OECD ECONOMIC OUTLOOK

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A fragile recovery

- Global growth slowed to 3.2% in 2022, well below expectations at the start of the year, held back by the impact of the war in Ukraine, the cost-of-living crisis, and the slowdown in China.
- More positive signs have now started to appear, with business and consumer sentiment starting to improve, food and energy prices falling back, and the full reopening of China.
- Global growth is projected to remain at below trend rates in 2023 and 2024, at 2.6% and 2.9% respectively, with policy tightening continuing to take effect. Nonetheless, a gradual improvement is projected through 2023-24 as the drag on incomes from high inflation recedes.
- Annual GDP growth in the United States is projected to slow to 1.5% in 2023 and 0.9% in 2024 as monetary policy moderates demand pressures. In the euro area, growth is projected to be 0.8% in 2023, but pick up to 1.5% in 2024 as the effects of high energy prices fade. Growth in China is expected to rebound to 5.3% this year and 4.9% in 2024.
- Headline inflation is declining, but core inflation remains elevated, held up by strong service price increases, higher margins in some sectors and cost pressures from tight labour markets.
- Inflation is projected to moderate gradually over 2023 and 2024 but to remain above central bank objectives until the latter half of 2024 in most countries. Headline inflation in the G20 economies is expected to decline to 4.5% in 2024 from 8.1% in 2022. Core inflation in the G20 advanced economies is projected to average 4.0% in 2023 and 2.5% in 2024.
- The improvement in the outlook is still fragile. Risks have become somewhat better balanced, but remain tilted to the downside. Uncertainty about the course of the war in Ukraine and its broader consequences is a key concern. The strength of the impact from monetary policy changes is difficult to gauge and could continue to expose financial vulnerabilities from high debt and stretched asset valuations, and also in specific financial market segments. Pressures in global energy markets could also reappear, leading to renewed price spikes and higher inflation.
- Monetary policy needs to remain restrictive until there are clear signs that underlying inflationary pressures are lowered durably. Further interest rate increases are still needed in many economies, including the United States and the euro area. With core inflation receding slowly, policy rates are likely to remain high until well into 2024.
- Fiscal support to mitigate the impact of high food and energy prices needs to become more focused on those most in need. Better targeting and a timely reduction in overall support would help to ensure fiscal sustainability, preserve incentives to lower energy use, and limit additional demand stimulus at a time of high inflation.
- Rekindling structural reform efforts is essential to revive productivity growth and alleviate supply constraints. Enhancing business dynamism, lowering barriers to cross-border trade and economic migration, and fostering flexible and inclusive labour markets are key steps needed to boost competition, mitigate supply shortages, and strengthen gains from digitalisation.
- Enhanced international cooperation is needed to help overcome food and energy insecurity, assist low-income countries service their debts, and achieve a better co-ordinated approach to carbon mitigation efforts.