

Europe is the driving force behind world trade growth, says UN report

However, the CIS region moves from sluggish growth to outright contraction

Geneva, 20 January – Economic prospects in the European Union and South-Eastern Europe have generally improved despite a slowdown in the world economy in 2015, according to the United Nations World Economic Situation and Prospects 2016 report, launched today.

The gains in the European Union and South-Eastern Europe reflect a more supportive policy environment accompanied by a boost to real incomes from the decline in energy prices.

By contrast, economic activity in the Commonwealth of Independent States (CIS) area contracted sharply in 2015, as the region suffered from a deterioration in the terms of trade, precarious access to external finance and high levels of uncertainty.

European Union fuels world trade

The European Union is now the driving force behind world trade growth, supported by the high level of intraregional trade and also by competitiveness gains relative to the United States. Gross Domestic Product (GDP) growth in the EU-15 is expected to accelerate from 1.8 per cent in 2015 to 2.0 per cent in 2016 and 2.1 per cent in 2017. The economic performance of Austria, Finland, France and Italy has lagged behind other EU-15 members, partly reflecting the overhang of bank fragility related to the financial crisis. Existing fragilities have been accentuated by exposure to the Russian Federation.

Most of the new EU members also maintained their economic momentum in 2015, but growth may ease in some countries in 2016 as the EU funding that supported investment last year moderates. The Russian food import ban has led to an oversupply in some new EU members, putting downward pressure on food prices. In conjunction with the lower energy prices, this drove annual inflation into a negative territory in several countries.

South-Eastern Europe improves economic activity with low oil prices

Economic activity in South-Eastern Europe also picked up in 2015 and is expected to accelerate further to 2.6 per cent in 2016 and 3.0 per cent in 2017. The region has benefited from low energy prices and accelerating growth in the EU. The economic recovery supported job creation, although unemployment levels remain very high. Youth employment is a particularly acute problem. High unemployment is accompanied by low activity rates, which limits growth potential.

South-Eastern Europe will mostly continue to benefit from low oil prices but, given its reliance on external financing, could suffer from a tightening of global financial conditions.

The high levels of non-performing loans need to be addressed to reduce financial fragility and facilitate credit growth.

Recession in Russia has significant regional spillovers

The recession in the Russian Federation had a depressing influence throughout the region. Remittances from the Russian Federation fell by nearly 50 per cent in dollar terms, while reduced export and investment demand also adversely affected the economies of the CIS and Georgia. Output declines were also observed in other large economies, including Belarus and Ukraine. The aggregate GDP of the CIS and Georgia is estimated to have contracted by about 3.0 per cent in 2015. A return to growth is expected in 2016, but the recovery will be limited, with GDP increasing by about 0.7 per cent in 2016 and 1.8 per cent in 2017. According to the report, the Russian economy will stagnate in 2016, before returning to a modest growth of 1.2 per cent in 2017.

Sharp economic contraction in Ukraine also to be followed by zero growth in 2016

In Ukraine, the destruction of productive capacity due to the conflict in the East of the country and the precarious access to the Russian market led to a sharp fall of exports. However, with imports plummeting, net external demand partly offset the contraction of domestic demand—consumption, in particular. Unemployment, which increased sharply throughout 2014, continued to climb higher. Higher gas prices added to headline inflation, which was expected to average about 50 per cent in 2015. The economy is expected to shrink by 10.5 per cent in 2015, post a zero growth in 2016 and to expand by a mere 2.1 per cent in 2017.

In contrast to the EU, inflation rose throughout the CIS and Georgia, driven by the sharp depreciation of national currencies. Persistent fragilities in the banking systems have been exacerbated by the weakening of exchange rates in countries with highly dollarized financial systems. In many countries, currency interventions to reduce exchange-rate pressures have depleted foreign-exchange reserves.

Macroeconomic effects of European migrant crisis likely to be modest

Europe's migrant crisis has created challenges within the region, as any disruptions in the free flow of goods between countries can curb growth prospects. Many countries also face higher fiscal expenditures, although the macroeconomic impact of Germany's additional outlays related to the influx of more than 1 million refugees and migrants is expected to be relatively modest.

About the report: *The World Economic Situation and Prospects report 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>.*

Media contacts:

Francyne Harrigan, UN Department of Public Information, harriganf@un.org, +1 917 367 5414

Sok-Min Seo, UN Department of Public Information, seo1@un.org, +1 212 963 1841