

Policy challenges in the (post?) crisis global economy

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Economic policy will be facing daunting challenges in the years ahead as the exit from recession is signalling that conflicting objectives are emerging

Summary of projections

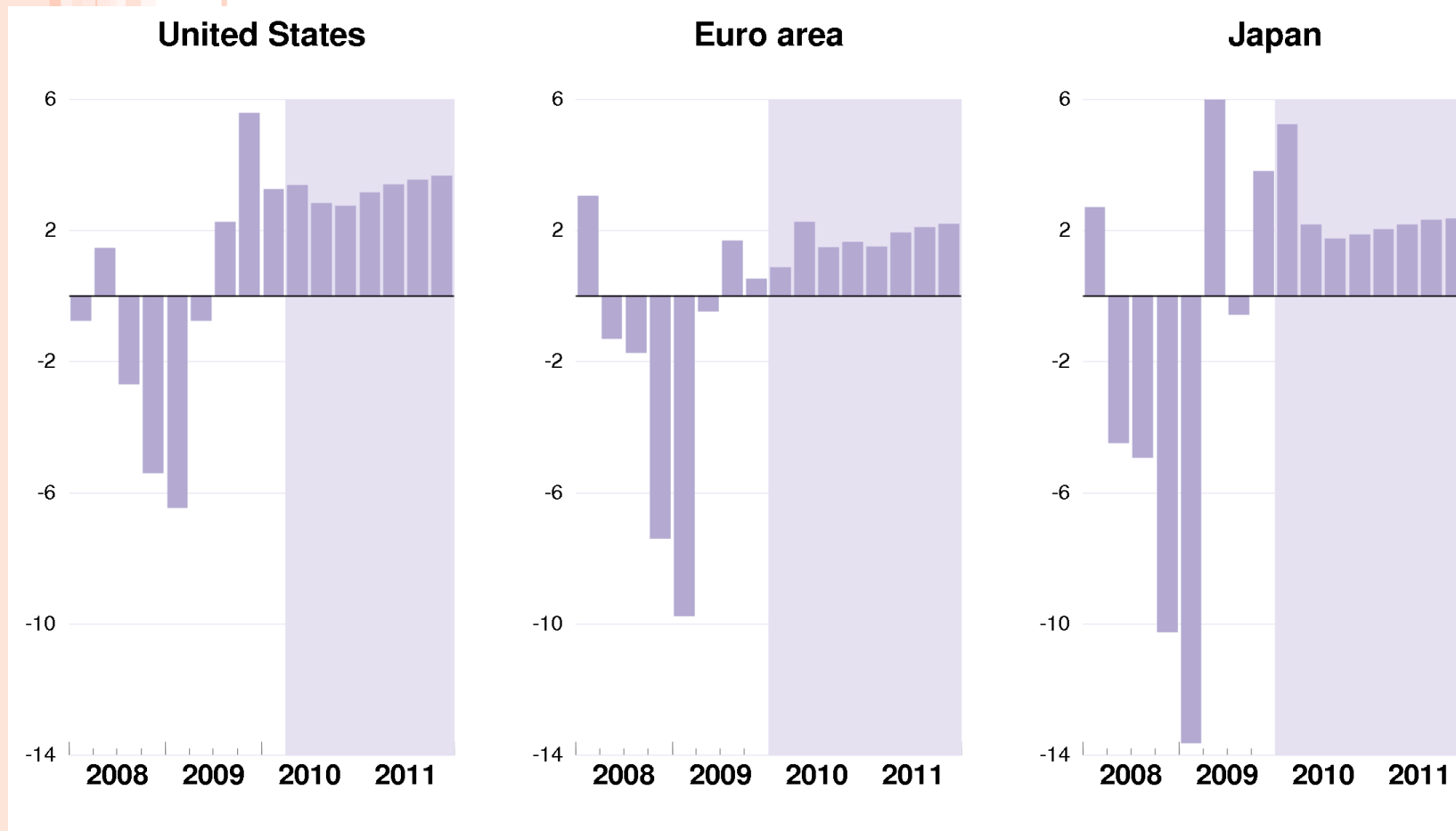
In per cent

	2009	2010	2011		2009	2010	2011
Real GDP growth				World trade growth	-11.0	10.6	8.4
United States	-2.4	3.2	3.2	Current account balance			
Japan	-5.2	3.0	2.0	United States	-2.9	-3.8	-4.0
Euro area	-4.1	1.2	1.8	Japan	2.8	3.3	3.5
Total OECD	-3.3	2.7	2.8	Euro area	-0.3	0.3	0.8
				Total OECD	-0.7	-0.8	-0.7
Inflation				Fiscal balance			
United States	0.2	1.6	1.0	United States	-11.0	-10.7	-8.9
Japan	-1.4	-0.7	-0.3	Japan	-7.2	-7.6	-8.3
Euro area	0.3	1.4	1.0	Euro area	-6.3	-6.6	-5.7
Total OECD	0.6	1.6	1.3	Total OECD	-7.9	-7.8	-6.7
Unemployment rate				Short-term interest rate			
United States	9.3	9.7	8.9	United States	0.9	0.5	2.4
Japan	5.1	4.9	4.7	Japan	0.3	0.2	0.2
Euro area	9.4	10.1	10.1	Euro area	1.2	0.7	1.9
Total OECD	8.1	8.5	8.2				

Source: OECD Economic Outlook 87 database.

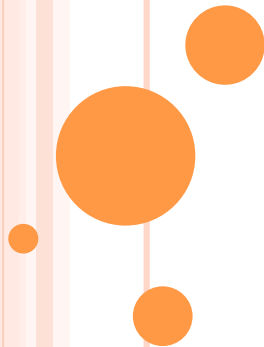
The recovery is ongoing, albeit at different speeds

Annualised quarterly real GDP growth, in per cent



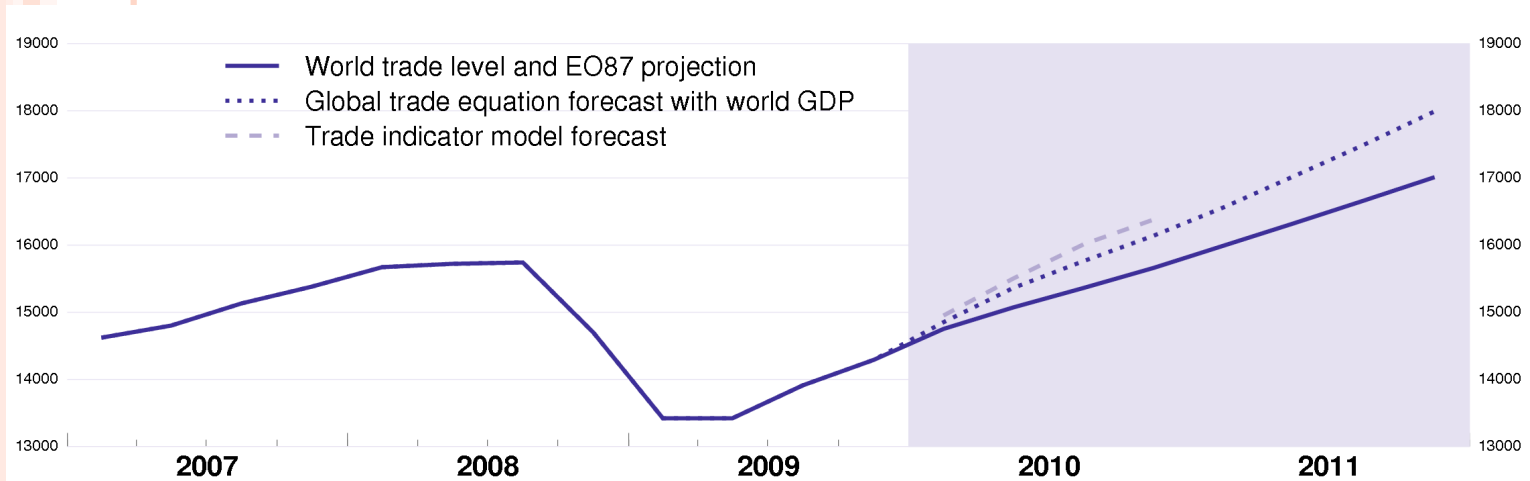
Source: OECD Economic Outlook 87 database.

