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## Euro area will avoid recession and defaults, say think tanks

THE euro area should just avoid recession next year and there will be no defaults by governments or major banks, forecasts from a group of EU economic think tanks say.

Eight research bodies make up the European Forecasting Network (EFN) to produce regular analyses of the euro-area economy. The membership rotates although there is currently no Irish body involved.

The winter report said the euro-area economy should grow by around 0.3pc in 2012 and 1.2pc in 2013 -- substantially less than in previous reports.

"The main cause for concern is that the euro-area crisis of confidence has not yet reached its peak," the report said. "It is doubtful whether Italian and Spanish debt service would be sustainable if yields stay at these levels for long.

### **Critical**

"Even more critical are the financing conditions for European banks, whose standing crucially depends on the valuation of the sovereign bonds they own."

It said this uncertainty would continue to persuade firms and households to postpone decisions on spending and investment, while fiscal corrections would dampen demand further.

"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," the report said. Falling inflation -- seen at 1.8pc next year -- gives the ECB, and other central banks, room for a more expansive monetary stance.

The network expects unemployment to average 10.6pc across the eurozone next year, rising to over 11pc in 2013. The EU Commission has forecast that the jobless rate will stay at 10pc over the two years.

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