News

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MOODY'S ANALYTICS EURO ZONE OUTLOOK 2014

EURO AREA FACES FRAGILE RECOVERY AMIDST RISKS OF DEFLATION AND WEAK LENDING

LONDON, 12 June 2014 — Moody's Analytics, a leading independent provider of economic forecasting, has released its latest outlook for the euro zone. According to the report, the euro area will likely grow 1.1% in 2014 and 1.7% in 2015, with deflation and weak lending as downside risks.

Consumer prices across the euro zone grew 0.5% year-over-year in May compared with 0.7% in April.

"Inflation slowed further across the euro zone in May, raising the risk of deflation, especially for countries with high levels of debt. Declining consumer prices move consumers to postpone purchases of durable goods, reducing demand and deepening an economy's recession," says Petr Zemcik, Director of European Economics at Moody's Analytics.

Moody's Analytics notes that the euro zone grew only 0.2% in the first quarter of 2014, with member nations at different stages of their business cycles. Output grew 0.8% in the first quarter in Germany, but decreased 0.1% in Italy and remained flat in France. Actual output is also below potential in many countries, with the gap narrowing slowly.

In an effort to fight deflation and accelerate the recovery, the European Central Bank (ECB) has lowered the headline rate on refinancing operations by 10 basis points to 0.15%; the interest rate on overnight lending by 35 basis points to 0.4%; and the deposit rate by 10 basis points to -0.1%. According to Moody's Analytics, the reduced policy rate is likely to have little impact - low ECB rates to date have not lowered commercial lending rates in the weakest euro area economies – whereas the negative rate on the ECB's deposit facility is more significant.

The ECB has also revamped its long-term refinancing operations programme, aiming to boost lending to the nonfinancial private sector. The ECB will link its credit directly to such lending in a manner similar to the Bank of England's funding for lending scheme. However, the banking sector is still weak, with high levels of nonperforming loans in countries such as Ireland, Greece and Spain.

"The ECB's latest moves are necessary but insufficient to sustain growth. Demand for loans must increase in order for investment to pick up. However, with the current political landscape in the EU becoming less certain, countries will struggle to implement structural reforms recommended by the European Commission," adds Zemcik.

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 $3.0 billion in 2013, employs approximately 8,400 people worldwide and has a presence in 31 countries. Further information is available at www.moodysanalytics.com

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