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No 270/271 December 2008-January 2009 www.oecdobserver.org

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Why fiscal policy counts
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Beyond the crisis



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On the cover

Beyond the crisis

©Andres Stapff/Reuters

Two people watch the sunrise over River Plate in Montevideo, Uruguay.

Can 2009 bring a ray of light to lift the gloom and end the severest financial and economic crisis in decades? The OECD is working with the world's governments and international organisations to stop recent market and policy failures from happening again. So while the operative word now is "action", we must also focus on the longer term. This is where OECD is concentrating its considerable expertise. It is an urgent task, since the strategies we put in place today will shape the post-crisis world of tomorrow.

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PRESS GROUP

Print online?

I've no doubt that there will be a role for (fewer) newspapers in the years ahead, and that paper will continue to remain viable for specialist print applications ("Print screen", by Larry Kilman, World Association of Newspapers, in No 268, July 2008). However, it is inevitable that online access and digital devices will displace a lot of paper in the long run.

Digital devices may be a plaything of the wealthy for now but, like mobile phones, they will eventually find their way into the hands of those who can make the best use of them.

At Frankfurt book fair this autumn, the UN Environment Programme did not hand out the usual printed catalogues, but instead provided a memory stick (in bamboo) with sample publications. All of their publications are now free online. Trade fair visitors love such things, since a memory stick is much more portable than a mound of documents. Of course there are trade-offs. Some of the documents on the stick will likely be printed on a myriad of personal printers, less efficiently than a central print-run. Yet, only those who want them will print; removing any risk of having to ship, store and eventually pulp surplus copies.

Digital reading devices, such as the Amazon Kindle, Sony Reader, and iRex Digital Reader, have fantastic potential. E-ink screens are easy on the eye and you can hold dozens of publications for the weight of one paperback. Students rejoice! They are also potentially connected: through WiFi and other options you will foreseeably be able to update your reading list on the fly.

These are still book-shaped devices aimed at book readers. However there are also large, flexible screens being developed that are better suited for newspaper and magazine reading. The plastic used is not the earth-friendliest material but, being hardy, it benefits from relative longevity.

These gadgets lack the tactile nature of print publications and many older readers will continue to favour printed paper. But they will appeal to digital natives–the people who are growing up in a world where the mobile phone and internet were always available. They are unlikely to aspire to the filthy hands of an avid newspaper reader.

This won't only be an issue for consumers, however. Publishers need to find a viable way to support the format. I suspect that if Amazon and Sony were to open up their devices, so that people could access and read content from any supplier, then we would see faster adoption. Of course there would be some piracy (of the type that has made MP3 players a phenomenal success), but there would also be terrific scope for self-expression; perhaps blogs will displace the op-ed page?

Scott McQuade
Bonn, Germany

"Comment.org"

The following is a selection of recent comments registered at www.oecdobserver.org
Contacts are available at the site.

"A really interesting article. However I'm puzzled by the lack of mention of unions. It almost seems as if you've deliberately decided not to mention them. Are they not seen as relevant to any of the issues raised?" Peter HJ from New Unionism commenting on "Do multinationals promote better pay and working conditions?" in No 269 October 268.

"Globalisation has its merits, but not at the expense of others". Jane Moss commenting on "A smaller world?" in No 268 June 2008.

"Growth in India is likely to come down drastically as per the estimates of all major national institutes. One of the most important problems eating away growth is the sky-touching inflation. As a consequence of this, other macroeconomic variables are also being adversely affected, particularly employment growth, industrial growth, current account deficit, etc. Therefore, until some permanent solution is found for the problem of inflation, growth in the near future will appear to sail the same boat". Pawan Kumar commenting on India: Extensive reforms needed in No 264-265, December 2007-January 2009

Send your letters to the editor to observer@oecd.org or post your comment at www.oecdobserver.org

Economic crisis
The long term starts now


©Eleonor Grammatikas/OECD

Angel Gurría, Secretary-General of the OECD

What a tough year 2008 was for the global economy. Can 2009 bring a ray of light to lift the gloom and end the severest financial and economic crisis in decades?

The *OECD Economic Outlook* issued end-2008 sees some 21 of 30 member countries already in or heading into a recession that could last a year. Business investment will contract by over 5%, and unemployment could rise by at least 8 million by 2010. This social crisis is affecting families and communities across the planet, with emerging and developing economies suffering too.

Lower global inflation and more affordable energy and food prices offer some relief, but with the economy still in intensive care and public anxiety spreading, the situation could worsen. Restoring growth, stability and confidence must remain the policy priority for months to come.

