Central bankers' words can have a powerful influence on financial markets. No more so than Mario Draghi's 'whatever it takes' speech on 26 July 2012. Within the context of renewed fears over a Eurozone break-up, the ECB President came out with the now famous words "The ECB is ready to do whatever it takes to preserve the euro. Believe me it will be enough".

By merely threatening to implement new policy actions, Draghi restored confidence in the beleaguered Eurozone for over two years. Stresses and strains within financial markets eased and subsequently dissipated. The return to financial market calm prompted a series of European leaders to affirm that the worst of the euro crisis was over.

Fast forward 28 months from Draghi's speech and the public affirmations look somewhat premature. Concerns surrounding the Eurozone have returned, and indeed the Eurozone economy is in much worse shape today than it was in the summer of 2012.

Back then, the Eurozone was in recession, with Germany one of the few economies still growing. The Eurozone unemployment rate was 11.3% and consumer price inflation, at 2.4% year-on-year was running above the ECB's 'close to but below 2%' target. The euro also traded at more attractive rates for Eurozone exporters ($1.206 & 77.7p) than the rates prevailing today. With the public finances, concerns that deficit targets would be missed were confined to the Eurozone periphery. But now, the EU is challenging France and Italy for breaching its new budget rules.

Today the Eurozone is flirting with both recession and deflation. The latter prompted the ECB to follow up its words with more policy actions in June. These included cutting the ECB's main lending rate to just 0.05%, one-tenth of the equivalent Bank of England rate. Consumer prices in the Eurozone are barely rising, with Italy, Spain, and Greece experiencing deflation. The Eurozone's unemployment rate has eased from last year's peak

of 12% but is still marginally higher than it was in July 2012.

There has been a steady stream of poor economic data for Germany in recent weeks, suggesting that the powerhouse of the Eurozone may have re-entered recession in Q3. Next week's Q3 GDP figures are expected to reveal a contraction in the Eurozone economy following a flat reading in Q2. Such an outcome will fuel 'triple-dip recession' headlines. Whether they appear or not, the challenges facing the Eurozone remain severe. Particularly when you consider the lack of economic progress over the last two years.

Whilst European equities have rallied by over 40% – according to the Euro Stoxx index – since Draghi's landmark speech, the Eurozone economy has stagnated. In the two years to Q2 2014, the Eurozone economy has grown by just 0.1%. This compares with 4.9% for the UK and 4.4% for the US. Even Germany has expanded by just 1.3% during the last two years of Draghi-induced financial market calm. The French economy has averaged growth of just 0.4% p.a. over this period, with the same pedestrian growth rate anticipated for 2014. The plight of Italy is even more worrying. The Eurozone's third largest economy has contracted by 3% since Draghi's speech and is a staggering 10% smaller than it was before the recession began. The Italian economy is currently the same size as it was 14 years ago and is set to contract in 2014.

The outlook for the Eurozone is worrying when you consider the deteriorating economic conditions in its core economies. German exports plunged in August by the largest amount since the peak of the financial crisis – and more timely surveys for business activity and confidence have pointed to a further slowdown. This has prompted Germany to slash its official forecasts for economic growth in 2014 and 2015 to just 1.2%. A slowdown in China, the crisis in the Ukraine and sanctions imposed on Russia are impacting on German order books. A series of large German exporters including: Siemens, Volkswagen, Fendt (the tractor manufacturer) and MAN (the truck manufacturer) are all reporting a decline in

demand from Eastern Europe in Q4. After years of near-record low unemployment, Germany is now facing job losses.

Draghi's soothing words bought European leaders precious time to implement much-needed reforms, particularly in France and Italy. However, this time has largely been squandered. Now, with austerity fatigue widespread and anti-EU sentiment rising, the political will to implement unpopular policies is largely absent throughout Europe. Lack of reform, however, will not compensate for a lack of demand, which is behind the twin challenges of recession and deflation.

The reality is that the ECB and the leaders of the three largest economies, and founding members of the EU, must implement policies that are politically unpopular but economically necessary. To date, their approach has followed the spirit of the Meat Loaf song 'I will do anything for EU but I won't do that'. The 'that' has meant different things for different economies. In France and Italy it has been economic, labour market and public sector reforms. In Germany, it has been providing a sufficient fiscal stimulus for the Eurozone, borrowing to invest in infrastructure and allowing the ECB to engage in full-blown quantitative easing (like other central banks). The periphery did what it had to do, now the core has to follow suit. 'Whatever it takes' actions will speak much louder than 'whatever it takes' words.

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