



# INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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**Statement by Mr. Cormann  
OECD**



**Written Statement to the International Monetary Fund Committee:**  
**2023 IMF and World Bank Fall Meetings**

**The global economic outlook**

1. **The global economy continues to confront the challenges of elevated inflation and low growth prospects.** After a stronger-than-expected first half of 2023, helped by the decline in energy and food commodity prices from their peaks in 2022, global growth is expected to moderate as the impact of the tighter monetary policy needed to bring down inflation is increasingly felt. So far this year, GDP growth has been comparatively robust in Japan and the United States but weak in Europe. Growth has been higher than expected in some large emerging-market economies, including in Brazil, India and Mexico, while in China the initial boost from reopening at the start of 2023 has faded.
2. **The weakness of global trade over the past year is a concern.** Merchandise trade volumes have been particularly soft, with global trade in goods falling by 3.2% over the year to July. This has been offset by improving services trade, helped by tourism continuing to rebound from the steep drop in the COVID-19 pandemic, but total world trade growth still remains weak.
3. **Indicators of activity in the second half of 2023 are mixed, but on balance signal a loss of momentum.** Although labour markets remain tight, job growth has slowed, job vacancy rates have declined, and unemployment has started to rise in some economies, including Austria, Korea and Latvia. Industrial production has stagnated, despite some signs of an upturn in tech-related activity, and business and consumer survey indicators have softened. The rebound in oil prices since June, amidst output cuts in the OPEC+ economies, is also a net negative for near-term global growth and has begun to be reflected in headline inflation.
4. **The rise in interest rates in most major economies since early 2022 is a key factor shaping global growth.** Borrowing rates for firms and households have risen, credit conditions have tightened, and asset price growth has moderated or turned negative. Forward-looking real interest rates have now become positive in most economies, encouraging saving and making investment more expensive. Even if policy rates are not raised further, the effects of past rises will continue to work their way through economies via lower bank lending and housing market activity. As seen with the US bank failures in March and the takeover of Credit Suisse, risks remain that the high interest rates needed to lower inflation produce stress in the financial system that will require prompt policy responses to stabilise financial conditions.

5. **According to the September 2023 OECD Interim Economic Outlook, global GDP growth is expected to slip from 3.3% in 2022 to 3.0% in 2023 and 2.7% in 2024.** Growth in advanced economies will continue to be held back by the macroeconomic policy tightening needed to rein in inflation and to safeguard fiscal sustainability. In the United States, the running down of excess savings accumulated during the pandemic is expected to fade, with growth projected to ease from 2.2% in 2023 to 1.3% in 2024. Activity has already weakened in the euro area, reflecting the effect on incomes from last year's large energy price shock and the comparative importance of bank-based finance. GDP growth in the euro area is projected to be 0.6% in 2023 and 1.1% in 2024. In Japan, GDP growth is projected to reach 1.8% this year, helped by stronger wage growth and robust service exports, before moving back closer to trend in 2024, at 1.0%.
6. **Excluding China, a modest improvement in growth is generally seen among the G20 emerging-market economies over 2023-24.** Growth in China is expected to be held back by subdued domestic demand and structural stress in property markets, slowing from 5.1% this year to 4.6% in 2024. In contrast, GDP growth in India and Indonesia is projected to remain relatively steady in 2023 and 2024, at around 6% and 5% respectively, with solid growth in Brazil and Mexico as well. The growth outlook in other emerging-market economies is varied, depending on national circumstances such as the challenges of high inflation in Argentina and Türkiye, and fluctuations in commodity prices and agricultural output.
7. **Headline inflation in most G20 advanced economies has now approximately halved from the peaks in 2022.** However, it remains well above central bank targets in most economies, and core inflation (excluding energy and food) has declined more slowly. Goods price inflation is falling steadily, but services price inflation remains persistent, reflecting the larger role of labour costs in service sectors. Despite a moderation in the pace of wage gains in many countries, including the United States, nominal wage growth often remains above rates that would be consistent with inflation being in line with central bank targets in the medium term. The cooling of demand pressures is expected to continue to gradually bring down inflation in most G20 economies. Headline inflation in the G20 economies is projected to ease to 6.0% in 2023 and 4.8% in 2024, down from 7.8% in 2022, with core inflation in the G20 advanced economies declining from 4.3% this year to 2.8% in 2024.
8. **Risks to the near-term outlook remain tilted to the downside, with persistent inflation a key concern.** Renewed signs of an upward drift in inflation expectations would compel central banks to keep policy rates higher for longer than expected, potentially generating additional stress in financial markets. Conversely, the impact of past interest rate rises could prove stronger than anticipated, leading to weaker spending and rising unemployment. Tighter-than-expected global financial conditions could intensify vulnerabilities in emerging-market and developing economies, some of which are already facing challenges in financing their debts.

