United Nations

Press Release
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Economic growth in Europe to slow sharply amid high inflation and rising interest rates, according to UN flagship report

Several economies may face a mild recession in 2023 even as risk of energy shortages this winter declines

Geneva, 25 January – The protracted war in Ukraine, elevated inflation and tighter monetary policies will weigh heavily on Europe's economies this year, but growth is forecast to pick up in 2024 as some of the current headwinds subside, according to the **United Nations World Economic Situation and Prospects (WESP) 2023**, launched today.

The report presents a a gloomy and uncertain near-term outlook for world economy, which has been battered by a series of severe and mutually reinforcing shocks. Global growth is projected at only 1.9 per cent in 2023, down from 3 per cent last year and one of the lowest rates in recent decades. The world economy is expected to strengthen in 2024, with growth forecast at 2.7 per cent. But this is highly dependent on the pace and sequence of further monetary tightening, the course and consequences of the war in Ukraine, and the possibility of further supply-chain disruptions.

The tepid global economic prospects also threaten the achievement of the 17 Sustainable Development Goals (SDGs), when the 2023 SDG Summit in September marks the mid-point of the implementation of the 2030 Agenda.

"This is not the time for short-term thinking or knee-jerk fiscal austerity that exacerbates inequality, increases suffering and could put the SDGs farther out of reach. These unprecedented times demand unprecedented action," said António Guterres, United Nations Secretary-General. "This action includes a transformative SDG stimulus package, generated through the collective and concerted efforts of all stakeholders," he added.

Recession risk looming for several European countries

Economic output in the European Union is expected to grow by only 0.2 per cent in 2023 as the region battles an energy and cost-of-living crisis that was aggravated by the war in Ukraine. This year's sharp slowdown comes after a surprisingly strong expansion of 3.3 per cent in 2022, when further relaxation of COVID-19 mobility restrictions and pent-up demand boosted spending on contact-intensive services even as inflation soared. In 2024, growth is forecast to accelerate to 1.6 per cent on the back of stronger internal demand and a more benign global environment.

Due to a milder-than-normal winter, increased LNG supplies and success in reducing energy demand, the region will likely avoid the worst-case scenario of widespread energy shortages and disruptions to industrial activities. But many European countries — including Germany, Italy, and the United Kingdom — are still facing the threat of a mild recession this year as consumers and businesses are grappling with rapidly rising prices, higher interest rates and elevated uncertainties. The current crisis is derailing growth at a time when several European economies are yet to recover their pre-COVID-19 output level. In the third quarter of 2022, GDP was 2.6 per cent above the pre-COVID-19 level in the European Union, but 0.4 per cent below in the United Kingdom and 2 per cent below in Spain.

Easing inflation will allow central banks to slow the pace of rate hikes

With energy prices declining and demand weakening, inflation is expected to slowly ease, but will remain well above central banks' targets in the near term. In the European Union, consumer price inflation is forecast to average 6.6 per cent in 2023, down from a multi-decade high of 8.6 per cent last year. Moderating inflationary pressures will allow the European Central Bank and other monetary authorities in the region to slow the pace of interest rate hikes and eventually bring them to a halt.

Labour markets remain a bright spot

Amid deteriorating near-term economic prospects, labour markets have remained a bright spot across much of Europe. In many countries, unemployment is at a record-low, while employment and job vacancy rates are at record-highs. Several sectors, including construction, information and communication, and food and accommodation, continue to suffer from severe labour shortages. Labour markets will likely show resilience, with average unemployment expected to increase only slightly in 2023.

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The full report will be available on 25 January, 12:00 pm EST at:
https://desapublications.un.org/

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