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U.K. Think Tank Sees 20% Chance Of Euro's Survival

Europe's common currency, battered for more than a year by a sovereign debt crisis, is unlikely to survive the next decade in its current form, the **Center for Economics and Business Research** warned Friday.

In a list of top 10 predictions for 2011, the CEBR, a U.K.-based think-tank, gave the euro a slim one-in-five chance of being preserved in its present incarnation as the legal tender for the 16 nation currency bloc. That number will increase to 17 on Monday, when Estonia accedes to the euro zone.

The organization sees brewing debt problems in Spain and Italy as the catalyst for a new downturn. While economists have long warned that Spain and Portugal are two of the most vulnerable economies in the euro zone, Italy's heavy debt load — approximately 115% of GDP — and sluggish growth have made some analysts wary about the country's long-term prospects.

Douglas McWilliams, the CEBR's chief executive said in a statement that the specter of a full-fledged break-up can't be completely ruled out. "I suspect that what will break up the euro will be the failure of most of the countries to take the tough medicine necessary to make their economies competitive over the longer term," he said.

Even as he said Germany would be the "economic superstar" of the Western hemisphere in 2011, McWilliams added a grim prediction that "this could be the year when [the euro] weakens substantially towards parity with the dollar."

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WORLD NEWS | DECEMBER 31, 2010

Estonia Prepares to Join the Euro Zone

Financial Instability in the Currency Bloc Shakes Support Among Some in the Baltic Nation for Becoming 17th Member

By GORDON FAIRCLOUGH

When the tiny Baltic nation of Estonia rings in the new year, it will become the latest addition to the euro zone—and the poorest member of a currency bloc that is struggling to restore financial stability.

Larger and richer Central and Eastern European nations, once eager to gain entry into a prestigious club, have turned skittish about adopting the euro, which they increasingly see as a potential liability.

Central bankers and government officials in Poland and the Czech Republic have said that, given the turbulence among the euro zone's current 16 nations, it is hard to predict when membership would make sense for their countries.

Estonia's small Baltic neighbors, Latvia and Lithuania, have taken the preliminary step of linking their national currencies' value to that of the euro—a precondition for joining the common currency. Latvian Prime Minister Valdis Dombrovskis recently said that his country aims to join the euro zone in 2014. Lithuanian President Dalia Grybauskaite has said that her country is looking to adopt the euro sometime in 2013 to 2015.

European Pressphoto Agency

A mannequin in a shop window in Parnu, Estonia, holds a model of a euro coin. The country adopts the currency in 2011.

But even within Estonia, debate over membership has been heated. Support has waned since euro-zone countries had to step in and bail out first Greece, and then Ireland, whose massive government debt brought them to the brink of insolvency.

A government-commissioned survey shortly before Christmas found that slightly more than half of Estonia's 1.3 million people approve of the Jan. 1 switch from the local currency, the kroon, to the euro, down from peak support of nearly 60%.

Estonian Prime Minister Andrus Ansip told legislators this month that joining the euro "will bring along more jobs, higher pensions and faster economic growth. It will bring us stability."

But opponents say that euro membership comes at too high a cost, especially as Estonia will be expected to contribute funds to rescue Ireland and any other indebted euro-zone country that may need help.

"We are joining at the worst possible time," says Anti Poolamets, a lawyer at the forefront of the campaign against euro adoption. "We had to tighten our belts for years" to qualify for euro membership, and now face paying to help countries that have been less responsible, he says.

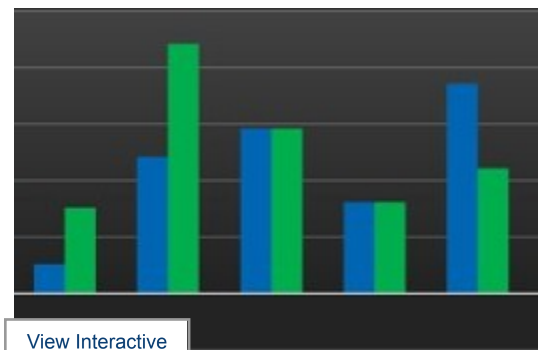
Estonia has one of the lowest levels of public debt in Europe, and has kept a tight rein on spending, despite having plunged into its deepest recession since independence from the Soviet Union in 1991. The economy contracted nearly 14% in 2009, and unemployment is above 15%. The government responded with severe budget cuts and reduced public-sector wages by 10% in order to stick to its budget targets. As a result, the government budget deficit in 2011 is expected to be just 1.6% of gross domestic product, well below European Union limits. Public debt remains below 10% of GDP. Mr. Poolamets—who has been putting up posters around the country's capital, Tallinn, reading "Estonia, Welcome Aboard the Titanic"—says that he and other opponents of euro adoption will now push their government to refuse to participate in any future bailouts.

