Financial conditions in Europe are improving, and the sense of imminent doom has lifted. Some commentators are daring to say that Europe’s economic crisis is over. We think they speak too soon.

It’s true that some crucial indicators look better. Governments that were on the brink of bankruptcy last summer have seen bond yields fall to supportable levels. Six months ago, Spanish 10-year bonds paid more than 7 percent; today the rate is 5.1 percent. Italy’s 10-year borrowing cost has fallen from 6.5 percent to 4.2 percent. And this week, Italy sold 8.5 billion euros ($11.5 billion) of six-month bills at 0.731 percent, the lowest rate in almost three years.

In another sign of returning normalcy, the European Central Bank just announced that some of the cheap emergency loans it extended to the region’s banks last year would be repaid early. The funds were needed because the banks’ ability to roll over debt was in doubt. Early repayment suggests the banks think access to funds through standard channels isn’t going to be a problem.

That’s encouraging. It’s also a reminder that financial calamities have a self-validating character. When confidence evaporated last year, interest rates rose and sustainable fiscal positions became unsustainable. Now that the mood has improved, rates have fallen and public debts look almost affordable.

Unresolved Issues

Unfortunately, what confidence can give, lack of confidence can just as suddenly take away -- and that’s especially true if the underlying issues haven’t been resolved. In Europe, they haven’t. In some ways, conditions are getting worse.

The International Monetary Fund’s economic forecasters have just marked down Europe’s prospects yet again. They expect the euro area’s output to shrink 0.2 percent this year (a reduction of 0.3 percentage point since the previous forecast) and to recover very slowly in

2014.

Such a dismal figure is more flattering than reality because it merges the European Union’s stronger and weaker countries in a single statistic. The IMF expects France and Germany to grow, if barely, in 2013, but the outlook for Spain and Italy is still awful. Output is expected to shrink 1.5 percent in Spain (where unemployment already stands at more than 25 percent) and 1 percent in Italy (where the jobless rate is almost 11 percent). Prospects that dire call into question Europe’s political stability and that puts recovery itself in doubt.

Thanks to the single currency, there isn’t a lot that monetary policy can do to lift the region’s struggling economies. Fiscal policy continues to widen rather than narrow intra-European disparities. The region’s weak economies, under pressure to improve their finances, are still trying hard to curb public spending and raise revenue, which adds to the contraction.

The weaklings’ banks are under greater-than-average stress as well -- early repayment of ECB loans notwithstanding -- so their households and companies struggle to get credit.

The contrast with the U.S. is stark and shows no sign of diminishing. Europe has suffered a worse decline in output, a sharper rise in unemployment, a milder monetary-policy response, a counterproductive fiscal-policy response and severe country- specific setbacks. In the EU, national boundaries still inhibit the ability of the economy’s supply side to bounce back -- by impeding labor mobility, for instance. As a result, the U.S. is recovering, albeit slowly, and Europe isn’t.

Fiscal Cooperation

To change this, EU leaders should attend to unfinished business. Even now, fiscal transfers from strong economies to weak would help soften the economic cycle and lessen the shocking disparities in output and employment across the EU. More flexible labor markets are also vital. And the just- proposed banking union, together with better regulation, would strengthen financial markets and help make the recent improvement in confidence more durable.

In these and other areas, however, Europe’s governments continue to dither. The easing of crisis conditions has a downside: It accommodates their tendency to act only when forced to. Last summer’s moves by the ECB, including the relaunching of the euro -- as its chief, Mario Draghi, put it last week -- gave Europe’s leaders breathing space. They would be fools to waste it.

Fuente: Bloomberg