

Editorial

An unfolding recovery

Cautious optimism has begun to take hold in the global economy, despite modest growth and the persistent shadow of geopolitical risks. Inflation is easing faster than expected, labour markets remain strong with unemployment at or near record lows. Private-sector confidence is improving. Yet the impacts of tighter monetary conditions are being felt, especially in housing and credit markets.

This recovery is unfolding differently across regions. The United States and a number of large emerging markets continue to exhibit strong growth, in contrast to European economies. The mixed macroeconomic landscape is expected to persist, with inflation and interest rates declining at differing paces, and differing needs for fiscal consolidation.

Despite a more balanced risk outlook, substantial concerns remain. High geopolitical tensions, particularly in the Middle East, could disrupt energy and financial markets, causing inflation to spike and growth to falter. Debt-service burdens are already significant, and could rise further as low-yielding debt is rolled over or fixed-term borrowing rates are renegotiated. Expectations that inflation will continue to decline steadily might also prove misplaced.

In the medium and longer term, the fiscal position is worrying. Governments must address mounting debt and rising expenditure demands due to ageing populations, climate change mitigation, and defence needs. Increasing debt-service costs further worsen fiscal sustainability. There is never an attractive time to do this, but conditions enable this rebuilding to begin now. A robust medium-term approach to containing spending, building revenues, and focusing policy efforts on growth-enhancing structural reforms are all needed.

Disappointing growth underscores the case for strengthening global trade and productivity. Trade and industrial policies should aim for resilient global value chains through diversification without undermining the benefits of open trade. At the same time, accelerating decarbonisation requires bold policy measures, such as investing in green and digital infrastructure, enhancing carbon pricing, and promoting technology transfer. The developments in Artificial Intelligence (AI) provide a welcome and much needed opportunity to raise productivity. Ensuring the benefits materialise and are broadly shared requires investments in education and training and strong and internationally consistent competition policy.

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