Part I Recovery of the World Economy with Regional Difference and its Impact on Japanese Enterprises

Chapter 1 Trends in the global economy

This chapter provides an overview of the recent trends in the global economy and future prospects and also takes a look at the matters that have significantly affected the global economy since 2022, such as the trends in inflation, monetary policy measures taken to stabilize prices, and the situation of debts, mainly in emerging and developing countries.

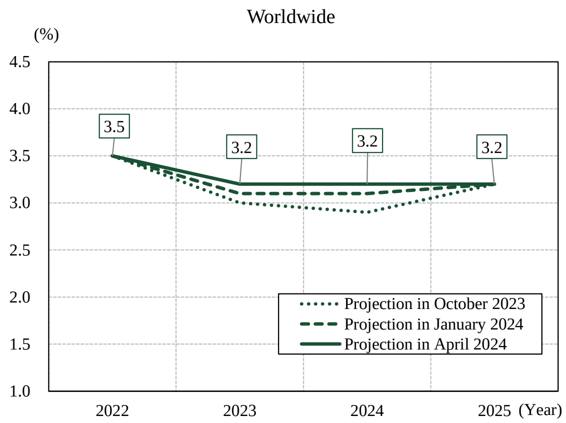
Section 1 The global economic status and outlook

This section provides an overview of the recent trends in the global economy and future prospects, focusing mainly on the World Economic Outlook of the International Monetary Fund (IMF).

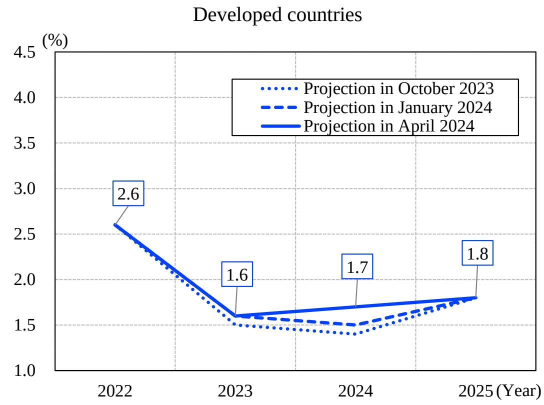
1. The global economic status and outlook

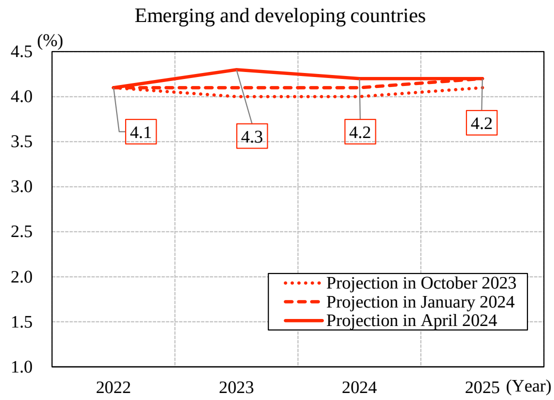
In 2023, the global economy has shown a firmer growth than initially expected. According to the IMF,[1] in 2022, the rapid growth due to recovery from the COVID-19 pandemic slowed down because of the acceleration of inflation and other factors, and as a result, at first, there were concerns that the effects of those factors would continue in 2023, triggering global stagflation or a recession. However, because the inflation subsided more quickly than expected and also because demand was supported by supply-side expansions due mainly to a higher-than-expected rise in the labor participation rate and by higher-than-expected increases in items such as personal consumption and government expenditure, the projected growth rate of the global economy (real GDP growth rate) in 2023 was revised upward successively. The growth rate projected as of April 2024 is 3.2% for the global economy, 1.6% for developed countries, and 4.3% for emerging and developing countries (Figure I-1-1-1).

Figure I-1-1-1. Projection of real GDP growth rates



[1] IMF *WEO* (April 2024).





Source: *WEO* (April 2024, January 2024, and October 2023) (IMF).

