VIII. International Economic Developments

8.1 Overview of the World Economy[3]

The global recovery remains modest, diverse across regions and fragile. Survey indicators appear to have stabilized, although there has been some softening in sentiment more recently, suggesting that the world economy is likely to recover slowly. In most major non-euro area advanced economies, the moderate recovery is proceeding, but a number of factors will continue to restrain the medium-term growth outlook. In emerging market economies, growth decelerated slightly at the beginning of the year, but is expected to regain momentum over the course of 2013. Accordingly, these economies are expected to provide a significant contribution to global growth going forward. Meanwhile, world trade has remained subdued, although survey indicators continue to point towards a gradual recovery. With regard to consumer prices, inflation has resumed its downward trend in advanced economies, while developments have been more mixed in emerging markets.

[3]Sections 8.1 – 8.4 are excerpted from European Central Bank monthly bulletin of April, May & June 2013.

In the United States, real GDP growth accelerated in the first quarter of 2013. According to the second estimate by the Bureau of Economic Analysis, real GDP increased at an annualized quarter on-quarter rate of 2.4% in the first quarter of 2013, up from 0.4% in the previous three months. In the second estimate, real GDP growth was revised down by 0.1 percentage point, owing to a greater decline in government consumption and a lower positive contribution from the change in inventories, which more than offset upward revisions to personal consumption expenditure and a less negative contribution from net exports. Compared with the fourth quarter of 2012, the increase in growth was driven largely by strong personal consumption expenditure, which grew by an annualized 3.4%, the fastest growth rate in two years, and by a pick-up in inventories. Private fixed investment also contributed positively to real GDP growth, although growth slowed down sharply in the non-residential segment. On the other hand, government spending contracted further. Moreover, the contribution from net exports turned negative, with imports growing more than exports. Real disposable personal income declined significantly, although this development was influenced by strong dividend payments in the previous quarter. This pushed down the personal saving rate to its lowest post-crisis level of 2.3%, compared with 5.3% in the last quarter of 2012.

In Japan, the first preliminary release of national accounts for the first quarter of 2013 confirmed that the economy picked up momentum at the start of 2013. Real GDP increased by 0.9% quarter on quarter in seasonally adjusted terms, following a revised 0.3% expansion in the final quarter of 2012. The pick-up in growth was supported to a large extent by solid growth in private consumption and a positive contribution from net exports (the first in four quarters), as exports of goods and services grew at a faster pace than imports. Public spending also made a positive contribution to growth, although it increased at a more modest pace than in the previous quarters, particularly in the case of public investment. At the same time, private residential investment continued to grow solidly, compensating to some extent for the weakness observed in private non-residential investment, which declined for the fifth consecutive quarter.

In the United Kingdom, real GDP increased by 0.3% quarter on quarter in the first quarter of 2013, driven mainly by domestic demand. The economic recovery is expected to gradually gather pace, but domestic demand continues to be constrained by tight credit conditions, ongoing private and public sector balance sheet adjustment, as well as weak household real income dynamics. Labor markets have remained relatively resilient, with the unemployment rate hovering at just below 8%, although employment growth has slowed down markedly in recent months. Recent survey indicators suggest that the economy has continued to grow at a modest pace during the second quarter of 2013.

In China, real GDP growth decelerated slightly to 7.7% year on year in the first quarter of 2013, from 7.9% in the final quarter of 2012. Growth slowed down mainly owing to weaker investment. By contrast, private consumption accelerated and was the main driver of the Chinese economy in the first quarter, contributing 4.3 percentage points to growth. Net trade also contributed positively to growth, adding 1.1 percentage points, considerably higher than the 0.4 percentage point contribution recorded in the previous quarter.

In Sweden and Denmark, real GDP increased by 0.6% and 0.2% quarter on quarter in the first quarter of 2013 respectively, driven largely by domestic demand in both countries. Real GDP growth accelerated in Switzerland in the first quarter of 2013, increasing by 0.6% quarter on quarter, following robust growth in the second half of last year.

