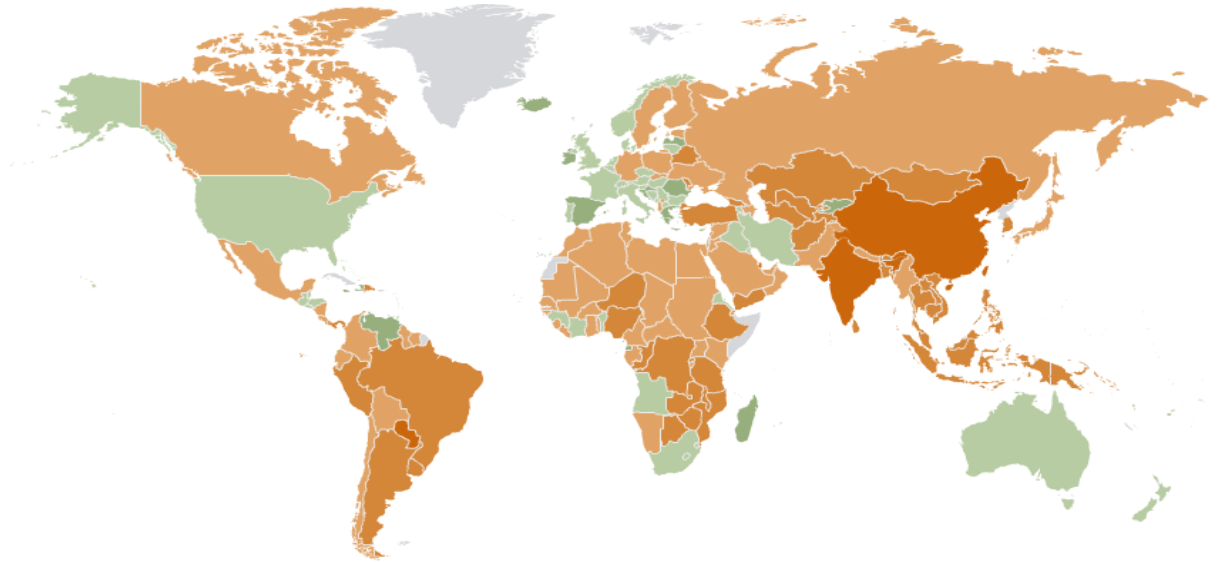


World real GDP growth in 2010

Annual percent change



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- 10% or more
- 6-10%
- 3-6%
- 0-3%
- Less than 0%
- No data

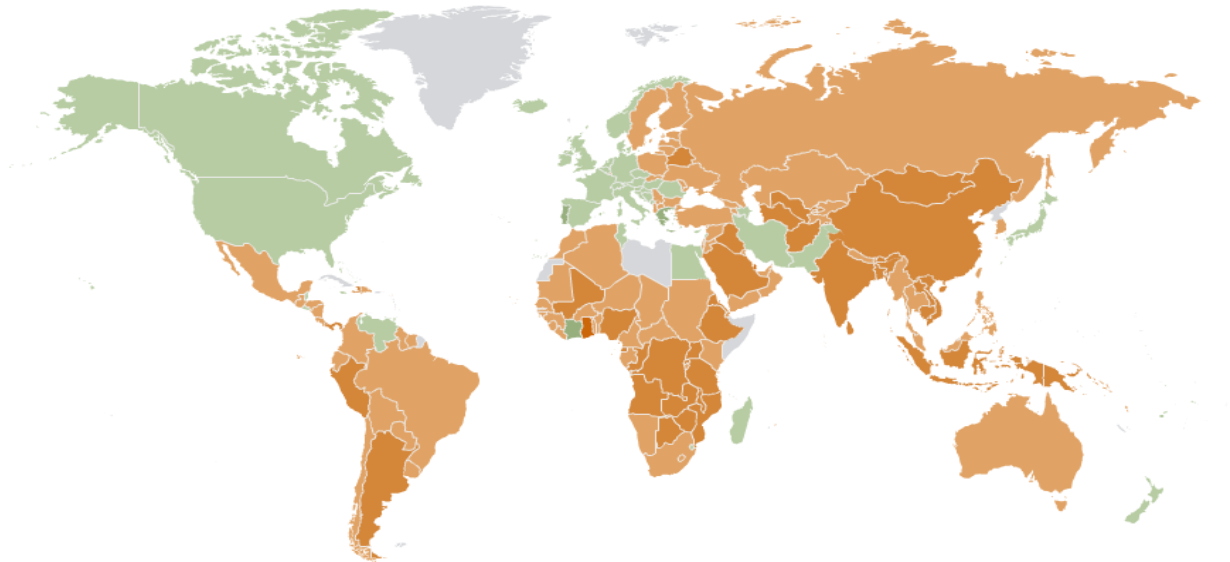
Source: International Monetary Fund.

World real GDP growth in 2011

Annual percent change



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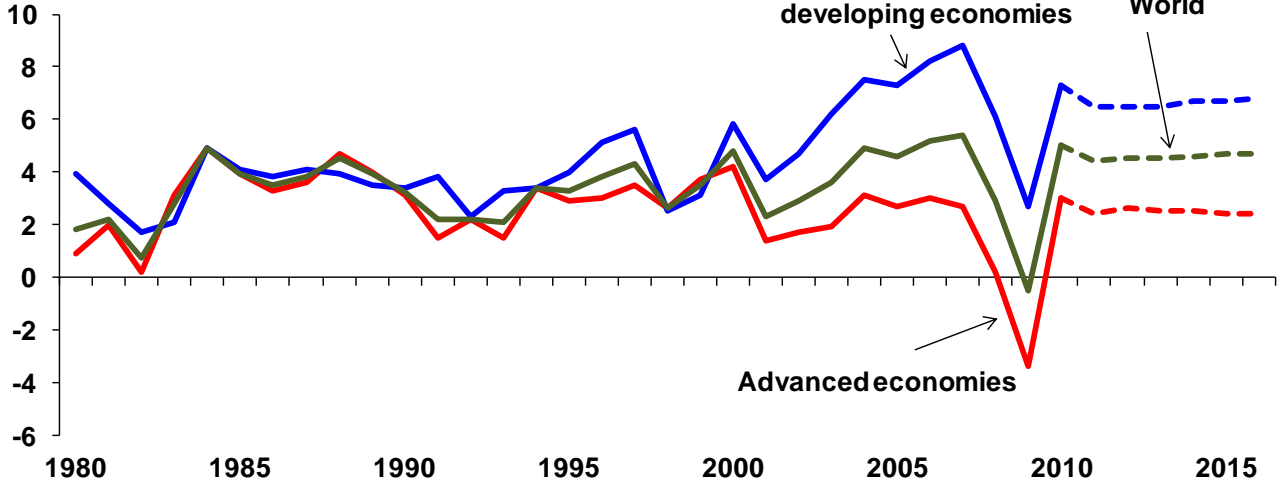
- 10% or more
- 6-10%
- 3-6%
- 0-3%
- Less than 0%
- No data

Source: International Monetary Fund.

Solid recovery

World real GDP grew by 5 percent in 2010

Real GDP growth, percent



Source: World Economic Outlook, International Monetary Fund, April 2011 update.

World output forecasts

Percent change from previous year



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	2010	2011F	2012F
World	5.0	4.4	4.5
Advanced economies	3.0	2.4	2.6
United States	2.8	2.8	2.9
Japan	3.9	1.4	2.1
United Kingdom	1.3	1.7	2.3
Euro area	1.7	1.6	1.8
Emerging and developing economies	7.3	6.5	6.5
Brazil	7.5	4.5	4.1
China	10.3	9.6	9.5
India	10.4	8.2	7.8
Russia	4.0	4.8	4.5
South Africa	2.8	3.5	3.8

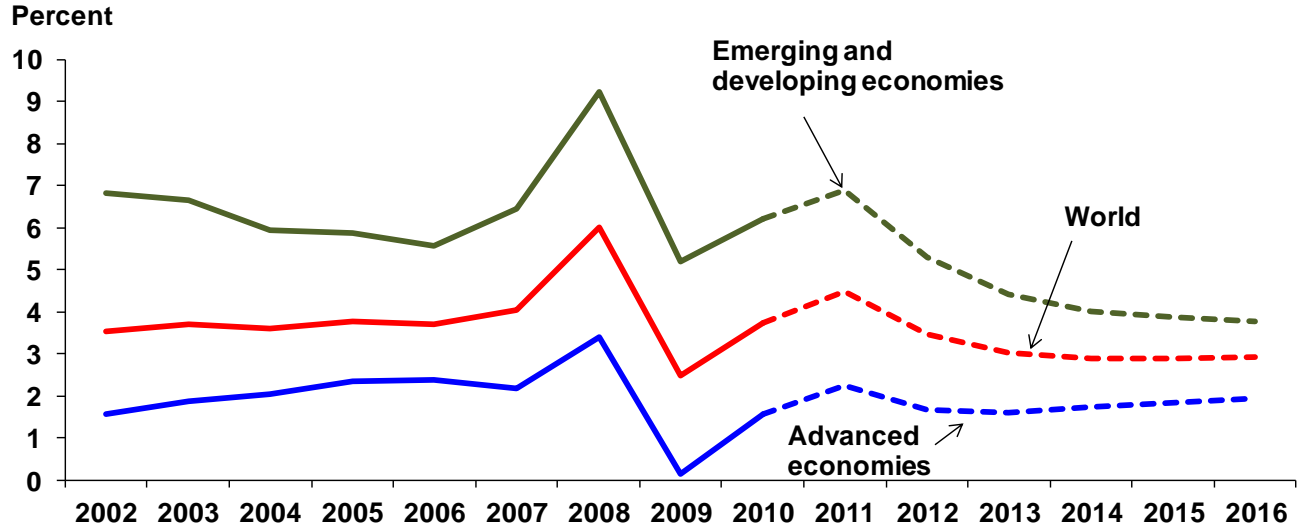
Source: World Economic Outlook, International Monetary Fund, April 2011.

