

Economic growth in Europe will remain subdued in 2017 and 2018: UN report

Domestic demand and intra-European trade will support economic activity amid a challenging international environment

Geneva, 17 January – Economic activity in Europe will expand at a subdued pace in 2017 and 2018, as the global economy continues to be trapped in a prolonged period of slow growth, according to the United Nations World Economic Situation and Prospects (WESP) 2017 Report released today.

The report shows that world gross product grew by just 2.2 per cent in 2016, marking its slowest pace of expansion since the Great Recession of 2009. Global growth is projected to see a moderate improvement to 2.7 per cent in 2017 and 2.9 per cent in 2018, but this is more an indication of economic stabilization than a signal of a robust revival of global demand.

Against this backdrop, economic growth in the European Union (EU) is expected to hover around 1.8 per cent in the period from 2016 to 2018. This implies a downward revision compared to the previous forecast, primarily due to the negative impact from the “Brexit” vote.

Drivers of growth in Europe

The report notes that on the upside, domestic demand will continue to support growth in Europe, as low inflation rates and improved labour market conditions in several of the larger economies bolster private consumption, while the highly accommodative monetary policy stance provides some support for business investment.

Thus far, the external sector has weathered the restrained global growth environment better than expected, largely owing to more solid intra-European trade. The Brexit vote and political instability in Turkey have so far had only a limited negative impact on export demand. In the outlook period, export demand is expected to remain resilient, with solid private consumption underpinning intra-European trade and countries benefiting from competitive exchange rates. However, a strong export performance appears unlikely given continued economic weakness in Brazil and the Russian Federation, as well as the growth slowdown in China.

A number of factors will continue to prevent a more vibrant economic revival across the region. These include uncertainties stemming from Brexit, which has already dented business investment in some key sectors in the United Kingdom and its major European trading partners. Depressed levels of investment in the commodity sectors, notably oil, continue to pose a challenge for exporters of investment goods, such as plants and machinery.

High public and private debt levels continue to constrain investment in several countries, while lingering balance sheet problems in the banking sector are impeding effective financial intermediation. In the most crisis-affected countries, unemployment still remains high, with negative effects on overall growth.

The Brexit vote entails significant uncertainty to the outlook

The report cautions that there are significant risks to the global and the regional outlook. Among other issues, the report highlights the high degree of uncertainty in the international policy environment and elevated foreign currency-denominated debt levels as key downside risks that may derail global growth.

For Europe, a potential fallout from Brexit poses a key risk to the growth outlook. The British pound has already depreciated sharply, benefiting exporters but also showing the high level of risk moving forward. For many companies that have invested in the United Kingdom, access to the single EU market has been a major business advantage, but the Brexit vote has upended the institutional framework for business decisions. The report identifies a worsening of banking sector fragilities, a recurrence of the debt crisis in Greece and policy uncertainty associated with forthcoming elections in a few countries as additional risks faced by the region.

About the report: *The World Economic Situation and Prospects report is the UN's flagship publication on expected trends in the global economy. The WESP is produced annually by the UN Department of Economic and Social Affairs (UN/DESA), the UN Conference on Trade and Development (UNCTAD), the five UN regional commissions and the World Tourism Organisation (UNWTO). The report is available from <http://bit.ly/WESP>.*

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