

MACROECONOMIC CLIMATE – FROM GLOBAL ECONOMY TO NATIONAL ECONOMY

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Abstract

In the recent period the real economy presented a slow YoY growth pace, at the global, European, regional, and national levels, in the context of the consequences of the overlapping shocks over the pasts quarters, including the high level of the financing costs and the persistence of the geo-political tensions. However, at the beginning of 2024 there can be noticed the accumulation of stabilization signals for the macroeconomic climate, given the slowing-down of the inflationary pressures and the positive dynamics on the financial markets. This paper presents the recent macroeconomic developments and estimates the dynamics of the potential growth pace (by implementing standard econometric tools and using the IMF database), within an approach from the global economy to the national economy. According to the results of the estimates the YoY pace of the potential output slightly improved at the global level recently, to the highest level since 2018. However, this improvement hides the divergence between the dynamics in the developed countries and the evolutions in the emerging economies.

Keywords: *global economy, potential output, economic divergence*

JEL Classification: E10, E30, E60

1. Introduction

The dynamics of the real economic activity has been recently confronted with the consequences of the overlapping shocks, including the high level of the financing costs and the persistence of the geo-political tensions (the crisis in Ukraine and the conflicts in the Middle East).

However, since the beginning of the year there can be noticed the accumulation of stabilization signals in terms of economic activity, given the slowin-down of the inflationary pressures (with impact for the expectations regarding the monetary policy decisions) and the positive dynamics on the international financial markets (at present the stock markets hover close to the record high levels).

This paper implements standard econometric tools and IMF database order to analyse the recent developments in terms of the macroeconomic climate and to estimate the dynamics of the YoY pace of the potential output, within an approach from the global economy to the national economy.

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According to the results the YoY pace of the potential output has recently slightly improved at the global level, but there persists the divergence among the developed and emerging economies.

The rest of the paper has the following structure: chapter 2 presents the recent macroeconomic developments; the methodology and the main results are briefly described in third chapter; the conclusions are drawn in the last chapter.

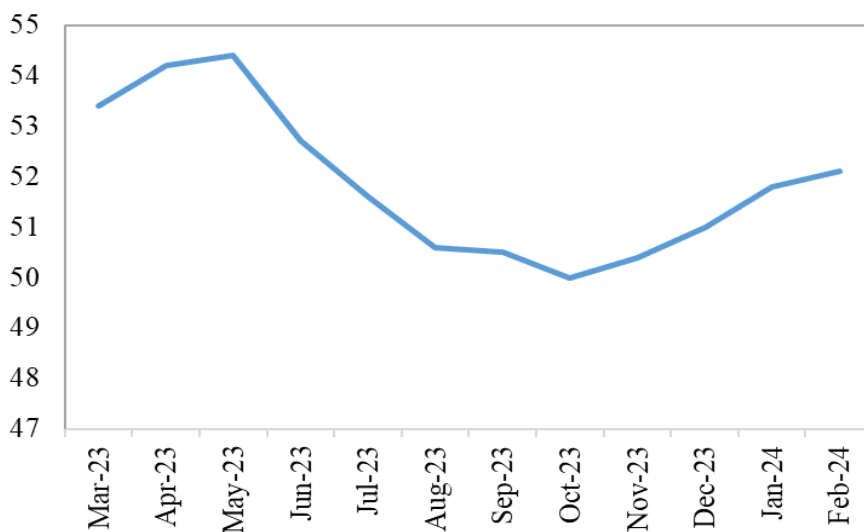
2. The recent macroeconomic developments – from global economy to the national economy

In the recent period there can be noticed the accumulation of stabilisation signals for the global macroeconomic climate, after the slowing down over the past quarters, determined by the high level of the inflationary pressures, financing costs, and uncertainties.

The stabilisation of the economic activity at the global level over the recent months was underpinned by several factors, including the prospects for the recalibration of the monetary policy in United States of America and Euro Area in 1H 2024 (given the convergence of the YoY pace of the consumer prices towards the target of the central banks) and the positive climate on the international financial markets.

