



The Global Economic Outlook: Stronger growth ahead, but more risks

**Paris, 19th November 2013
11h00 Paris time**

**Pier Carlo Padoan
Deputy Secretary-General
and Chief Economist**



















OECD Economic Outlook: key messages

1. Global growth should pick up if major risks do not materialise.
2. Downside risks prevail. Negative spillovers from emerging economies could be stronger than before.
3. Emerging economies need to address vulnerabilities to improve resilience and tackle the slowdown in potential growth.
4. The United States should avoid fiscal brinkmanship.
5. The euro area must repair the banking system and rebalance demand to reduce unemployment.
6. In Japan, all three “arrows” of the government’s strategy should be implemented fully.



Global growth should pick up if major risks do not materialise...

Summary of growth projections

	2012	2013	2014	2015
World	3.1	2.7	3.6 	3.9 
OECD	1.6	1.2	2.3 	2.7 
Non-OECD	5.1	4.8	5.3 	5.4 
United States	2.8	1.7	2.9 	3.4 
Euro area	-0.6	-0.4	1.0 	1.6 
Japan	1.9	1.8	1.5 	1.0 
China	7.7	7.7	8.2 	7.5 
World trade growth	3.0	3.0	4.8 	5.9 

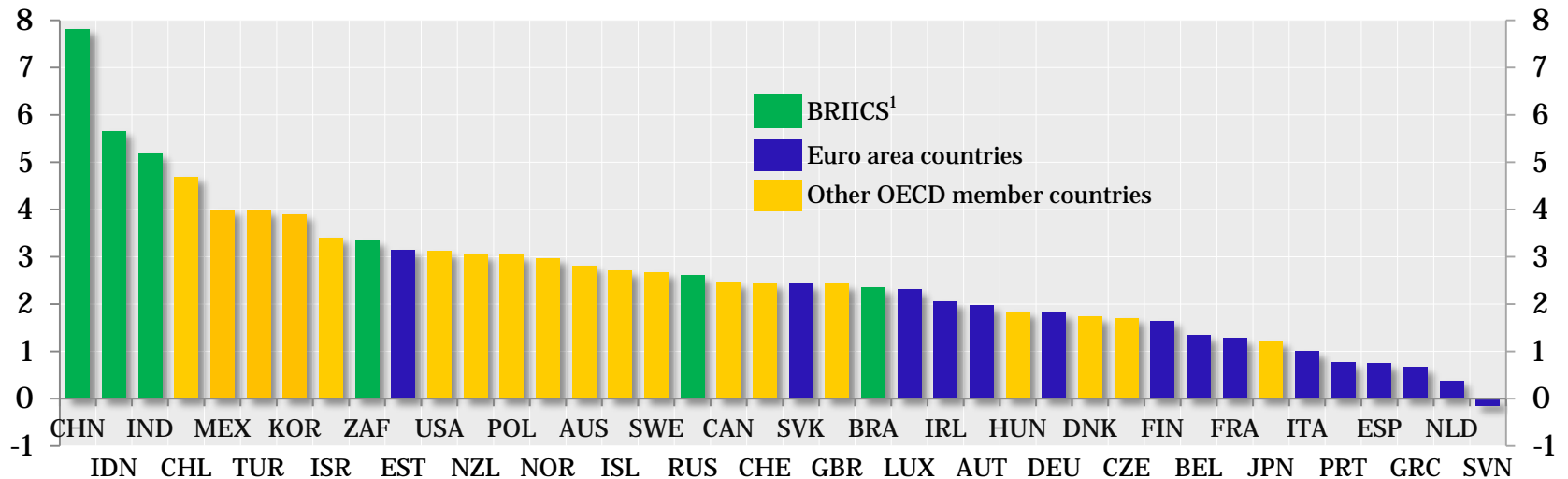
Note: The upward (green) arrow means that the growth in the current year is higher than in the previous year. Real GDP growth and world trade growth (the arithmetic average of world merchandise import and export volumes) are seasonally and working-day adjusted annualised rates.

Source: OECD Economic Outlook database 94.



Growth prospects remain strongest in the emerging economies

Projected change in real GDP in 2014-15
Annual average, per cent



1. BRIICS countries comprise Brazil, China, India, Indonesia, Russia and South Africa.

Source: OECD Economic Outlook database 94.

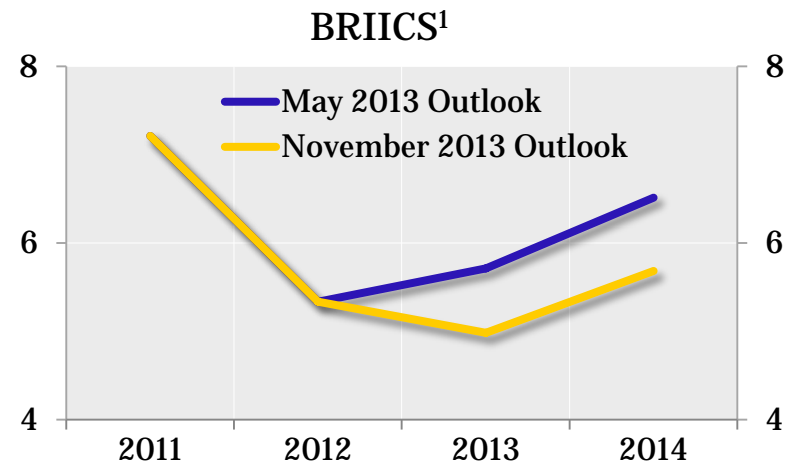
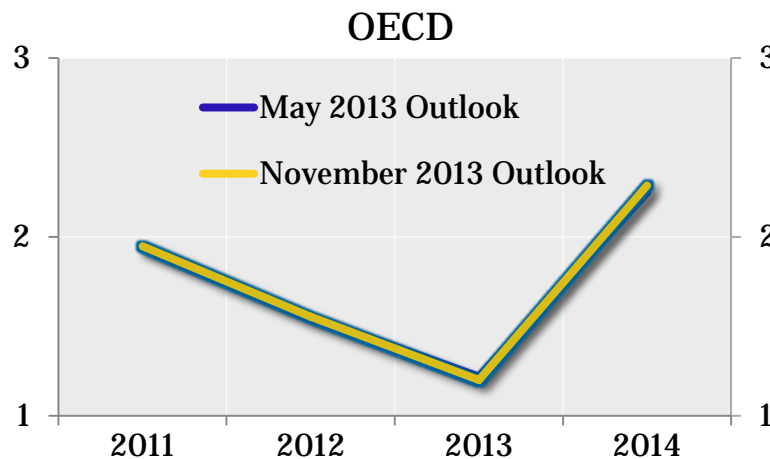


... but the outlook is somewhat less positive than it appeared in May...

Growth forecast almost unchanged for the OECD...

