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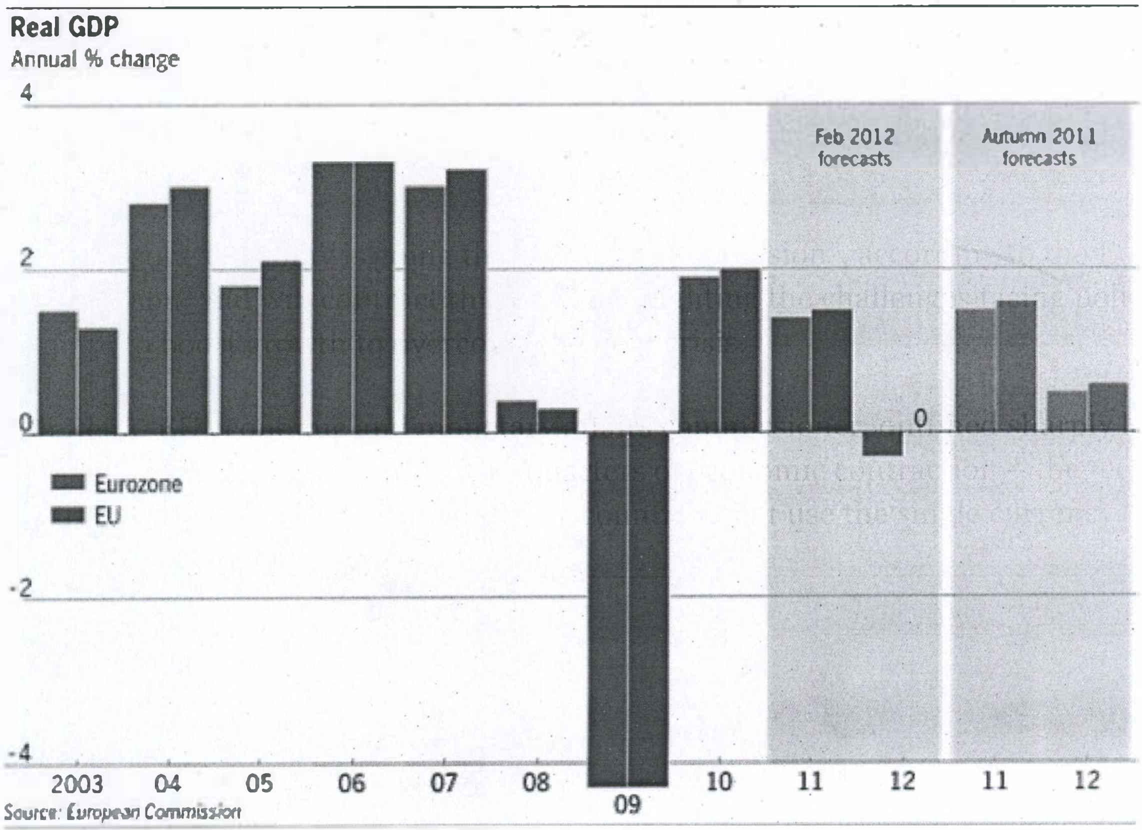
Eurozone slipping into 'mild' recession

By Stanley Pignal in Brussels

The eurozone economy is going through a "mild recession", according to the European Commission, and will contract this year, highlighting the challenges facing policymakers as they attempt to boost growth to overcome the debt crisis.

Olli Rehn, EU economic and monetary affairs commissioner, outlined sharply lower economic forecasts, including two consecutive quarters of economic contraction – the technical definition of a recession – in more than half the 17 countries that use the single currency.



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"Europe has entered into a mild and temporary recession but ... there are signs of recovery," Mr Rehn told reporters in Brussels. "The temporary weakening of global demand we were expecting is still going on."

Mr Rehn forecast the eurozone would contract 0.3 per cent this year, down from an earlier forecast for growth of 0.5 per cent.

It marks the second time in three years that the bloc has experienced recession, and follows a worsening of the eurozone debt crisis in the final months of last year.

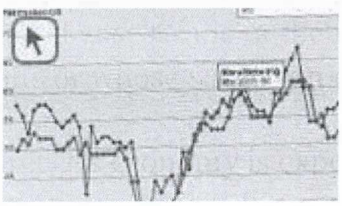
"The balance of risks to GDP growth remains tilted to the downside amid still-high uncertainty," the Commission said. "The interim forecast continues to rely on the assumption that adequate policy measures are decided and implemented."

The sharpest falls in the forecasts for economic output were in countries that have received bail-outs or whose sovereign debt has come under market pressure.

Greece's economy is expected to contract by 4.4 per cent this year, Portugal by 3.3 per cent, Italy by 1.3 per cent and Spain by 1 per cent.

But the "core" economies were also sharply downgraded. Dutch GDP is expected to be 0.9 per cent lower by the end of the year, compared to an earlier forecast of 0.5 per cent growth. Europe's largest economies, Germany and France, were both lowered by 0.2 percentage points compared to last autumn, to 0.6 per cent and 0.4 per cent respectively.

Interactive PMI tracker



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Europe's economy has been held back by austerity measures prompted by the need to reduce budget deficits because of investor concerns about the risk of contagion from Greece and other struggling eurozone countries.

Mr Rehn highlighted the "fragile" financial markets as one of the causes of the economic slowdown, although he acknowledged that European Central Bank intervention to increase liquidity to banks from December had helped stabilise the situation.

Downcast as it may be, the European Commission's forecast for the eurozone is still marginally more upbeat than that of the International Monetary Fund, which sees output in the single currency area dipping by 0.5 per cent this year.

One positive element in the forecasts was the declining inflation rate, which is expected to fall from 2.7 per cent to 2.1 per cent in 2012. That brings the rate closer into line with the ECB's 2 per cent target.

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