

## 1.4. International environment: Recent developments and prospects of the global economic activity

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*The growth rate of the global economy is expected to slow significantly in 2019. Growth deceleration is clearly evident in advanced countries. On the contrary, most developing and emerging economies appear to maintain growth momentum. Meanwhile, protectionist tensions continue to weigh down on global trade activity.*

### 1.4.1. Trends and developments in the global economy

#### *Economic activity*

Although economic expansion remains robust in major economies (the US, India and China), global GDP growth rates appear to follow a downward trend. To some extent, the slowdown of the global economy reflects the increased tensions in US-China trade relations, the economic recessions in Argentina and Turkey, the deterioration of the business climate in major manufacturing sectors, weak investment rates, and the high uncertainty that prevails among households, firms and international investors.

Overall, the annual growth rate of global GDP is projected to decline by 0.3 percentage points this year before returning to 2018 levels in 2020 (see Table 1.4.1). However, global GDP growth might slow further than expected as the balance of risks continues to be on the downside. Negative risks include an escalation of geopolitical tensions, rising trade protectionism, an abrupt slowdown of the Chinese economy, a no-deal Brexit, and the financial vulnerability of highly indebted states (European Commission, 2019; IMF, 2019; OECD, 2019; UN, 2019).

#### *Inflation and unemployment*

Advanced economies have been experiencing a lengthy period of low inflation rates. Over the course of 2019, inflation is set to slow further, by 0.4 percentage points on average, reflecting weak economic activity

and low increases of energy products and other commodities prices (see Table 1.4.2). The average inflation rate is expected to return to 2018 levels by 2020. With low inflation expectations and actual inflation lying below central bank targets, monetary policy is expected to remain supportive.

In most developing and emerging economies, inflationary pressures remain contained. An exception to this general pattern is formed by recent inflation hikes in Argentina and Turkey as both countries experienced strong currency devaluations (OECD, 2019). Looking ahead, inflation rates in developing and emerging economies are projected to register only marginal changes (see Table 1.4.2).

Regarding employment, the International Labor Organization (ILO) projects that the rate of global unemployment will register a marginal decrease this year and settle at 4.9% (see Table 1.4.3). This indicates that a very large majority of the world's workforce enjoys employment status. In absolute terms, however, the same figure suggests that 173.6 million people around the world who are looking for employment opportunities cannot find a job. Moreover, according to ILO estimates, job quality characteristics and rewards differ a lot, both within and across countries. The most striking difference is related to wage discrepancies, with one in four workers across the globe living in extreme or moderate poverty (ILO, 2019).

In the advanced world, labor market conditions show signs of improvement as both employment rates and wages are on the rise (OECD, 2019). Nevertheless, for countries suffering double-digit unemployment rates like Greece, Italy and Spain, the current job-creation rates are highly unlikely to bring unemployment to a tolerable level within the next two years.

### 1.4.2. Economic developments across the globe

#### *Advanced economies*

Over the current and the next year, the average rate of economic growth in developed economies is expected to decline to 1.8% (see Table 1.4.1). According to the IMF, this decline explains two-thirds of the slowdown in global economic expansion. With the reduction of production gaps and with many developed economies running very close to their production potential, it is estimated that actual economic growth will keep up with the milder growth rates of potential GDP in the medium term.

**TABLE 1.4.1 Real Gross Domestic Product<sup>1,2</sup>**  
(annual percentage changes)

	2018*				2019**				2020**			
	IMF	EC	OECD	UN	IMF	EC	OECD	UN	IMF	EC	OECD	UN
World economy	3.6	3.6	3.5	3.6	3.3	3.2	3.2	3.3	3.6	3.5	3.4	3.6
Advanced economies	2.2	:	:	2.2	1.8	:	:	1.8	1.7	:	:	1.8
USA	2.9	2.9	2.9	2.9	2.3	2.4	2.8	2.3	1.9	1.9	2.3	2.1
Euro Area	1.8	1.9	1.8	1.8	1.3	1.2	1.2	1.4	1.5	1.5	1.4	1.6
Japan	0.8	0.8	0.8	0.8	1.0	0.8	0.7	0.8	0.5	0.6	0.6	1.0
United Kingdom	1.4	1.4	1.4	:	1.2	1.3	1.2	:	1.4	1.3	1.0	:
Developing economies	4.5	:	:	4.3	4.4	:	:	4.1	4.8	:	:	4.5
Brazil	1.1	1.1	1.1	1.1	2.1	1.9	1.4	1.7	2.5	2.4	2.3	2.3
Russia	2.3	2.3	2.3	2.3	1.6	1.5	1.4	1.4	1.7	1.8	2.1	2.0
India	7.1	7.4	7.0	7.2	7.3	7.1	7.2	7.0	7.5	7.3	7.4	7.1
China	6.6	6.6	6.6	6.6	6.3	6.2	6.2	6.3	6.1	6.0	6.0	6.2