In the largest central and eastern European (CEE) EU Member States, economic activity has remained subdued. According to preliminary data, in the first quarter of 2013 real GDP increased in Hungary, Poland and Romania and continued to decline in the Czech Republic. Looking forward, economic activity is likely to remain weak, but to stabilize in 2013 and then gradually rebound, supported by a recovery in foreign and domestic demand. Annual HICP inflation has slowed down considerably over the past few months, especially in Hungary and Poland. This has mainly resulted from lower commodity price inflation, favorable base effects from previous indirect tax and administered price increases, as well as subdued domestic demand pressures.

In Turkey and Russia, economic developments were mixed in early 2013. While there are signs of a recovery taking hold in Turkey, in Russia economic activity continued to slow and, according to the flash estimate, real GDP grew by 1.6% year on year in the first quarter of 2013, following growth of 2.1% in the final quarter of 2012.

Economic growth in emerging Asia was weaker than expected in the first quarter of 2013. Both weak domestic and external demand contributed to the slowdown. Looking ahead, it is anticipated that economic growth in emerging Asia will accelerate slightly during 2013 on the back of a gradually improving external environment and strengthening domestic demand.

Real GDP in Latin America gained some momentum at the end of 2012. Economic activity has continued to recover in the first months of 2013, although at a moderate pace. This recovery has been supported by past monetary policy easing measures and government incentives to boost investment in major countries, in particular Brazil, as well as favorable financing conditions. Looking ahead, growth is expected to be supported primarily by robust domestic demand and a gradual strengthening in external demand.

In Brazil, real GDP grew by 0.6% quarter on quarter in the first quarter of 2013, the same growth rate as in the previous three months. Economic activity was supported mainly by a strong increase in private investment, whereas net exports were a drag on growth. In Mexico, GDP decelerated in the first quarter of 2013, with the economy expanding at a rate of 0.5% quarter on quarter, down from 0.7% growth in the final quarter of last year. In Argentina, economic activity slowed down slightly in the first quarter of 2013, as suggested by the economic activity indicator, which declined to 1.0% quarter on quarter from 1.2% in the fourth quarter of 2012.

8.2 Inflation Developments

In the majority of advanced economies, inflation declined in March. In the OECD area, annual headline consumer price inflation decelerated to 1.6% in March from 1.8% in February. The decline in inflation was broad-based across OECD countries. Excluding food and energy, OECD inflation remained unchanged at 1.6% in March. Meanwhile, annual inflation increased in a number of emerging economies in March, but fell back in China.

In United States, Annual CPI inflation declined by 0.5 percentage point to 1.5% in March, the lowest rate of change since July 2012. The slowdown in year-on-year consumer price inflation was primarily led by a significant drop in energy prices, erasing to some extent the strong rise observed in February. Food price growth slowed slightly to 1.5%, after having remained stable at 1.6% in the previous two months. Core inflation eased to 1.9% in March, from 2.0% in February.

In Japan, annual consumer price inflation remained in negative territory at the start of 2013, standing at -0.9% in March, following -0.7% in February. Excluding fresh food and energy, annual CPI inflation increased slightly to -0.8%, from -0.9% in the previous month. At its latest monetary policy meeting on 26 April, the Bank of Japan decided to keep its target for the monetary base unchanged.

In United Kingdom, annual CPI inflation has been stable in recent months at slightly higher levels than those experienced in the autumn of 2012. The headline inflation rate remained steady at 2.8% in March 2013, while CPI inflation excluding energy and unprocessed food increased by 0.2 percentage point to 2.6%. Looking ahead it is expected that inflationary pressures will be contained by existing spare capacity in labor and capital utilization in the medium term, although upward pressures owing to rises in administered and regulated prices, as well as sterling's depreciation earlier this year could cause current high levels of inflation to persist.

