Europeans See Crisis Near End, Bernanke Warns on Recovery

By Shamim Adam - Mar 28, 2012

European leaders signaled rising confidence that their region’s crisis is near an end, while Federal Reserve
Chairman Ben S. Bernanke warned that a U.S. recovery isn’t assured.

The euro area’s woes are “almost over” after a slow initial response by policy makers, Italian Prime Minister
Mario Monti said in Tokyo today. German Chancellor Angela Merkel said yesterday that the crisis is ebbing
and her country’s borrowing costs will probably rise as its status as a haven wanes.

Bernanke, who cited “green shoots” of recovery in the U.S. in March 2009 only to see his nation’s jobless rate
climb to 10 percent seven months later, said in remarks published yesterday “it’s far too early to declare
victory.” The jobless rate remains too high and policy makers don’t rule out further options to boost growth, he
said in a transcript of an interview with ABC News anchor Diane Sawyer provided by the network.

Bernanke’s comments contrasted with a series of declarations by Monti during a visit to Japan, with the Italian
leader saying a solution to Greece’s challenges is almost accomplished, Spain is employing discipline and
Italian actions have helped stop deterioration in Europe’s woes.

‘Muddle Through’

“Anyone who pretends to know if we are out of the woods yet is clearly kidding themselves or misleading their
audience,” said Glenn Levine, a senior economist at Moody’s Analytics in Sydney. “Things have stabilized in
Europe and it’s in their interest to be optimistic but the muddle-through is still on.”

Conclusions to Europe’s turmoil have been called prematurely before. In March 2010, former European
Commission President Romano Prodi said the worst of Greece’s financial crisis was over and other European
nations wouldn’t follow in its path. Since then, Portugal and Ireland needed bailouts.

“The euro zone has gone through a huge crisis,” Monti said in a speech today. “I believe that this crisis is now
almost over.”

Stocks have risen on optimism the global recovery will be sustained, with the U.S. jobless rate dropping, the
European Central Bank stepping up liquidity support and euro-region leaders sealing a second Greek bailout
package. The MSCI Asia Pacific Index gained 12 percent from the start of the year through yesterday, and is
headed for the biggest quarterly gain since the three months through September 2009.

China Concern

Equities surrendered some of the advance today, with the measure dropping 0.5 percent as of 2:35 p.m. in
Tokyo, undermined by the emergence of China’s slowdown as a new element for the global economy to contend
with.

Chinese Premier Wen Jiabao has pledged to maintain curbs on his nation’s property market, and set the lowest
growth target since 2004 for this year in a speech this month.

Chinese corporate profits won’t grow at all this year, according to Societe Generale SA. The latest industrial profit figures suggest 2012 consensus earnings estimates for Hong Kong-listed Chinese companies are “far too optimistic,” Societe Generale strategists Guy Stear and Anthony Lee wrote in a note to clients dated yesterday.

Meantime, Monti today predicted a continued rally in Italian bonds. The country sold 3.82 billion euros ($5 billion) of zero-coupon and inflation-linked securities yesterday as borrowing costs fell to a four-month low. Yields have fallen as Monti’s efforts to spur growth and reduce the euro region’s second-biggest debt, coupled with the ECB’s unlimited three-year lending operations, shore up demand for bonds.

**Fed Policy**

In the U.S., while the best six months of job gains since 2006 have boosted consumer confidence toward a one-year high, Fed officials have said more monetary accommodation may still be needed to fuel the economic expansion.

“Bernanke is right to be more cautious,” said Tohru Nishihama, an economist at Dai-ichi Life Research Institute Inc. in Tokyo. “Most of the investors think the situation will not deteriorate but we are still far from saying the crisis is over.”

German Finance Minister Wolfgang Schaeuble said yesterday that he sees no scenario under which the current euro-area rescue fund, the European Financial Stability Facility, will have to issue new bailouts in the next three months. Schaeuble and Merkel spoke to lawmakers from their Christian Democratic Union, according to officials who spoke on condition of anonymity because the briefing was private.

**Fed Mandate**

“The world economy is recovering and though there obviously are risks, on balance we’re through the worst in Europe,” said Tim Condon, chief Asia economist at ING Financial Markets in Singapore. Bernanke may be more cautious because “the Fed has a dual mandate of inflation and unemployment and while they’re doing OK on the inflation metric, they’re failing dismally on the other,” he said.

The U.S. jobless rate is at 8.3 percent and Bernanke said in the interview that “it could still be a few more years” before unemployment returns to normal levels, and “until we get faster growth than we’ve been seeing, it is probably gonna take a while still.”

The Federal Open Market Committee in a March 13 meeting decided to leave policy unchanged and keep the main interest rate close to zero at least through late 2014.

**Debate on Easing**

Policy makers including Boston Fed President Eric Rosengren and Chicago Fed President Charles Evans have argued for more monetary accommodation if unemployment remains high. In contrast, James Bullard, president of the St. Louis Fed, and Atlanta’s Dennis Lockhart said last week that the improving U.S. economy is reducing the need for additional easing.

Bullard said today in Beijing that while the chance of a major financial meltdown in Europe is going down, risks haven’t completely disappeared. The U.S. economy is looking better this year than last year, and inflation is moderating while remaining a little above target, Bullard said to reporters.
Euro-area finance ministers are weighing their options on the EFSF, which manages rescue programs for Ireland, Portugal and Greece, and its permanent successor, the European Stability Mechanism. They may decide to increase their crisis fund to a total capacity of 692 billion euros from a current limit of 500 billion euros when they meet March 30, a euro-area official said.

Bank of Japan board member Ryuzo Miyao warned today that Europe’s fiscal woes aren’t over and continue to warrant close attention.

“Europe’s debt problems haven’t been resolved,” Miyao said at a speech in Chiba, outside of Tokyo. “We need to continue to pay close attention to the risk that economic stagnation will become chronic and prolonged.”

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