Challenge: move from policy driven to self- sustained growth

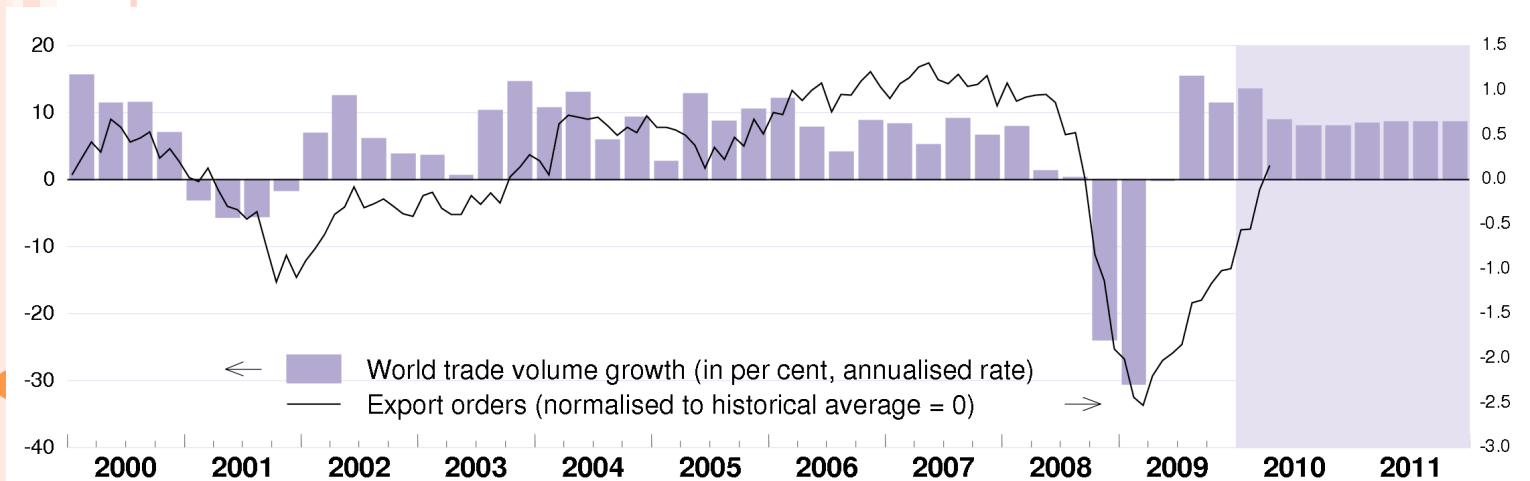


Global trade is bouncing back strongly

World trade, billions of 2005 US dollars



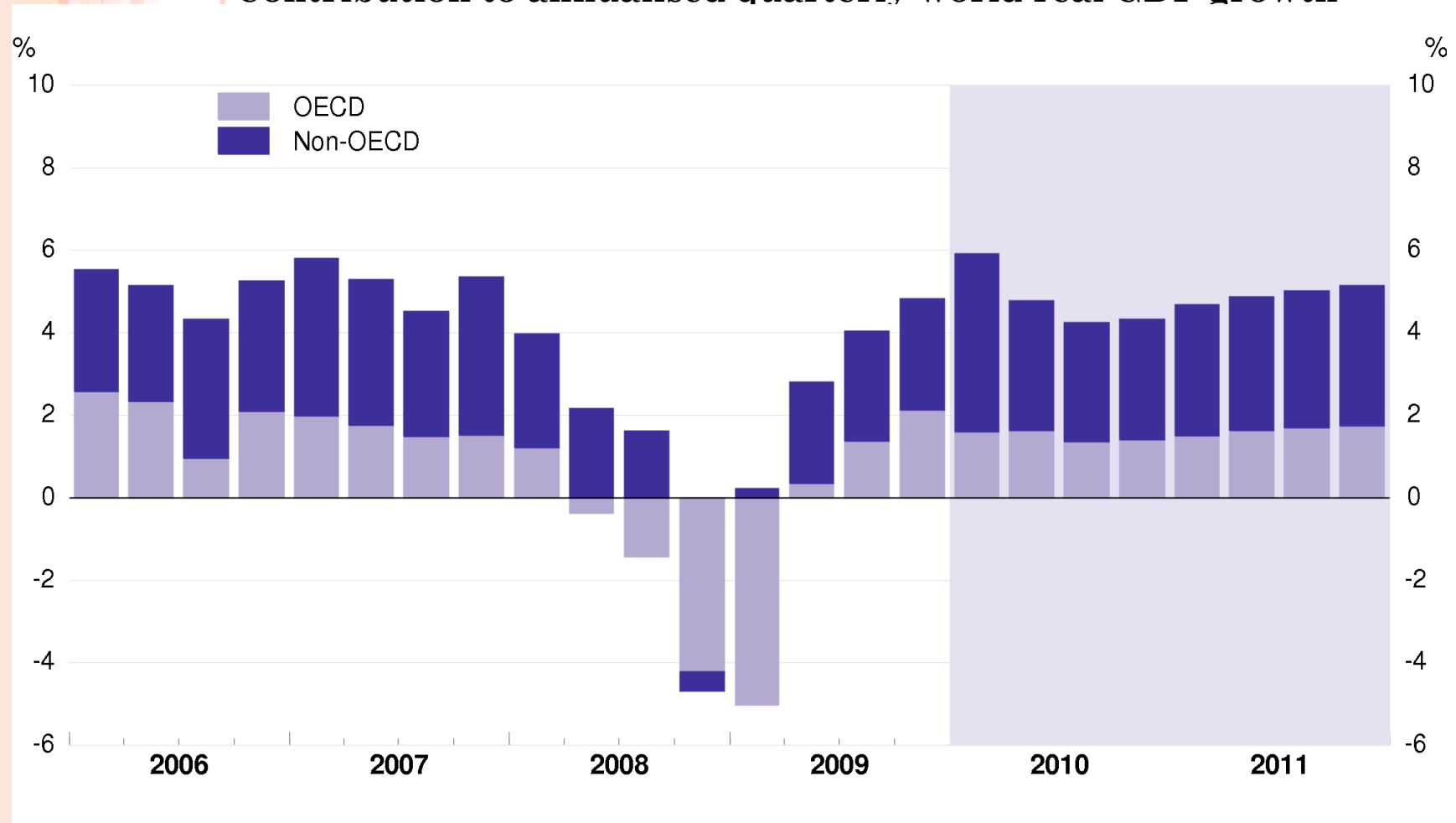
World trade volume growth and export orders



Source: OECD, Main Economic Indicator database; OECD Economic Outlook 87 database; and OECD calculations.

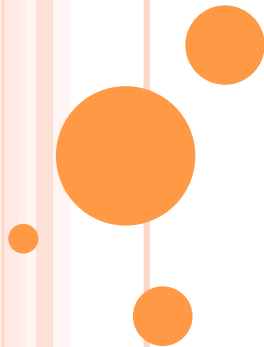
Global growth will continue to be supported by the dynamism of non-OECD economies

