

1.4. The international environment: Recent developments and prospects of the global economic activity

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The global economy is on a path of steady growth. Although GDP growth rates vary across regions, economic expansion remains highly synchronized among advanced economies. Downside risks to the global economic outlook are increasing.

1.4.1. Trends and developments in the global economy

Economic activity

According to international organizations the global economy will maintain its momentum with the annual GDP growth rate reaching 3.9% over the next two

years (see Table 1.4.1). Amid a favorable investment climate that prevails in most developed and developing economies, growth will find support from higher private consumption and stronger fixed capital formation. On the supply side, increasing manufacturing activity linked to international trade expansion will play a positive role as well.

Although the global economy seems to be on a steady growth path, vulnerability to downside risks persists. These risks are related to: (a) the escalation of protective measures against international trade, (b) the sudden adjustment of the market prices of tangible and intangible assets, (c) unexpected changes in the monetary policy of advanced economies; and (d) the persistence of public debt at high levels in a large number of national economies. As in the past, the buildup of tensions in 'sensitive' geographic areas, like the Middle East or the Korean Peninsula, remains a major source of uncertainty threatening the smooth function of the global economy.

Inflation and unemployment

Compared to 2017, CPI inflation in advanced economies is expected to increase marginally this year and

TABLE 1.4.1 Real Gross Domestic Product^{1,2} (annual percentage changes)

	2017*				2018**				2019**			
	IMF	EC	UN	OECD	IMF	EC	UN	OECD	IMF	EC	UN	OECD
World economy	3.8	3.7	3.7	3.7	3.9	3.9	3.9	3.9	3.9	3.9	3.8	3.9
Advanced economies	2.3	:	2.3	:	2.5	:	2.2	:	2.2	:	2.1	:
USA	2.3	2.3	2.3	2.3	2.9	2.9	2.5	2.9	2.7	2.7	2.3	2.8
Euro Area	2.3	2.4	2.3	2.5	2.4	2.3	2.1	2.3	2.0	2.0	1.9	2.1
Japan	1.7	1.7	1.7	1.7	1.2	1.3	1.6	1.5	0.9	1.1	1.5	1.1
United Kingdom	1.8	1.8	:	1.7	1.6	1.5	:	1.5	1.5	1.2	:	1.1
Developing economies	4.8	:	4.6	:	4.9	:	4.8	:	5.1	:	4.8	:
Brazil	1.0	1.0	1.0	1.0	2.3	2.4	2.4	2.2	2.5	2.6	2.7	2.4
Russia	1.5	1.5	1.5	1.5	1.7	1.7	1.7	1.8	1.5	1.6	1.7	1.5
India	6.7	6.4	6.7	6.6	7.4	7.4	7.5	7.2	7.8	7.6	7.6	7.5
China	6.9	6.9	6.9	6.9	6.6	6.6	6.5	6.7	6.4	6.3	6.3	6.4

Source: IMF, *World Economic Outlook*, April 2018; OECD, *OECD Interim Economic Outlook*, March 2018; European Commission, *European Economic Forecast*, Spring 2018; United Nations, *World Economic Situation and Prospects 2018* (Update as of mid-2018).

* Estimations, ** Projections.

1. The observed differences between the available macroeconomic projections partly reflect the differences between the macroeconomic 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 Inflation¹
(annual percentage changes)

	2017		2018*		2019*	
	IMF	EC	IMF	EC	IMF	EC
Advanced economies	1.7	:	2.0	:	1.9	:
USA	2.1	2.1	2.5	2.2	2.4	2.2
Euro Area	1.5	1.5	1.5	1.5	1.6	1.6
Japan	0.5	0.5	1.1	1.0	1.1	1.1
United Kingdom	2.7	2.7	2.2	2.5	2.2	1.9
Developing economies	4.0	:	4.6	:	4.3	:
Brazil	3.4	:	3.5	:	4.2	:
Russia	3.7	:	2.8	:	3.7	:
India	3.6	:	5.0	:	5.0	:
China	1.6	:	2.5	:	2.6	:

Source: IMF, *World Economic Outlook*, April 2018; European Commission, *European Economic Forecast*, Spring 2018.

* Projections.

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

TABLE 1.4.3 Annual unemployment rates

	Unemployment rate			Unemployed (million)		
	2017	2018*	2019*	2017	2018*	2019*
World economy	5.6	5.5	5.5	192.7	192.3	193.6
Advanced economies	5.7	5.5	5.4	34.1	32.8	32.4
Developing economies	5.3	5.3	5.3	15.6	16.1	16.6
Emerging economies	5.6	5.5	5.5	143	143.4	144.6

Source: International Labour Office, *World Employment Social Outlook, Trends 2018*.