... but significantly weaker for many emerging economies with the exception of China.

Comparison of growth projections from May and November Economic Outlooks



1. BRIICS countries comprise Brazil, China, India, Indonesia, Russia and South Africa.

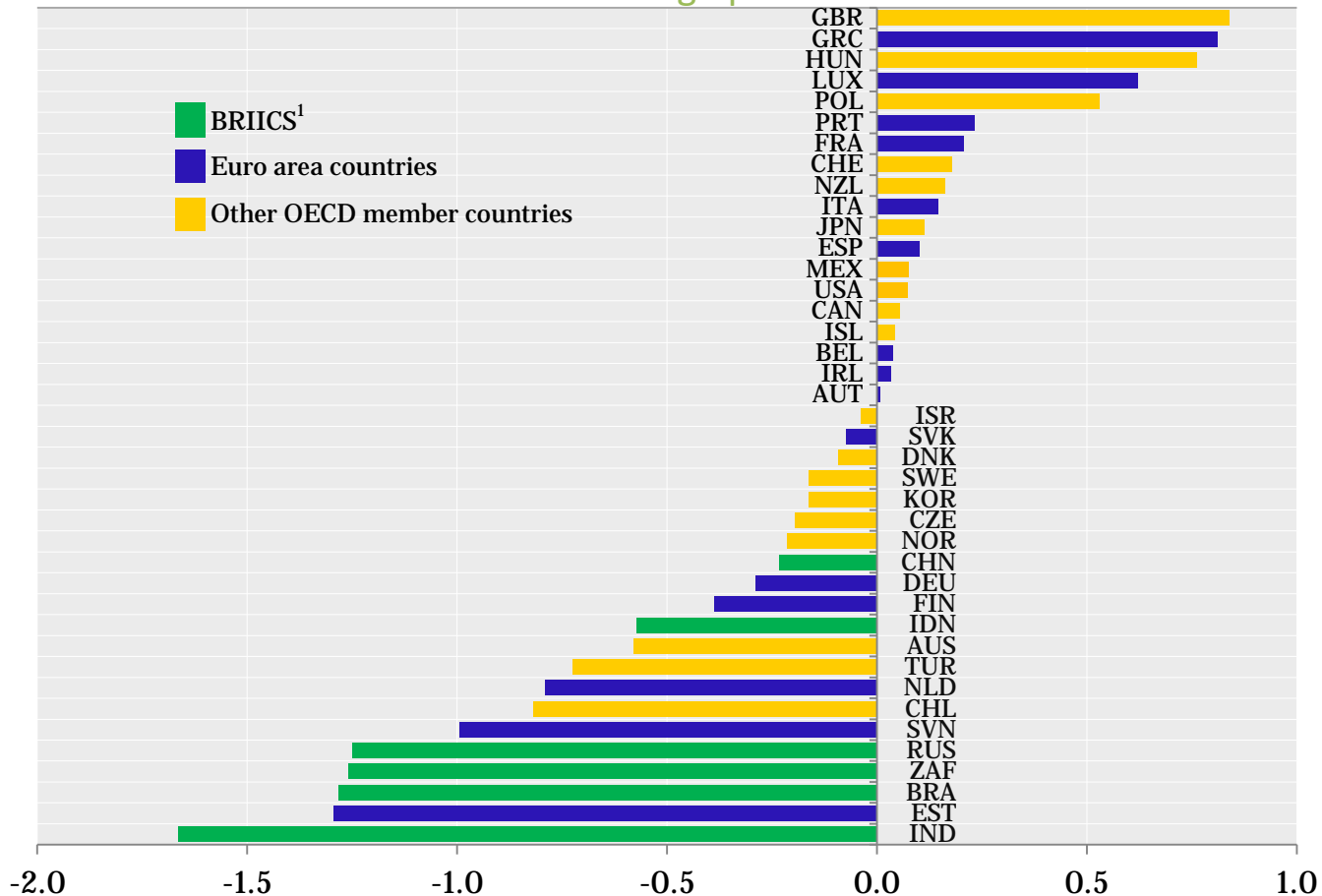
Source: OECD Economic Outlook database 93 & 94.



... with forecast revisions varying across countries

Change in 2014 real GDP growth projection between May and November Economic Outlooks

Percentage points



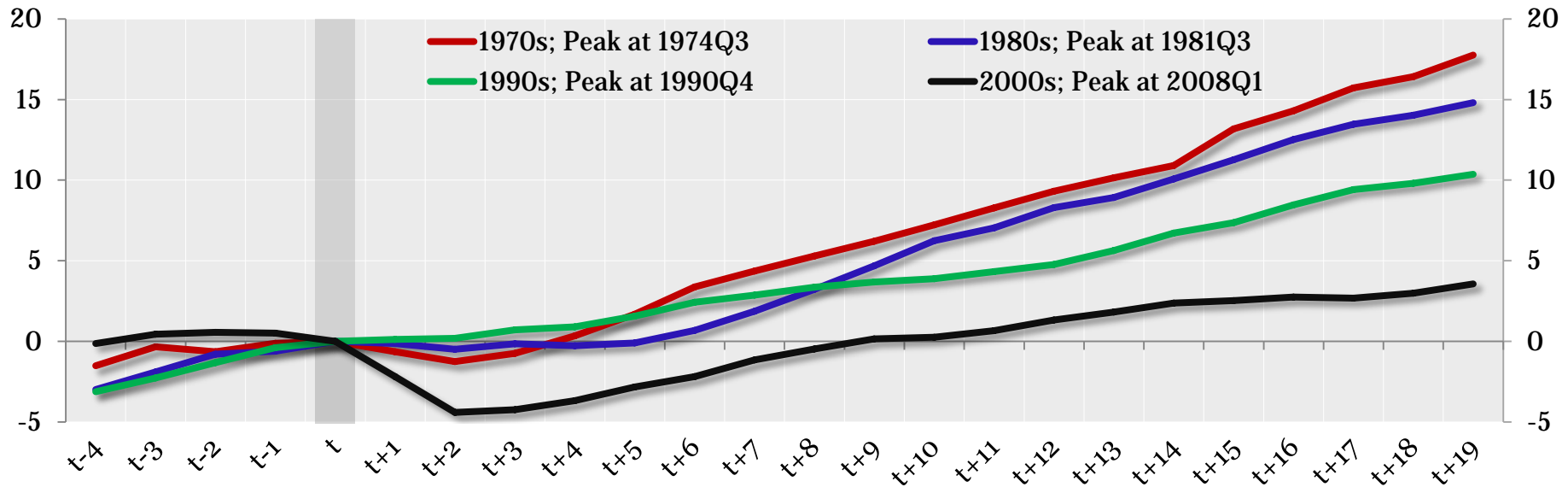
1. BRIICS countries comprise Brazil, China, India, Indonesia, Russia and South Africa.

