MOODY'S ANALYTICS

News

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MOODY'S ANALYTICS EURO ZONE OUTLOOK

MORE PAIN AHEAD FOR THE EURO ZONE AS RECESSION LIKELY TO CONTINUE THROUGH 2013

LONDON, May 16, 2013 — Moody's Analytics, a leading independent provider of economic forecasting, today released its economic outlook for the euro zone for 2013. According to the report, Euro Zone Outlook: More Pain Ahead, the currency union will remain in recession for most of 2013. Output in the euro zone fell by 0.2% between January and March, marking the sixth consecutive quarterly contraction and the longest recession since the euro was launched in 1999. Moody's Analytics expects the euro area to shrink by 0.4% in 2013.

"Southern Europe remains the epicenter of the banking and sovereign debt crisis, but the rest of the region is not faring much better. High levels of debt, especially public debt, remain the primary issue for euro zone member countries", said Petr Zemcik, Director of Economic Research at Moody's Analytics. "The average national debt-to-GDP ratio is now around 90% in the currency union and rising as output falls. The issue appears acute not only in Greece but also Slovenia, and has spread to larger euro area countries such as Spain and Italy."

Credit remains tight for euro zone businesses and households. While the European Central Bank's (ECB) promise to purchase unlimited amounts of sovereign bonds has reduced government borrowing costs, lower yields have not translated into lower lending rates for firms and households. The ECB also reduced its policy rate to 0.5% in early May, but this move is unlikely to decrease the cost of borrowing for banks, as deposit interest rates are close to zero already.

The Moody's Analytics report notes that the fragility of the banking sector adds to the region's challenges. The Cyprus crisis highlighted the need for a closer regional banking union with a regional deposit insurance scheme, unified bank restructuring mechanism, strong regulation and a fiscal backstop. But progress toward financial integration has been slow, as German officials favour a less centralised arrangement.

Despite the dim near-term outlook, structural changes have begun to positively affect labour markets in several euro zone member states. Ireland was the first country to reduce its labout costs, followed by Portugal, Spain and Greece. However, more needs to be done to tackle growing unemployment as the currency union's jobless rate reached a record 12.1% in March. Among the steps needed for long-term improvement is legislation making it easier to lay off employees, a more flexible system of adjusting nominal wages, and means tests for unemployment benefits rather than benefits tied to prior wages.

Moody's Analytics expects that the euro zone will not return to 2008 output levels until the middle of the decade and forecasts a modest 1.2% expansion for 2014. Growth will be driven externally, mainly from the U.S. and emerging markets where Germany exports. The largest short-term risks to economic recovery will come from troubled peripheral countries, including Greece, where another tranche of rescue funds is expected to be approved this week.

For more information, visit Moody's Analytics Dismal Scientist.

About Moody's Analytics

Moody's Analytics helps capital markets and risk management professionals worldwide respond to an evolving marketplace with confidence. The company offers unique tools and best practices for measuring and managing risk through expertise and experience in credit analysis, economic research and financial risk management. By providing leading-edge software, advisory services and research, including proprietary analyses from Moody's Investors Service, Moody's Analytics integrates and customizes its offerings to address specific business challenges. Moody's Analytics is a subsidiary of Moody's Corporation (NYSE: MCO), which reported revenue of $2.7 billion in 2012, employs approximately 6,800 people worldwide and has a presence in 28 countries. Further information is available at www.moodysanalytics.com.

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