Growth forecasts slashed as Europe sinks deeper into crisis

Andre Damon
9 November 2012

The European Commission, the executive body of the European Union, slashed its growth forecast for the euro zone Wednesday, as the sovereign debt crisis and global slump continued to weigh down the European economy.

The downward revisions point to a deepening economic crisis for Europe, including its largest economy, Germany. Economic contraction is exacerbated by brutal austerity measures being imposed throughout the continent.

The Commission said that it expects the 17-member euro area to contract by 0.4 percent in 2012 and grow by only 0.1 percent next year. This marks a worsening from its spring forecast, which estimated that the euro area would contract 0.3 percent in 2012 and expand at a rate of 1 percent next year.

For the 27-member European Union as a whole, GDP is expected to shrink 0.3 percent, then grow by 0.4 percent in 2013. The expected economic contraction in 2012 follows two years of low growth: of 1.9 percent and 1.5 percent in 2010 and 2011, respectively.

The new figures come a week after the EU's statistics agency announced that unemployment in the euro zone rose to a record level of 11.6 percent in September, up from 11.5 percent in August.

Particularly significant was the slashing of Germany's expected 2012 growth level from 1.7 percent to 0.8 percent.

These grim figures were matched by statistics from the German Ministry of Economics, which said Wednesday that industrial production fell by 1.8 percent in September and factory orders toppled 3.3 percent that month.

The fact that Germany, the continent's largest and strongest economy, is entering a sharp downturn points to the systematic nature of the crisis in Europe.

"Germany has so far been largely insulated from some of the difficulties elsewhere in the euro area," said European Central Bank President Mario Draghi in a speech in Frankfurt Wednesday.

"But the latest data suggest that these developments are now starting to affect the German economy." Draghi added that the area's unemployment is "deplorably high" and the general outlook is "weak."

The French economy, the second largest in the euro zone, is expected to grow only 0.2 percent in 2012 and 0.4 percent in 2013.

However, the commission said it expects countries hardest hit by the debt crisis to fare even worse. Spain, Portugal and Italy are expected to contract next year by 1.4, 3, and 2.3 percent, respectively.

The most severe conditions are faced by Greece, whose economy, battered by austerity, is expected to contract 6 percent and 4.2 percent in 2012 and 2013. The Greek economy has contracted by more than one fifth since the start of the debt crisis.

The sharply reduced growth figures came the same day as the Greek parliament passed a €13.5 billion ($17.2 billion) austerity package in the face of mass opposition and a 48-hour general strike.

Greece's unemployment rate reached a staggering 25.4 percent in August. This compares 24.8 percent in July and 18.4 percent one year ago.

The solution of the ruling class to the crisis is to escalate the offensive against the working class. At his press conference in Frankfurt Wednesday, Draghi gloated about the "progress" that has been made throughout Europe in slashing social spending. "Fiscal consolidation that has taken place all over the euro zone is amazing," he said. "Compare the situation today with what it was even a year ago … There has been substantial progress."

The "progress" referred to by Draghi is the fact that European governments have slashed hundreds of billions of dollars in social spending, wrecking the economy of Greece, throwing millions into poverty, and contributing to a recession in Europe.

Calls for sharper austerity are coming from all sides. In its yearly report on the French economy, the International Monetary Fund called for the country to adopt "a comprehensive programme of structural reforms" similar to the gutting of protections for workers implemented by Italy and Spain.

France's economic problems "could become more serious if the French economy does not adapt at the same pace as its principal commercial partners, notably Italy and Spain, which, after Germany, are engaged in profound reforms of their labour and service markets," the IMF said.

The statement coincided with the publication of a report commissioned by French President François Hollande that calls for €30 billion in cuts to social welfare, amounting to 1.5 percent of the country's GDP, over the course of five years.

The sharp slowdown of the global economy has by no means hampered the drive for austerity on both sides of the Atlantic. Politicians from the two US political parties made moves Wednesday towards a settlement to slash trillions of dollars from key social programs such as Medicare, Medicaid and Social Security in the aftermath of the presidential election.