Source: OECD Economic Outlook database 93 & 94.



The current recovery is still weak by past standards...

OECD-wide real GDP, relative to pre-recession peak
Per cent



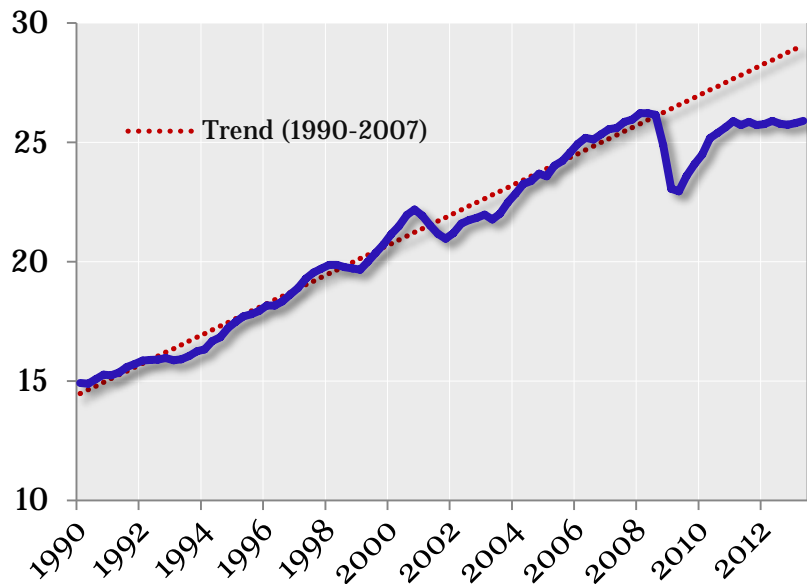
Note: The point labelled “t” on the horizontal axis corresponds to the pre-recession peak quarter for each cycle.

Source: OECD National Accounts database.

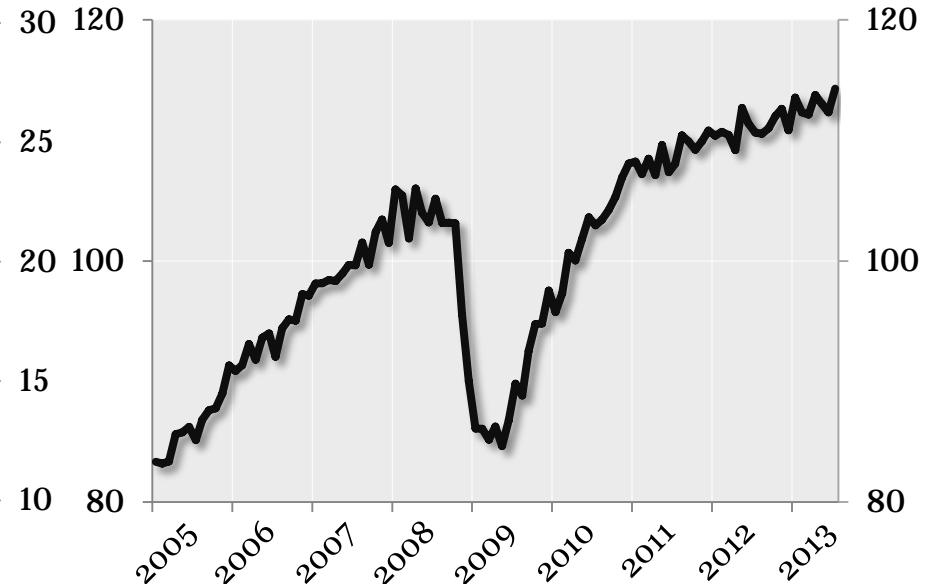


... with a striking slowdown in world trade growth...

World trade/GDP¹
Per cent



World trade volumes
2007 = 100



1. Trade and GDP both in volume terms, in 2005 prices.

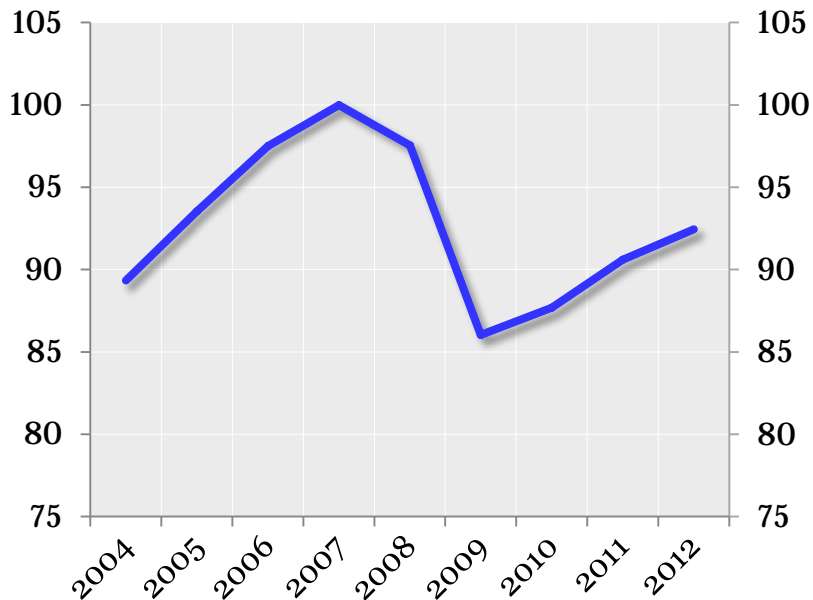
Source: OECD National Accounts database, CPB World Trade Monitor.



... which also reflects particular weakness in investment...