Contribution to annualised quarterly world real GDP growth



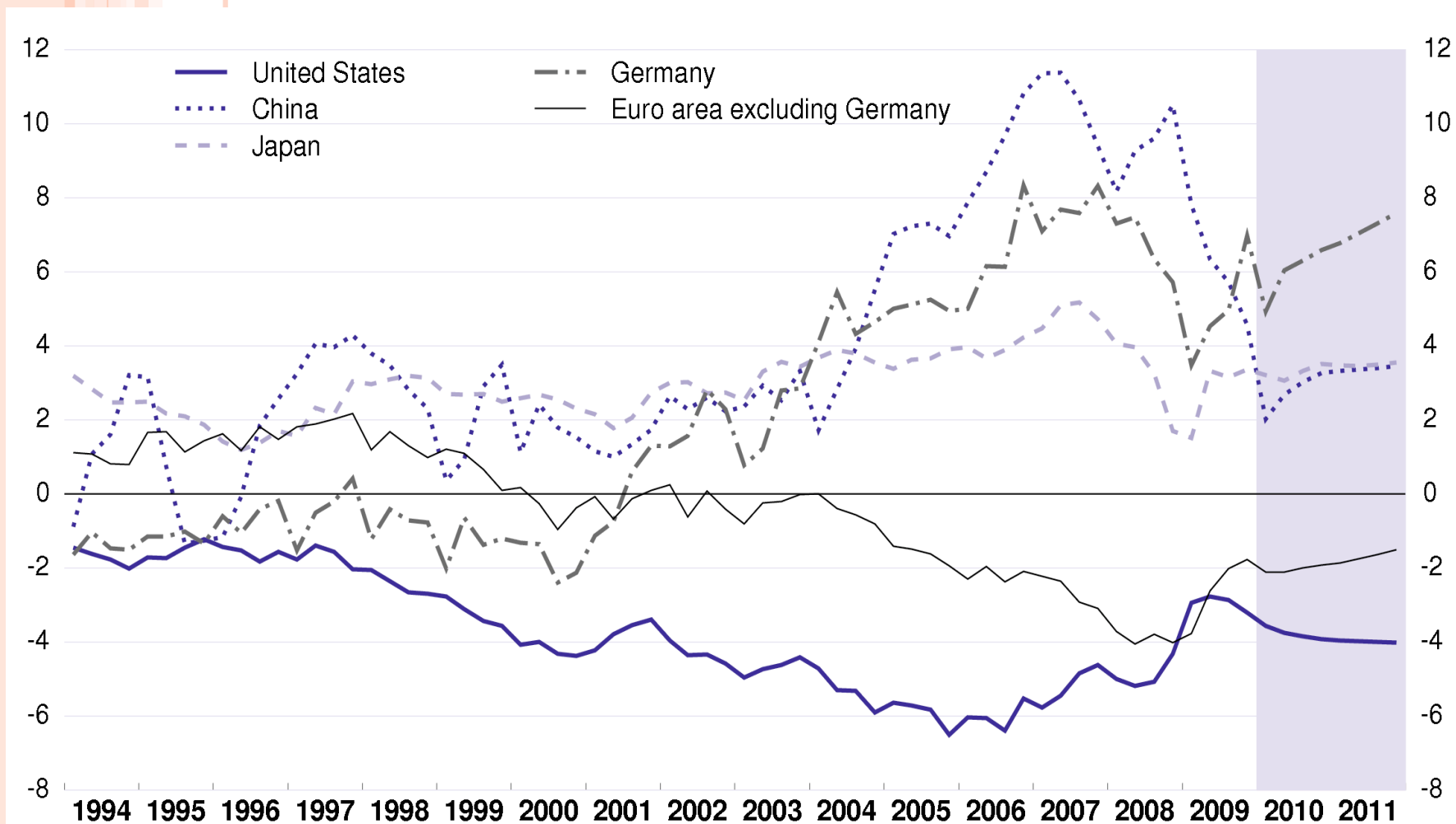
Source: OECD Economic Outlook 87 database.

**Challenge: keep markets
open (protectionism may
come back)**



Global imbalances will widen modestly

Current account balance, in per cent of GDP

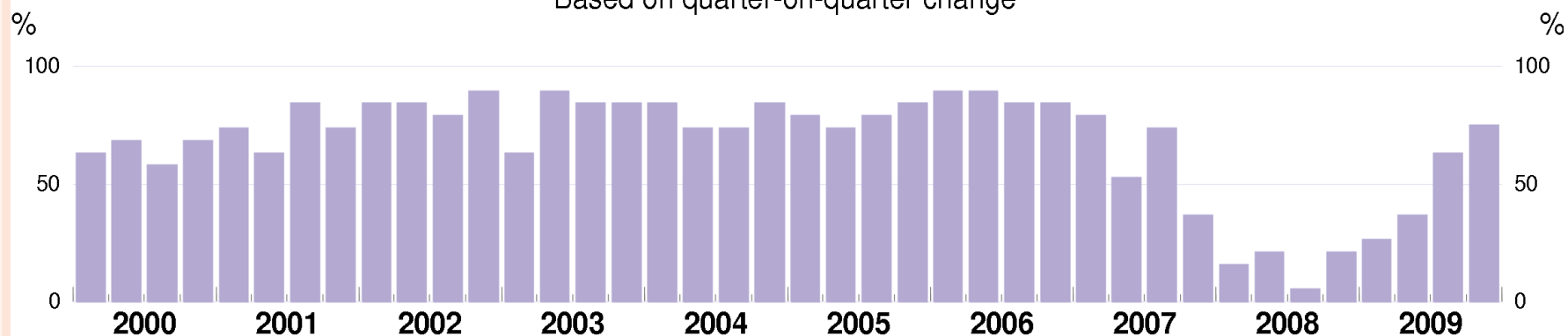


Source: OECD Economic Outlook 87 database.

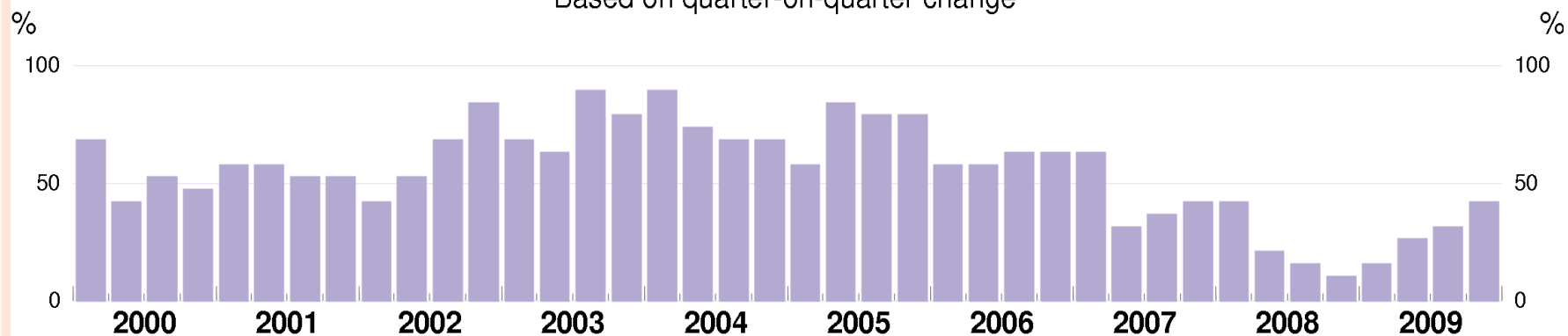
**Challenge: avoid
imbalances becoming
unsustainable (consider
structural determinants)**

The housing market upturn is broadening

Proportion of OECD countries with rising real house prices
Based on quarter-on-quarter change

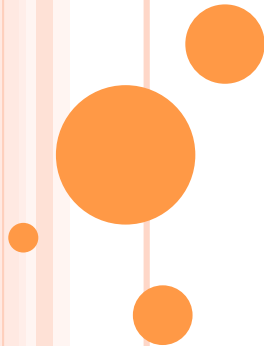


Proportion of OECD countries with rising real housing investment
Based on quarter-on-quarter change

