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1.5. Recent developments and prospects of global economic activity: Slowdown of global economic growth amid tight monetary policy

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The recovery of the Chinese economy along with the downward trending commodity and energy prices provided a significant boost to the global economy in the first half of the year. However, prolonged tight monetary policy, persistent inflation, and the gradual fading of the effects of China's return to normality are expected to weigh on annual global growth.

Despite tight monetary policy, the global economy recorded strong economic growth rates in the 1st half of this year owing to China's rebound and falling energy prices. However, the positive effect from the recovery in Chinese economic activity proved to be shorter than expected. On the other hand, persistent inflation at levels well above central banks' targets and high interest rates seem to have long-lasting (negative) effects on economic activity. Overall, these developments have created negative expectations, thereby resulting in downward trending confidence indicators of businesses and households. Indices of manufacturing production and new orders have embarked on a downward trend as well (OECD, 2023). Under these conditions, the annual growth rate of global GDP in 2023 is expected to slow down and reach 3% (see Table 1.5.1).

In the advanced world, European economies have experienced the largest slowdown, with growth rates hovering around the limits of economic stagnation (Eurozone and UK) and GDP contraction (Germany). In the Eurozone, poor economic performance is linked to high borrowing costs, the gradual withdrawal of fiscal support measures for households, low household and business confidence and the limitation of external demand due to the strengthening of the euro (ECB, 2023). In contrast to Europe, the economies of the US and Japan seem quite resilient. In the US, the marginal increase in the rate of economic growth reflects the dynamism of domestic demand and the positive conditions that prevail in the labor market. In Japan, the economy's improved performance relative to 2022 is mainly attributed to the maintenance of loose monetary policy. Indeed, Japan is the only advanced economy whose monetary authorities have not raised key policy rates, thereby favouring the depreciation of the yen and the country's export performance.

After a lengthy period of lockdowns and production disruptions, the rebound of the Chinese economy has made the distinction between emerging and developing economies. However, low consumer confidence in the economy's prospects and significant problems in the real estate and the construction sectors create obstacles to the recovery of domestic demand and the overall return of the economy to the high growth rates of the recent past (ECB, 2023; OECD, 2003). At the same time, India and Brazil seem to maintain last year's growth momentum owing to specific national circumstances (e.g., good performance of the agricultural sector) (OECD, 2023). Finally, Russia is projected to register a (marginal) positive growth rate after a long period of GDP contraction caused by the war with Ukraine.

Regarding price developments, restrictive monetary policy along with downward trending energy prices have led to inflation moderation across most regions of the world (see Table 1.5.2). However, inflationary pressures persist as core inflation remains high. According to OECD analysts, the persistence of core inflation is due to increased production costs and large profit margins in several productive sectors. Another interesting feature of price developments is the large variation across the price inflation of material products and services with the upward pressures on the latter remaining stronger. This difference owes to the larger share of labour costs to the total production costs of services (OECD, 2023).

Labor market conditions in most advanced economies continue to be characterized by low unemployment and high vacancy rates. However, the degree of labour market tightness has been reduced, resulting in milder increases in nominal wages. In theory, minimum wage increases and inflation compensation counteract the efforts of the monetary authorities to deal with inflation. Nevertheless, the high profit margins observed in several sectors should allow business to absorb increased labour costs without increasing final prices (OECD, 2023).

TABLE 1.5.1 Real Gross Domestic Product
(annual percentage changes)

	2022*	2023**	2024**
World economy	**3.3**	**3**	**2.7**
USA	2.1	2.2	1.3
Euro Area	3.4	0.6	1.1
Japan	1	1.8	1
United Kingdom	4.1	0.3	0.8
Brazil	3	3.2	1.7
Russia	-2	0.8	0.9
India	7.2	6.3	6
China	3	5.1	4.6

Source: OECD (2023).
* Estimations, ** Projections.

TABLE 1.5.2 Inflation
(annual percentage changes)

	2022*	2023**	2024**
USA	6.3	3.8	2.6
Euro Area	8.4	5.5	3
Japan	2.5	3.1	2.1
United Kingdom	9.1	7.2	2.9
Brazil	9.3	4.9	3.6
Russia	13.7	5.2	5.2
India	6.7	5.3	4.8
China	1.9	0.5	1.3

Source: OECD (2023).
* Estimations, ** Projections.

As regards global trade, the international organizations project that the rate of the expansion of world trade in goods and services will slow down. This reflects, among other things, the decline in global GDP growth rates and the general shift of consumer spending to goods and services, which are less trade-intensive (ECB, 2023; OECD, 2003).

References

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