Stronger growth, but risks loom large

Ángel Gurría
OECD Secretary-General

Álvaro S. Pereira
OECD Chief Economist ad interim

Paris, 30 May
Key messages

- Global growth will be around 4%
  
  Investment and trade have rebounded

- Monetary and fiscal policies have been supportive
  
  Three quarters of OECD countries are undertaking fiscal easing

- Job growth has been strong
  
  The OECD unemployment rate will be at its lowest since 1980

- Risks loom large over the next few years: oil prices, trade tensions, financial volatility
  
  Rising interest rates will pose challenges for highly indebted countries, households and corporations.

- Now is the time to reform for sustainable and inclusive growth
  
  Invest in education, skills, digital infrastructure
A stronger expansion

Global GDP growth
Contributions by regions

Source: OECD Economic Outlook database.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>3.7</td>
<td>3.8</td>
<td>3.9</td>
<td>G20</td>
<td>3.8</td>
<td>4.0</td>
</tr>
<tr>
<td>Australia</td>
<td>2.3</td>
<td>2.9</td>
<td>3.0</td>
<td>Argentina</td>
<td>2.9</td>
<td>2.0</td>
</tr>
<tr>
<td>Canada</td>
<td>3.0</td>
<td>2.1</td>
<td>2.2</td>
<td>Brazil</td>
<td>1.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Euro area</td>
<td>2.6</td>
<td>2.2</td>
<td>2.1</td>
<td>China</td>
<td>6.9</td>
<td>6.7</td>
</tr>
<tr>
<td>Germany</td>
<td>2.5</td>
<td>2.1</td>
<td>2.1</td>
<td>India$^1$</td>
<td>6.5</td>
<td>7.4</td>
</tr>
<tr>
<td>France</td>
<td>2.3</td>
<td>1.9</td>
<td>1.9</td>
<td>Indonesia</td>
<td>5.1</td>
<td>5.3</td>
</tr>
<tr>
<td>Italy</td>
<td>1.6</td>
<td>1.4</td>
<td>1.1</td>
<td>Mexico</td>
<td>2.3</td>
<td>2.5</td>
</tr>
<tr>
<td>Japan</td>
<td>1.7</td>
<td>1.2</td>
<td>1.2</td>
<td>Russia</td>
<td>1.5</td>
<td>1.8</td>
</tr>
<tr>
<td>Korea</td>
<td>3.1</td>
<td>3.0</td>
<td>3.0</td>
<td>Saudi Arabia</td>
<td>-0.7</td>
<td>1.6</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1.8</td>
<td>1.4</td>
<td>1.3</td>
<td>South Africa</td>
<td>1.3</td>
<td>1.9</td>
</tr>
<tr>
<td>United States</td>
<td>2.3</td>
<td>2.9</td>
<td>2.8</td>
<td>Turkey</td>
<td>7.4</td>
<td>5.1</td>
</tr>
</tbody>
</table>

Note: The European Union is a full member of the G20, but the G20 aggregate only includes countries which are also members in their own right.

