PRESS RELEASE

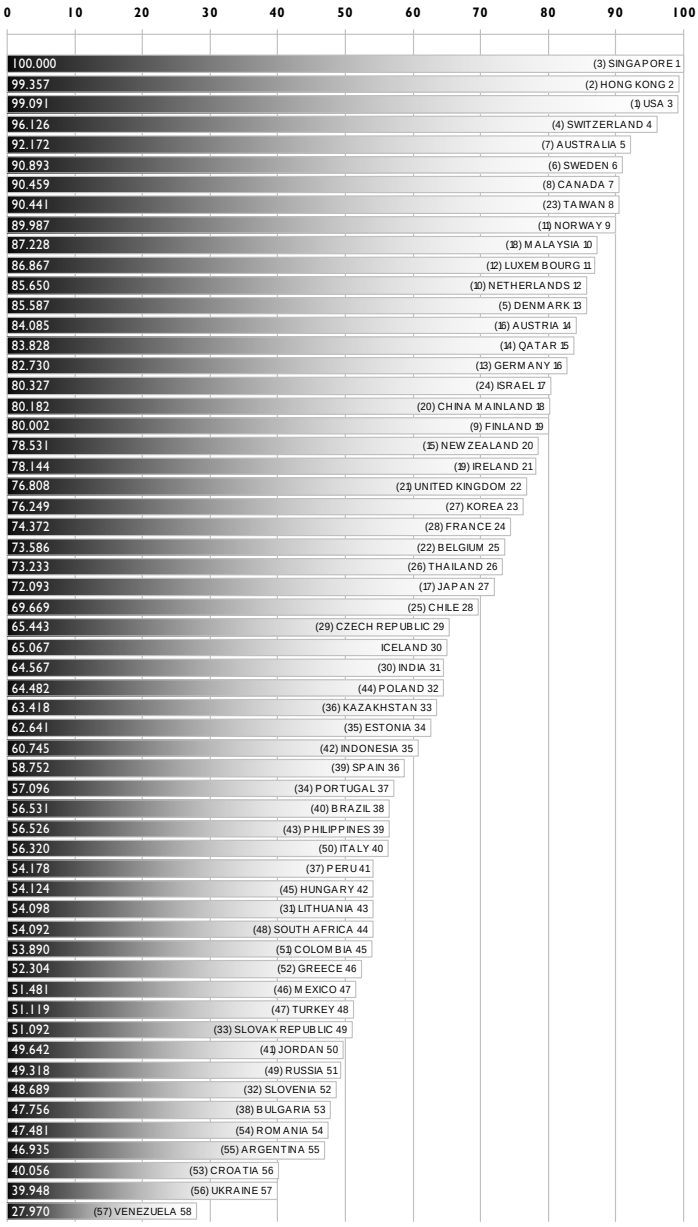
Embargo 19 May 2010 18h00 Local Time

1. JUST RELEASED: IMD WORLD COMPETITIVENESS YEARBOOK 2010

(Pioneers in competitiveness since 1989)

Singapore, Hong Kong and the USA come out on top

For the first time in decades, Singapore (1) and Hong Kong (2) have topped the US (3) in IMD's World Competitiveness Yearbook rankings. They are so close, however, that it would be better to define them as the leading "trio". The US has weathered the risks of the financial and economic crisis thanks to the sheer size of its economy, a strong leadership in business and an unmatched supremacy in technology. Singapore and Hong Kong have displayed great resilience through the crisis – despite suffering high levels of volatility in their economic performance – and they are now taking full advantage of strong expansion in the surrounding Asian region. In Q1 in 2010, the Singaporean economy grew by more than 13%!



In the first 10 places, Australia (5), Taiwan (8) and Malaysia (10) also benefit from strong demand in Asia, as well as the implementation of efficient policies, e.g. the three nations rank very well in government efficiency. Switzerland (4) maintains an excellent position characterized by strong economic fundamentals (very low deficit, debt, inflation and unemployment) and a well-defended position on export markets. Sweden (6) and Norway (9) shine for the Nordic model, although Denmark (13) surprisingly loses ground, in particular due to the pessimistic mood expressed in the survey. Special attention should be paid to the good performance of Canada (7), which relies on sound banking regulations and extensive commodity resources.

Not surprisingly, Germany (16) leads the larger "traditional" economies such as the UK (22), France (24), Japan (27) and Italy (40). Despite a significant budget deficit and growing debt, Germany's performance is

driven by strong trade (second largest exporter of manufactured goods), excellent infrastructure and a sound financial reputation. Obviously the UK is undergoing the uncertainties of the post-election period but also faces the dual challenges of the crisis' huge financial cost as well as the de-industrialization of its economy. France continues to suffer from the weight of its government sector although business efficiency is improving. Japan emerges with great difficulty from the crisis, also dealing with deflationary problems while Italy compensates the negative effects of the crisis with good investment performance.