In China, headline CPI inflation receded from a temporary peak recorded in February, reaching 2.1% in March, as food price inflation decreased. Core inflation rose modestly to 1.9% in March, while PPI remained negative.

In Sweden and Denmark, annual HICP inflation has eased in Sweden and Denmark in recent months. Meanwhile, in Switzerland, inflation remained negative, largely owing to lower energy prices and continuing lower import prices more generally following the decision by the Swiss National Bank in September 2011 to set a minimum exchange rate target for the Swiss Franc against the euro.

In central and eastern European (CEE) EU Member States, annual HICP inflation has slowed down considerably over the past few months, especially in Hungary and Poland. This has mainly resulted from lower commodity price inflation, favorable base effects from previous indirect tax and administered price increases, as well as subdued domestic demand pressures.

In Turkey and Russia, Price developments were mostly driven by changes in food prices in the respective countries, keeping inflation elevated in Russia in the first months of the year, while in Turkey the headline inflation rate remained very volatile, also owing to base effects.

In emerging Asia, annual CPI inflation remained relatively subdued in the first quarter of 2013, while PPI inflation remained negative for a thirteenth consecutive month. During the first quarter China's foreign exchange reserves increased by USD 131 billion to USD 3.4 trillion, the highest quarterly increase since the second quarter of 2011.

8.3 Commodity price

With regard to energy price developments, Brent crude oil prices decreased by 1.0% between 1 March and 3 April 2013, trading at around USD 111 per barrel on the latter date. Oil prices reversed their upward trend in mid-February amid concerns about weaker than expected demand prospects. Looking ahead, global oil demand is expected to decline in the second quarter of 2013, mainly owing to seasonal factors and to a decline in demand from advanced economies. Market participants expect lower prices over the medium term, with December 2013 futures prices standing at USD 100 per barrel and December 2014 futures prices standing at USD 97 per barrel.

In the course of March prices of non-energy commodities decreased by 1.4% on aggregate. The decline was generalized across metal and food prices. In aggregate terms, the price index for non-energy commodities (denominated in US dollars) was about 0.1% lower towards the end of March 2013 compared with the same period a year earlier.

8.4 Exchange Rate Developments

Over the past month the euro remained broadly unchanged in effective terms. On 3 April 2013 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 0.8% below its level at the beginning of March and also prevailing a year earlier.

In bilateral terms, over the past month the euro depreciated slightly against the US dollar and some other major currencies, while it mostly appreciated against the currencies of other important trading partners of the euro area. Between 1 March and 3 April 2013 the euro weakened against the US dollar (by 1.3%), the pound sterling (by 1.9%), the Swiss franc (by 0.6%) and the Japanese yen (by 0.5%). During the same period the euro also weakened against the currencies of other Asian economies as well as of large commodity exporters, while strengthening against the currencies of central and eastern European EU Member States. The currencies participating in ERM II remained broadly stable against the euro, trading at, or close to, their respective central rates.

8.5 Impact of Global Economic Development on Ethiopian Economy

During the period under review, the global economic activity had been weak. This had to some extent affected the external sector of Ethiopia. Export earnings during third quarter of 2012/13 declined by 1 percent compared to last year the same period. A fall in the prices of major export commodities of the country in the international market, decline the production of some of the export commodities and slow recovery in major trading partners are among the major factors to this decline.

However, the slow growth in the global economy has not affected the inflows of workers remittance to Ethiopia. Growth of remittance inflows in the third quarter of of 2012/13 rose by 40.8 percent which presumably was due to a strong rise in overseas employment especially in the UAE. Receipts from private transfers rose by 2.5 percent during the third quarter of 2012/13 vis-à-vis last year same period. FDI inflows also increased by 7.8 percent in relation to last year the same period.

On the other hand, in spite of an increment in volume, fuel import bill has shown a 4.9 percent decline mainly due to a fall in international oil price is expected. Looking ahead, world oil price will tend to slow down thereby reducing the foreign exchange requirement of the sector.