

## Europe's Economy Will Spin Its Wheels In 2012, Eurozone To Shrink

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*Don't expect much in the way of growth out of Europe this year. That was the message from the European Commission Thursday, as the group said the eurozone is likely to contract 0.3% in 2012 while the broader EU stagnates.*



According to the updated growth forecast, the stall experienced in the second half of 2011 will continue through June, with economic expansion resuming in the back half of the year. That is not to say that every country in the region will see the same degree of malaise. Seventeen are expected to record expansions in 2012, with Latvia (+2.1%), Lithuania (+2.3%) and Poland (+2.5%) leading the way. Nine countries are expected to contract, with the steepest declines in Greece (-4.4%) and Portugal (-3.3%).

Growth won't be coming from Italy (-1.3%) and Spain (-1%) either, but the last member of the PIIGS, Ireland, is expected to expand. Despite needing a bailout of its own in 2010, Ireland's economy is projected to grow 0.5% in 2012.

"Although growth has stalled, we are seeing signs of stabilisation in the European economy," said Vice-President for Economic and Monetary Affairs Ollie Rehn. "Economic sentiment is still at low levels, but stress in financial markets is easing."

The European Central Bank is to thank for that latter point, as its long-term refinancing operations, which shelled out €489 billion in three-year loans to banks in December and is scheduled to launch another set of loans Feb. 29, has been widely credited for taking fears of a sudden financial system collapse similar to 2008 off the table in the short term.

ECB funding will be a help as banks reevaluate their holdings of sovereign debt in the wake of the latest bailout of Greece this week. Royal Bank of Scotland, Commerzbank, Credit Agricole and others announced impairment charges Thursday and other firms like Deutsche Bank will likely have similar news to report down the road.

If the crisis can be limited to Greece though, a relatively small bond market where banks have already marked down holdings considerably, it will spare markets the stress of dealing with steep haircuts to debt from larger countries like Italy and Spain.

Thursday's reduced growth forecast out of Europe – as of November the commission still expected the EU and eurozone to expand in 2012 – comes ahead of a weekend meeting of the Group of 20 in Mexico City. While concerns over the sovereign debt crisis have cooled to some degree of late, Europe will remain top of mind for the finance ministers and central bankers who attend the gathering.

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