1. Fiscal years starting in April.
## OECD Economic Outlook projections

### Real GDP growth

*Year-on-year, %*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>3.1</td>
<td>2.7</td>
<td>2.0</td>
<td>4.5</td>
<td>4.1</td>
<td>3.6</td>
</tr>
<tr>
<td>Belgium</td>
<td>1.7</td>
<td>1.7</td>
<td>1.7</td>
<td>3.8</td>
<td>3.3</td>
<td>2.9</td>
</tr>
<tr>
<td>Chile</td>
<td>1.6</td>
<td>3.6</td>
<td>3.6</td>
<td>2.3</td>
<td>3.6</td>
<td>3.8</td>
</tr>
<tr>
<td>Colombia</td>
<td>1.8</td>
<td>2.7</td>
<td>3.2</td>
<td>3.3</td>
<td>3.3</td>
<td>2.9</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>3.2</td>
<td>3.7</td>
<td>3.7</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>4.6</td>
<td>3.8</td>
<td>3.2</td>
<td>1.9</td>
<td>1.8</td>
<td>1.6</td>
</tr>
<tr>
<td>Denmark</td>
<td>2.2</td>
<td>1.7</td>
<td>1.9</td>
<td>4.6</td>
<td>4.6</td>
<td>3.8</td>
</tr>
<tr>
<td>Estonia</td>
<td>4.8</td>
<td>3.7</td>
<td>3.2</td>
<td>2.7</td>
<td>2.2</td>
<td>2.2</td>
</tr>
<tr>
<td>Finland</td>
<td>2.6</td>
<td>2.9</td>
<td>2.5</td>
<td>3.4</td>
<td>4.0</td>
<td>4.5</td>
</tr>
<tr>
<td>Greece</td>
<td>1.3</td>
<td>2.0</td>
<td>2.3</td>
<td>5.0</td>
<td>5.0</td>
<td>3.9</td>
</tr>
<tr>
<td>Hungary</td>
<td>4.0</td>
<td>4.4</td>
<td>3.6</td>
<td>3.1</td>
<td>2.8</td>
<td>2.4</td>
</tr>
<tr>
<td>Iceland</td>
<td>3.6</td>
<td>2.8</td>
<td>2.6</td>
<td>2.7</td>
<td>2.8</td>
<td>2.2</td>
</tr>
<tr>
<td>Ireland</td>
<td>7.8</td>
<td>4.0</td>
<td>2.9</td>
<td>1.1</td>
<td>2.3</td>
<td>1.9</td>
</tr>
<tr>
<td>Israel</td>
<td>3.3</td>
<td>3.7</td>
<td>3.6</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Investment has rebounded

Contribution to investment growth

OECD economies

Note: Gross fixed capital formation, in volume. Data are year-on-year growth rates. Projections for 2018 and 2019.
Source: OECD Economic Outlook database; and OECD calculations.
Trade has recovered

Growth in global trade

Note: World trade is measured as goods and services trade volumes measured at market exchange rates in US dollars. Global Port Traffic is measured monthly through the RWI/ISL-Container-Throughput-Index, seasonally and working day adjusted. Projections for 2018 and 2019.
Source: OECD Economic Outlook database; and RWI/ISL.
Interest rates remain low, but are beginning to rise

Policy rates
Actual and projections

United States
Euro area
Japan

Note: Policy rates are the federal effective funds rate for the United States, the main refinancing operations rate for the euro area and the complementary lending facility rate for Japan.
Source: OECD Economic Outlook database.
Fiscal policy is easing

Change in fiscal stance in OECD countries

Note: The fiscal stance is calculated based on changes in the underlying primary balance as a percentage of potential GDP. Large fiscal easing is for a deterioration of the balance by more than 0.5% of potential GDP and small easing is for a deterioration by less than 0.5% of potential GDP. Large and small fiscal tightening are defined analogously. Chile, Mexico and Turkey are excluded due to the lack of data. Projections for 2018 and 2019.
Source: OECD Economic Outlook database; and OECD calculations.
Job creation is strong, but there is room to bring more people into work

United States

<table>
<thead>
<tr>
<th>Year</th>
<th>Unemployment</th>
<th>Employment</th>
<th>Labour force participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Euro area

<table>
<thead>
<tr>
<th>Year</th>
<th>Unemployment</th>
<th>Employment</th>
<th>Labour force participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Japan

<table>
<thead>
<tr>
<th>Year</th>
<th>Unemployment</th>
<th>Employment</th>
<th>Labour force participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Labour force participation rates and employment rates for working-age population aged 15-64 years. Unemployment as percentage of the working-age population is the difference between the two curves.
Source: OECD Short-Term Labour Market statistics.
Wage growth is picking up, but remains moderate

Inflation is set to rise moderately

Inflation, excluding food and energy

Note: Core inflation excludes energy and food products and refers to harmonised data for the euro area. Dotted lines are quarterly projections for 2018 and 2019. The projections shown exclude the impact of the planned consumption tax hike in Japan.
Source: OECD Economic Outlook database.
Global demand-supply balance and oil prices

Oil prices have risen significantly

Note: The global demand-supply balance measures the difference between global supply and global demand, both indexed to 100 in 2012Q3, 4 quarter moving average. Oil price refers to crude oil Brent price. The last point for oil prices is the last available daily value, as of 28 May 2018.