Inflation risk ahead?



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Percent change of consumer prices (year-to-year)



Source: World Economic Outlook, International Monetary Fund, April 2010 update.

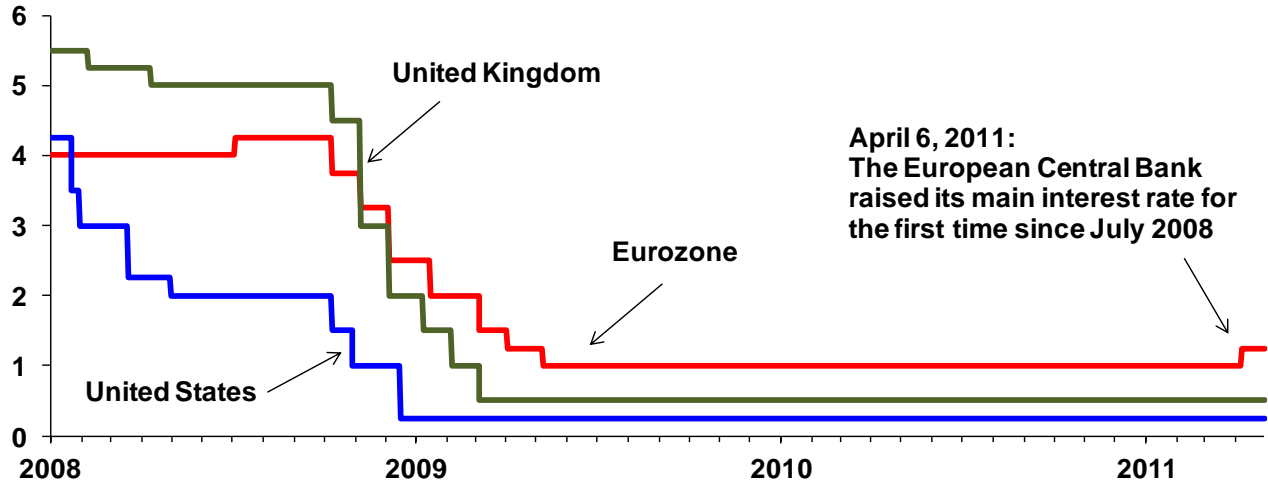
Interest rates for advanced economies

Target interest rates of central banks



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Policy interest rates, percent



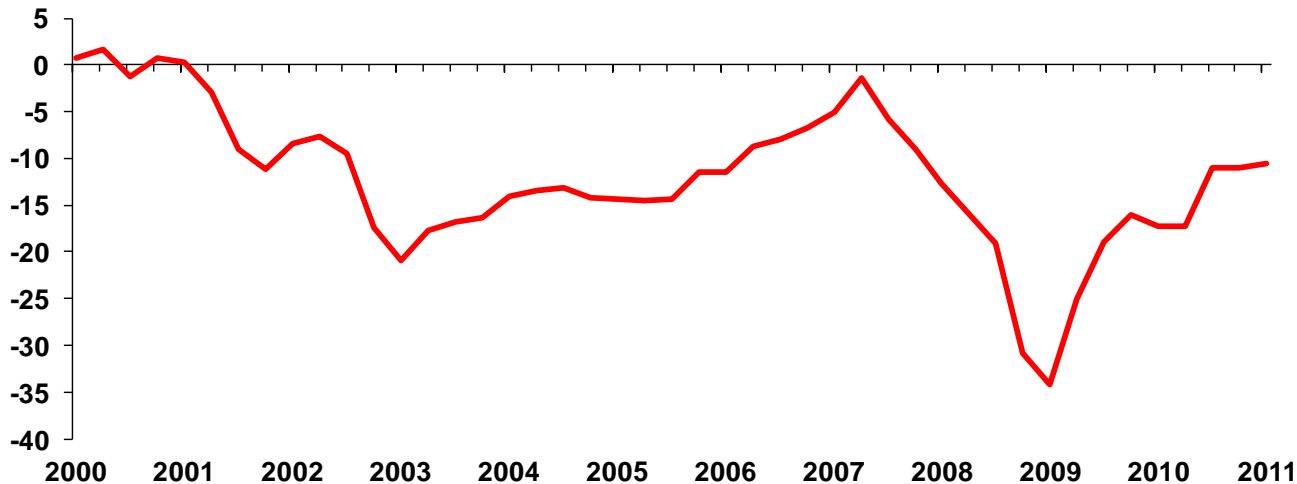
April 6, 2011:
The European Central Bank
raised its main interest rate for
the first time since July 2008

Source: Bloomberg.



Consumer confidence index: Eurozone

Consumer confidence index

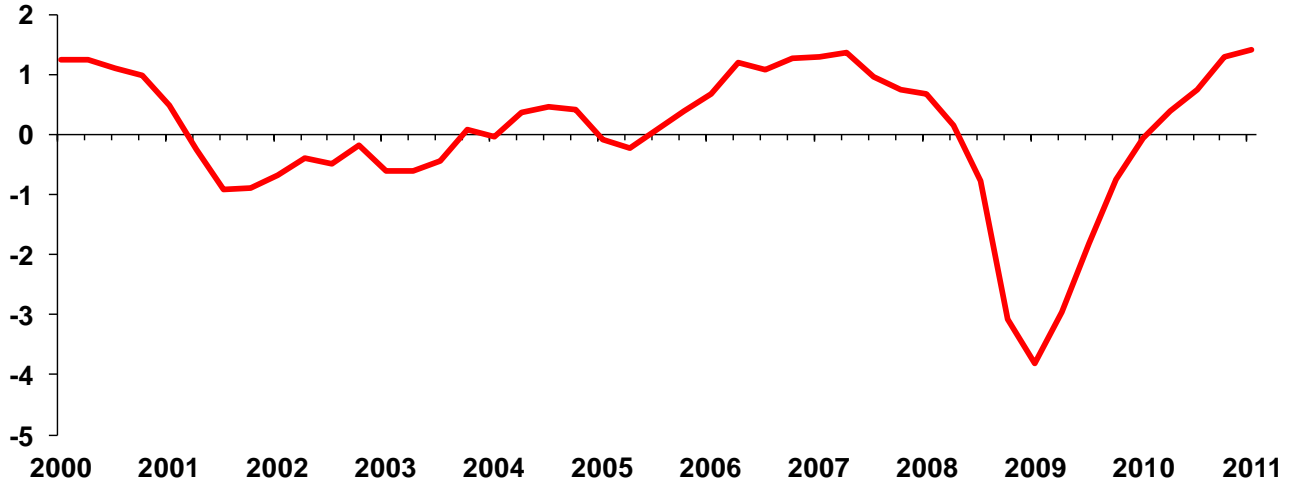


Sources: Eurostat, Bloomberg.



Business climate indicator: Eurozone

Business climate indicator

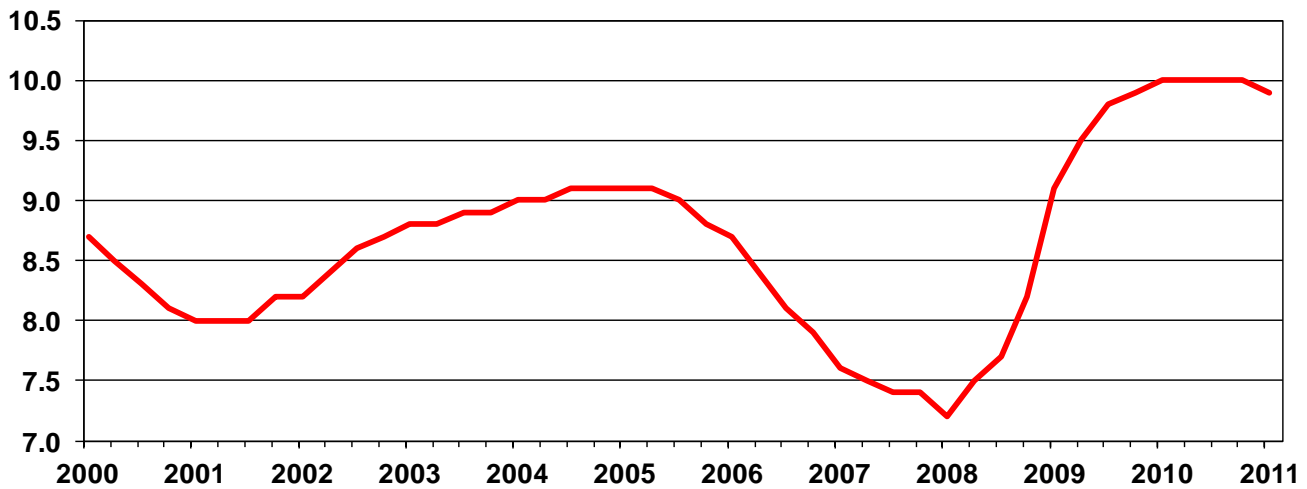


Sources: Eurostat, Bloomberg.



Unemployment in the Eurozone remains high

Unemployment rate, percent (seasonally adjusted)

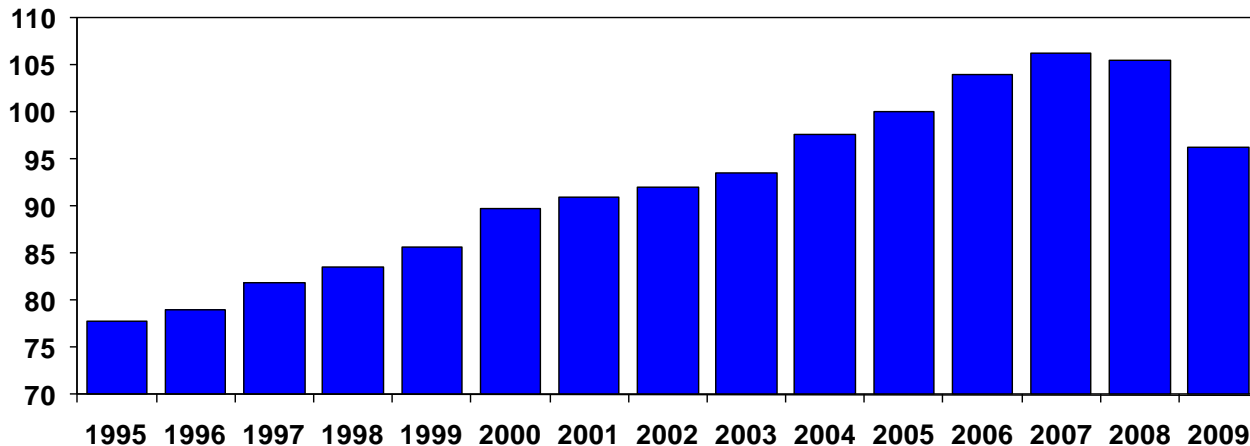


Sources: Eurostat, Bloomberg.



