

Volatility and sovereign bond spreads retreated for several economies, although not for those directly affected, which were expected to normalize further, but may be driven back up by unforeseen shocks.

With the end-of-2011 recession expected to be shallow and short-lived, the forecast for the eurozone calls for a 0.3-percent contraction in real GDP during 2012 and a weak rebound of 0.9 percent in 2013. Italy, directly affected by sovereign risk, is expected to contract 1.9 percent in 2012 and 0.3 percent in 2013. France is projected to grow by 0.5 percent in 2012 and 1.0 percent in 2013, and Germany by 0.6 percent in 2012 and 1.5 percent in 2013. However, the degree of uncertainty associated with this forecast is unusually large. Continued progress in crisis management and advances towards its resolution, factored into the projections, have not been the pattern for the eurozone so far. As long as the underlying issues are not decisively resolved, renewed escalation of the eurozone crisis will continue to be a strong downside risk. It is also the prime source of risk for the global recovery as the eurozone maintains strong trading and financial links to other regions. The onset of another phase of the crisis may affect the global economy through credit tightening, uncertainty, contraction in trade and declines in commodity prices.

United Kingdom

The United Kingdom was particularly hard-hit by the Great Recession, as the traditionally large U.K. financial sector had been directly affected by the financial crisis preceding the recession. Output declined 4.4 percent in 2009 and rebounded only 2.1 percent in 2010. Further difficulties were in store for 2011, with growth of only 0.7 percent for the year. Four of the last six quarters (ending with the first quarter of 2012) have now

resulted in output contractions. Real GDP in the final quarter of 2011 was no higher than it was in the third quarter of 2010. Output of the production industries fell 1.2 percent in 2011, while services output increased by 1.6 percent.

Household final consumption contracted by 1.2 percent in 2011, imposing a drag of 0.7 percentage point on the real GDP, down from a positive contribution of 0.8 percentage point in 2010. Government final consumption expenditure remained flat for the year, also down from a 0.3-percent point contribution in 2010. Gross fixed capital formation fell by 1.2 percent in 2011 and slowed down real GDP growth by 0.2 percentage point, down from 0.5 percentage point in 2010.

The only positive contribution to GDP came from net exports, which increased growth by 1.0 percentage point. Exports decelerated from a contribution of 2.1 percentage points in 2010 to 1.3 percentage points in 2011, while imports went down much faster, from a drag of 2.5 percentage points on GDP in 2010 to a drag of only 0.4 percentage point in 2011.

In real growth terms, the United Kingdom's total exports added 4.6 percent in 2011. Goods exports advanced 5.1 percent, while services exports grew by 3.9 percent. Growth on the import side was muted at 1.2 percent overall; goods imports advanced 1.5 percent and services grew by 0.2 percent.

The United Kingdom is not subject to the sovereign debt problems affecting countries in the eurozone since it has full sovereignty over its currency and absolute control of its monetary policy, which has remained very accommodating. However, proximity to and trading links with the eurozone render the United Kingdom susceptible to European contagion, while the policies of fiscal consolidation continue to impose a drag on