Make no mistake: we need healthy financial markets for our prosperity and development, and to strengthen vital public services. But 2008 reminded us how damaging for our economies badly regulated markets can be.

The OECD is working with the world's governments and other international organisations to stop such failures happening again. Our strategic response, whose details are now online, tackles the crisis in a comprehensive way, by focusing on finance, competition and governance, including their interactions, as well as how to achieve sustainable growth in the real economy. These are exceptional times. They require exceptional responses. Business-as-usual is not an option.

The crisis has led to some major new thinking, about regulation and markets, about accountability and ethics, and about the kind of economy we need to build. Our strategy is about devising better policies, better regulations and better institutional frameworks that enable businesses to flourish and public interests to be safeguarded in a stronger, cleaner and fairer world economy.

Take financial markets. A range of factors are being addressed to help curtail excessive risk-taking and more closely align firm incentives with the interests of shareholders and stakeholders. We are scrutinising such issues as balance-sheet coverage, taxation and restoring market signals. We are evaluating the volatile investment bank segment, its size, capital requirement rules, and other questions. And we are examining broader issues, such as boardroom governance of risk, remuneration and shareholder rights, and how to improve agreed standards, such as OECD Principles of Corporate Governance, regulatory management rules, performance guidelines, and more.

Pension funds have taken a battering in recent months, and the OECD strategy will facilitate the search for more appropriate diversification strategies between public and private systems to reduce reliance on risky financial markets.

We are also working to improve consumer protection and awareness in using complex financial markets, and boosting ethical standards and international codes of conduct for financial services professionals.

One sure protection for consumers is choice, and governments must uphold competition standards for this to happen. Of course, competition is key for a sustainable recovery to take place generally, alongside such fundamentals as keeping markets open for trade and investment, and operating sound, counter-cyclical, fiscal policies. As we see unemployment levels increasing fast, the OECD experience on policies to promote job creation may be useful too.

While growth is vital, not any kind of recovery will do. There are systemic threats to the global economy, particularly climate change and poverty, which we must urgently tackle. Indeed, the crisis provides us with the chance to do so now, and it is encouraging to see major OECD governments placing "green" investment at the heart of their own crisis-response strategies for 2009.

Such approaches could help poorer countries too. If we are serious about sustainable growth, we must double our development efforts, despite the recession. A Doha trade agreement is in sight, and holds out the promise of more trade, investment and development. Governments must clinch it for everyone's sake.

One thing is clear: the massive public interventions of recent months cannot be sustained indefinitely. They are costly to budgets, and like any strong medicine, may damage the patient in the long run. That is why the OECD is devising "exit strategies", not to return to the pre-crisis vulnerable arrangements, but to help governments safely withdraw emergency measures without disruption once stability returns.

2009 marks the Chinese Year of the Ox, a symbol of patience and hard work, and inspiring confidence in others. The crisis has knocked governments off balance, but like the ox, we must not be knocked off course. The long-term job of building a better tomorrow starts now. ■

For details of the OECD Strategic Response to the crisis, go to www.oecd.org/crisisresponse

• News brief •

Crisis response

The worst financial and economic crisis in decades has been met by a co-ordinated global response to kick start growth and better regulate financial markets. But what about the long term, and preparing for when the crisis is over? What kind of policies and rules of the game will help the world's economies sustain their recoveries and prevent the causes of the latest downturn from happening again?

These are the tough questions the OECD has set its sights on answering in its two-strand response to the turmoil. The work focuses, on the one hand, on financial and commodity market regulation, taxation, competition and corporate governance, including issues such as pensions and, on the other hand, fiscal and monetary policies, employment and public investment and other measures for underpinning recovery and growth. To bolster activity, social policies for employment and equity are being scrutinised too. Attention is also focusing on how governments might wean their economies back off their emergency action plans once economic health is restored. Sustainable growth means focusing on action for climate change and world development too. For more on the OECD response, see www.oecd.org/speeches and www.oecdobserver.org/crisisresponse ■

Social urgency



©OECD-ILO/Marcel Crozet

Mr Somavia (left) and Mr Gurría

Secretary-General Angel Gurría has called for closer collaboration between the International Labour Organization (ILO) and the OECD in response to the global financial crisis. Speaking in November to the ILO's tripartite governing body, Mr Gurría said the G20's meeting that month had provided a mandate for "better collaboration between international organisations, including the OECD and the ILO. The crisis has made our two organisations' work on labour markets and social policies even more important".