Labor productivity in eurozone

Index, 2005=100



Source: OECD.

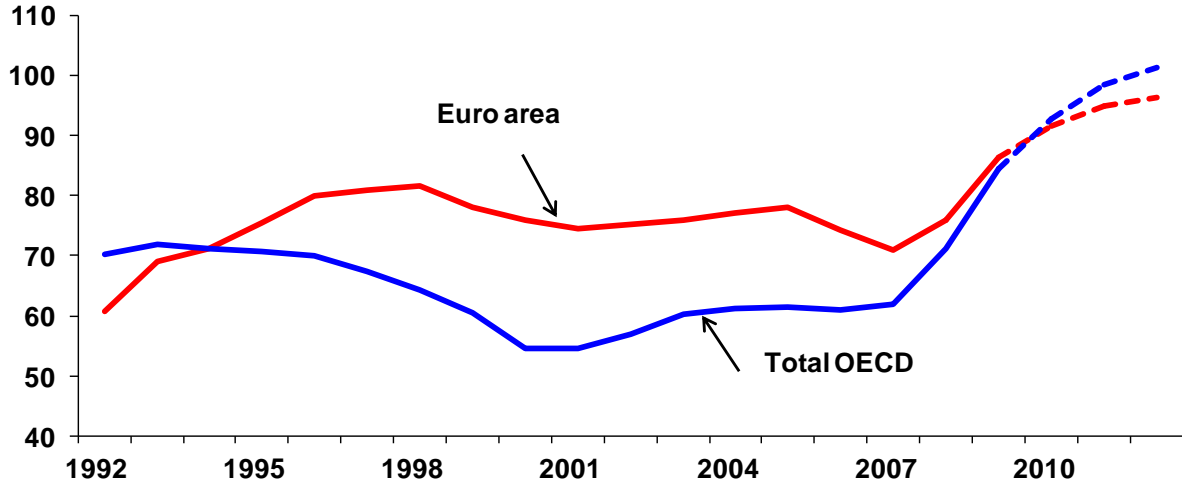
Government debt-to-GDP ratio at historic high

1992 to 2012 (Projections after 2009)



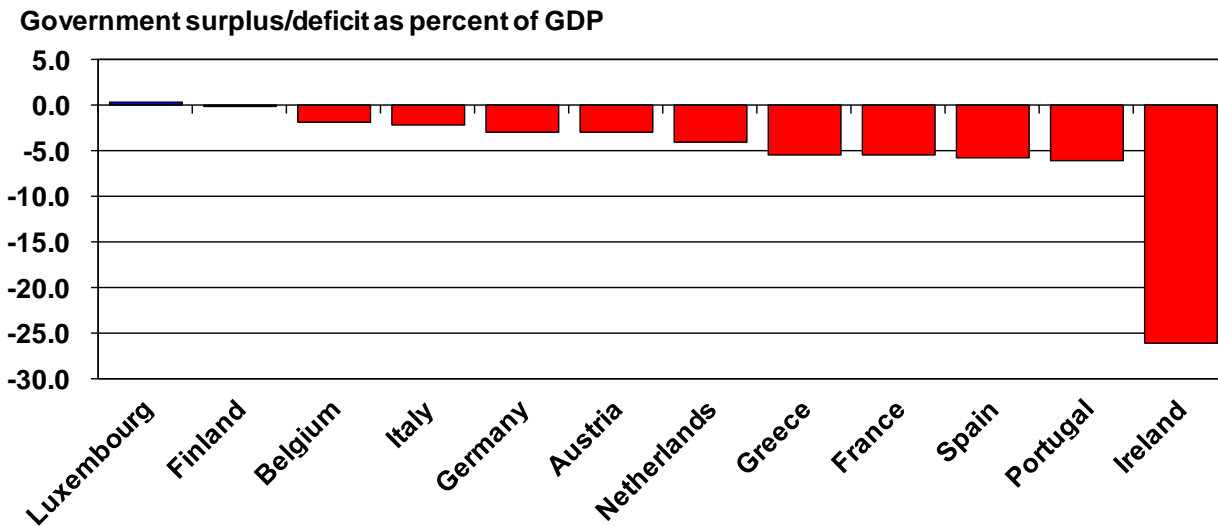
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Gross debt, percent of GDP



Source: OECD.

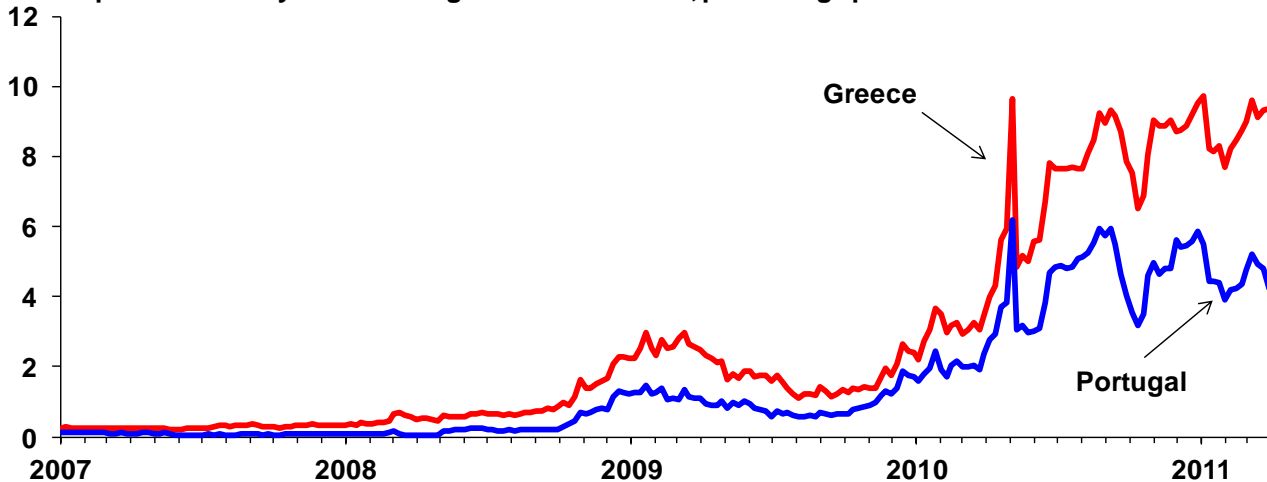
Fiscal deficit for selected Eurozone countries



Source: OECD.

Greek and Portuguese yield spreads trend up

Yield spread over 10-year German government bonds, percentage points



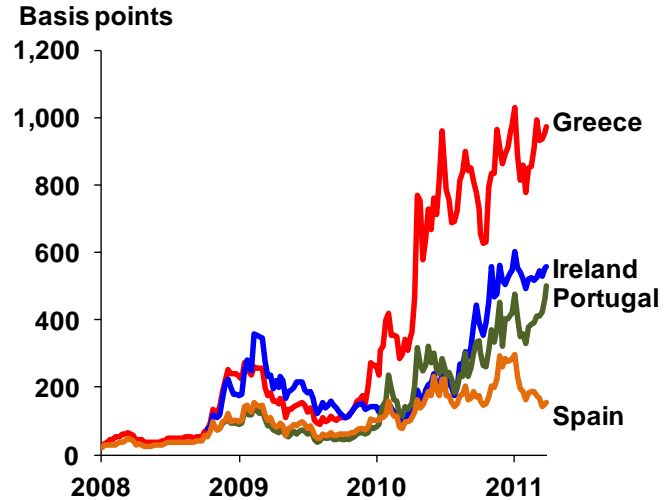
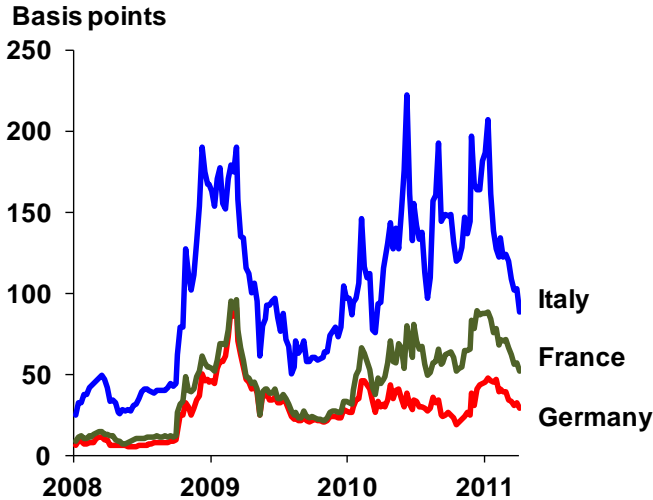
Sources: Bloomberg, Milken Institute.

