

IX. International Economic Developments

9.1 Overview of the World Economy^{1/}

The world economy continues its very gradual recovery mainly due to structural impediments limiting the medium term growth outlook in most advanced economies. On the other hand, expansion of activities in emerging economies, although moderated in recent months, has been significantly contributing for the global growth.

In the United States, the economic growth slowed in the fourth quarter of 2011/12 as measured by 1.5 percent annualized rate of growth of real GDP compared to 2 percent growth in the preceding quarter. The slow down was due to lower consumption growth, decline in government spending and negative net trade contribution. In the mean time, the contribution of inventories turned positive as non-residential and residential investment increased. Real disposable personal income has also increased by 3.2 percent in the same period, thereby raising the personal saving rate to 4 percent, from 3.6 percent in the preceding quarter.

The expansion of economic activities has been moderated in Japan, following strong GDP growth in the fourth quarter of 2011/12. Evidence shows that a weakening of sentiment in the manufacturing sector reflected in the industrial production which declined during the period under review related to weak exports owing to strong Japanese Yen and slowing of external demand for Japanese goods. Accordingly, the country recorded the largest trade deficit in the second half of 2011/12 in its post-war history contributed by muted export growth and rising energy imports.

In the United Kingdom, real GDP shows that activity declined by 0.7% in the fourth quarter of 2011/12 compared to the previous quarter as a result of decline in the construction and production industry. On the other hand, expansion in activity in the service sector has been observed, though confidence has declined. Despite the improvement of the labor market situation, consumer confidence has also remained weak.

Growth has been subdued in the other non-euro area EU countries as some countries experienced a recession. However, in Sweden and Denmark, the recovery in economic activity gained some momentum after declining in the second quarter of 2011/12, while real GDP increased quarter on quarter by 0.8 and 0.3 percent in Sweden and

^{1/}Excerpted from European Central Bank monthly bulletin for June, July and August 2012, except for section 9.5 and the last part of section 9.4.

Denmark, respectively, in the third quarter, driven by domestic demand in both countries.

In the third quarter of the fiscal year, economic activity has been weak in the largest central and eastern European (CEE) countries, real GDP declined in the Czech Republic, Hungary and Romania, by 1%, 1.3% and 0.1% quarter on quarter, respectively, while growth continued in Poland (0.8%).

In the meantime, the economic recovery has continued in the smaller CEE countries, but risks related to the external environment still prevail.

Quarterly real GDP growth stayed almost unchanged in Bulgaria, Latvia and Lithuania.

9.2 Inflation Developments

In recent months, global inflation has continued to ease. In the OECD area, consumer price inflation fell to 2.0 percent in June 2012 from 2.1 percent in May 2012. The annual rate of inflation excluding food and energy, declined from 1.9 percent in May to 1.8 percent in June 2012. In the meantime, annual rates of inflation have also declined in several emerging countries.

In the United States, annual CPI inflation remained unchanged at 1.7 percent due to the decline in energy prices, which fell by 3.9 percent in both May and June 2012, compared with the same months a year ago. Core inflation has also declined to 2.2 percent from 2.3 percent

In emerging markets, economic activities have continued to expand at a faster pace than advanced economies, although past policy tightening and weaker external demand reduced the growth momentum.

In China, economic activity has slowed down. According to the recent evidence available, real GDP growth declined to 7.6 percent annually in the fourth quarter of 2011/12, from 8.1 percent in the third quarter of the fiscal year. In quarter-on-quarter terms, however, growth accelerated marginally to 1.8 percent from 1.6 percent, driven by consumption and investment.

in the previous months owing to lower price increases in apparel, cars and shelter. For the fourth quarter as a whole, annual CPI averaged 1.9 percent, down from 2.8 percent in the preceding quarter

Annual CPI inflation declined in Japan to -0.2 percent in June from 0.2 percent in the previous month, mainly due to falling prices in energy and consumer durables. Excluding fresh food, annual CPI inflation declined to -0.2 percent in June compared with -0.1 in May, while the annual rate of change of CPI inflation excluding food and energy remained unchanged at -0.6 percent.