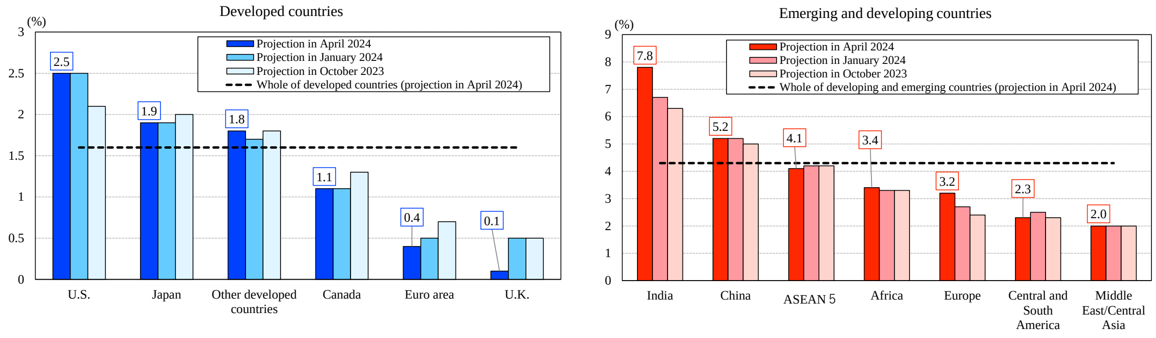
However, the strength of economic recovery in 2023 differed across countries and regions. According to the IMF, among developed countries, the projected growth rate of the United States is the highest and much higher than the projected growth rate of the whole of developed countries. The projected growth rate of the United States has been revised upward because of the underlying firmness of the country's growth. The projected growth rate of Japan is also higher than the projected growth rate of the whole of developed countries. On the other hand, the projected growth rates of the euro area and the United Kingdom are much lower than the growth rate of the whole of developed countries and have been revised downward, reflecting the effects of the Russian aggression against Ukraine and other developments. In short, among developed countries, there is a gap in the growth rate between the United States and other countries and regions, and the gap is widening as a trend.

Among emerging and developing countries, the projected growth rate of India is much higher than the projected growth rate of the whole of emerging and developing countries and has continually been revised upward. Meanwhile, the projected growth rates of China and ASEAN5 are similar to the projected growth rate of the whole of emerging and developing countries. On the other hand, the projected growth rates of emerging and developing countries in Europe, Africa, Central and South America, and the Middle East/Central Asia are much lower than the projected growth rate of the whole of emerging and developing countries. In short, among emerging and developing countries, too, the growth rates differ across regions (Figure I-1-1-2).

According to trial calculations[2] made by Bloomberg based on the World Economic Outlook of the IMF, over the next five years, China will make the greatest contribution to global economic growth, and its contribution will be larger than the contribution of the whole of the G7 countries. Specifically, in the period from 2024 to the end of 2029, China's contribution to global economic growth is projected at around 21%, and the whole of the G7 countries' contribution is projected at around 20%. Twenty countries are expected to together account for 75% of the global economic growth, with the top four countries projected to make up more than 50%. The top four are China, India, the United States, and Indonesia.

2 https://www.bloomberg.co.jp/news/articles/2024-04-19/SC5GQLT0G1KW00

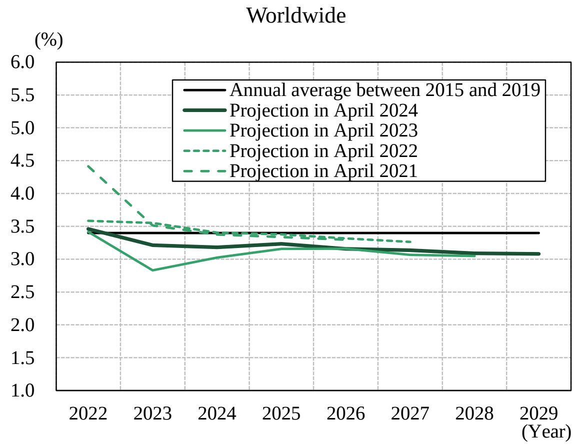
Figure I-1-1-2. Real GDP growth rates by country and region in 2023

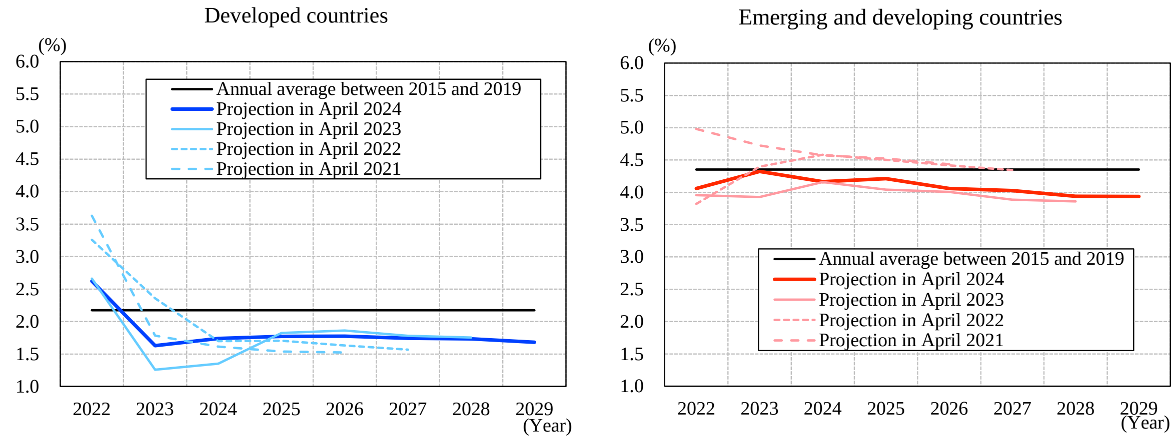


Note: ASEAN5 consists of Indonesia, Malaysia, the Philippines, Singapore and Thailand.
Source: *WEO* (April 2024, January 2024, and October 2023) (IMF).