* Projections.

stand around 2% (see Table 1.4.2). As the core of inflation is not expected to register significant changes, the marginal acceleration of headline inflation in the developed world will be driven by energy and other commodity prices. Similar trends seem to characterize price developments in emerging economies with inflation projected to stand around 4.6%. For 2019, a slight decline in inflation is expected in both advanced and emerging economies. The 2019 projection is based on the assumption that the upward trend in international oil prices will be reversed over the course of the next year.

The latest reports of the international organizations point to a generalized improvement of labor market conditions across most regions of the world. To a certain extent, this conclusion is also confirmed by the International Labor Office's estimates regarding the course of unemployment rates in advanced and developing economies (see Table 1.4.3). However, the projected annual changes of unemployment do not seem to closely follow the corresponding changes in economic activity, suggesting the presence of hysteresis effects.

1.4.2. Economic developments across the Globe

Advanced economies

A high degree of synchronization of economic expansion is expected to enable the group of advanced economies to sustain GDP growth at an estimated 2.3% over the next two years.

US: According to recently published economic indicators, the US economy is operating close to its full capacity. Unemployment has fallen to 4.1% while the ratio of job creation to job seekers has reached its highest level since 2000. As improved economic performance owes largely to fiscal stimulus, one naturally wonders whether expansionary fiscal policy will have a temporary or a more permanent character. In the second case, a combination of expansionary fiscal policy with a rise in the Fed's policy rates could be possibly interpreted as a sign of the US authorities' willingness to re-establish their economy as a global absorber of trade surpluses created in other regions of the world.

Eurozone: Growth is forecast at 2.3% this year, as both domestic and external demand will continue strengthening. Improving labour market conditions and households' increasing disposable income should support further increases in private consumption while loose monetary policy is expected to give a further boost to business investment and construction. Regarding prices, headline inflation is projected to remain at 1.5%. Although this assessment suggests no inflationary pressures, most analysts expect that the ECB will

start withdrawing its unconventional policy measures in 2019. Monetary policy normalization is projected to slow down GDP growth by 0.2 to 0.4 percentage points in 2019.

Japan: Strengthening domestic and external demand will underpin growth in 2018. Domestic demand will be supported by rising business profitability and higher real wages due to labour market pressures. Over the forecasting period, the major risk threatening the Japanese economy is related to the possibility of a large appreciation of the Japanese yen and its negative impact on the country's exports.

United Kingdom: Unlike the majority of non-euro-area European countries, economic growth in the UK is seen to moderate to 1.5% this year and 1.2% next year, from 1.8% in 2017. These projections reflect the weakness of the British economy to exploit its particularly favorable external environment due to the great uncertainty surrounding the country's exit conditions from the European Union.

Developing economies

Emerging and developing economies are forecast to continue to expand robustly with GDP growth picking up to 4.9% in 2018. As usual, economic growth rates are expected to be particularly strong in the two drivers of the developing world, namely China and India (see Table 1.4.1). In these two countries the most likely drivers of growth over the forecasting horizon will be private consumption, public spending and exports. Regarding the rest of the developing world, economic growth is projected to vary across regions depending

TABLE 1.4.4 World trade volume¹
(annual percent changes)

		2016	2017	2018*	2019*
World trade volume (goods and services)		2.3	4.9	5.1	4.7
Imports	Advanced economies	2.7	4.0	5.1	4.5
	Developing economies	1.8	6.4	6.0	5.6
Exports	Advanced economies	2.0	4.2	4.5	3.9
	Developing economies	2.6	6.4	5.1	5.3

Source: IMF, *World Economic Outlook, Update*, April 2018.

* Projections.

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

on the economic fundamentals of each economy and the particular circumstances that will prevail. For instance, the upward-trending energy prices, along with the organization of the upcoming 2018 FIFA World Cup, are expected to provide a further boost to the Russian economy this year. By the same token, Brazil is expected to benefit from increasing commodity prices.

1.4.3. World trade and commodity prices

For a second consecutive year international trade will likely remain the primary mechanism transmitting the benefits of global economic expansion across different regions. Backed by rising manufacturing activity, increased demand for consumer goods and stronger business investment, the expansion rate of international trade will reach 5.1% in 2018 from 4.9% in 2017 (see Table 1.4.4 above).

Regarding commodity prices, the increased global demand for metal and energy products is expected to keep the prices of these products on an upward trend. As for crude oil, according to the latest forecasts of international organizations, prices are expected to average at about \$67 per barrel in 2018.

References

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