ILO Director-General Juan Somavia referred to the OECD and the ILO as "kindred spirits in the multilateral system" that must build policy alliances, and warned that "if the multilateral system cannot respond to the crisis together, it will become part of the problem, and not what it should be, the way forward to solutions". The OECD and the ILO already collaborate in a number of areas, including labour issues and corporate social responsibility, notably with the OECD Guidelines for Multinational Enterprises and the ILO Tripartite Declaration of Principles concerning Multinational Enterprises. For more, see www.oecd.org and www.ilo.org ■

Public trust?

In a recent online opinion poll, the *OECD Observer* asked readers "are you confident that governments can help avoid a global depression?". Of over 1,000 responses, some 47% answered no, 32% said yes, and 21% preferred to wait and see. Though not a scientific poll, and while the OECD does not foresee a depression (see Economic Outlook focus, page 55), the responses nonetheless point to the importance of winning public trust in the current crisis. See www.oecdobserver.org ■

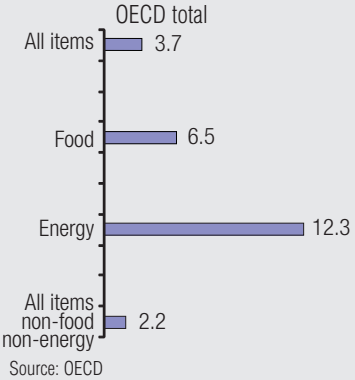
Economy

The latest **composite leading indicators** (CLIs for November 2008) continue to point to a weakening outlook for all G7 economies. Moreover, the outlook has significantly deteriorated in the major non-OECD economies of China, India and Russia.

Meanwhile, annual **inflation** in the OECD area rose by 3.7% in the year to October 2008, compared with 4.5% in the year to September 2008. Month-on-month, prices fell 0.3% in October, after remaining stable in September. Excluding food and energy, consumer prices rose by 2.2% in the year to October, compared with 2.4% in September. Consumer prices for energy were up by 12.3% in the year to October, compared with 18.9% in September and consumer prices for food by 6.5% compared with 6.8% in September.

G7 **merchandise trade** import volumes fell by 1.4% in the second quarter of 2008 compared with the previous

Consumer prices



(continued on page 5)

• News brief •

Korea, which saw heady growth for a decade, has been hard-hit by the global financial crisis, and faces several challenges. See latest economic survey at www.oecd.org/korea

Turkey compares well with other developed countries in terms of biodiversity and its low per head greenhouse gas emissions, but the latest OECD *Environmental Performance Review of Turkey* notes a "thin" environmental infrastructure and points to pressure on air quality, water and waste management, soil erosion and resource conservation. See www.oecd.org/turkey and www.oecd.org/env

Governments and industry must do more to **crack down on fraud** and waste in government contracts, such as building new schools and roads, that cost taxpayers billions of dollars every year, according to new *OECD Principles for Enhancing Integrity in Public Procurement*, released in October. See www.oecd.org/gov/ethics

Ireland should improve its **anti-corruption** laws and, in particular, should urgently expand corporate liability for acts of foreign bribery, according to a review of Ireland's enforcement of the OECD Anti-Bribery Convention.

Israel has officially joined the OECD Working Group on **Bribery**, an important step in its OECD membership bid. Israel becomes the 38th signatory and first Middle-Eastern country to join the OECD's Anti-Bribery Convention.

Meanwhile, OECD has launched the **Anti-Bribery and Business Integrity in Africa** initiative a partnership with the African Development Bank (AFDB). For details, see www.oecd.org/corruption

India has joined major **exporters** pledging ongoing credit support for developing country imports during the financial crisis, along with 35 exporting countries, including 29 OECD countries, Brazil, Estonia, Israel, Romania, Russia and Slovenia. See www.oecd.org/trade

Governments should crack down on **tax evasion** to raise tax revenues as part of broader efforts to help maintain the flow of aid to **developing countries** during the global economic downturn, Secretary-General Angel Gurría stated in a speech at the UN International Conference on Financing for Development. See 29 November, www.oecd.org/speeches

(continued from page 4)

quarter, while the volume of exports declined by 0.3%. On a year-on-year basis, import volume growth, at only 0.3% for the second quarter 2008, continued a decline that started in the second quarter of 2006. Exports grew by 4.9%.