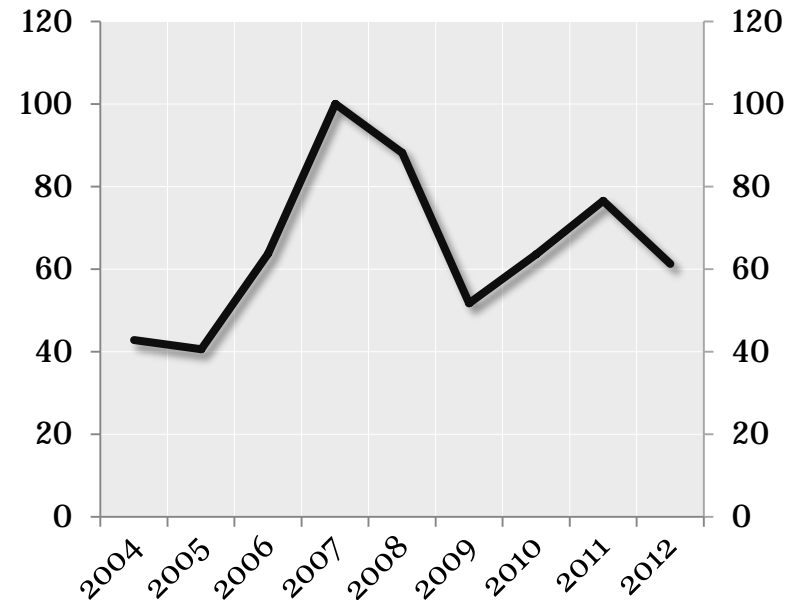
OECD-wide fixed investment

Volume, 2007 = 100



World FDI flows

Index of USD values, 2007 = 100



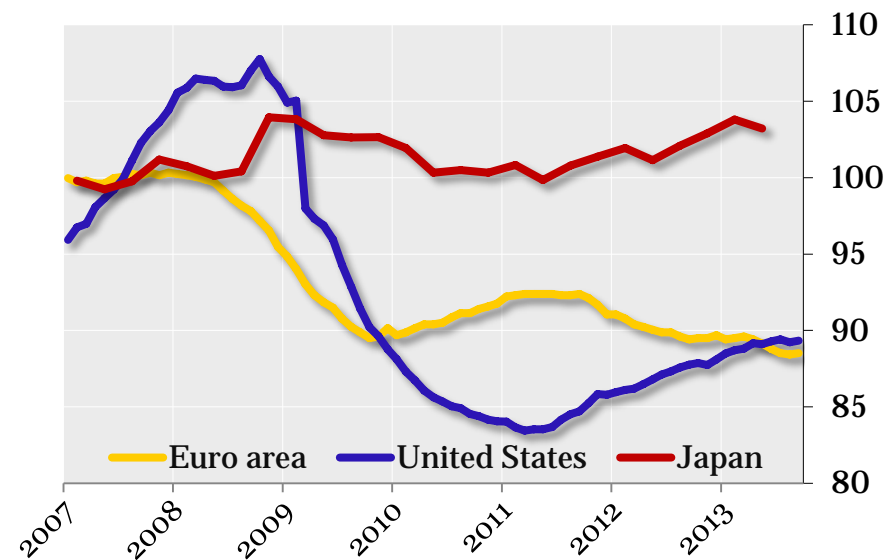
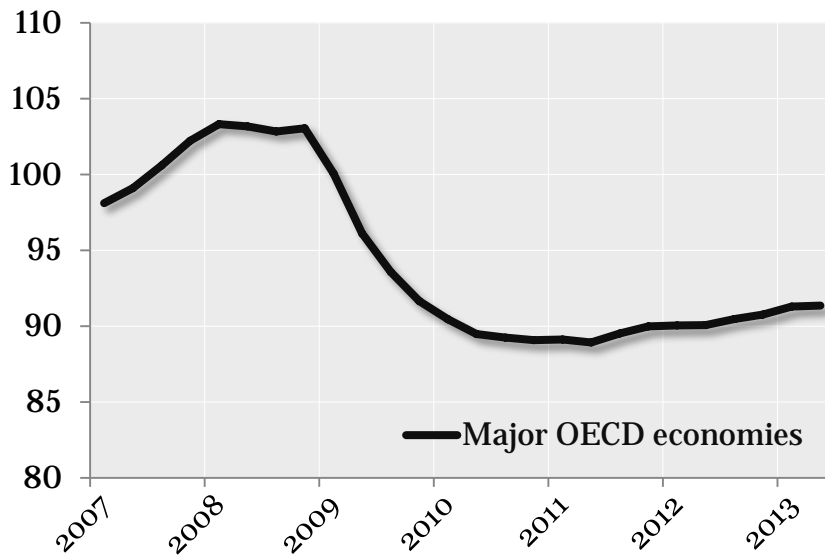
Note: Fixed investment values are the weighted average of OECD member countries, where the weights are GDP measured at 2005 PPP USD.

Source: OECD Economic Outlook 94 database, OECD Foreign Direct Investment (FDI) Statistics.



... credit has lagged in the major economies...

Bank loans to non-financial private sector 2007 = 100



Note: Major OECD economies is calculated as the weighted average of the indices (2007 = 100) of nominal bank credit to the non-financial private sector for the United States, the euro area and Japan, where the weights are GDP in 2007 measured at USD PPP.

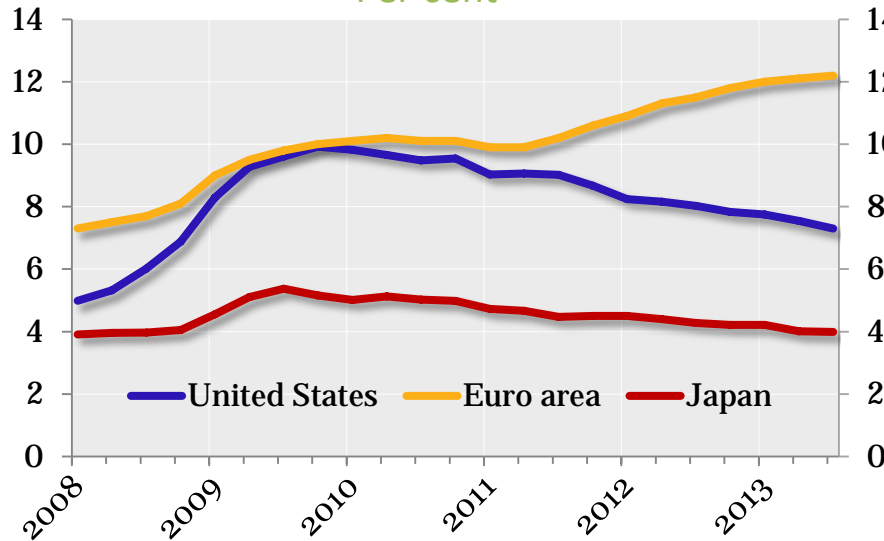
Source: Datastream and European Central Bank.



... and which has resulted in stubbornly high unemployment, especially in Europe

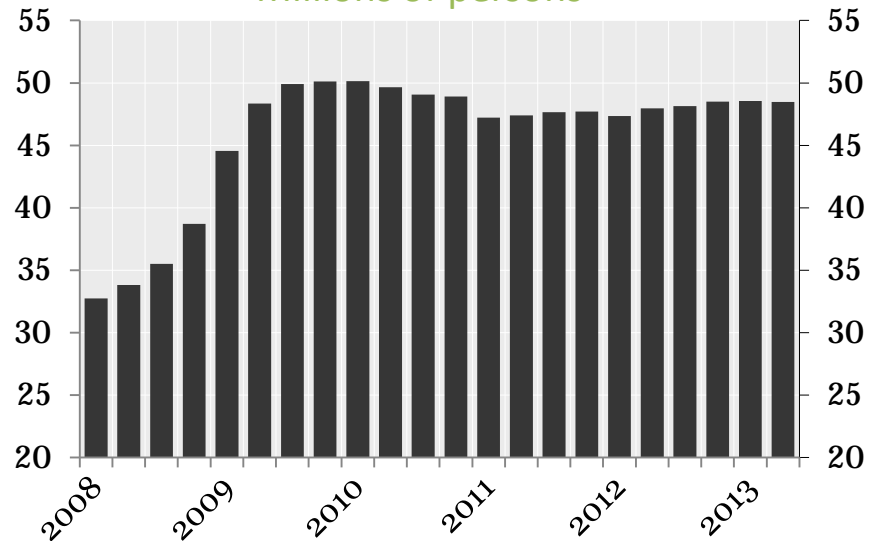
Unemployment rate

Per cent



OECD-wide unemployment

Millions of persons



Source: OECD national accounts database, OECD Economic Outlook 94 database, and Eurostat.



