World Economic Situation and Prospects 2013

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Europe's debt crisis reverberations continue to depress the region

The level of uncertainty stemming from the euro area crisis is having a strong negative impact across the region

Geneva, 17 January: The euro area is in recession and the Gross Domestic Product (GDP) of the region is expected to reach only 0.3 per cent in 2013, strengthening marginally to 1.4 per cent in 2014, said the United Nations in the annual report, World Economic Situation and Prospects (WESP) 2013.

The full WESP report, launched today, says the euro area sovereign debt crisis and attendant fiscal austerity programs remain the dominant forces depressing growth in the region. This, coupled with slowing external demand and high oil prices, threatens bleak prospects in the outlook.

WESP says the euro area economy witnessed successive negative quarterly rates of GDP growth in the second and third quarters—a technical recession—and with a further sharp drop estimated for the fourth quarter, GDP is expected to decline by 0.5 per cent in 2012.

The report warns that Western Europe's current economic policies do not address key short-term issues of restoring growth in the region or how to put the crisis countries on a more probable path to fiscal sustainability. At least five economies are now in recession, with very poor prospects going forward. Italy's GDP is expected to decline by 2.4 per cent in 2012 and 0.3 per cent in 2013 and Spain's by 1.6 per cent and 1.4 per cent, respectively. The other countries in recession are Cyprus, Greece and Portugal.

The WESP report says not all economies are equally affected, for instance, Germany's economy has slowed substantially and is expected to grow by only 0.8 per cent in 2012 after 3.0 per cent in 2011, and will see only a marginal rise to 1.0 per cent in 2013. France narrowly averted recession with a slight up-tick in GDP growth in the third quarter. Output growth is expected to reach only 0.1 per cent for 2012 as a whole and 0.3 per cent in 2013. Outside of the euro area, the economy of the United Kingdom of Great Britain and Northern Ireland exited recession in the third quarter, boosted by the Olympic Games, but nonetheless GDP is expected to contract by 0.3 per cent for 2012. In the baseline forecast, only a slight rebound to 1.2 per cent is expected for 2013, as exports pick up (aided by a depreciation of the currency) and domestic demand solidifies.

Consumption is expected to remain weak in the outlook, but with significant differences across the region. Austerity programmes depress consumption but vary in intensity across countries. The level of uncertainty stemming from the ebbs and flows of the euro area crisis is having a more uniform impact across the region, as consumer confidence, which had been improving earlier in the year, has since declined sharply.

Investment spending also remains weak in the region with little prospect for a sustained upturn given weak demand, and elevated uncertainty from the sovereign debt crisis. In the crisis countries funding conditions remain extremely tight, as banking systems remain under tremendous pressure. Housing investment remains a major drag to activity in some countries, particularly those that experienced a housing bubble and subsequent collapse, such as Spain and the United Kingdom.

Unemployment

The unemployment rate in the euro area climbed to 11.6 per cent in September, up 1.3 percentage points from one year ago. Significant regional differences remain. In Spain and Greece, unemployment is above 25 per cent and in Portugal 15.7 per cent—all countries subject to harsh austerity programmes. At the other extreme are Austria, Germany, Luxembourg and the Netherlands where rates of unemployment are nearer to 5 per cent. Yet, given the only marginal pick up in activity expected from mid-2013 and into 2014, all countries are expected to see at least some increase in unemployment in 2013 before gradually coming down, with an estimated average of 11.3 per cent in the euro area in 2012, 11.8 per cent in 2013 and 11.6 in 2014.

Fiscal policy in the region continues to be focused on reducing fiscal imbalances. Government budget deficits of euro area members declined on average from 6.0 per cent of GDP in 2010 to 4.1 per cent of GDP in 2011 and further to near 3.0 per cent in 2012.

WESP warns that the sovereign debt crisis could flare up significantly, impacting on bank solvency and depressing confidence. Governments may be forced to make up for growth shortfalls by introducing new austerity measures. Oil prices could surge again. On the positive side, external demand, particularly from east Asia and perhaps the United States, may pick up earlier and with more vigour than anticipated, giving a boost to exports and investment. Tensions may subside in the region following more convincing implementation of already announced packages of policy measures, which would boost confidence.

The new EU members

The tenuous economic recovery that emerged in the new European Union member States in 2010 has continued to weaken throughout 2012. Although some countries of the region, such as the Baltic States and Poland, started the year with solid first quarter economic results, the ongoing troubles in the euro area, which still remains the major export market for the region and the biggest source of foreign direct investment, has led to a visible deterioration of the region's current economic prospects. Some of the new EU members, such as the Czech Republic, Hungary and Slovenia, saw negative annual economic growth. Most of the fiscal space the new EU members possessed has been exhausted and some countries, such as Poland, face constitutional limits on the size of public debt. Aggregate GDP of the new EU members expanded by 1.2 per cent in 2012 and growth will accelerate to a still moderate rate of 2.0 per cent in 2013 amid numerous uncertainties and risks.

The biggest economy, Poland, is relatively sheltered from the euro area troubles, having a smaller export-to-GDP ratio compared with its regional peers and exhibiting extensive trade ties with the Russian Federation. Cooling domestic demand and the need for fiscal consolidation slowed the economy in the second half of the year, with annual growth expected to be below 3 per cent in 2012 and in 2013. The economies of the Baltic States may grow at around 3 per cent in 2013. Bulgaria and Romania may face additional risks as they have stronger trade, finance and investment links with Greece and Italy.