Going forward, the growth rate of the global economy is projected to stay, for the moment, below the average growth rate during the pre-COVID-19 period (from 2015 to 2019). According to the IMF, the global economy is projected to show firmer-than-expected growth in 2023, and the growth rates for the following several years projected as of April 2024 have been revised upward from the projections made in April 2023 for the entire world and for the whole of emerging and developing countries. On the other hand, those new projected rates are still low compared with the projections made in April 2021 and in April 2022. Meanwhile, the growth rate of developed countries projected as of April 2024 is higher than the projections made in April 2021 and in April 2022, but for any of the entire world, developed countries, and emerging/developing countries, the long-term economic growth rate projected as of April 2024 remains lower than the average growth rate during the period from 2015 to 2019. According to the IMF, among the factors behind the slowdown in economic growth that is expected to continue for the moment are monetary tightening in various countries, the retrenchment of fiscal support measures, and low productivity growth (Figure I-1-1-3).

Figure I-1-1-3. Long-term projection of real GDP growth rates and changes therein





Source: *WEO* (April 2024, April 2023, April 2022, and April 2021) (IMF).

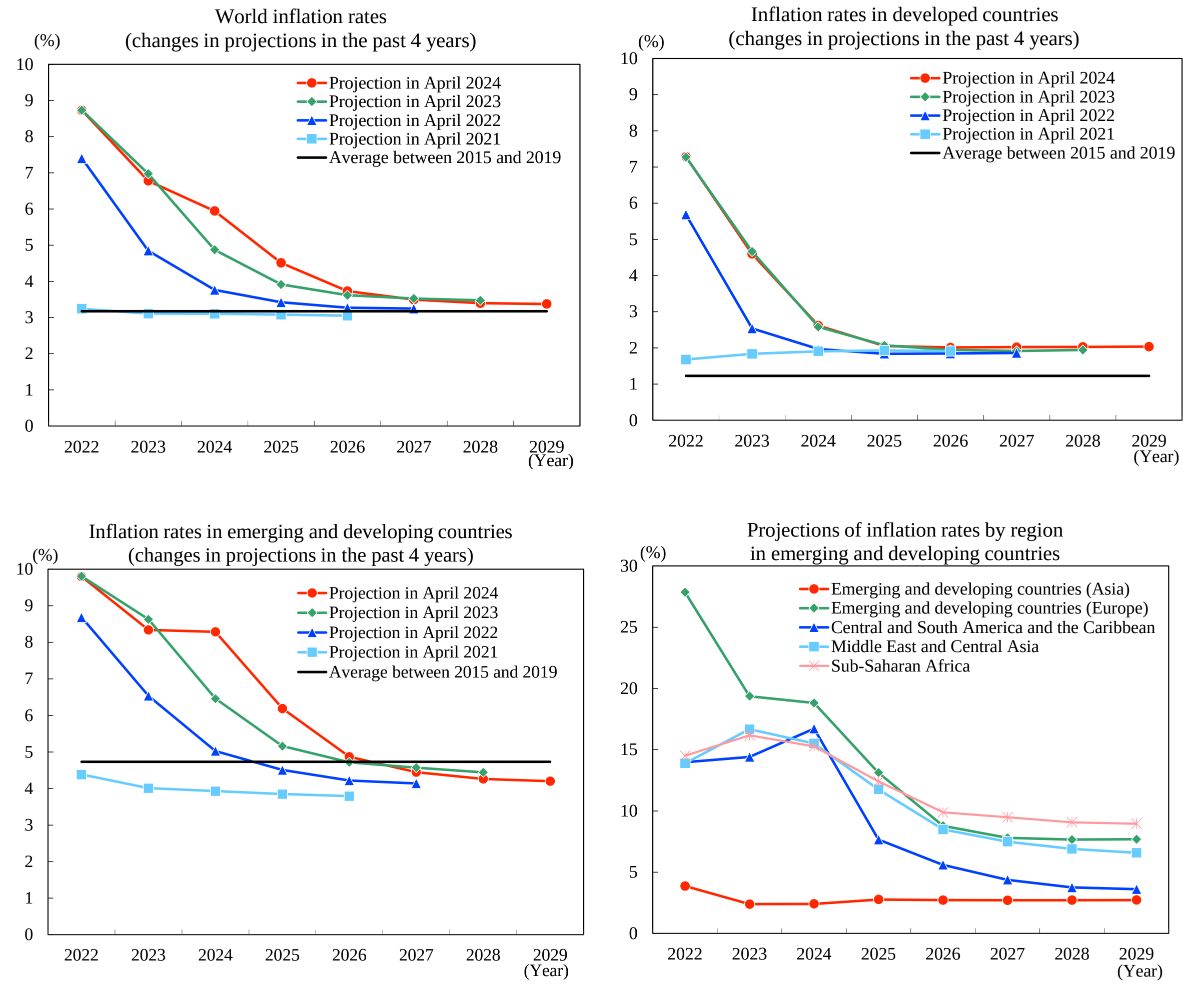
As described above, in 2023, the global economy showed firmer growth than initially projected due to the slowdown in inflation, but the growth rate differed across countries and across regions. At the same time, the growth rate of the global economy is expected to stay below the pre-COVID-19 level for the moment.

