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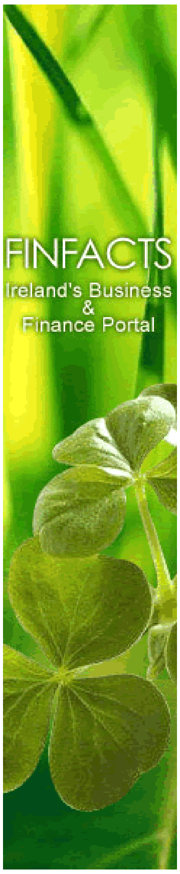

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Last Updated: **Jan 20, 2010 - 7:46:52 AM**

French and German governments raise their economic growth forecasts for 2010

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By Finfacts Team
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Pictured at the meeting of the Eurogroup of Eurozone Finance Ministers in Brussels, Monday, Jan 18, 2010: from left to right: Luc Frieden, Luxembourg Minister for Justice, Minister for the Treasury and the Budget, Josef Pröll, Austrian Vice Chancellor and Federal Minister of Finance, Jyrki Katainen, Finnish Minister for Finance, Christine Lagarde, French Minister for Economic Affairs and Wolfgang Schäuble, German Federal Minister for Finance.

The French and German governments on Monday raised their economic growth forecasts for 2010, signalling a continued but muted recovery in the Eurozone's two biggest economies.

Christine Lagarde, France's finance minister, said she expected the French economy to grow by 1.4% in 2010, almost double the government's previous forecast of 0.75%.

The IMF also raised its French forecast for the current year, to between 1% and 2%, rather than 0.9%

The German finance ministry upgraded its growth projection from 1.2 to 1.5%.

*"We are pleased that the economic development is now somewhat better,"*a spokesperson said at a regular briefing.

*"The situation of the French economy improved at the end of 2009. Our forecasts for the beginning of 2010 have also improved, the international environment and demand directed at France improved,"*Christine Lagarde said.

The rise in forecasts reflects confidence that the recovery will not falter as public support measures are withdrawn.

The Eurozone will not fall back into recession European Central Bank Governing Council member and head of the Bank of Austria, Ewald Nowotny, said on Monday.

The ECB has said the 16-country common currency area faces a bumpy road to recovery following the recent financial crisis and recession.

In an interview with Reuters Insider television on Monday, Nowotny ruled out the chance that the region could see another extended contraction when stimulus from governments and the ECB wears off.

"I do not see a perspective for a double dip recession. We are in a (period of) slow but steady growth. If there ever has been such a perspective, it has decreased," Nowotny said.

The European Forecasting Network (EFN), a research group of European institutions, founded in 2001 under the auspices of the European Commission, in a report published last Friday, forecast Eurozone GDP (gross domestic product) will grow around 1.7% and 1.2% during 2010 and 2011, respectively.

It said the the state of labour markets impedes the recovery.

Unemployment will continue to rise well into 2011, partly because firms with low capacity utilization will no longer be able to keep workers in employment.

Inflation in the Eurozone will grow slowly up to an expected average annual rate of 1.3% in 2010.

Fixed capital investment will be stagnant in 2010. Production, however, will get some support from firms that rebuild (or reduce more slowly) their inventories. The main driver of growth will be rising exports (though slightly dampened by the revaluation of the euro in 2009), mainly to quickly recovering emerging economies.

The Eurozone's biggest economy, Germany, remains on a recovery course despite expectations that it may have slowed in the run-up to the end of 2009, the central bank said Monday. In its latest monthly bulletin, the Bundesbank said Germany's recovery from its steepest economic slump in more than six decades was*"fundamentally intact."*

The bank said it expected the economy to remain on a growth course despite government moves to unwind the emergency fiscal measures aimed it launched to counter the recession.

In particular, the Bundesbank pointed to a pickup in exports as helping to underpin the recovery.

However, after two quarters of robust growth, the German economy slowed in the fourth quarter, the bank warned, impacted by weak private consumption.

The bank's monthly bulletin attributed the *"noticeably weaker dynamism,"* largely to the ending of government subsidies for car purchases.

The German economy contracted by 5% in 2009 -- the biggest contraction since 1945.

The growth rate may well top 2% this year.

by interactivetools.com.

Georgios Papaconstantinou (right), Greek Minister for Economic Affairs and Finance, getting some Gallic encouragement from Jean-Claude Trichet, President of the European Central Bank, at Monday's Eurogroup meeting.

Eurozone finance ministers said on Monday that they welcome the efforts being made by the Greek government to reduce the country's huge budget deficit.

The Eurogroup, comprising the Eurozone's 16 finance ministers, held their monthly meeting in Brussels, on Monday evening.

Luxembourg Prime Minister and Finance Minister Jean-Claude Juncker, who was reappointed as head of the Eurogroup, said the ministers believed Greece would*"do what is necessary."*

Last week, the Greek parliament approved a three-year plan to slash the country's deficit from the current 12.7% of its annual gross domestic product (GDP) to 2.8%.

Greece also plans to reduce its debts, which amount to 113% of its GDP.

Greek Finance Minister George Papaconstantinou said after the meeting that the country's plans represented *"a very ambitious fiscal consolidation programme."*

Last week the European Central Bank President Jean Claude Trichet dismissed as "absolutely absurd" speculation that Greece could be forced out of the Eurozone because of its financial problems.

*"I think the Greeks are very much aware of how serious the situation is and I think they are aware that they need to solve their problems themselves,"*Dutch Finance Minister Wouter Bos told reporters in Brussels.

German Finance Minister Wolfgang Schäuble told journalists that Greece has to take the *"necessary measures"* to cut its deficit. *"A new Greek government has taken office and it must fulfill a difficult task,"* Schäuble said.

On the Eurozone economy, Marek Belka, Director of the IMF's European Department commented on the iMFdirect blog, last Sunday: *"We are no longer at the edge of the abyss that loomed in early 2009, with all but a handful of Europe's economies now pulling out of recession.*

But it is less clear that we have reached safe ground:

- *Financial market participants do not seem to be able to make up their mind about the scenario we are in: equity valuations anticipate a solid and durable recovery, yet investors are willing to meet governments' extraordinary financing needs at very low interest rates as if growth prospects were poor.*
- *Bank lending, crucial for Europe's smaller and medium sized enterprises, remains tight, but capital markets are very active in funding larger corporations.*
- *Unemployment is still rising but consumers appear to be 'believing in inflation again,' which is helping dispel lingering worries over deflation.*
- *The euro is close to a historic high in real effective terms, and tensions in the euro area from divergences in economic performance and policy implementation have risen. I will return to this issue in depth in my next blog.*

This ambivalence can perhaps be attributed to the fact that extraordinary policy support, not just in Europe but also globally, impairs our ability to read the underlying economic fundamentals. The crisis has been very deep, and is likely to require economic restructuring and widespread balance sheet repair–processes that necessarily take time."

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