Interim Economic Outlook

20 September 2018

HIGH UNCERTAINTY WEIGHING ON GLOBAL GROWTH

Summary

- The expansion may now have peaked. Global growth is projected to settle at 3.7% in 2018 and 2019, marginally below pre-crisis norms, with downside risks intensifying.
- Growth has become less broad-based, with prospects diverging across the major economies, especially among the emerging-market economies.
- Policy support and strong job growth continue to underpin domestic demand, but some emerging-market economies are facing significant headwinds from rising financial market pressures.
- Wage and price inflation are still surprisingly low, but should continue to rise gradually.
- Global trade growth slowed in the first half of 2018, with trade tensions already having adverse effects on confidence and investment plans. Additional trade restrictions will harm jobs and living standards, particularly for low-income households.
- Faster-than-expected monetary policy normalisation in advanced economies or a deepening of trade tensions could lead to further financial market pressures on emerging-market economies.
- A decade after the financial crisis, vulnerabilities remain in financial markets from elevated asset prices and high debt levels. Reforms have strengthened the banking system, but risks have shifted towards less tightly regulated non-bank institutions.
- Further fiscal and banking reforms are needed to strengthen resilience in the euro area.
- Economic policies face several challenges amidst considerable uncertainty:
  - A gradual normalisation of monetary policy is needed, but to a varying degree across economies. Fiscal policy choices should be focused on measures that improve the prospects for sustainable and more inclusive medium-term growth. Any margins from stronger growth should be used to help build fiscal buffers.
  - Monetary and fiscal policy space needs to be restored gradually to provide scope for support in a future downturn.
  - Policy choices in many emerging-market economies should focus on restoring confidence and stability, and avoid harm to medium-term growth prospects.
  - Enhanced deployment of macro-prudential policies would strengthen financial resilience.
  - Greater structural reform ambition is required to enhance medium-term living standards and improve opportunities for all.

OECD Interim Economic Outlook Forecasts September 2018

Real GDP growth

Year-on-year % change

	2017	2018		2019	
		Interim EO projections	Difference from May EO	Interim EO projections	Difference from May EO
World[1]	3.6	3.7	-0.1	3.7	-0.2
G20[1,2]	3.8	3.9	-0.1	3.8	-0.3
Australia	2.2	2.9	0.0	3.0	0.0
Canada	3.0	2.1	0.0	2.0	-0.2
Euro area	2.5	2.0	-0.2	1.9	-0.2
Germany	2.5	1.9	-0.2	1.8	-0.3
France	2.3	1.6	-0.3	1.8	-0.1
Italy	1.6	1.2	-0.2	1.1	0.0
Japan	1.7	1.2	0.0	1.2	0.0
Korea	3.1	2.7	-0.3	2.8	-0.2
Mexico	2.3	2.2	-0.3	2.5	-0.3
Turkey	7.4	3.2	-1.9	0.5	-4.5
United Kingdom	1.7	1.3	-0.1	1.2	-0.1
United States	2.2	2.9	0.0	2.7	-0.1
Argentina	2.9	-1.9	-3.9	0.1	-2.5
Brazil	1.0	1.2	-0.8	2.5	-0.3
China	6.9	6.7	0.0	6.4	0.0
India[3]	6.7	7.6	0.2	7.4	-0.1
Indonesia	5.1	5.2	-0.1	5.3	-0.1
Russia	1.5	1.8	0.0	1.5	0.0
Saudi Arabia	-0.7	1.7	0.1	2.6	0.5
South Africa	1.2	0.9	-1.0	1.8	-0.4

Note: Difference from May 2018 Economic Outlook in percentage points, based on rounded figures.

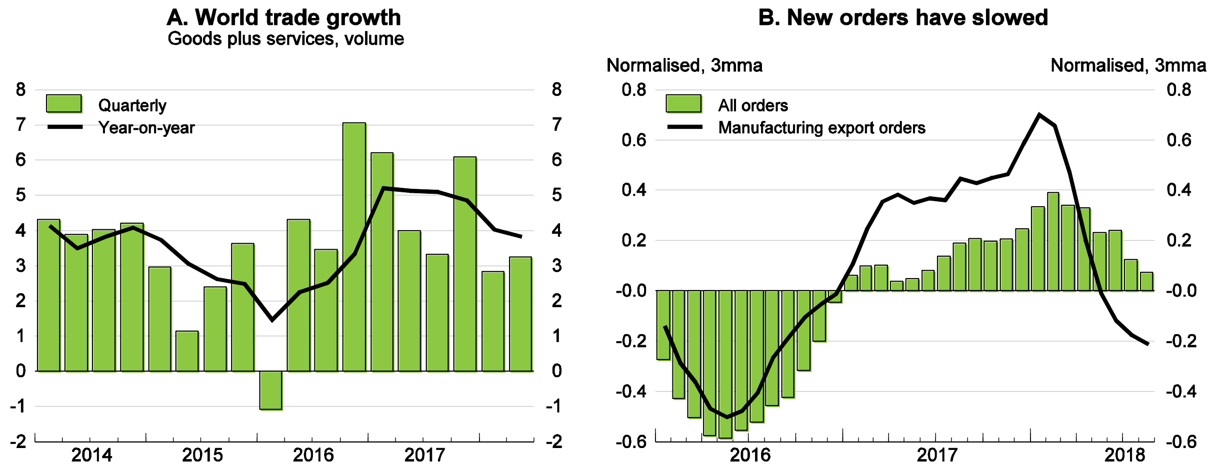
1. Aggregate using moving nominal GDP weights at purchasing power parities.
2. The European Union is a full member of the G-20, but the G-20 aggregate only includes countries that are also members in their own right.
3. Fiscal years, starting in April.

