
World Economic Situation and Prospects 2014

Slow recovery ahead as Europe emerges from recession, says UN report

Historically high unemployment will persist in Europe over next two years

Geneva, 20 January — The end of the recession in Western Europe will bring an increase in economic activity in the region in 2014, but growth will be slow and high unemployment will persist, according to the United Nations *World Economic Situation and Prospects 2014 (WESP)* released today.

Economic growth, as measured by gross domestic product (GDP) for Western Europe is expected to increase by 1.5 per cent in 2014 and 1.8 per cent in 2015. However, the report states that growth will be uneven among countries. The United Kingdom's economy is expected to grow 2.2 per cent in 2014, while France and Germany are expected to grow 0.8 per cent and 1.9 per cent in 2014, respectively.

Countries hit hardest by the euro crisis are showing signs of improvement, the report says, while warning that they are still in delicate positions. Italy is expected to contract by 1.8 per cent in 2013 before finally exiting recession and growing by 0.8 per cent in 2014. Similarly, Spain is expected to contract by 1.2 per cent in 2013, before returning to positive growth of 0.9 per cent in 2014. The economies of both Cyprus and Greece are expected to continue contracting in 2014.

The report states that tensions in the region have dramatically subsided since the European Central Bank (ECB) announced its Outright Monetary Transactions (OMT) facility. Through the OMT, the ECB can make unlimited purchases of bonds from a government that requests assistance and agrees to certain economic measures. While the policy has not yet been deployed, it has acted as a powerful circuit breaker, keeping bond yields contained after a number of crises at the beginning of 2013, such as in Cyprus.

Future challenges

Despite some promising signs, the region still faces significant challenges going forward. Fiscal austerity programmes remain in force. Demand within the region remains significantly low. Banks, corporations and households are still trying to repair their balance sheets. Lending conditions are still uneven, with bank credit widely available in some countries, while conditions in others are extremely tight. In addition, the sharp slow-down in prices at the end of 2013 points to some risks of deflation.

The report notes the intensity of Government austerity programmes has varied greatly across the region, explaining to some extent the more robust consumption expenditure in Austria, France and Germany, as well as in countries outside the euro area. As austerity programmes lessen their intensity, the report says the region will see more improvement.

Investment, which has been a major weak spot over the past two years, is expected to increase in 2014 and 2015 as demand picks up gradually and funding conditions turn more favourable. However, the rebound is likely to be weak.

Unemployment hits new high

The relentless increase in unemployment – experienced by most countries in the region following the Great Recession – reached a new historical high of 12.2 per cent in the euro area. However, the unemployment rate varies greatly across the region. In Germany the rate of unemployment is at an historic low of about 5 per cent, while

Greece and Spain face extraordinarily high unemployment rates of nearly 27 per cent, with youth unemployment rates more than double that amount.

Moving forward, the unemployment situation is expected to improve at a slow pace, as growth in the region is not strong enough to spur much dynamism in labour markets. In addition, as discouraged workers dropped out of the labour force during the recession, they will re-enter as conditions improve, delaying the improvement of the unemployment rate.

In the euro area, the rate of unemployment is estimated to average 12 per cent in 2013 and is expected to stabilize during 2014 with an average rate of 12.1 per cent before finally starting to decline to 11.8 per cent in 2015.

Eastern Europe

Many of the new European Union member States from Eastern Europe continued to experience negative economic trends in the first half of 2013, with output shrinking year on year and consumer and business confidence depressed. These economies continue to feel the impact of the protracted weakness in the older EU trading partners – known as the EU-15 – which were part of the EU before the majority of Eastern European countries joined in 2004. As the euro area economy recovers, the outlook for the new EU members will also improve.

In 2013, the aggregate GDP growth for the EU countries in Eastern Europe is estimated at 0.5 per cent, marginally lower than 0.6 per cent registered in 2012. The speed of economic expansion should strengthen in 2014 and 2015, to 2.1 per cent and 2.7 per cent, respectively. In spite of this growth, the report warns that a more robust growth is needed to return these countries to the path of sustainable convergence with the income levels of their EU-15 peers.

For most of the region, growth in 2013 was driven predominantly by net exports. Domestic demand in most of the countries in the first half of the year remained suppressed by high unemployment and stagnant real wages. Investment was held back by low foreign direct investment (FDI) inflows and stagnation in the construction sector. By contrast, the export-oriented manufacturing sector was able to benefit from the slightly improved economic situation in the EU-15, and, in the case of the Czech Republic, Hungary, Poland and Romania, also by the modest depreciation of the respective currencies versus the euro in 2013.

The near-term outlook is still subject to risks from a renewed slowdown in the EU-15 and certain domestic risks in several countries. In particular, the report points to the Slovenian banking system and the country's large current-account deficit as a serious risk for macroeconomic stability.

The report recommends that countries adopt pro-growth policies and aim to improve the labour market situation, including improving participation rates. In addition, absorption of the available EU funding, especially for infrastructure, should improve in the region significantly.

