four euro countries to generate higher primary surpluses, allowing them to reduce their debt in a swift, impressive manner.

Given the circumstances described, the situation on the financial markets is likely to calm down considerably. The countries on Europe's periphery, which have been penalized by investors, are likely to be able to make a successful comeback to the capital market without requiring any further EU liquidity assistance, with the interest burden expected to dip slightly compared with the base scenario.

Below, we have applied the details of all three scenarios to each individual country.

Greece

In Greece, which has been in the watchful eye of investors and policymakers alike longer than any other country, key foundations for sustained budget consolidation have already been in place since the agreement was reached on the EU and IMF rescue package, and the Greek government has embarked on the most ambitious savings program ever seen.

Greece	Average real GDP growth 2011-2020	Assumed annual borrowing requirement as % of GDP	Debt ratio in year 2020
Base scenario	1.5%	EU deficit targets* marginally bettered: Deficit 2014 below 3%; from 2016: 0%	116%
Risk scenario	-0.2%	EU deficit targets* not met; Budget deficit between 6.2% and 15.9%	211%
Positive scenario	2.5%	EU deficit targets* more than met; from 2015 budget surpluses	94%

*2011: 7.4%; 2012: 6.4%; 2013: 4.8%; 2014: 2.6%.

In our base scenario, we actually expect Greece to slightly outperform the EU's budget deficit requirements in the period from 2012 to 2014. The Greek government will stick to its consolidation and reform program with an iron resolve. Public-sector and pension

savings, combined with a clampdown on tax evasion, are likely to see the Hellenic State pull off a substantial fiscal adjustment. We expect Greece, with the help of the EU's liquidity assistance, to slowly but surely return to the capital market and it should be able to achieve a balanced budget from 2016 onwards. Even based on a conservative estimate of average real GDP growth to the tune of around 1.5% in the years leading up to 2020 (compared with 4.2% for 2000 to 2007), the return to a declining government debt ratio (after a high of 152.9% in 2012) should then help nudge the interest burden down from 7.3% of GDP in 2013 to 5.9% of GDP in 2020. At the same time, we expect the government spending ratio to fall from around 50% in 2010 to approximately 44.5% as of 2016. In return, increased government revenue, for example thanks to the VAT hike of 4 percentage points to 23%, should also help the consolidation process along. We expect the government revenue ratio, for example, to continue to climb from 40.2% to 44.5% in 2016. Once the contractionary effects of the savings program have started to wear off, we expect Greece to be able to achieve primary surpluses averaging just over 6% of GDP from 2015 to 2020. This should create a framework in which it is possible for the country to nudge its debt level down to 115.7% of GDP by 2020.

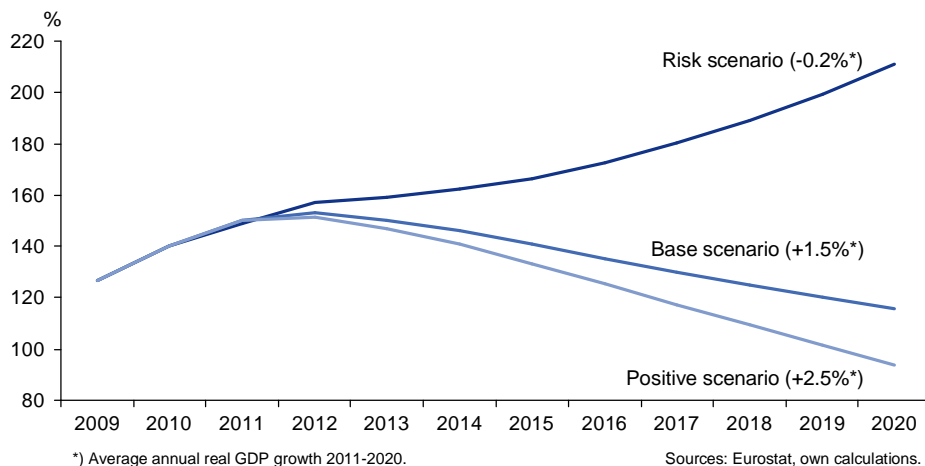
Our *risk scenario* reflects the current debate surrounding the various models that could be used for Greece's debt restructuring. In addition to waning fiscal policy discipline, the main risk hanging over a successful consolidation process is currently sustained flat growth on the one hand, and a lack of investor confidence on the bond markets on the other. If Greece, with an average change in annual economic output of only -0.2% between 2011 and 2020, is forced to obtain funds from the capital market again once the current EU assistance has dried up, extremely high premiums would definitely be on the cards. In our negative scenario, we have assumed a gradual increase in average interest rates on sovereign debt to as much as 6% by 2020. Even if the assistance programs were to be continued and Greece were to make only a partial comeback on the financial markets, unfavorable growth prospects and market assessments would go hand in hand with an interest burden that Greece would find almost impossible to manage. A more radical solution would be the likely outcome.

There are, however, a number of signs suggesting that it will not have to come to this. First, the governing political party fared well in the municipal elections held in the autumn of 2010. This not only serves to corroborate the course taken by the governing party, but also suggests that the Greek population is prepared to accept the austerity measures. On the other hand, economic indicators are pointing towards more a positive trend. Greek exports, for example, were up by 21.6% year-on-year in December 2010 (and by as much as 37.9% year-on-year in November), while the current account deficit has been headed clearly south since 2009. So all in all, the Greek economy would seem to be becoming more competitive again. As a result, we expect to see average real economic growth of up to 2.5% in the period leading up to 2020 in our *positive scenario*. Since we also predict higher government revenue in this scenario, primary surpluses should climb up to a level of up to 8.0% of GDP. In the positive scenario – and assuming the same spending trends as in the base scenario – Greece should be able to get its government debt ratio down to below the 100% of GDP mark by 2020. Given the circumstances described above, we believe that Greece will make a successful comeback on the capital market even before the EU rescue package has run its course and without the need for any further liquidity assistance.