There are signs that the expansion may now have peaked

Global GDP growth remained solid in the first half of 2018, at around 3¾ per cent, but there are signs that the expansion may have now peaked. Growing differences across countries and sectors have begun to emerge, in contrast to the broad-based expansion seen in the latter part of 2017. Confidence has also eased and investment and trade growth have proved softer than anticipated. Business survey data point to slower growth in both advanced and emerging-market economies, and incoming new orders have eased, especially manufacturing export orders.

Amidst rising trade tensions and heightened trade policy uncertainty, global trade growth has slowed. Global trade volume growth eased to around 3% in the first half of 2018, from 5% in 2017. Recently introduced restrictive trade policy measures have already resulted in marked changes in trade flows and prices in targeted sectors. Policy announcements have also adversely affected business sentiment and investment plans, reflecting uncertainty about the possible disruption to supply chains and the risk that restrictions may intensify. A further rise in trade tensions would have significant adverse effects on global investment, jobs and living standards.

Global trade growth is slowing again, and incoming new orders continue to ease



Note: All orders refers to total new orders in the composite PMI (manufacturing plus services).

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

Output growth generally remains at or above estimated trend rates in most advanced economies, despite moderating more quickly than expected in some. Sizeable fiscal easing is helping to boost near-term growth in the United States and a number of other economies, including Korea. Downside surprises to growth in Europe have lasted longer than expected, in part reflecting headwinds from weaker external demand. Developments in the major emerging-market economies are also becoming more dispersed. GDP growth held up in China and India in the first half of 2018 but slowed in a number of other economies, including Brazil. More recently, signs of softer domestic demand have started to appear in Chinese monthly data. Some countries with macroeconomic and financial vulnerabilities are also facing substantial adjustment challenges due to heightened financial market pressures. Many oil-producing economies are benefitting from the upturn in oil prices, including Russia, but this has pushed up global inflation.

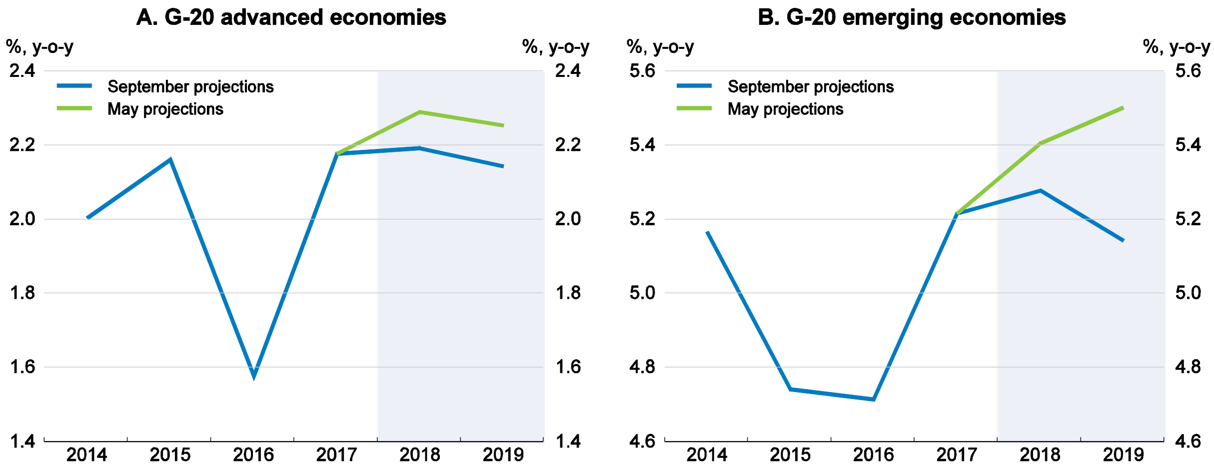
Strong job growth has continued in the advanced economies, with the OECD-wide unemployment rate of 5.3% finally falling below the pre-crisis level. Wage growth, however, remains moderate. This creates uncertainty about the extent of spare capacity remaining in many economies and contributes to the weak growth of household disposable income seen in many economies, particularly for low-income households.

Global growth is set to moderate, with downward revisions in most G20 countries

Overall, recent economic and financial developments and intensified downside risks suggest that global growth prospects have eased since the May *Economic Outlook*, with outcomes diverging across the major economies. Such divergence could be amplified if mounting downside risks intensify. Global GDP growth is projected to settle at 3.7% this year and in 2019, around ¼ percentage point weaker than previously projected, with downward revisions in most G20 economies.

Strong job growth and fiscal and monetary policy support should continue to help underpin domestic demand in the advanced economies in the near term. However, rising trade tensions, softer confidence and heightened uncertainty are likely to temper trade and investment outcomes, with adverse effects on medium-term growth prospects. The growth outlook is weaker in emerging-market economies, particularly ones facing substantial financial market pressures and uncertainty about the future pace of reforms. Recent policy measures should help to prevent a sharp slowdown in China, and structural reforms and strong investment spending should help to support domestic demand in many other Asian economies.

GDP growth has been revised downwards, especially in emerging-market economies



Source: OECD Economic Outlook database.

