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Economic Recovery in Europe and Its Cautious Interpretation

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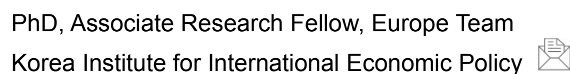

Recently, there have been small but tangible indications wherein European economies turn to their recovery process. This is in contrast to current situations of some emerging economies, which are facing increasing instability in their financial markets amid the possibility of the U.S. exit policy. After seven quarter-consecutive economic recessions since the end of 2011, the European economy has been recovering since the second quarter of this year. The number of the unemployed reduced during the last two months in the eurozone. In countries in deep crisis such as Spain, the jobless rate has fallen for the first time since 2008, albeit a small fall. Leading economic indicators have been reporting upward trends for last four months, reaching a high record in last two years. Money is coming back

to Europe and stock market indexes in the eurozone are recovering their previous levels before the debt crisis.

Since Greece's debt crisis in early 2010, most economic news from Europe have been rather pessimistic ones, such as Grexit, banking crisis in Spain and social unrest due to austerity measures. Economic analysts do not regard the debt crisis in eurozone as a "variable" that may threaten the global economy, but as a "constant", which has existed and will last for a while. In this context, the indication of economic recovery in Europe is certainly good news.

However, it is necessary to review the momentum of economic recovery more in detail, country by country. The largest economy in Europe, Germany is showing obvious signs of recovery. It marks an economic upturn in most of its GDP components including private consumption, investment and government consumption as well as external account. The economy of UK appears also recovering owing to increasing private consumption and investment. The French economy managed to record a positive growth rate in the last quarter, whereas its growth is largely due to baseline effect and increase in inventory. However, Italy and Spain still remain in deep recession, because of depressed domestic demand, while both have recorded remarkable improvement in their external account. In total, European countries as a whole seem to recover from the recession but they are facing different economic conjunctures along with how much their "economic injury" is cured. It is a usual trend that European economies show synchronization in their business cycle, entering economic slowdown or recession, due to their high share of intra-European trade. In a phase of economic recovery, they are often marked by a decoupling, because the economic recovery starts with countries such as Germany and Sweden, which have more external trade with non-European countries. Currently, European economies are being divided into two groups, good performers (Nothern Europe) and ill-performers in growth (Southern Europe). The remaining question is whether Southern European economies will be pulled by their northern neighbors toward economic upturn or they will pull back entire Europe to stagnation.

Currently, the financial markets of Europe, particularly in the eurozone remain relatively stable despite of their short-term fluctuation. The internal imbalances, such as gaps in current account, have considerably improved. In this context, it is less likely that eurozone members would face another debt crisis with sudden increases in government bond yield rates. However, the stabilization of financial market in the eurozone are largely attributable to the ECB's announcement of active intervention such as outright monetary transaction (OMT) and histor-

ically low interest rate, rather than to the improvement of real economic conditions. Except for some countries such as Germany, most of eurozone members still suffer from depressed domestic demand and there are still remaining risk factors, such as the deleveraging in financial sectors, unstable housing market and deflationary pressure in Southern Europe. Particularly, the deleveraging of banks is highly expected to depress private consumption and investment in crisis affected countries, which would make European economies divided further into two groups in terms of business cycle.

In order for eurozone members to get out of the long tail of the debt crisis, there are a number of tasks that the eurozone has to face as a group. First, it is urgent to complete the banking union for which the first step is under way. This is particularly important to prevent the further fragmentation of the European financial market and development of a banking crisis to a crisis in public finance and in real economy. Second, the various structural reforms initiated upon the debt crisis should be continued, not only in fiscal policy, but also other policy areas including labour and industrial policy. Third, European countries have to minimize unnecessary political conflicts and maintain social and political stability. As pointed out by many commentators, the current debt crisis has a political nature. Discord between eurozone members made them unable to develop quick and efficient instruments to face the crisis. This is why many people look forward to what the eurozone manages to develop after the German election last September. KIEP