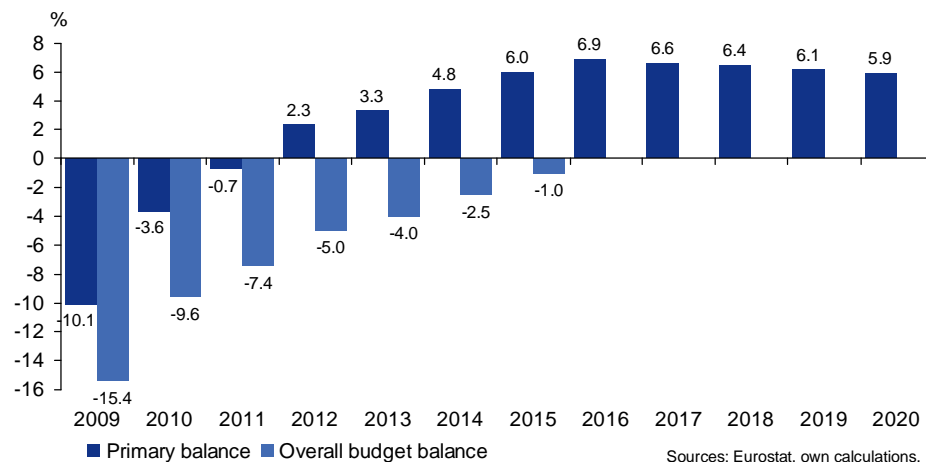
If investors and European policymakers can be patient enough to give Greece another two years to clamber its way back to growth, the risk of insolvency or debt restructuring in Greece is far lower than the current debate suggests.

Greece

Gross government debt as % of GDP



General government balances (base scenario)



Ireland

Compared with all of the other EU states, Ireland's debt, as a percentage of GDP, was the fastest to accumulate between 2008 and 2010. By far the biggest factor at play was the operation to rescue the Anglo Irish Bank, a move that resulted in a budget deficit of 32.3% in 2010 alone.

Ireland	Average real GDP growth 2011-2020	Assumed annual borrowing requirement as % of GDP	Debt ratio in year 2020
Base scenario	2.2%	EU deficit targets met: Deficit 2015 below 3%; from 2016: 1%.	95%
Risk scenario	0.4%	EU deficit targets* not met; Budget deficit between 8.4% und 15.1%	176%
Positive scenario	3.2%	EU deficit targets* more than met; from 2016 budget surpluses	75%

*2011: 10.6%; 2012: 8.6%; 2013: 7.5%; 2014: 5.1% 2015: 2.9%.

Despite the cloud of uncertainty hovering over Ireland's financial sector, our base scenario assumes that the country will be able to comply with the deficit requirements that have been negotiated with the EU and the IMF - with the 3 percent mark being undershot for the first time in 2015. Since Ireland still boasts competitive advantages in terms of corporate taxation and the fact that the economy is not working at full capacity utilization at the moment, the economic recovery that is likely to take root as of 2012 is also expected to be more pronounced than in the southern debt-distressed countries. We forecast real economic growth of 3% for the period from 2013 to 2015. It is not unlikely that the positive economic development will result in a balanced primary budget in as early as 2014, allowing a surplus averaging more than 3% of GDP to emerge in the years that follow. This would allow the Irish government spending ratio to be slashed from 48.9% in 2009 to 38.5% in 2015. On the other side of the equation, the government's revenue should rise from 34.5% to around 37.5% of GDP in 2016. This should see the debt level reach its peak of just under 113.8% of GDP in 2013, despite a slight upward trend in average interest rates. As a result, we do not believe that there will be any need for Ireland's EMU partner countries to provide it with support over and above the scope of the financial assistance currently being provided by the EFSF. Assuming continued fiscal policy discipline (even after the austerity measures announced in December 2010 have been implemented) and real average economic growth to the tune of 2.2% (from 2011 to 2020), the government debt ratio will have fallen to somewhere around 95.3% of GDP by the end of this decade.

If the country proves unable to meet the deficit requirements, the European Commission could start pushing Ireland to raise taxes further, a move which, if actually implemented, would impair the country's competitive standing and, as a result, its growth potential looking ahead to the medium term. Furthermore, it remains to be seen how Ireland could continue to obtain access to favorable financing in an environment marred by a sluggish economic recovery and ongoing debt accumulation. In our risk scenario, we have assumed sustained weak growth, with average real economic growth of only 0.4%. This sort of environment would prompt investors to start demanding higher risk premiums, which we believe would send average interest rates up from the current level of under 4% to approx. 5.5% in 2020. If, faced with such conditions, Ireland was only able to secure financing on the bond market again following the expiry of the lending commitments made by the EFSF, EFSM⁴ and IWF, debt restructuring would start to look more and more likely. Our negative scenario could therefore result in Ireland having to resort to liquidity assistance provided by the new ESM following a prior debt sustainability analysis performed by the EU, IMF and the ECB.

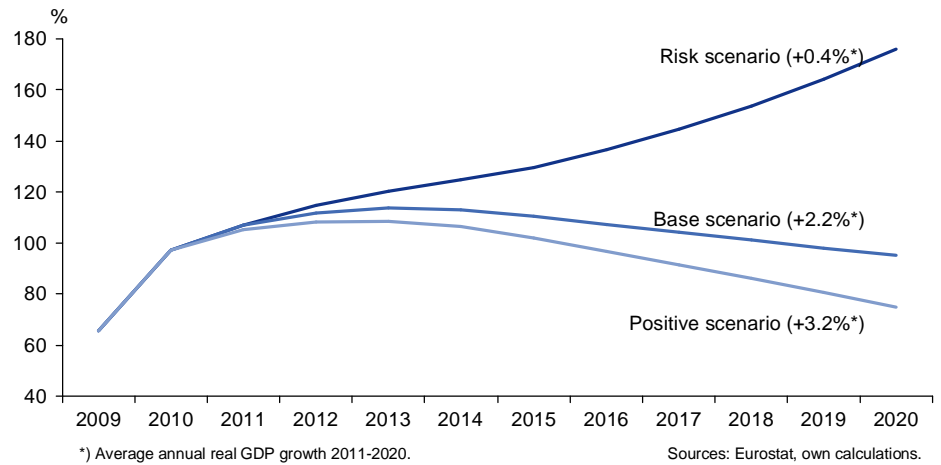
Back in the late 1980s, however, Ireland proved steadfast with its budget consolidation efforts after its government debt ratio rocketed, reporting higher growth rates than before the austerity measures only a short time later. If the reform measures bear fruit again this time round, Ireland can - as our positive scenario shows - achieve average real economic growth of up to 3.2% between 2011 and 2010. This would see the country benefit from the momentum of the current global upswing, thanks to its strong economic links to the international community. We believe that this trend could drive the primary surplus up to over 5% of GDP in 2020, especially given that Ireland was reporting similar surplus levels before the crisis. Although it is less likely to materialize than the base scenario, this trend could even spark accelerated debt reduction for Ireland, to a level of approx. 75.1% of GDP in 2020.