Country prospects

Key features of the projections in the G20 economies are:

- GDP growth is projected to be close to 3% in 2018 in the United States, before easing to around 2¾ per cent next year. Gradual monetary policy normalisation is set to continue, but tax reductions and higher government expenditure are providing a substantial short-term boost to domestic demand, adding to the impetus from solid job creation, strong asset prices and record levels of oil production. Higher tariffs and uncertainty about future policies are, however, likely to moderate investment growth.
- Output growth in the euro area has eased since the start of 2018, particularly in industrial sectors faced with softer external demand, but is set to remain close to 2% over 2018-19. Accommodative monetary policy, mildly expansionary fiscal policy, strong job growth and favourable financing conditions help to underpin domestic demand. GDP growth is set to remain solid in Germany, with fiscal easing and stronger household consumption offsetting the impact of weaker external demand, and in France, where the impact of recent tax and labour market reforms is improving job prospects and supporting investment. Softer growth is likely in Italy, with uncertainty about policy choices, higher interest rates and slower job creation holding back household spending.

- GDP growth in Japan is set to be close to 1¼ per cent in 2018 and 2019, despite mild fiscal headwinds. Business investment is set to remain strong, buoyed by high corporate profits, severe labour shortages and capacity building for tourism. Private consumption growth remains moderate, although there are finally signs of a modest upturn in wage growth.
- GDP growth in the United Kingdom is projected to remain modest, at around 1¼ per cent on average over 2018-19. Household consumption continues to be limited by the subdued pace of real income growth, despite tight labour markets, and business investment is soft, amidst continued uncertainty about the future relationship between the United Kingdom and the European Union.[1]
- Growth in Canada is projected to ease from 2-2¼ per cent this year to around 2% in 2019. Strong US demand continues to support exports, but higher borrowing costs have begun to check household spending growth and housing market pressures, and rising trade policy uncertainty could temper business investment.
- Strong domestic demand is set to continue in Australia and Korea, despite the uncertainty posed by rising global and regional trade tensions. GDP growth is projected to be around 3% in Australia in 2018 and 2019, helped by strong investment growth and solid job creation. In Korea, sizeable fiscal easing should continue to boost household incomes and spending, with GDP growth being around 2¾ per cent this year and next.
- In Mexico, GDP growth should pick up moderately to around 2½ per cent in 2019, on the back of improved confidence in the aftermath of July elections, strong remittances, and the peso depreciation. Fiscal and monetary policies are relatively tight, but the US-Mexico trade agreement should reduce uncertainty and support private investment.
- Growth prospects have weakened significantly in Turkey, following the recent pressures on the Turkish lira, against the background of high banking and corporate sector debt. Rising inflation and higher interest rates will weigh on confidence and lead to lower consumption and investment. Downside risks to growth remain if confidence in economic policy is not restored, or if domestic financial stability tensions increase as the result of higher debt service burdens.
- GDP growth in China is projected to ease slowly to below 6½ per cent in 2019. Infrastructure investment and credit growth have both moderated and the working-age population is declining. Headwinds from trade tensions have so far been modest, with the currency depreciation helping to counteract the impact of higher tariffs, but could intensify. Recent policy measures have improved financial conditions, and scope remains to expand fiscal spending if required. Such measures could however delay the necessary deleveraging of the corporate sector and aggravate risks to financial stability.
- India is set to remain the fastest growing G20 economy, with GDP growth projected to be 7½ per cent in FY 2018 and FY 2019. Higher oil prices and tighter financial conditions could weigh on household and corporate spending, but past reforms will continue to foster investment and export growth.
- Growth is projected to remain solid in Indonesia, averaging around 5¼ per cent per annum in 2018-19. Infrastructure investment continues to support demand, and private consumption is set to strengthen, helped by lower unemployment and improved confidence. Tighter financial conditions, amidst higher capital outflows, will check demand growth somewhat, but the depreciation of the exchange rate should help to narrow the trade deficit.
- The pace of the recovery in Brazil has slowed, amidst considerable uncertainty about future policies and strike-related disruptions. Financial conditions have also tightened somewhat, despite lower

1. The projection continues to be based on the technical assumption that the United Kingdom has a transition agreement with the European Union after formal exit in 2019, minimising possible short-term disruption to trade.

external vulnerabilities than in many other emerging-market economies. Restarting reforms, particularly the pension reform, would help to improve confidence and private sector spending, allowing GDP growth to pick up to around 2½ per cent in 2019.

- In Argentina, near-term growth prospects have weakened considerably, with a much-accelerated pace of fiscal consolidation and strong monetary policy tightening likely to result in a sharp fall in domestic demand. The large peso depreciation should offer some support for exporters, but GDP is still projected to decline by around 2% this year and stagnate in 2019. Further exchange rate volatility or a failure to restore confidence would result in even weaker outcomes.
- Growth prospects have been revised down in South Africa, with the economy slipping into recession in the first half of 2018. Confidence remains low, reflecting uncertainty about the future pace of reforms, and financial conditions have tightened.

An intensification of trade restrictions would have significant costs

Increased trade tensions and uncertainty about trade policies remain a significant source of downside risk to global investment, jobs and living standards. A series of tariffs and retaliatory counter-measures have already come into effect since the start of the year, and more may be implemented in the coming months**.** Uncertainty about future trade policies may be contributing to the sharper-than-expected trade slowdown, with some firms choosing to delay international orders or change their supply chains and production locations to minimise the effect of possible new trade barriers.