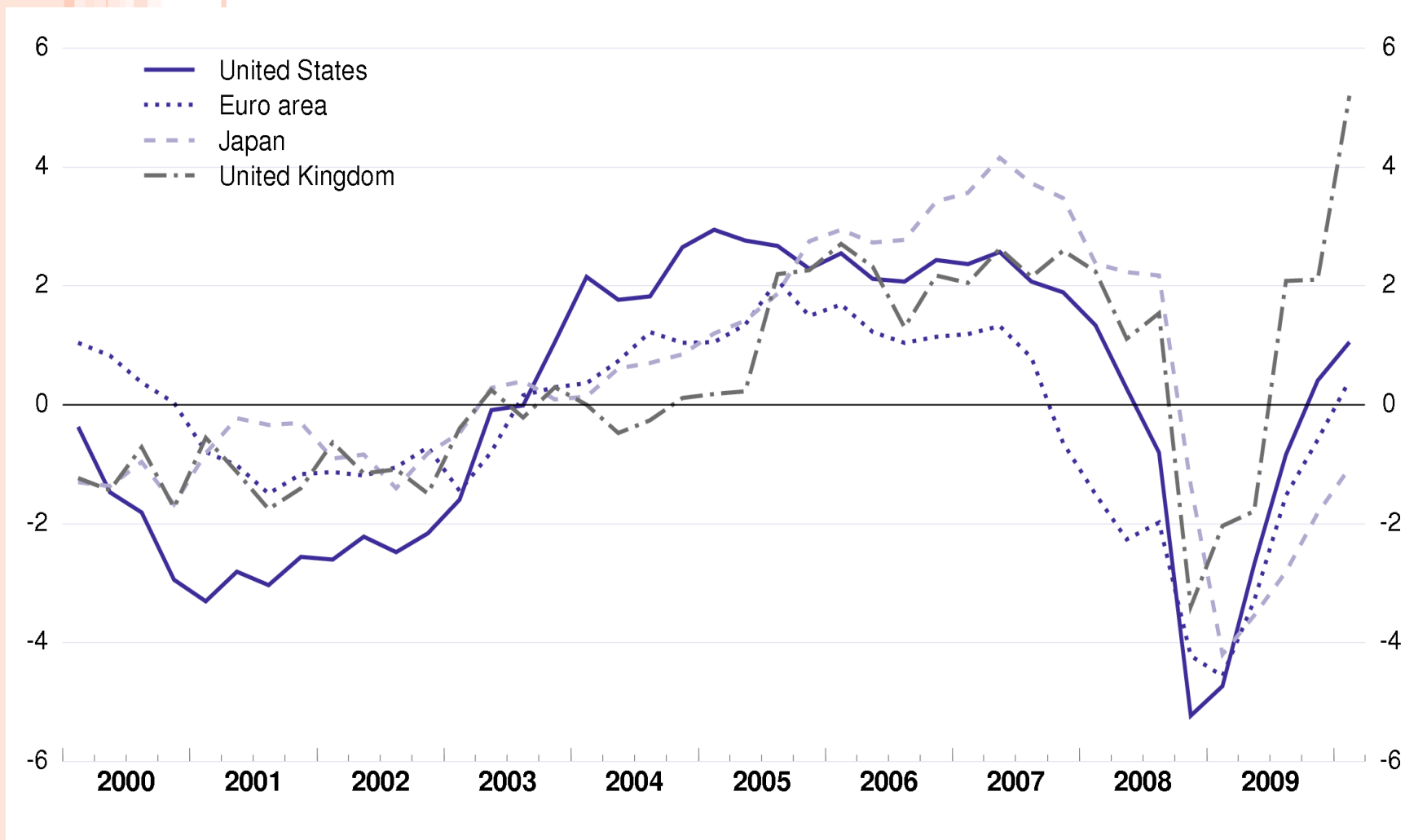


Source: OECD Economic Outlook 87 database; and various national sources.

Challenge: avoid new bubbles but do not choke growth



Financial conditions have improved markedly



Source: Datastream; and OECD calculations.

But..increased uncertainty has pushed up bank credit default swap rates

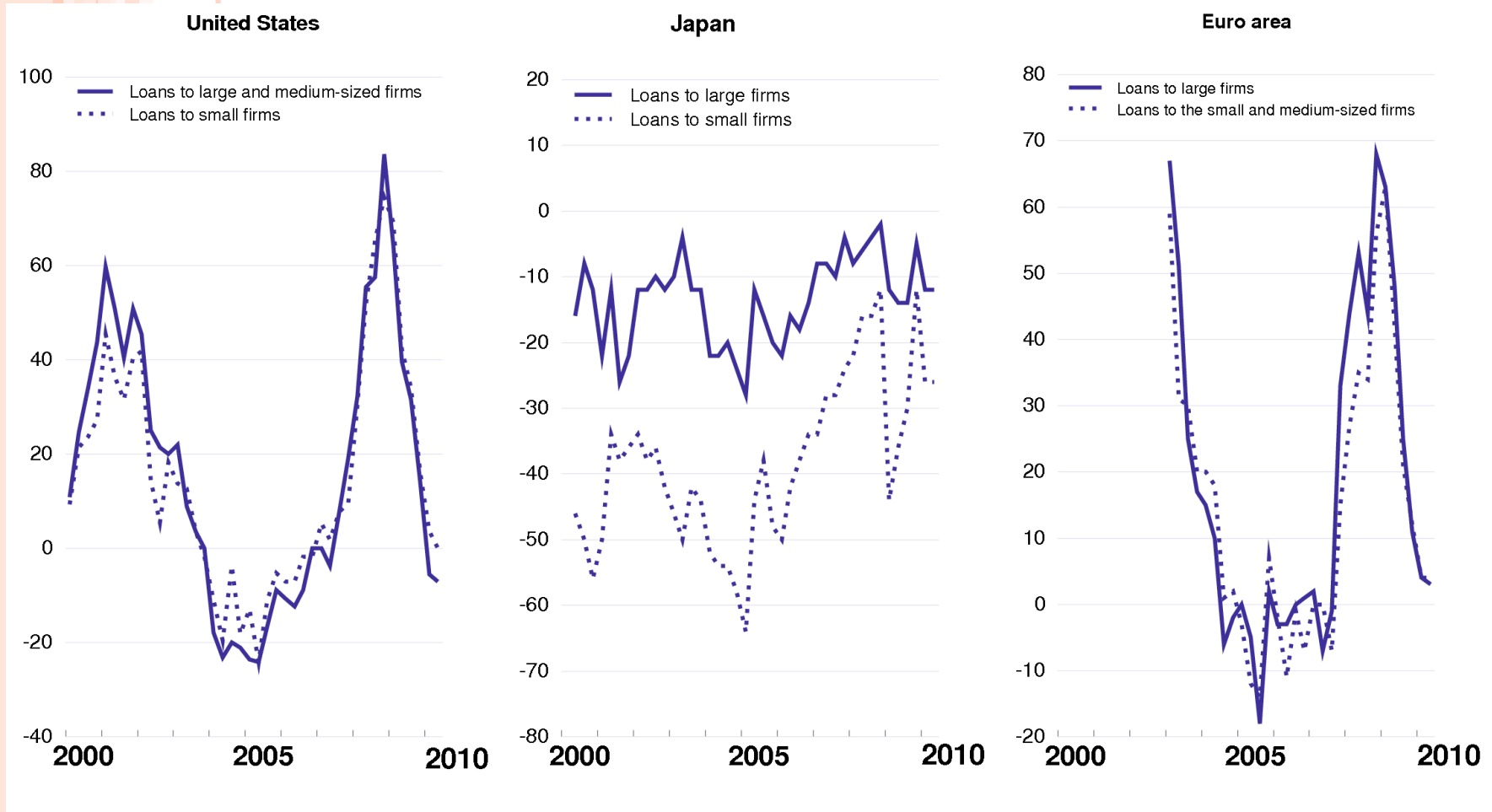
Basis points



Source: Datastream.

Bank lending activity remains weak

Loan officers surveys: net percentage of banks tightening credit to small and large firms