South-Eastern Europe

Real economic activity in South-Eastern Europe turned positive in 2013 after experiencing a decline in GDP of almost 1 per cent in 2012. All economies in the region registered positive GDP growth in 2013. Growth is projected to accelerate to 2.6 per cent in 2014 and 3.1 per cent in 2015, thanks largely to the improving growth prospects in the EU with which it is highly integrated both in terms of trade and financial flows.

Growth at this pace, however, will not be sufficient to address the region's long-standing needs of reindustrialization, reduce the high rates of unemployment that have plagued the region since the 1990s or increase the labour force participation ratio. Unemployment is currently well above 10 per cent in the entire region and, given anticipated growth rates, is likely to stay elevated for many years.

The report notes that since South-Eastern Europe has strong links to the euro area, especially Greece and Italy, it will remain vulnerable if growth does not materialize there. The region could also be negatively impacted if there are large capital reversals related to any pressure on the EU parent banks or the unwinding of the unconventional monetary policies in the advanced economies.

WESP is produced at the beginning of each year by the UN Department of Economic and Social Affairs (UN/DESA), the United Nations Conference on Trade and Development (UNCTAD) and the five United Nations regional commissions. The full version of the report will be available 20 January 2014.

For more information, visit: <http://www.un.org/en/development/desa/policy/wesp/index.shtml>

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Table: Europe: rates of growth of real GDP, 2010-2015

	2010	2011	2012	2013 ^a	2014 ^b	2015 ^b
Western Europe	2.0	1.7	-0.3	0.0	1.5	1.9
European Union	2.0	1.7	-0.4	-0.1	1.4	1.9
Austria	1.8	2.8	0.9	0.7	1.8	2.2
Belgium	2.4	1.8	-0.3	-0.4	0.5	1.3
Bulgaria	0.4	1.8	0.8	1.0	2.1	2.3
Croatia	-2.3	0.0	-2.0	-0.9	1.0	2.0
Cyprus	1.3	0.4	-2.4	-13.9	-4.2	-1.4
Czech Republic	2.5	1.8	-1.0	-0.8	1.5	3.0
Denmark	1.6	1.1	-0.4	0.7	1.8	2.8
Estonia	2.6	9.6	3.9	1.5	2.9	3.0
Finland	3.4	2.7	-0.8	-0.8	0.7	1.4
France	1.7	2.0	0.0	0.1	0.8	1.1
Germany	4.0	3.3	0.7	0.4	1.9	1.9
Greece	-4.9	-7.1	-6.4	-4.5	-1.0	1.3
Hungary	1.1	1.6	-1.7	0.2	2.0	2.3
Ireland	-1.1	2.2	0.2	-0.3	1.2	2.2
Italy	1.7	0.5	-2.5	-1.8	0.8	1.4
Latvia	-1.3	5.3	5.0	4.0	4.2	4.2
Lithuania	1.6	6.0	3.7	3.2	3.5	3.5
Luxembourg	3.1	1.9	-0.2	0.9	3.0	2.0
Malta	4.0	1.6	0.8	0.7	1.1	2.5
Netherlands	1.5	0.9	-1.2	-1.2	0.5	1.2
Poland	3.9	4.5	1.9	1.2	2.5	3.0
Portugal	1.9	-1.3	-3.2	-2.1	0.1	1.3
Romania	-1.1	2.2	0.7	1.9	3.0	3.1
Slovakia	4.4	3.0	1.8	0.9	2.0	2.2
Slovenia	1.3	0.7	-2.5	-2.4	-0.2	1.0
Spain	-0.2	0.1	-1.6	-1.2	0.9	2.1
Sweden	6.6	2.9	1.0	1.1	2.6	3.3

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	2010	2011	2012	2013^a	2014^b	2015^b
EU-15	2.0	1.5	-0.5	-0.1	1.4	1.8
New EU member States	2.1	3.0	0.6	0.5	2.1	2.7
Euro area	2.0	1.6	-0.7	-0.5	1.1	1.6
Other Western European	1.7	1.6	1.9	1.7	2.6	2.9
Iceland	-4.1	2.7	1.4	2.0	2.4	2.5
Norway	0.5	1.2	3.1	1.7	2.7	2.7
Switzerland	3.0	1.8	1.0	1.6	2.5	3.0
South-Eastern Europe	1.7	1.9	-0.9	1.8	2.6	3.1
Albania	3.8	3.1	1.3	1.9	2.6	4.0
Bosnia and Herzegovina	0.7	1.0	-0.7	0.8	2.0	2.5
Montenegro	2.5	3.2	-2.5	1.9	2.5	3.0
Serbia	1.0	1.6	-1.7	2.1	2.9	3.0
The former Yugoslav Republic of Macedonia	2.9	2.8	-0.2	2.3	2.5	3.0

Source: UN/DESA, based on data of the United States 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.