⁴ European Stability Mechanism

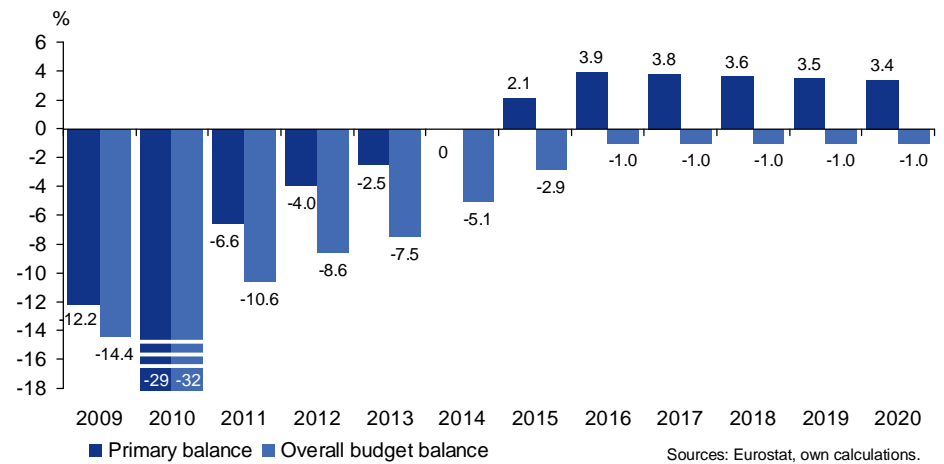
If, following the clear victory of the conservative Fine Gael party in the parliamentary elections at the end of February, there is swift political consensus that Ireland will be sticking to its current austerity plan, then we believe that the country is well on its way to getting to grips with its debt problem with the help of the EU and the IMF, possibly on renegotiated, more favorable interest rate terms.

Ireland

Gross government debt as % of GDP



General government balances (base scenario)



Portugal

Yields on Portuguese bonds, which have been on the rise again of late, are higher than the interest rates that Greece and Ireland have to pay on their respective rescue funds. This has fueled considerable concern as to Portugal's ability to restructure its budget without EU support in the long run.

Portugal	Average real GDP growth 2011-2020	Assumed annual borrowing requirement as % of GDP	Debt ratio in year 2020
Base scenario	1.8%	EU deficit targets* met; Deficit 2013 below 3%; from 2016: 1%	75%
Risk scenario	0.0%	EU deficit targets* not met; Budget deficit between 5.7% und 15.3%	155%
Positive scenario	2.8%	EU deficit targets* more than met; from 2015 budget surpluses	50%

*2011: 6.6%; 2012: 4.6%; 2013: 2.8%.

In addition to the consolidation measures that have been announced to date, which include social benefit and public-sector wage cuts, as well as a two-stage hike in VAT by 3 percentage points in total to 23%, we believe that the pressure exercised by the financial markets and EU policy will make sure that Portugal toes the fiscal policy line in the long term. The spending side of the equation will have an important role to play in this respect, as we expect Portugal's economic recovery to be comparatively muted in our base scenario. We put the relatively anemic growth prospects down, among other things, to the fact that the drop in the country's GDP in 2009 was comparatively modest at 2.6%. Nevertheless, real economic growth of 2% from 2013 onwards and more streamlined fiscal policy should allow the Portuguese state to make a return to primary surpluses again. We also expect the country to undercut the deficit threshold of 3% of GDP in the same year – as called for by the EU. We predict a moderate increase in the average interest rate to be paid on sovereign debt from 3.7% in 2010 to around 4.5% in 2020. From 2015 onwards, the country should be aiming to keep its deficit below the 1% mark so that its government debt ratio can be driven down from a high of 90.3% in 2012 to 74.8% in 2020. In the period leading up to 2020, the government revenue ratio is likely to come in at between 42.0% and 43.1%, whereas the government spending ratio is predicted to have fallen to around 44.1% at the end of the decade, compared with 49.3% in 2010.

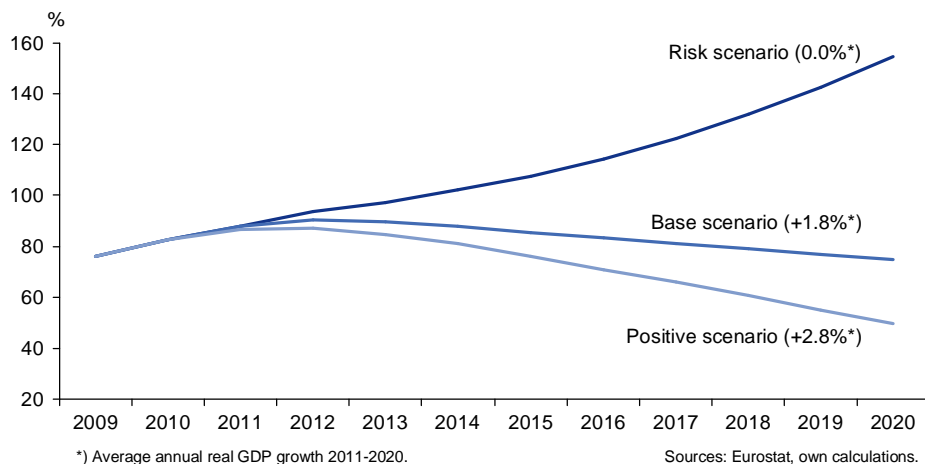
The greatest risk to the Portuguese consolidation course lies in the fact that the current growth trend, which is already only moderate, could turn into a prolonged period of anemic growth. Based on stagnation with zero growth between 2011 and 2020, Portuguese financing costs would likely be forced up, not only by the direct impact on the budget, but also by a reaction on the bond markets. In the *risk scenario*, we therefore expect the average interest on sovereign debt to creep up to 5.5% in 2020 and for the government debt ratio to stay on an upward trend. Based on the circumstances outlined in the negative scenario, Portugal would be more than likely to have to seek temporary refuge with the rescue fund made available by its partner countries.

There are also, however, clear signs pointing towards a more favorable course of events. In November 2010, for example, incoming industrial orders gained an impressive 52.6% in a year-on-year comparison. Portugal's improved competitive standing is also reflected in the fact that unit wage costs in 2010 declined for the first time since the introduction of the euro. Furthermore, the recovery in the export sector should drive the current account deficit down from 10.7% of GDP in 2010 to an estimated 6.7% of GDP in 2012. Over and above this, an increasing body of evidence suggests that the labor market is making a speedier recovery than expected, which should have a positive impact on domestic demand. If – as is assumed in our *positive scenario* – the government's structural reforms turn out to be a success story, this will provide additional economic impetus in the medium term. This would bring a higher growth path for the period from 2011 to 2010, with average real growth of up to 2.8%, within the realms of possibility. With primary surpluses of up to 5.2%, the government debt ratio could be reduced to just under 50% of GDP in 2020.

