BRUSSELS—The European Union slashed its growth forecast for the coming year and said it can’t exclude the possibility of a "deep and prolonged recession."

The European Commission, the EU’s executive arm, said Thursday in its semiannual forecast that the 27-nation bloc’s economy is struggling amid weak confidence, financial turmoil, government austerity packages and slowdowns in Europe’s main trading partners.

The EU’s gross domestic product, adjusted for inflation, is expected to grow just 0.6% in 2012, the commission said, sharply down from its forecast only six months ago of 1.9%.

The commission’s forecast for the 17-nation euro zone is 0.5% growth in 2012, also short of the May outlook for 1.8% growth. Since May, the euro-zone sovereign-debt crisis has intensified, undermining investment and consumer confidence, the commission said. Austerity packages have suppressed growth across the bloc. Domestic private-sector demand, which economists had hoped would drive recovery, has failed to pick up the slack.

"The probability of a more protracted period of stagnation is high," said Marco Buti, head of the commission’s economics division. "Given the unusually high uncertainty around key policy decisions, a deep and prolonged recession complemented by continued market turmoil cannot be excluded."

At a news conference Thursday, EU Economics Commissioner Olli Rehn noted a major caveat to the commission’s outlook: "This forecast rests on the policy assumption that effective measures against the sovereign-debt crisis will lead to a gradual return of confidence." That outcome is still in doubt, as euro-zone governments are searching for a way to backstop Italy by leveraging the bloc’s rescue fund.

The commission’s forecast for unemployment is also grim. Joblessness across the bloc is expected to increase slightly next year, to 10.1% from 10% in 2011, the forecast says. The EU’s spring forecast predicted unemployment would fall to 9.7% in 2012.

Growth won’t be strong enough in coming years to make a difference in the labor market, Mr. Rehn said. "Employment growth in 2013 is therefore projected to remain relatively..."
meager," he said. "As a result, unemployment is not expected to fall in the EU over the forecast horizon."

The commission expects already broad disparities between member countries to widen next year. The German economy is expected to expand 2.9% this year and 0.8% in 2012, with Germany's unemployment rate falling to 5.9% next year, the commission said.

At the other end of the spectrum, the Portuguese economy is forecast to contract 3% next year, with an unemployment rate of nearly 14%. The Greek economy is expected to shrink 5.5% this year and 2.8% next year. The country's unemployment rate is seen jumping next year to 18.4%, significantly above the commission's previous forecast of 15.3%.

Italy's problems are expected to continue, with growth predicted at 0.1%, down sharply from the spring forecast of 1.3%. That will make Italy's large debt burden, now the biggest threat to the euro, more difficult for the government to finance.

The commission sees France growing at 0.6% next year and unemployment inching up to 10%. But those figures don't include the French government's recently proposed austerity measures, which are likely to slow growth and raise the unemployment rate.

Despite the wave of austerity sweeping Europe, public debt as a percentage of GDP is expected to peak in 2013 at 90.9% of GDP. Greek debt is expected to soar to 198% of GDP next year. Six months ago, forecasters had predicted Greek debt at 166% of GDP.

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