Unemployment in the OECD area stood at 6.5% in November 2008, 0.1 percentage points higher than the previous month and 0.8 percentage points higher than a year earlier. In the euro area, the unemployment rate was 7.8%, 0.6 percentage points higher than a year earlier. For the US, the rate in December was 7.3%, a full 2.3 percentage points higher than a year earlier. For Japan, the rate was 4% in November 2008, 0.2 percentage points lower than a year earlier. ■

For more on these and other economic stories, go to www.oecd.org/statistics

Soundbites

Learning by doing

"It is not about embracing some new ideology, but about being pragmatic in an economic situation we have never known before."

President Nicolas Sarkozy of France in *Le Figaro*, 21 November 2008

"The EU's initial response was inadequate, but it is always through crisis that the EU becomes a little less inadequate further down the road"

Former EU commissioner, Mario Monti, in *Financial Times*, 21 November 2008

"We humans do not learn easily. We try and fail and try again."

Prof Tom Burke of E3G, writing on climate change in *The Independent*, 4 January 2009

IT difficulties

The economic downturn will hit the IT industry hard in 2009, according to the latest OECD estimates. The *IT Outlook 2008* says that the IT industry is likely to have grown by 4% at most in 2008 and with the global economy worsening, and business and consumer confidence falling, growth will languish in 2009. Spending on software and IT services, including outsourcing, by governments and business is likely to continue growing, while Internet-related investments in infrastructure will remain solid. But slower demand from banking, insurance and retail will affect overall growth. The semiconductor industry is set to fall 6% in 2009, and telecommunications companies could also struggle. See www.oecd.org/sti/telecom

Plus ça change…

"The new possibilities opened up by computers and telecommunications are a source of potential danger. The electronic revolution has spawned a new generation of specialists with a perfect grasp of both computers and financial engineering who can devise made-to-measure derivative products or combinations of financial instruments at very low marginal cost. (…) The possible existence of hidden liabilities thus puts creditors, employees and shareholders alike at risk.

Hélène Chadzynska

"New financial instruments : Managing the Menagerie", No 157, April-May 1989

Unequal growth, unequal recession?



© REUTERS/Claro Cortes

AB Atkinson, Nuffield College, Oxford*

Whether the burden of any recession is felt by some social groups and countries more than others depends largely on public policy. Will government step up to the plate? New actions are needed, and a new report spells out the issues.

The world has seen recent decades of rapid growth. This has been most obvious in newly-industrialising countries, notably China and India, but has been shared by OECD countries. Yet the fruits of this economic growth have not been equally divided–either between countries or within countries. As it is put in the introduction to a new OECD report, *Growing Unequal?*, "there is widespread concern that economic growth is not being shared fairly" (page 15, see references). A rising tide does not necessarily raise all boats. Or, to use another liquid metaphor, we cannot rely on trickle-down.

This major OECD report assembles a wealth of evidence about changes in income inequality and poverty over the period from the mid-1980s to the mid-2000s, covering all 30 developed countries of the OECD. The sober statistics provide a much needed counterpoint to what the authors call the "Hello magazine effect" that highlights the super rich. The statistics show that few OECD countries have reduced inequality over the past 20 years. The past five years saw growing inequality and poverty in two thirds of OECD countries. The report quotes the US president, George W. Bush, in his 2007 State of the Economy speech: "our citizens worry about the fact that our dynamic economy is leaving working people behind".

The OECD report has growth in its title, but the time of its publication inevitably leads the reader to ask: what will happen if the next decade is one, not of world growth, but of world recession? If a rising tide does not lift all boats, how will they be affected by an ebbing tide? Recession does not sound like good news for those on the margins of the labour force. Small savers, as well as bankers, are affected by the financial crisis. Is it a case of "heads, the rich gain; tails, the poor lose"?

Many commentators on the current economic crisis say that it is unprecedented in the post-war period; they are harking back, not 20 years to 1987, but some 80 years to 1929. In considering the distributional implications, too, we need to go back in time. Here the data are sparse, but we can say something, particularly about the upper part of the income distribution. In our book, *Top Incomes over the Twentieth Century,* Thomas Piketty and I have brought together studies for a number of OECD countries that show how the share of the top 1% changed following the Great Crash of 1929. This did indeed affect the rich, who had prospered in the Roaring '20s. In a number of countries, top income shares fell: in the US, the shares of the top 0.1 and 0.01% were reduced by between a quarter and a third. Top income shares fell in Australia, France, the Netherlands and the UK. But they did not fall universally, and, as the Great Depression ensued, other income groups were seriously affected.