The aggregate direct effects of recently introduced restrictive trade policy measures have been modest so far (see Box), but marked changes in trade flows and prices have occurred in targeted sectors and products. A broader rise in trade tensions, such as a wider imposition of tariffs in the sectors where trade disputes typically occur, would have significant adverse effects on trade and hit production and household incomes in the economies imposing restrictive measures. The resulting decline in trade intensity would also harm medium-term growth prospects by impeding future productivity gains and lowering competition. In contrast, steps to lower tariffs in a co-ordinated manner could bring widespread gains.

New restrictive trade measures are already having costs

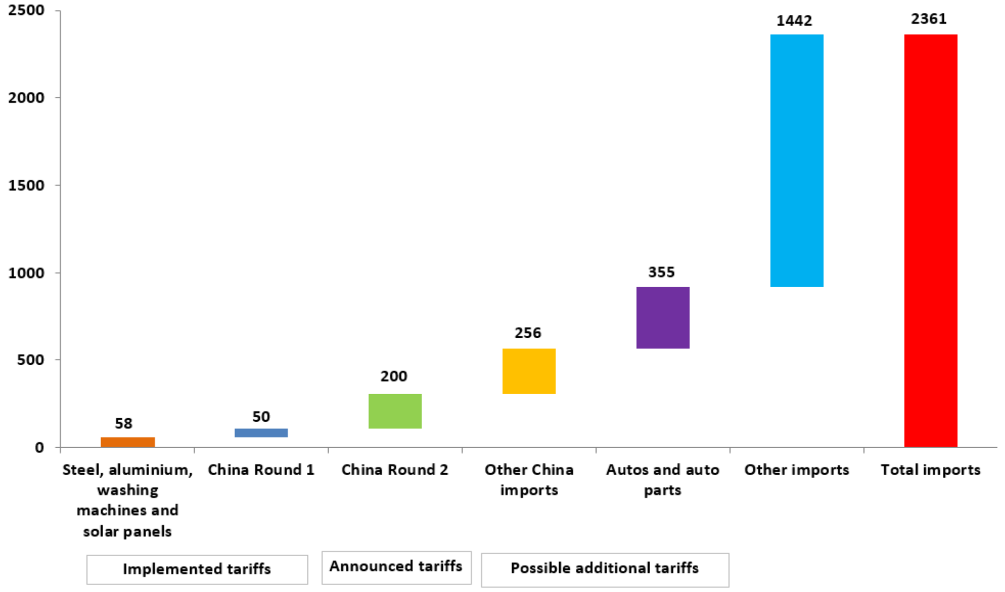
A series of tariffs and retaliatory counter measures have already come into effect since the start of the year, and more may be implemented in the coming months.

- The United States has initiated a number of actions affecting a broad range of countries. China has been the main country affected to date, with tariffs of up to 25% being imposed on imports of $250 billion (1.3% and 2.1% respectively of US and China GDP in 2017) in two main rounds. The first round of $50 billion was implemented in July and August; a second round of tariffs on imports of $200 billion is being imposed in September, initially at a rate of 10%, rising potentially to 25% as of next January.
- In turn, China has announced higher tariffs on $110 billion of imports from the United States, but has offset this in part by lowering tariffs on car imports from other countries.
- The EU, NAFTA partners and many other economies in regional supply chains, including commodity exporters**,** are also affected, especially if higher tariffs are imposed on imports of cars, trucks and auto parts**.**

The economy-wide direct effect of the measures imposed to date is relatively mild.

- In the United States, aggregate import costs (goods plus services) could be raised by a little over 2½ per cent (assuming the second round of tariffs on Chinese imports are eventually raised to 25% and that there is no reduction in pre-tariff import prices), adding between 0.3-0.4% to the overall price level if passed through in full. However, if additional tariffs on Chinese imports, autos and auto parts are levied subsequently (at 25%), the impact on the overall price level could rise to a little over 1%.
- In China, the higher tariffs on US imports could raise import costs by close to 1%, but this is offset in part by lower tariffs on passenger car imports**.**

US merchandise imports in 2017 and tariff announcements



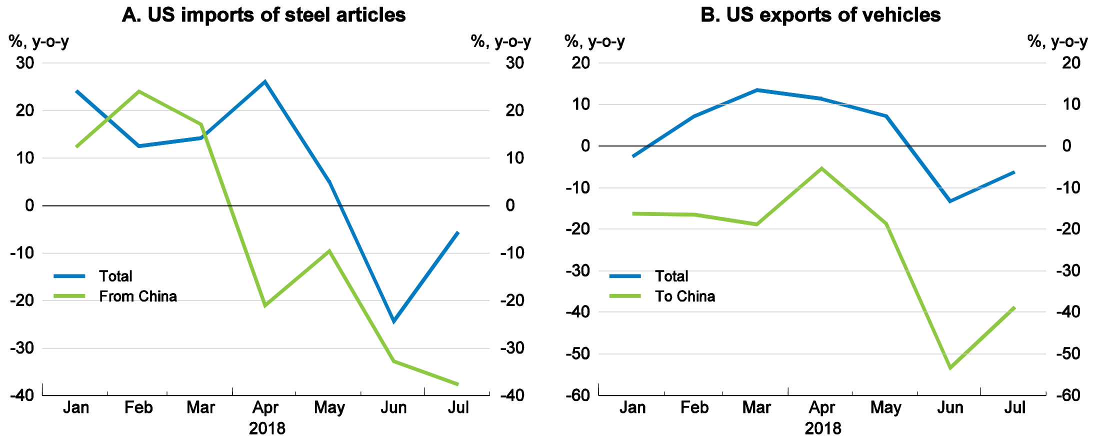
Source: Bureau of Economic Analysis; United States International Trade Commission; and OECD calculations.