It was also to be expected that China (18) would lead the other BRIC nations, followed by India (31), Brazil (38) and Russia (51). Whereas China and India did not undergo a recession (like Indonesia and Poland), Brazil and Russia suffered from the drop in commodities prices. With the economic upturn, the future is much brighter for these nations due to a combination of high domestic demand, infrastructure projects and investments. The risk of inflation and real estate bubbles may force the central banks to cool down these economies. China was the fastest growing nation in 2009 (8.7%) and continues this trend with 11.9% in Q1 of 2010.

The credit-worthiness storm that affects Southern Europe acts as a drag on the performance of Spain (36) and Portugal (37), although for Greece (46), the consequences of the recently approved austerity measures were not factored into the results. It is unfortunately to be expected that these three nations, which all have significant budget deficits, growing debt and weak trade performance, will suffer from further recession this year. Ireland (21) entered the real estate and the financial crisis earlier and has already implemented a recovery plan. Traditionally it has a strong export performance. However its "reasonable" debt level at 64% will quickly deteriorate with a 14.3% budget deficit.

In the end, this crisis will test the credibility of the Euro, which represents 28% of the world currency holdings. The €750bn plan just adopted by European leaders gives means to a political resolve to back-up the Euro. The only good news is that a weak Euro can boost exports. Finally, the social consequences of the crisis will remain a long-lasting worry. Unemployment has risen to 24% in South Africa (44) and, in Spain, youth unemployment culminates at 38%; it will surpass 40% in 2010!

The results of the IMD's World Competitiveness rankings 2010 have been strongly affected by unusual volatility in economic growth (GDP data), exchange rates (especially the dollar versus the Euro), financial assets (the financial crisis), trade and investment flows (because of the recession) and, finally, as a consequence, in employment figures (which also impact productivity). In a "reset" mode, world competitiveness is not just about improving performance, but also about damage control. Competitiveness highlights the relative position of nations in the pursuit of prosperity - but in a free-fall environment, the winners may simply be the ones who are the most resilient to downward forces.

2. NEW: THE DEBT STRESS TEST

(When will Nations revert to a "bearable" public debt level of 60% of their respective GDP)