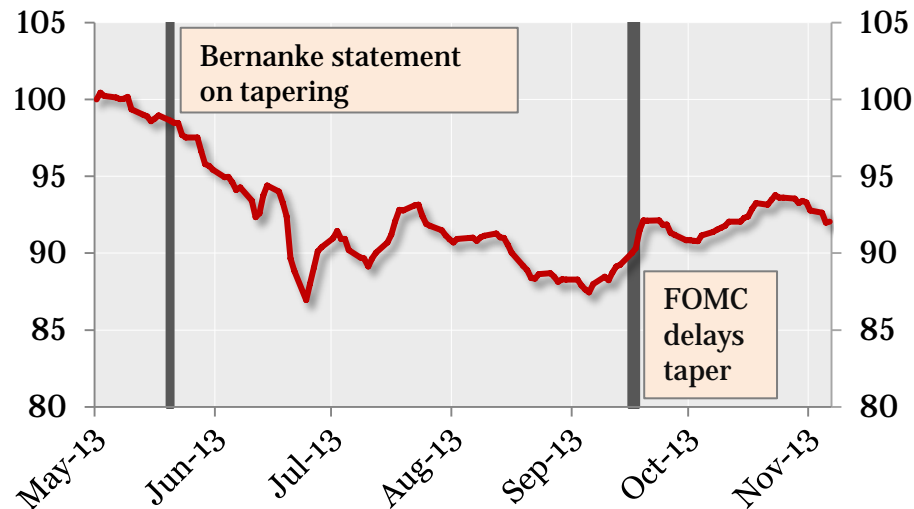
Recent financial turbulence is one reason for the less positive outlook

The fallout from the discussion of tapering of asset purchases by the Federal Reserve in May is the main negative development since the last *Outlook*

- limited impact to date on major OECD economies
- significant effects on some emerging economies

Emerging market bond index¹

May 1, 2013 = 100



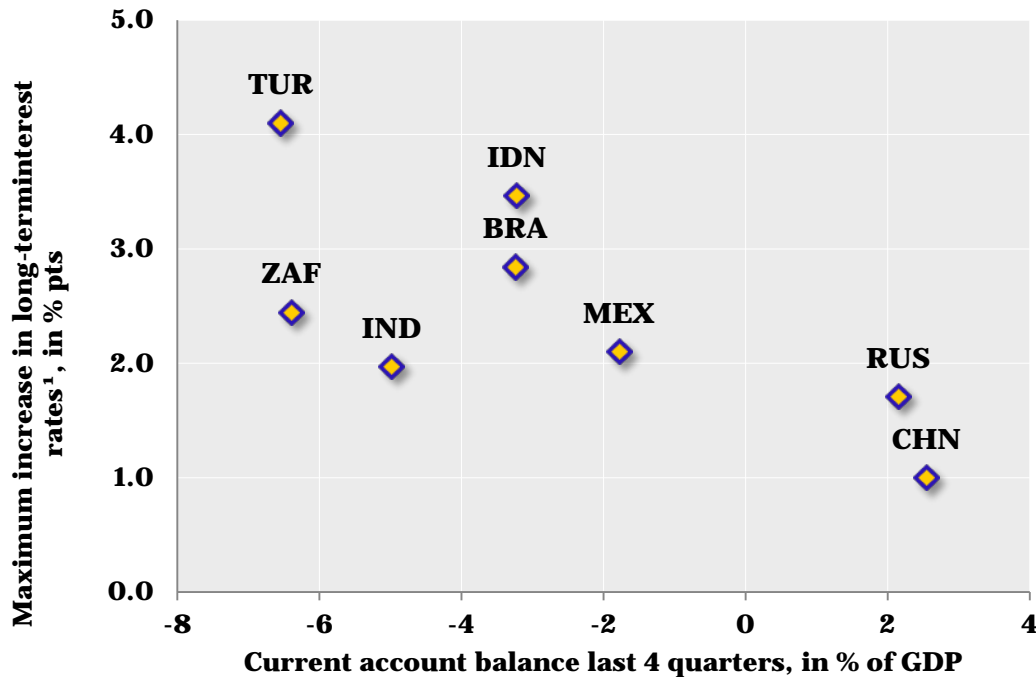
1. JP Morgan EMBI+.

Source: OECD Economic Outlook 94 database, Datastream.



Emerging economies with large current account deficits were worst-hit

Maximum rise in long-term yields from May 2013



1. Based on daily information from April 30 to November 15, 2013.

Note: Latest 4-quarter period is Q3 2012 – Q2 2013.

Source: OECD Economic Outlook 94 database; Datastream; and IMF Balance of Payments database.



Downside risks prevail. The recovery path is likely to be turbulent

Significant risks remain from incomplete resolution of fiscal, financial and structural weaknesses since the crisis.

Recent instability was a reminder of how risks can derail the central scenario for growth and employment.

A tapering of US Federal Reserve asset purchases may bring a renewed bout of instability.

Underlying fragilities in all the major economies could be exposed by the realisation of one or more prominent risks.

