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Mario Draghi, president of the European Central Bank (ECB), has pledged to keep the eurozone together.

EU chiefs claim crisis is waning

Draghi cites 'positive contagion' in euro markets

BY **PATRICK DONAHUE**
Bloomberg News

BERLIN – European leaders declaring they've gained the upper hand in the three-year-old debt crisis are focusing efforts to channel a rebound in financial markets to an economic recovery.

Even as euro-area chiefs call for more time to lock in a bailout package for Cyprus and elections loom next month in Italy, German Finance Minister Wolfgang Schaeuble said Jan. 11 that the single currency is "over the worst of the crisis."

"Financial markets are starting to appear normal again," Erik Nielsen, chief global economist at UniCredit, wrote in a note to clients Sunday.

He referred to European Central Bank President Mario Draghi's Jan. 10 comments forecasting that the euro-area economy will climb out of recession this year.

Draghi's six-month-old pledge to do whatever it takes to deliver the 17-member currency out of the crisis has been credited for declining yields and an easing in market turmoil. That's given leaders more room to grapple with issues such as unemployment in Europe, which climbed to a record 11.8 percent in November, with every other Spanish youth out of work.

Draghi cited "positive contagion" in European markets after the ECB's Governing Council left the central bank's benchmark interest rate at 0.75 percent, holding its fire amid signs that the debt crisis is waning.

Monetary policy makers have opted to rely on an unconventional policy arsenal such as the ECB's pledge to buy unlimited amounts of sovereign debt.

Draghi told reporters in Frankfurt last week that "a gradual recovery should start" in late 2013, during which Standard & Poor's has said Ireland and Portugal could return to the markets after their bailout programs expire.

Luxembourg Prime Minister Jean-Claude Juncker, who leads euro finance ministers, also signaled the improved mood, saying "the worst is probably over, but what we still have to do is difficult."

Those challenges include a persistently high jobless level that's a testament to the depth of the debt crisis. In addition to soaring unemployment in Spain and other bailout countries, French President Francois Hollande is struggling to reverse a 19-month-long rise in jobless claims and jump-start an economy that has barely grown in more than a year.

On Jan. 12 Hollande backed an agreement between French business leaders and three out of five unions giving employers more flexibility to reduce working time and salaries.

"We often have dual labor markets with very little protection for the young and protection for the old," Draghi said last week.

The ECB in December predicted the euro economy will shrink 0.3 percent this year.

Joachim Fels, chief economist at Morgan Stanley in London, warned that market improvement is inducing complacency among European policy makers as it has in the past, slowing efforts to overhaul the euro-area institutions.

"Now we're in the complacency phase," Fels said in an interview on Bloomberg Radio on Jan. 11. "I worry that you always need a renewed crisis to push both government and the ECB to take the next step."

Potential stumbling blocks over the coming weeks include a bailout for Cyprus that could approach the size of the island nation's €18 billion ($24 billion) economy and an Italian election that could upend that country's crisis response.

Chancellor Angela Merkel, who met European counterparts in Cyprus on Jan. 11, said negotiators for a Cypriot program are "far from the stage at which we can make a decision." She threw her support behind Nicos Anastasiades, leader of Cyprus's DISY opposition, who is poised to take over the presidency after next month's elections.