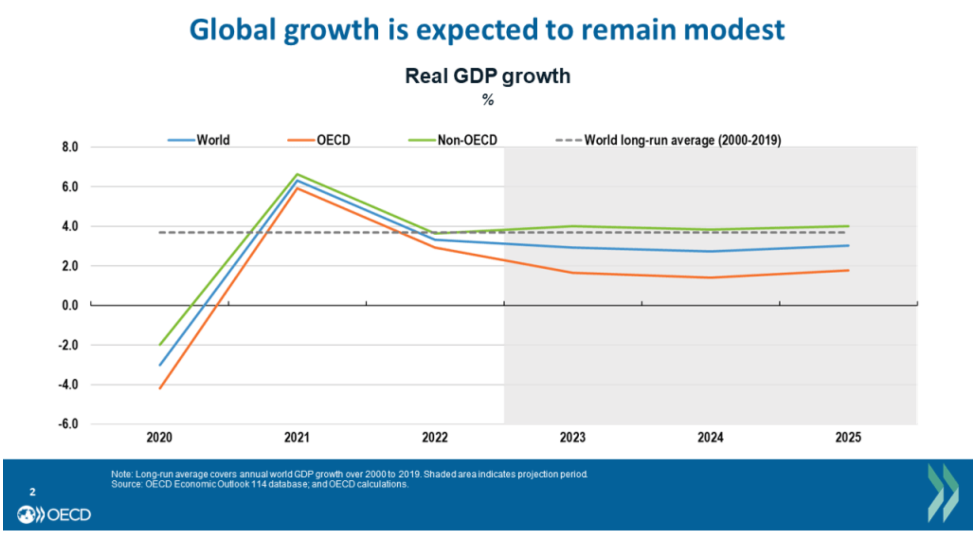
Restoring growth

Category: Ageing,Inflation,trade
written by oecdecoscope | November 29, 2023

by Clare Lombardelli, OECD Chief Economist

Inflation is easing, but growth is slowing. The tightening of monetary policy needed to tackle inflation is taking effect. Despite stronger-than-expected GDP growth in 2023, tightening financial conditions, weak trade, and subdued confidence are taking a toll. Housing markets and bank-dependent economies, particularly in Europe, are feeling the impact.

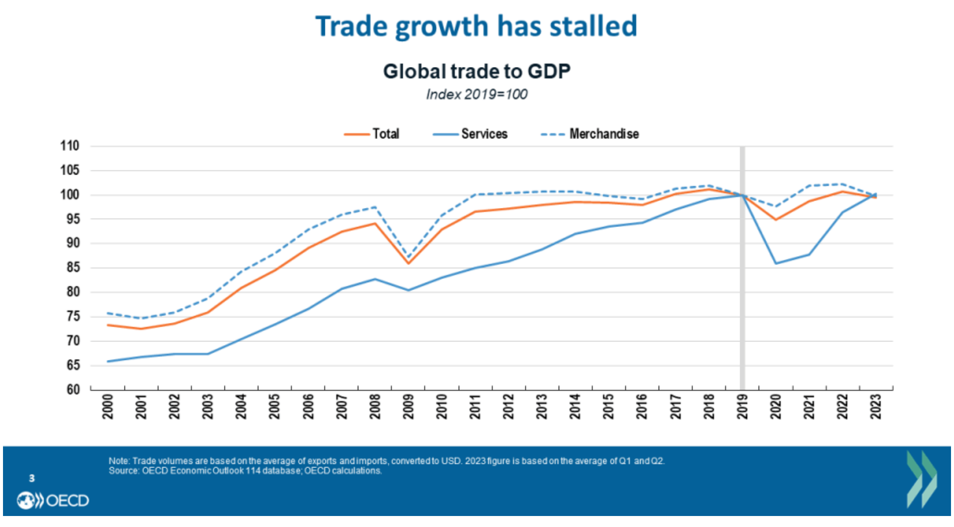
The pace of growth is uneven. Emerging markets are generally faring better than advanced economies. Europe’s growth lags behind North America and major Asian economies. Inflation, while easing, remains a concern.