2. Trends in inflation and monetary policy

If we look back at the global inflation trend in recent years, we see that while demand recovered in the United States and European countries, which reopened economic and social activities earlier than other countries and regions during the recovery from the COVID-19 pandemic, inflation started to emerge as a global undercurrent in 2021 due to supply constraints caused by supply chain disruptions and labor shortages, and against the backdrop of the Russian aggression against Ukraine, supply-side risks increased further, leading to a global rise of inflation in and after 2022.

In its analysis, the IMF revised the projected rate of inflation in April 2023 upward from the projection made in April 2022. However, in the most recent projection, made in April 2024, the IMF held back from revising upward the projection for developed countries, reflecting the recent subsiding of inflation. While the IMF revised upward the projected global rate of inflation in 2024 and 2025 due to the effects of persistent inflation in some emerging and developing countries, global inflation is expected to remain steady, although making prejudgments must be avoided. As for the projection for emerging and developing countries classified by region, a higher rate of inflation is projected for emerging and developing countries in Europe than for their equivalents in other regions, and this apparently reflects rising energy prices due to restrictions on the supply of natural gas imposed by Russia. A high rate of inflation is also projected for the Middle East/Central Asia region, which apparently reflects the effects of the tightening of the supply-demand balance regarding foodstuffs caused by the Russian aggression against Ukraine (Figure I-1-1-4). As for the policy interest rates in major countries where interest rate hikes have been generally continued since 2022 in order to curb inflation, interest rates have recently been kept unchanged in some countries following the recent subsiding of inflation (Figure I-1-1-5).

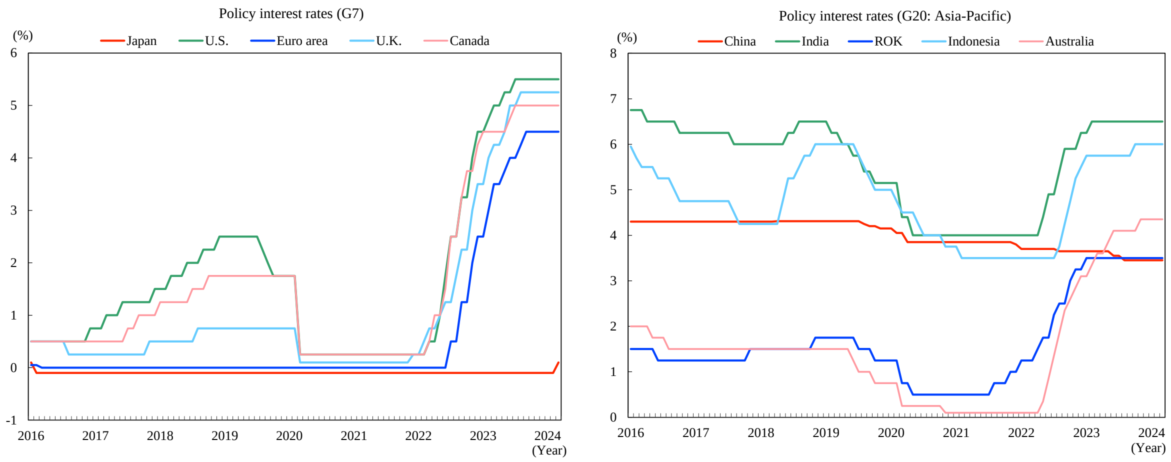
Figure I-1-1-4. Projection of inflation rates

