

# Global economy set to slow as higher rates bite

**SCALING DOWN.** OECD sees global GDP growth at 3% in 2023, 2.7% in 2024

Bloomberg

The world economy is set for a slowdown as interest-rate increases weigh on activity and China's pandemic rebound disappoints.

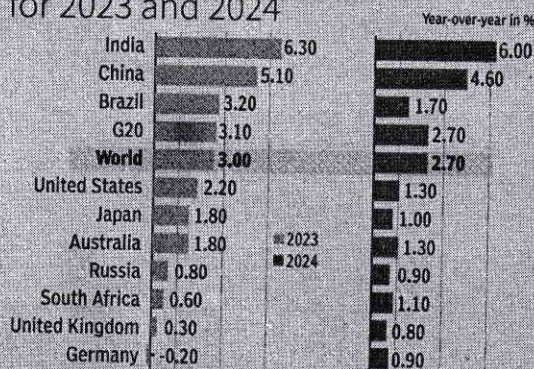
Growth will ease to 2.7 per cent in 2024 after an already "sub-par" expansion of 3 per cent this year, according to the latest Organisation for Economic Co-operation and Development (OECD) forecasts. With the exception of 2020, when Covid struck, that would mark the weakest annual expansion since the global financial crisis.

## KEY RISK

Moreover, the Paris-based organisation warned that risks to its prediction are tilted to the downside as past rate hikes could yet have a stronger impact than expected and inflation may prove persistent, requiring further monetary tightening. It called China's struggles a "key risk" for output around the world.

"After a stronger-than-expected start to 2023, helped by lower energy prices and the reopening of China, global growth is expected to moderate," the OECD said. "The impact of tighter mon-

Projected GDP growth rates for 2023 and 2024



Source: OECD Economic Outlook, Interim Report September 2023.

etary policy is becoming increasingly visible, business and consumer confidence have turned down, and the rebound in China has faded."

The gloomy outlook will test central bankers as the effect of their inflation-fighting to date continues to feed through to the economy and politicians fret that activity is being choked.

The European Central Bank delivered a 10th consecutive hike last week, though signalled that the peak may have been reached. The Federal Reserve is expected to hold fire on Wednesday.

The OECD cautioned against easing up, with core-

price gains remaining stubborn in many countries even as headline gauges head lower. There's limited scope for any rate cuts until "well into 2024," it said. "Monetary policy needs to remain restrictive until there are clear signs that underlying inflation pressures have durably abated," the OECD said.

## EU GROWTH FORECAST

Drilling down into regional and country outlooks, it cut its euro-area growth forecasts for this year and next, predicting a contraction of 0.2 per cent in Germany in 2023 — making it the only G-20 nation except for Argentina to suffer a downturn.

## GRIM OUTLOOK

Risks to prediction are tilted to the downside as past rate hikes could yet have a stronger impact than expected and inflation may prove persistent, requiring further monetary tightening

While US expansion will be stronger than predicted in June, it will slow to 1.3 per cent in 2024 from 2.2 per cent in 2023.

The growth downgrades were particularly sharp for China, where output is seen rising less than 5 per cent next year as subdued domestic demand and structural stresses in property markets weigh. The OECD said the scope for effective policy support in China may also be more limited than in the past.

The organisation warned against governments stepping in with extra spending to perk up growth. Instead, it said support should be scaled back to rebuild room for future investment challenges and avoid stoking the inflation central banks want to contain.