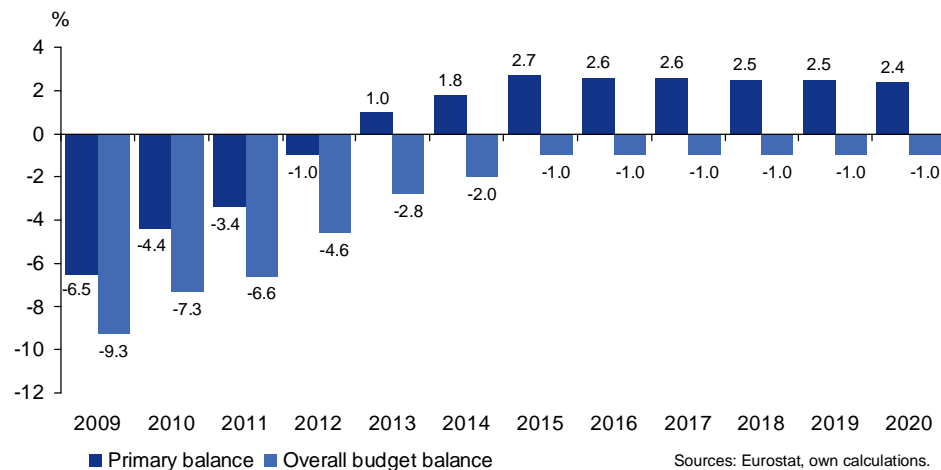
If Portugal sticks to the ambitious consolidation plans it unveiled in May and September 2010 and can implement the structural reforms required to boost its growth potential, this small country on the Iberian peninsula could emerge from the government financing crisis with new-found strength and be appropriately rewarded by financial market players, without having to resort to EU liquidity assistance.

Portugal

Gross government debt as % of GDP



General government balances (base scenario)



Spain

Spain was plunged into recession not just as a result of the global economic turbulence, but also due to the bursting of its self-made property bubble. On top of this, the country long lacked the political resolve to implement decisive reforms in the country's banking sector, and first and foremost among the domestic savings banks (*Cajas*).

Spain	Average real GDP growth 2011-2020	Assumed annual borrowing requirement as % of GDP	Debt ratio in year 2020
Base scenario	2.0%	EU deficit targets* met; Deficit 2013 at 3%; from 2016: 2%	67%
Risk scenario	0.2%	EU deficit targets* not met; Budget deficit between 6.2% und 15.0%	140%
Positive scenario	3.0%	EU deficit targets* more than met; from 2018 budget surpluses	50%

*2011: 7.5%; 2012: 5.3%; 2013: 3.0%.

Rising incoming industrial orders (+7.2% y-o-y in December 2010) and export growth (+16.8% y-o-y in December 2010), however, suggest that an economic recovery could be in the air. In 2011, for example, real GDP growth is expected to be positive again for the first time in two years, climbing to 1.0%. In our **base scenario**, we believe that Spain can achieve average real growth of 2.0% in the years to come. If the government is able to stick to the austerity program it has announced, we can assume that Spain, too, will meet the EU's budget deficit requirements for the period from 2011 to 2013 and that new borrowing can be cut to less than 3% of GDP in the following year. Swelling government revenue on the back of growth momentum from 2013 to 2015 will mean that Spain can be expected to report small primary surpluses of 1.0%, or just short of the 1.0% mark, from 2014 onwards. Although we expect the average interest due on sovereign debt to increase slightly from its current level of approx. 3.6% to around 4.2% in 2020 due to the upward trend in financing costs sparked by the European debt crisis, Spain should be able to push its government debt ratio down from 73.4% in 2012 to 67.0% in 2020. Spain's favorable starting position, namely the fact that its government debt ratio is lower than that of its peers, means that coaxing the debt ratio back down to below the 60% mark will not involve any exceptionally restrictive fiscal policy. This means that, unlike in Greece and Portugal, slower progress in consolidating the budget deficit would not prove to be a major obstacle. In our most likely scenario, we therefore expect average new borrowing in Spain to total around 2% of GDP between 2014 and 2020.

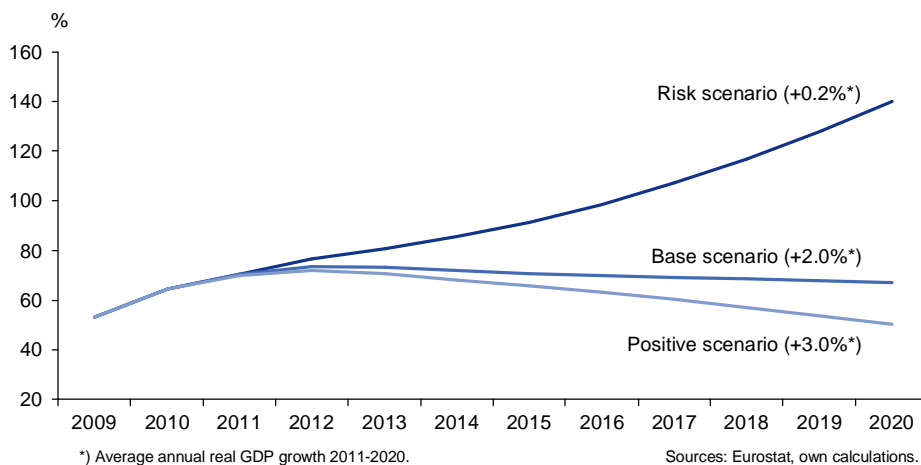
Insufficient consolidation pressure is, at the same time, a hazard that could give rise to our **risk scenario**. This is compounded by the fact that, at over 20%, the Spanish unemployment rate outstrips all of the other euro member states. In an environment blemished by sustained limp growth, the unemployment rate could climb even further, putting even more pressure on the budget as a result of rising transfer payments. If further economic and fiscal policy reforms are left by the wayside as well, we would expect to see higher financing costs for sovereign debt. The average interest rate would be likely to rise to as much 5.0% by 2020. It is unclear when exactly, in such a scenario, the Spanish government would have to resort to the EFSF or the ESM for assistance.