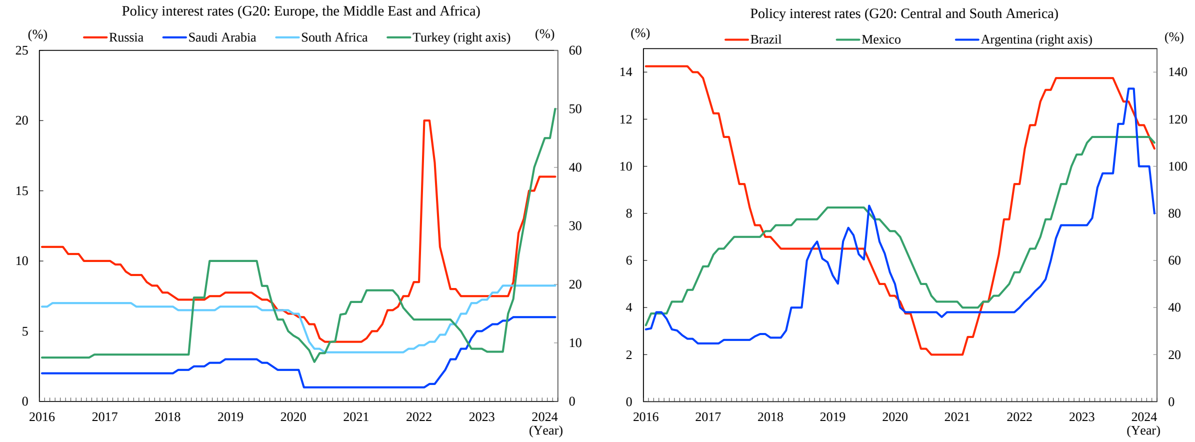


Note: All data on the projections of inflation rates by region in emerging and developing economies are based on the projection in April 2024.

Source: *WEO* (IMF).

Figure I-1-1-5. Changes in policy interest rates in G20 countries and regions





Source: CEIC.

3. Trends in debts in emerging and developing countries

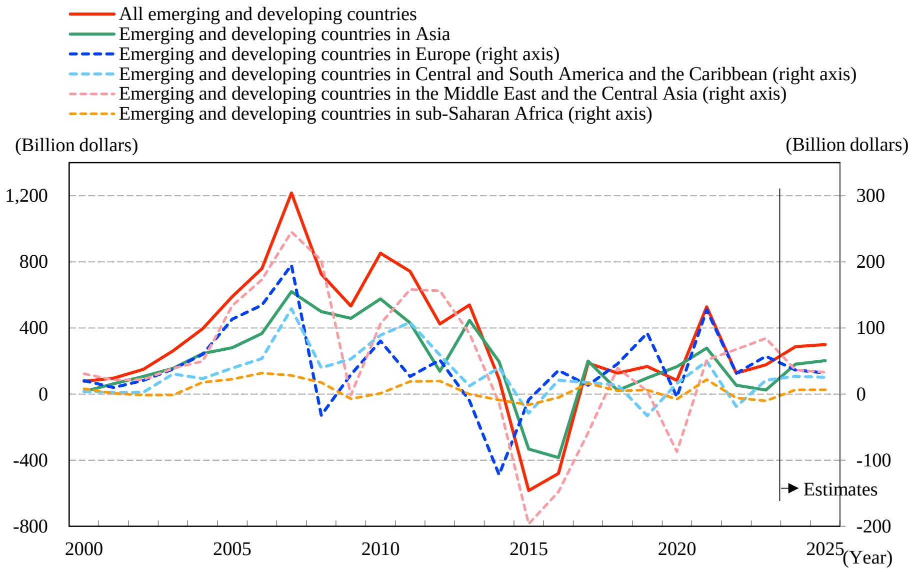
In the most recent two years, 2022 and 2023, inflation rose globally due to increased supply-side risks caused by delays in the recovery of supply after the COVID-19 pandemic and the Russian aggression against Ukraine. As inflation has started to subside recently, there are signs of an exit from the monetary tightening cycle, although making prejudgment must be avoided. On the other hand, the fiscal burden on governments has increased because of the need for healthcare support measures intended to contain the COVID-19 pandemic and additional fiscal stimulus measures to support the everyday lives of low-income households in particular, including measures to mitigate the impact of inflation. In particular, emerging and developing countries have to take on more external debts denominated in foreign currencies as a countermeasure to the weakness of foreign demand, mainly in developing-country markets, which is their main source of foreign currency earnings, and this situation suggests the possibility that debt risk is rising. In view of that possibility, here, let us look at the status of external debts in emerging and developing countries from the viewpoint of several indicators.

First, let us look at changes in the amount of foreign currency reserves, which are tapped as financial sources of debt repayments when emerging and developing countries whose external debts are mostly denominated in foreign currencies become hard-pressed to make repayments, or are used for exchange market interventions at the time of rapid depreciation of domestic currencies. In 2023, the most recent year for which actual amounts of foreign currency reserves are available, although the reserve amount decreased slightly in Asia and sub-Saharan Africa compared with the previous year, the margin of decrease was small compared with the steep declines observed in the past, and in 2024 and beyond, a significant decrease is not expected (Figure I-1-1-6).

