

Taking Europe's pulse



THE European recovery remains intact but got off to a disappointing start in the first three months of 2014, when GDP rose by just 0.3% across the 28-strong European Union and a still poorer 0.2% across the 18-state euro area, according to figures from Eurostat on May 15th. Forecasts in early May from the European Commission had already suggested that the recovery would be modest this year but gather momentum in 2015. GDP in the EU will expand by 1.6% this year and 2.0% in 2015. Euro-wide GDP will rise by 1.2% in 2014 and 1.7% in 2015. This year's growth will be too feeble to counter worryingly low inflation, prompting further monetary stimulus from the European Central Bank.

Easily the worst performer this year will be Cyprus, whose national output will continue to tumble, by 4.8%. All other countries in the euro zone are expected to expand, with Finland growing the slowest, by

only 0.2%. The only other country going backwards in the EU will be Croatia, whose entry to the EU in the middle of last year has got off to a rocky economic start, with GDP contracting in 2013 by 1% and expected to fall again this year, by 0.6%.

In contrast with these sluggards, two small Baltic states, one inside the euro area and one outside it, will come first and second in the EU league table in both years. Latvia, which adopted the single currency at the start of this year, will grow by 3.8% in 2014 and 4.1% in 2015. Lithuania, which is expected to join the euro area next year, will grow by 3.3% in 2014 and 3.7% in 2015. These forecasts may turn out to be too rosy if the Ukraine crisis continues to intensify, which is likely to have particularly adverse economic effects on the Baltic countries.

The main impetus behind the euro zone's recovery this year will be Germany, which makes up nearly 30% of the currency club's collective output, and which is predicted to grow by 1.8%. The strengthening of the upturn in 2015 comes as the other three big economies, France, Italy and Spain, do better though growth in both France and Italy will still be below the euro-zone average of 1.7%. Outside the euro area, Britain is now experiencing a robust recovery and GDP will expand by 2.7% in 2014 and 2.5% in 2015.

The euro-zone recovery will not be strong enough this year to make much of a dent on unemployment, forecast to fall from 12.0% last year to 11.8% in 2014 though it will drop more in 2015, to 11.4%. That labour-market slack will be one of several factors keeping inflation low though the euro area is expected to dodge outright deflation. Instead inflation will fall from 1.3% in 2013 to 0.8% this year, rising to 1.2% in 2015.
