
Global Economic Forecasts

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The International Monetary Fund (IMF) in its *World Economic Outlook*² forecast of September 2002 projected slower global economic growth in 2002 and 2003, following a global recovery since late 2001 with trade and industrial production picking up across the world. Concerns about the sustainability of the recovery have risen significantly. Financial markets have weakened markedly, and equity markets have fallen sharply since end-March 2002 accompanied by a depreciation of the U.S. dollar, says the IMF report.

The IMF report, however, stated that—with inflation subdued—macroeconomic policies in the advanced countries will need to remain accommodative if the recovery falters, and additional monetary easing needed. The IMF report called for focusing on policies to reduce dependence on the United States as the engine of global growth, and to support an orderly reduction in global imbalances which remain a serious risk to the world economy.

The global economic recovery that has been under way since the turn of the year has been led by the United States, and underpinned by a pickup in global industrial production and trade. Allowing for the recent substantial downward revision to GDP growth in 2001 in the United States, the global slowdown still proved to be more moderate than previous downturns. This owes much to an aggressive policy response, particularly following the terrorist events in the United States on September 11, 2001, which in turn was made possible by the improvements in economic fundamentals during the 1990s. Other contributing factors included the decline in oil prices in 2001, the resilience of the global financial infrastructure to a

variety of substantial shocks, and the short-lived impact of the terrorist attacks on investor and consumer confidence.

Following the upturn during the first quarter of 2002, global financial markets have weakened significantly, industrial countries equity markets have fallen sharply. This has reflected a combination of factors, including earlier optimistic profit forecasts and widespread concerns about accounting and auditing practices, particularly in the United States. In currency markets, the U.S. dollar has depreciated markedly against the euro and yen, although more moderately in trade-weighted terms. This depreciation appears to have reflected, in part, a diminution in the attractiveness of U.S. assets, a slowdown in euro area institutions' diversification away from euro-denominated assets, and growing concerns about the large U.S. current account deficit.

The IMF projected world output to grow by 2.8 percent in 2002 and by 3.7 percent in 2003, following growth rates of 4.7 percent in 2000 and 2.2 percent in 2001. The major advanced economies are projected to grow by 1.4 percent in 2002 and 2.3 percent in 2003, following growth rates of 3.4 percent in 2000 and 0.6 percent in 2001. In the United States economic growth is projected to reach 2.2 percent in 2002 and 2.6 percent in 2003, following growth rates of 3.8 percent in 2000 and 0.3 percent in 2001. In the euro area, growth is projected to reach 0.9 percent in 2001, and 2.3 percent in 2003, following growth rates of 3.5 percent in 2000 and 1.5 percent in 2001. In Canada, growth is projected to reach 3.4 percent in both 2002 and 2003.

In Japan, growth rates are projected to decline by 0.5 percent in 2002, but increase in 2003 by 1.1 percent, following growth rates of 2.4 percent in 2000 and a decline in growth rates of 0.3 percent in 2001. In Germany, economic growth is projected to reach 0.5 percent in 2002 and 2.0 percent in 2003, following growth rates of 2.9 percent in 2000 and 0.6 percent in 2001. In France, economic growth is projected to reach 1.2 percent in 2002 and 2.3 percent in 2003, following growth rates of 4.2 percent in 2000 and 1.8 percent in

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² International Monetary Fund, *World Economic and Financial Surveys – World Economic Outlook*, September 2002, also found at Internet address <http://www.imf.org/external/pubs/ft/weo/2002/02/index.htm>.

2001. In Italy, economic growth is projected to reach 0.7 percent in 2002 and 2.3 percent in 2003, following growth rates of 2.9 percent in 2000 and 1.8 percent in 2001. In the United Kingdom, economic growth is projected to reach 1.7 percent in 2002 and 2.4 percent in 2003, following growth rates of 3.1 percent in 2000 and 1.9 percent in 2001. Other advanced economies are projected to grow by 2.6 percent in 2002 and 3.3 percent in 2003, following growth rates of 5.3 percent in 2000 and 1.6 percent in 2001.

The IMF projects growth rates in the industrializing Asian economies to reach 4.7 percent in 2002 and 4.9 percent in 2003, following growth rates of 8.5 percent in 2000 and 0.8 percent in 2001. Developing countries as a group are projected to grow by 4.2 percent in 2002 and by 5.2 percent in 2003, following growth rates of 5.7 percent in 2000 and 3.9 percent in 2001.

Countries with economies in transition are projected to grow by 3.9 percent in 2002 and 4.5 percent in 2003, following growth rates of 6.6 percent in 2000 and 5.0 percent in 2001. Central and Eastern Europe economies are projected to grow by 2.7 percent in 2002 and 3.8 percent in 2003, following growth rates of 3.8 percent in 2000 and 3.0 percent in 2001. Growth rates for the Commonwealth of Independent States and Mongolia are projected to reach 4.6 percent in 2002 and 4.9 percent in 2003, following growth rates of 8.4 percent in 2000 and 6.3 percent in 2001. Russia's economy is projected to grow by 4.4 percent in 2002 and 4.9 percent in 2003, following growth rates of 9.0 percent in 2000 and 5.0 percent in 2001.

The IMF projects world trade volume of goods and services to increase by a meager 2.1 percent in 2002, but increase considerably by 6.1 percent in 2003. This

follows an increase of 12.6 percent in 2000 and a decline of 0.1 percent in 2001.

Consumer prices in advanced economies are projected to increase by 1.4 percent in 2002 and 1.7 percent in 2003, following increases of 2.3 percent in 2000 and 2.2 percent in 2001. In developing countries, consumer prices are projected to increase by 5.6 percent in 2002 and 6.0 percent in 2003, following increases of 6.1 percent in 2000 and 5.7 percent in 2001. In the transition economy countries, consumer prices are projected to moderate, increasing by 11.3 percent in 2002 and 8.8 percent in 2003, following increases of 20.2 percent in 2000 and 15.9 percent in 2001.

The assumptions that have been adopted by the IMF for the projections in their September 2002 Outlook are that: (a) real effective exchange rates will remain constant at their average level from July 19, 2002 to August 16, 2002, except for currencies participating in the European exchange-rate mechanism, which are assumed to remain constant in nominal terms relative to the euro; (b) established policies of national authorities will be maintained; (c) the price of oil will average \$24.40 a barrel in 2002, and \$24.20 in 2003, and will remain unchanged in real terms over the medium term; (d) the six-month London interbank offered rate (LIBOR) on U.S. dollar deposits will average 2.1 percent in 2002 and 3.2 percent in 2003; (e) the three-month certificate of deposit rate in Japan will average 0.1 percent in 2002, and in 2003; and that (f) the three-month interbank deposit rate for the euro will average 3.4 percent in 2002, and 3.8 percent in 2003. However, uncertainties surrounding these assumptions add to the margin of error, the report cautioned, that is involved in any event in these projections.