

1.5. Recent developments and prospects of global economic activity: Slowing rates of economic recovery amid geopolitical, economic and climate disruptions

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The world is going through a period of major economic episodes. Russia's war on Ukraine, the sharp increase in the cost of living, the energy crisis in Europe and adverse climate changes have destabilized the global economy and significantly slowed the pace of economic recovery in most of the world's economies. Once again, economic policy is expected to play an important role in the restoration of economic normality.

1.5.1. Recent developments and short-run prospects of the global economy

Economic activity

The international economic environment exhibits destabilizing tendencies. The bleak outlook for the global economy reflects the economic impact of the continued war in Ukraine, the soaring cost of living amid strong inflationary pressures, and the significant slowdown in the recovery of the world's three largest economies, namely the US, China, and the Eurozone.

Regarding the war in Ukraine, so far, the worst-case scenario seems to be confirmed – months of unabated hostilities, repeated inflammatory statements by political leaders, recriminations of intransigence and broken lines of communication between Russia and the West. Given the role of Russia and Ukraine in the global production and supply of energy, food and other basic products, these developments have inevitably driven the corresponding international prices to historically high levels, increasing to unimaginable heights both the cost of producing goods and services and the cost of living in most regions of the world.

Accelerating inflation and stronger inflationary expectations have forced major central banks into a synchronized shift of their policies from an accommoda-

tive direction to a restrictive one. Although this policy seems necessary to temper inflationary expectations, it is expected to deteriorate financing conditions for households and businesses, and therefore, negatively affect overall spending for consumption and investment purposes.

It is noteworthy that the above developments have been recorded in an environment of multiple pending issues and high uncertainty. For example, despite the weakening of the Covid-19 disease, new waves of disease variants in China and the strict lockdowns to deal with them prevent the full restoration of normality in global value chains. At the same time, the high incidence of extreme weather events due to climate change appears to have adverse effects on global food production, resulting in shortages and upward pressure on prices. Finally, great concern has been caused by the sharp increase in public debt in most economies as high interest rates, the appreciation of the US dollar, and the need to support the economically weaker population groups are anything but conducive to the improvement of the fiscal position of the states and the smooth service of public debt.

Overall, the rate of expansion of the global economy in 2022 is expected to be limited to 3.0%, i.e., 3 percentage points lower than in 2021. As the general economic climate is not expected to improve immediately, the rate of growth of global GDP is estimated to decrease further, reaching approximately 2.5% in 2023 (see Table 1.5.1).

Inflation and Unemployment

Owing to excess demand, supply-side bottlenecks, and increases in energy prices and transport costs, inflation in many economies has been on the rise since the second half of 2021. With the outbreak of war, last March's large increases in international oil, gas and food prices played a catalytic role in sending inflation to levels well above central bank targets.

Over the last six months, inflationary pressures have widened as increased production and transport costs have added upward pressures to the prices of a wide range of products. The rise in nominal wages (e.g., in the USA and the UK) seems to have contributed to this development as well (OECD, 2022). According to estimates by the International Monetary Fund (IMF), the average annual rate of change of consumer prices in advanced (developing) economies is expected to reach 7.5% (11%) in 2022.

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

	2021*		2022**		2023**	
	IMF	OECD	IMF	OECD	IMF	OECD
World economy	6	5.8	3.2	3	2.7	2.2
Advanced economies	5.2	:	2.4	:	1.1	:
USA	5.7	5.7	1.6	1.5	1	0.5
Eurozone	5.2	5.2	3.1	3.1	0.5	0.3
Japan	1.7	1.7	1.7	1.6	1.6	1.4
United Kingdom	7.4	7.4	3.6	3.4	0.3	0
Developing economies	6.6	:	3.7	:	3.7	:
Brazil	4.6	4.9	2.8	2.5	1	0.8
Russia	4.7	4.7	-3.4	-5.5	-2.3	-4.5
India	8.7	8.7	6.8	6.9	4.9	5.7
China	8.1	8.1	3.2	3.2	4.4	4.7

Sources: IMF, *World Economic Outlook*, October 2022; OECD, *OECD Economic Outlook, Interim Report*, September 2022.

* Estimates, ** 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.

In 2023, inflation is expected to moderate, falling to 3.1% in advanced economies and to 6.1% in developing economies. This estimation reflects a combination of tighter monetary policy with slowing economic activity worldwide.

Despite the dull picture of the global economy, the conditions prevailing in labor markets around the world appear to be particularly positive. Indeed, in several member states of the Organization for Economic Co-operation & Development (OECD), unemployment rates have dropped to a twenty-year low. Equally low is the ratio of the number of unemployed people seeking a job to the total number of vacancies (OECD, 2022). According to IMF estimates, most European economies will register reductions in unemployment rates in 2022.

Nevertheless, economies appear to have exhausted the scope for further reductions in unemployment. With monetary tightening by most central banks and sharply lower global growth, unemployment rates are expected to trend upwards in 2023.

1.5.2. Global trade and commodity prices

The rate of the expansion of global trade (goods and services) is estimated to decline in 2022 (see Table 1.5.2). Among the factors that inhibited the expansion of international trade, the major one is related to the large slowdown of global production and the steep rise of energy prices. Subdued manufacturing activity, the slow restoration of the smooth functioning of global value chains, and the large appreciation of the US dollar have had a negative impact as well.

The rate of expansion of international trade is projected to stand at 2.5% in 2023. The factors that explain this moderation are related to the weak recovery of the global economy and the maintenance of international prices of energy and other basic products at high levels.

International commodity prices soared to record highs this year. This assessment primarily concerns energy (natural gas, oil, coal) and agricultural products, as basic metals prices have registered a slight decline.

TABLE 1.5.2 World trade volume¹
(annual percentage changes, goods and services)

		2021*	2022**	2023**
Volume of international trade		10.1	4.3	2.5
Imports	Advanced economies	9.5	6	2
	Developing economies	11.8	2.4	3
Exports	Advanced economies	8.7	4.2	2.5
	Developing economies	11.8	3.3	2.9

Source: IMF, *World Economic Outlook*, October 2022.

* Estimates, ** Projections.

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

Given the prices that prevail on futures markets, oil prices are projected to gradually decline in 2023. As for food commodities, variations of international prices will depend on weather conditions, the prices of raw materials widely used in agriculture, and the degree of compliance with international agreements regarding agricultural exports from Ukraine.

References

International Monetary Fund (2022), "*World Economic Outlook: Countering the Cost-of-Living Crisis*", October 2022, IMF, Washington, DC.

OECD (2022), *OECD Economic Outlook, Interim Report*, September 2022. *Paying the Price of War*, OECD Publishing, Paris.