# Recovery of the Western economies to remain slow in 2013

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After a slowing of growth in 2012, growth in the global economy will pick up slightly next year. The recovery from the recession in 2008/2009 will however be extremely slow in Europe, the US and also Japan. The Dutch economy is expected to contract by 0.5% this year and recover slightly in 2013, with GDP growth of 0.5%. These are the views of the economists at Rabobank published in the September edition of the Economic Quarterly Report.

**Dutch economy still ailing**

Despite two quarters of mild growth, the Dutch economy has not yet managed to get itself out of the mire. The country faces rising unemployment, falling consumption, falling house prices and a lack of investment by businesses. The coming months will be decisive in several respects. Not only is there the continuing uncertainty surrounding the European debt crisis, within the Netherlands the upcoming elections and subsequent coalition negotiations, which are expected to be lengthy, will be the determining factors for policy in the next few years. The economic recovery is expected to progress with difficulty in the next quarters, accompanied by the necessary downside risks in the form of potential new developments in the European debt crisis.

**Global economic growth to accelerate mildly in 2013**

Many economies around the world slowed in the second quarter of 2012 compared to the first quarter. Sentiment indicators as yet show no sign of an improvement. After expected growth in global GDP volume of 3.25% in 2012, the Rabobank economists are forecasting only a slight acceleration for next year to 3.75%. Once again, it will be the emerging economies that will achieve relatively rapid growth and moreover will have potential for economic stimulus. Since the second half of 2011 they have mainly pursued this goal by means of monetary policy, but whether this will be enough to achieve their growth targets is debatable. In many of these countries, concerns of overheating are still on policymakers' minds, and thus they will not so readily re-embrace a policy of budgetary stimulus. Economic performance in the emerging markets will therefore also be disappointing in the next few quarters.

**Europe still self-absorbed**

The focus of attention in Europe will be mainly on the European Central Bank (ECB) in the near term. The conditional commitment of President Draghi that the ECB will purchase peripheral government bonds if a country receives financial support from the European bailout funds has increased the chance that Spain will receive effective financial support. But how effective this will be in restoring calm to the financial markets remains uncertain. European policymakers will continue to take measures to avert the crisis, but a recovery in consumer and producer confidence, which has been seriously damaged, is unlikely any time soon. For now, their cautiousness will indeed continue to be fed by factors including the uncertainty regarding financial support for Spain and Greece. Combined with the continuing climate of austerity, domestic spending in the eurozone is expected to contract further in the second half of 2012.

The expected acceleration in the global economic growth in 2013 can provide some degree of support to economic recovery in the eurozone. The further weakening in the trade-weighted exchange rate of the euro since last spring can offer a further boost. The euro is expected to strengthen again over time once progress is made on solving the euro crisis, so this positive effect on trade will only be temporary. The extent to which the rest of the world can help to stimulate the

European economy is limited. The most important determining factor for growth therefore remains in the hands of the European policymakers themselves.

The expected growth in Germany and the easing of the decline in GDP in many peripheral member states will probably lead to a return to GDP growth in real terms for the eurozone as a whole next year. A very moderate recovery with growth that is still well below potential is however the best that can be achieved.

**Focus: How can Greece increase its price competitiveness?**

The Focus in the new Economic Quarterly Report describes three ways in which Greece could increase its price competitiveness based on experiences in other countries. The Argentine scenario of exit from the eurozone is fraught with risks and uncertainties. Achieving a Latvia-style improvement within the eurozone would appear to be extremely painful for the Greek economy and its citizens, reducing the chance of a successful outcome. Political support for the East German example of a transfer union appears to be lacking. The most feasible option seems to be a middle course in the form of an internal devaluation (Latvia) combined with further restructuring of the Greek debt burden and deeper political integration (East Germany). Success in improving Greece's price competitiveness also depends on the policy pursued by other countries. Higher spending and a slightly higher inflation figure in the northern eurozone countries could make it easier for Greece to adjust its relative prices.