Euro Leaders Declaring Worst Is Over Turn to Economy Woes

By Patrick Donahue - Jan 13, 2013

European leaders declaring they’ve gained the upper hand in the three-year-old debt crisis are sharpening efforts to channel a rebound in financial markets to an economic recovery to chip away at soaring unemployment.

Even as euro-area chiefs call for more time to lock in a bailout package for Cyprus and elections loom next month in Italy, German Finance Minister Wolfgang Schaeuble said Jan. 11 that the single currency is “over the worst of the crisis.”

“Financial markets are starting to appear normal again,” Erik Nielsen, chief global economist at UniCredit SpA (UCG), wrote in a note to clients yesterday. He referred to European Central Bank President Mario Draghi’s Jan. 10 comments forecasting that the euro-area economy will climb out of recession this year.

Draghi’s six-month-old pledge to do whatever it takes to deliver the 17-member currency out of the crisis has been credited for declining yields and an easing in market turmoil. That’s given leaders more room to grapple with issues such as unemployment in Europe, which climbed to a record 11.8 percent in November, with every other Spanish youth out of work.

Spain’s 10-year bonds advanced for a second week, pushing yields to as low as 4.84 percent Jan. 11, down from the July peak of 7.62 percent that fed worries about a bailout and a fragmentation in the euro. The euro climbed 3.1 percent last week to $1.3343, the highest level since last March.

‘Gradual Recovery’

Draghi cited “positive contagion” in European markets after the ECB’s Governing Council left the central bank’s benchmark interest rate at 0.75 percent, holding its fire amid signs that the debt crisis is waning. Monetary policy makers have opted to rely on an unconventional policy arsenal such as the ECB’s pledge to buy unlimited amounts of sovereign debt.

Draghi told reporters in Frankfurt last week that “a gradual recovery should start” in late 2013, during which Standard & Poor’s has said Ireland and Portugal could return to the markets after their bailout programs expire.

Luxembourg Prime Minister Jean-Claude Juncker, who leads euro finance ministers, also signaled the improved mood, saying “the worst is probably over, but what we still have to do is difficult.”
Those challenges include a persistently high jobless level that’s a testament to the depth of the debt crisis. In addition to soaring unemployment in Spain and other bailout countries, French President Francois Hollande is struggling to reverse a 19-monthlong rise in jobless claims and jump start an economy that has barely grown in more than a year.

**Employer Rights**

Hollande Jan. 12 backed an agreement between French business leaders and three out of five unions giving employers more flexibility to reduce working time and salaries.

“We often have dual labor markets with very little protection for the young and protection for the old,” Draghi said last week. The ECB in December predicted the euro economy will shrink 0.3 percent this year.

Joachim Fels, chief economist at Morgan Stanley in London, warned that market improvement is inducing complacency among European policy makers as it has in the past, slowing efforts to overhaul the euro-area institutions.

“Now we’re in the complacency phase,” Fels said in an interview on Bloomberg Radio on Jan. 11. “I worry that you always need a renewed crisis to push both government and the ECB to take the next step.”

**Cyprus Package**

Potential stumbling blocks over the coming weeks include a bailout for Cyprus that could approach the size of the island nation’s 18 billion-euro ($24 billion) economy and an Italian election that could upend that country’s crisis response.

Chancellor Angela Merkel, who met European counterparts in Cyprus on Jan. 11, said negotiators for a Cypriot program are “far from the stage at which we can make a decision.” She threw her support behind Nicos Anastasiades, leader of Cyprus’s DISY opposition, who is poised to take over the presidency after next month’s elections.

Resistance is building to a Cyprus package that euro finance ministers wanted to wrap up this month. Merkel’s coalition allies were among politicians last week saying that a bank rescue in the country could abet tax fraud.

Cyprus is “more than ready” to sign an agreement with international creditors, Finance Minister Vassos Shiarly was cited by the state-run Cyprus News Agency as saying.

**Italian Vote**

In Italy, in the throes of its fourth recession since 2001, elections are scheduled for Feb. 24-25 after Prime Minister Mario Monti announced his resignation last month following former Premier Silvio Berlusconi’s withdrawal of support. Front-runner Pier Luigi Bersani will probably turn to Monti for support should he fail to win a Senate majority, Bersani’s economic-policy spokesman said Jan. 11.
Berlusconi’s coalition leads with 35.7 percent in Lombardy, which accounts for the highest number of Senate seats, according to an ISPO poll published for Corriere della Sera. Bersani’s bloc is second with 32.3 percent.

Merkel will also be campaigning today in Germany, supporting her Christian Democrat Union ahead of the Jan. 20 state election in Lower Saxony. Should the CDU be ousted, the opposition Social Democrats and the Green Party could form a majority in Germany’s upper house of parliament, or Bundesrat.

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