For instance, the world economic activity grew for the fourth month in a row in February 2024, while the pace accelerated to the highest since June 2023, according to the PMI (Purchasing Managers' Index) estimated by Markit Economics, as can be noticed in the following chart.

Figure 1. The PMI Composite indicator (points)



Source: Markit Economics (2024)

There can be noticed the advance of the new orders, for the fourth month in a row, by an accelerating pace, an evolution expressing positive prospects for the dynamics of the output in the short-run.

Overall, the manufacturing and the services sector grew in February 2024 by the strongest dynamics of the past nine and seven months, respectively.

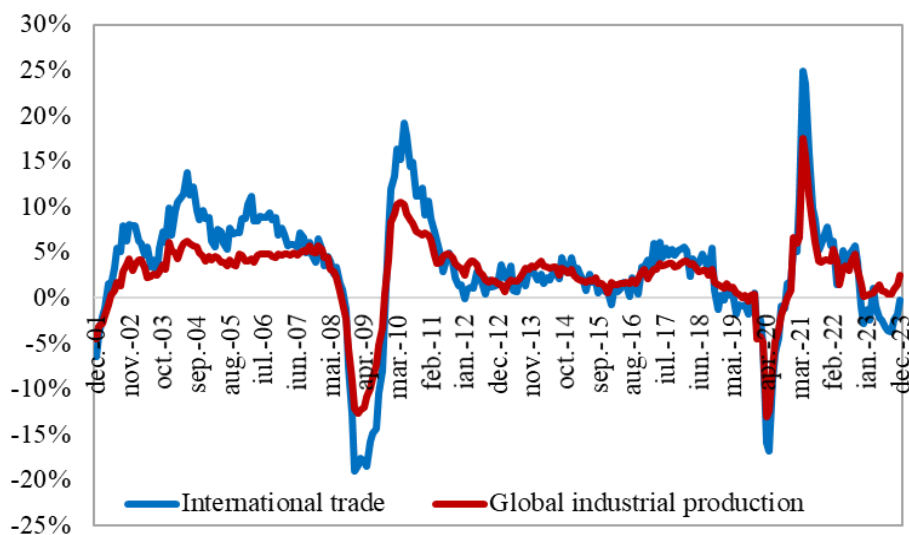
Furthermore, the YoY pace of contraction of the international trade flows diminished in intensity in December, to -0.2%, the best dynamics since March 2023, according to the figures released by the Bureau of Economic Policy Analysis in Netherlands

However, in 2023 the global trade declined by 1.9% YoY, an evolution determined by several factors, including the fragmentation between the euro-atlantic and eur-asian blocks and the increase of the financing costs.

The improvement of the global trade had a positive impact for the world industrial production, with the YoY pace accelerating to 2.5% in December, the strongest pace since October 2022, according to the same source.

Therefore, in 2023 the global industrial production grew by 0.9% YoY in 2023, slowing down from 3.2% YoY in 2022, as can be noticed in the following chart.

Figure 2. Global trade vs. world industrial production (YoY)