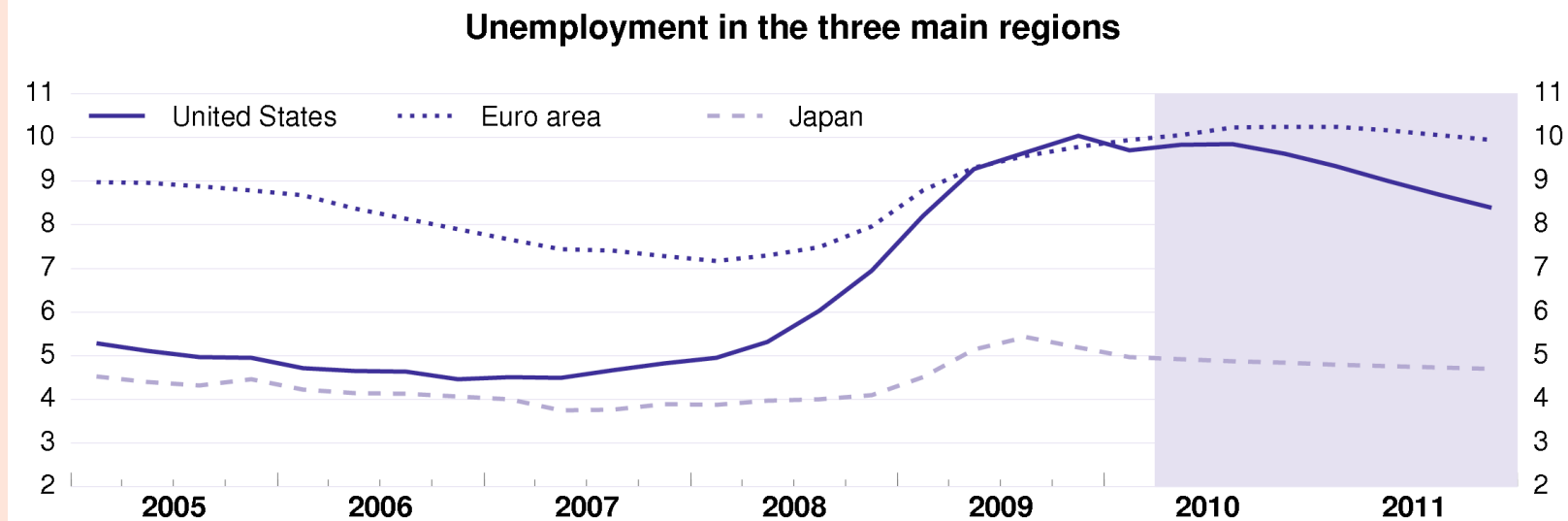
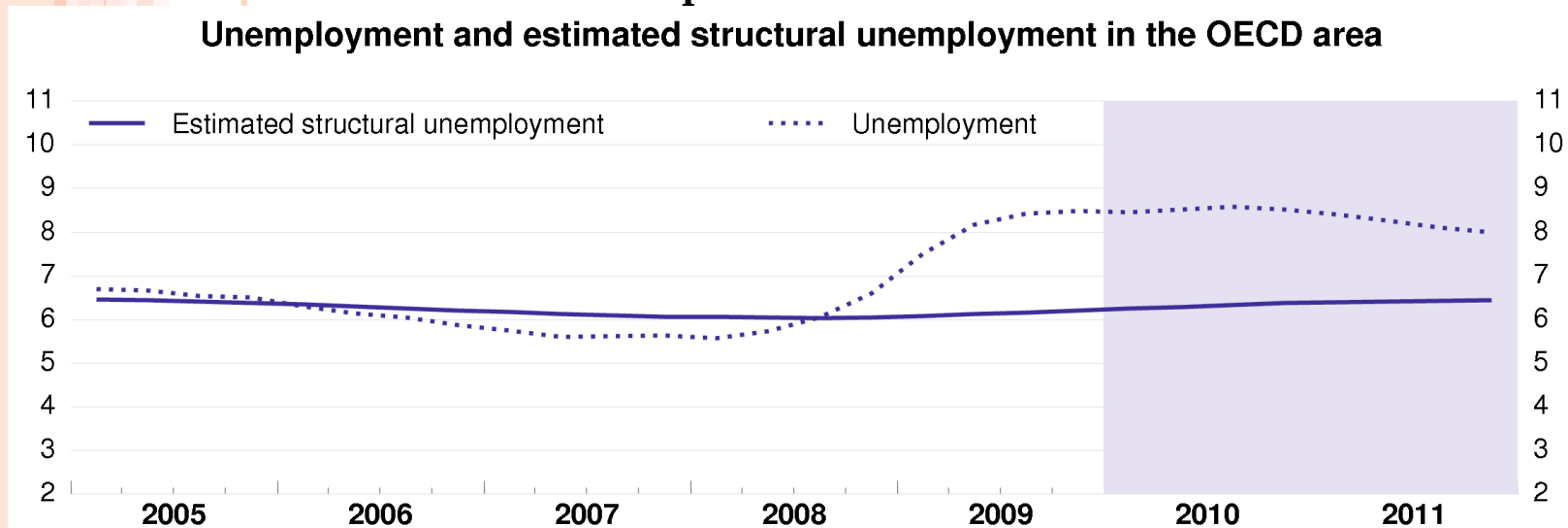


Source: Federal Reserve, Bank of Japan, European Central Bank.

**Challenge: complete
repair and stabilisation of
financial markets while
pushing financial
regulatory reform**

Unemployment will decline only slowly

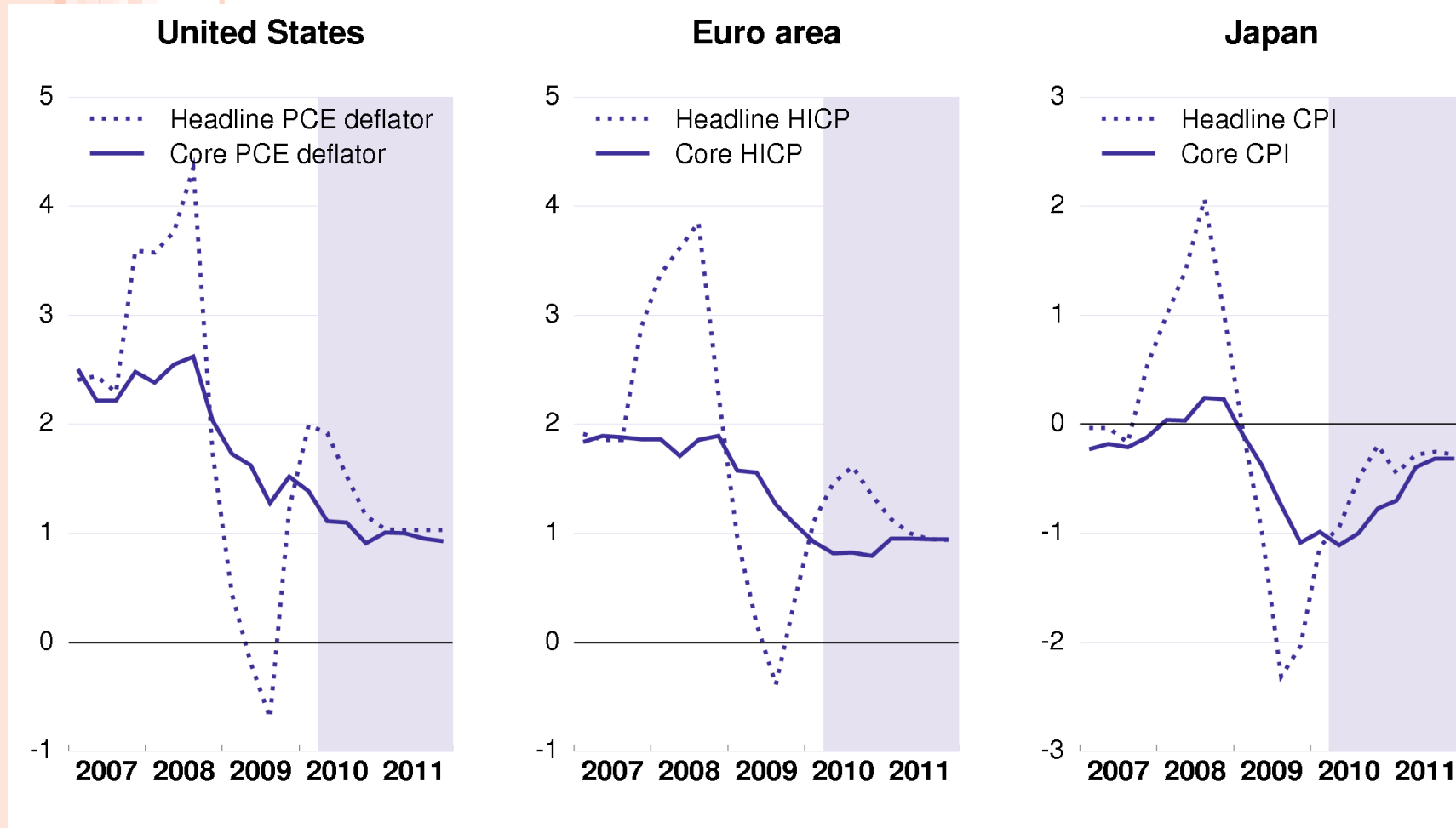
In per cent of labour force



Challenge: adjust labour market institutions to allow for reallocation and strong medium term growth