We are projecting a soft landing for advanced economies, but this is far from guaranteed. The relationship between inflation, activity and labour markets has changed, making the full impact of monetary policy tightening hard to judge. In the United States, the economy is demonstrating more strength than expected, and there is a risk that inflation proves to be persistent. In the euro area, the full impact of tighter monetary policy is still to appear and activity may be hit more strongly than we expect.

Many emerging markets have shown considerable resilience over the past year, but countries characterised by structural debt vulnerabilities have come under market scrutiny.

Global trade is weak. Not only cyclical, but also structural factors are causing a slowdown in the rate at which value chains are integrating across countries. Opportunities for growth, particularly from greater services trade, are being missed. We must revive global trade. Resilience in global value chains is best delivered by diversification, not by protectionism and inward-looking policies.



In many countries, fiscal pressures are mounting. Demographic changes, decarbonisation, and a combination of rising interest payments and slow growth mean countries face a challenging fiscal outlook. Governments need to take bold action to reduce such pressures and give a greater focus to growth in their policy making. That means reforming labour market and pensions policies, increasing competition, and using fiscal levers to increase human capital and productivity enhancing investment, including the investment needed to deliver the green transition.

In summary, the global economy is grappling with inflation, slowing growth, and mounting fiscal pressures. Policymakers must prioritise macroeconomic stability, structural reforms, smart fiscal policies and international cooperation to foster sustainable and inclusive growth.

For more info and data visit: www.oecd.org/economic-outlook/november-2023/

References

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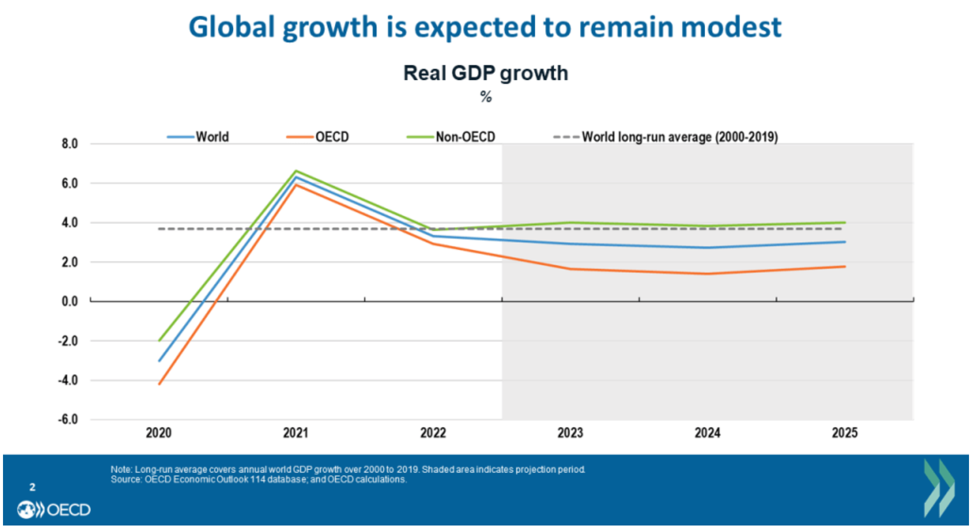
Rétablir la croissance

Category: Inflation,Posts in French
written by oecdecoscope | November 29, 2023

Clare Lombardelli, Cheffe économiste de l'OCDE

L'inflation s'atténue, mais la croissance ralentit. Le resserrement des politiques monétaires nécessaire pour lutter contre l'inflation produit ses effets. Malgré une croissance du PIB plus forte que prévu en 2023, le durcissement des conditions financières, la faiblesse des échanges et la confiance en berne pèsent sur l'activité. Les marchés du logement et les économies tributaires des banques, notamment en Europe, en ressentent les effets.

