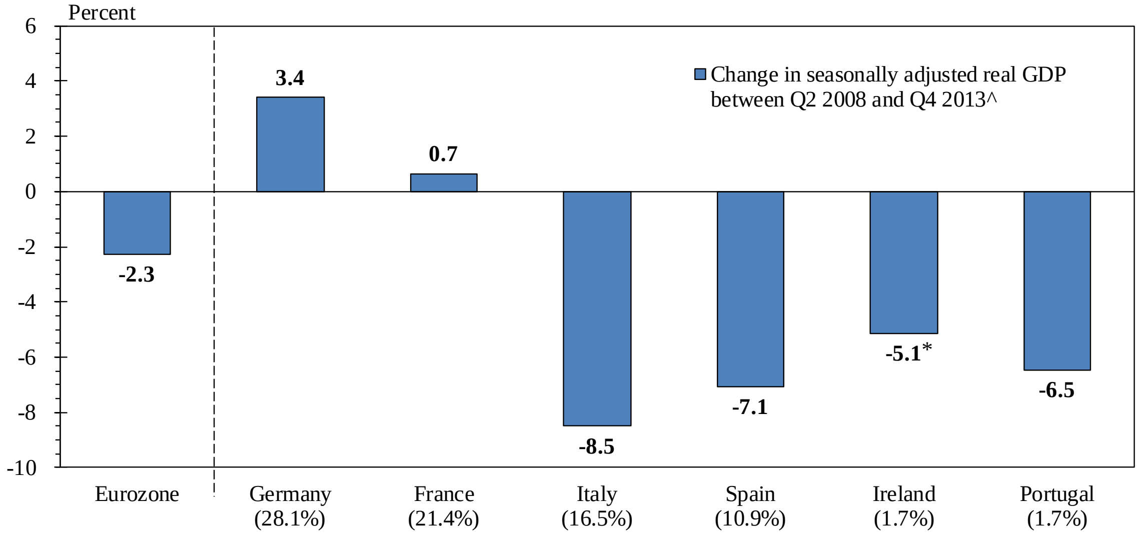
Box 2.2

The eurozone's economic recovery in perspective

Over the past five years or so, the eurozone economy had experienced two recessions – first dented by the acute global financial crisis in 2008-2009 and then a six-quarter recession that began in the fourth quarter of 2011 amid the euro debt crisis. While the eurozone economy has emerged from recession since the second quarter of 2013, its economic fundamentals remain fragile and its recovery severely impeded by structural problems and austerity measures needed to redress the high level of indebtedness. By comparing some of its major macroeconomic indicators before and after the two recessions(1), this note attempts to put the eurozone's recent economic recovery in perspective.

Despite the mild growth recorded in recent quarters, the level of real output for the eurozone as a whole in the fourth quarter of 2013 remained 2.3% lower than the pre-crisis level in the second quarter of 2008 (***Chart 1***). Also evident was the distinct growth dispersion among member states of the eurozone. While Germany stood out clearly as the outperformer and provided the key impetus to the region, France's real GDP only marginally surpassed its pre-crises level. Italy and Spain, the third and fourth largest economies in the currency bloc, fared much worse. Member states that requested for bailouts also had considerable slack.

Chart 1 : The eurozone economy has yet to recover to its pre-crisis level



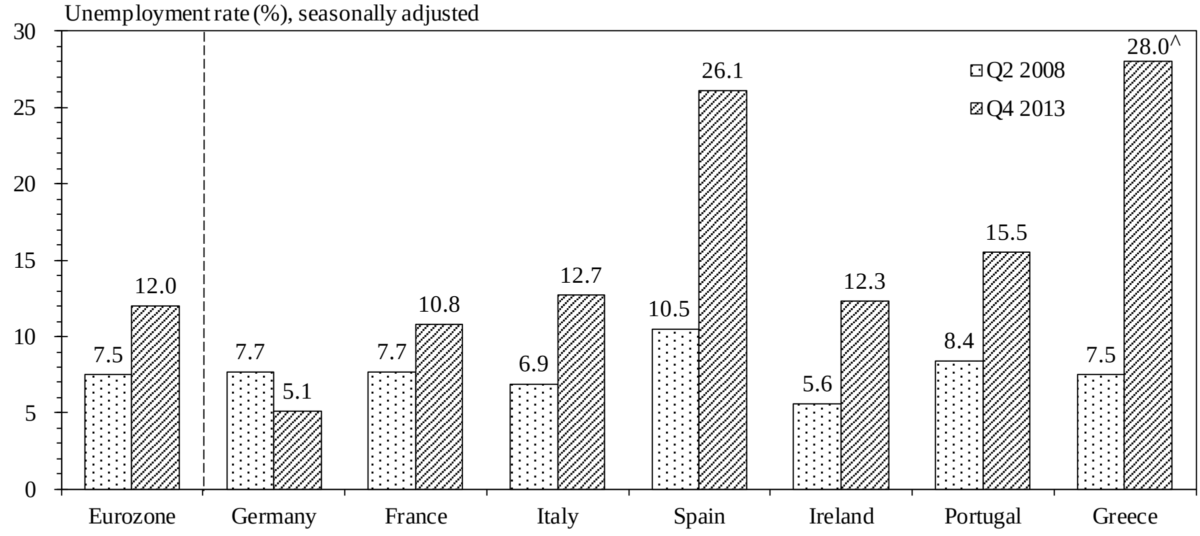
Notes : (^) GDP figures of member states in Q4 2013 were calculated based on the flash growth estimates released on 14 February 2014.
(*) Refers to the GDP change between Q2 2008 and Q3 2013, the latest period with GDP figure available.
Figures in brackets represent the respective member state's % share in eurozone's nominal GDP in 2012.
Greece does not publish seasonally adjusted GDP figures after the first quarter of 2011.