Next, let us look at changes in the outstanding balance of external debts. In absolute terms, the outstanding balance of external debts increased slightly in all regions in 2023 compared with the previous year, but the outstanding balance has remained steady everywhere as a trend, and a significant increase is not expected in 2024 and beyond. As a proportion of nominal GDP, although the outstanding balance of external debts increased steeply in sub-Saharan Africa in 2023 compared with the previous year, the balance has remained stable on the whole (Figure I-1-1-7). As for changes in the amount of external debt repayments, the repayment amount has increased in absolute terms, but as a proportion of nominal GDP, the amount of repayments made in 2023 remained stable except in sub-Saharan Africa, and the amount of repayments to be made in 2024 and beyond is projected to continue to be stable. The amount of external debt repayments in sub-Saharan Africa, too, is expected to return to the normal level in 2024 and beyond (Figure I-1-1-8). In the White Paper on International Economy and Trade 2023, it was affirmed that the outstanding balance of external debts in emerging and developing countries stayed stable even while those countries had to engage in a difficult balancing act of reconciling the need to control rising inflation and keep their domestic currencies stable with economic growth, and that situation appears to remain in place.

Compared with the region-by-region situation examined above, the nation-by-nation situation requires that careful attention be paid to the presence of some countries facing increasing debt risk. Regarding the nation-by-nation situation of external debts, the World Bank compiles the International Debt Statistics and monitors the debt status of low- and middle-income countries. Figure I-1-1-9, prepared based on those statistics, is a list of countries arranged in descending order in terms of the share of the ratio of the outstanding balance of external debts to export and primary income, which is an indicator of debt repayment capacity. The list is comprised not of all medium- and low-income countries but of the 38 countries where the outstanding balance of external debts is larger than the average balance among the 75 countries to which the International Development Association, a World Bank Group institution that extends loans to impoverished countries, have afforded loan eligibility. Of the 38 countries, the 18 that are accompanied by the circle mark (O) are impoverished countries that have been afforded loan eligibility by the IDA, while the other 20 are countries saddled with an increasing burden of external debt repayment regardless of their level of impoverishment. The latter group of countries includes some for which assistance from the IMF has expanded, such as Argentina and Egypt. Careful attention should be paid to the risk situation of those countries.

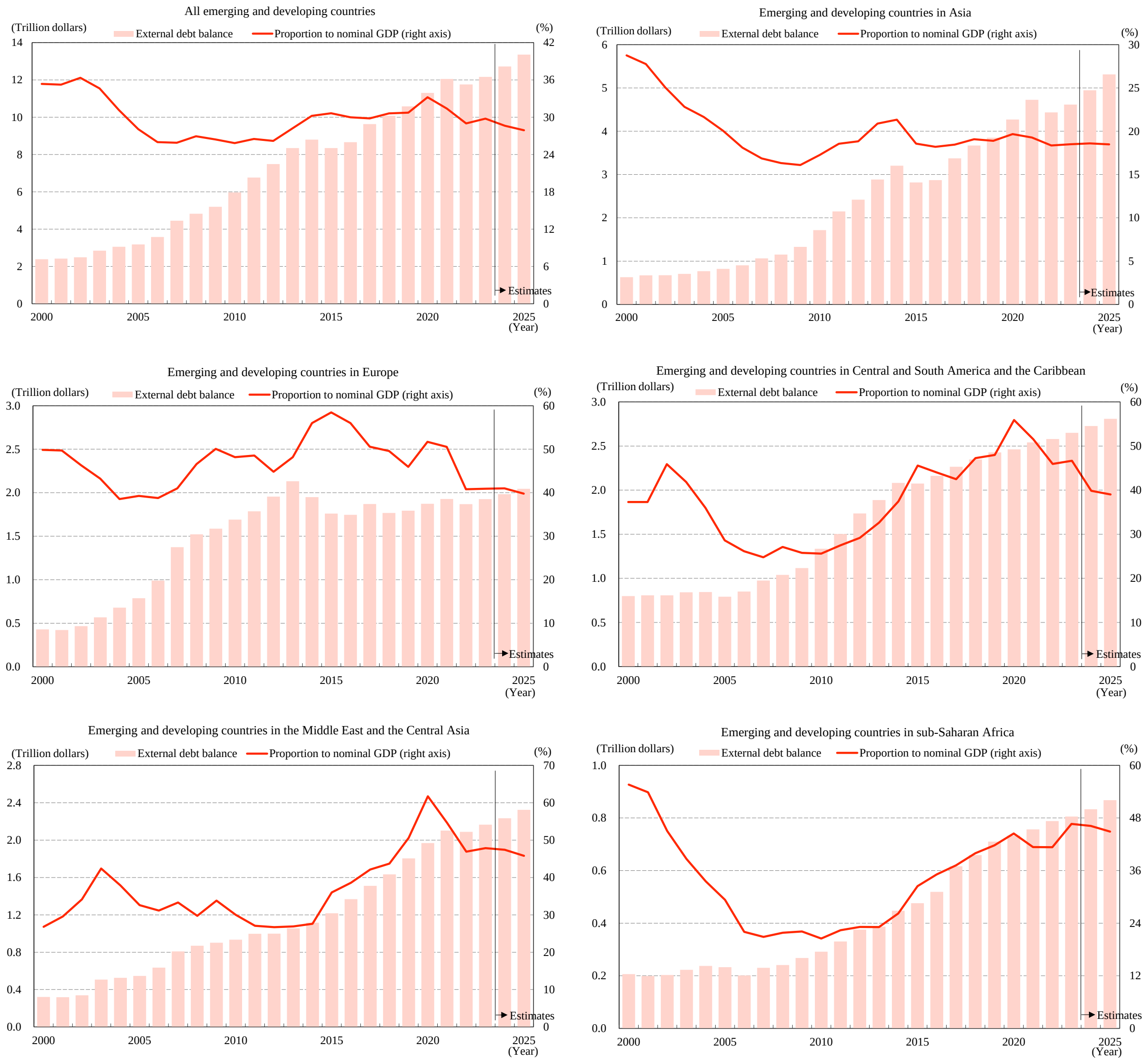
Figure I-1-1-6. Changes in foreign currency reserves in emerging and developing regions