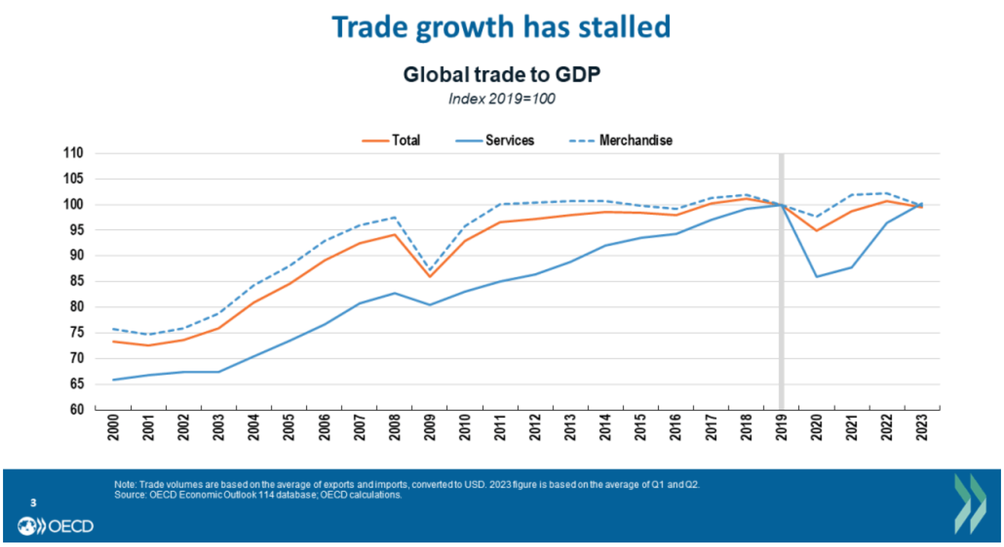
Le rythme de la croissance est inégal. Les économies de marché émergentes connaissent globalement une situation plus favorable que les économies avancées. La croissance est moins rapide en Europe qu'en Amérique du Nord et dans les grandes économies d'Asie. L'inflation, bien qu'en recul, reste préoccupante.



Nous prévoyons un atterrissage en douceur pour les économies avancées, mais cette issue est loin d'être garantie. La relation entre l'inflation, l'activité et les marchés du travail a changé, si bien qu'il est difficile d'évaluer pleinement l'impact du resserrement des politiques monétaires. Aux États-Unis, l'économie se révèle plus dynamique que prévu, et il existe un risque que l'inflation s'avère persistante. Dans la zone euro, les effets du durcissement de la politique monétaire ne se sont pas encore pleinement matérialisés, et l'activité pourrait être plus fortement touchée qu'on ne l'anticipe.

Nombre d'économies de marché émergentes ont fait preuve d'une résilience considérable au cours de l'année écoulée, mais les pays présentant des vulnérabilités liées à leur endettement structurel sont maintenant surveillés de près par les marchés.

Les échanges mondiaux manquent de dynamisme. Des facteurs non seulement conjoncturels, mais aussi structurels entraînent un ralentissement de l’intégration des chaînes de valeur entre pays. Des opportunités de croissance, liées en particulier à une augmentation des échanges de services, sont inexploitées. Nous devons relancer le commerce mondial. Pour développer la résilience des chaînes de valeur mondiales, il s’agit de promouvoir plutôt la diversification que le protectionnisme ou des politiques de repli sur soi.



Les tensions budgétaires s’accentuent dans de nombreux pays. Compte tenu des évolutions démographiques, de la décarbonation ainsi que de la combinaison d’un alourdissement des charges d’intérêts et d’une croissance lente, les pays sont confrontés à des perspectives budgétaires difficiles. Les gouvernements doivent prendre des mesures audacieuses pour réduire ces pressions et mettre l’accent davantage sur la croissance dans l’élaboration de leurs politiques. Cela signifie qu’il faut réformer les politiques du marché du travail et les systèmes de retraite, intensifier la concurrence et actionner les leviers budgétaires pour accroître les investissements susceptibles de renforcer le capital humain et la productivité, notamment les investissements nécessaires à la transition écologique.

En résumé, l’économie mondiale est aux prises avec l'inflation, le ralentissement de la croissance et la montée des tensions budgétaires. Les décideurs publics doivent donner la priorité à la stabilité macroéconomique, aux réformes structurelles, aux politiques budgétaires intelligentes et à la coopération internationale, pour favoriser une croissance durable et inclusive.