Sovereign risks heightened after 2009

Credit default swap spreads, five-year government bonds



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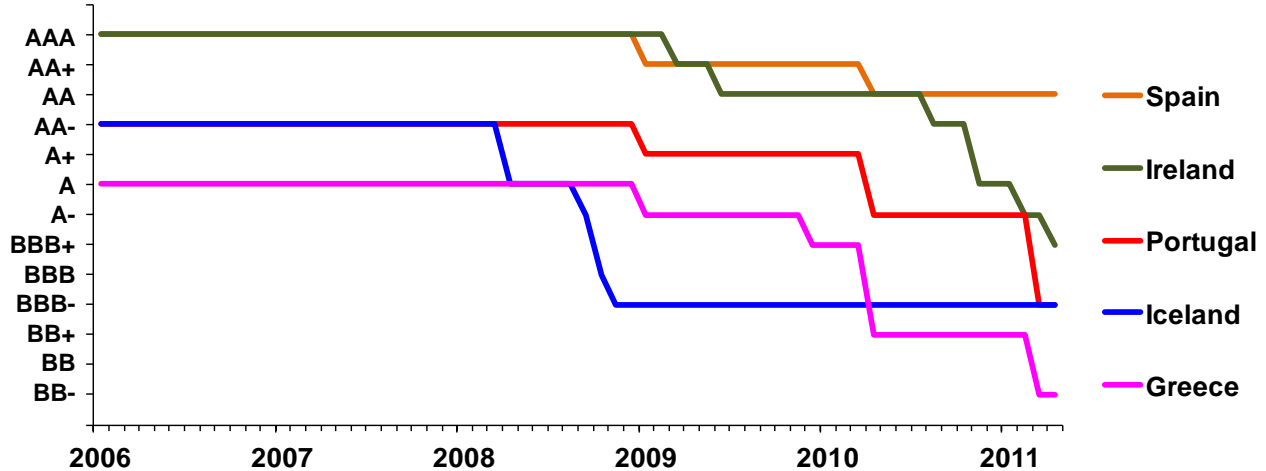
Source: DataStream.

Recent rating changes for selected European countries



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S&P's foreign currency long-term debt ratings



Sources: Bloomberg, Milken Institute.

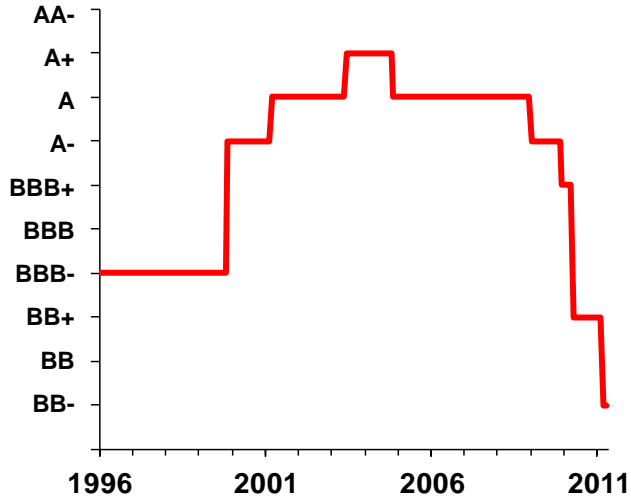
Sovereign ratings for Greece and Portugal

S&P's foreign currency long-term debt ratings

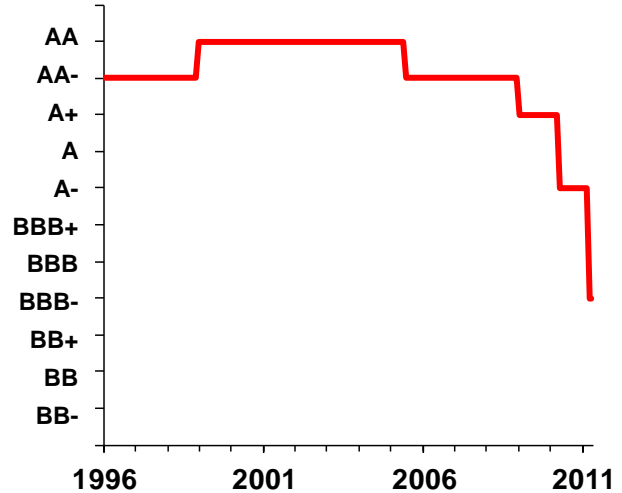


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Greece



Portugal



Sources: Bloomberg, Milken Institute.

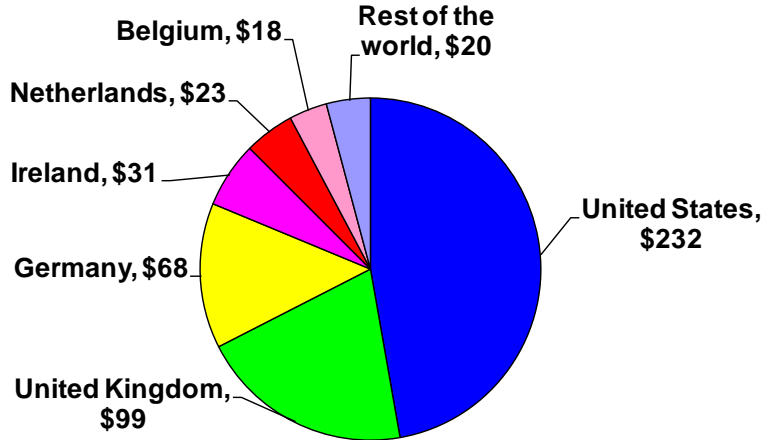
Government capital investments in financial firms

Most recently available data, as of April 6, 2011 (US\$ billions)



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Total outstanding = \$491 billion



Source: Bloomberg.

Are the biggest banks in the world too big to fail?

Trillion-dollar banks, ranked by assets, 2010

Bank	Country	Total Assets (US\$ trillions)	Market Cap (US\$ billions)
1 BNP Paribas	France	2.7	92
2 Deutsche Bank	Germany	2.5	56
3 HSBC Holdings	U.K.	2.5	192
4 Barclays	U.K.	2.3	59
5 Royal Bank of Scotland	U.K.	2.3	77
6 Bank of America	U.S.	2.3	138
7 Mitsubishi UFJ	Japan	2.2	62
8 Credit Agricole	France	2.1	40
9 JPMorgan Chase	U.S.	2.1	188
10 ICBC	China	2.0	258
11 Citigroup	U.S.	1.9	131
12 Mizuho Financial	Japan	1.7	33

Bank	Country	Total Assets (US\$ trillions)	Market Cap (US\$ billions)
13 China Construction Bank	China	1.6	240
14 Banco Santander	Spain	1.6	102
15 Bank of China	China	1.6	150
16 Agricultural Bank of China	China	1.6	146
17 Lloyds Banking	U.K.	1.5	69
18 Societe Generale	France	1.5	50
19 UBS	Switzerland	1.4	71
20 Sumitomo Mitsui	Japan	1.3	41
21 Wells Fargo	U.S.	1.3	169
22 Credit Suisse	Switzerland	1.1	52
23 Commerzbank	Germany	1.0	11

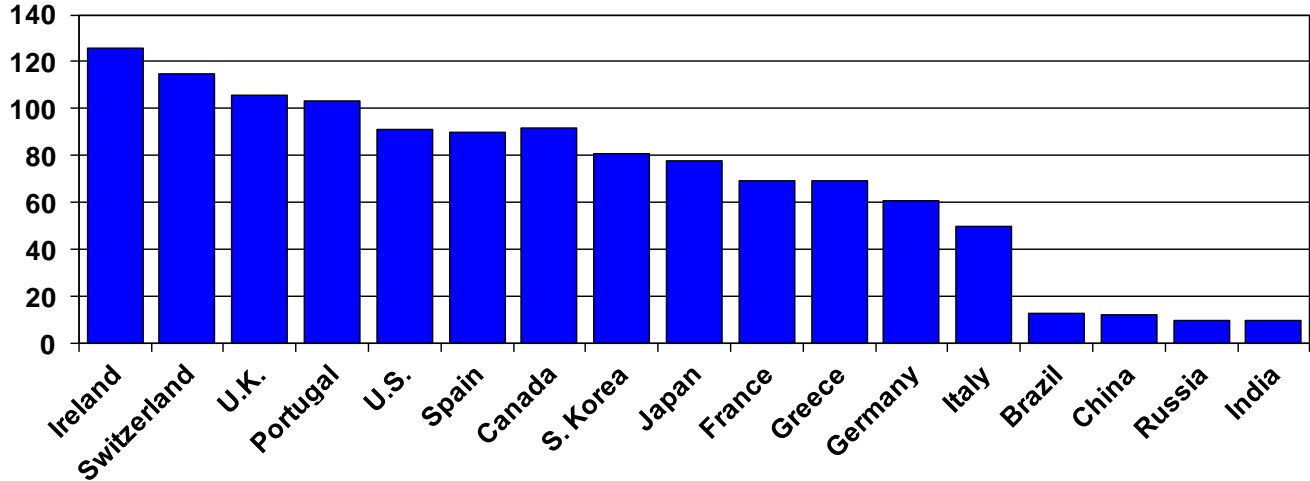
Sources: Bloomberg, Milken Institute.

Note: Market capitalization is from April 6, 2011.

Leverage ratios are higher in advanced economies



Household debt-to-GDP ratios, percent

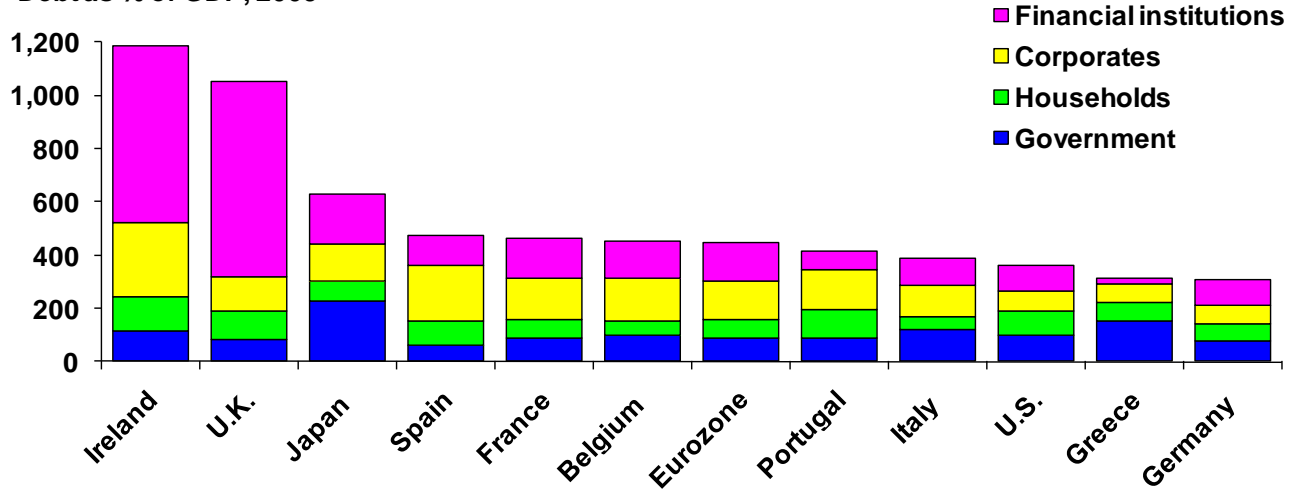


Source: International Monetary Fund.



