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Editorial: How to reduce debt levels?

Two years after it broke out fully, the sovereign debt crisis in the Euro area is still unresolved. The problem was discussed at numerous European summits, and a bunch of solutions was proposed, but most proposals turned out to be not sufficient shortly after the meetings. Thus, the problems in particular in Greece, but also in Portugal aggravated, and new rules and mechanisms could not prevent Italy from being torn into the whirl.

The low success could have to do a lot with the fact that the Euro area faces two problems, but only one of them is addressed by most measures agreed on hitherto. The first problem is the inappropriate institutional framework of the currency union. In the Maastricht treaty, a single monetary policy was introduced, but – at least from today's view – only some non-committal rules for the fiscal policy. The Stability and Growth Pact tried to harden the rules, but it failed when it came under stress for the first time. The risks that were associated with high fiscal debts were underestimated by politicians as well as by many economists.

This part of the problem is tackled now. The "six pack" already contained stricter rules for fiscal policy, and according to the fiscal pact, debt brakes will become part of the national constitutions. This is not a guarantee for a sound fiscal policy but it makes the commitment more reliable.

Some might think that implementing these rules may also solve the second problem, the financing of existing debt. They could argue that as soon as it gets clear that the debt to GDP ratio will be reduced in the long run, it will become less risky to buy government bonds and markets will lend money at more favourable conditions so that the interest rate spreads will come down. However this could be over-optimistic, since some countries have reached debt levels which are unsustainable even if bond yields were at the levels where they have been before the crisis.

Therefore also a plan for financing existing debt is required. Some propose Euro-bonds as a solution to reduce the interest burden of countries with high debt. Issuing these bonds, however, could be very risky. Firstly, there is a considerable moral hazard problem. Secondly, the implicit guarantee countries with low debt take may erode their ratings, too. Thus, interest rates for all kinds of sovereign debt may rise and little would be won.

In this context, the German Council of Economic Experts presents an interesting proposal that could overcome this problem. Taking the solution of the state debt problem after forming the US in the 18th century as a blueprint, they propose a redemption fund. All EU countries would swift a part of their fiscal debt to this fund. So far, the solution looks very much like a Euro bond. But what makes it more attractive is the second part of the plan. All debtors will pay down a fixed part of their debt every year according to a long-term plan, so that the redemption fund will cease at a date to be determined in advance. To make sure that the repayment will take place, countries could assign a part of their tax receipts.

It remains to be seen whether this proposal gains sufficient support. If other solutions are preferred, it is important to set the right incentives to avoid moral hazard that gave rise to the problems the Euro area is now in.

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The EUREN Winter Forecast 2012

Growth will continue to be moderate

First signs of a global recovery

Despite a number of European countries being in recession there are more and more signs of a slight recovery in other parts of the world. Positive signals have come recently from the US while Asian emerging countries, especially China, showed signs of resilience. And there are also signs that the slowdown of world trade will be less marked than during the 2008-2009 recession, and world exports might gain momentum already in the second half of this year. Thus, the international environment might become more favourable than it was expected a couple of months ago.

Some stimulus to real income may also come from the fact that raw material and food prices have recently declined somewhat. However, we expect oil prices to remain in a historic perspective at a high level throughout the forecast period. For the current year this might be explained partly by the fact that liquid capital will be invested in raw materials because financial markets are still regarded as risky. With the recovery gaining momentum, demand for oil will grow and this will push prices upwards next year. This assumption will hold, however, only if there will be no bottlenecks on the supply side, which could be triggered e.g. by geo-political conflicts.

Also for other reasons the downward risks to our forecast remain high. The Euro area sovereign debt crisis is unresolved, and there is still the threat of contagion spreading to other countries. Furthermore, markets continue to be highly volatile and confidence among investors is missing. Nevertheless, in the US a recovery seems having started and China continues to grow strongly. Against this background, the growth of the global economy might strengthen by 2013.

During the last months *US forecasts* especially for 2013 have been revised upward. Macro economic data gave some reason for optimism. Industrial production has been increasing, the average number of weekly working hours per worker has returned to its pre-crisis range, and labour markets show a positive trend. Consumer spending seems to be quite stable, inventory accumulations have picked up and corporate finances seem to be in a quite healthy position, as the annual reports of companies suggest. Of course substantial downward risks remain. The real estate markets show only modest signs of improvement, and the Euro area debt crisis could have a negative effect on financial markets. But monetary policy will remain expansionary, with short-term rates moving upward only slightly.