Inflation is expected to remain subdued

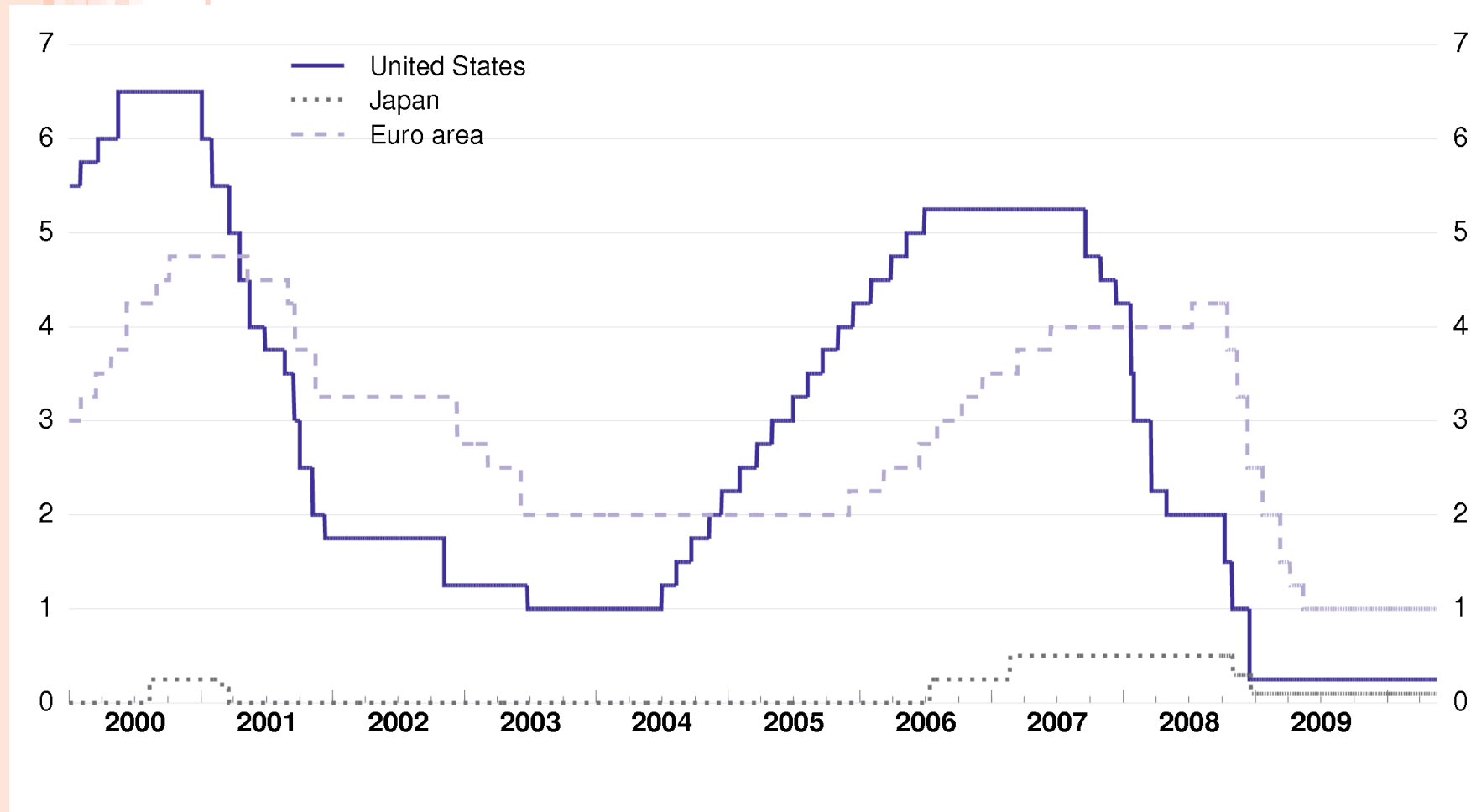
12-month percentage change



Source: OECD Economic Outlook 87 database.

Policy interest rates remain low in the major economies

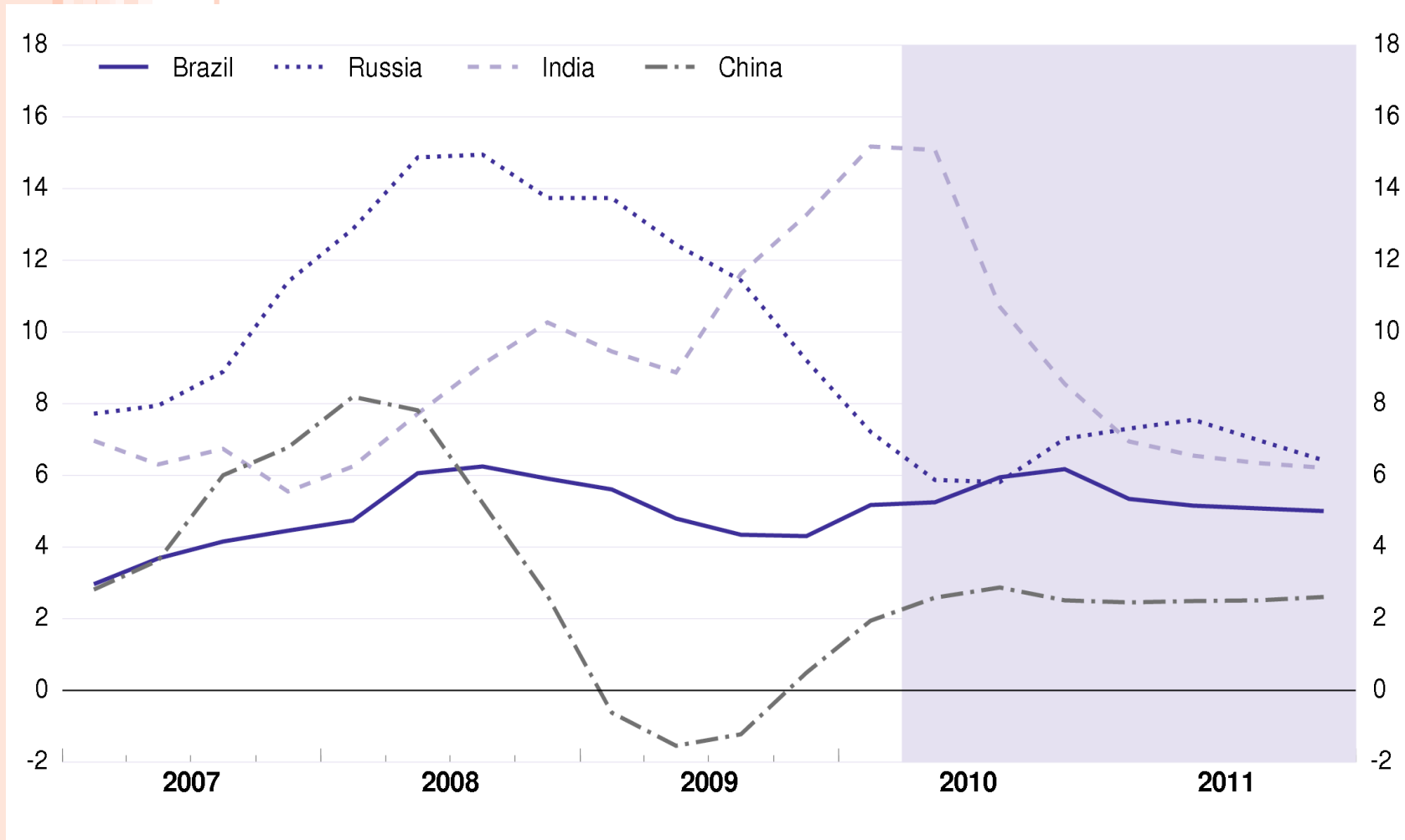
In per cent



Source: Federal Reserve; Bank of Japan; and European Central Bank.

