

1.5. Recent developments and prospects of the global economic activity: slowdown of global economic growth amid heightened geopolitical uncertainty

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Tight monetary policy, adverse credit conditions, sluggish international trade and low spending on productive investment continue to dampen global economic activity. Amid heightened geopolitical uncertainty, the possibility of a slowdown in global GDP growth for a third consecutive year looms as the most plausible scenario.

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

Compared to 2022, the rate of growth of global GDP decelerated slightly in 2023. However, beating earlier projections, global economic activity remained quite strong amid adverse monetary and financial conditions and elevated geopolitical uncertainty. The resilience of the global economy owes to stronger than expected economic growth in the US, Japan, and several developing countries during the first half of 2023.

The pace of global economic growth is set to remain close to 3% over the forecast horizon. Specifically, after moderating for a third consecutive year, real GDP growth is expected to start accelerating in 2025 (see Table 1.5.1). The growth projections for 2024 reflect the negative effects of contractionary monetary policy, tight financial conditions, sluggish international trade, and the poor performance of private investment.

Risks to the baseline global growth forecasts remain tilted to the downside. Specifically, the set of adverse risks includes: (a) an escalation of the conflict in the Middle East, (b) persistence of core inflation at high levels, (c) higher pressures on money and capital markets due to rising interest rates, (d) slower than expected growth in China, (d) increased fragmentation of global trade, and (e) food commodity price spikes due to extreme weather shocks. On the other hand, the realization of upside risks –a faster pace of disin-

flation accompanied by lower interest rates, a stronger-than-expected growth in China, normal weather conditions– could lead to higher global output growth than projected in the baseline scenario (IMF, 2024; UN, 2024; World Bank, 2024 and OECD 2023).

1.5.2. Inflation, employment, and investment

After surging for two years, global inflation entered a deceleration phase in 2023. Specifically, global headline inflation fell from the historically high value of 8.7% in 2022 to 6.8% in 2023 (IMF, 2024). Owing to declining energy prices, weakening global demand, and restrictive monetary policy, global inflation is projected to hover at lower levels in 2024, reaching 5.8% (IMF, 2024).

In 2023, headline inflation registered its sharpest decline in advanced economies with annual average inflation falling by three percentage points (see Table 1.5.2). Though core inflation remains high, international organizations' projections suggest that inflation rates in the advanced world will moderate further, by two percentage points in 2024 (IMF, 2024 and UN, 2024).

Inflation prospects for developing countries are less favourable as annual average inflation will fall marginally in 2024. Beyond certain structural problems that interfere with price formation in many regions of the developing world, inflation persistence is related to the depreciation of domestic currencies against the US dollar.

So far, the tight financial conditions and the moderation of economic activity have not adversely affected employment. In most advanced economies, labour markets remain strong, with unemployment rates reaching record low levels (see Table 1.5.3). Nevertheless, there are clear signs that the tight labour market conditions are starting to ease (slowing annual employment growth, fewer job vacancies, increased labour supply, limited nominal wage increases wages and, in some cases, a marginal increase in unemployment) (IMF, 2024 and OECD, 2023).

In the developing world, unemployment is on a downward trend in China, Brazil, and Turkey. However, in most developing economies, unemployment remains high. At the same time, problems such as insecure work, high youth unemployment and gender discrimination in the workplaces remain unresolved. According to United Nations analysts, prospects for labour