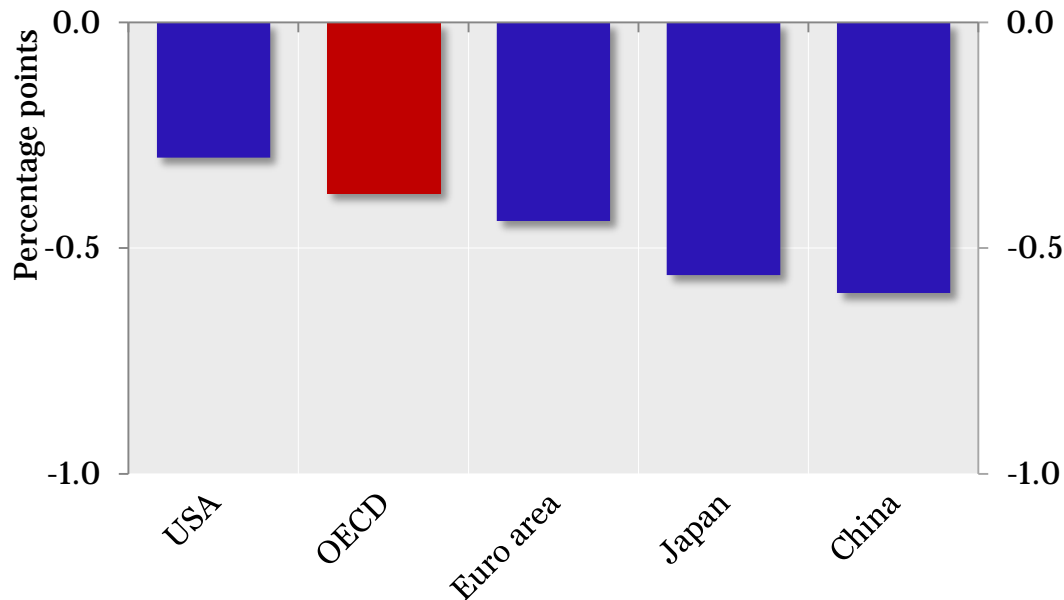


Negative spillovers from emerging economies could be stronger than before

A deeper slowdown in EMEs would have negative feedback effects on advanced economies.

Some advanced economies have tight trade and financial links with EMEs, and would be significantly affected.

First-year impact on growth of a 2% decline in domestic demand in non-OECD countries excluding China



Source: OECD Economic Outlook 94 database; and OECD calculations.



United States: exit from unconventional monetary policy will be challenging

US monetary policy should remain accommodative, balancing uncertainty about the evolution of demand and employment with the costs of postponing exit.

As growth strengthens, bond purchases should be wound down. When that process is complete, the Federal Reserve should start to raise policy interest rates towards a more neutral stance.



... as will dealing with the taper elsewhere

In vulnerable EMEs, the US taper may aggravate policy dilemmas, with a reversal of capital inflows weakening activity.

Where inflation is already high and the central bank's credibility is in question, interest rates may have to be higher to anchor inflation expectations.

US taper will also put upward pressure on interest rates in advanced countries, notably the euro area. This is another reason why strengthening bank balance sheets is an urgent priority.



Addressing the risk of fiscal deadlock in the United States

Polarised politics and the nominal debt ceiling create risks not only for the US but the whole world.

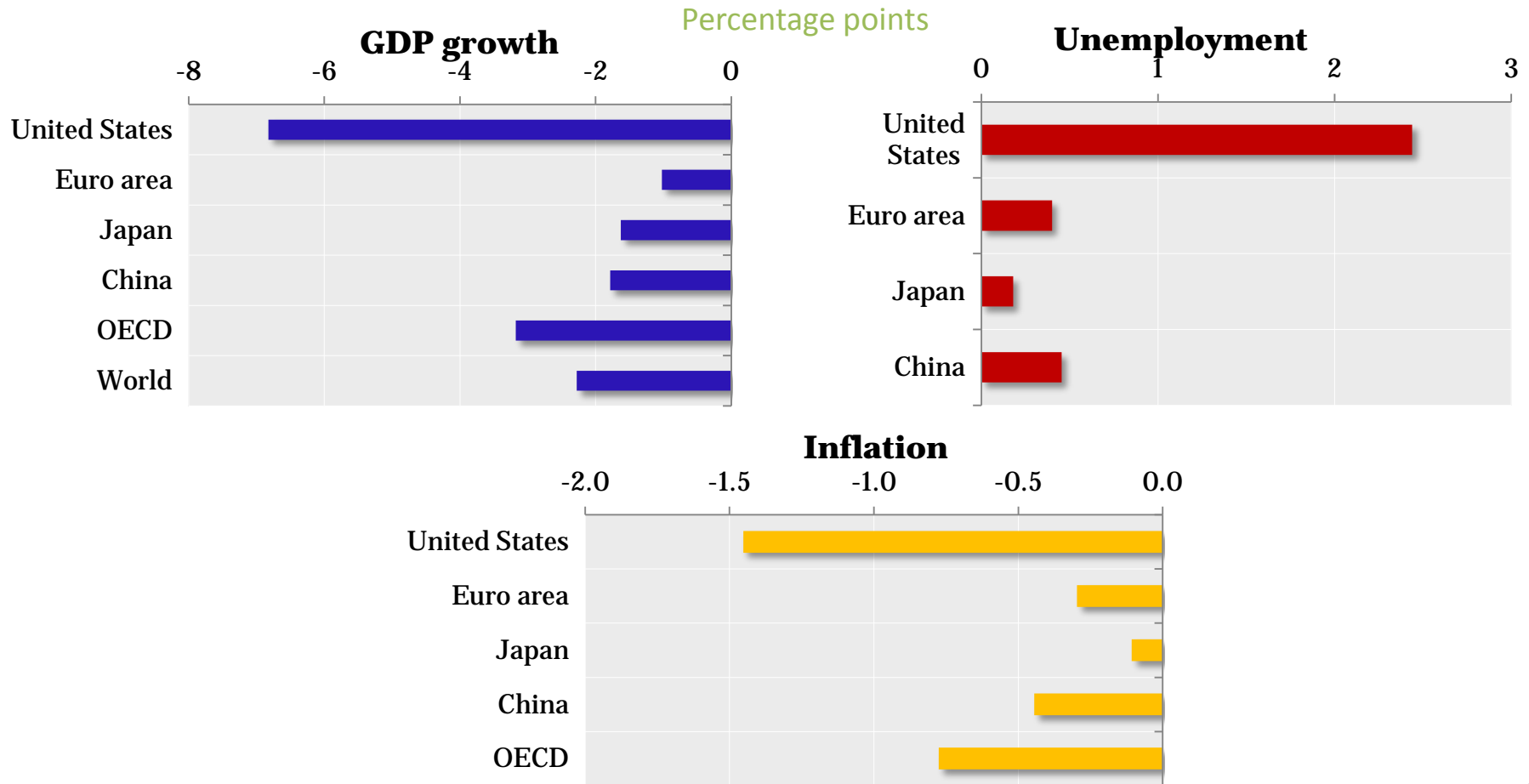
The nominal debt ceiling should be abolished.

Mechanistic and arbitrary short-term consolidation measures should be replaced by a coordinated medium-term plan.



If the US debt ceiling were to bind, a new global recession could be triggered

Change relative to baseline in first year if debt ceiling were to bind for one year



Note: Government consumption reduced by 5% of GDP in 2014. Term premium in long-term interest rates up by 200 b.p. in 2014 in the USA. Equity prices drop by 25% in 2014 in all countries. Short-term interest rates and nominal exchange rates held fixed.

