

# Credit Crisis Spreading New Jitters in Europe

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FRANKFURT, Oct. 25 — Europe, which once hoped to avoid major fallout from the summer's credit crisis, is now feeling an autumn chill of slackening economies and warnings of further market upheaval.

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Chris Ratcliffe/Bloomberg News

A couple looking at houses for sale in Hornchurch, England. The Bank of England warned of more financial instability.

The ill tidings came in several European capitals Thursday, including a reduced growth forecast in Germany and a Bank of England report that said financial markets were still vulnerable to shocks from the crisis that originated in the American home mortgage market.

“The financial turmoil of the last months is not yet behind us,” the European commissioner of economic and monetary affairs, Joaquín Almunia, said at a conference of bond dealers in Brussels. “Downside risks to the growth outlook have now obviously increased due to the events in the financial markets,” he added. “It is apparent that economic outlook will be somewhat less favorable than we expected.”

The German government cut its forecast for growth next year to 2 percent, from 2.4 percent, citing a more sluggish global economy, as well as high oil prices and the relentlessly rising euro.

A survey of German business confidence by the [Ifo Institute](#) in Munich registered a decline for the sixth consecutive month, though the institute said the results did not suggest Germany would fall into recession.

“The shift in sentiment this summer was as sudden as anything I’ve seen in my 15 years in the business,” said Jörg Krämer, the chief economist of Commerzbank. “It is clear that the boom is over.”

What is not clear is whether Europe’s financial system faces more jolts of the kind set off in the United States this week by [Merrill Lynch](#)’s disclosure that it had written down nearly \$8 billion in mortgage-related securities, \$3 billion more than it estimated just two weeks earlier.

While big European banks like [UBS](#) and [Deutsche Bank](#) have announced multibillion-dollar write-downs of these securities, they insist that they are on top of the situation and that the bad news has been acknowledged.

But analysts remain wary of further nasty surprises, particularly among less well-known banks like IKB Deutsche Industriebank of Germany, which needed to be rescued after ruinous losses. Smaller banks were keen buyers of these complex investments.

The depth of uneasiness among banks is evident in the three-month interest rate that banks charge one another for loans: 4.6 percent, well above the benchmark 4 percent rate set by the [European Central Bank](#). The interbank rate peaked at 4.79 percent during the crisis, analysts said, but the fact that it remains stubbornly above the central bank's rate underscores how rattled the money markets remain.

The Bank of England warned about this fragility in its semiannual Financial Stability Report, released Thursday.

"There have been signs of recovery in recent weeks, but some markets are still illiquid and the financial system remains vulnerable to further shocks," the bank's deputy governor for financial stability, John Gieve, said in a statement. "Some important lessons need to be learned."

The Bank of England has come under criticism for not intervening more quickly to help troubled lenders like [Northern Rock](#) of Britain. Mr. Gieve acknowledged the need for work on "liquidity risk management, valuation of complex instruments, disclosures of risk positions and on crisis management."

For Europe, perhaps the biggest loss from the crisis so far has been confidence, which had been surging in recent years as countries like Germany racked up uncharacteristically strong growth.

"The present turbulence has spread a lack of confidence in the financial markets and beyond, in a manner and intensity that was not foreseeable," Mr. Almunia said in his speech in Brussels.

Adding to the pressures on Europe is the strength of its single currency, the euro, which settled at \$1.432 Thursday in New York, a shade below the record high it set this week.

German officials tried to put a good face on their subdued expectations for 2008, saying they expected consumer spending to improve next year, making Germany less dependent on exports.

They even nudged up their growth forecast for this year, to 2.4 percent from 2.3 percent. The German economy expanded 2.9 percent in 2006, its fastest pace since the boom year of 2000. "The growth dynamic is intact," the German economics minister, Michael Glos, said.

But for those who argued that Europe could sidestep a downturn in the United States — because of its booming trade with China, among other reasons — the latest news underscores that the economic vigor of Europe remains closely linked to that of the United States.

"There was only a temporary decoupling of Europe and the U.S.," Mr. Krämer of Commerzbank said. "The credit crisis has had a real-world economic impact in the U.S., and we are affected by that."

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