Euro crisis may be over by year-end: German expert

FRANKFURT, Germany, Jan. 21 (Xinhua) -- The euro crisis may be largely over by the end of 2013 as a result of the progress made in the eurozone, a German economist said in a report on Monday.

"The euro crisis can fade over the course of 2013, if none of the tail risks materialize," said Holger Schmieding, chief economist with Berenberg Bank, in a report identifying risks and progress made by the eurozone.

Schmieding attributed the progress largely to the new bond-buying program, the Outright Monetary Transactions (OMT) program, of the European Central Bank (ECB). The ECB promised to buy an unlimited amount of sovereign bonds of some debt-ridden eurozone countries provided they officially ask for help from the rescue mechanisms.

Although none of the eurozone countries has asked for a bailout and the ECB has not intervened, the OMT program has worked even better than expected, Schmieding said. "Clear words have done the trick," he said.

According to Schmieding, financial markets are starting to transmit the ECB's monetary policy to the real economy, real M1 money supply, investor confidence and business expectations have started to rebound.

"All relevant forward-looking indicators point to a return to modest growth in the eurozone this spring after a recession in late 2012," he said.

There are also signs of improvement in some crisis-hit economies. Ireland has already turned the corner, Italy looks set to exit recession this spring, Portugal's economy will likely start expanding again by mid-2013 and Spain should see growth again this autumn, Schmieding said.

The eurozone has made major progress in terms of fiscal deficit reduction, with fiscal deficit down from 4.1 percent of GDP in 2011 to an estimated 3.4 percent in 2012. Schmieding believed the fiscal shortfall could drop below 2.5 percent of GDP this year if growth resumes this spring.

"The eurozone has by far the most sustainable fiscal position of all major regions in the Western world," he said.

The combined current account deficit of Italy, Spain, Portugal, Ireland and Greece fell from 7 percent of GDP in 2008 to an estimated 1.5 percent in 2012. They look set to balance their external accounts this year, Schmieding added.

Schmieding said some of the potential risks included a global recession triggered by a U.S. fiscal crash, reversal of the Monti reforms following the Italian elections, a loss of patience by voters elsewhere in the eurozone, and a French financial crisis.

However, he pointed out that "the probability that any of the really disastrous risks will materialize looks fairly low."