On the other hand, Spain benefits from the fact that its government tends to borrow at home. In 2010, the proportion of foreign bondholders stood at only 27.6% (by comparison, Greece: 78.7%). In our **positive scenario**, this could help to appease the markets. At the same time, there are signs that the government is ready to make bold reforms, even with the 2012 elections looming. These would be aimed primarily at supporting structural changes, helping Spain to mature from an economy that depends on sectors like construction to one that is ready to embrace growth sectors like renewable energy. If the next upswing enjoys a broader base, Spain should be able to move its real economic growth up a notch in the medium term, achieving an average of 3.0% in the period leading up to 2020. In this case, primary surpluses of up to 3% and a government debt ratio just shy of 50% of GDP would be realistic targets for the end of the decade.

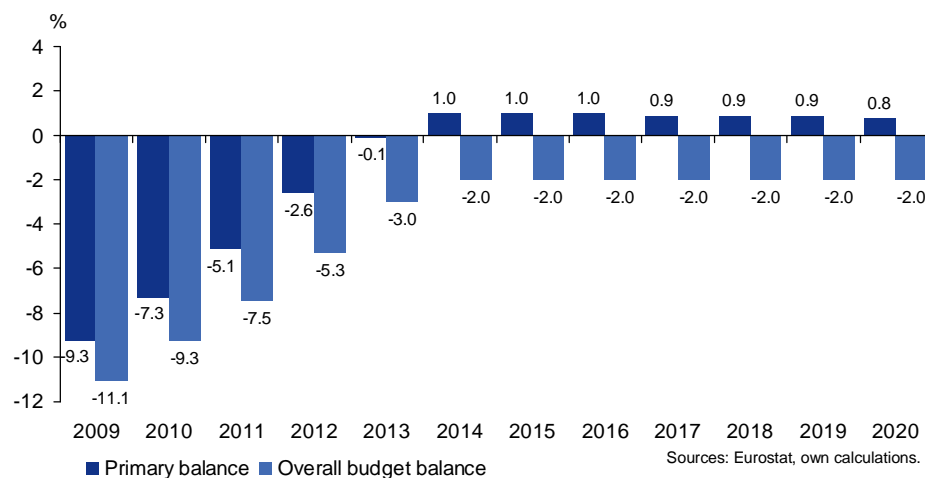
Consequently, we believe that Spain is the country where the gulf separating risks from opportunities is at its widest. If the country can manage to transform its economy, it could be a model for other highly-indebted countries, such as Italy.

Spain

Gross government debt as % of GDP



General government balances (base scenario)



Conclusion

The scenarios show that the debt momentum in the EMU countries hit by the crisis is not irreversible. We do not share the theory that strict government consolidation policy harms economic growth for a prolonged period. Rather, after weathering an initial period of weaker demand, progress on the consolidation front boosts confidence in the corporate sector and among private households, bolstering growth potential. This is particularly so if the consolidation efforts go hand-in-hand with far-reaching reforms. Even Greece could manage, in a macroeconomic environment that is not excessively optimistic, to cut its debt to GDP ratio by around 50 percentage points between now and 2020. By then, Spain could even have managed to get its ratio down to below the 50% mark in relation to GDP.

Consequently, it remains up to the politicians to prevent government debt restructuring or even more drastic scenarios. This is, however, subject to the proviso that the crisis-ridden EMU states can manage to maintain rigorous fiscal discipline and forge ahead with reforms over a prolonged period. 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. Any attempts by the EU to railroad individual countries into urgent debt restructuring would be more than counterproductive.

Greece

Base scenario	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
% change in nominal GDP	-1.1	-1.2	-1.0	1.5	4.5	4.5	4.5	4.0	4.0	4.0	4.0	4.0
% change in real GDP	-2.3	-4.2	-3.0	1.1	2.5	2.5	2.5	2.0	2.0	2.0	2.0	2.0
% change in total government revenue	-5.8	5.1	3.2	3.0	1.5	7.3	7.6	6.1	4.0	3.9	4.0	4.0
% change in total government expenditures	7.2	-7.5	-2.0	-2.2	-0.4	3.6	4.0	3.7	4.0	3.9	4.0	4.0
Total government revenue as % of GDP	37.8	40.2	41.9	42.5	41.3	42.4	43.7	44.5	44.5	44.5	44.5	44.5
Total government expenditures as % of GDP	53.2	49.8	49.3	47.5	45.3	44.9	44.7	44.5	44.5	44.5	44.5	44.5
Primary expenditures as % of GDP	47.9	43.8	42.6	40.2	38.0	37.6	37.6	37.6	37.9	38.1	38.4	38.6
Primary balance as % of GDP	-10.1	-3.6	-0.7	2.3	3.3	4.8	6.0	6.9	6.6	6.4	6.1	5.9
Average interest rate on government debt	4.5	4.5	4.6	4.8	4.8	4.9	4.9	5.0	5.0	5.0	5.0	5.0
Interest expenditures on government debt as % of GDP	5.3	6.0	6.7	7.3	7.3	7.3	7.0	6.9	6.6	6.4	6.1	5.9
General government deficit as % of GDP	-15.4	-9.6	-7.4	-5.0	-4.0	-2.5	-1.0	0.0	0.0	0.0	0.0	0.0
Gross government debt as % of GDP	126.8	140.2	150.2	152.9	150.1	146.1	140.7	135.3	130.1	125.1	120.3	115.7

Average real GDP growth: 2000-2007: 4.2%; 2011-2020: 1.5%.

Risk scenario	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
% change in nominal GDP	-1.1	-1.2	-1.0	-0.5	2.5	2.5	2.5	2.0	2.0	2.0	2.0	2.0
% change in real GDP	-2.3	-4.2	-3.0	-0.9	0.5	0.5	0.5	0.0	0.0	0.0	0.0	0.0
% change in total government revenue	-5.8	5.1	3.2	-0.5	2.5	2.5	2.5	2.0	2.0	2.0	2.0	2.0
% change in total government expenditures	7.2	-7.5	-2.0	-1.2	0.6	4.6	5.0	4.7	5.0	4.9	5.0	5.0
Total government revenue as % of GDP	37.8	40.2	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9
Total government expenditures as % of GDP	53.2	49.8	49.3	49.0	48.1	49.0	50.2	51.5	53.1	54.6	56.2	57.8
Primary expenditures as % of GDP	47.9	43.8	42.6	41.6	40.3	41.0	41.8	42.7	43.4	44.1	44.7	45.5
Primary balance as % of GDP	-10.1	-3.6	-0.7	0.3	1.6	0.9	0.1	-0.8	-1.5	-2.2	-2.8	-3.6
Average interest rate on government debt	4.5	4.5	4.6	4.8	4.9	5.0	5.1	5.2	5.5	5.7	5.9	6.0
Interest expenditures on government debt as % of GDP	5.3	6.0	6.7	7.3	7.7	8.0	8.4	8.8	9.7	10.5	11.5	12.3
General government deficit as % of GDP	-15.4	-9.6	-7.4	-7.1	-6.2	-7.1	-8.3	-9.6	-11.2	-12.7	-14.3	-15.9
Gross government debt as % of GDP	126.8	140.2	149.1	156.9	159.1	162.2	166.3	172.5	180.1	189.0	199.3	211.0

Average real GDP growth: 2000-2007: 4.2%; 2011-2020: -0.2%.