Stronger effects and distortions are already visible in trade flows and prices for particular products where higher tariffs have been implemented or announced (see figure below).

- In the United States, imports of washing machines, solar panels, and steel and aluminium all began to decline in value terms in the first half of the year following the imposition of tariffs. At the same time, US domestic prices have risen sharply in the affected sectors. Consumer prices of washing machines rose by 20% between March and July. Producer prices for steel mill products rose by 18.6% over the year to August.

- US pork and vehicle exports have also declined in the face of higher tariffs in China, with export growth to other economies largely being unchanged in value terms. In marked contrast, soya bean exports to China surged ahead of the implementation of tariffs, providing a one-off boost to US export growth.

Trade restrictions are already affecting targeted sectors



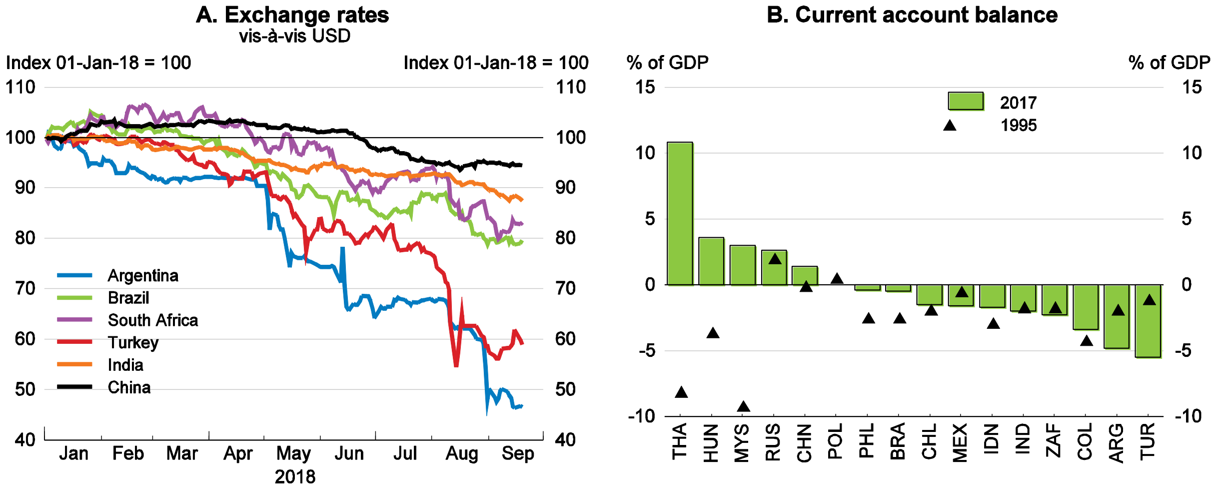
Note: percentage changes in US dollar values.
Source: United States International Trade Commission; and OECD calculations.

Financial vulnerabilities have intensified in the emerging-market economies, hitting growth

Financial conditions have tightened in the emerging-market economies this year. Rising interest rates in the United States, the associated appreciation of the US dollar, and a shift in risk sentiment have contributed to sizeable currency depreciations in many emerging-market economies. Countries with large external deficits or high foreign-currency denominated debt have been particularly exposed, most notably Argentina and Turkey. Higher oil prices have added to challenges in oil-importing economies. Policy interest rates have risen in several countries, including India, Indonesia and Russia, with currency depreciations adding to inflationary pressure. Bond spreads and risk premia have also increased, albeit from relatively low levels, and equity prices have declined. Headwinds from these changes on confidence and growth presently appear to be modest in most emerging-market economies. However, the policy measures required to restore stability in Argentina and Turkey are likely to involve a significant and challenging decline in domestic demand.

Broader contagion across all emerging-market economies, as seen during the crises in the late 1990s, has so far been avoided. Many of these economies are now less vulnerable than at that time, with improved domestic macroeconomic fundamentals, including lower inflation, strengthened institutions, more flexible exchange rate arrangements and higher foreign exchange reserves. Nonetheless, risks remain of deeper tensions and a more widespread downturn in investor sentiment. A faster-than-expected normalisation of monetary policy in advanced economies could trigger a further round of capital outflows and asset repricing in financial markets of emerging-market economies. A deepening of trade tensions could also exacerbate vulnerabilities, particularly if China was adversely affected, reflecting the rising integration into global trade networks of most emerging-market economies over the past two decades. Further negative news in Argentina or Turkey could also prompt a deeper reassessment in investor sentiment towards emerging-market economies.

Emerging-market economies with external imbalances are particularly exposed to financial market pressures