In the United Kingdom, annual CPI inflation declined to 2.4 percent in June 2012, from 2.8 percent in May 2012 due to lower prices of commodities and clothing. Furthermore, the existence of spare capacity and the sluggish stood at 2.3% in Denmark and 1% in Sweden at the beginning of the fourth quarter. In the meantime, annual HICP inflation has continued to ease off in Romania (to 1.9%), but has stayed relatively stable in the Czech Republic, Hungary and Poland (at 4%, 5.6% and 4%, respectively).

9.3 Commodity Markets

Oil prices declined further at the end of the fourth quarter of 2012 continuing their downward trend which started at the end of the third quarter. Brent crude oil prices fell from above USD 125 per barrel in mid-March to a low of USD 90 at the end of June 2012. The decline is mainly due to developments in the supply/demand balance in the second half of 2011/12. In particular, the combination of declining demand and growing supply exerted downward pressure on prices over this period.

Looking at fundamentals, oil demand fell during the fourth quarter of 2011/12, due to the moderation in the global growth momentum and to seasonal factors, as the oil demand of OECD economies typically declines in the fourth

recovery of economic activity are expected to contribute to a further dampening of inflationary pressures.

In the other European countries, HICP inflation

In these countries, inflationary pressures have been dampened by lower commodity prices, while increases in indirect taxes and administered prices have contributed positively to inflation. Annual CPI inflation also declined in China in June 2012 to 2.2 percent.

quarter of the fiscal year. According to the International Energy Agency (IEA), oil demand is expected to increase in the following quarter.

With regard to oil supply, OPEC production declined sharply after mid-2008 in the wake of the financial crisis and failed to recover until the end of 2010/11 fiscal year. OPEC crude oil supply has risen since then, mainly driven by Saudi Arabia's decision to increase production in view of the political turmoil in Libya. Saudi Arabia is currently producing at a 30 year high, partly to offset the potential loss of Iranian oil resulting from the EU sanctions. In contrast, non-OPEC production increased in the third quarter of 2011/12 and fell in the fourth quarter, in parallel with oil prices

9.4 Exchange Rate Developments

During the fourth quarter of 2011/12, the effective exchange rate of Euro depreciated overall amid intensifying concerns about the fiscal situation in some Euro area countries. At the end of the quarter, the nominal effective exchange rate of the euro, as measured against the currencies of 20 of the euro area's most important trading partners, stood 3.6 percent below its level at the end of March 2012 and 6.4 percent below its average level in the second quarter of 2011/12. In the same period, the euro has broadly depreciated against most major currencies. During March 30 – July 04, 2012, the euro steadily depreciated against the US dollar by 6.0 percent, Japanese Yen (8.5 percent)

and Pound Sterling (3.7 percent). The euro also depreciated marginally against the Swiss franc by 0.3%.

In the fourth quarter of the fiscal year, the Birr weakened against some major international currencies, as it depreciated year on year by 6.35 and 1.3 percent against Japanese Yen and Pound Sterling, respectively, but appreciated vis-à-vis Euro (6.16 percent) and Swiss Frank (2.8 percent). On quarter to quarter terms, however, the exchange rate of the birr depreciated against all major currencies, with the exception of its marginal appreciation with respect to Swiss Frank.

9.5 Impact of Global Economic Developments on the Ethiopian Economy

In the face of slow down in global economic recovery, the external sector of Ethiopia has continued in its pace of growth during the fourth quarter of the fiscal year. For instance, during the period under review, foreign exchange proceeds from export of merchandise goods increased by 13 and 19.9 percent compared to last year same period and the preceding quarter, respectively, as a result of enhanced volume of exports as well as improved international commodity prices.

In the mean time, earning from remittances has shown an annual increase of 11.1 percent while net service was reduced by 32.3 percent. Likewise, the inflow of FDI was declined by 30 percent in the same period.

On the other hand, total import bill for fuel grew by 17.8 and 1.3 percent vis-à-vis a year ago and the preceding quarter, respectively, following the increase in local demand for fuel which offset the decline in international fuel price.

