

VIII. International Economic Developments

8.1 Overview of the World Economy⁴

The global economic recovery is progressing at a gradual pace, underpinned by strengthening growth momentum in most advanced economies. At the same time, following the Federal Open Market Committee's (FOMC) decision in December 2013 to "taper" its asset-purchasing program, uncertainty in global financial markets declined. This may further support global economic activity. Global trade sustained momentum at the start of the review period, showing further signs of stabilization after a prolonged period of muted growth. Yet the pace of recovery in global trade growth is likely to be modest in the near term and remain below the levels observed prior to the financial crisis. In the United States, real GDP growth remained robust in the fourth quarter of 2013. According to the first estimate by the Bureau of Economic Analysis, real GDP increased at an annualized rate of 3.2% (0.8% quarter on quarter), down from 4.1% (1.0% quarter on quarter) in the previous quarter. Growth was supported by stronger

gains in personal consumption expenditure and exports than in the previous quarter, while inventory building contributed to growth for the fourth consecutive quarter. Residential investment and public spending both declined the latter as a result of a decline in federal spending that more than offset an increase in state and local government spending. Most high-frequency data up to December weakened somewhat, in part owing to adverse weather conditions. Moreover, the strength of the contributions to GDP growth from inventories over the past four quarters suggests there could be a payback in the first quarter. As regards the labor market, the pace of job creation slowed in the final month of 2013, partly as a result of the unusually cold weather. Meanwhile, the unemployment rate declined further in December, with more workers dropping out of the labor force. Overall, survey indicators are consistent with a continued gradual upturn in the labor market.

In Japan, strong sentiment data suggest a pick-up in growth during the fourth quarter of 2013. The Bank of Japan's Tankan Survey also recorded increases in business confidence during the fourth quarter for

⁴Sections 8.1 – 8.4 are excerpted from European Central Bank monthly bulletin of December 2013 and January & February 2014.

large, medium and small enterprises. Meanwhile, industrial output increased by 1.9% in the fourth quarter compared with the third quarter according to preliminary figures. The United Kingdom has experienced robust economic growth in recent quarters. In the fourth quarter of 2013 real GDP increased by 0.7% (quarter on quarter), driven mainly by the services sector. Despite slight declines in some of the main business and household survey indicators in recent months, the relatively high level of most of the indicators suggests that growth remained strong. In the medium term, however, the pace of growth is likely to slow somewhat. The relatively weak household real income dynamics and the ongoing need for private and public sector balance sheet adjustment will continue to constrain domestic demand for some time, while prospects for export growth remain subdued. However, the labor market situation has continued to improve strongly, with full-time private sector employment growth in particular picking up in recent months. The unemployment rate fell by 0.3

percentage point to 7.1% in the three months to November 2013 and hence continued to move closer to the 7% threshold referred to in the forward guidance provided by the Bank of England's Monetary Policy Committee. In China, economic growth decelerated slightly in the fourth quarter of 2013 (as the effects of a small stimulus package implemented over the summer waned) but remained strong overall. GDP grew by 7.7% year on year (1.8% quarter on quarter), broadly in line with market expectations and down from 7.8% (2.2%) in the third quarter. In 2013 as a whole, GDP growth was 7.7%, slightly above the government's target of 7.5%. The decline in momentum in the fourth quarter was also observed in industrial production and fixed investment, which recorded lower growth.

Monetary and credit aggregates also grew more slowly in December in line with the People's Bank of China's intention to gradually lower the leverage of the economy, but continued to expand more rapidly than nominal GDP growth.

