



**Re-Define Press Release – Economic growth forecasts for the Eurozone  
23rd February 13:00 CET**

Please find below **Re-Define's** Comments on the situation in troubled euro area economies, the banking system, the political scene and the need for growth. All comments are attributable to **Sony Kapoor**, Managing Director of Re-Define, an Economic Think Tank.

**General Comments**

“This is yet more evidence, if any more was needed, for the EU to change course and focus on growth, not fiscal consolidation.”

“The sharply deteriorating economic forecasts underscore why despite the lull arising from a quietening of the acute phase of the crisis, EU policy makers must not be allowed to procrastinate and become complacent, a pattern that has characterized EU decision-making from the start of the crisis.”

“Our predictions of a Euro-area wide recession, it seems, are coming true; the banking system, at least in the Euro area remains on life support; the politics in the Euro area remain as fraught as ever and the social fabric is being stretched to its limit.”

“The EU’s latest dismal growth forecasts provide further evidence for the inherent conflict between trying to restore competitiveness within the Euro area through fiscal consolidation and reducing real wages and tackling excessive indebtedness all at the same time.”

**The situation in the troubled economies of Greece, Portugal, Spain & Italy is likely to worsen**

“Consumer demand is shrinking as public spending and wages are cut. With low confidence that is not conducive to stimulating private investment and a possibility of only marginally higher exports in the short-term this will arithmetically shrink the GDP worsening the Debt/GDP ratio even without the impacts of lower tax revenues and a higher demand for social insurance being accounted for.”

“The social peace, political space and economic outcomes in Portugal and to a lesser extent Spain and Italy are not immune from Greece-like developments particularly as things continue to deteriorate in the medium term and posturing at the level of the EU further inflames tempers.”

**The banking system remains on life support**

“Our banking system remains on life support with the prospect of a sustainable exit ever further into the future, Euro area austerity measures are only just starting to bite, the fabric

of society has reached near breaking point in some countries and political capital and citizen patience are fast running out.”

“The ECB, having done the heavy lifting in recent months, is still refusing to cross the red line of direct sovereign support and must be considering an end to unlimited support for EU banks.” “However, the prospects of a sustainable exit of EU banks from life support as fraught as ever.” “Euro area banks continue to trade at a mere 40% of their book value, a symptom of the scale of their troubles.”

“As the recession starts biting, the quality of the asset portfolios of these banks will deteriorate and they will face an uphill struggle and the dance of death between weak sovereigns and weak banks will resume.”

### **The politics in the EU is worsening**

“The actions of EU policy makers, the difficult and controversial decisions on bailouts, conditionality and austerity which have been poorly communicated are all leaving a scar on the European psyche which could take years to remove.”

“The growing size of the economic problem, the difficulty of necessary adjustments and the polarization of politics and public opinion all diminish the likelihood of a benign transition. “The political space and permissive consensus necessary to tackle the problem are shrinking.”

### **The need for growth**

“Public investment in the EU is shrinking jeopardizing not just short-term growth but also undermining the prospects for growth in the future.”

“The potential impact of structural changes on growth, which normally takes years to be fully realized, has always been less than certain and will be undermined by the impact of a collapse in public investments.”

“As demonstrated by the experiences of Greece, Portugal and Spain, this course leads to biting, deep recessions and worsens public indebtedness. A focus on growth, not austerity, is the correct answer for Europe's ills.”

“The case for ‘growth-friendly austerity’ relies on the argument that public cuts are compensated for by consumers and businesses spending more, and with greater efficiency. However, the collapse of confidence wherein everyone expects the economy to worsen before (if) it gets better, along with excessive levels of private indebtedness, means that consumers and firms are busy repaying debt.”

“When EU leaders next meet on 1 March, they must adopt a binding pledge to increase growth-enhancing public investments in the EU, outlining a firm strategy for funding these – in effect, a **growth compact** of the kind that Re-Define has been advocating.”

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