Debt-to-GDP ratios in selected countries

Debt as % of GDP, 2009



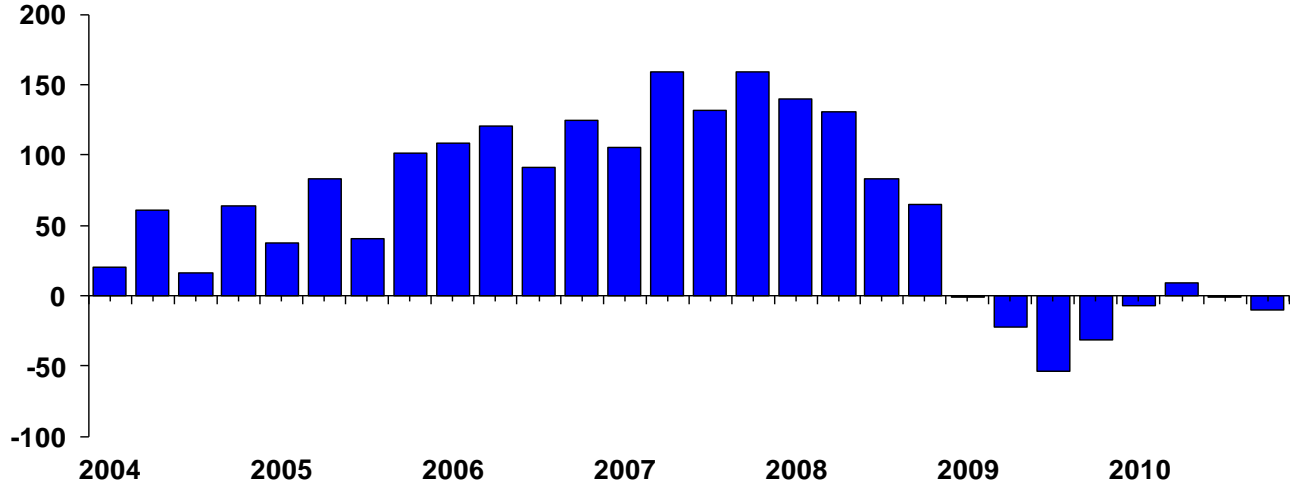
Source: International Monetary Fund.

Creditless recovery in Europe?



Lending to non-financial corporations

Lending to non-financial corporations, billions of euros

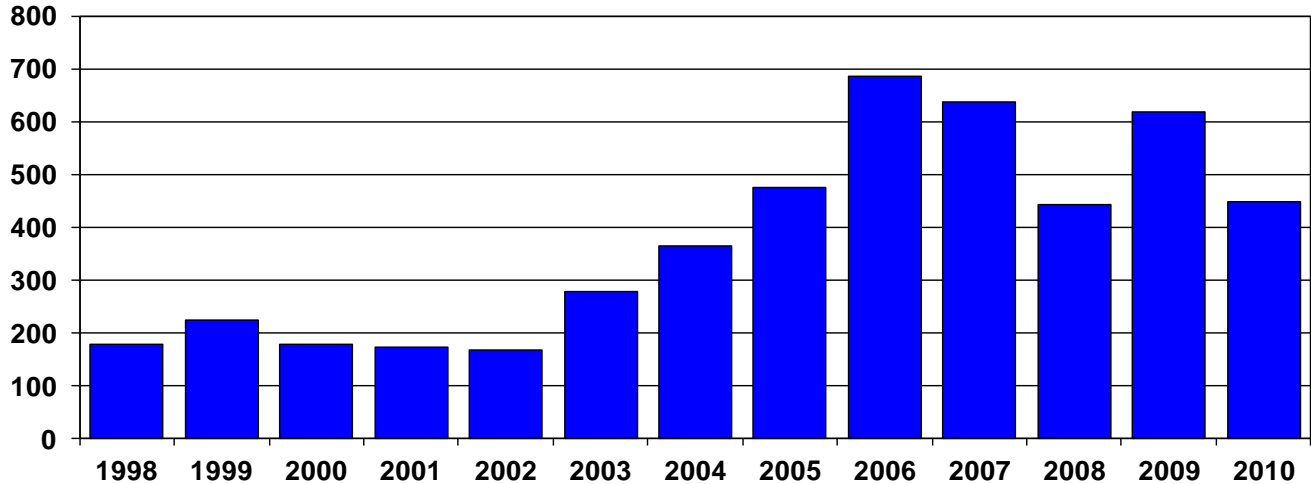


Source: European Central Bank



European corporate bond issuance

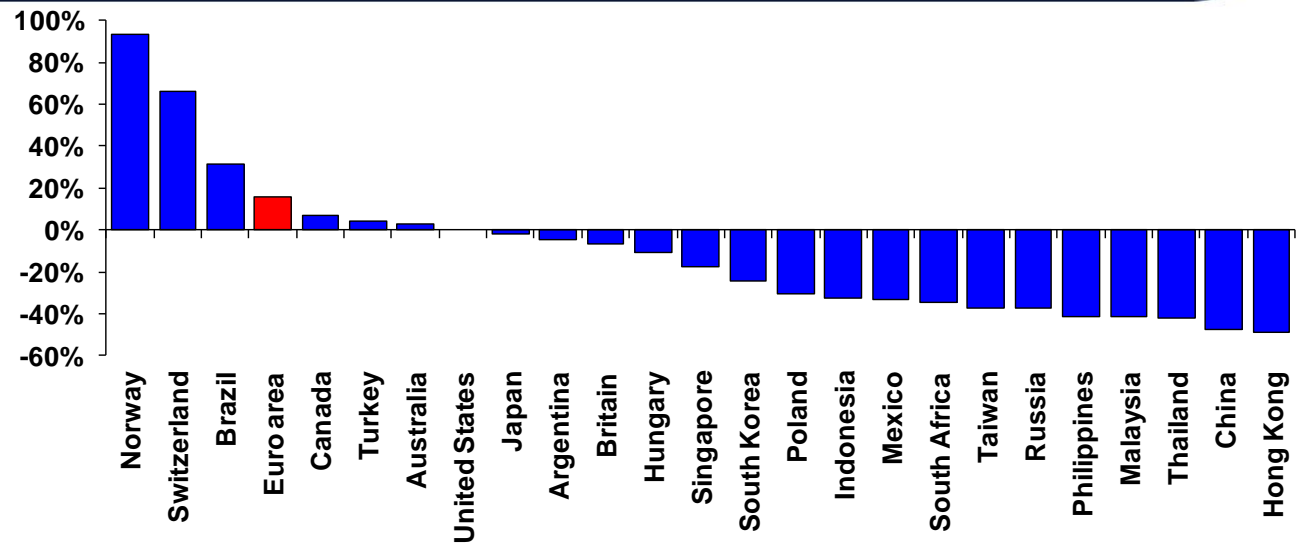
US\$ billions



Source: International Monetary Fund.



Big Mac Index: Euro overvalued?



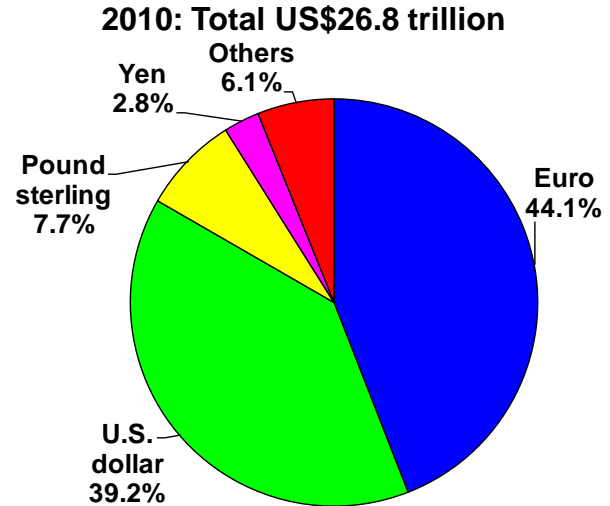
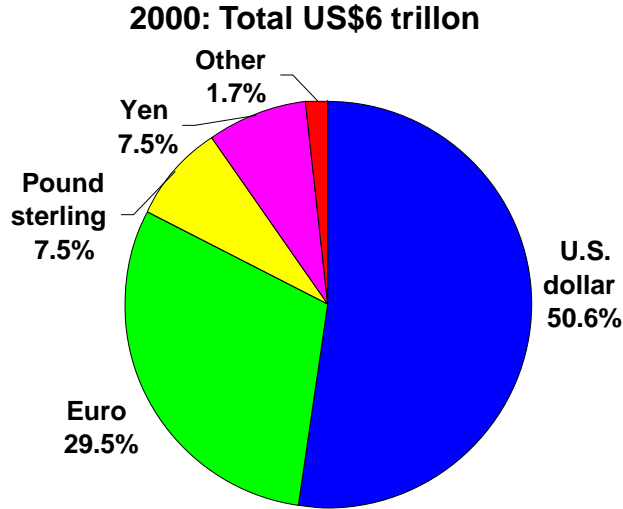
Source: *The Economist*.