Slovakia, which along with Estonia would be among the zone's least-affluent members, refused to provide money for bailing out far-richer Greece and has pushed for stricter conditions for other rescues.

Journal Community

2010 Euro-Zone Outlook

Review 2011 economic forecasts for EU members.



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In an interview this month, Estonia's finance minister, Jurgen Ligi, said that indebted euro-zone countries "need to carry out structural reforms and fiscal consolidation."

Also in December, the Czech National Bank and the country's finance ministry issued a joint statement saying that "the current situation does not seem conducive to future euro adoption...or to taking steps towards it." The Czech Republic, as well as the Baltic states, Poland, Hungary, Romania and Bulgaria are all required to join the euro as a condition of their membership in the EU. However, there is no deadline for adopting the currency.

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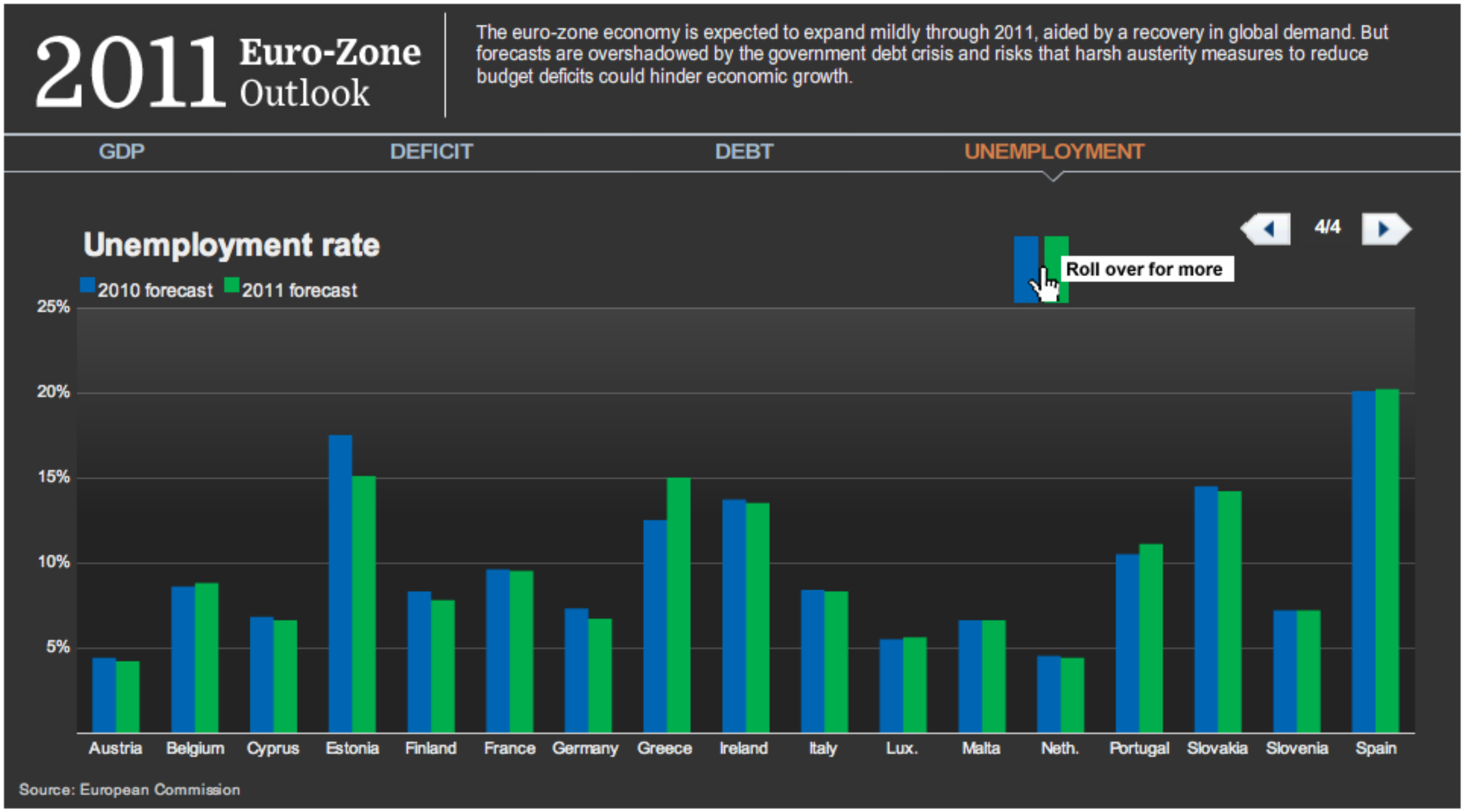
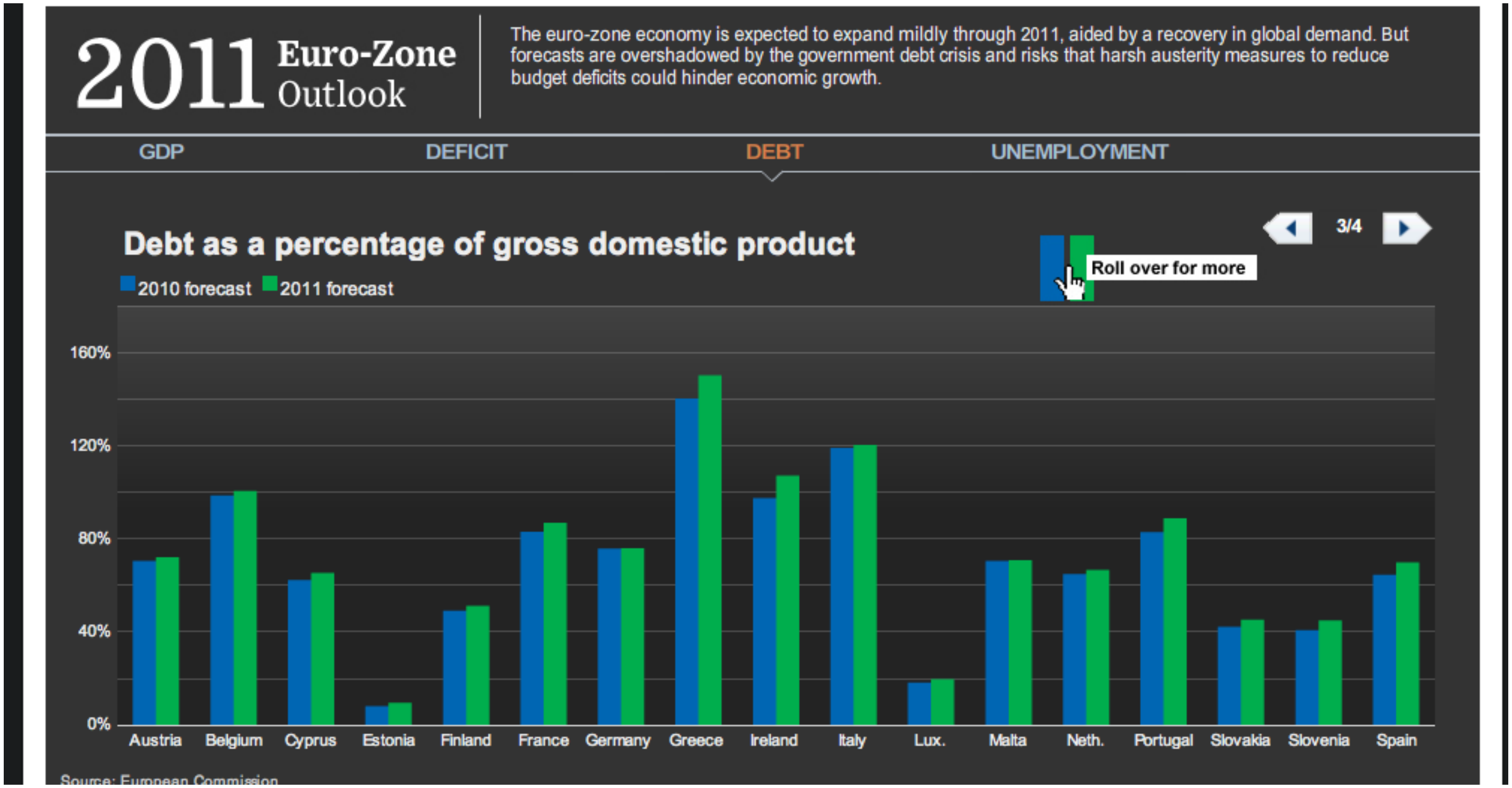

2011 Euro-Zone Outlook
The euro-zone economy is expected to expand mildly through 2011, aided by a recovery in global demand. But forecasts are overshadowed by the government debt crisis and risks that harsh austerity measures to reduce budget deficits could hinder economic growth.
GDP
DEFICIT
DEBT
UNEMPLOYMENT
4/4
Unemployment rate
2010 forecast
2011 forecast
Roll over for more
25%
20%
15%
10%
5%
Austria
Belgium
Cyprus
Estonia
Finland
France
Germany
Greece
Ireland
Italy
Lux.
Malta
Neth.
Portugal
Slovakia
Slovenia
Spain
Source: European Commission



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GDP
DEFICIT
DEBT
UNEMPLOYMENT
3/4
Debt as a percentage of gross domestic product
Roll over for more
2010 forecast
2011 forecast
160%
120%
80%
40%
0%
Austria
Belgium
Cyprus
Estonia
Finland
France
Germany
Greece
Ireland
Italy
Lux.
Malta
Neth.
Portugal
Slovakia
Slovenia
Spain
Source: European Commission