Positive scenario	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
% change in nominal GDP	-1.1	-1.2	0.0	2.5	5.5	5.5	5.5	5.0	5.0	5.0	5.0	5.0
% change in real GDP	-2.3	-4.2	-2.0	2.1	3.5	3.5	3.5	3.0	3.0	3.0	3.0	3.0
% change in total government revenue	-5.8	5.1	4.2	4.0	2.5	8.3	8.6	7.1	5.0	4.9	5.0	5.0
% change in total government expenditures	7.2	-7.5	-2.0	-2.2	-0.4	3.6	4.0	3.7	4.0	3.9	4.0	4.0
Total government revenue as % of GDP	37.8	40.2	41.9	42.5	41.3	42.4	43.6	44.5	44.5	44.5	44.5	44.4
Total government expenditures as % of GDP	53.2	49.8	49.3	47.5	44.9	44.0	43.4	42.9	42.5	42.0	41.6	41.2
Primary expenditures as % of GDP	47.9	43.8	42.6	40.3	37.9	37.3	37.0	36.8	36.7	36.6	36.5	36.5
Primary balance as % of GDP	-10.1	-3.6	-0.7	2.1	3.4	5.0	6.6	7.7	7.8	7.9	8.0	8.0
Average interest rate on government debt	4.5	4.5	4.6	4.8	4.8	4.8	4.8	4.8	4.9	4.9	5.0	5.0
Interest expenditures on government debt as % of GDP	5.3	6.0	6.7	7.2	7.0	6.7	6.4	6.1	5.8	5.4	5.2	4.8
General government deficit as % of GDP	-15.4	-9.6	-7.4	-5.0	-3.6	-1.7	0.2	1.6	2.0	2.4	2.8	3.2
Gross government debt as % of GDP	126.8	140.2	150.2	151.4	146.9	140.9	133.3	125.4	117.5	109.6	101.7	93.8

Average real GDP growth: 2000-2007: 4.2%; 2011-2020: 2.5%.

Sources: Eurostat, own calculations.

Ireland

Base scenario	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
% change in nominal GDP	-11.3	-2.2	0.9	3.3	5.0	5.0	5.0	4.0	4.0	4.0	4.0	4.0
% change in real GDP	-7.6	-0.5	0.5	2.5	3.0	3.0	3.0	2.0	2.0	2.0	2.0	2.0
% change in total government revenue	-13.6	-0.5	0.3	5.4	0.1	7.2	7.9	9.5	4.0	4.0	4.0	4.0
% change in total government expenditures	1.6	35.0	-32.0	-2.8	1.7	0.7	1.7	4.0	4.0	4.0	4.0	4.0
Total government revenue as % of GDP	34.5	35.1	34.9	35.6	34.0	34.7	35.6	37.5	37.5	37.5	37.5	37.5
Total government expenditures as % of GDP	48.9	67.5	45.5	42.8	41.5	39.8	38.5	38.5	38.5	38.5	38.5	38.5
Primary expenditures as % of GDP	46.7	64.5	41.5	38.8	36.5	34.7	33.5	33.6	33.8	33.9	34.0	34.2
Primary balance as % of GDP	-12.2	-29.3	-6.6	-4.0	-2.5	0.0	2.1	3.9	3.8	3.6	3.5	3.4
Average interest rate on government debt	4.0	3.7	3.9	4.2	4.4	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Interest expenditures on government debt as % of GDP	2.2	3.0	4.0	4.6	5.0	5.1	5.0	4.9	4.8	4.6	4.5	4.4
General government deficit as % of GDP	-14.4	-32.3	-10.6	-8.6	-7.5	-5.1	-2.9	-1.0	-1.0	-1.0	-1.0	-1.0
Gross government debt as % of GDP	65.5	97.4	107.0	111.9	113.8	113.2	110.6	107.3	104.1	101.1	98.1	95.3

Average real GDP growth: 2000-2007: 6.0%; 2011-2020: 2.2%.

Risk scenario	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
% change in nominal GDP	-11.3	-2.2	0.9	1.3	3.0	3.0	3.0	2.0	2.0	2.0	2.0	2.0
% change in real GDP	-7.6	-0.5	0.5	0.5	1.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0
% change in total government revenue	-13.6	-0.5	0.3	1.3	3.0	3.0	3.0	2.0	2.0	2.0	2.0	2.0
% change in total government expenditures	1.6	35.0	-32.0	-1.8	2.7	1.7	2.7	5.0	5.0	5.0	5.0	5.0
Total government revenue as % of GDP	34.5	35.1	34.9	34.9	34.9	34.9	34.9	34.9	34.9	34.9	34.9	34.9
Total government expenditures as % of GDP	48.9	67.5	45.5	44.1	44.0	43.4	43.3	44.6	45.9	47.2	48.6	50.0
Primary expenditures as % of GDP	46.7	64.5	41.5	39.4	38.8	37.8	37.3	38.2	38.9	39.5	40.0	40.7
Primary balance as % of GDP	-12.2	-29.3	-6.6	-4.5	-3.9	-2.9	-2.4	-3.3	-4.0	-4.6	-5.1	-5.8
Average interest rate on government debt	4.0	3.7	3.9	4.2	4.4	4.6	4.7	4.8	5.0	5.2	5.4	5.5
Interest expenditures on government debt as % of GDP	2.2	3.0	4.0	4.7	5.2	5.6	6.0	6.4	7.0	7.8	8.6	9.4
General government deficit as % of GDP	-14.4	-32.3	-10.6	-9.2	-9.1	-8.5	-8.4	-9.7	-11.0	-12.3	-13.7	-15.1
Gross government debt as % of GDP	65.5	97.4	107.0	114.7	120.2	125.0	129.5	136.5	144.6	153.8	164.2	175.9

Average real GDP growth: 2000-2007: 6.0%; 2011-2020: 0.4%.