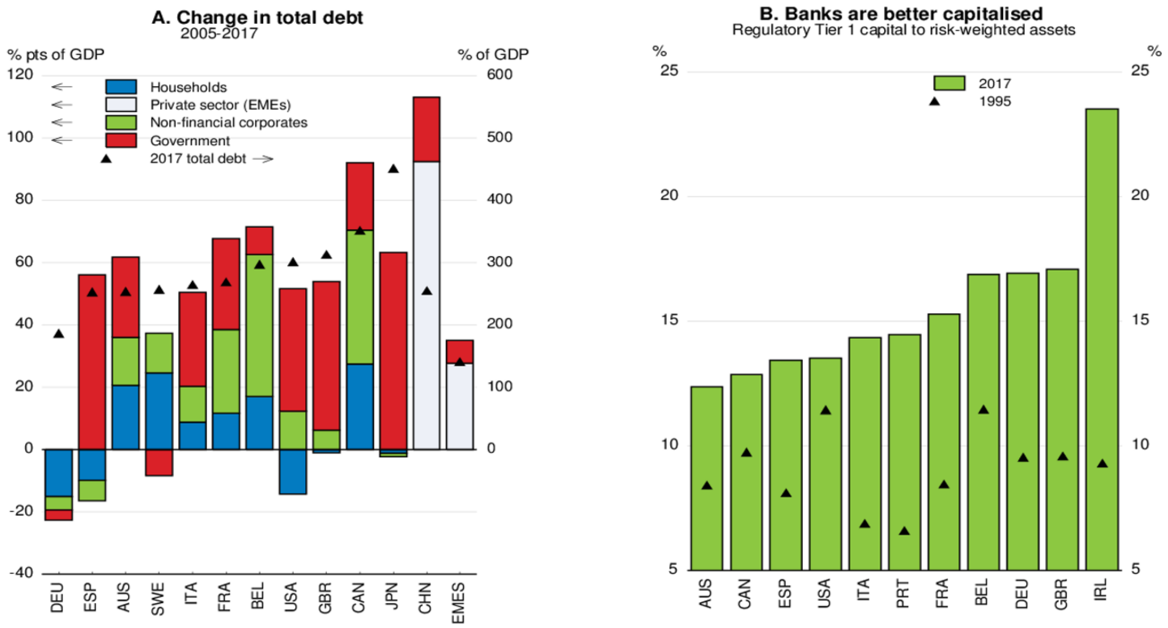


Source: Thomson Reuters; OECD Economic Outlook database; IMF World Economic Outlook database; and OECD calculations.

A decade after the financial crisis, financial vulnerabilities remain

The recovery from the global financial crisis has been protracted and achieved only with an exceptional degree of policy support. On a per capita basis, growth has now improved in the majority of advanced and emerging-market economies, but living standards continue to fall short of what might have been expected prior to the crisis if growth had continued at its long-term average rate over the past decade.

Ten years after the crisis, debt levels are higher but bank capital holdings have improved



Note: Left hand panel: total debt, 2017 or latest available. Data for the emerging-market economies (EMES) exclude China. Private debt ratios are on a consolidated basis except for Canada, Japan and the United States. Public debt ratios based on national accounts definitions except for EU countries, where debt ratios are based on Maastricht criteria.

Source: OECD National Accounts database; Bank for International Settlements; OECD Economic Outlook database; IMF Financial Soundness Indicators; and OECD calculations.

The prolonged period of very accommodative monetary policy required to recover from the crisis has also seen new financial vulnerabilities develop. Asset valuations are elevated in some markets, including housing, and levels of public and private debt are higher than prior to the crisis in many economies. Credit provision has expanded in the shadow banking system and in bond markets, shifting risks from the banking system to other financial institutions and credit intermediaries. Risks remain that a faster-than-expected normalisation of interest rates could give rise to financial instability, including corrections in asset prices and challenges in meeting higher debt-service burdens.

Internationally co-ordinated reforms since the financial crisis should help to mitigate these risks, at least in part. Improved prudential regulation, including higher capital requirements and new macro-prudential tools, and enhanced credit quality have strengthened the ability of banks to withstand adverse shocks. Non-performing loans are also on a downward trend in advanced economies, although less so in some EMEs. However, the capacity of non-bank financial intermediaries, such as investment funds and rapidly expanding exchange-traded funds, to absorb large shocks remains untested.

Concerns still linger about fiscal and financial stability in Europe

The resilience and architecture of the euro area have improved in recent years, but concerns linger about fiscal and financial stability due to uncertainty about policy choices, including in Italy, and future arrangements between the United Kingdom and the rest of the European Union. The recent increase in risk spreads on Italian government bonds, and the associated decline in the equity prices of Italian banks, provide a demonstration of the pace at which continued vulnerabilities in the euro area can re-emerge. Further reforms are needed to reduce the risk of contagion, enhance resilience, and strengthen the fiscal framework. A common European deposit insurance scheme would enhance confidence and help to diversify risks. The creation of new European safe assets, combined with regulatory measures that incentivise banks to diversify their holdings of sovereign debt, would help to limit the linkages between national banks and governments. Introduction of a fiscal stabilisation capacity for the euro area would also help to absorb large negative economic shocks, and provide an additional tool that could be activated in event of a downturn.

Wage and price pressures remain surprisingly modest

Wage and price pressures continue to build slowly in the major advanced economies. Higher commodity prices have pushed up headline inflation but underlying inflation remains mild, at around 2% in the United States, 1% in the euro area and ½ per cent in Japan. Inflation also remains modest in some emerging-market economies, particularly China and a number of other Asian countries whose currencies have not come under significant market pressure. However, currency declines and stronger commodity prices are currently adding to inflation pressures in other countries, particularly Argentina and Turkey.

Low inflation at this stage of the expansion points to considerable uncertainty about the extent of remaining spare capacity and the strength of the relationship between capacity and inflation. Conventional estimates of economic slack, such as output gaps, suggest that spare capacity is now limited in most major advanced economies. Unemployment rates are already below pre-crisis levels in the majority of advanced economies, and in many are below estimated sustainable rates. Survey indicators also point to increasing resource constraints, such as rising labour shortages and lengthening delivery times from suppliers. Yet cost pressures remain softer than might be anticipated given the signs of capacity constraints.