9. **A related risk is a recurrence of adverse supply shocks in global commodity markets.** The potential for further supply disruptions in oil, natural gas and coal markets remains high, and further rises in energy prices would increase again inflation and hurt growth in commodity-importing economies. There is also a risk that a resurgence of food prices and shortages could worsen food security in some emerging-market and developing economies. The current El Niño event, export restrictions by key producers and Russia's war of aggression against Ukraine are all factors that are likely to affect commodity supplies in global markets.
10. **A sharper-than-expected slowdown in China has again become a major risk to global growth.** Weak consumer confidence and the ongoing property market crisis are key sources of concern. Illustrative scenarios suggest that an unanticipated one-year decline of 3 percentage points in China's domestic demand growth could directly lower global GDP growth by 0.6 percentage points, and potentially by over 1 percentage point in the event of a significant tightening of global financial conditions.
11. **On the upside, the global economy and financial markets have so far proved relatively resilient to the tightening of monetary policy, and inflation could return to target without a marked growth slowdown or a sharp rise in unemployment.** In the United States, wage pressures have eased this year despite continued above-trend growth and only a small upturn in unemployment. A continuation of this pattern would imply better-than-expected growth in 2024 while inflation eases. Another key factor is the uncertainty about the remaining extent of excess savings accumulated during the pandemic and the willingness of households to use these to finance spending, but this is a possible source of stronger-than-expected activity. Other upside risks include stronger effective policy stimulus in China to reverse the recent slowing of domestic demand growth, or a renewed fall in energy prices if the recent reduction in global oil production is unwound.

#### **Policy requirements**

12. **Monetary policy needs to remain restrictive until there are clear signs that underlying inflationary pressures are durably lowered, with inflation expectations moderating further and excess resource pressures fading in labour and product markets.** Some additional rate rises could still be needed where underlying inflationary pressures are particularly persistent, but policy rates appear to be at or close to their peak in most advanced economies. The need to maintain downward pressure on inflation will nonetheless limit scope for any policy rate reductions until well into 2024. In the event of additional financial market stress, full use should be made of the financial policy instruments available to central banks to enhance liquidity and minimise contagion risks.
13. **Tight global financial conditions and the need to keep inflation expectations anchored continue to constrain monetary policy space in many emerging-market economies.** However, improved policy frameworks and prompt actions have enhanced policy effectiveness and helped ensure that financial stress has so far been avoided. Policy rate reductions have already begun in a number of countries such as Brazil where policy tightening was initiated at a relatively early stage and inflation has eased significantly.

14. **Governments face rising fiscal pressures from high debt burdens and additional spending due to population ageing, the climate transition and national defence.** Public debt in the OECD is higher than before the pandemic, by 10% of GDP, and debt service costs will rise as low-yielding debt matures and is replaced by new issuance. Stronger near-term efforts to start rebuilding fiscal space would conserve scarce resources to meet future spending needs and respond to future shocks, while also reducing the present burden on monetary policy to lower demand pressures. Fiscal support measures, including remaining energy support schemes, need to become better targeted towards those most in need. Efforts to rebuild fiscal space should, however, not come at the expense of the investment needed to support long-term growth, as well as the green and digital transitions.
15. **In many emerging-market economies, well designed fiscal rules and decoupling of the public finances from the commodity cycle would enhance macroeconomic stabilisation and help alleviate debt-service pressures.** Enhanced efforts to strengthen revenue collection and expand the tax base would provide scope to broaden social protection coverage. The rise in debt distress among lower-income countries makes it also urgent that creditor countries and institutions take joint action to ensure that debt burdens are sustainable and to mitigate the risk that debt overhangs set back development.
16. **Given the long-term growth slowdown and the pressing challenges from population ageing, digitalisation and the climate transition, ambitious supply-boosting structural reforms are needed to reinvigorate productivity growth and boost opportunities.** As emphasised in the 2023 edition of the OECD *Going for Growth* report, while reform priorities vary from country to country, increasing workforce participation levels of women and older workers, promoting competition, and enabling a more efficient allocation of labour and capital to more productive firms are common priorities across countries. Policy action is also important to promote digital and green infrastructure investment and innovation, strengthen regulations and standards to reduce greenhouse gas emissions, and raise the scope and level of carbon pricing.
17. **Another key priority is to revive global trade.** For more than a decade global trade growth has barely kept pace with output growth, and trade restrictions have risen. This represents a foregone opportunity. Open and well-functioning international markets under a rules-based global trading system are important for long-term prosperity and productivity growth in both advanced and emerging-market economies. At the same time, the pandemic and Russia's war of aggression against Ukraine have highlighted the potential vulnerabilities from complex and concentrated supply chains, prompting concerns about the security of supply. A key challenge is to enhance the resilience of global value chains, without eroding their benefits for efficiency and losing sight of the potential to lower trade barriers in service sectors.
18. **Enhanced international co-operation is needed to ensure better coordination and faster progress in decarbonisation.** The OECD's Inclusive Forum on Carbon Mitigation Approaches, now with 56 Member countries from around the world, is an initiative designed to help improve the global impact of emissions reduction efforts around the world through better data and information sharing, evidence-based mutual learning and inclusive multilateral dialogue. It brings together all relevant policy perspectives from a diverse range of countries from around the world, participating on an equal footing basis, to take stock of and consider the effectiveness of different carbon mitigation approaches, and help optimise the global impact of individual countries' efforts to reduce emissions.