Source: International Energy Agency; Thomson Reuters; and OECD calculations.
Some emerging market economies have come under pressure

EME exchange rates have depreciated recently

USD exchange rate

Depreciation since mid-April:
- MEX: 8.1%
- ZAF: 3.3%
- IDN: 1.5%
- BRA: 8.5%
- TUR: 10.6%
- ARG: 18.3%

Note: Data as of 28 May 2018.
Source: Thomson Reuters; and OECD calculations.
A number of emerging market economies are exposed to foreign currency debt

Debt in foreign currency

Note: Debt of non-bank borrowers in the form of bank loans and debt securities denominated in foreign currencies. Data as of 2017Q4. Source: Bank for International Settlements Global Liquidity Indicators database; and OECD calculations.
High private sector debt creates vulnerabilities

Credit liabilities of non-financial corporations

Note: Credit liabilities are on a non-consolidated basis. Data as of 2017Q3.
Source: Bank for International Settlements; and OECD calculations.
Equity prices remain high despite a recent correction

Source: World Federation of Exchanges; and OECD calculations.
Deep financial integration has increased exposure to foreign shocks

International financial assets and liabilities

- Advanced economies
- Emerging market economies

Note: Sum of external assets and liabilities. Country sets vary over time depending on the availability of series for individual economies.
Source: IMF Balance of Payments Statistics; OECD Economic Outlook database; and OECD calculations.

19
A negative shock to trade would be more harmful than in the past

Global exports and imports

- Advanced economies
- Emerging market economies

Note: Trade is the average of exports and imports in a given year. Both trade and GDP are measured in volumes in US dollars at market exchange rates.

Source: OECD Economic Outlook database; and OECD calculations.
POLICIES TO MAKE GROWTH MORE SUSTAINED AND INCLUSIVE
Step up structural reform ambition

Implementation of *Going for Growth* recommendations

Note: The estimated take-up of reforms is captured by the Going for Growth indicator of reform responsiveness. Fully coloured bars refer to the share of fully implemented reforms. For 2017, reforms in process of implementation are shown to ensure comparability with previous 2-year periods. Emerging market economies include Argentina, Brazil, Chile, China, Colombia, Costa Rica, Indonesia, India, Mexico, Russia, Turkey and South Africa. Advanced economies include all non-emerging OECD member countries and Lithuania. Source: OECD *Going for Growth.*
Invest in education and skills for medium-term inclusive growth

Take-up of reforms
Share of Going for Growth recommendations

- Skill recognition and employers' information for migrants
- Life-long learning and vocational education
- Access and efficiency in higher education
- Vocational education, training and apprenticeships
- Teaching quality and teachers' prospects
- Training and language acquisition support for migrants
- Support for disadvantaged schools and students
- Alignment of higher education to labour market needs

Note: Refers to reform priorities identified in Going for Growth in 2017 for the 46 economies covered.
Source: OECD Going for Growth 2018.
Boost job creation and business dynamism in the digital era

Diffusion of ICT technologies is uneven

% of firms using technologies, 2016, OECD countries

Recommendations

- Improve digital and physical infrastructure
- Enhance R&D collaboration between universities and industry
- Streamline permits and licensing, cut red tape
- Reduce barriers to entry in professional services

Note: Based on up to 28 OECD countries per technology.
Source: OECD ICT Access and Usage by Business database.
Use fiscal instruments to make growth work for all

Tax wedge on low income labour
Average effective tax rates, 2016

- Reduce the tax wedge on low-income earners
- Raise environmental taxes and recurrent property taxes
- Increase public investment
- Increase family and child allowances and subsidies for childcare

Source: OECD Taxing Wages.
Reduce trade barriers to boost productivity and incomes

Increase in trade from multilateral tariff reductions

Estimated medium-term impact of lowering tariffs in all G20 economies

Note: Scenario in which tariffs are reduced by all G20 economies to the lowest level applied across them for each sector. Source: OECD METRO model simulations.
Key messages

• Global growth will be around 4%
  *Investment and trade have rebounded*

• Monetary and fiscal policies have been supportive
  *Three quarters of OECD countries are undertaking fiscal easing*

• Job growth has been strong
  *The OECD unemployment rate will be at its lowest since 1980*

• Risks loom large over the next few years: oil prices, trade tensions, financial volatility
  *Rising interest rates will pose challenges for highly indebted countries, households and corporations.*

• Now is the time to reform for sustainable and inclusive growth
  *Invest in education, skills, digital infrastructure*