

Europe: Robust growth ahead, with numerous downside risks

Risks include increased trade tensions, a shift in policy stance, and Brexit

Geneva, 21 January – The global economy will continue to grow at a steady pace of around 3 percent in 2019 and 2020 amid signs that global growth has peaked. However, a worrisome combination of development challenges could further undermine growth, according to the United Nations World Economic Situation and Prospects (WESP) 2019, which was launched today.

UN Secretary-General António Guterres cautioned “While global economic indicators remain largely favourable, they do not tell the whole story.” The World Economic Situation and Prospects 2019, he said, “raises concerns over the sustainability of global economic growth in the face of rising financial, social and environmental challenges.”

Growth prospects in Europe

Europe will continue to see robust growth of 2.0 per cent in both 2019 and 2020, driven mainly by solid household consumption propelled by lower unemployment, rising wages and the continued stimulating monetary policy stance. On the business side, companies, especially in the construction sector, also continue to benefit from the expansionary monetary policy stance.

The overall regional growth profile traces the performance of the largest economies in the region. In Germany, growth will remain at a slightly more moderate level of 1.8 per cent in 2019 and 2020, as the external environment is becoming less supportive. The important car industry is facing disruption and pressure through new technologies, new competitors and significant legal and financial consequences from past sales practices related to the diesel technology. By contrast, private consumption remains a major driver of growth, given a strong employment picture that is increasingly feeding through to higher wages.

Similarly, France is also expected to see growth of 1.8 per cent in 2019 and 2020 due to a weaker outlook for exports. The lowest growth rate in the region is expected in Italy, where the economy is forecast to expand by just 1.2 per cent and 1.0 per cent in 2019 and 2020, respectively. This is due to a generally weakening external environment, combined with significant constraints on private consumption in view of political uncertainty, the fragility of the banking system, and only limited growth in employment and wages.

In the United Kingdom, economic growth is projected at 1.4 per cent in 2019 and 1.7 per cent in 2020. The uncertainty related to the exit from the European Union (EU) remains a major drag on the economy, with firms taking precautions against a hard exit without a clear agreement on future trade relations.

Those members of the EU that joined the Union since 2004 have sustained the buoyant economic dynamism from 2017, with GDP growth often exceeding earlier forecasts. The aggregate GDP of these countries has expanded by 4.2 per cent in 2018, well above the EU average. In Poland, the largest economy in the group,

growth is estimated at 5.0 per cent for 2018. Export performance of the Eastern European industrial sector remains one of the key growth drivers. Output of the automotive industry, after reaching record highs in 2017, remained strong, and the sector is attracting massive new investments despite rising wage costs. Private consumption, boosted by tight labour markets, a surge in nominal wages, and mostly loose monetary policy, has also notably contributed to growth, becoming the main engine of the Polish economy. However, economic activity in the group is expected to moderate in 2019–2020 as global trade tensions may negatively affect exports, and the consumption boom should slow in response to inflation.

Risks and policy challenges

The world economy is faced with a confluence of risks with the potential to severely disrupt economic activity and inflict significant damage on longer-term development prospects. These risks include waning support for multilateral approaches; the escalation of trade policy disputes; financial instabilities linked to elevated levels of debt; and rising climate risks, as the world experiences an increasing number of extreme weather events.

The risk profile of the outlook for Europe has markedly changed. Numerous countries in the region are experiencing a decelerating growth trend, which is one symptom of the uncertainty created by the increase in global trade tensions. Also, the European Central Bank faces the challenge of exiting its stimulating policy stance, which could have major ramifications along the way, such as heightened financial market volatility. In the area of fiscal policy, the euro area will be faced with the unresolved problem of how to achieve and maintain a common policy stance in the absence, at least so far, of a more institutionalized policy framework. Tensions have arisen over the restrictions on fiscal policy imposed by EU policy guidelines.

Finally, the uncertainty created by Brexit has already led to increased tangible economic consequences, such as companies moving assets or diverting investment from the United Kingdom to the EU. In the case of a disorderly exit from the EU, the British economy runs the risk of even more domestic disruptions because of the lack of a broad legal framework for its future trade relations with the EU, while the European financial sector could face severe disruption.

For more information, please visit: www.un.org/development/desa/dpad/wesp-report

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