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

	2023*				2024**				2025**						
	IMF	EC	OECD	WB	UN	WB	EC	OECD	WB	UN	IMF	EC	OECD	WB	UN
World economy	3.1	3.1	2.9	2.6	2.7	2.4	2.9	2.7	2.4	2.4	3.2	3.2	3	2.7	2.7
Advanced economies	1.6	1.7	:	1.5	1.6	1.2	1.5	:	1.2	1.3	1.8	1.9	:	1.6	1.6
USA	2.5	2.4	2.4	2.5	2.5	2.1	1.4	1.5	1.6	1.4	1.7	1.8	1.7	1.7	1.7
Euro area	0.5	0.6	0.6	0.4	0.6	0.9	1.2	0.9	0.7	1.1	1.7	1.6	1.5	1.6	1.5
Japan	1.9	1.9	1.7	1.8	1.7	0.9	0.8	1	0.9	1.2	0.8	0.6	1.2	0.8	1.1
United Kingdom	0.5	0.6	0.5	:	0.5	0.6	0.5	0.7	:	0.4	1.6	1.3	1.2	:	1
Developing economies	4.1	4.2	:	4	4.1	4.1	4.1	:	3.9	4	4.2	4.3	:	4	4.2
Brazil	3.1	2.8	3	3.1	3.1	1.7	1.6	1.8	1.5	1.6	1.9	1.8	2	2.2	2.3
Russia	3	2	:	2.6	2.7	2.6	1.6	:	1.3	1.3	1.1	1.6	:	0.9	1.5
India	6.7	6.6	6.3	6.3	6.3	6.5	6.1	6.1	6.4	6.2	6.5	6.5	6.5	6.5	6.6
China	5.2	5.2	5.2	5.2	5.3	4.6	4.6	4.7	4.5	4.7	4.1	4.6	4.2	4.3	4.5

Sources: IMF (2024); European Commission (2023); OECD (2023); United Nations (2024), and World Bank (2024).

* 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 1.5.2 Inflation¹
(annual percentage changes)

	2023*				2024**				2025**			
	IMF	EC	OECD	UN	IMF	EC	OECD	UN	IMF	EC	OECD	UN
World economy	6.8	:	:	8.1	5.8	:	:	5.7	4.4	:	:	:
Advanced economies	4.6	:	:	4.8	2.6	:	:	2.8	2	:	:	2.2
USA	:	4.2	3.9	4.1	:	3	2.8	2.5	:	2.2	2.2	2.2
Euro area	:	5.6	5.5	5.5	:	3.2	2.9	3	:	2.2	2.3	2.2
Japan	:	3.3	3.2	3.3	:	2.7	2.6	2.7	:	2.2	2	1.8
United Kingdom	:	7.3	7.3	7.4	:	3.6	2.9	3.6	:	2.5	1.9	2.5
Developing economies	8.4	:	:	6.9	8.1	:	:	6.6	6	:	:	4.4
Brazil	:	:	4.6	4.9	:	:	3.2	4.2	:	:	3	3.5
Russia	:	6	:	7.3	:	4.6	:	4.8	:	4	:	4
India	:	:	6.1	5.7	:	:	5.3	4.5	:	:	4.2	4
China	:	:	0.4	0.4	:	:	1	1.6	:	:	1.5	2

Sources: IMF (2024); European Commission (2023); OECD (2023), and United Nations (2024).

* Estimations, ** Projections.

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

TABLE 1.5.3 Annual unemployment rates (advanced economies)

	2023*		2024**		2025**	
	EC	OECD	EC	OECD	EC	OECD
USA	3.7	3.6	4.1	4.1	3.9	4.2
Euro area	6.6	6.5	6.6	6.6	6.4	6.5
Japan	2.5	2.6	2.4	2.5	2.4	2.4
United Kingdom	4.3	4.3	4.7	4.7	4.6	4.9

Sources: European Commission (2023), and OECD (2023).

* Estimations, ** Projections.

markets in developing countries are expected to deteriorate due to tight monetary policy (UN, 2024).

Regarding investment, global fixed capital formation in real terms increased by 1.9% in 2023, i.e., 1.4 percentage points below the 2022 growth rate and 2.1 percentage points below the 2011-2019 period average (UN, 2024). As for the investment activity across productive sectors, available data suggest that the declining rates of investment growth are a major concern for manufacturing. In contrast, investments in the energy sector have gained momentum with ‘clean’ energy exhibiting the highest growth rates. However, investment projects in renewable energy sources are concentrated in advanced economies. In addition, the scale of these projects so far falls short of what is required to achieve zero emissions targets by 2050 (UN, 2024).

1.5.3. Regional developments

Advanced economies

In 2023, the loss of growth momentum in advanced economies was less pronounced than projected thanks to strong private consumption and favourable labour market conditions. In 2024, the average annual growth rate of GDP is estimated to slow further (see Table 1.5.1) as high interest rates are expected to weigh on consumption and investment (World Bank, 2024).

