

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

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Global economic activity continues to recover rapidly on the back of supportive policies and the deployment of effective vaccines against Covid-19. At the same time, the direction of economic policy as well as future developments regarding public health constitute the main sources of uncertainty.

1.5.1. Trends and developments in the global economy

Economic activity

The world economy seems to move along a path of strong recovery with global GDP already exceeding the levels recorded before the outbreak of the global health crisis. The key drivers of the global economic upturn include the deployment of effective vaccines, expansionary economic policies, and the gradual resumption of most productive sectors. (ECB, 2021; IMF, 2021; OECD, 2021).

Though the global economy is expected to grow by 6 percentage points in 2021 (see Table 1.5.1), global GDP last July was 3.5% lower than projected before

TABLE 1.5.1 Real Gross Domestic Product^{1,2}
(annual percentage changes)

	2019*		2020*		2021**		2022**	
	IMF	OECD	IMF	OECD	IMF	OECD	IMF	OECD
World economy	2.8	2.7	-3.2	-3.4	6	5.7	4.9	4.5
Advanced economies	1.6	:	-4.6	:	5.6	:	4.4	:
USA	2.2	2.2	-3.5	-3.4	7	6	4.9	3.9
Euro Area	1.3	1.3	-6.5	-6.5	4.6	5.3	4.3	4.6
Japan	0.3	0	-4.7	-4.6	2.8	2.5	3	2.1
United Kingdom	1.4	1.4	-9.8	-9.8	7	6.7	4.8	5.2
Developing economies	3.6	:	-2.1	:	6.3	:	5.2	:
Brazil	1.4	1.4	-4.1	-4.4	5.3	5.2	1.9	2.3
Russia	2	:	-3	-2.5	4.4	2.7	3.1	3.4
India	1	4	-7.3	-7.3	9.5	9.7	8.5	7.9
China	5.8	6	2.3	2.3	8.1	8.5	5.7	5.8

Sources: IMF, *World Economic Outlook, Update*, July 2021; OECD, *OECD Economic Outlook, Interim Report September 2021*.

* 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.

the pandemic (OECD, 2021). Expressed in terms of real income; this amounts to USD 4.5 trillion (in 2015 PPPs) (OECD, 2021).

The geographical distribution of the global economic recovery remains uneven (IMF, 2021). In particular, countries that have managed to effectively control the spread of the pandemic due to improved access to vaccines and countries with enough space for economic policy maneuvers register higher economic growth rates. On the contrary, a weaker recovery is recorded in financially constrained countries or in countries where the process of mass vaccination evolves at a slow pace (OECD, 2021).

Although fiscal spending is expected to moderate over the next year, global GDP is projected to rise by more than 4.5% in 2022 (see Table 1.4.1). Growth is expected to be led by stronger consumer spending that will be financed out of the large stock of accumulated savings (ECB, 2021; EC, 2021; OECD, 2021).

Inflation and Unemployment

In 2021, consumer price inflation in advanced economies and the rest of the world is projected to average 2.4% and 5.4%, respectively. This development primarily reflects the transition of the global economy from negative to positive GDP growth rates. Other factors that have added to the upward pressure on inflation include rising commodity and energy prices, higher transportation costs, and shortages of intermediate goods (EC, 2021; IMF, 2021; OECD, 2021). In 2022, the most likely scenario is that consumer prices will maintain their upward trend. Increased inflation rates are expected to be strongly influenced by rising consumer spending and slow supply adjustment to higher demand (OECD, 2021).

So far, the rise in global economic activity has not been accompanied by a corresponding increase in employment. In some countries, such as the USA, although GDP has returned to pre-crisis levels, average employment (in terms of employed persons) is lower compared to 2019. In other countries, mainly EU member-states, while excessive unemployment was prevented, total working hours remain very low. Differences in the picture of labor markets in the US and Europe partly reflect the different government choices in terms of objectives and tools for intervention in these markets. In Europe, where the main policy objective was to retain jobs, businesses were encouraged to adapt to demand fluctuations by changing employees' working hours. In the US, on the other hand, where companies responded to low demand with layoffs, re-hiring due to the changing economic climate appears to be a rather time-consuming process (OECD, 2021).

The health crisis has brought considerable insecurity and hardships (i.e., job losses, low rewards, and poverty) to certain groups of workers. Young people, women, immigrants, and low-skilled workers are identified as the most vulnerable. The situation is particularly worrisome for the low-skilled workers in low-income developing economies. According to the IMF, the total number of workers crossing the extreme poverty line due to the pandemic is expected to increase by 80 million worldwide (IMF, 2021).

1.5.2. World trade and commodity prices

The volume of global trade (goods and services) is projected to grow by 9.7% in 2021 (see Table 1.5.2). The expansion of the trade volume of global goods during the first half of the year largely owns to the

TABLE 1.5.2 World trade volume¹

	Volume of international trade - goods and services (annual percentage changes)			
	2019*	2020*	2021**	2022**
World economy	0.9	-8.3	9.7	7
Advanced economies	1.4	-9.2	8.9	7.1
Developing economies	-0.2	-6.7	11.1	6.9

Source: IMF, *World Economic Outlook, Update*, July 2021.

* Estimations, ** Projections.

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

strong demand for pandemic-related products, medical equipment, and durable goods. Despite supply bottlenecks in manufacturing, trade in manufacturing goods for consumption purposes has been on the rise since last July. As for services trade, it shows signs of gradual recovery. However, its return to pre-pandemic levels remains subject to developments on the public health front (IMF, 2021).

The rebound of global demand in combination with inventory depletion and supply-side disruptions have added considerable pressure on commodity prices. According to the OECD, commodity prices over the July-August period were 55% higher than a year earlier. International oil prices have returned to pre-crisis levels and food prices have already hit a decade high (OECD, 2021). While these price developments favour countries with a large share of exports earnings drawn from commodities, commodity price hikes may have significant detrimental growth effects on commodity importers. Beyond economic risks, rising commodity prices could possibly fuel humanitarian risks. For example, given that acute food insecurity has been on the rise since 2017, the upward trend of agricultural products prices might increase the frequency and severity of food crises in low-income developing economies.

1.5.3. Sources of uncertainty

Nearly one year and a half after the Covid-19 pandemic started, the scientific evidence regarding the end of the pandemic is, at best, mixed. Moments of hope that effective vaccines and herd immunity will bring us closer to this end alternate with moments of pessimism. For economists, the need to continuously recalibrate our expectations about future events, events powerful enough to change the course of the economy for bad or for good, constitutes the ultimate source of uncertainty.

Another important source of uncertainty is related to the choices of national governments regarding the orientation of their macroeconomic policies in the short and medium term. As OECD analysts point out, the current situation requires the adjustment of monetary and fiscal policy to the needs of each national economy. As long as household and business sentiment remains low, it is hard to believe that private expenditures alone can bear the burden of economic recovery. At the same time, rising public debt, and most recently, rising inflation, reminds us that expansionary policies have come at a great cost. The challenges facing many national economic authorities across the globe are quite daunting. Do governments possess the necessary policy tools to keep a balance between supportive policies, on the one hand, and fiscal sustainability and price stability, on the other? If not, which problem is more pressing under the current conditions? There is also the question of whether and how governments facing different challenges will manage to coordinate their policy actions to avoid negative spillovers from policy choices in one country into another.

The large amount of variation in economists' answers to the above questions is indicative of the high degree of uncertainty that surrounds policy responses at this economic conjuncture.

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