Recession does not sound like good news for those on the margins of the labour force

If, today, recession follows, then we can look at more recent experience of the distributional impact of unemployment, although it means going back before the mid-1980s. By then, unemployment in Europe was around double that in the 1970s and four times that in the 1960s. From this rise in European unemployment, we learned that the impact on household living standards depended on government policy. It was not inevitable that unemployment led to mass poverty.

Here the OECD report is both reassuring and disquieting. In the chapter on financial poverty, it concludes that the rise in market-income poverty from the mid-1980s to the mid-1990s was, at least in part, offset by increased government redistribution. But between the mid-1990s and the mid-2000s, when market-income poverty stopped rising, the redistributive effect of transfers and taxes fell back, leading to higher poverty rates based on disposable income–that is, the income people actually have to spend or save.

There is a message for policy today. Government budgets are under stress, but citizens are going to expect that, if funds can be found to rescue banks, then governments can fund unemployment benefits and employment subsidies. If governments can take on the role of lender of last resort, then we should be willing to see government as the employer of last resort. Put bluntly, governments have to step up to the plate, as Roosevelt did in the Great Depression.

Of course, the world has changed greatly since the 1930s. Many of those affected are not workers but pensioners, and the

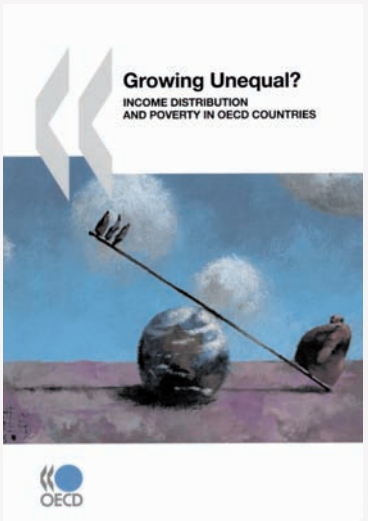
Tipping back the balance

Did you know that, even before the current recession and despite the economic boom of recent years, the gap between rich and poor and the number of people below the poverty line have grown over the past two decades?

Growing Unequal? explains the reasons why. One reason is the rise in rich incomes relative to low and middle-income people. Also, though income inequality increased sharply in the early 2000s in Canada, Germany, Norway and the US, incomes became more equal in Greece, Mexico and the UK. *Growing Unequal?* brings together a range of analyses on the distribution of economic resources in OECD countries. The evidence on income distribution and poverty covers, for the first time, all 30 OECD countries in the mid-2000s, while information on trends extending back to the mid-1980s is provided for around two thirds of the countries.

Older people are much less likely to be poor than they were in the past, the report finds, while poverty has shifted to young adults and families with children. The report describes inequalities in a range of areas, such as household wealth, consumption patterns, and public services, which are typically excluded from conventional discussion about the distribution of economic resources among individuals and households. Precisely how much inequality there is in a society is not determined randomly, but as the report emphasises, it is not beyond the power of governments to change matters. And act they should, for as the report argues, inequality can fuel populist and protectionist sentiments, while for the economy, wide income inequality wastes human resources, particularly if a large portion of the population is either trapped in unemployment or in low-paid, low-skilled jobs.

For more snapshots from *Growing Unequal?*, see www.oecd.org/els/social/inequality
See also www.oecd.org/bookshop



ISBN 978-92-64-04418-0

landscape for pensioners is now very different. The OECD report documents the remarkable reductions achieved in pensioner poverty. In the US in 1969, those aged 65+ accounted for a fifth of those living in poverty; today they are under a tenth, despite the growth in the size of this age group. But we have also seen in a number of OECD countries a withdrawal of the state from the provision of pensions. In the UK, the disengagement of the state has been taken to considerable lengths; people are now expected to rely much more heavily on private savings.

One of the little remarked aspects of the current financial crisis, at least in the UK, is the role played by this change in pension policy in generating both the housing price boom (as people acquired buy-to-let properties to provide an income in retirement) and the much increased dependence on financial services (as people had to replace state pension provision by personal private pensions). At the very least, the state should provide an alternative pension vehicle for those who do not wish to follow the private route.

The state has also withdrawn, in a number of countries, from the financing of education. This is another respect in which the world is different today, with much greater proportions completing secondary school and receiving university education. But there are the same fears that an extended recession may leave scars on future generations of workers. It is striking how media interviews with recently redundant workers have emphasised their concern with funding the university education of their children. Very relevant here is the discussion in *Growing Unequal?* of intergenerational earnings mobility, and the conclusion that "more unequal countries are prone to developing an 'underclass' who are poor themselves for long periods and so are their children". A prolonged recession, with extensive child poverty, may exacerbate this problem.