Declining role of U.S. dollar and rising role of euro



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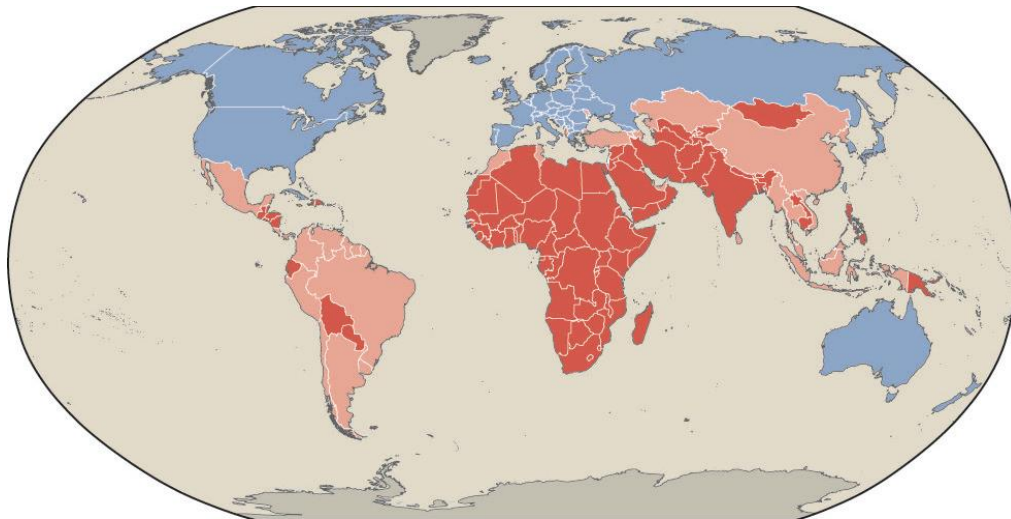
International debt outstanding by currency



Source: Bank of International Settlements.



World age structure, 2005



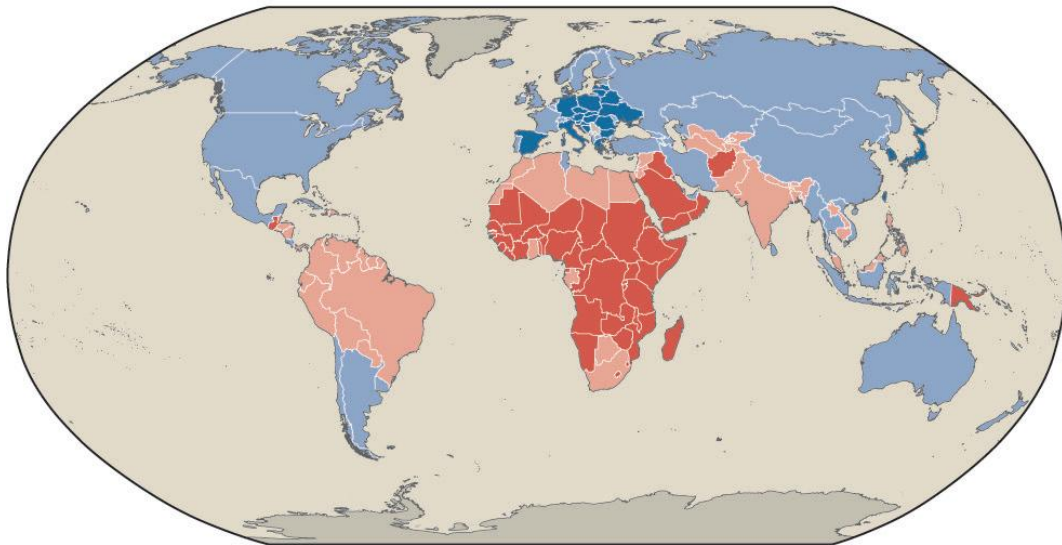
Percentage of population younger than 30 years old

- 60 or more
- 45 to 59
- 30 to 44
- Less than 30
- No data

Source: National Intelligence Council.



World age structure, projected 2025



Percentage of population younger than 30 years old

- 60 or more
- 45 to 59
- 30 to 44
- Less than 30
- No data

Source: National Intelligence Council.

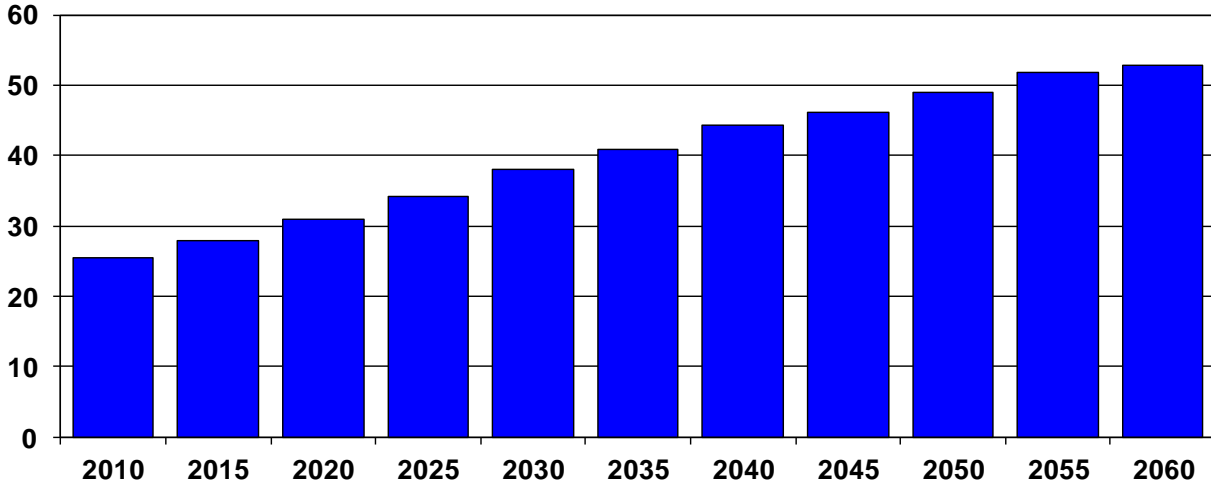
Eurozone's rising old-age dependency ratio

Projection, 2010 to 2060



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Percent



Sources: Eurostat, Milken Institute.

Note: Old-age dependency ratio is calculated as the number of people 65 and older divided by the number of persons aged 15 to 64.



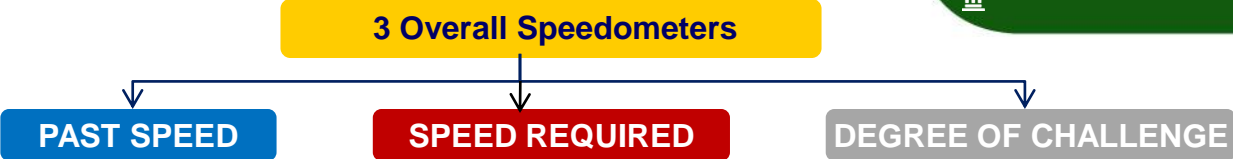
Valerio De Molli slides



Europe 2020: EU headline targets

- The Commission adopted the following 5 EU headline targets:
 1. **75% of the population aged 20-64 should be employed**
 2. **3% of the EU's GDP should be invested in R&D**
 3. **The "20/20/20" climate/energy targets should be met**
(Greenhouse gas emissions must be reduced by at least 20% compared to 1990 levels or by 30% if the conditions are right; the share of final energy consumption coming from renewable energy sources must increase to 20%; energy efficiency should rise by 20%)
 4. **The share of early school leavers should be under 10% and at least 40% of the younger generation should have a tertiary degree**
 5. **20 million less people should be at risk of poverty (25% reduction)**

Overall speedometers



■ Calculated as the **weighted sum of the 7 KPIs’ scores**

AREA	Key Performance Indicator (KPI)	Weight
EMPLOYMENT	Employment rate	20%
INNOVATION	Gross domestic expenditure on R&D (GERD)	20%
ENERGY AND ENVIRONMENT*	Greenhouse gas emissions	10%
	Share of renewables in final energy consumption	10%
EDUCATION	Early leavers from education and training	10%
	Tertiary educational attainment	10%
SOCIAL INCLUSION	Persons at risk of poverty after social transfers	20%

Source: The European House-Ambrosetti, 2011

(*) Energy efficiency national targets not yet set



PAST SPEED profile — Methodology

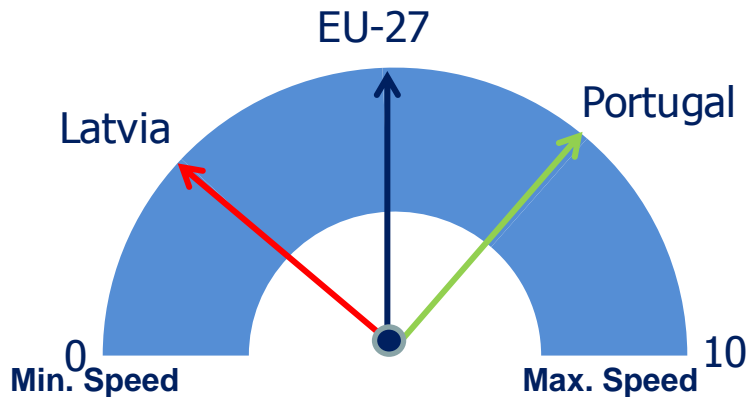
- PAST SPEED measures the **performance obtained in recent years** by each country in those KPIs that are associated with the five headline objectives
- The Advisory Board chose **2005 as reference year**, since in 2005 the Lisbon Strategy was re-launched and Member States “re-committed” themselves to the achievement of its targets
- Depending on the KPI, the “past speed” will be measured for the period 2005-2008 or 2005-2009



PAST SPEED overall Speedometer

PAST SPEED OVERALL RANKING

Portugal	7.28
Poland	5.98
Austria	5.87
Ireland	5.55
Luxembourg	5.44
Germany	5.29
Romania	5.28
Denmark	4.98
Hungary	4.93
Slovakia	4.91
EU-27	4.86
Slovenia	4.82
Italy	4.80
Estonia	4.79
Netherlands	4.76
Czech Republic	4.67
France	4.64
Belgium	4.54
Finland	4.51
Cyprus	4.46
United Kingdom	4.30
Spain	4.15
Bulgaria	4.05
Sweden	4.02
Greece	3.95
Malta	3.61
Lithuania	3.23
Latvia	2.39