Note: The figures are year-on-year changes. Those in 2024 and 2025 are IMF estimates.

Source: *WEO* (IMF).

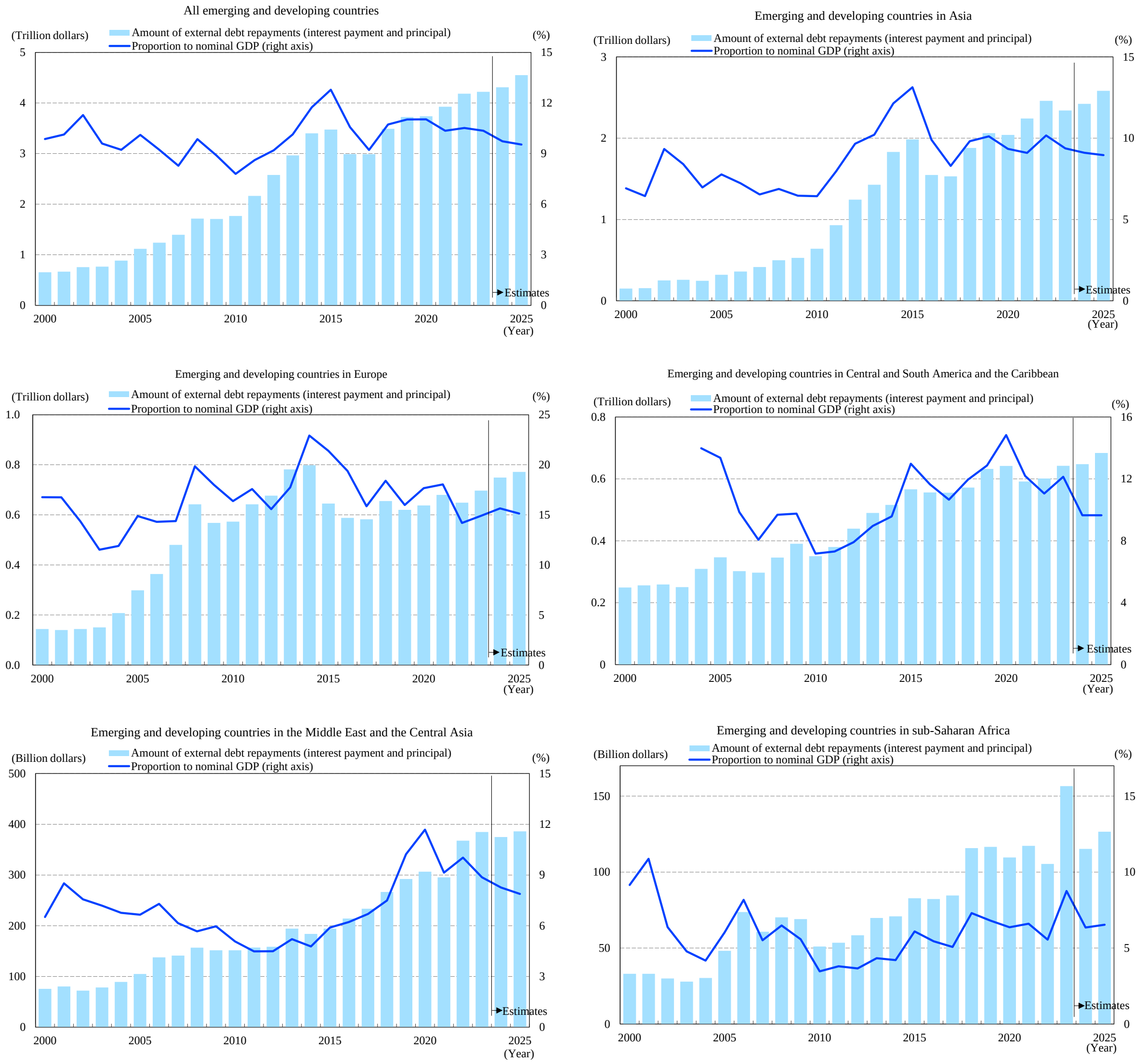
Figure I-1-1-7. Amount of the outstanding balance of external debts in emerging and developing regions



Note: The figures in 2024 and 2025 are IMF estimates.