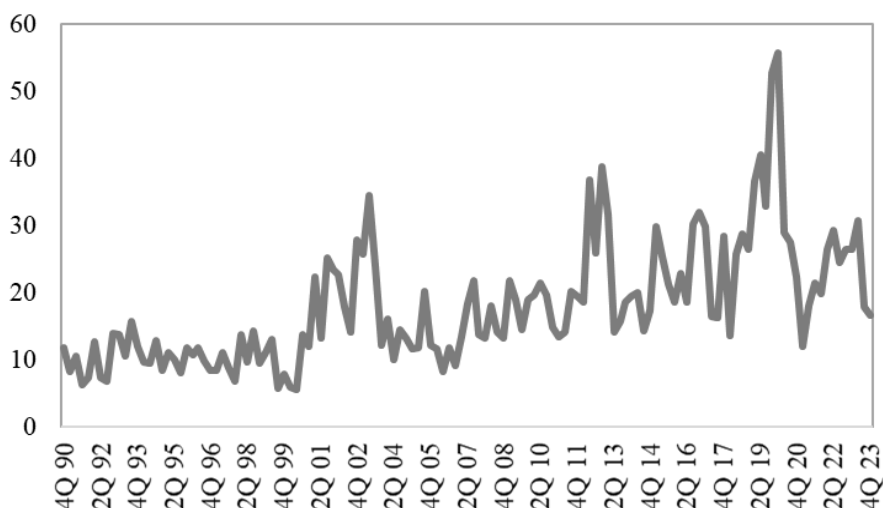
Source: Bureau of Economic Policy Analysis of Netherlands (2024)

Last, but not least, the uncertainty index at the global level improved at the end of 2023, the indicator estimated by Federal Reserve (FED) declining to the minimum since 1Q 2021, as can be noticed by the following chart.

This evolution reflects the fact that the households and the companies across the world incorporated already incorporated in their behaviour all the

consequences of the exogenous shocks, including the persistence of the geo-political tensions.

Figure 3. Global uncertainty index



Source: Federal Reserve (FED) (2024)

In fact, according to the figures released by the Stockholm International Peace Research Institute (SIPRI)¹ the military spending per capita at the global level hit a record high level in 2022 (over USD 47thousands), in the context of the outbreak of the crisis in Ukraine.

At the same time, we emphasize the continuity of the total confrontation (trade, digital, and military) between United States of America and China, the largest economies in the world, contributing by around 40% to the global GDP at present.

For instance, the share of the digital economy in the GDP of China is estimated at over 40% at present, a level four times higher compared to that in United States, according to the figures released by Statista².

In United States of America (the largest economy in the world, with a nominal dimension of USD 28tn at the end of 2023) the growth pace continued to accelerate in February, to the highest since June 2023, according to the PMI Composite Index estimated by Markit Economics³.

¹ Stockholm International Peace Research Institute (SIPRI) (2024). SIPRI Military Expenditure Database | SIPRI

² Statista (2024). U.S. digital economy value add 2022 | Statista

³ Trading Economics (2024). United States Composite PMI (tradingeconomics.com)

However, the leading economic indicators continued the contraction in January, by an accelerating MoM pace to 0.4%, as reflected by the figures released by the Conference Board⁴.

This evolution expresses prospects for the slowing down of the real economic activity in the short-run, after the acceleration to 2.5% YoY in 2023, according to the preliminary estimates of the Bureau of Economic Analysis⁵.

A deterioration of the economic activity in the short-run in USA is also reflected by the persistence of the interest rate spread (10 years – 3 months) in negative territory for the 16th month in a row in February, as reflected by the data published by the Federal Reserve (FED).

The Chinese economy also increased for the fourth month in a row in February, but with a pace in consolidation, according to the PMI Composite indicator estimated by Markit Economics⁶.

This evolution was determined by the improvement of the new orders, in the context of the increase of the foreign component for the second month in a row, expression of the stabilisation of the global trade.

In Euroland (the main economic partner of Romania) there can be noticed the improvement of the investors' confidence in February 2024, the indicator estimated by ZEW Institute from Germany reaching the highest level since February 2023⁷.

This evolution expresses prospects for the accelerating of the economic growth pace in 2024, after the GDP of the region grew by a slowing down pace to 0.5% in 2023, according to the preliminary estimates of Eurostat⁸.

Last, but not least, in Romania the YoY pace of the GDP decelerated to 2.1% in 2023, but there can be noticed the acceleration of the gross fixed capital formation (to 12% YoY), an evolution underpinned by the implementation of the EU programs for the development of the critical infrastructure.

