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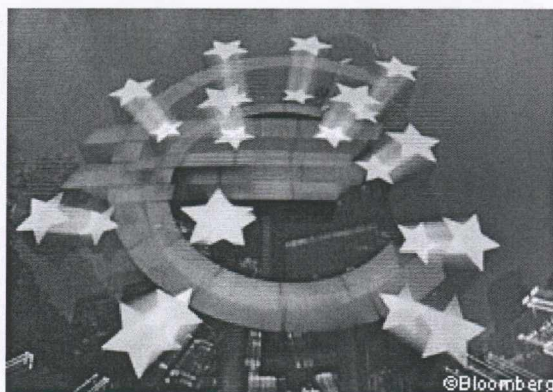
Brussels cuts eurozone growth forecasts

By Stanley Pignal in Brussels



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The European Union on Thursday sharply downgraded what were already anaemic economic forecasts for the eurozone, predicting just 0.5 per cent growth in 2012, and warned that several countries may slip into recession in coming months.

Olli Rehn, European commissioner for monetary affairs, said the forecast was a wake-up call for Europe: "The recovery in the EU has now come to a standstill and there is the risk of a new recession unless determined action is taken," he said.

Brussels had previously banked on 1.8 per cent growth for next year, but scaled back its expectation amid a resurgence of the eurozone debt crisis two years after it first started.

All 17 countries that use the euro saw their growth forecasts lowered for 2012. Those in the so-called core of the currency bloc were downgraded most severely: Germany from 1.9 per cent to 0.8 per cent, France from 2 per cent to 0.6 per cent and the Netherlands from 1.7 per cent to 0.5 per cent.

The 2011 full year forecasts were also cut back, albeit more modestly, from 1.6 per cent in the spring to 1.5 per cent. The bloc's economy is expected to grow 1.3 per cent in 2013.

Mr Rehn warned that the overall positive figures in 2011 and 2012 did not exclude the possibilities of a recession – two quarters of consecutive falls in gross domestic product – in parts of the eurozone. "GDP growth is expected to stagnate around the turn of this year, with some member states experiencing a contraction," he said.

The EU official who compiled the forecasts added: "We do not expect a recession in our baseline scenario.

"But the probability of a more protracted period of stagnation is high. A deep and prolonged recession complemented by continued market turmoil cannot be excluded."

The Commission's estimates are in some cases much more pessimistic than those put forward by national capitals: the French authorities are still banking on a 1 per cent growth rate next year, nearly double what Brussels is now forecasting.

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The assessment comes as the focus of the eurozone crisis has turned to Italy, whose bond yields have hovered around 7 per cent as investors fret about its ability to pay its debts.

Mr Rehn said Italy in the short term should be able to bear the higher financing costs because the relatively long maturities of its outstanding bonds – over seven years on average – reduced the pressure it is under to tap markets for fresh funds. But every percentage point of extra yield on its bonds would cost Rome around 1 per cent of GDP over three years, according to EU calculations, making the need for structural reforms even more urgent, he argued.

The growth forecast for Italy, compiled before the rapid rise in yields last week, was slashed to 0.1 per cent in 2012, down from 1.3 per cent.

Other indicators released by Brussels painted a similarly grim picture for the eurozone.

Unemployment is no longer expected to fall from a 10 per cent average this year to 9.7 per cent in 2012, but instead experience a further rise following a sharp increase in peripheral countries such as Portugal and Greece.

Public debt levels will also increase by more than previously thought, reaching 90.4 per cent overall – up 2 per cent from both the 2011 actual figures and the previous EU forecasts.

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