Table 1

Exogenous and international variables

2010 – 2013; Percentage changes unless otherwise indicated

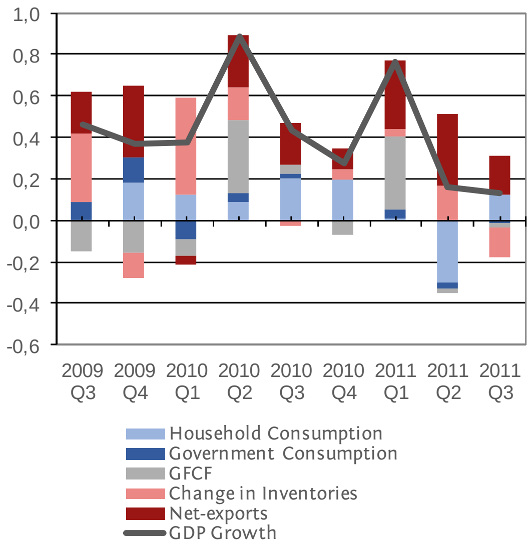
	2010	2011	2012[f]	2013[f]
World trade	13.3	6.7	4.5	6.0
United States				
GDP	3.0	1.6	2.1	2.5
Inflation	1.6	3.2	2.0	2.2
3m interest rates	0.3	0.3	0.4	0.8
10y Gvt bond yield	3.2	2.8	2.3	3.3
Japan				
GDP	4.2	-0.8	1.7	1.6
3m interest rates	0.2	0.2	0.3	0.4
10y Gvt bond yield	1.2	1.1	1.2	1.4
China. GDP	10.4	9.2	9.0	9.0
US dollar/euro	1.33	1.39	1.30	1.30
Oil price Brent				
US$/barrel	79.6	110.8	108.0	110.1
Percentage changes	29.5	39.5”	-2.5	1.9

[f]EUREN Forecast

In *Japan* the outlook is still rather mixed. On the one hand, production has not yet reached its pre-tsunami level, but some catching up can be expected to take place this year. On the other hand, the appreciation of the Yen will keep export growth subdued. In balance, the

Graph 1

Euro area: GDP-Growth and its components
Contributions to growth, percentage points



Source: Eurostat

upswing will be feeble. Under these circumstances Japanese interest rates will remain at a very low level.

For *China* we expect growth rates of 9% over the entire forecast period. As the risk of overheating of the economy seems having diminished and inflation to be under control. Therefore, there is little reason to pursue with restrictive measures and some easing in respect of fiscal and monetary policies can be reckoned with. In other emerging countries like *India* GDP growth will remain dynamic.

European recovery losing momentum

As already observed in 2010, also in 2011 the recovery has been moderating throughout the year. After a GDP growth rate of 0.8% qoq recorded in the first quarter, which often was interpreted as a revival after a period of subdue growth in the second half of 2010, growth slowed considerably, reaching slightly more than 0.1% in the third quarter of last year.GDP even contracted by 0.3% in Q4 according to flash estimates.

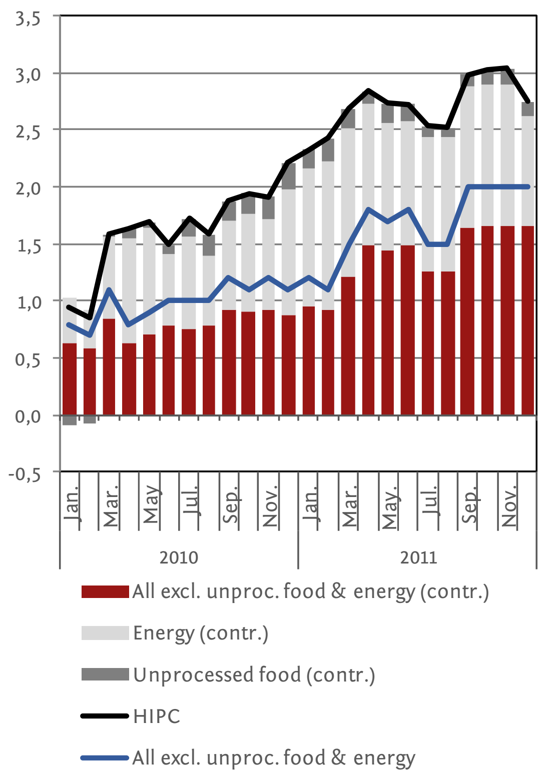
More or less all components of domestic demand contributed to the containment. Private consumption, especially in the second quarter, as well as government consumption showed negative growth rates, to a good deal reflecting fiscal consolidation measures. Gross fixed capital formation was slightly negative, however, after a particularly sharp increase in the first quarter.