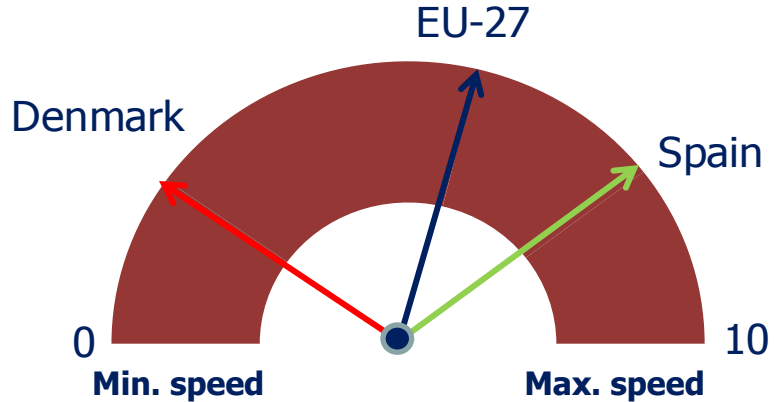




Spain	7.92
Ireland	6.90
Portugal	6.27
Greece	6.18
Latvia	5.83
Hungary	5.76
EU-27	5.75
Poland	5.64
United Kingdom	5.48
Estonia	5.39
Romania	5.09
France	5.04
Lithuania	5.02
Belgium	5.00
Bulgaria	4.87
Italy	4.82
Austria	4.64
Slovenia	4.64
Netherlands	4.03
Slovakia	4.00
Malta	3.98
Czech Republic	3.67
Cyprus	3.39
Finland	3.24
Sweden	3.03
Luxembourg	2.96
Germany	2.57
Denmark	1.97

SPEED REQUIRED overall speedometer

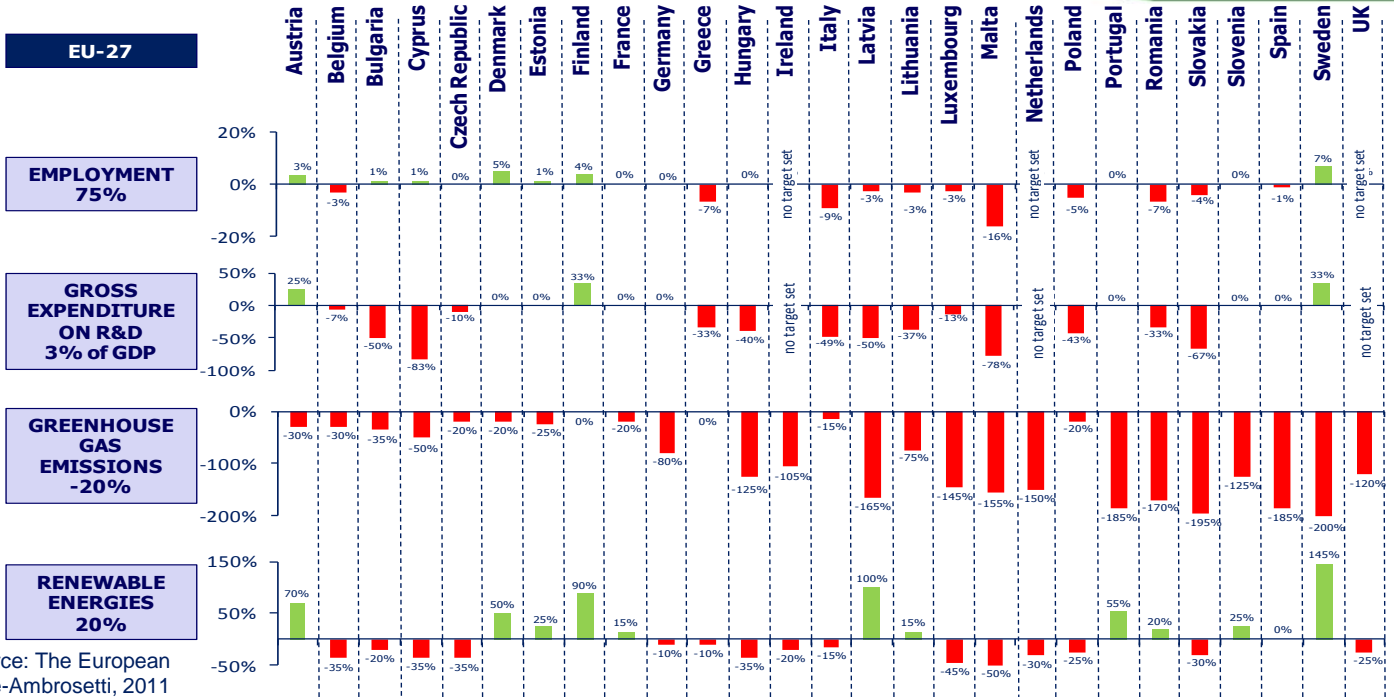
SPEED REQUIRED OVERALL RANKING



Member States' targets compared to the EU headline targets



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Source: The European House-Ambrosetti, 2011

Member States' targets compared to the EU headline targets



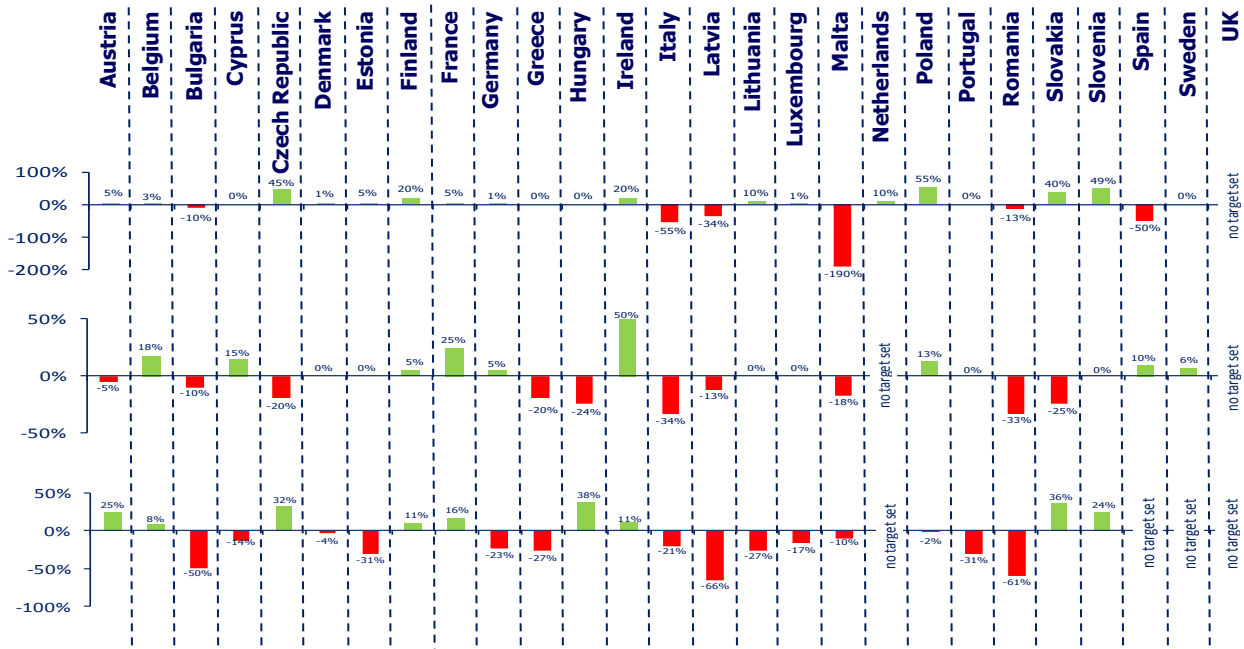
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EU-27

EARLY SCHOOL LEAVERS <10%

TERTIARY EDUCATION 40%

SOCIAL INCLUSION -25%



Source: The European House-Ambrosetti, 2011

Spain	6.88
Latvia	6.72
Greece	6.11
Lithuania	5.89
Ireland	5.68
United Kingdom	5.59
EU-27	5.44
Hungary	5.41
Bulgaria	5.41
Estonia	5.30
Belgium	5.23
France	5.20
Malta	5.18
Italy	5.01
Slovenia	4.91
Romania	4.90
Poland	4.83
Netherlands	4.64
Slovakia	4.54
Sweden	4.51
Czech Republic	4.50
Portugal	4.49
Cyprus	4.46
Austria	4.39
Finland	4.36
Luxembourg	3.76
Germany	3.64
Denmark	3.49

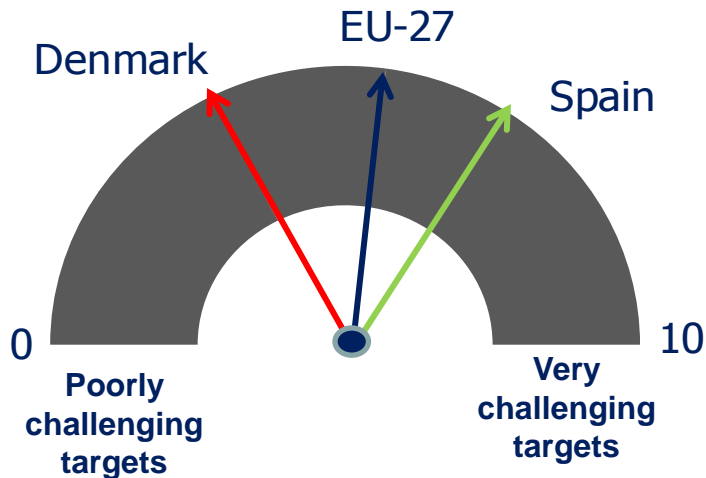
DEGREE of CHALLENGE

overall Speedometer









































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EXPECTED DEGREE OF CHALLENGE OVERALL RANKING



Countries with highest and lowest degree of challenge

	Employment Rate	GERD	Green-house Gas Emissions	Renewables	Early School leavers	Tertiary Education Attainment	At risk of poverty persons
Highest Degree of Challenge	 Spain	 Greece	 Cyprus	 Latvia	 Spain	 Portugal	 Latvia
	 Hungary	 Romania	 Malta	 United Kingdom	 Greece	 Austria	 Bulgaria
	 Latvia	 Latvia	 Slovenia	 Ireland	 Portugal	 Malta	 Lithuania
Lowest Degree of Challenge	 Germany	 Denmark	 Hungary	 Romania	 Luxembourg	 Luxembourg	 Czech Republic
	 Poland	 Finland	 Sweden	 Austria	 Cyprus	 Latvia	 Denmark
	 Bulgaria	 Germany	 Romania	 Estonia	 Bulgaria	 Denmark	 Luxembourg