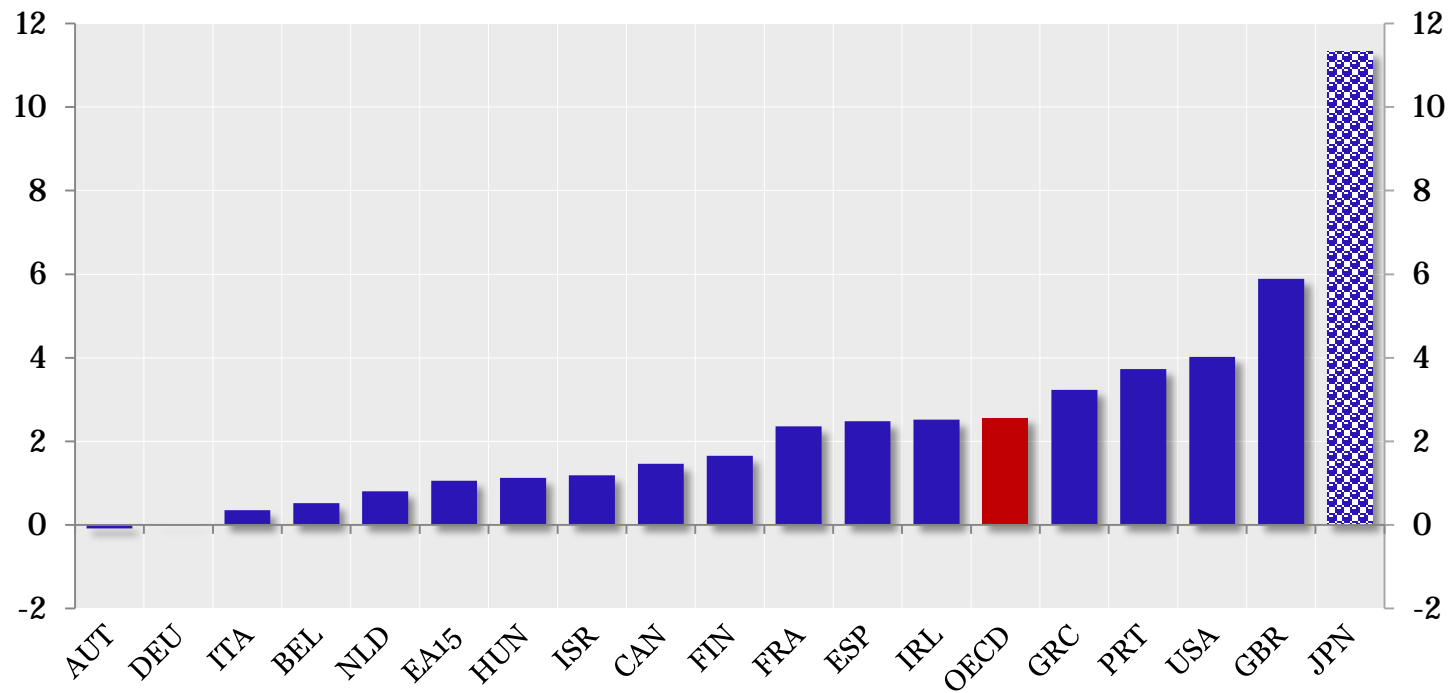
Source: OECD Economic Outlook 94 database, and OECD calculations.



Japan's fiscal challenges remain massive...

Consolidation requirements to reduce government debt to 60 per cent of GDP by 2030¹

Percentage points of GDP



1. The average measure of consolidation is the difference between the underlying primary balance in 2014 and the average underlying primary balance between 2015 and 2030, except for those countries for which the debt target is only achieved after 2030, in which case the average is calculated up until the year that the debt target is achieved.

Source: OECD calculations.



... and must be tackled decisively

The 2014 rise in the consumption tax is just the first step to putting public debt on a sustainable path.

- The second planned increase, to 10% in 2015, should go ahead on schedule.
- Any package to soften the growth impact of the tax increases should be focussed on one-time measures with high multipliers.
- A detailed and credible plan to achieve the target of primary balance by 2020 is needed.
- Structural reform to boost growth should be implemented quickly.



Preventing another euro area crisis

The recent ECB rate cut is welcome, but further easing may be required if deflation risks intensify.

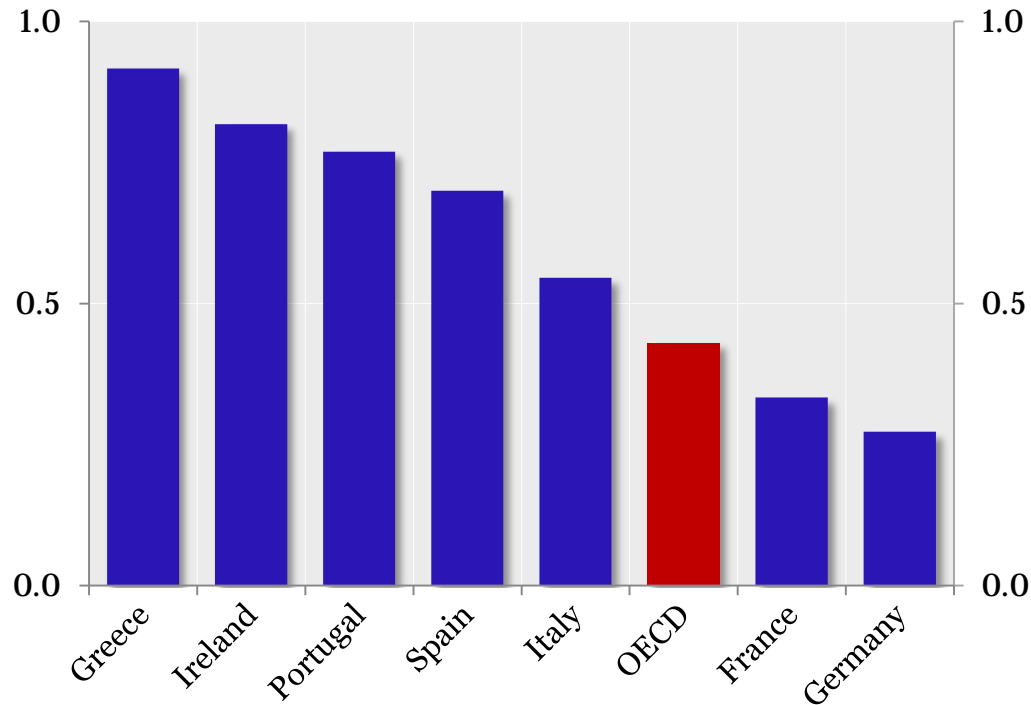
The Asset Quality Review and stress tests must be implemented rigorously – and followed up by bank recapitalisation where needed.

Further progress must be made on establishing a fully fledged banking union with an adequate joint fiscal backstop. The date for an effective single bank resolution regime should be brought forward.