The slowdown in the second and the third quarter of 2011 was caused mainly by internal factors (Graph 1). Domestic demand was shrinking, showing for the first time negative growth rates since the 2009 recession. The net contribution of the external sector was only slightly reduced in the second half of 2011, remaining stronger than in 2010.

In parallel with the slowdown of activity, the unemployment rate, which was more or less stable since early 2010, switched on an upward trend again in May. At the end of last year the rate stood at 10.4%, which was 0.5 percentage points above April's rate.

Graph 2

Euro area inflation
yoy rates in % resp. Contributions to growth in percentage points



Source: ECB

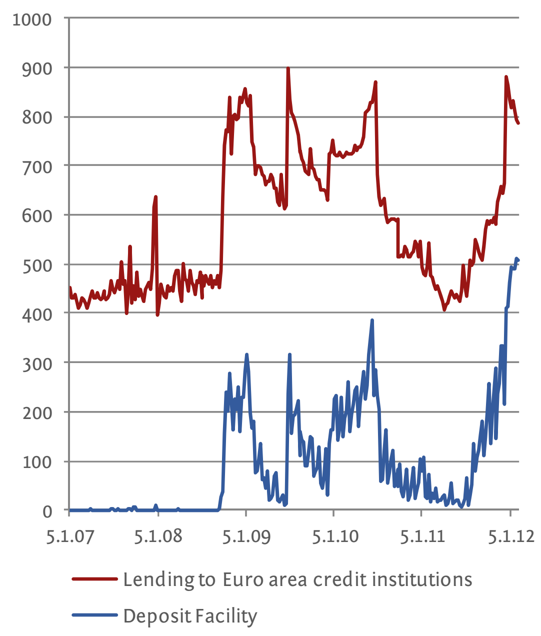
Inflation accelerated slightly during 2011 due to rising energy prices, which grew by 10 to 12% month over month throughout the year. Inflation without volatile components (core inflation) has been on the rise but did not go beyond 2% (Graph 2).

Monetary policy focuses on the banking system liquidity

After having raised the key interest rates twice before summer 2011, the ECB proceeded to 25 pp cuts in November and December. After these two downward steps, the refinancing rate was back to 1%, although inflation remained at a relatively high level (2.7% year on year at the end of December). The ECB justified its decisions by the increasing uncertainty about the economic developments, but above all by problems that emerged from the banking system.

Graph 3

ECB lending to banks and deposit facilities
€ bn,



Source: ECB

Indeed, at the end of 2011 there were many indicators of renewed tensions in the banking system. The spread between the 3 months rate (Euribor) and the central rate remained abnormally large; the deposits by commercial banks at the ECB hit a historical high (graph 3); and CDS on Euro area banks debt increased dramatically. This gave rise to fears that distrust between European banks could lead to a shortage of liquidity, with negative spillover effects on the real economy such as the tightening of credit conditions and higher interest rates on commercial credits. In case, more European banks needed re-capitalisation, which also poses a threat on public finances.

Therefore the ECB announced in December a set of measures to support the Euro area banking system and money market activity.

- It launched two longer-term refinancing operations with a maturity of 3 years. The first became effective at the end of December, the second will start at the end of February 2012.
- It reduced the reserve ratio from 2% to currently 1%.
- It increased the availability of collaterals by (i) reducing the rating requirements for certain asset-backed securities (ABS) and (ii) allowing national central banks temporarily to accept as collateral additional performing credit claims (i.e. bank loans) that fulfil specific eligibility criteria.

The experience hitherto suggests that the measures have been successful in easing the pressure on the banking system. In particular, banks came back to the bonds market, leading to a significant decrease in interest rates on short-term issuances. However, for long-term issuances (more than 3 years), the level of public bonds interest rates remain high insofar as banks are not sure to get enough liquidity after the end of ECB operations.

