



Strong Recovery in Western Europe will cool in 2007

Solid growth in 2006 exceeded expectations

UNITED NATIONS, Geneva, January 12: Prospects for continued economic growth in Western Europe look promising although at a slower rate than in 2006, according to a new economic forecast issued by the United Nations today.

The report, *World Economic Situation and Prospects 2007*, found that growth in Western Europe accelerated significantly in 2006 with GDP in the euro area surpassing expectations by growing by an estimated 2.5 per cent, the fastest since 2000. Growth reached a cyclical peak in the second quarter of 2006, with the euro area recording the strongest performance of all the major developed economies.

The eight new EU countries— Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovenia, Slovakia—continued to post impressive growth reaching 5.7 per cent in 2006 but the report predicted that growth rates would moderate in 2007. A strong retail sector, rising wages—particularly in the Baltics—and an expanding mortgage market that has fueled a housing boom have contributed to the growth.

But while short-term indicators have retreated in recent months, the report found present indices point to continued expansion and strong growth. The euro area is still expected to grow by 2.2 per cent in 2007.

German growth picked up sharply; Italy was stronger as well but still significantly slower than the euro area average; the United Kingdom of Great Britain and Northern Ireland also saw a strong pick-up; and Spain, while decelerating, continued to have the strongest growth performance.

Much of the growth in the region has been fueled by domestic demand, particularly investment expenditure as well as strong export performance. But the growth in exports, the report said, was offset in large part by a growth in imports that were boosted by strong domestic demand and appreciated currencies.

A slowdown in 2007 is expected, the report finds, because exports are expected to decelerate with the slowing of external demand, and the further appreciation of the euro means that exporters will face difficulties maintaining market share. Tighter fiscal policies in many of the major European economies will be another moderating factor. Recent increases in interest rates, coupled with the continuing feed-through of the effect of past rate hikes, will also dampen activity.

The *World Economic Situation and Prospects 2007* found that the “investment anaemia,” of a year ago had largely evaporated and that investments were growing in machinery and equipment but also housing investment. Investment expenditure is expected to continue to make a strong contribution to growth, albeit at a diminished pace, supported by continued favourable financing conditions. Real interest rates, while rising, remain below their historical averages and bank credit has

expanded strongly. In addition, corporate profit margins are up, corporate balance sheets have improved and capacity utilization rates have improved.

One very positive development, the report cited, was that housing investment in Germany turned up for the first time since the reunification boom, eliminating a major drag to German performance over the recent past.

Consumption is expected to slow in 2007 but will remain an important source of growth compared to previous years. Strong job creation continued and the unemployment rate for the EU-15 was 7.4 per cent in August 2006, about 1 percentage point below the previous cyclical peak. This, coupled with modest wage growth, the report said, implies a better outlook for disposable income of many households. But it added that the planned tightening of fiscal policy in the major economies will dampen prospects.

For interviews or to obtain more information, contact the Development Section of the UN Department of Public Information through Newton Kanhema, 1-212-963-5602, kanhema@un.org or Oisika Chakrabarti, 212.963.6816, chakrabarti@un.org.

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 (Economic Commission for Africa (ECA), Economic Commission for Europe (ECE), Economic Commission for Latin America and the Caribbean (ECLAC), Economic and Social Commission for Asia and the Pacific (ESCAP), and Economic and Social Commission for Western Asia (ESCWA)).

WORLD ECONOMIC SITUATION AND PROSPECTS 2007 (Sales No.E.07.II.C.2, ISBN 978-92-109153-3) from United Nations Publications, Two UN Plaza, Room DC2-853, Dept. PRES, New York, NY 10017 USA, Tel. 800-253-9646 or 1-212-963-8302, Fax. 1-212-9633489; E-mail:publications@un.org; or Section des Ventes et Commercialisation, Bureau E-4, CH-1211, Geneva-10, Switzerland, Tel, 41-22-917-2614, Fax. 41-22-917-0027, E-mail:unpubli@unog.ch; Internet: <http://www.un.org/publications>.