

EU cuts economic growth forecasts

Growth forecasts for world's largest economy, the European Union (EU), were Monday cut by about half a percentage point to 2 percent this year and 1.8 percent in 2009, according to latest estimates by the European Commission.

Gross domestic product (GDP) growth forecasts for the 15-member euro area were similarly cut to 1.7 and 1.5 percent respectively.

EU GDP rose by 2.8 percent in 2007, while euro area GDP increased by 2.6 percent in the same year. And the EU executive had issued more positive estimates for 2008 in its autumn forecast.

The commission Monday blamed the European slowdown on the persistent turmoil on the financial markets, soaring commodity prices and the poor performance of its main trading partner, the United States.

'Economic growth is moderating in the EU and euro area and the current, imported inflationary pressures are a matter of concern,' said EU Economic and Monetary Affairs Commissioner Joaquin Almunia in presenting his spring economic forecasts.

Average inflation, which had remained just above the 2 percent mark since 2004, was predicted to peak in 2008 to 3.6 percent in the EU and 3.2 percent in the eurozone before returning to more traditional levels in 2009.

'Whilst our economies have proved resilient to the external shocks so far, and we expect continued, albeit slower, job creation, we need to stick to sound macro-economic policies and carefully avoid starting an inflation spiral that would particularly affect low income families,' Almunia said.

The EU's latest figures, which were broadly in line with its February interim forecasts, were not entirely negative, however.

For instance, the EU's largest economy, Germany, was predicted to grow by 1.8 percent this year and by 1.5 percent the next.

This is more optimistic than the German government's own forecasts of 1.7 and 1.2 percent respectively.

And officials in Brussels said that despite the slowdown, the EU economy remained 'in a relatively good position to weather the global headwinds' thanks to sound fundamentals.

Both its average public deficit and current account position, for instance, were below 1 per cent of GDP in 2007, while the unemployment rate was expected to drop from 7.1 per cent last year to 6.8 percent this year.

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