Emerging market economies are facing inflationary pressures

Consumer price index, 12-month percentage change

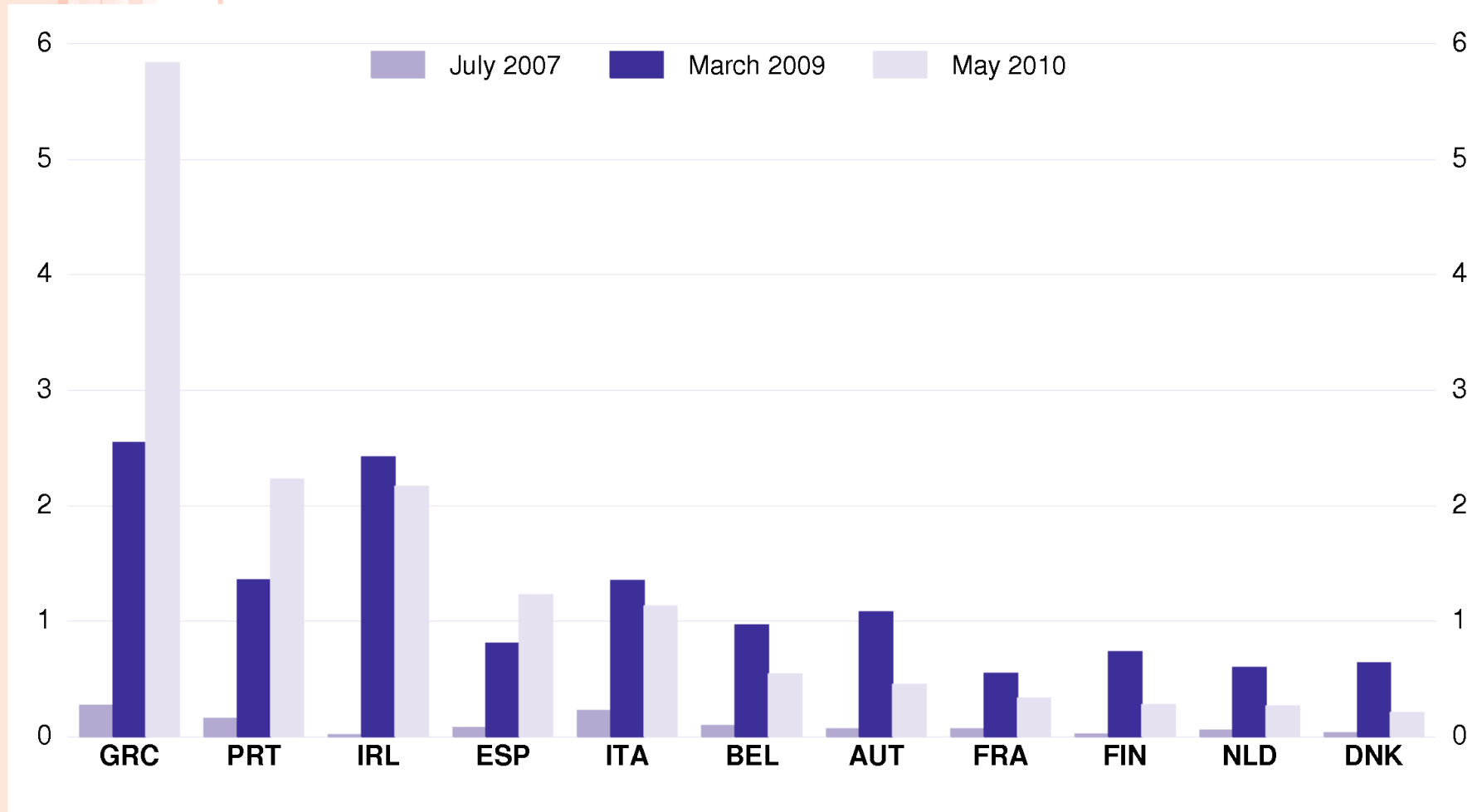


Source: OECD Economic Outlook 87 database.

**Challenge: bring
monetary policy back to
normal conditions while
supporting the recovery.
But remain vigilant as
inflationary pressures
emerge**

Government bond yields have continued to diverge within the euro area

Sovereign bond spreads with German yield, percentage points

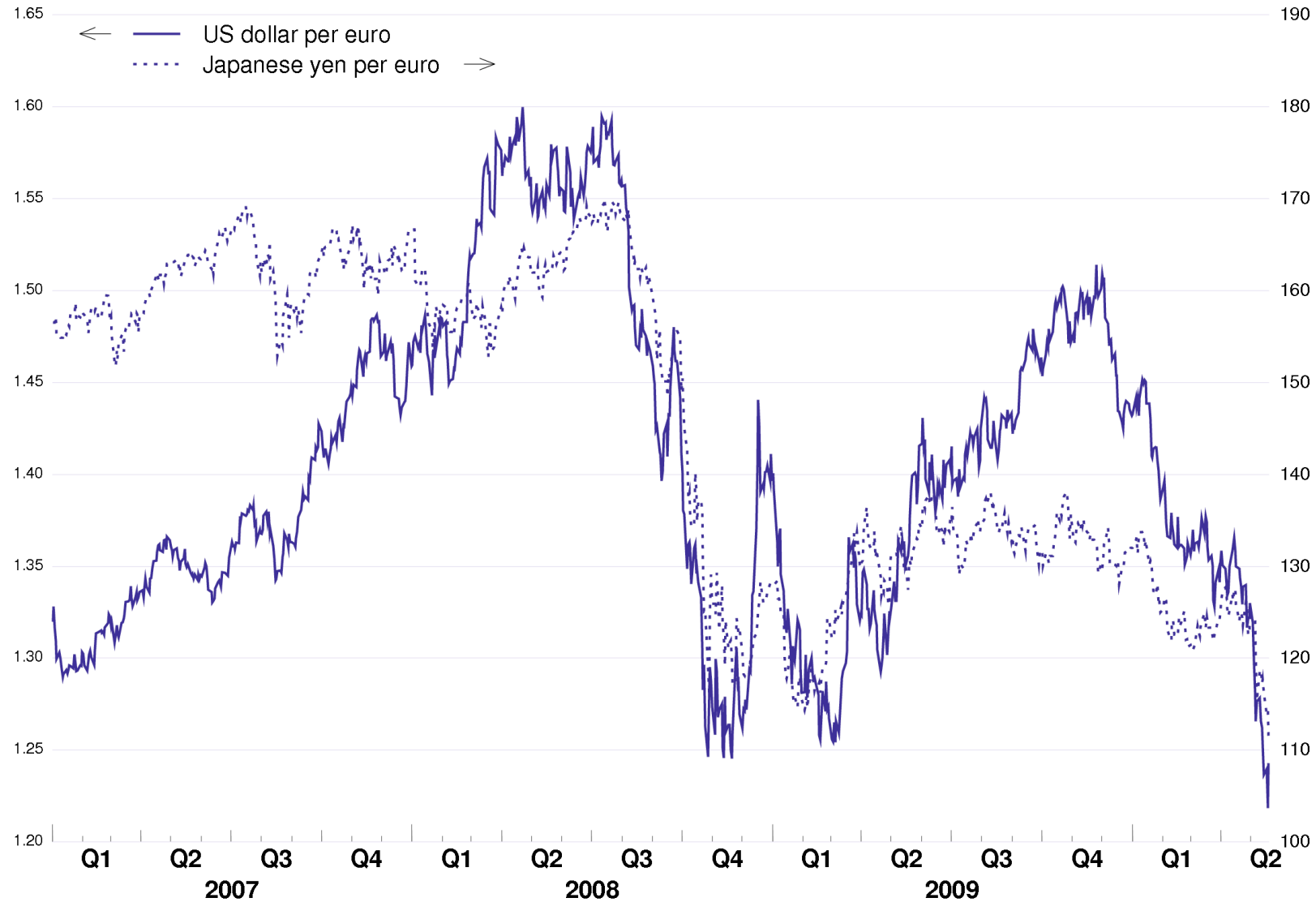


Source: OECD Economic Outlook 87 database.

Fiscal consolidation measures announced in the past month in selected countries

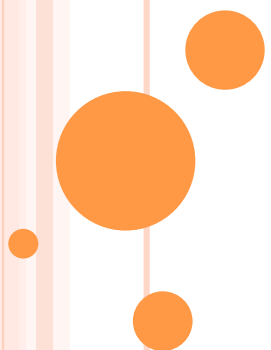
	Expenditure cuts	Tax increases	Public sector employment and wages	Pension reform	Other measures
Denmark	✓	✓	✓		
France	✓	✓		Ongoing but may accelerate.	Freeze in transfers to local governments. Constitutional fiscal rules are being considered.
Greece	✓	✓	✓	✓	Labour market reforms. Product market reforms. Tax enforcement.
Italy	✓	✓	✓		Tax enforcement.
Portugal	✓	✓	✓	Acceleration of past reforms.	Cuts in transfers to local and regional governments.
Slovak Republic	✓				Constitutional fiscal rules are being considered.
Spain	✓		✓		
Turkey					Fiscal rule being legislated.