Sources: IMF, World Economic Outlook Update, April 2019; OECD, OECD Economic Outlook, May 2019 (Preliminary version); European Commission, European Economic Forecast, Spring 2019; United Nations, World Economic Situation and Prospects as of mid-2019.

\* Estimations, \*\* Projections.

Notes: 1. The observed differences between the available macroeconomic projections partly reflect the differences between the macro-econometric models and the data used by each international organization.

2. The sub-group of emerging economies is included in the group of developing economies.

**TABLE 1.4.2 Inflation<sup>1</sup>**  
(annual percentage changes)

	2018			2019*			2020*		
	IMF	EC	OECD	IMF	EC	OECD	IMF	EC	OECD
<b>Advanced economies</b>	2.0	:	:	1.6	:	:	2.1	:	:
USA	2.4	2.4	2.0**	2.0	2.0	1.4**	2.7	2.0	2.1**
Euro Area	1.8	1.8	1.8	1.3	1.4	1.2	1.6	1.4	1.5
Japan	1.0	1.0	1.0	1.1	0.7	0.8	1.5	0.9	1.5
United Kingdom	2.5	2.5	2.5	1.8	2.0	1.7	2.0	2.1	1.9
<b>Developing economies</b>	4.8	:	:	4.9	:	:	4.7	:	:
Brazil	3.7	:	3.7	3.6	:	3.9	4.1	:	4.0
Russia	2.9	2.9	:	5.0	5.2	:	4.5	4.0	:
India	3.5	:	3.4	3.9	:	3.2	4.2	:	4.2
China	2.1	2.4	1.9	2.3	2.0	1.9	2.5	2.0	2.1

Sources: IMF, *World Economic Outlook Update*, April 2019; OECD, *OECD Economic Outlook*, May 2019 (Preliminary version); European Commission, *European Economic Forecast*, Spring 2019.

\* Projections.

\*\* Personal consumption expenditure deflator.

Note: 1. The sub-group of emerging economies is included in the group of developing economies.

**USA:** GDP growth in the US is expected to moderate in 2019 and 2020, moving around 2.4% and 2%, respectively (see Table 1.4.1). This decline reflects the negative effects of increased tariffs and the overall tension that has recently prevailed in US-China economic relations. The gradually fading effects of expansionary fiscal policy and the closure of Central Government core services for five full weeks toward the end of last year have played a negative role as well. Nevertheless, domestic demand remains strong thanks to the high employment rates and the favorable financing conditions that prevail domestically.

**Eurozone:** Under the burden of a series of external and internal factors, economic activity in the euro area is expected to slow significantly, with economic growth falling to 1.3% in 2019 (see Table 1.4.1). Although the decline in growth rates is widespread across Member States,<sup>1</sup> the slowdown in Germany (due to the fall in the automotive industry and other key manufacturing sectors), Italy (due to the weaken-

ing of domestic demand and the uncertainty caused by the country's fiscal position) and France (due to the risk of the recurrence and escalation of social tensions) is a particularly worrisome problem. For 2020, it is estimated that the rate of economic growth in the euro area will recover and settle at 1.5%. Next year's economic expansion is expected to receive support from a number of factors including: (a) the revival of international trade, (b) the improved labor market, (c) the maintenance of favorable financing conditions for households and businesses, and (d) a slightly expansionary fiscal policy.

**Japan:** Japan's economic growth is expected to remain sluggish and settle at 0.8% in 2019. The list of factors behind Japan's anemic economic performance includes weak external and domestic demand as well as low incentives for investment in the manufacturing sector. The planned tight budgetary policy for 2020 is expected to lead to a further slowdown of the economy, with the growth rate of GDP falling to 0.5%.