Source: *WEO* (IMF).

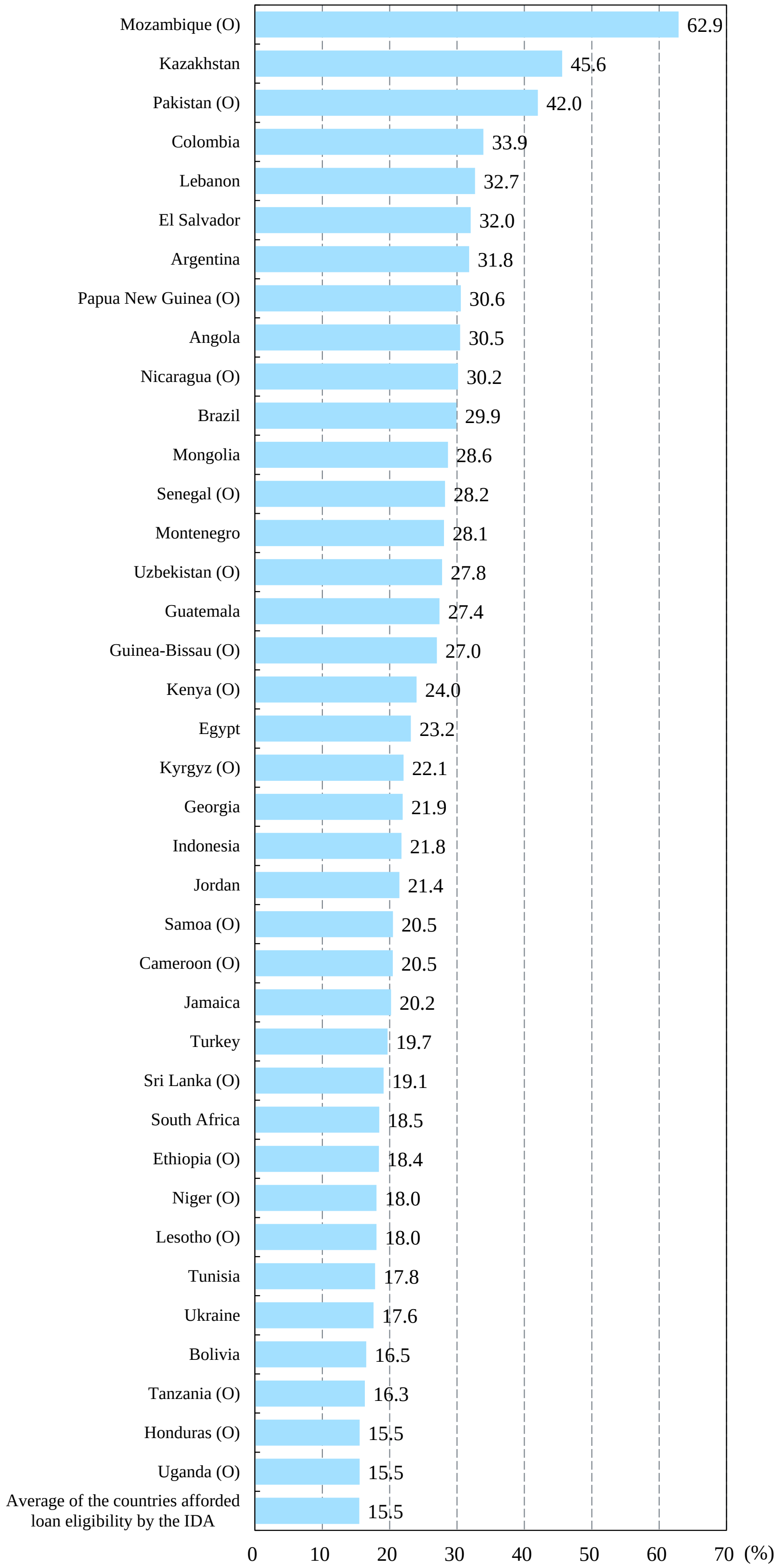
Figure I-1-1-8. Amount of external debt repayments in emerging and developing regions



Note: The figures in 2024 and 2025 are IMF estimates. As for external debt repayment to nominal GDP between 2000 and 2003 in emerging and developing countries in Central and South America and the Caribbean, no data is available

Source: *WEO* (IMF).

Figure I-1-1-9. Rates of exports and primary income to external debt repayments



Note: The figure shows the achievements in 2022. It describes 38 countries exceeding the average of the countries afforded loan eligibility by the IDA. Eighteen countries accompanied by the circle mark (O) are the countries afforded loan eligibility by the IDA.

Source: World Bank.