Regarding key interest rates, we assume that, because of the low level of activity and receding inflationary pressures, the ECB will not act until the second half of 2013. At that time, the

ECB might begin a process of interest rate normalisation, but very carefully.

Restrictive fiscal policy

In most Euro area countries, fiscal deficits were substantially reduced in 2011, and further adjustments are planned or already under way for 2012 and 2013. However, in some countries both deficits and, in particular, debt levels remain on elevated levels. In these cases, concerns about the long-term sustainability of public debt have resulted in downgrading of credit ratings, and risk premiums (measured by the spread on 10 year government bonds versus Germany) remained high.

In the current stage of the business cycle with low growth, it is important to find a balance between the restoration of confidence into the sustainability of public finances by formulating credible medium-term consolidation strategies on the one hand and the strengthening of the long-run growth potential on the other hand. Furthermore, overly restrictive fiscal policies which put a drag on private consumption and investment could impair economic activity with negative impacts on public revenues. In addition, socially unbalanced consolidation measures might undermine public support for the necessary fiscal adjustment. At the same time, public debt has to be reduced to levels ensuring its servicing in the long run.

A hard winter for the Euro area

According to most indicators, the economic situation in the Euro area is currently feeble. In Q4 2011, GDP decreased by 0,3%, which generates a negative carry over to 2012.

Tough adjustment for the Italian economy

Italy is one of the five peripheral European countries hit by the last year financial crisis and that are currently struggling to face a very difficult and risky economic situation. The increase in the interest rate spread with respect to the German bonds is a signal of the doubts of the markets about the fiscal sustainability. High interest rates on public debt have translated on the borrowing cost of banks and on their lending policies; the credit conditions are worsening and this will dampen the prospects for domestic demand in 2012 and 2013.

To limit the damages from the liquidity crisis, the Government is trying to restore the confidence of the markets; the fiscal policy has become very restrictive. The Governments aims at meeting a balanced budget in 2013, which requires a primary surplus by 6 per cent of GDP.

The fiscal consolidation is also affecting the prospects for domestic demand, bringing the economy to a period of recession that could last until the next year. The outlook for households is very poor, as they will bear the most of the burden of the fiscal adjustment, which implies a serious contraction of their purchasing power.

Despite the huge fiscal adjustment, the yield spread remains quite high for 10 years bonds. This partly depends on the general European economic situation, given the worries of a contagion from a possible collapse of the Greek economy. There is also a specific point related to the pessimist expectations about the potential output growth of Italy. The estimates of the potential growth in the medium run are commonly thought to be below 1 per cent. This implies that a very high primary surplus has to be maintained for many years in order to reduce the public debt / GDP ratio, according to the new rules of the European "fiscal compact".

That's why the new Monti Government, after completing the fiscal consolidation, has been implementing a new set of economic measures, mainly in the field of products and labour markets liberalisations, with the aim of increasing the GDP growth rate of Italy. This part of the strategy is still to be completed and it is too early to state that it is increasing the growth prospects in a sizeable way.

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Greece: Peaking uncertainty

Amidst a deep recession and peaking uncertainty with regard to the prospects for the Greek economy, the consultations on the voluntary Private Sector Involvement (PSI) and a second financing package of 130 billion Euros for Greece, being interrelated, are at the forefront.

The voluntary debt exchange, set to be finalized by mid-February, is considered crucial to meet debt sustainability targets. Key parameters of the negotiations are the interest rate and the length of the new bonds' maturities, entailing losses for private creditors now estimated to be around 70% (on the net present value). However, any final deal for Greek debt restructuring is in fact linked to an agreement with the troika on additional measures and reform commitments under the second bailout plan. Against this background, Greek Prime Minister and leaders of the three political parties participating in the coalition are bound to come to a settlement over troika requirements for cutting minimum wages, holiday bonuses and pensions, defence and health spending.

Under the baseline scenario, a positive outcome of all critical negotiations is assessed to help contain the crisis and end a prolonged period of uncertainty over the outlook for Greece and the potential impact of a default on the Euro zone. The simultaneous promotion of the required reforms to increase the country's competitiveness and enhance productivity forms an integral part of this scenario, hence, justifying the expectation of a gradual recovery. However, under a less optimistic scenario, there is a significant risk that the recession itself might compress the gains from the adjustment measures. In that case, Greece might plunge into an even deeper recession, again reinforcing the vicious circle of negative growth, worsening debt-to-GDP ratio, ever higher refinancing needs, requiring additional economic measures.