On the other hand, the household consumption (the main component of the GDP) decelerated to 2.9% YoY in 2023, as reflected by the provisional data (1) published by the National Institute of Statistics at the beginning of March 2024⁹.

⁴ Conference Board (2024). US Leading Indicators (conference-board.org)

⁵ Bureau of Economic Analysis (2024). Gross Domestic Product, Fourth Quarter and Year 2023 (Second Estimate) | U.S. Bureau of Economic Analysis (BEA)

⁶ Markit Economics (2024). China Composite PMI (tradingeconomics.com)

⁷ ZEW Institute in Germany (2024). ZEW Financial Market Survey & ZEW Indicator of Economic Sentiment | ZEW

⁸ Eurostat (2024). ec.europa.eu/eurostat/documents/2995521/18507488/2-14022024-AP-EN.pdf/bd0e89a8-b0a6-0cb1-ec74-0992ab92c470

⁹ National Institute of Statistics, Romania (2024). Template comunicat presa (insse.ro)

The analysis from the supply side perspective emphasizes the increase of the constructions by 11% YoY in 2023, an evolution determined by the EU programs for the development of the critical infrastructure.

At the same time, the value added in the primary sector advanced by 10.2% YoY in 2023.

Last, but not least, the gross value added in IT&C climbed by 5.1% YoY last year.

On the other hand, the industry contracted by 2.3% YoY in 2023, due to the adjustments across the global trade and the increase of the financing costs.

At the same time, the economic confidence deteriorated in February 2024, the indicator estimated by the European Commission declining to the lowest level since September 2023.

3. Methodology and results

This paper employs standard econometric tools and the database of the International Monetary Fund (IMF) in order to estimate and assess the dynamics of the YoY pace of the potential output, from the global to the national economy.

On the one hand, the econometric filter Hodrick-Prescott (HP) is used in order to distinguish between the structural and the cyclical components of the YoY pace of the GDP (global, developed countries, emerging economies, Euro Area, and Romania).

On the other hand, the analysis employs the statistics of the International Monetary Fund (IMF) for the period 1980 – 2023¹⁰.

The Hodrick – Prescott filter¹¹ is one of the most employed econometric tools in order to distinguish between the structural (trend) and the cyclical components of the macroeconomic variables.

According to this method the structural component of the YoY pace of the GDP (potential output) is obtained from the following relation:

$$\text{Min} \sum_{t=1}^T (\ln Y_t - \ln Y_t^*)^2 + \lambda \sum_{t=2}^{T-1} ((\ln Y_{t+1}^* - \ln Y_t^*) - (\ln Y_t^* - \ln Y_{t-1}^*))^2 \quad (3.1)$$

In this relation Y_t , Y_t^* și λ represent the output, potential output, and the smoothness parameter (the lower its value, the closer is the pace of GDP to its trend).

In this paper the value applied for this parameter is 100, as also considered in the article of Hodrick-Prescott.

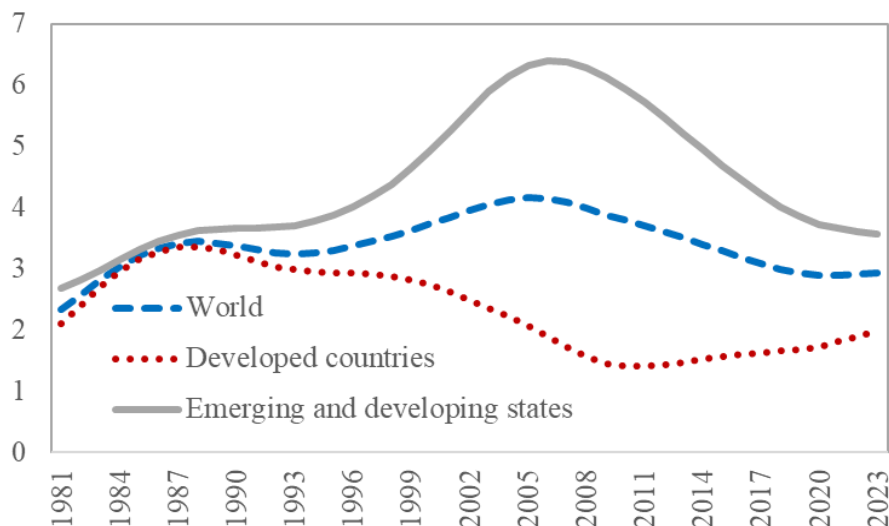
¹⁰ International Monetary Fund (2024). World Economic Outlook Databases (imf.org)