The impact of the crisis has been discussed in terms of unemployment. But there is another feature of the world macroeconomy that affects inequality: changes in relative prices. In his study of industrialising Britain in the 18th and 19th centuries, Peter Lindert finds little evidence of a Kuznets curve–that is, a rise in inequality with industrialisation–when looking at shares of money income, but does find such a rise when account is taken of the changes in food prices and rents. In recent years, the poor in OECD countries may have benefited from the falling prices of imports from newly-industrialising countries, but they have been hit by rising prices of food and energy. This is an aspect to which the OECD is no doubt giving thought.

I have emphasised the need to learn from the past. When reading accounts of life in OECD countries a 100 or more years ago, one cannot but be struck by the difference between the insecurity of the poor compared with the security of the rich. The OECD report rightly emphasises wider measures of deprivation, but we need to go further to capture this concept of security. Here I am thinking of subjective indicators, as to how people view their own circumstances, but also of objective measures of the degree of vulnerability of individual households. On what resources could they draw in the event of job loss? How exposed are their retirement savings? Politicians talk about "confidence". This is a matter, not just of the Dow Jones or the FTSE, but of the very real concerns of households for their future and that of their children and grandchildren.

As so often in economics, the answer to the question posed in my title is that "it depends". Whether the burden of a world recession is borne by the poor, or is more fairly shared, depends above all on the actions of governments, individually and collectively. This does not necessarily mean a return to the past. The Roosevelt New Deal was appropriate then, but we live in different times. We have to be imaginative in devising new social interventions and strategies for acting together. ■

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*The views in this article are those of the author and do not necessarily reflect the views of the OECD or its member countries.



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Fiscal policy



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Is fiscal policy back? An emerging markets perspective

Jeff Dayton-Johnson
OECD Development Centre

The economic crisis has hit the entire world economy, with governments stepping in to rescue financial systems and kick-start economic growth. This adds up to a triumph for government fiscal policy, though fiscal policy must be used audaciously.

One of the unexpected by-products of the current global financial crisis is that it has placed fiscal policy back at the centre of the public policy debate. The United States authorities toyed with fiscal responses in the early days of the crisis with tax rebates designed to stimulate consumer spending; these tentative steps would be followed by government spending on a truly massive scale, culminating in the Treasury's US$700 billion bailout of the financial system and soon, an economic package of a similar magnitude. Similar measures have been adopted in a host of other OECD capitals, with more sure to follow. China's recently announced $500 billion-plus package indicates that fiscal policy is gaining traction in emerging economies as well. Fiscal policy–public spending, taxes and debt management–is clearly a favoured lever among policymakers in OECD countries for jump-starting better economic performance. Was there any choice?

A look back in time suggests it hasn't always been that way. While fiscal stimulus lay at the heart of the John Maynard Keynes's prescription for confronting the Great Depression of the 1930s, and enjoyed a revival after the 1970s oil crisis, its appeal among economists has steadily waned since the 1980s. In particular, for the twin goals of macroeconomic policy making–economic growth on the one hand, and combating inflation and unemployment on the other–fiscal policy has lost prestige to other tools, particularly monetary policy. Taxes, its opponents aver, may be a necessary evil to finance government operations and public services, but many economists believe they distort incentives, reduce investment and labour supply and dampen growth. As for short-term stabilisation, the critics say, discretionary fiscal spending is too susceptible to political interference–think pork-barrel projects for lawmakers' home districts. Anyway, in a downturn fiscal spending rises to address unemployment and other social consequences of the downturn, and this buoys overall domestic spending. Better to rely on such automatic stabilisers that are beyond the reach of politicians' capricious grasp and use interest rates and the money supply to influence prices or unemployment levels.

But then came the lie, which the crisis made louder. First in Japan, where deflation set in during the 1990s and interest rates became negative, the anaemic effectiveness of monetary policy measures had started to show. This was confirmed more recently in the United States, where despite deft interest cuts in the last few years, the economy started to sag well before the autumn 2008 crisis. Experts now worry if cuts will be ineffective in Europe too. Policymakers and economists have had to turn their attention back to the fiscal means at their disposal.