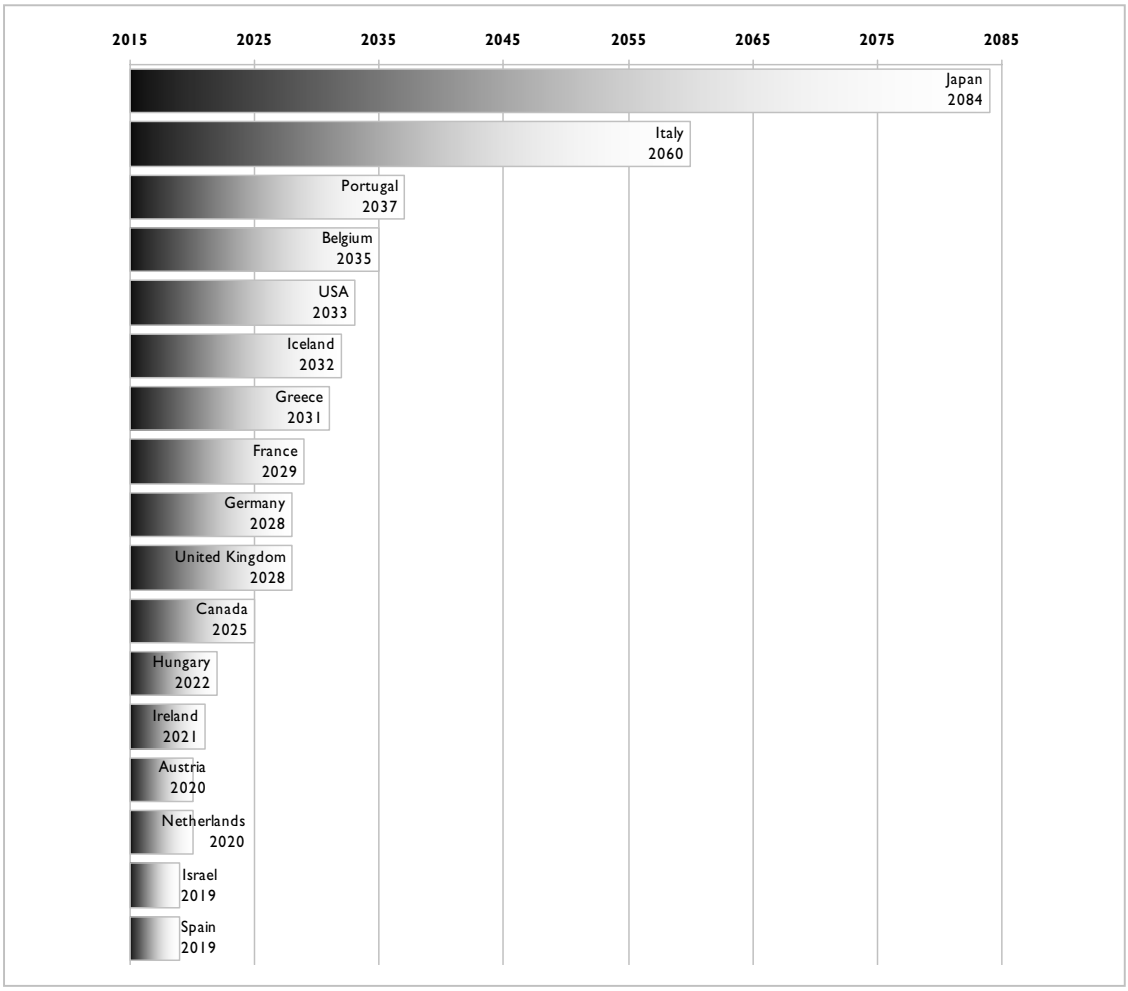
The sinners and the others…

The largest "old" industrialized nations – from Japan to the UK – **will all suffer a debt curse, in the worst case lasting until 2084**. Nowadays, budget deficits are soaring and it is estimated that the average debt of the G20 nations, for example, will climb from 76% of their combined GDP in 2007 to 106% in 2010. Although the "great recession" is over, the consequences of the crisis will continue to be felt for quite some time.

The *Debt Stress Test* estimates a time horizon in which nations will revert to a "bearable" public-debt level of 60% of its respective GDP. (See methodology on following page). However when it comes to debt, numbers do not always give the whole picture.

Japan (2084)[1], Italy (2060) and Belgium (2035) are heavily indebted, but their creditors are mainly **domestic institutions** (as some economists say "this is money we owe to ourselves…"). On the contrary, the Greek (2031) and the Portuguese (2037) governments face the demand of **foreign institutions** (foreign banks own €106 billion of Greece's debt and €44 billion of Portugal's).

The Sinners



[1] The target years for a 60% debt level are shown in parentheses.

The Others (debt as % GDP)

The Others 40-60%	2009
Jordan	59.37
Philippines	57.33
Malaysia	53.73
Poland	51.00
Singapore	48.01
Turkey	46.28
Finland	43.99
Sweden	42.32
Denmark	41.52

Down to 60% by 2015[2]	2009
Argentina	69.02
Norway	65.98
Brazil	62.79
India	60.35

The Others 20-40%	2009
Switzerland	39.00
Taiwan	38.58
Slovenia	35.88
Slovak Republic	35.66
Czech Republic	35.32
Croatia	35.21
Colombia	34.82
Korea	33.78
Ukraine	32.96
Lithuania	29.35
Thailand	29.06
Indonesia	28.34
South Africa	26.30
Mexico	26.01
Peru	25.50
Romania	23.72
New Zealand	23.56
Venezuela	23.41

The Others <20%	2009
Qatar	18.76
Bulgaria	14.78
Luxembourg	14.56
Kazakhstan	13.18
Russia	7.67
Estonia	7.22
Chile	6.14
China Mainland	2.72
Hong Kong	0.74

The **currency risk** is an additional factor of uncertainty for countries such as the UK (2028) with $1,482 billion of total government debt and Iceland (2032) with $14.9 billion of debt. On the contrary, Greece and Portugal enjoy about 75% of their debt in Euros – this is good news for them and bad news for the Euro zone. Most of the US (2033) debt is in dollars.

The **repayment capacity** depends on the size of the economy. When the US economy recovers it will generate significant fiscal revenues on the potential **GDP growth rate.** Ireland (2021) had a "historical" growth rate of 3.8% over the past decade. On the **current account surplus** side there is The Netherlands (2020) +5.4%, Germany (2028) +4.9%, and Austria (2020) +2.3%. Unfortunately, Greece, Portugal, Spain (2019)[3], Italy (2060) and Ireland (2021) have significant current account deficits.

Finally, the **net balance between foreign liabilities and foreign assets** should be taken into consideration, as a kind of collateral. For example, Germany is heavily indebted ($2,448 billion) but its net balance between foreign debt and assets is positive (approximately $800 billion). In addition, the US, Germany, the UK, Japan, France (2029), the Netherlands, Canada (2025) and Italy **own significantly more industrial assets abroad** (net position in direct investments stocks) **than foreigners do in their country.**

The **quality** of debt depends both on the **collateral** and the **capacity to repay**. In short, countries such as Greece, Portugal and Spain have a **credibility problem** today not only because they have a debt crisis, but also because they lack the means to adequately repay (growth rate, current account balance, investments abroad, etc). **Other "sinners" (mostly the large industrial nations)** have less of a credibility problem: in their case debt is a cost that will **limit their competitiveness** and the **purchasing power** of their people.