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Domestic demand contracted in many countries, especially in the peripheral ones where the financial strains are strong (given the tension on sovereign debt. Particularly weak most probably is gross capital formation, since increased financing costs for banks lead to restrictions in lending to firms in many countries. But also consumption (both private and public) was reduced, due to the tax increases (private consumption) and expenditure cuts (public consumption) in many countries.

This gloomy picture will also hold in the first half of 2012. According to the EUREN forecast, some negative effects of the restrictive factors of the last months of 2011 will continue to work at least for some time (Table 2). The huge consolidation efforts in many countries will affect public consumption; for some quarters public expenditure will tighten, in order to reach fiscal targets. The consolidation measures will also curb private consumption in 2012; another negative factor that will affect households' expenditure is the deterioration of labour market. The effects of the 2008-2009 crisis on employment were smoothed in many Euro area countries by a labour hoarding. As a result, in many countries and many sectors there is still an excess of production capacity. The slowdown has brought about a further increase in unemployment, after some months of improvement. In our projections this upsurge in unemployment will not stop before this summer. Only in the second half of 2013 the upswing in the Euro area will be strong enough to allow some minor reduction in unemployment. The deterioration of the labour market and the fiscal consolidation will also limit the wage increases. With inflation probably around 2%, real compensation will not grow any more, dragging the private consumption dynamic.

The demand of firms is expected to be extremely weak; even if in some countries the investment cycle is still steady. But in many economies GFCF is falling also due to credit restrictions and rising financing costs. The Bank Lending Survey (BLS) has shown a tightening of credit standards, even for the near future (Graph 4). Firms have to find alternative channels to banks' loan in order to finance their expenditures, and this could mean some reduction in investment. In addition, some seasonal effects on construction cannot be excluded, given the odd winter (very mild in December and January, freezing in February) all along the continent.

Rebalancing the Spanish economy

Like other so-called peripheral countries, Spain is suffering in recent months a process of increase in the cost of capital due to increased risk factors perceived by the capital markets. However, unlike other European economies, the financial costs facing Spanish government remains fairly moderate, and during the first half of 2011 were limited to 6% of the total revenues of general government (2% of GDP).

Indeed, even though the interest rate spread has increased by about 170 bp since early 2010, and bond yields by about 160 bp, the real cost of debt has increased by only 20 bp in this period, which is at a similar level as between 2005 and 2007. In any case, the high deficit reached in 2009, which exceeded 11% of GDP must be gradually reduced to stand at the limits of 3% in 2013.

Considering that 2011 ended with a deficit of around 8% of GDP, the remaining five points should be reduced between 2012 and 2013, which necessarily involves a major constraint to economic growth in this period.

Additionally, the Spanish economy has experienced a significant correction process in net external financing which has been reflected through a reduction in the current account deficit from 10% in 2007 to 3% in 2011. Initially, this correction in the external balance was due to containment of imports equivalent to 7% of GDP between 2007 and 2009, in parallel with the containment of domestic demand. But during the past two years, exports have increased their share in GDP by about 5 points, reflecting some improvement in external competitiveness.

This important correction of the external financing needs experienced in recent years would facilitate the containment of public deficit that could be implemented through internal redistribution of disposable income among social sectors (companies, households and public sector).In fact in 2011 both companies, with 1.5% of GDP, and Spanish families, with 3%, have presented a net lending position as a result of the deleveraging process addressed in recent years.

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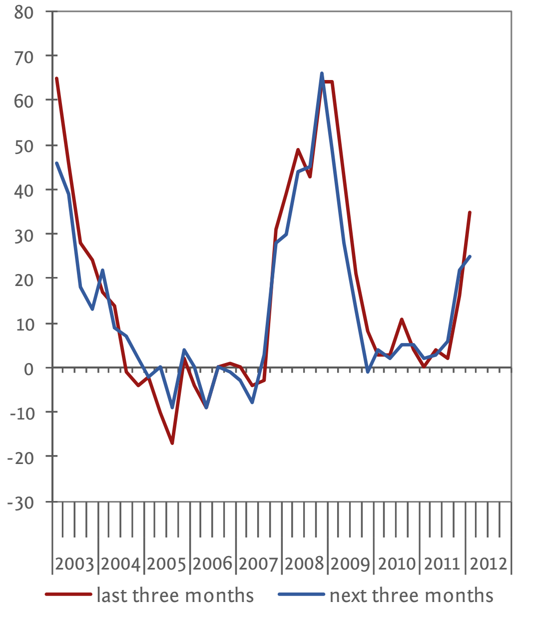
Graph 4