¹¹ Hodrick, R. and Prescott, E. C., 1997. Postwar U.S. Business Cycles: An Empirical Investigation. *Journal of Money, Credit and Banking*, 29 (1), pp. 1-16.

Annual data for the YoY pace of the GDP for the period 1980-2023 from the International Monetary Fund database were used in this analysis.

According to the results of the estimates the YoY pace of the potential output at the global level slightly improved to 2.94% in 2023, the highest level since 2018, as can be noticed in the following chart.

Figure 4. The YoY pace of the potential output (%)



Source: author's estimates

However, there can be noticed the divergence between the developed countries and the emerging and developing economies.

On the one hand, across the developed economies the YoY pace of the potential output improved from 1.90% in 2022 to 1.98% in 2023, the best dynamics since 2005.

This evolution was determined by the implementation of unprecedented policy-mix measures in order to counter the impact of the exogenous shocks over the past years.

In this context, we emphasize the programs implemented across the USA and European countries to contribute to the transition towards new growth and development models, based on the increase of the green energy, digitalization, and improvement of the structural resilience to shocks.

For instance, the YoY pace of the potential GDP improved in United States and Euroland to 2.50% and 1.70% respectively in 2023, the highest levels since 2003 (two decades ago), according to the results of the econometric estimates.

On the other hand, the YoY pace of the potential output in the emerging and developing economies continued on the downward trend in 2023, to 3.56%, the weakest dynamics since 1992.

In other words, these countries were more affected by the outbreak of the exogenous shocks and their consequences, including the significant increase of the real financing costs over the past quarters.

In fact, taking into account the statistics of the Federal Reserve (FED) the real cost of financing in the US economy hit the maximum since 2007, the year of the outbreak of the Great Financial Crisis (the worst economic and financial crisis since the end of the Second World War).

Last, but not least, in Romania the YoY pace of the potential output deteriorated from 3.13% in 2022 to 3.07% in 2023, the lowest level since 2014.

This slowing down trend for the YoY pace of the potential GDP in Romania was determined by the weak pace of implementation of the structural reforms in the recent years.

The national economy presented a high level of resilience since the outbreak of the exogenous shocks, given the implementation of the EU programs for the development of the critical infrastructure, but also the geo-strategic position of the country (the Eastern border of the Euro-atlantic block).

3. Conclusion

According to this analysis the global macroeconomic climate presented stabilization signals at the beginning of 2024, as the households and companies incorporated the consequences of the overlapping shocks over the past quarters.

On the other hand, the exogenous shocks since 2020 had symmetric impact and asymmetric consequences, as reflected by the divergent dynamics of the YoY pace of the potential output.

There can be noticed the improvement of the structural component of the GDP in United States of America and Euroland recently, an evolution underpinned by the unprecedented measures implemented in order to counter the impact of the shocks.

However, in the emerging and developing economies the structural stance worsened since over the past years, as the manoeuvre room in terms of economic policy was limited, while the real financing costs increased at the global level.

Last, but not least, the structural developments in the Romanian economy in the recent years emphasize the need for the acceleration of the reforms, a scenario with low probability to happen in the electoral year 2024.

At the end of this paper I underline that without structural reform the YoY pace of the potential GDP in Romania would continue to deteriorate, in the

coming years, especially after 2027, when Next Generation EU and the multiannual financial framework 2021-2027 end.

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