8.2 Inflation Developments

Global inflation and inflationary pressures remain contained. In the OECD area, annual headline consumer price inflation increased slightly to 1.5% in November from 1.3% in October, driven by gradually fading negative base effects from lower energy prices. Excluding food and energy, the OECD annual inflation rate remained broadly stable in November at 1.6%. Inflation picked up in the majority of the advanced economies, while price developments have been more mixed in emerging market economies, with inflation rising in India and Russia and falling in China. In United States, annual CPI inflation picked up by 0.3 percentage point to 1.5% in December 2013, mostly reflecting a rebound in energy prices following several months of declines. Food price inflation remained subdued. Excluding food and energy, inflation stood at 1.7%, a level around which it has hovered since April 2013. For the year as a whole, annual CPI inflation stood at 1.5%, after 2.1% in 2012, with inflation in the energy, food and medical care services components having fallen particularly strongly. Looking ahead,

considerable slack in the economy, as well as subdued wage and input cost dynamics, suggest that inflation is likely to remain contained. In Japan, consumer price inflation continues to increase and reached 1.6% in December on a year-on-year basis, up from 1.5% in November. A similar profile is seen in inflation excluding food, beverages and energy, which increased to 0.7% in December from 0.6% in November. In United Kingdom, annual CPI inflation slowed slightly further in December 2013. It declined by 0.1 percentage point from November to 2%, owing mainly to lower services and food price inflation. Looking ahead, it is expected that inflationary pressures will remain moderate as inflation continues to be dampened by spare capacity in labor and capital utilization. In China, annual CPI inflation declined in December to 2.5% owing to a smaller contribution from food prices. Inflation excluding food and energy prices was stable at 1.8%, while PPI inflation remained negative in year-on-year terms.

8.3 Commodity price

The containment of global inflation was supported by relatively stable commodity prices. Brent crude oil prices have decreased since early December and on 8 January 2014 stood at USD 107 per barrel, 3% lower than their level one year earlier. According to the International Energy Agency, global oil demand is forecast to decrease in the first quarter of 2014, while non-OPEC oil supply is expected to remain flat as the increase in US shale oil production offsets the fall in global bio-fuels. This might put downward

pressure on prices. Futures markets price in lower oil prices over the medium term, with December 2015 futures prices trading at around USD 98 per barrel. Prices of non-energy commodities remained broadly flat on average during December. There was a decrease in cereal prices and an increase in metal prices. In aggregate terms, the price index for non-energy commodities (denominated in US dollars) was about 7% lower at the beginning of January than in the same period a year earlier.

8.4 Exchange Rate Developments

Over the past month, the euro has appreciated against the currencies of most of the euro area's main trading partners. On 8 January 2014 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 0.4% above its level at the beginning of December and 4.5% above the level one year earlier. During that period, movements in exchange rates were largely related to developments in interest rate expectations, as well as to adjustments in market expectations regarding the economic outlook

for the euro area relative to other major economies. In bilateral terms, from 2 December 2013 to 8 January 2014 the euro strengthened against the US dollar (by 0.4%), the Japanese yen (by 2.3%) and the pound sterling (by 0.2%). Over the review period, the euro also appreciated vis-à-vis currencies of commodity-exporting countries, while its development against currencies of emerging economies in Asia was mixed. As far as currencies of other EU Member States are concerned, the exchange rate of the euro strengthened vis-à-vis the Romanian leu (by 1.3%) and, marginally,

vis-à-vis the Czech koruna (by 0.1%) and the Swedish krona (by 0.1%). Meanwhile, it depreciated slightly against the Croatian kuna (by 0.1%), as well as against the Polish

zloty (by 0.4%) and the Hungarian forint (by 0.6%).

8.5 Impact of Global Economic Development on Ethiopian Economy

During the period under review, the global economic activity has gradually recovered that could in turn affect the external sector of Ethiopia. Net receipt from export of services improved by 145.2% vis-à-vis last year same period. FDI also increased by 173.6% in relation to last year same period. However, despite the gradual recovery of the global economy, both net private and public transfer declined by 17% and 93.2%, respectively, vis-à-vis last year same period. Besides, export had not yet responded to the recovery of the global economic activity. Compared to last year same period, exports have declined by 4.9%. A fall in the prices of major export commodities of the country in the international market and decline in the production of some of the export commodities are among the major factors behind export decline. On the other hand, imports have risen by 13.3% vis-à-vis last year same period mainly driven by larger cereal imports and higher fuel import bill due to increased fuel demand of the country.

Consequently, balance of payments deficit widened in relation to the