Wage growth has strengthened over the past year in nominal terms, but the upturn in consumer price inflation has limited real wage gains. Subdued labour productivity growth and compositional effects, including the rising number of low-paid, low-quality jobs, account for part of the weakness in aggregate wage developments. More slack may remain in labour markets than suggested by headline unemployment rates. Involuntary part-time work rates are still high in some countries, especially in Europe, and scope exists in others for reforms to raise the labour force participation rate, including in the United States. Tight labour markets may also encourage some inactive workers to return to work.

Policy Requirements

The priorities for policy are to support the expansion, reduce policy uncertainty, foster productivity, make growth more inclusive and enhance resilience against possible risks. An immediate need is to arrest the slide towards protectionism and reinforce the global rules-based international trade system through multilateral dialogue, providing business with the confidence to invest and preventing the harm to longer-term growth prospects that would result from a retreat from open markets. Macroeconomic policy requirements differ across economies, reflecting the diverging challenges they face. In all economies, enhanced deployment of macro-prudential policies would help to strengthen financial resilience and lower the risks from high debt. Ambitious supply-side policy reforms are needed to strengthen medium-term growth prospects, including efforts to help those most exposed to the impact of global integration transition to new jobs and acquire new skills.

Macroeconomic policy choices require difficult judgements, with substantial uncertainty about the extent of remaining spare capacity, the impact of underlying changes in market structure, and the size of spillovers from policy choices in other countries. Heightened uncertainty is likely to make policy decisions more dependent on incoming data. At the same time, given rising downside risks, the possible benefits of such an approach need to be weighed against the need to ensure sufficient scope for policy support in the event of a future downturn.

Macroeconomic policy requirements in advanced economies

A gradual normalisation of monetary policy is required

A gradual normalisation of monetary policy is required in the major economies, but at a varying pace due to diverging growth and inflation prospects. In the United States, monetary policy normalisation should be continued given strong near-term growth, and the likelihood of medium-term pressures on inflation from low unemployment even after fiscal easing diminishes. This could push the upper bound of the target federal funds rate to 3¼ per cent by the end of 2019. Monetary policy stimulus is also likely to be withdrawn gradually in Canada, Australia, and possibly the United Kingdom if a smooth exit from the European Union is achieved in 2019. In the euro area, the ECB is set to cease asset purchases by end-2018, and start phasing out the negative interest rate policy in late 2019. Heightened uncertainty and more moderate growth prospects may, however, require a more gradual pace of normalisation than otherwise.

In Japan, where inflation remains very low, stimulus measures need to be continued. A reappraisal of the monetary policy strategy and framework may, however, be warranted, given the persistent weakness of inflation despite significant balance sheet expansion over a prolonged period.

Fiscal policy should focus on medium-term challenges

Fiscal policies are presently helping to support growth in the majority of advanced economies. Low interest rates and a cyclical upturn in economic growth have allowed many governments to ease policy whilst maintaining or even improving headline budget balances. However, government debt and deficits remain high, and in many countries larger than prior to the global financial crisis, limiting room for manoeuvre in the event of a future downturn.

As spare capacity diminishes, fiscal policy should avoid excessive pro-cyclicality and focus on medium-term challenges. Opportunities remain for fiscal policy to help improve prospects for solid and more inclusive growth in the medium-term, but any margins also need to be used to help build fiscal buffers for the future. Spending and tax policy measures need to be well-targeted, enhance incentives to invest and participate in the labour market, and ensure that increases in incomes and living standards are shared more widely. In some countries, particularly Germany, additional public investment in physical and digital infrastructure could be undertaken, given available fiscal space and shortfalls in recent years.

Macroeconomic policy requirements in the emerging-market economies

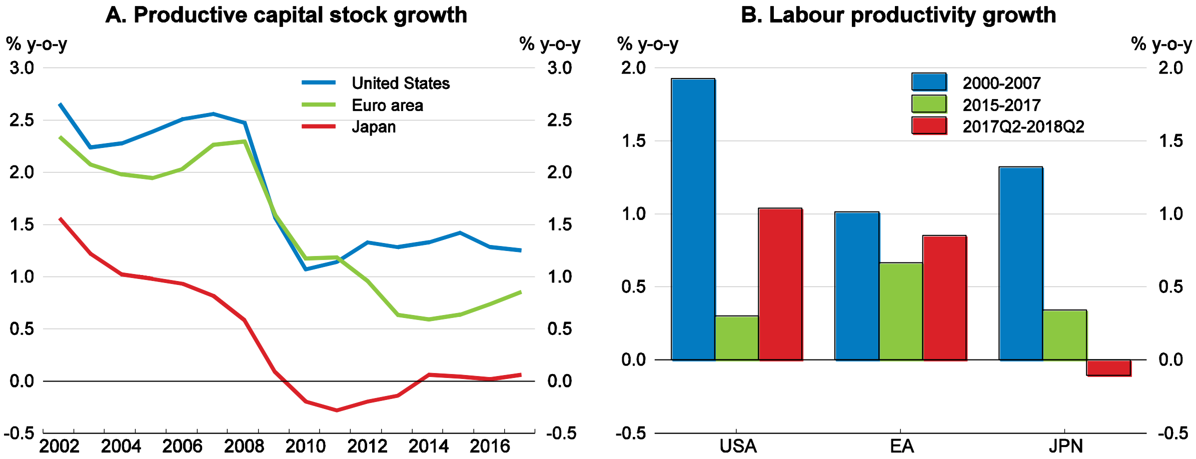
Policy requirements differ across the major emerging-market economies, but careful choices are required in all countries to maintain policy credibility and avoid harm to medium-term growth prospects. In China, scope remains to ease monetary policy and enhance public investment if there are risks that near-term growth might slow abruptly. At the same time, such measures need to be designed in ways that limit a further build-up of indebtedness in the medium term. In other emerging-market economies faced with capital outflows and external funding pressures as monetary policy in advanced economies is normalised, the appropriate policy response depends on the magnitude of the shift in investor attitudes, the extent to which vulnerabilities have built up, and the policy space available to mitigate these pressures.

