



EFN Lowers EU Growth Targets; Notes Weakness In Spain, Italy Debt Service

At the end of 2011, prospects for the world are clouded, with the main cause for concern being that the euro area crisis of confidence has not reached its peak yet, according to the latest European Forecasting Network (EFN) report, which adds that it is doubtful whether Italian and Spanish debt service would be sustainable if yields stay at these levels for long.

Even more critical are the financing conditions for European banks whose standing crucially depends on the valuation of the sovereign bonds they own, said the EFN in its "The Economic Outlook for the Euro Area in 2012 and 2013" report.

"This uncertainty will continue inducing firms and households to postpone decisions on spending and investment, and fiscal policy will dampen demand further. Besides, financial conditions are also bound to deteriorate in most member countries," said the EFN, adding that "weak demand from advanced economies is dampening the expansion in export-oriented emerging markets countries (in East-Asia, but also in Latin America)."

"As a consequence, both our forecasts for the euro area exports and industrial production have been revised downwards," the EFN said.

For the euro area, the EFN said it expects GDP to grow by around 0.3% in 2012 and 1.2% in 2013, substantially less than in previous reports.

"Still, in our central scenario European policy will, in one way or another, prevent insolvencies of states or major banks because the political will to defend the common currency is in place," said the EFN.

According to the EFN, weak growth dynamics and stagnating or falling commodity prices, worldwide and euro zone inflation will calm down in the coming months.

"Our inflation forecast is 1.8% for 2012 and 1.3% for 2013. This gives room for the ECB, and other central banks, for a clearer expansive monetary stance, as suggested in our previous report," the EFN said.

The EFN was created to provide a critical analysis of the current economic situation in the Euro area, short-term forecasts of the main macroeconomic and financial variables, policy advice, and in-depth study of topics of particular relevance for the working of the EMU. The network publishes quarterly reports.