



# INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

## **Forty-Ninth Meeting April 18–19, 2024**

Statement No. 49-4

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**Written Statement to the International Monetary Fund Committee: 2024 IMF and World Bank Spring Meetings**

**The global economic outlook**

- 1. Global GDP growth proved resilient in 2023, with unemployment rates remaining low while inflation declined.** Annual growth was particularly strong in the United States, helped by private consumption and government spending, and held up well in Japan. Outcomes were weaker in Europe, reflecting the relative importance of bank-based finance that was more strongly affected by rising interest rates and the lingering effects of the 2022 energy price shock. Emerging-market economies mostly continued to grow at a solid pace, reflecting the benefits of improved macroeconomic policy frameworks, strong investment in infrastructure and steady employment gains. In China, the reopening of the economy at the start of 2023 also helped activity to rebound despite the ongoing contraction in the property sector.
- 2. Recent activity indicators point to continued moderate global growth and divergence across countries.** Business surveys suggest strong momentum in India and relative weakness in Europe, with growth in most other major economies improving gradually. Consumer confidence remains subdued in many advanced economies, as well as in China, but has held up better in other emerging-market economies, including Brazil and Mexico, where growth has recently been stronger than expected.
- 3. Global trade, albeit still weak, is showing signs of improvement.** An upturn in semiconductor production in Asia and stronger global car sales are bolstering merchandise trade, and services trade continues to benefit from the recovery of international tourism. At the same time, conflict in the Middle East has forced a re-routing of trade, doubling shipping costs and lengthening delivery times, especially for trade between Asia and Europe. So far, this has not generated widespread supply difficulties, but higher costs and insurance premiums are likely to persist while tensions remain. OECD research suggests that, if the recent increase in shipping costs is not unwound, it could add 0.4 percentage points to consumer price inflation after a year on average across the OECD.
- 4. Headline and core inflation have continued to decline, helped by lower energy and food prices and the restrictive monetary policy stance in most economies.** Supply and demand conditions in labour markets have also become better balanced, thanks to moderating demand and strong labour supply growth. This generalised cooling of inflation pressures has helped to keep private sector near-term inflation expectations anchored to central bank objectives. Headline inflation has fallen back to or below central bank targets in around one-fifth of the economies tracked by the OECD.
- 5. Global financial conditions have recently begun to ease.** Long-term risk-free bond yields have declined, credit spreads have narrowed, and equity prices have strengthened. Still, financial conditions remain relatively restrictive almost everywhere. In many economies long-term real interest rates are at levels last seen prior to the global financial crisis, credit standards are tight, and credit is still shrinking in real terms. The impact of monetary policy tightening also

remains apparent in the real estate sector, with a marked contraction of transaction volumes in both housing and commercial property, and sizeable price declines in some markets.

6. **According to the February 2024 OECD Interim Economic Outlook, global growth is projected to remain moderate, at 2.9% in 2024 and 3.0% in 2025, with inflation converging to target in most economies.** A projected widespread easing of monetary policy as inflation converges on central bank targets and a steady recovery in real incomes are key factors that should underpin growth. Cooling demand pressures should allow headline and core inflation to fall further. In the United States, strong government spending and the rundown of household savings are projected to moderate in 2024, while lower inflation will support real wage growth and allow policy interest rates to be reduced. GDP growth is projected to ease towards trend rates, with 2.1% growth in 2024 and 1.7% in 2025. Euro area growth is expected to remain soft through the first half of 2024 before gradually recovering, with GDP growth of 0.6% in 2024 and 1.3% in 2025. In Japan, GDP growth is projected to average around 1% per annum over 2024-25, as macroeconomic policies begin to be tightened.
7. **Economic conditions among the G20 emerging-market economies are diverse, with the key factors driving growth varying widely.** In China, GDP growth is projected to moderate from 5.2% in 2023 to 4.7% in 2024 and 4.2% in 2025, reflecting the drag from fragile real estate markets and low consumer confidence. India is projected to maintain rapid investment-driven growth over the next two years, with GDP rising by around 6½ per cent per annum. Projections for other G20 emerging-market economies mostly indicate an improvement in growth during 2024-25, though idiosyncratic factors affect the growth profile in individual countries.
8. **Headline inflation in the G20 economies is projected to decline from 6.6% in 2024 to 3.8% in 2025, with core inflation in the G20 advanced economies easing to 2.5% in 2024 and 2.1% in 2025.** Inflation is projected to be in line with central bank objectives in most countries by the end of 2025, including the euro area, Japan and the United States. Tight monetary policy, a better balance between demand and supply in labour markets and some compression of profit margins are projected to be key factors helping to deliver a further decline in inflation. Among the main emerging-market economies, inflation is projected to stay very low in China, reflecting subdued consumer demand, and continue easing gradually towards target in Brazil, India, Indonesia, Mexico and South Africa, while remaining very high in Argentina and Türkiye.
9. **Despite recent resilience, there is still a lot of uncertainty about the outlook. One key risk is that disinflation may proceed more slowly than expected.** Upside surprises to inflation could occur due to energy prices, for example if there were attacks on oil tankers in the Strait of Hormuz, or to food prices if extreme weather events disrupt harvests. With core inflation still above target in most countries and unit labour cost growth generally remaining above levels compatible with medium-term inflation objectives, there is no certainty that the inflationary episode that began in 2021 will end in 2025. Upside surprises in inflation could trigger sharp corrections in financial asset prices if markets price in high-for-longer policy rates.
10. **Risks remain that past policy rate increases could have stronger effects than anticipated.** The recent tightening of monetary policy has been of a scale and speed rarely seen in the past, and some effects of policy tightening on growth may be nonlinear, particularly in credit-dependent economies. The feedthrough of higher lending rates into debt service burdens remains partial, especially in countries where most existing housing loans are at fixed rates or