Further policy actions may need to be only modest in countries with a credible macroeconomic policy framework provided a floating or a flexible exchange rate depreciates in an orderly way without causing significant difficulties for domestic borrowers with foreign currency debt, as this should help to correct external imbalances. Additional monetary tightening is likely to be required to prevent exchange rate depreciation from adding to inflation, but economies with solid fiscal positions can ease policy if necessary to support demand. There is less scope for near-term support to demand in economies where there are concerns about fiscal sustainability. The priority in these economies should instead be further reforms, particularly to pensions and medium-term budgetary frameworks. Structural reforms with a low fiscal cost, such as further measures to improve the ease of doing business, also offer a way to support growth and boost sentiment.

Greater structural policy ambition is needed to sustain growth and improve opportunities for all

Structural reform efforts have slowed in both advanced and emerging-market economies. Collectively, the G20 countries have implemented a number of beneficial reforms since 2014, but these fall short of the objective of achieving a 2% rise in the level of their combined GDP by 2018. Enhancing reform efforts in both advanced and emerging-market economies would help to improve living standards, strengthen the medium-term prospects for investment and productivity, and allow the benefits of growth to be distributed more widely. Stronger reform efforts in EMEs would also help to foster confidence in countries currently facing significant short-term challenges from financial market pressures.

Reforms are needed to strengthen investment and labour productivity growth



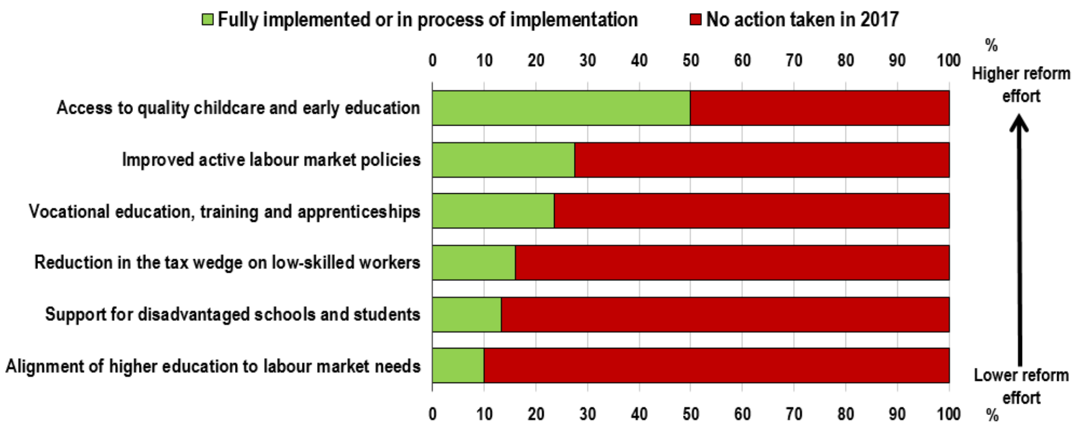
Source: OECD Economic Outlook database.

Current cyclical conditions, with strong job growth, provide an opportune moment to rekindle reform efforts. Such conditions help to maximise the benefits of reforms, whereas acting in crisis periods, which is often when reforms are implemented, can accentuate short-term costs. In all countries, stronger reforms are needed to promote business dynamism and knowledge diffusion, enhance skill acquisition and innovation capacity and help workers benefit from fast-changing labour markets. Improved redistribution through tax and transfer policies also needs to be an integral part of well-designed policy packages, to make work pay, provide support for vulnerable groups, and help strengthen real income growth amongst poorer households. Alongside steps to safeguard the rules-based international trading system, more needs to be done to mitigate the impact of stronger global integration on vulnerable workers and regions. In particular, reforms are needed to improve opportunities for workers to transition to new jobs and acquire new skills.

Recent progress has been mixed in undertaking new reforms to enhance skills and job opportunities. Targeted measures to improve skill acquisition and training for low-skilled workers would lower the risks of prolonged joblessness or being trapped in low-paid, poor quality jobs. Further enhancement of childcare provision, an area where reform progress is already comparatively advanced, and steps to help migrants participate fully in labour markets (particularly in Europe) would also enhance labour supply. In the medium-term, key areas where more could be done include expanding vocational training and apprenticeships, facilitating life-long learning, and aligning university and training courses more closely with labour market needs. In emerging-market economies, a key challenge is to raise enrolment. Improved educational attainment in these economies is particularly important for the pace at which living standards can catch-up with those in higher-income countries in the longer term.

Stronger reforms are necessary to enhance skills and job opportunities

Per cent share of Going for Growth recommendations



Note: Refers to reform priorities identified in Going for Growth in 2017 for the 35 OECD economies, Argentina, Brazil, China, Colombia, Costa Rica, India, Indonesia, Russia and South Africa.

Source: OECD *Going for Growth* 2018.