Credit standards for companies in the Euro area

Tightening(+)/loosening(-) of standards



Source: ECB Bank lending Survey

The reduction in domestic demand, at least in 2012, will be balanced by external demand. In our forecasts, a fair external environment (with good news coming from the US and BRICs) will sustain the growth of Euro area exports, even with some slowdown with respect to 2010-11. The contribution of net exports to GDP growth will therefore be positive even in 2012, not only due to the growth of exports but also to a deceleration in import dynamics, reflecting the weakness of domestic demand. This is especially true for peripheral countries.

An important feature of the current Euro area situation is the widening of gaps and the increase of differences between countries. More than in the recent past we are observing a split of the Euro area into at least two groups: The “core” countries (with Germany and Austria), which recorded high growth rates

Table 2

Euro area forecast

	2010	2011	2012[†]	2013[†]	2011		2012[†]				2013[†]			
					III	IV	I	II	III	IV	I	II	III	IV
	Annual % change (unless indicated otherwise)				q-o-q%, seasonal adjusted (unless indicated otherwise)									
Private consumption	0.8	0.2	-0.3	0.6	0.2	-0.3	-0.3	0.1	-0.1	0.0	0.2	0.2	0.3	0.3
Public consumption	0.6	0.1	-0.5	-0.5	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	0.0	0.0
Gross fixed capital formation	-0.8	1.8	-1.3	1.9	-0.1	-0.6	-0.4	-0.5	0.1	0.2	0.7	0.7	0.9	0.9
Change in inventories[1]	0.5	0.1	0.0	0.2	-0.1	-0.2	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0
Domestic demand	1.0	0.6	-0.6	0.8	0.1	-0.4	-0.3	0.0	0.1	0.1	0.3	0.3	0.3	0.3
Exports	11.3	6.8	2.3	5.3	1.2	0.1	0.2	0.6	1.0	1.2	1.4	1.5	1.6	1.6
Imports	9.5	4.6	1.1	5.0	0.8	-0.4	-0.2	0.4	0.9	1.1	1.3	1.4	1.6	1.6
Net exports[1]	0.8	1.0	0.6	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
GDP[1]	1.8	1.5	0.0	1.1	0.1	-0.3	-0.1	0.0	0.1	0.2	0.3	0.3	0.4	0.4
Unemployment (% of labour force)	10.1	10.1	10.6	10.6	10.1	10.3	10.5	10.6	10.7	10.7	10.7	10.7	10.6	10.5
Compensation per employee, yoy	1.7	2.4	2.0	2.0	2.6	1.8	2.1	1.9	2.0	1.9	2.0	2.0	2.0	2.1
Consumer price (HICP), yoy	1.6	2.7	1.9	1.8	2.7	2.9	2.2	1.8	1.8	1.8	1.7	1.8	1.9	1.9
Current account balance (%GDP)	-0.5	-0.4	-0.2	-0.2										
3m interest rates (% per annum)	0.8	1.4	1.1	1.2	1.5	1.5	1.2	1.1	1.1	1.1	1.1	1.1	1.3	1.4
10y Gvt bond yields (% per annum)	3.7	4.3	4.3	4.4	4.2	4.4	4.3	4.3	4.3	4.3	4.4	4.4	4.4	4.4
ECB repo (end of period)	1.0	1.0	1.0	1.3	1.5	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.3

This forecast was finished on 16 February 2012. – [†]EUREN forecast. – [1]Contribution to growth.

and will observe in 2012, in the worst case, a slowdown of the expansion; and the peripheral countries (as Italy or Spain), which are lagging, have competitiveness problems to solve and will very likely experience a recession, also due to strong efforts in fiscal consolidation (for country specific issues see the boxes on Greece, Italy and Spain).

