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Energy, inflation crises risk pushing big economies into recession, OECD says

By Leigh Thomas



1/3

A customer shops in a supermarket in Nice, France, August 18, 2022.
REUTERS/Eric Gaillard



PARIS, Sept 26 (Reuters) - Global economic growth is slowing more than was forecast a few months ago in the wake of Russia's invasion of Ukraine, as energy and inflation crises risk snowballing into recessions in major economies, the OECD said on Monday.

While global growth this year was still expected at 3.0%, it is now projected to slow to 2.2% in 2023, revised down from a forecast in June of 2.8%, the Organisation for Economic Cooperation and Development said.

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The Paris-based policy forum was particularly pessimistic about the outlook in Europe - the most directly exposed economy to the fallout from Russia's war in Ukraine.

Global output next year is now projected to be \$2.8 trillion lower than the OECD forecast before Russia attacked Ukraine - a loss of income worldwide equivalent in size to the French economy.

"The global economy has lost momentum in the wake of Russia's unprovoked, unjustifiable and illegal war of aggression against Ukraine. GDP growth has stalled in many economies and economic indicators point to an extended slowdown," OECD Secretary-General Mathias Cormann said in a statement.

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The OECD projected euro zone economic growth would slow from 3.1% this year to only 0.3% in 2023, which implies the 19-nation shared currency bloc would

contraction.

That marked a dramatic downgrade from the OECD's last economic outlook in June, when it had forecast the euro zone's economy would grow 1.6% next year.

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The OECD was particularly gloomy about Germany's Russian-gas dependent economy, forecasting it would contract 0.7% next year, slashed from a June estimate for 1.7% growth.

The OECD warned that further disruptions to energy supplies would hit growth and boost inflation, especially in Europe where they could knock activity back another 1.25 percentage points and boost inflation by 1.5 percentage points, pushing many countries into recession for the full year of 2023.

"Monetary policy will need to continue to tighten in most major economies to tame inflation durably," Cormann told a news conference, adding that targeted fiscal stimulus from governments was also key to restoring consumer and business confidence.

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Though far less dependent on imported energy than Europe, the United States was seen skidding into a downturn as the U.S. Federal Reserve jacks up interest rates to get a handle on inflation.

The OECD forecast that the world's biggest economy would slow from 1.5% growth this year to only 0.5% next year, down from June forecasts for 2.5% in 2022 and 1.2% in 2023.

Meanwhile, China's strict measures to control the spread of COVID-19 this year meant that its economy was set to grow only 3.2% this year and 4.7% next year, whereas the OECD had previously expected 4.4% in 2022 and 4.9% in 2023.

Despite the fast deteriorating outlook for major economies, the OECD said further rate hikes were needed to fight inflation, forecasting most major central banks' policy rates would top 4% next year.

With many governments increasing support packages to help households and businesses cope with high inflation, the OECD said such measures should target those most in need and be temporary to keep down their cost and not further burden high post-COVID debts.

Reporting by Leigh Thomas, additional reporting by Tassilo Hummel; editing by Richard Lough, William Maclean



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