However, the fiscal comeback argument is, if anything, more relevant for emerging and developing economies. Consider the example of Latin America, where governments have taken enormous strides to put their fiscal houses in order. The OECD's *Latin American Economic Outlook 2009* shows that, since the end of the debt crisis of the 1980s, governments have tightened their belts assiduously. Fiscal deficits have fallen from 11% of public revenues in the 1970s and 1980s, to only 8% since 2000. The year-to-year volatility of taxes, spending and deficits–long a feature of fiscal policy making in the region with harmful effects

for economic performance–has likewise fallen: an index of deficit volatility calculated for the 2009 Outlook shows a fall of a third from 1990-94 to 2000-06, with Latin America standing just 6% above the volatility levels in OECD countries in the latter period.

Fiscal policy in the current financial crisis is squarely focused on avoiding a deep recession. This focus, however, must not blind anyone to the other policy objectives for which fiscal tools are useful. Fiscal systems can provide the resources needed to carry out pro-growth investments and structural transformations, which in developing and emerging economies are so essential for long-term growth. Moreover, taxes and public spending can directly attack poverty and inequality, twin problems that continue to beset the region. In a word, fiscal policy has a powerful potential to promote development.

Seen in this light, the capacity of fiscal policy to do good is substantially unrealised in Latin America. Fiscal policy has done nothing to reduce vast income inequality in the region, for example, as the figure illustrates. While taxes and transfers reduce inequality by nineteen Gini points in Europe, the difference is less than two Gini points in Latin America (the Gini index is a commonly-used measure of income inequality that ranges from zero–everyone has the same income–to one hundred–one person has all the income).

Fiscal policy can bring about the structural transformations that are so essential for long-term growth

However, some of the very characteristics of fiscal policy derided by its critics actually increase its usefulness in the cause of development. In fact, precisely because fiscal policy is profoundly political, better fiscal policy can contribute to democratic consolidation (and vice versa). The performance of a country's fiscal system provides a snapshot of the social contract that links its government and its citizens. Publicly-provided goods and services of reasonable quantity and quality for the one part, and transparent and progressive tax systems for the other, are signs of a healthy social contract. These two parts go hand in hand: if public goods such as health, education and infrastructure are scarce, low-quality or inequitably provided, the social contract is weakened. Citizens' perceptions that taxes and spending are fair and efficient–call it fiscal legitimacy–are closely linked to the legitimacy of democracy itself.

Clearly, more money is needed to meet development deficits: in Latin America, despite impressive economic performances in recent years, nearly 200 million people live in poverty. More money has been mobilised in the domestic economy to address these challenges, but the gap with OECD countries is still a big one. Government expenditures averaged 25% of GDP in Latin America versus 44% in OECD countries over the period 1990-2006.

For a fiscal policy that serves development, however, quality matters as much if not more than quantity. On the spending side, education is illustrative: governments in the Baltics, Macau-China and other emerging regions spend about the same amount on primary and secondary schooling per pupil as do many Latin American countries, but their students clearly outperform their Latin American counterparts in international standardised tests. Not only do Latin Americans need high quality government spending, but they also need high quality government revenues, collected fairly and from a broad base. Non-tax revenues–often linked to volatile natural-resource exports like oil or copper–are far more important in Latin America, averaging fully 8% of GDP over 1990-2006. A reliance on non-tax revenues, as well as on taxes on spending rather than on income (40% of tax revenues in the OECD, versus 25% in Latin America) makes government receipts more volatile and less progressive in Latin America.

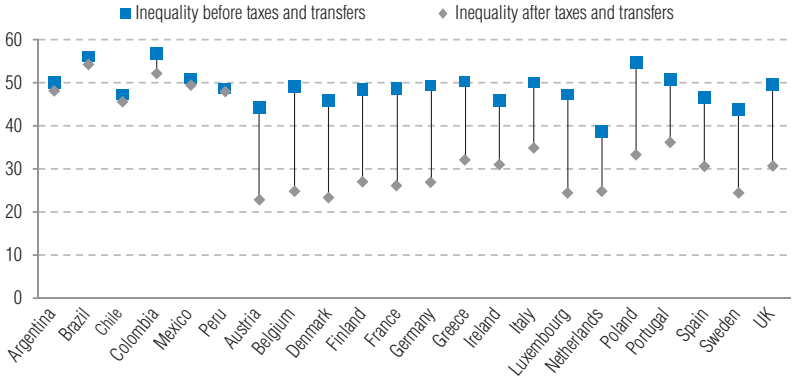
As fiscal policy takes some tentative steps into the spotlight, let's hope for the sake of Latin America and elsewhere, that this potent policy toolkit is used audaciously in the service of democratic consolidation and real economic development. ■

Reference

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Reducing inequality?

