Global economy to slow as rate hikes bite: OECD

Central banks must remain restrictive to tame inflation, says agency

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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 Organisation for Economic Cooperation and Development (OECD) latest forecasts. With the exception of 2020, when Covid struck, that would mark the weakest annual expansion since the global financial crisis.

"While high inflation continues to unwind the world economy remains in a difficult place," OECD Chief Economist Clare Lombardelli told a news conference on Tuesday. "We're confronting the double challenges of inflation and low growth."

The Paris-based the 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.

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CLARE LOMBARDELLI
Chief Economist , OECD

"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 monetary 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. A 25 per cent rise in oil prices since May has also led to inflation ticking up in some countries, depending on their exposure and whether they are importers or exporters of the fossil fuel, Lombardelli said."That is obviously unwelcome," she said.

"Oil prices will continue to be potentially volatile through this period. That's why we've highlighted it as one of the risks. The impact obviously will be, as we have learned, a squeezing on household budgets and on demand."