adjustable only after several years, or where companies were able to take advantage of low borrowing costs prior to 2022. As this debt matures, or loan conditions are adjusted, the impact of higher interest rates will be increasingly felt, particularly in vulnerable sectors such as commercial and residential real estate.

## Policy requirements

11. **In most advanced economies scope exists to start lowering policy interest rates provided inflation continues to ease.** Still, the policy stance should remain restrictive for some time to ensure that inflationary pressures are durably contained. The pace and the scale of policy rate reductions will be data-dependent: well-anchored inflation expectations and declining price pressures in service sectors are among the factors that will be important for determining the optimal timing of rate cuts. Japan is an exception: gradual further increases in policy rates are warranted provided inflation settles at 2%, as projected. Nevertheless, monetary policy in Japan is expected to remain accommodative for some time, with negative real interest rates persisting until the end of 2025.
12. **Easier global financial conditions and the expectation of policy rate reductions in advanced economies provide more flexibility for emerging-market economies to implement policy rate reductions.** Differences in circumstances imply disparate policy stances. With inflation remaining near zero, China has continued to loosen monetary policy. Policy rates are already being lowered in some Latin American countries, including Brazil and Mexico, where inflation has now fallen sharply towards target. In other emerging-market economies, including India and South Africa, the reduction in inflation to date has been slower and policy easing is likely to begin only later this year.
13. **Governments face increasing fiscal challenges from high debt burdens and rising spending pressures.** Public debt burdens continue to rise in many countries and debt-service costs are increasing as low-yielding debt matures and is replaced by new higher-yielding issuance. Population ageing, climate change mitigation and adaptation and higher defence expenditure are among the major sources of spending pressures. On current plans, few countries appear likely to achieve a primary budget surplus in the near term, which has been one key feature of past debt reduction episodes in OECD economies. This points to a need for tax and spending reforms to keep public debt on a sustainable path, which should include stronger near-term efforts to contain spending growth and reviews of the composition of spending. On the revenue side, reducing tax exemptions would expand the tax base and improve economic efficiency. Well-designed medium-term fiscal frameworks are needed to help ensure sustainability and provide flexibility to respond to future shocks.
14. **Many emerging-market economies face fiscal pressures from rising debt levels and higher interest rates.** A large proportion of low-income countries remain in debt distress, and many have been unable to access international bond markets for years. Governments need to rebuild fiscal space and reduce debt service burdens while protecting high-priority spending. Efforts to strengthen revenue collection and reduce tax evasion and informality would provide resources to finance infrastructure spending and expand the coverage of social protection systems. Transparent and credible fiscal rules and institutions would also help to lower financing costs and enhance macroeconomic stability.

15. **Ambitious structural reforms are required to strengthen the foundations of growth.** Recent global shocks, the challenges of the digital and climate transitions, and weak medium-term growth prospects underline the need for action. A case in point is education. Human capital, including skills, is a key foundation for productivity, innovation and ensuring equality of opportunity to employment. The 2023 PISA report shows an unprecedented drop in performance in many countries for 15-year-olds tested on reading and mathematics between 2018 and 2022. These declines could have a lasting negative impact on productivity over the next 30-40 years. Key reforms to improve educational outcomes include enhancing teaching quality, vocational education and lifelong learning, and the targeting of resources to disadvantaged students and schools. These reforms need to be accompanied by efforts to strengthen workforce participation levels, including among women and the growing group of older workers.
16. **Reviving global trade growth remains essential.** Open international markets operating within a rules-based global trading system and based on a level playing field for global trade drive growth and increase incomes and living standards around the world. There has been a long-term slowdown in trade openness since the global financial crisis. Global value chain integration has slowed, restrictive trade policies have increased, and domestic policies are becoming more inward-focused. Governments should strive for more resilient global value chains and avoid excessive concentration of their production, supply or consumer base, without eroding the potential benefits for efficiency, or overlooking the gains that could accrue from lowering trade barriers, including in services and digital sectors.
17. **Emissions reduction ambitions need to be matched with globally effective action and results.** The OECD's Inclusive Forum on Carbon Mitigation Approaches (IFCMA) is designed to help optimise the global impact of emissions reduction efforts around the world through better data and information sharing, evidence-based mutual learning and inclusive multilateral dialogue. The IFCMA is currently developing a database of mitigation-relevant policy instruments and estimating their effects on emissions. Pilot studies have been launched to help refine methodologies for the stocktake and effectiveness estimates. A report on carbon-intensity metrics will be released in mid-2024, and a synthesis report on empirical evidence on the effectiveness of mitigation policies later in the year.