

VIII. International Economic Developments

8.1 Overview of the World Economy⁸

The global economy continues to expand at a modest pace. Growth prospects in emerging markets seem to be losing some momentum, but there are signs that the outlook for growth is firming up in key advanced economies. The uncertain and fragile nature of the global recovery has been highlighted by the recent volatility in financial markets. Consumer prices picked up again in June in a number of advanced and emerging economies, but overall global inflation remains contained as a result of abundant spare capacity. Growth has started to gain some traction in a few advanced economies, but the pace of recovery is likely to remain moderate, as activity is restrained by ongoing balance sheet repair, fiscal tightening and continuing tight credit conditions in some countries. Growth prospects in emerging markets have softened recently as weaker domestic demand, tightening financing conditions in some countries and a weak external environment weigh on activity. However, growth in these economies remains

substantially higher than in advanced economies, thereby making a significant contribution to global economic activity.

⁸Sections 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 second quarter of 2013. According to the “advance” estimate by the Bureau of Economic Analysis, real GDP increased at an annualized quarterly rate of 1.7 percent in the second quarter of 2013, up from the downwardly revised 1.1 percent growth recorded in the previous three months. The increase in the second quarter was driven by personal consumption expenditure although it had decelerated somewhat from the previous quarter and by strong private fixed investment, in both the non-residential and residential segments. In contrast, government consumption

The Japanese economy continued to expand at a robust pace, with domestic demand and the external sector both contributing positively to growth. Sentiment indicators suggest further solid growth over the remainder of the year. On the domestic side, industrial production increased by 1.4 percent on a quarterly basis, although it dropped in June by 3.3 percent month on month. Growth in private consumption declined in June, although at a slower pace than in the previous month. Meanwhile, real exports and imports of goods increased in

continued to be a drag on growth for the third consecutive quarter, although the decline in the second quarter was relatively small (-0.4 percent annualized), given that government consumption had already contracted substantially in the previous two quarters.

Moreover, the contribution from net exports turned negative, with exports declining more than imports. Real disposable personal income declined significantly, driving the personal savings rate down to its lowest post-crisis level of 2.5 percent compared with 5.3 percent in the final quarter of 2012.

June by 2 percent and 3.1 percent month on month, respectively.

In the United Kingdom, economic growth gained momentum in the first half of 2013. Real GDP increased by 0.6 percent quarter on quarter in the second quarter of this year, according to the preliminary estimate. This increase was mainly due to growth in the services sector, although the industrial and construction sectors also made positive contributions. Despite the relatively strong growth dynamic during the first half of 2013, the pace of the economic recovery is

likely to remain gradual. Private and public sector balance sheet adjustment, notwithstanding recent progress, is set to constrain domestic demand for some time, while prospects for export growth remain modest. Weak household real income growth is also likely to dampen domestic demand, although labour markets have remained relatively resilient, with the unemployment rate hovering just below 8 percent. On the other hand, In June 2013 the headline inflation rate increased by 0.2 percentage point to 2.9 percent. Looking ahead, the steady improvement in the main survey indicators in recent months suggests that the recovery will continue in the short term.

In China, data releases continue to point to a slowdown in the growth momentum. Real

8.2 Inflation Developments

In the majority of advanced economies, inflation increased further in June. In the OECD area, annual headline consumer price inflation rose to 1.8 percent in June from 1.5 percent in May, driven by higher energy and food prices. The increase in annual headline inflation was observed in the majority of the

GDP growth decelerated to 7.5 percent in the second quarter of 2013, from 7.7 percent in the first three months of the year. Growth was driven by strong investment and, to a lesser extent, consumption. The sluggish external environment is a key factor behind the loss in the growth momentum. Given China's export-oriented economic structure, weak external demand together with the strengthening of the renminbi in the first half of the year weighed on exports, which declined in June compared with a year ago. Accordingly, manufacturing growth slowed down, as evidenced by a further decline in industrial production growth in June. Imports also declined, partly reflecting China's close integration in global supply chains. Credit and loan growth slowed down further in June, but remained well above nominal GDP growth.