Bernard Connolly slides

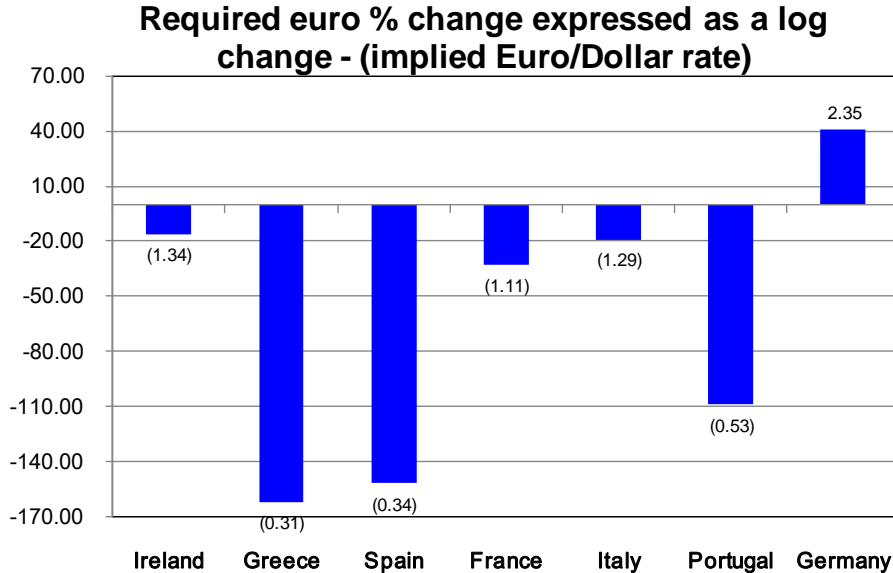
Scenarios for external adjustment in EMU



Remember that the current account equals (more or less) the trade account *plus* the income account *plus* the transfers account

- *Adjustment via the trade account:* requires an improvement in competitiveness, which within EMU must imply protracted recession, prolonged mass unemployment and deflation (unless Germany accepts a massively weak euro) → widespread household and corporate default → bank default → risk of government default
- *Adjustment via the income account:* default may reduce net interest payments to the rest of the world, but this is probably not enough on its own
- *Adjustment via the transfers account:* foreign countries make gifts large enough to offset trade and income deficits and thus avoid the need for either competitiveness improvement (or ultimate default) or immediate default.

The single currency as a straitjacket

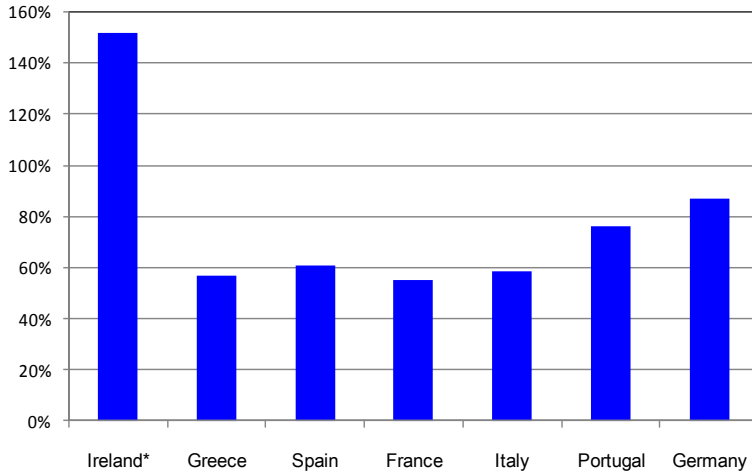


* Estimated with adapted Obstfeld-Rogoff (2004) methodology.

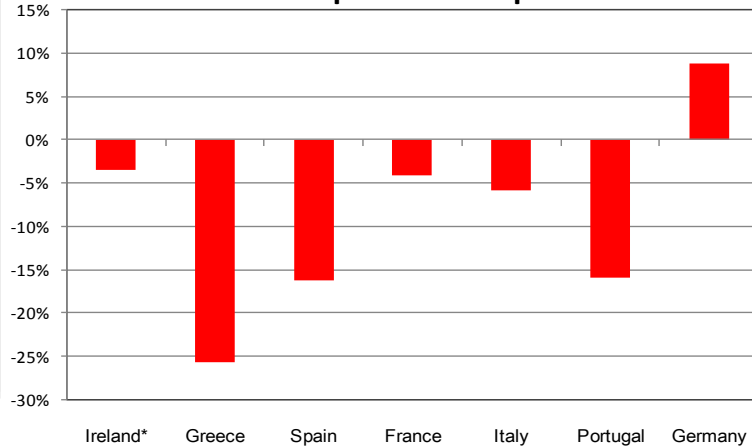
Euro-area current account imbalances are enormous



Imports Plus Exports as % of GDP

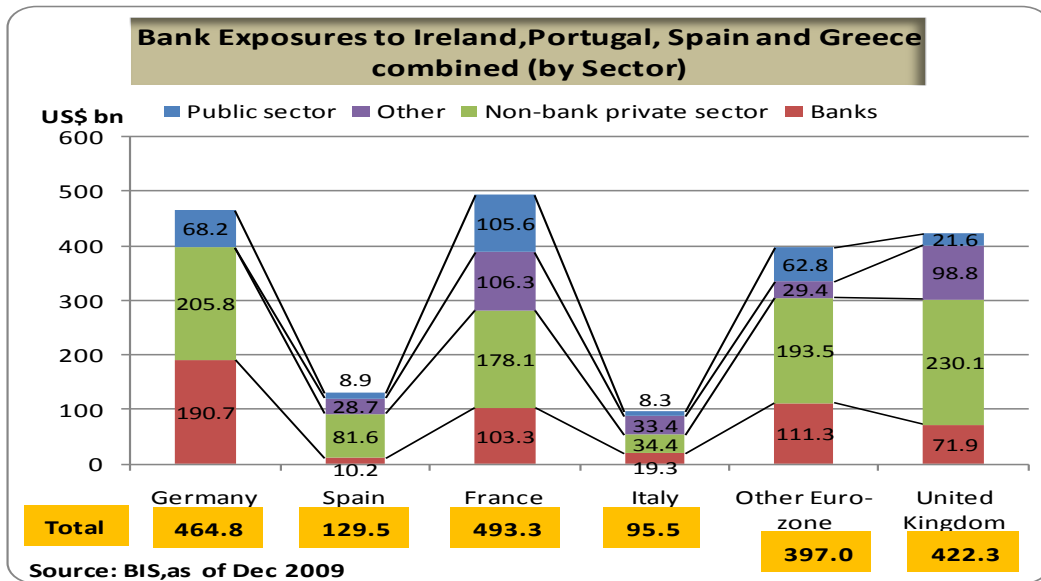


Full Employment Current Account Balance as % of Imports Plus Exports



*Because of the kit-assembly nature of much of the Irish economy, the ratio of imports and exports as % of GDP overstates the size of the tradable sector .

Exposures of bank systems to Ireland, Portugal, Spain and Greece combined (by sector)



Note: Bank, Non-bank & Public Sector exposures are on an ultimate risk basis. "Other Exposures" include derivative contracts, guarantees, and credit commitments (Germany does not report this).

PIIGS countries debts and risks for Europe's banks



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Exposure of Europe's Banking System to PIIGS Countries

As of end of December 2009 (US\$ billions), estimated on "ultimate risk" basis¹

	Greece	Ireland	Italy	Portugal	Spain	Creditor Total
Austria	4.77	7.82	25.49	2.91	8.81	49.80
Belgium	4.69	34.65	28.75	5.93	27.81	101.83
France	78.82	52.09	507.79	44.94	211.17	894.81
Germany	45.00	183.76	189.68	47.38	237.98	703.80
Greece	-	0.61	0.71	0.12	0.41	1.85
Ireland	8.57	-	45.62	5.45	31.70	91.35
Italy	6.86	17.42	-	6.70	31.18	62.17
Netherlands	12.21	28.18	69.07	14.14	119.72	243.31
Portugal	9.80	8.70	5.39	-	28.81	52.69
Spain	1.21	14.61	47.15	84.97	-	147.95
Sweden	0.68	4.02	2.74	0.47	5.84	13.75
Switzerland	3.73	17.21	19.81	4.00	21.29	66.03
UK	15.35	172.68	76.46	25.57	109.96	400.02
US	16.56	57.05	53.24	4.67	58.04	189.57
Debtor Total	208.25	598.80	1,071.90	247.25	892.72	3,018.92

Source: BIS

¹ The data cover contractual (immediate borrower) and ultimate risk lending by the head office and all its branches and subsidiaries on a worldwide consolidated basis, net of inter-office accounts. Reporting of lending in this way allocates claims to the bank entity that would bear the losses as a result of default by borrowers. To reflect the fact that banks' country risk exposure can differ substantially from that of contractual lending due to the use of risk mitigants such as guarantees and collateral, reporting countries provide information on claims on an ultimate risk basis (ie contractual claims net of guarantees and collateral) since June 1999.