After a year of good economic performance, growth in the US is set to slow in 2023 as consumption and investment are expected to moderate in response to tighter financial conditions. In contrast, economic activity in the Eurozone is projected to firm up due to declining inflation, rising real wages and high employ-

ment rates (ECB, 2023). In Japan, despite loose monetary and fiscal policy, the rate of economic growth in 2024 is estimated to decline by about one percentage point. This deterioration partly reflects the decline in external demand due to the slowdown in the economies of China and the US (UN, 2024). Finally, the economy of the United Kingdom is expected to move slightly above the limits of economic stagnation with the GDP growth rate increasing by approximately 0.2%. Given the restrictive economic policy stance, private consumption and investment will be the major drivers of growth (OECD, 2023).

Emerging and developing economies

On average, the annual rate of economic growth in developing countries is expected to hover close to the levels of the past two years (see Table 1.5.1). Nevertheless, near term projections are diverging. For example, economic performance is set to improve in countries with strong credit ratings. By contrast, low-credit-rating countries with high inflation and high public debt are expected to experience a loss in growth momentum (World Bank, 2024).

In China, GDP growth acceleration in 2023 was supported by low interest rates, increased public spending, and strong private consumption. Growth is forecast to inch down to 4.6% in 2024, reflecting the poor performance of the real estate sector, reduced external demand, and lower rates of expansion of manufacturing production. In India, GDP growth is set to remain strong mainly due to robust domestic demand and high rates of expansion in manufacturing and services. As for Russia, the economy outperformed initial forecasts and returned to positive growth rates

in 2023. However, higher inflation and restrictive economic policy are expected to limit the pace of GDP growth during 2024 (UN, 2024). Finally, the Brazilian economy is expected to experience a loss of growth momentum as export receipts will be negatively affected by the decline in international prices of many basic commodities.

1.5.4. World trade and commodity prices

In 2023, the global trade expansion rate (goods and services) fell to 0.4% from 5.2% in 2022 (see Table 1.5.4). This slowdown is mainly linked to the decline in the international trade of industrial products. By contrast, international trade in services, especially services related to tourism and transport, continued to recover rapidly. In 2024, international trade flows are expected to strengthen, with the rate of expansion increasing by 3 percentage points. This means that the growth rate of international trade will remain below its pre-pandemic trend. In general, factors weighing on the expansion of international trade include: (a) the shift in consumer preferences from trade-intensive products (manufactured goods) to services whose production does not require a large volume of trade, (b) the strengthening of the US dollar, (c) the escalation of geopolitical tensions, (d) adverse credit con-

ditions and the reduction of trade financing, and (e) the reduction of imports and exports on the part of advanced economies (UN, 2024).

Most commodity prices are on a downward trend mainly due to the weakness of global demand. However, their average annual level over the past year remained 40% higher than that prevailing before the outbreak of the pandemic. Regarding energy products, despite strong fluctuations in international energy prices due to geopolitical tensions, both the average annual price of the main types of crude oil and the corresponding price of natural gas of all types recorded significant decreases. International prices of basic metals also moved to lower levels (by 10%) due to low demand from China, which annually consumes 60% of global production. Finally, the average annual prices of basic food products were 9% lower in 2023 thanks to the high yields of food crops in many geographical areas (World Bank, 2024).

International commodity prices are expected, on average, to continue their downward trend. More specifically, the weakening of global economic activity, combined with the slowdown of the Chinese economy, is expected to drive the annual average price of oil to US \$81 per barrel. It is estimated that the price of natural gas will record a similar decrease due to the increase in supply. Base metal prices will also fall due to limited demand from the Chinese manufacturing sector. Finally, regarding food products, their international prices will fluctuate at lower levels from 2023 with the average annual decrease reaching 1% (World Bank, 2024).

TABLE 1.5.4 World trade volume
(annual percentage changes, goods and services)¹

	2023*	2024**	2025**
World economy	0.4	3.3	3.6
Advanced economies	0.3	2.6	3.2
Developing economies	0.6	4.5	4.4

Source: IMF (2024).

* Estimations, ** Projections.

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

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