The euro has depreciated significantly

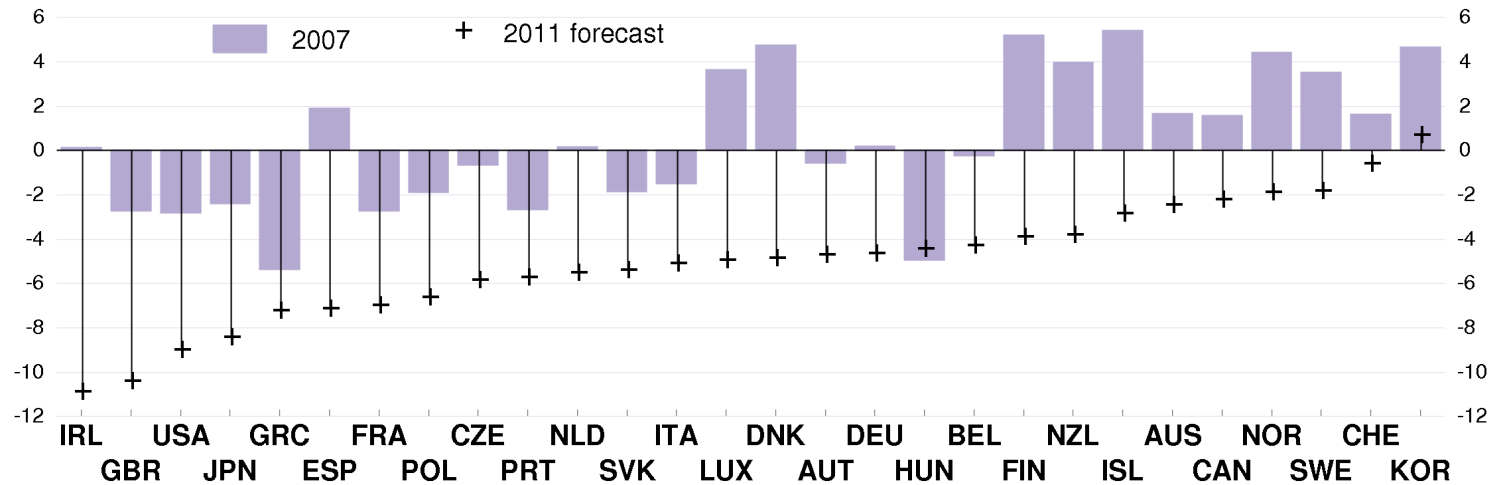


Source: Datastream.

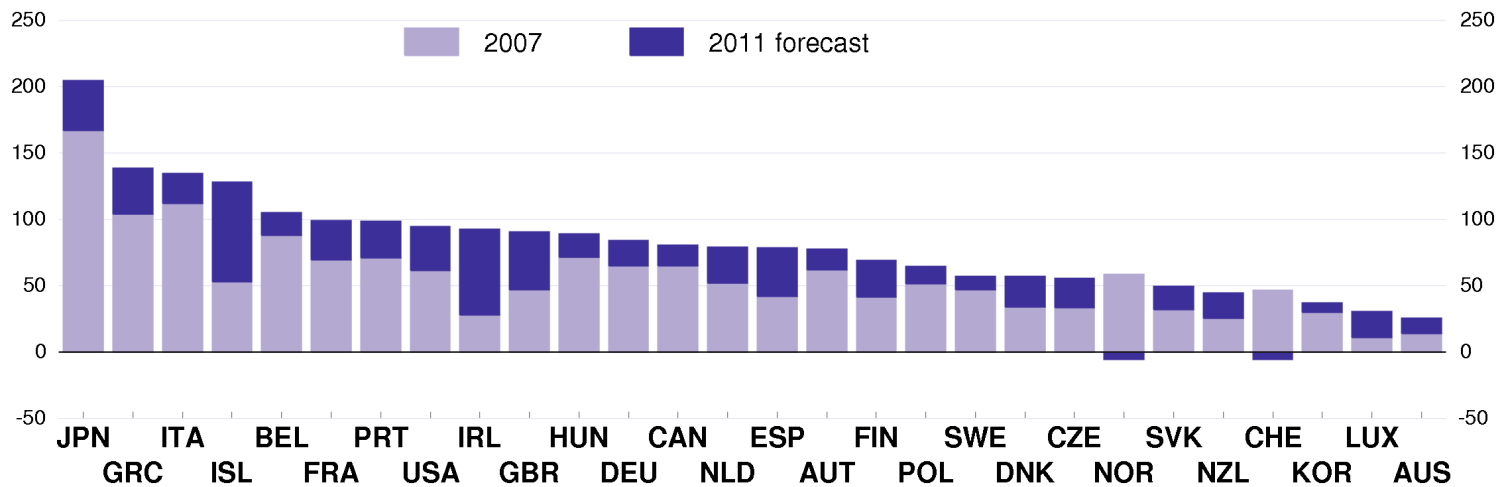
Challenge: address sovereign debt problems in the euro area and strengthen EMU



Public finances are expected to remain weak

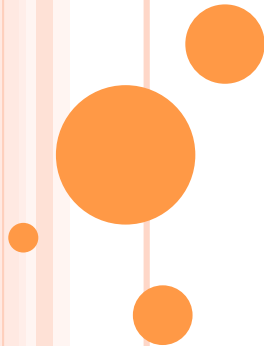


Gross government debt, in per cent of



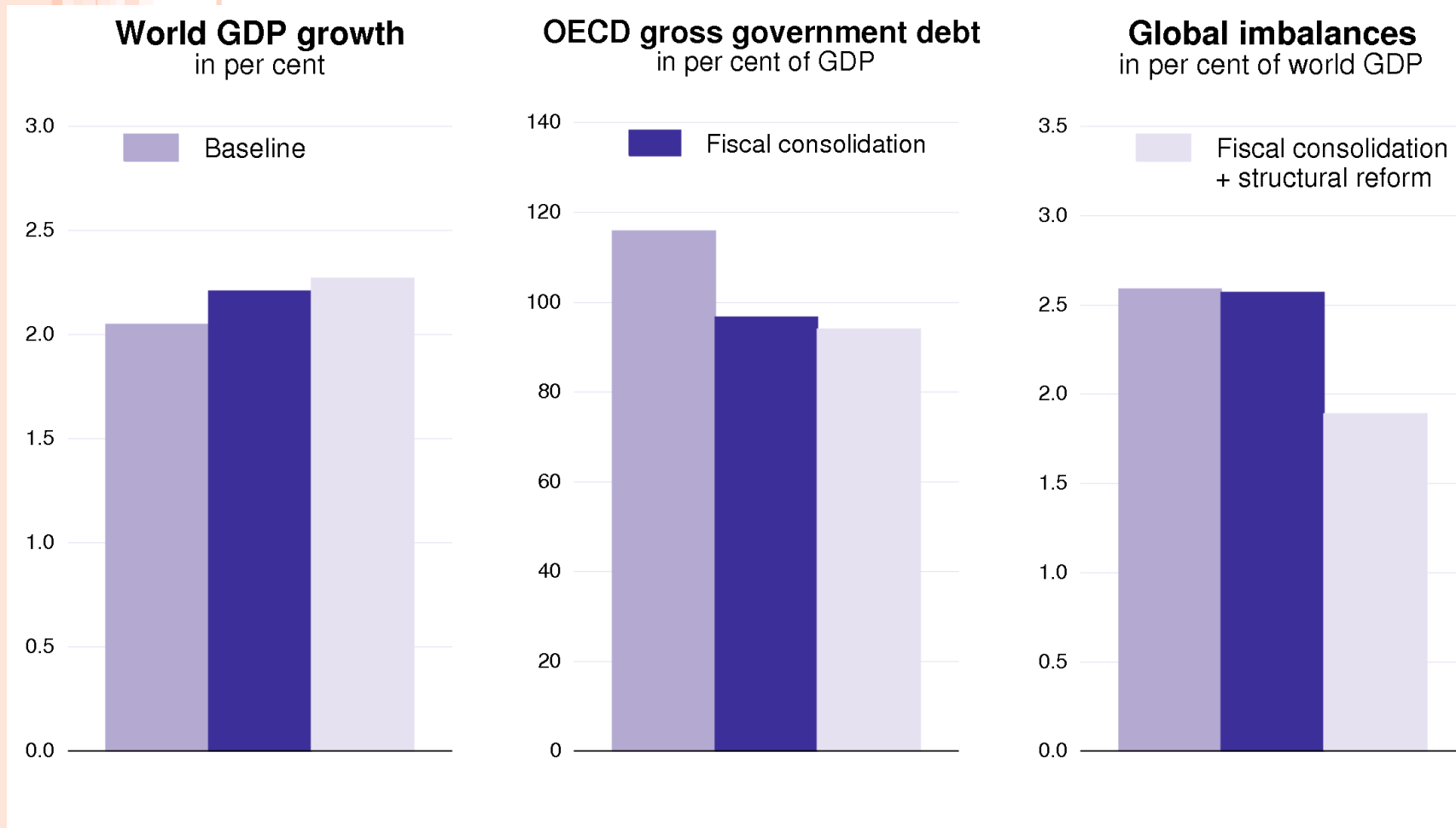
Source: OECD, System of National Accounts database; and OECD Economic Outlook 87 database.

Challenge: accelerate fiscal consolidation while supporting growth



Structural reform can do much to sustain growth and reduce global imbalances while pursuing fiscal consolidation

Policy simulations, 2016-25 average



Conclusion: challenges can be dealt with provided there is strong policy action at national level and strong collaboration at international level.