At the moment reduction of trade imbalances reflects more adjustment of demand than adjustments of labour costs

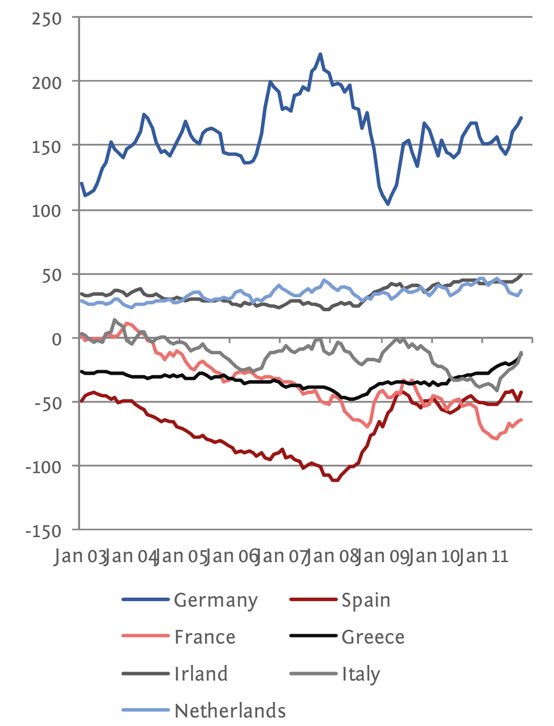
Since the introduction of the Euro, discrepancies regarding growth dynamics among Member countries led to trade imbalances. Some countries (mainly Germany, but also the Netherlands and, to a lower extent, Ireland) realised large surpluses while others (especially Spain and Greece) suffered from growing deficits (Graph 5).

Part of the ongoing adjustment process within the Euro area aims at reducing these imbalances. Indeed, nominal unit labour costs have slightly decreased in some countries, and this trend is likely to continue. However, up to now the reduction of external deficits in countries like Spain or Greece, which suffered most from a loss of price competitiveness since the introduction of the Euro, mainly

Graph 5

Trade balances of Euro area countries

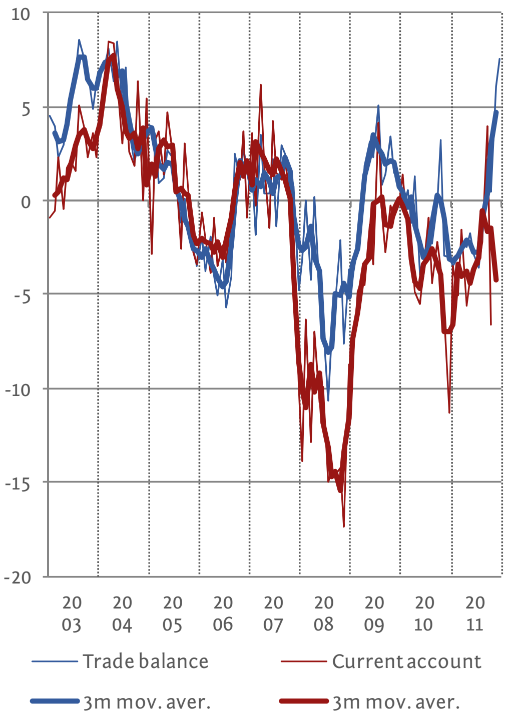
€ bn, three-month moving averages; annualized figures



Source: ECB

Graph 6

External balance of the Euro area
€ bn, three-month moving averages; annualized figures



Source: ECB

reflects the decline in internal demand rather than a better cost competitiveness. On the other hand, trade surpluses were almost unchanged in Germany or the Netherlands. As a result, the Euro area's trade balance as a whole is now in surplus vis-a-vis the rest of the world (Graph 6). This also reflects of the growth differential between the Euro area and other regions in the world (the US and emerging countries).