WESP warns that a protracted recession in the EU-15, which would delay the recovery of foreign direct investment, remains the biggest risk faced by the new EU members. Other downside risks include the inability to prevent a sharp cut in cross-border lending and an excessively negative impact of fiscal tightening.

South-Eastern Europe

Real economic activity in South-eastern Europe in 2012 remained below that achieved in 2008 before the onset of global financial crisis. After a very weak recovery in 2010 and 2011 the region's growth turned negative in 2012, and is forecast to remain below trend in 2013, due to weakness in both external and internal demand. In 2012 spring floods and summer droughts and forest fires destroyed crops, especially corn and potatoes, and physical infrastructure throughout the region. The major risks to the forecast are to the downside as the region's strong financial, trade and remittances linkages with some of the most troubled countries of the European Union, such as Greece and Italy, make it quite vulnerable should there be a further deterioration in the eurozone. FDI inflows into these economies remains depressed at about half their levels prior to the crisis. This decline in investment is an important factor in explaining not only their current low growth and high unemployment but also their fairly weak medium to long run growth prospects. The aggregate GDP of South-eastern Europe declined by 0.6 percent in 2012, and is forecast to recover only modestly, by 1.2 per cent in 2013.

World Economic Situation and Prospects is produced at the beginning of each year by the UN Department of Economic and Social Affairs (UN/DESA), the United Nations Conference for Trade and Development (UNCTAD) and the five United Nations regional commissions.

On the web: http://www.un.org/en/development/desa/policy/wesp/index.shtml
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Table:

Europe: rates of growth of real GDP, 2009-2014

	2009	*2010*	*2011*	*2012*[a]	*2013*[b]	*2014*[b]
Western Europe	**-4.2**	**2.1**	**1.5**	**-0.2**	**0.6**	**1.7**
European Union	-4.3	2.1	1.5	-0.3	0.6	1.7
Austria	-3.8	2.1	2.7	0.8	1.3	2.0
Belgium	-2.8	2.4	1.8	-0.3	0.5	1.5
Bulgaria	-5.5	0.4	1.7	1.0	2.3	3.5
Cyprus	-1.9	1.1	0.5	-1.2	0.5	1.3
Czech Republic	-4.5	2.5	1.7	-0.9	1.1	2.0
Denmark	-5.8	1.3	0.8	1.1	1.2	1.3
Estonia	-14.1	3.3	8.3	3.0	3.0	3.5
Finland	-8.5	3.3	2.7	1.5	1.2	1.6
France	-3.1	1.7	1.7	0.1	0.3	1.1
Germany	-5.1	4.2	3.0	0.8	1.0	1.8
Greece	-3.3	-3.5	-6.9	-6.1	-1.8	0.6
Hungary	-6.8	1.3	1.6	-1.0	0.6	2.2
Ireland	-5.5	-0.8	1.4	0.5	1.7	2.4
Italy	-5.5	1.8	0.4	-2.4	-0.3	1.4
Latvia	-17.7	-0.9	5.5	4.0	4.0	4.0
Lithuania	-14.8	1.5	5.9	3.0	3.0	3.0
Luxembourg	-4.1	2.9	1.7	-0.1	0.9	2.0
Malta	-2.7	2.3	2.1	-0.7	1.1	1.8
Netherlands	-3.7	1.6	1.0	-0.5	0.7	1.4
Poland	1.6	3.9	4.3	2.6	2.6	3.5
Portugal	-2.9	1.4	-1.7	-3.2	-2.2	0.2
Romania	-6.6	-1.6	2.5	1.0	2.3	3.0
Slovakia	-4.9	4.4	3.2	2.4	2.0	2.6
Slovenia	-7.8	1.2	0.6	-2.0	0.5	2.2
Spain	-3.7	-0.3	0.4	-1.6	-1.4	0.8
Sweden	-5.0	6.6	3.9	1.7	1.8	2.8
United Kingdom	-4.0	1.8	0.9	-0.3	1.2	2.3
EU-15	-4.4	2.1	1.4	-0.4	0.5	1.6
New EU member States	-3.6	2.3	3.1	1.2	2.0	2.9
Euro area	-4.4	2.1	1.5	-0.5	0.3	1.4
Other Western Europe	-1.9	1.9	1.7	1.7	1.5	1.9
Iceland	-6.6	-4.0	2.6	2.6	2.7	2.6
Norway	-1.7	0.7	1.4	3.5	2.2	2.4
Switzerland	-1.9	3.0	1.9	0.3	0.8	1.4
South-Eastern Europe	**-4.3**	**0.4**	**1.1**	**-0.6**	**1.2**	**2.6**
Albania	3.3	3.9	2.0	1.5	2.5	3.0
Bosnia and Herzegovina	-2.9	0.7	1.7	0.2	1.0	2.1
Croatia	-6.9	-1.4	0.0	-1.3	0.8	2.5
Montenegro	-3.5	1.0	1.6	-1.0	1.3	2.8
Serbia	-5.7	2.5	3.2	0.4	1.5	3.0
The former Yoguslav Republic of Macedonia	-0.9	2.9	3.0	1.0	2.3	2.5

Source: UN/DESA, based on data of the United Nations Statistics Division and individual national sources.

Note:

a Partly estimated.

b Baseline scenario forecasts, based in part on Project LINK and the UN/DESA World Economic Forecasting Model.