Positive scenario	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
% change in nominal GDP	-11.3	-2.2	1.9	4.3	6.0	6.0	6.0	5.0	5.0	5.0	5.0	5.0
% change in real GDP	-7.6	-0.5	1.5	3.5	4.0	4.0	4.0	3.0	3.0	3.0	3.0	3.0
% change in total government revenue	-13.6	-0.5	1.3	6.4	1.1	8.2	8.9	10.5	5.0	5.0	5.0	5.0
% change in total government expenditures	1.6	35.0	-32.0	-2.8	1.7	0.7	1.7	4.0	4.0	4.0	4.0	4.0
Total government revenue as % of GDP	34.5	35.1	34.9	35.6	34.0	34.7	35.6	37.5	37.5	37.5	37.5	37.5
Total government expenditures as % of GDP	48.9	67.5	44.9	42.8	41.1	39.0	37.5	37.1	36.7	36.4	36.0	35.7
Primary expenditures as % of GDP	46.7	64.5	40.9	38.3	36.3	34.2	32.8	32.6	32.6	32.5	32.4	32.3
Primary balance as % of GDP	-12.2	-29.3	-6.0	-2.7	-2.3	0.5	2.9	4.9	4.9	5.0	5.1	5.2
Average interest rate on government debt	4.0	3.7	3.9	4.2	4.4	4.5	4.5	4.5	4.4	4.4	4.3	4.3
Interest expenditures on government debt as % of GDP	2.2	3.0	4.0	4.5	4.8	4.8	4.7	4.5	4.1	3.9	3.6	3.3
General government deficit as % of GDP	-14.4	-32.3	-10.0	-7.2	-7.1	-4.3	-1.8	0.4	0.8	1.1	1.5	1.8
Gross government debt as % of GDP	65.5	97.4	105.4	108.0	108.5	106.5	102.2	96.9	91.6	86.2	80.7	75.1

Average real GDP growth: 2000-2007: 6.0%; 2011-2020: 3.2%.

Sources: Eurostat, own calculations.

Portugal

Base scenario	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
% change in nominal GDP	-2.4	2.1	1.7	2.4	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
% change in real GDP	-2.6	1.4	0.4	1.4	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
% change in total government revenue	-6.7	10.5	1.7	2.6	4.2	5.1	5.2	4.0	4.0	4.0	4.0	4.0
% change in total government expenditures	7.9	4.6	0.3	-1.6	0.2	3.1	2.9	4.0	4.0	4.0	4.0	4.0
Total government revenue as % of GDP	38.8	42.0	42.0	42.1	42.2	42.6	43.1	43.1	43.1	43.1	43.1	43.1
Total government expenditures as % of GDP	48.1	49.3	48.6	46.7	45.0	44.6	44.1	44.1	44.1	44.1	44.1	44.1
Primary expenditures as % of GDP	45.3	46.4	45.4	43.1	41.2	40.8	40.4	40.5	40.5	40.6	40.6	40.7
Primary balance as % of GDP	-6.5	-4.4	-3.4	-1.0	1.0	1.8	2.7	2.6	2.6	2.5	2.5	2.4
Average interest rate on government debt	4.0	3.7	3.8	4.0	4.2	4.3	4.3	4.3	4.4	4.4	4.5	4.5
Interest expenditures on government debt as % of GDP	2.8	2.9	3.2	3.6	3.8	3.8	3.7	3.6	3.6	3.5	3.5	3.4
General government deficit as % of GDP	-9.3	-7.3	-6.6	-4.6	-2.8	-2.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Gross government debt as % of GDP	76.1	82.8	87.9	90.3	89.6	88.0	85.6	83.3	81.0	78.9	76.8	74.8

Average real GDP growth: 2000-2007: 1.5%; 2011-2020: 1.8%.

Risk scenario	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
% change in nominal GDP	-2.4	2.1	1.7	0.4	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
% change in real GDP	-2.6	1.4	0.4	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% change in total government revenue	-6.7	10.5	1.7	0.4	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
% change in total government expenditures	7.9	4.6	0.3	-0.6	1.2	4.1	3.9	5.0	5.0	5.0	5.0	5.0
Total government revenue as % of GDP	38.8	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0
Total government expenditures as % of GDP	48.1	49.3	48.6	48.1	47.7	48.7	49.6	51.0	52.5	54.1	55.7	57.3
Primary expenditures as % of GDP	45.3	46.4	45.4	44.5	43.6	44.2	44.8	45.7	46.6	47.5	48.3	49.2
Primary balance as % of GDP	-6.5	-4.4	-3.4	-2.5	-1.6	-2.2	-2.8	-3.7	-4.6	-5.5	-6.3	-7.2
Average interest rate on government debt	4.0	3.7	3.8	4.0	4.3	4.5	4.6	4.8	5.0	5.2	5.4	5.5
Interest expenditures on government debt as % of GDP	2.8	2.9	3.2	3.6	4.1	4.5	4.8	5.3	5.9	6.6	7.4	8.2
General government deficit as % of GDP	-9.3	-7.3	-6.6	-6.1	-5.7	-6.7	-7.6	-9.0	-10.5	-12.1	-13.7	-15.3
Gross government debt as % of GDP	76.1	82.8	87.9	93.6	97.4	102.1	107.5	114.3	122.4	131.8	142.7	154.9

Average real GDP growth: 2000-2007: 1.5%; 2011-2020: 0,0%.

Positive scenario	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
% change in nominal GDP	-2.4	2.1	2.7	3.4	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
% change in real GDP	-2.6	1.4	1.4	2.4	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
% change in total government revenue	-6.7	10.5	2.7	3.6	5.2	6.1	6.2	5.0	5.0	5.0	5.0	5.0
% change in total government expenditures	7.9	4.6	0.3	-1.6	0.2	3.1	2.9	4.0	4.0	4.0	4.0	4.0
Total government revenue as % of GDP	38.8	42.0	42.0	42.1	42.2	42.6	43.1	43.1	43.1	43.1	43.1	43.1
Total government expenditures as % of GDP	48.1	49.3	48.1	45.8	43.7	42.9	42.0	41.6	41.2	40.8	40.4	40.1
Primary expenditures as % of GDP	45.3	46.4	44.9	42.3	40.1	39.4	38.7	38.5	38.3	38.2	38.1	37.9
Primary balance as % of GDP	-6.5	-4.4	-2.9	-0.2	2.1	3.2	4.4	4.6	4.7	4.9	5.0	5.2
Average interest rate on government debt	4.0	3.7	3.8	4.0	4.2	4.3	4.3	4.3	4.2	4.2	4.1	4.1
Interest expenditures on government debt as % of GDP	2.8	2.9	3.2	3.5	3.6	3.6	3.4	3.2	2.9	2.7	2.4	2.1
General government deficit as % of GDP	-9.3	-7.3	-6.1	-3.7	-1.5	-0.3	1.1	1.5	1.9	2.3	2.6	3.0
Gross government debt as % of GDP	76.1	82.8	86.6	87.3	84.6	80.9	76.0	71.0	65.8	60.6	55.2	49.6

Average real GDP growth: 2000-2007: 1.5%; 2011-2020: 2.8%.