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Impressum

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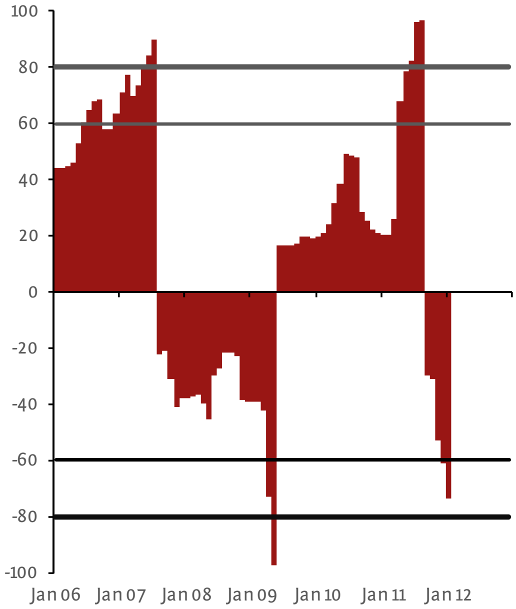
Coe-Rexecode Leading Indicator for the Euro area: Turning point in the growth cycle ahead?

The June 2011 strong signal of an imminent economic downturn (EUREN-News #4/2011) was confirmed lately by numerous deteriorating short-term economic indicators. However, there is no signal of recession according to the Coe-Rexecode Start-End Recession index, which has stabilized just above 0.2 in the last months, far from the 0.5 threshold. However, it points at a possible negative GDP rate in the last quarter of 2011. The Coe-Rexecode leading indicator is now looking for the next trough of the Euro area growth cycle. The indicator has surged in the last two months and reached -73.8 in January 2012. Hence, it crossed the -60 threshold, which indicates a possibility of an upturn in the coming nine months. To indicate a strong probability of an upturn, it will have to cross the -80 threshold. Lower short-term interest-rates, a rebound of the stock market, a better business climate in industry, and a resisting American economy are the factors explaining the recent move.



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Forecast of the EUREN/CEPREDE High Frequency Model

Last update: February 15th, 2012

	11 Q1	11 Q2	11 Q3	11 Q4	12 Q1	12 Q2	12-Q3	12_Q4	2011	2012
Oct-10	2.9;0.2	2.2;0.3							2.1	
Nov-10	2.6;0.1	1.9;0.3							1.9	
Dec-10	2.3;0.1	1.6;0.3							1.6	
Jan-11	1.5;-0.1	0.9;0.4							0.5	
Feb-11	1.5;-0.1	0.9;0.4							0.9	
Mar-11	1.5; -0.1	0.9;0.4	0.5;0.2	0.6;0.1					0.9	
Apr-11	1.5; -0.1	0.9;0.3	0.5;0.2	0.6;0.2					0.9	
May-11	[2.5;0.8]	2.1;0.5	1.8;0.3	2.0;0.2					2.1	
Jun 11	[2.5;0.8]	2.1;0.6	1.8;0.3	2.0;0.2					2.1	
Jul-11	[2.5;0.8]	2.0;0.5	1.6;0.2	1.7;0.2					2.0	
Sep-11	[2.5;0.8]	[1.7;0.3]	1.6;-0.2	1.7;0.4					1.6	
Okt 11	[2.5;0.8]	[1.7;0.3]	1.2;-0.1	1.4;0.5	1.7;1.2	1.8;0.2	1.7;-0.3	1.6;0.4	1.7	1.7
Nov-11	[2.5;0.8]	[1.7;0.3]	[1.4;0.1]	1.0;0.2	1.4;1.1	1.3;0.2	1.3;-0.4	1.4;0.3	1.5	1.3
Dec 11	[2.5;0.8]	[1.7;0.3]	[1.4;0.1]	0.7;-0.4	0.6;0.7	0.6;0.2	1.2;0.7	1.9;0.3	1.5	1.1
Jan 12	[2.5;0.8]	[1.7;0.3]	[1.4;0.1]	0.6;-0.4	0.3;0.5	0.4;0.2	1.1;0.8	1.9;0.4	1.5	0.9
Feb 12	[2.4;0.8]	[1.7;0.2]	[1.4;0.1]	[0.7;-0.3]	0.0;0.2	0.0;0.1	0.8;1.0	1.8;0.5	[1.5]	0.7

In brackets; GDP-Data published by EUROSTAT. In italics: quarter on quarter rates.

The EUROSTAT flash estimate for the fourth quarter of 2011 has confirmed the result of the High Frequency Model, which indicated a contraction in Euro zone's GDP since late 2011. Hence, the bad expectations materialized that were the driving force of the model forecast recently. However, the decline of GDP was slightly milder than that deduced from the dynamics of indicators included in the model. Looking ahead, the present forecasts point at a gradual recovery of the Euro area economy in the second half of 2012.

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