OECD countries, but was particularly sharp in the United States, Japan and Canada.

In United States, annual CPI inflation increased by 0.4 percentage point to 1.8 percent in June, from 1.4 percent in May. This increase was largely due to higher energy price inflation, which moved into

positive territory after three consecutive months of negative growth rates. Food price inflation remained at 1.4 percent, whereas core inflation fell slightly to 1.6 percent,

services. For the second quarter of 2013 as a whole, annual CPI inflation averaged 1.4 percent, down from 1.7 percent in the first quarter. Looking ahead, inflation is expected to remain contained as considerable spare capacity in the economy persists.

In Japan, Consumer price inflation has maintained an upward trend since the beginning of the year, with the headline index moving out of negative territory in June 2013. Annual consumer price inflation increased to 0.2 percent in June, compared with -0.3 percent in the previous month, largely owing to increasing energy prices. Accordingly, annual core consumer price inflation (excluding food, beverages and energy) picked up to a lesser extent, from -0.4 percent to -0.2 percent in June.

In United Kingdom, annual CPI inflation has stayed relatively high amidst some volatility in recent months. This volatility has mainly been owing to one-off factors. In June 2013 the headline inflation rate

from 1.7 percent in May, on account of subdued increases in prices for medical care and transportation

increased by 0.2 percentage point to 2.9 percent, while CPI inflation excluding energy and unprocessed food remained steady at 2.5 percent. Looking ahead, it is expected that inflationary pressures will be contained by existing spare capacity in labour and capital utilization in the medium term. However, rises in administered and regulated prices, as well as the pound sterling's depreciation earlier this year, could put some upward pressures on inflation. At its meeting on 4 July 2013, the Bank of England's Monetary Policy Committee maintained the policy rate.

In China, Annual CPI inflation stood at 2.7 percent in June, well below the 3.5 percent target for 2013, while PPI inflation has remained negative since March 2012. Credit and loan growth slowed down further in June, but remained well above nominal GDP growth.

8.3 Commodity price

With regard to energy price developments, Brent crude oil prices decreased by 1.0 percent 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

8.4 Exchange Rate Developments

Over the past month the euro remained broadly unchanged against the currencies of most of its trading partners. On 3 July 2013 the nominal effective exchange rate of the euro, as measured against the currencies of 21 of the euro area's most important trading partners, stood 0.1 percent above its level at the beginning of June, and 4.2 percent above the level a year earlier.

In bilateral terms, over the past month the euro depreciated slightly against most major currencies, including the US dollar (by 0.4

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 percent 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 percent lower towards the end of March 2013 compared with the same period a year earlier.

percent), the Japanese yen (by 1.2 percent) and the pound sterling (by 0.3 percent), amid changing expectations about future inflation differentials and interest rate developments. During this period, the euro broadly appreciated against the currencies of other EU Member States, as well as against the currencies of major emerging economies and commodity-exporting countries, including the Australian dollar (by 6.1 percent), the Canadian dollar (by 1.6 percent) and the Norwegian krone (by 4.5 percent). The currencies participating in ERM II remained broadly stable against the euro, trading at, or close to, and their respective central rates.

8.5 Impact of Global Economic Development on Ethiopian Economy

The slow growth in global economic activity has to some extent affected the external sector of Ethiopia. Export earnings during fourth quarter of 2012/13 declined by 13.9 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 fourth quarter of

2012/13 rose by 20.6 percent presumably due to a strong rise in overseas employment especially in the UAE. While, receipts from private transfers declined by 1.7 percent during the fourth quarter of 2012/13 vis-à-vis last year same period, due to decrease in NGO's transfers by 9.8 percent. FDI inflows also increased by 5.9 percent in relation to last year the same period.

On the other hand, fuel import bill went down by 11.1 percent mainly due to decline in international oil price and volume of import. Looking ahead, world oil price will tend to slow down thereby reducing the foreign exchange requirement of sector.