World Bank says interest rate hikes are leading to global recession

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The World Bank has warned that synchronised interest rate hikes by central banks, led by the US Federal Reserve, are pushing the global economy into a recession and the rate increases will not bring down inflation.

The gloomy outlook was issued in an economic update on the state of the world economy released on Thursday. While adhering to the mantra that interest rate hikes are needed to "stem risks from persistently high inflation," the bank said its "baseline scenario" was that the "degree of monetary policy expected by market participants will not be enough to restore low inflation in a timely fashion."

Consequently a "second scenario" of a sharp downturn, with further monetary policy tightening, would eventuate but still "without restoring inflation by the end of the forecast period."

Under a third scenario, which appears highly likely given that inflation is not expected to come down, "additional increases in policy rates would trigger a sharp re-pricing of risks in global financial markets and result in a global recession in 2023."

Commenting on the report, World Bank president David Malpass said; "Global growth is slowing sharply, with further slowing likely to occur as more countries fall into recession. My deep concern is that these trends will persist, with long-lasting consequences that are devastating for people in emerging market and developing economies."

Malpass, an appointee of Trump, has long been a servant of financial capital, the operations of which have brought havoc to the poorest sections of the world's population for whom he now claims to speak.

With virtually all central banks, large and small, lifting their rates as governments reduce spending, the bank said the global economy "is in the midst of one of the most internationally synchronous episodes of monetary and fiscal tightening of the past five decades."

One of the reasons for the synchronicity is that central banks are having to respond to the interest hikes by the Fed.

Each Fed hike, at least to this point, has led to a rise in the dollar and a devaluation of the currencies of other countries. This boosts inflation because import prices rise, particularly for energy and food, pushing other central banks to lift rates to mitigate the fall in their currencies against the dollar.

The World Bank said interest rate increases were necessary to "contain inflationary pressures"—notwithstanding its predictions to the contrary—but their "mutually compounding effects could produce larger impacts than intended, both in tightening financial conditions and in steepening the growth slowdown."

It likened the present situation to that in 1982 when the interest rate hikes carried out by the Fed under the chairmanship of Paul Volcker led to a global recession.

The aim of that policy, though it was not referred to by the bank, was to crush the wages movement of the working class in response to inflation. The present policy, carried out in the name of "fighting inflation," has the same objective.

The consequences threaten to be even more devastating than 40 years ago. This is because of the massive amount of fictitious capital and debt which has been built up because of the easy money policies pursued by the Fed and other central banks over the past several decades. These policies were accelerated in the wake of the financial crisis of 2008 and the March 2020 meltdown of markets at the start of the pandemic.

The bank's update pointed to these effects noting that

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"rising global borrowing costs are heightening the risk of financial stress among the many emerging market and developing economies that over the past decades have accumulated debt at the fastest pace in more than half a century."

This assessment has been underscored by Gabriel Stern, head of emerging-markets research at Oxford Economics, in comments to the *Wall Street Journal.* "If you get more dollar appreciation, it will be the straw that break the camel's back. You're already getting frontier markets on the tipping point toward crisis, the last thing they need is a strong dollar."

The risks are not confined to emerging markets. Last week the *Financial Times* published a list of 207 companies it dubbed "debt monsters." These are companies that have been able to cover over cracks in their business models because of rock-bottom interest rates but now suddenly faced the prospect of "trying to service interest bills with crimped cash flows.

Those in the list, which ranged from Britain's largest chicken producer, a French supermarket chain, to Chinese property companies, were those whose debt was trading at more than 10 percentage points (1000 basis points) above government bonds.

In the wake of the World Bank's warnings, more signs of a global recession emerged. On Thursday evening the global logistics company Fedex forecast a major drop in parcel deliveries around the world because of the worsening economic outlook.

Speaking to the business channel CNBC, FedEx's newly appointed CEO Raj Subramaniam said he expected the global economy to enter a recession. The company said it was freezing hiring, closing 90 FedEx offices and parking some of its cargo aircraft.

On Friday, in response to the announcement, shares in the global delivery giant, regarded as something of a bellwether for the world economy, fell by 21 percent, the biggest single day drop in its history, worse than the Black Monday crash of October 1987, the financial crisis of 2008 and the market meltdown of March 2020.

Some of the fall may have been due to the particular circumstances of the company but others are subject to the same global forces. Shares in UPS, Amazon and XPO Logistics also dropped.

Data from the UK on retail sales also highlighted the growing recessionary trends, coming on top of the worsening situation in continental Europe, in particular Germany, where companies have imposed mass layoffs and researchers at the Kiel Institute for the World Economy have warned of a "massive recession."

According to the UK Office of National Statistics, retail sales dropped sharply in August because of price hikes, above all for energy, contracting by 1.6 percent and reversing a small increase in July.

Capital Economics economist Olivia Cross told the FT the data suggested "that the downward momentum is gathering speed" and supported her view that "the economy is already in recession."

The latest sales figures reflect a continuing downward trend that has been evident since the summer of last year. In April 2021 the volume of retail sales was 10 percent higher than before the pandemic. Now they are down to almost pre-pandemic levels.

In a measure of the worsening situation of the British economy, the pound fell to its lowest level against the US dollar since 1985 after dropping by around 1 percent. The euro continues to hover below parity against the US currency.

There will be no let up from the Fed as its presses ahead with its drive to impose a recession to try and crush the upsurge of struggles in the working class for wage rises and an end to the increasingly intolerable working conditions.

Markets have "priced in" as a near certainty an increase in the Fed's base interest rate of 75 basis points when it meets this week and have revised upwards their estimate of where the Fed will land. The expectations are that its base rate will rise to 4.4 percent by March, up from 4 percent at the start of last week.

Other, even more aggressive proponents of class war against the working class, such as former Democrat treasury secretary Lawrence Summers, have called for a 100-basis point increase.

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