Labour market conditions in the eurozone also remained difficult alongside the widespread economic weakness, with the seasonally adjusted unemployment rate staying elevated at 12.0% in the fourth quarter of 2013, far above the 7.5% recorded in the second quarter of 2008 (***Chart 2***). In fact, except for Germany, the prevailing unemployment rates in most of the major member states were still notably higher than their respective levels in the second quarter of 2008. More worryingly, youth unemployment (i.e. for workers of less than 25 years old) in the eurozone has been even more acute, shooting up from 15.6% to 23.9% over the same period, which could have serious consequences on Europe's longer-term growth potential if the situation persists.

(1) The collapse of Lehman Brothers took place in September 2008. This is widely considered as the event that marked the beginning of the global financial crisis, which also eventually triggered the euro debt crisis. Therefore, in this note the second quarter of 2008 is taken as the reference period for the pre-crisis situation.

Box 2.2 (Cont'd)

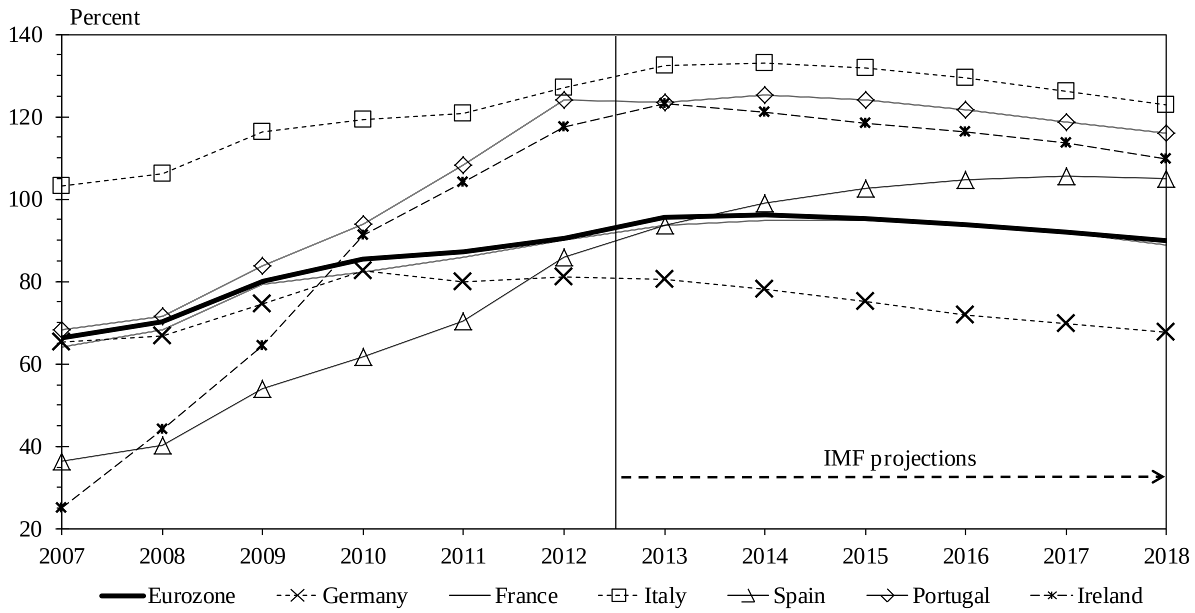
Chart 2 : Unemployment rate has increased significantly in nearly all member states



Note : (^) November 2013 figure.

Furthermore, the debt burden on most of the member states, after rising rapidly over the past few years, will likely remain monumental in the foreseeable future. According to projections by the IMF in October 2013, the gross government debt to GDP ratio for the eurozone was expected to decline only gradually in the coming few years and remain notably higher than the pre-crisis level (***Chart 3***). As such, further sustained efforts will still be needed to repair the region's public finance, thereby continuing to post a drag on growth in the years ahead.

Chart 3 : Government gross debt to GDP ratio



To conclude, while the acute risks of the euro debt crisis have receded notably, the economic outlook for the eurozone remains challenging. The need for fiscal consolidation makes it difficult for the member states to boost growth and bring down unemployment in the near term. While the formation of a banking union has made some progress, the European leaders must also take further strong policy actions to enhance market confidence in the euro by strengthening the various institutions that would make the monetary union sustainable.