Pour plus d'infos et de données: https://oe.cd/PE-nov23

References

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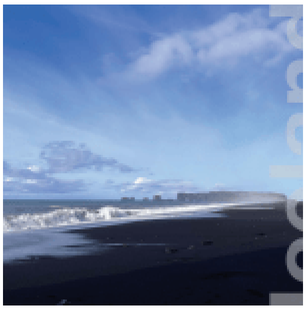
Iceland: taming the inflation spectre

Category: Iceland
written by oecdecoscope | November 29, 2023



by Hansjoerg Bloe

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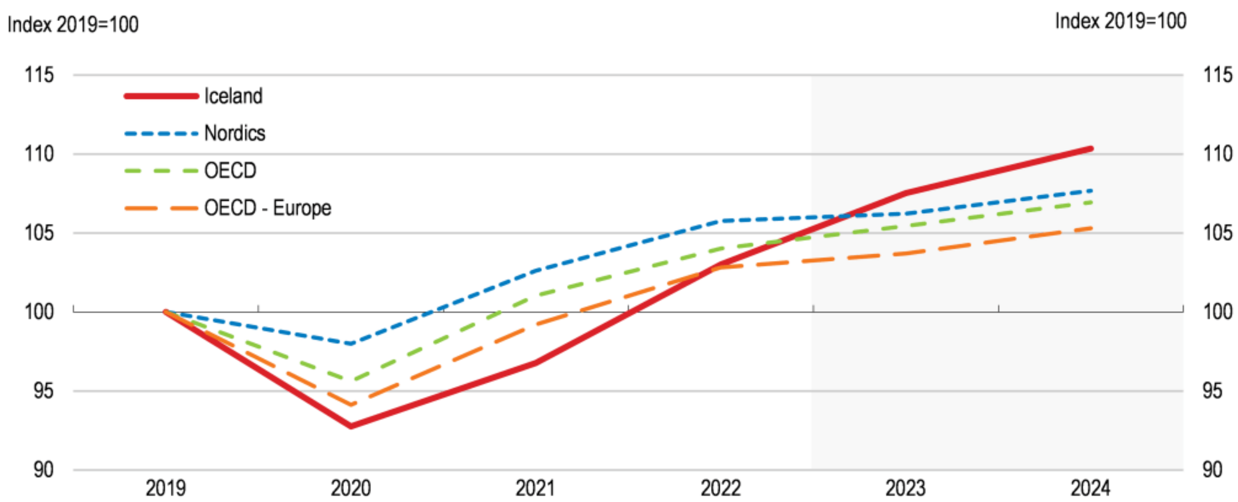
Iceland's economy is riding high. Since the pandemic, the country's growth has been one of the fastest of the OECD, driven by exports of energy-intensive goods and services and a strong rebound of foreign tourism. Relying on domestic energy sources, the country has largely been spared the power crisis that has strangled other countries, as shown in the Economic Survey of Iceland.

Iceland's performance is strong

GDP level, volume



Source: OECD Economic Outlook No. 113 database.

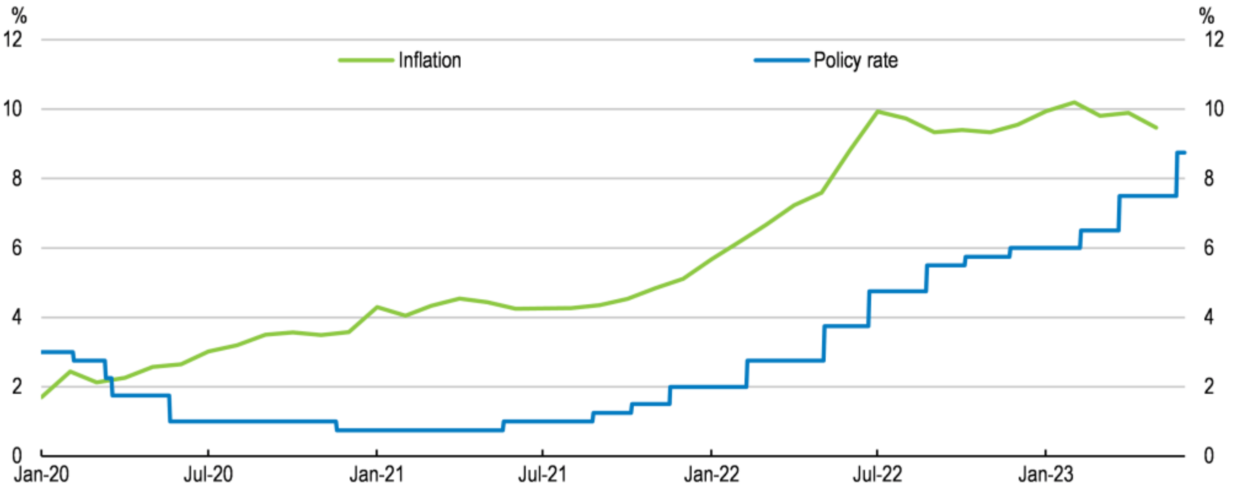
Unemployment is low and stable at around 3.5%, and labour participation of both men and women is again reaching historical highs. Economic growth is expected to moderate from 6.4% in 2022 to 4.4% in 2023 and 2.6% in 2024, still well above the OECD average.