1. The only exception is Greece, which, according to the IMF, the OECD and the European Commission, is projected to enjoy a higher growth rate in 2019.

TABLE 1.4.3 Annual unemployment rates

	2018*					2019**					2020**				
	IMF	EC	OECD	ILO		IMF	EC	OECD	ILO		IMF	EC	OECD	ILO	
World economy	:	:	:	5.0	:	:	:	:	4.9	:	:	:	:	4.9	:
USA	3.9	3.9	3.9	3.9	3.8	3.8	3.7	3.9	3.7	3.7	3.7	3.7	3.6	4.0	
Euro Area	8.2	8.2	8.2	:	8.0	7.7	7.9	:	7.7	7.3	7.3	7.7		:	
Japan	2.4	2.4	2.4	2.4	2.4	2.3	2.4	2.4	2.4	2.2	2.2	2.4	2.4	2.3	
United Kingdom	4.1	4.0	4.1	:	4.2	4.1	3.9	:	4.4	4.2	4.2	3.9		:	
Brazil	12.3	:	:	12.5	11.4	:	:	12.2	10.2	:	:	:		11.7	
Russia	4.8	4.0	:	4.7	4.8	4.0	:	4.5	4.7	3.9	3.9	:		4.4	
China	3.8	3.8	:	:	3.8	:	:	:	3.8	:	:	:		:	

Sources: IMF, World Economic Outlook Update, April 2019; OECD, OECD Economic Outlook, May 2019 (Preliminary version); European Commission, European Economic Forecast, Spring 2019; International Labour Office, World Employment Social Outlook, Trends 2019.

\* Estimations, \*\* Projections.

**The United Kingdom:** The failure to reach a final exit agreement has triggered a period of high uncertainty. In turn, uncertainty inhibits private investment and increases the reluctance of households to spend for consumption purposes. As fiscal stimuli cannot fully offset losses stemming from internal and external demand, the economy is projected to register a further slowdown, with GDP growth falling to 1.2%.

### Developing economies

In contrast to advanced economies, most developing and emerging economies are expected to maintain their growth momentum in 2019 (see Table 1.4.1). Growth performance is set to be particularly strong in China and India. In China, support for economic activity is expected to come mainly from domestic demand that is driven by favourable policy measures. In India, the economy seems to benefit from the ongoing recovery of private investment and consumption amidst an expansionary monetary and fiscal policy (IMF, 2019). As for Brazil, its economy is expected to gain momentum in the course of the current year. On the contrary, the Russian economy is expected to slow down due to lower international oil prices, accelerated inflation and higher borrowing costs (European Commission, 2019).

### 1.4.3. World trade and commodity prices

In 2019 the expansion rate of international trade (volume of goods and services) is projected to fall by 0.4 to 1.8 percentage points (see Table 1.4.4). The factors

contributing to this slowdown include: (a) the increase of tariff protection on the part of China and the US, (b) the reduction of imports/exports of capital goods due to the weakening of investments, (c) the lower global demand for semi-conductors, and (d) the fall in demand for intermediate goods due to the anemic activity of global value chains (OECD, 2019). Provided that an escalation of trade protectionism is avoided, international trade is expected to gain momentum during the course of the coming year.

Concerning commodity prices, the current period is characterized by frequent ups and downs. This is due to the frequent fluctuations in the demand and output for the respective products, especially oil. Despite the great uncertainty that surrounds forecasts, it is estimated that the international oil price during the current and the next year will fluctuate around \$65 per barrel. As for basic metals, it is expected that prices will stabilize at their current levels.

### References

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**TABLE 1.4.4 World trade volume (annual percent changes, goods and services)**

2018*				2019**				2020**			
IMF	EC	OECD	UN	IMF	EC	OECD	UN	IMF	EC	OECD	UN
3.8	3.6	3.9	3.6	3.4	3.2	2.1	2.7	3.9	3.5	3.1	3.4

Sources: IMF, *World Economic Outlook Update*, April 2019; OECD, *OECD Economic Outlook*, May 2019 (Preliminary version); European Commission, *European Economic Forecast, Spring 2019*; United Nations, *World Economic Situation and Prospects as of mid-2019*.

\* Estimations, \*\* Projections.