# Interest rates should remain elevated, says IMF

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Interest rates set by central banks will continue to remain high for longer than expected, because inflation is not coming down as rapidly as previously hoped for. This is the main conclusion to emerge from the update by the International Monetary Fund (IMF) of its outlook for the global economy issued on Tuesday.

In an interview with the *Financial Times* on the report, the IMF's chief economist Pierre-Olivier Gourinchas said central bank officials "should be ready for more bumps in the road," as they seek to push down the inflation rate.

He said that rising service price pressures in both the US and Europe were "persistent," despite the lowering of overall inflation.

Where upside risks for inflation have materialised, the IMF update said central banks should "refrain from easing too early and remain open to further tightening should it become necessary."

But the maintenance of higher rates will have consequences.

"The risk of elevated inflation has raised the prospects for high-for-even-longer interest rates, which in turn increases external, fiscal, and financial risks."

Outlining some of those risks, it warned that higher US interest rates, which tend to push up the value of the dollar, will lead to global interest rate disparities. This "could disrupt capital flows and impede planned monetary easing, which could adversely impact growth."

Under conditions where interest rates remain high, there was a need for governments to cut spending.

As the update put it: "Persistently high interest rates could raise borrowing costs further and affect financial stability if fiscal improvements do not offset higher real rates amid lower potential growth."

Translated from the economic jargon, this means that higher interest rates are lifting the interest bill paid by governments on their debt, so they need to cut spending in order that the ever-rising debt mountain, especially in the US, does not lead to increased financial turbulence.

To underscore the point, with its eye firmly fixed on the US November elections, it warned of "significant swings in economic policy," which entailed "fiscal profligacy risks" that would worsen "debt dynamics."

These issues were commented on by Gourinchas in a blog on the IMF update. In a call for government spending cuts—not on military spending, which the IMF recognises as untouchable, but on social services—he said stronger "fiscal buffers" were needed to provide the resources necessary to address unexpected shocks.

"However," he continued, "too little is being done, magnifying economic policy uncertainty. Projected fiscal consolidations [the code phrase for spending cuts] are largely insufficient in too many countries. It is concerning that a country like the United States, at full employment, maintains a fiscal stance that pushes its debt-to-GDP ratio steadily higher, with risks to both domestic and global economy. The increasing US reliance on short-term funding is also worrisome."

He warned that with higher debt, slower growth and larger deficits it would not take much for "debt trajectories to become much less comfortable in many places, especially if markets send government bond spreads higher, with risks for financial stability."

The IMF said global growth was in line with the forecasts set out in its *World Economic Outlook* report in April. That is growth of 3.2 percent in 2024 and 3.3 percent in 2025.

But it pointed to significant changes in the composition of that growth—surprises on the upside in many countries, alongside notable "downside

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surprises” in the US and Japan.

“In the United States, after a sustained period of strong outperformance, a sharper-than-expected slowdown in growth reflected moderating consumption and a negative contribution from trade,” it said.

The growth projection for 2024 was revised downwards by a 0.1 percentage point to 2.6 percent, with growth for 2025 expected to come in at 1.9 percent as the “labour market cools and consumption moderates, with fiscal policy starting to tighten gradually.”

The growth rate for Japan was revised down by 0.2 percentage points due to supply disruptions and weak private investment in the first quarter.

The IMF said there were “shoots of economic recovery in Europe,” but these appear at least somewhat tenuous because, as the update reported, “continued weaknesses in manufacturing suggest a more sluggish recovery in countries such as Germany [Europe’s largest economy].”

In conditions where the world’s first, third and fourth largest economies—the US, Germany and Japan respectively—are slowing, the global economy as a whole is being sustained by growth in China, India and so-called emerging and developing economies.

The IMF revised the growth for China up to 5 percent for 2024, but indicated this would not last with growth slowing to 4.5 percent in 2025 and continuing to decelerate over the medium turn, falling to 3.3 percent in 2029.

As is always the case in reports from central banks and global financial institutions, there was a focus on wages in the so-called fight against inflation in the IMF update.

In his blog post, Gourinchas said that “services prices and wage inflation are the two main areas of concerns when it comes to the disinflation path,” and claimed that “real wages are now close to pre-pandemic levels in many countries.”

This claim directly conflicts with the lived experience of hundreds of millions of workers around the world, who have been hit by rising costs for essential goods and cuts in their disposable incomes, because of the increase in mortgage repayments as a result of interest rate hikes.

It is an undeniable fact that the surge in inflation, which began in 2021, had nothing to do with wage demands but was the outcome of the supply chain crisis sparked by the pandemic, the effects of the US-NATO provoked war in Ukraine and profit gouging by global food and energy giants.

But finance capital and its representatives such as the IMF demand that the working class be made to pay, by the suppression of wage demands via sub-inflationary wage agreements, imposed by the trade union bureaucracies, and the increase in unemployment euphemistically referred to as the “cooling” of the economy.

The IMF also warned that “the escalation of trade tensions could further raise near-term risks to inflation by increasing the costs of imported goods along the supply chain.”

In his blog remarks, Gourinchas elaborated on this issue, noting that “the gradual dismantling of our multilateral trading system is another key concern.

“More countries are now going their own way, imposing unilateral tariffs or industrial policy measures whose compliance with World Trade Organisation rules is questionable at best.”

These measures threatened to “distort trade and resource allocation, spur retaliation, weaken growth, diminish living standards and make it harder to coordinate policies that address global challenges, such as the climate transition.”

The update itself concluded with a feeble plea for all countries to “scale back on use of trade-distorting measures and strive instead to strengthen the multilateral trading system.”

But while it cannot publicly acknowledge it, the IMF knows full well that this is not going to take place, as the post-war economic order visibly disintegrates in conditions of mounting economic and geo-strategic rivalries and the descent into war.

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