Inflation remains stubbornly high

Yet everything is not cool in Iceland. Since mid-2022, headline inflation has been hovering at around 10%, much above the central bank's target of 2.5%. Unlike in continental European countries, Iceland's inflation surge was initially propelled by house prices. Those shot up by around 50% between mid-2020 and mid-2022, driven by the strong post-pandemic recovery and labour immigration. Inflation is now increasingly transmitted to the wider economy, notably the domestic service sector. Inflation expectations have de-anchored.

Inflation is persistent

Consumer price inflation and key policy interest rate



Note: Inflation refers to national headline consumer price inflation.

Source: Central Bank of Iceland; OECD, Consumer Prices database.

Three decades ago, Iceland succeeded in putting an end to entrenched inflation and repeated inflation bursts. It should do so again, tightening monetary policy further as needed to bring inflation back to the target and avoid a wage-price spiral. Fiscal policy should work in the same direction as monetary policy and avoid any stimulus, while limiting support to vulnerable households.

Structural reform could help raise productivity and tame inflation

Over the past few years reforms opened the tourism sectors to more competition. Despite these improvements, barriers to entry, notably for start-ups, are high. Foreign access to the computer service and construction sectors is more restricted than in any other OECD country. Professional licencing requirements were hardly eased as attempts met with resistance from vested interests.

The government should continue its efforts to improve the business climate. Strengthening competitive forces will not only help raise productivity growth – currently at 1%, which is around the OECD average – but also contribute to bring inflation down.

Building on Iceland's natural capital and reducing carbon emissions

Iceland hosts more tourists per inhabitant than any other OECD country, exerting pressure on infrastructure and the environment. Climate change is altering a part of Iceland's natural capital such as oceans and glaciers, jeopardising several tourism services. Iceland should continue to develop a balanced strategy for productive and sustainable tourism. It should remove the current tax privileges in the tourism sector, notably the reduced VAT rate, and it should introduce a tourism levy to fund local sustainable tourism infrastructure.

The government has strengthened climate policies over the past two years and carried out thorough cost-benefit analysis of abatement measures. Carbon emissions are declining gradually. Yet per capita emissions remain above the OECD average. The government should strengthen climate action further in a sustainable and efficient manner. It should notably strengthen carbon taxation and prioritise climate actions with low abatement cost per tonne of carbon.

References

OECD (2023), *OECD Economic Surveys: Iceland 2023*, OECD Publishing, Paris, https://doi.org/10.1787/b3880f1a-en.

Canada: five messages from the latest OECD Economic Survey

Category: Canada
written by oecdecoscope | November 29, 2023

The latest Economic Survey finds Canada needs to tame inflation, further build fiscal buffers, strengthen productivity and prioritise the green transition.

If it’s not one thing it’s another: supply and demand factors driving rising inflation

Category: Uncategorized
written by oecdecoscope | November 29, 2023

Estimating the supply-driven and demand-driven components of inflation in OECD economies.

United States: Challenges Faced by the Middle Class

Category: United States
written by oecdecoscope | November 29, 2023

The US middle class faces challenges from the climate transition and high child care costs.

What is driving the spike in

inflation dispersion in the euro area and how should policy react?

Category: Euro Area,Inflation
written by oecdecoscope | November 29, 2023

Inflation dispersion has surged and could raise further, complicating macroeconomic policy. This requires reforms to make the euro area more resilient.