World Bank: Europes Recovery Is Strengthening, albeit Slowly and with Significant Risks

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To make the recovery sustainable, Europe needs to continue reforms to promote exports and investment, create jobs, and protect the vulnerable
Economic growth is expected to continue to pick up across Europe, from zero in 2013 and 1.3 percent in 2014, to 1.8 percent and 2.0 percent in 2015 and 2016 respectively. Central and eastern European countries (EU-CEE) will continue to grow above the European average, with growth expanding over 2.4 percent in 2015, based on robust consumer demand, the gradual return of investment, and continued export growth, says the new World Bank EU Regular Economic Report launched today in Brussels.
The pick-up in 2014 was particularly strong in Germany, Hungary, Ireland, Poland, and the United Kingdom, while southern European countries finally returned to growth following significant financial and economic restructuring, and despite growing concerns about financial strains in Greece and generally weak global trade.
"Exports have been the main driver of growth in many EU-CEE countries, such as Poland, Bulgaria, and Romania," said Mamta Murthi, World Bank Country Director for Central Europe and the Baltic Countries. "That has been partly due to foreign direct investment (FDI) helping countries integrate into global value chains and push exports. However, as FDI has declined following the crisis, there is greater need for countries to focus on improving business environments, developing skills, encouraging innovation, investing in infrastructure, and reducing regulatory barriers to encourage renewed FDI and export growth."
According to the report, strengthening economic growth and improvements at the labor market will help to limit the share of people at risk of poverty and social exclusion. Since 2008, the EU-CEE share of people at risk of poverty increased to over 23 percent, as slower growth resulted in job losses, especially among the young and less skilled, pushing them below the poverty line. Going forward, the report says that economic recovery and reduction in unemployment rates, along with increased fiscal space for social expenditures in some EU-CEE countries, will lead to the gradual decline in poverty.
While the growth outlook for Europe is moderately optimistic, fueled by the one-off fall in oil prices and ECB quantitative easing, the report says that several risks need to be carefully managed, including: (1) the potential increase in financial market volatility as the US and EU implement divergent monetary policy; (2) fresh pressure on public finances from the combination of low inflation and modest growth; (3) the limited availability of new lending for investment, due to low returns and incomplete bank reforms; and (4) the potentially negative impact on confidence stemming from ongoing financial strains in Greece or ongoing geopolitical tensions in Ukraine.
According to Theo Thomas, Lead Economist in the World Banks Europe and Central Asia region and Team Leader of the EU RER, "The medium and long term challenge in many countries is to shift policy from fiscal and macroeconomic adjustment towards structural measures to promote growth and competitiveness. Structural reforms include continuing to reduce labor market rigidities, enhancing the business environment, reducing barriers to trade (including in services within the EU), and promoting the skills needed for dynamic job creation and innovation. This will need to be combined with affordable social policies that help to protect the most vulnerable, while promoting greater social and labor market inclusion."

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