Sources: Eurostat, own calculations.

Spain

Base scenario	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
% change in nominal GDP	-3.1	-0.1	2.1	3.1	4.5	4.5	4.5	4.0	4.0	4.0	4.0	4.0
% change in real GDP	-3.7	-0.1	1.0	1.7	2.5	2.5	2.5	2.0	2.0	2.0	2.0	2.0
% change in total government revenue	-9.4	4.8	3.8	4.2	5.3	6.5	3.3	4.0	4.0	4.0	4.0	4.0
% change in total government expenditures	7.5	-0.3	-0.6	-1.1	-0.4	3.8	3.4	4.0	4.0	4.0	4.0	4.0
Total government revenue as % of GDP	34.7	36.4	37.0	37.4	37.7	38.4	38.0	38.0	38.0	38.0	38.0	38.0
Total government expenditures as % of GDP	45.8	45.7	44.5	42.7	40.7	40.4	40.0	40.0	40.0	40.0	40.0	40.0
Primary expenditures as % of GDP	44.0	43.7	42.1	40.0	37.8	37.4	37.0	37.1	37.1	37.1	37.2	37.2
Primary balance as % of GDP	-9.3	-7.3	-5.1	-2.6	-0.1	1.0	1.0	1.0	0.9	0.9	0.9	0.8
Average interest rate on government debt	3.9	3.4	3.6	3.8	4.0	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Interest expenditures on government debt as % of GDP	1.8	2.0	2.4	2.7	2.9	3.0	3.0	3.0	2.9	2.9	2.9	2.8
General government deficit as % of GDP	-11.1	-9.3	-7.5	-5.3	-3.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
Gross government debt as % of GDP	53.2	64.4	70.4	73.4	73.2	71.9	70.7	69.9	69.2	68.4	67.7	67.0

Average real GDP growth: 2000-2007: 3.6%; 2011-2020: 2.0%.

Risk scenario	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
% change in nominal GDP	-3.1	-0.1	2.1	1.1	2.5	2.5	2.5	2.0	2.0	2.0	2.0	2.0
% change in real GDP	-3.7	-0.1	1.0	-0.3	0.5	0.5	0.5	0.0	0.0	0.0	0.0	0.0
% change in total government revenue	-9.4	4.8	3.8	1.1	2.5	2.5	2.5	2.0	2.0	2.0	2.0	2.0
% change in total government expenditures	7.5	-0.3	-0.6	-0.1	0.6	4.8	4.4	5.0	5.0	5.0	5.0	5.0
Total government revenue as % of GDP	34.7	36.4	37.0	37.0	37.0	37.0	37.0	37.0	37.0	37.0	37.0	37.0
Total government expenditures as % of GDP	45.8	45.7	44.5	44.0	43.2	44.2	45.0	46.3	47.7	49.1	50.5	52.0
Primary expenditures as % of GDP	44.0	43.7	42.1	41.2	39.9	40.6	41.0	41.9	42.8	43.7	44.5	45.3
Primary balance as % of GDP	-9.3	-7.3	-5.1	-4.2	-2.9	-3.6	-4.0	-4.9	-5.8	-6.7	-7.5	-8.3
Average interest rate on government debt	3.9	3.4	3.6	3.8	4.1	4.3	4.5	4.6	4.7	4.8	4.9	5.0
Interest expenditures on government debt as % of GDP	1.8	2.0	2.4	2.8	3.2	3.6	4.0	4.4	4.8	5.4	6.0	6.7
General government deficit as % of GDP	-11.1	-9.3	-7.5	-7.0	-6.2	-7.2	-8.0	-9.3	-10.7	-12.1	-13.5	-15.0
Gross government debt as % of GDP	53.2	64.4	70.4	76.6	80.7	85.7	91.4	98.7	107.2	117.0	127.9	140.1

Average real GDP growth: 2000-2007: 3.6%; 2011-2020: 0.2%.

Positive scenario	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
% change in nominal GDP	-3.1	-0.1	3.1	4.1	5.5	5.5	5.5	5.0	5.0	5.0	5.0	5.0
% change in real GDP	-3.7	-0.1	2.0	2.7	3.5	3.5	3.5	3.0	3.0	3.0	3.0	3.0
% change in total government revenue	-9.4	4.8	4.8	5.2	6.3	7.5	4.3	5.0	5.0	5.0	5.0	5.0
% change in total government expenditures	7.5	-0.3	-0.6	-1.1	-0.4	3.8	3.4	4.0	4.0	4.0	4.0	4.0
Total government revenue as % of GDP	34.7	36.4	37.0	37.4	37.7	38.4	38.0	38.0	38.0	38.0	38.0	38.0
Total government expenditures as % of GDP	45.8	45.7	44.5	42.7	40.3	39.7	38.9	38.5	38.1	37.8	37.4	37.1
Primary expenditures as % of GDP	44.0	43.7	42.1	40.0	37.5	36.8	36.1	35.8	35.6	35.4	35.2	35.0
Primary balance as % of GDP	-9.3	-7.3	-5.1	-2.6	0.2	1.7	1.9	2.2	2.4	2.6	2.8	3.0
Average interest rate on government debt	3.9	3.4	3.6	3.8	4.0	4.2	4.2	4.2	4.1	4.1	4.0	4.0
Interest expenditures on government debt as % of GDP	1.8	2.0	2.4	2.7	2.9	2.9	2.8	2.7	2.5	2.4	2.2	2.1
General government deficit as % of GDP	-11.1	-9.3	-7.5	-5.3	-2.6	-1.3	-0.9	-0.5	-0.2	0.2	0.6	0.9
Gross government debt as % of GDP	53.2	64.4	69.7	72.1	70.8	68.3	65.6	63.0	60.1	57.1	53.8	50.3

Average real GDP growth: 2000-2007: 3.6%; 2011-2020: 3.0%.

Sources: Eurostat, own calculations.

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

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Allianz SE is one of the leaders of the insurance sector in the Dow Jones Sustainability Index, listed in FTSE4GOOD and in the Carbon Disclosure Leadership Index (Carbon Disclosure Project, CDP6).

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