[2] For these countries, a budget equilibrium reached by 2015 also implies attaining a debt/GDP level under 60%.
[3] Spain's debt is currently less than 60% of its GDP.

Finally, 40 out of the 58 countries in the World Competitiveness Yearbook 2010 do not have a debt problem (i.e. less than 60% of their GDP). **Some could not go into debt** because they had no collateral or credibility (Estonia, Latvia) and **some are simply virtuous** (Singapore, Switzerland). **However many are emerging economies** that are fast piling up foreign currency reserves (such as China with $2,400 billion) and increasing their **competitiveness**. In summary, **the debt trail leads to the money trail**, which in turn emphasizes the changing **balance of power** in a brand new world!

"The *Debt Stress Test* provides an early simplified indicator of the magnitude of the public debt issue for each nation," states IMD Professor Stéphane Garelli, Director of the World Competitiveness Center. "What matters is not only the absolute size of public debt but also the length of time required to absorb it. In the end, debt-stricken nations may suffer severe losses in competitiveness and standards of living."

Methodology for the Debt Stress Test.

The IMD World Competitiveness Center has used the following "simplified" assumptions to avoid complicating its hypothesis:

1. Assumptions

- Each nation gradually reduces its budget deficit to reach equilibrium by 2015.
- As of 2015, each nation devotes 1% of its GDP to the repayment of its debt, if in excess of 60% of the GDP.
- As of 2015, each nation resumes a GDP growth rate equivalent to its average rate from 2000 – 2009.

2. Limitations of the approach

- 60% of the GDP is considered as an "acceptable" public-debt burden both by the IMF and the European Union. However some scholars argue that even higher levels (e.g. 90%) have little impact on growth.
- Many nations will not be able to balance their budget deficits by 2015.
- The average "historical" GDP growth of the 2000s is not guaranteed for the 2010s.
- Complex simulations on the evolution of interest rates, payment delays or defaults have been avoided.
- Other "social factors", including the evolution of the pension system, social welfare, health costs and ageing populations have been omitted.

**Note: All content in the release can be attributed to IMD Professor Stéphane Garelli, Director of the World Competitiveness Center.*

WHAT IS IMD?

Based in Switzerland, IMD is consistently top-ranked among business schools worldwide. With more than 60 years' experience, IMD takes a real world, real learning approach to executive education. IMD offers pioneering and collaborative solutions to address clients' challenges. Our perspective is international – we understand the complexity of the global environment. Real-impact executive learning and leadership development at IMD enables participants to learn more, deliver more and be more. (www.imd.ch).

WHAT IS THE WCC?

The IMD World Competitiveness Center (WCC) has been a pioneer in the field of competitiveness of nations and enterprises since 1989. It is dedicated to the advancement of knowledge on world competitiveness by gathering the latest and most relevant data on the subject and by analyzing the policy consequences. The WCC conducts its mission in cooperation with a network of 54 partner institutes worldwide to provide the government, business and academic community with the following activities:

- IMD World Competitiveness Yearbook
- WCY Online
- Special country/regional competitiveness reports
- Workshops on Competitiveness

WHAT IS THE WCY?

The IMD World Competitiveness Yearbook (WCY) is reputed as being the worldwide reference point on the competitiveness of nations, ranking and analyzing how an economy manages the totality of its resources and competencies to increase the prosperity of its population. It has been published since 1989 and is the world's most renowned study comparing the competitiveness of 58 economies on the basis of over 300 criteria. Providing more than 500 pages of key data and including in-depth profiles for each of the 58 economies, the WCY is considered an invaluable research tool for benchmarking competitiveness performance. Focusing primarily on hard facts taken from international and regional organizations and private institutes, the statistics are complemented with results from an annual Executive Opinion Survey. The collaboration with 54 Partner Institutes worldwide helps ensure that the data is as reliable and up-to-date as possible. Since 2003, an online interactive access to the WCY database is also available, including criteria 15-year time series.

- Features 58 industrialized and emerging economies
- Provides 327 criteria, grouped into four Competitiveness Factors: Economic Performance, Government Efficiency, Business Efficiency and Infrastructure
- Hard data are taken from international or national organizations, private institutes and partners
- Survey data are drawn from our annual Executive Opinion Survey (4,460 respondents)
- Aggregates data over a 5-year period
- Ensures accuracy through collaboration with 54 Partner Institutes worldwide
- Published since 1989
- World Competitiveness Online: to access the WCY database including 15-year time series and to customize your own selection of countries and data