Euro area countries hardest-hit by the crisis have made progress on structural reform...

Responsiveness rates to *Going for Growth* recommendations, 2011-12¹



1. Responsiveness rates are calculated as the share of priority areas identified in *Going for Growth* 2011 in which 'significant' action was taken in 2011-12. The euro area and OECD rates are calculated as an unweighted average.

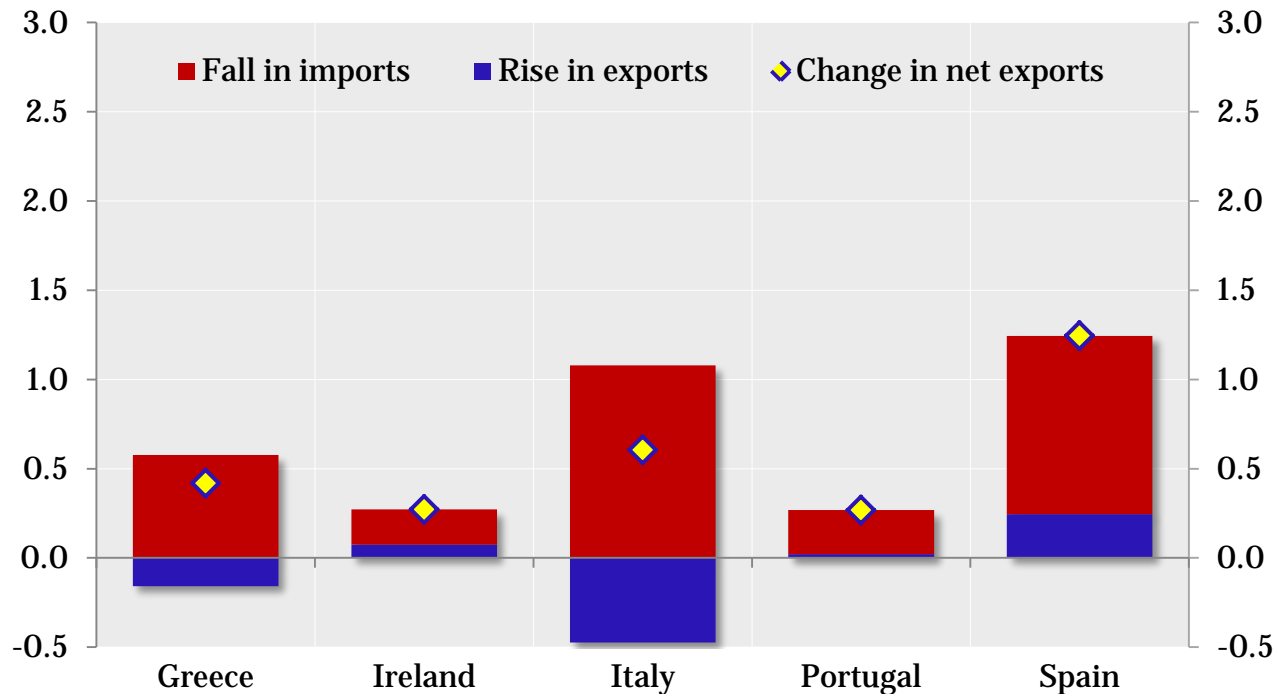
Source: OECD *Going for Growth* 2013.



...which is assisting with internal rebalancing...

Contributions to improvement in net exports since 2008¹

In per cent of 2008 euro area GDP



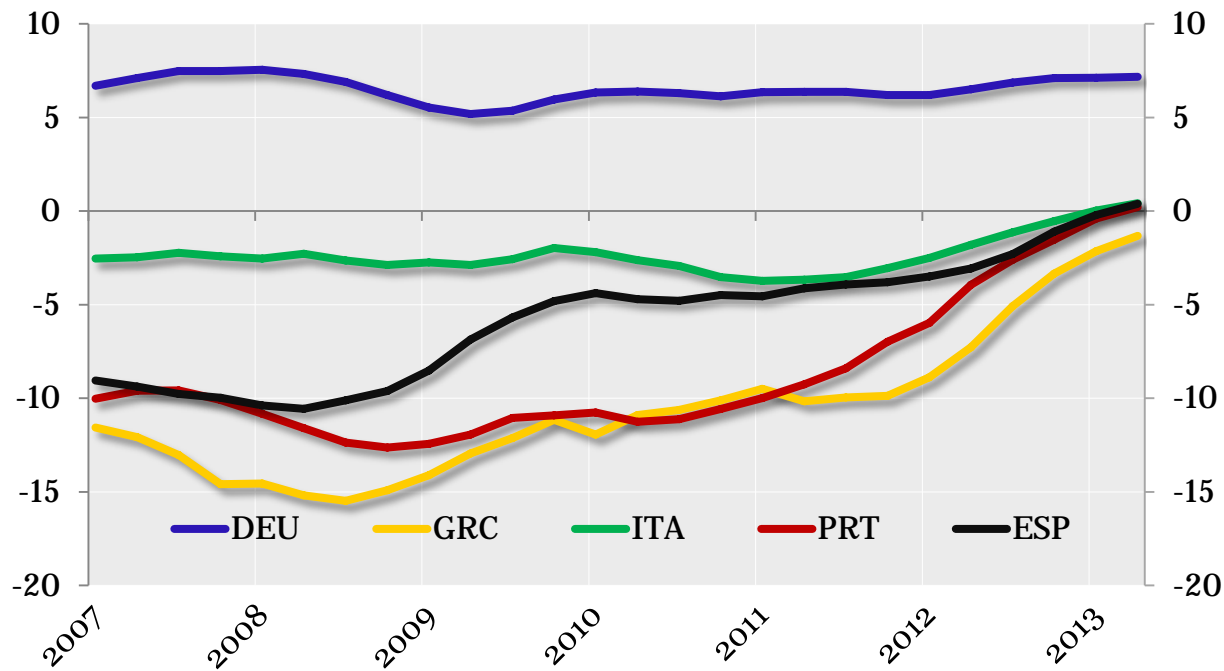
1. Change shown is latest 4 quarter period (Q3 2012 – Q2 2013) minus 2008.

Source: OECD Economic Outlook 94 database.



... although that adjustment needs to be more symmetric

Current account balance/GDP
Per cent, 4-quarter moving average



Source: OECD national accounts database.



Summing up

The global economy looks set to move beyond its post-crisis sluggishness, but there are still prominent downside risks.

There is no room for complacency. Policy makers should avoid creating turbulence and stand ready to mitigate instability.

Successful growth strategies require a strong commitment to structural reforms in advanced and emerging market economies alike.

- In this respect, the plan announced by the Plenum of the CCP goes in the right direction.

Policy priorities at the international level include trade, investment and financial reform.