Fiscal redistribution reduces inequality more in developed countries;
Gini coefficients of market and disposable income, various years*



*NOTE: Gini coefficients range from 0 (perfect equality) to 100 (perfect inequality); see StatLink for years.

Source: *Latin American Economic Outlook 2009*, OECD Development Centre

StatLink http://dx.doi.org/10.1787/450207366168

The economy
Working for a solution



©REUTERS/Frank Polich

John Evans, General Secretary, Trade Union Advisory Committee to the OECD (TUAC)

The OECD and IMF forecasts for 2009 suggest that for the first time since the 1930s GDP will fall in the industrialised economies that make up the OECD. Yet even these forecasts are based on relatively optimistic assumptions that the financial markets begin to stabilise in the months ahead and that there are not other major "shoes to drop" in terms of negative financial shocks.

History has shown that crises on this scale lead to social and political instability with unpredictable and often tragic results.

Working families have an enormous stake in the response of governments and the international institutions to this crisis. How protracted and deep the global recession proves to be depends on how timely and well-focused government action is. However, for more than two decades social cohesion has been under stress as a result of growing inequality in most countries. Today, those who are losing homes, jobs and pensions as a result of the financial crisis for which they bear no responsibility, are being called on–as taxpayers–to bail-out those who are responsible. This produces a strong political cocktail that governments would do well to heed. While short-term action to save the banking system, stop major companies going under and stimulate demand to help the recovery of the real economy are all necessary, there can be no return to "business as usual" once the recovery is underway. This is a point OECD appears to accept in principle, but what about in practice, in the analysis and advice they give to their member governments?

This most serious economic crisis since the Great Depression must mark an end to an ideology of unfettered financial markets, where self-regulation has been exposed as a fraud and greed has overridden rational judgment to the detriment of the real economy. A national and global regulatory architecture needs to be built so that financial markets return to their primary function: to ensure stable and cost-effective financing of productive investment in the real economy. Moreover, governments must acknowledge the urgent need to begin work

on a more inclusive, just and democratic system for the governance of global markets.

Trade union leaders from the G20 countries took these messages to the leadership of the international financial institutions and heads of government in meetings in Washington DC in November on the eve of the G20 crisis summit. They presented a joint declaration prepared by the TUAC and the International Trade Union Confederation. This "Washington Declaration" called on governments to:

There can be no return to "business as usual" once the recovery is underway

Initiate a major recovery plan to stabilise global capital markets, move economies rapidly out of recession, stave off the risks of a global depression and get back on the track of creating decent work. There should be further co-ordinated interest rate cuts as necessary. Governments should bring forward infrastructure investment programmes that can stimulate demand growth in the short term and raise productivity growth in the medium term. Now is the time to move forward with a "Green New Deal" to create jobs through alternative energy development and energy saving and conservation. Tax and expenditure measures should be introduced to support the purchasing power of middle and low income earners. Development assistance budgets need to be maintained to the Least Developed Countries (LDCs) to help meet the Millennium Development Goals (MDGs) with the adoption of binding commitments and a timetable to meet the UN target of 0.7 % of GDP.

Ensure that a financial crisis on such a scale never happens again. For two decades most governments, together with the International Financial Institutions (IFIs) have promoted the lightly regulated 'new financial architecture' that has characterised the global financial markets responsible for this crisis. Governments have now been forced to intervene to save the banking system; the quid pro quo must be properly regulated financial institutions. The agenda must cover: the public accountability of central banks; counter-cyclical asset requirements and public supervision for banks; the regulation of hedge funds and private equity; the reform and control of executive compensation and corporate profit distributions; the reform of the credit rating industry; the ending of offshore tax havens; the taxation of international financial transactions; proper consumer protection against predatory lending and aggressive banking sales policy; and active housing and community-based financial service public policies. The new system needs to reflect the requirements of all regulators; bank regulators, tax and competition authorities, and governance and consumer bodies in each country. There must be no more piecemeal approaches to reform.

Establish a new structure of economic governance for the global economy. This must go beyond financial markets or currency systems to tackle all the imbalances of growth and capital flows that contributed to the crisis. Just as the post-World War II economic settlements included the strengthening of the International Labour Organisation (ILO), in parallel with the creation of the United Nations, the new post-crisis settlement must address international economic governance. Governments must start work on the necessary structures. But this debate should not be held between bankers and finance ministry officials behind closed doors. Trade unions must have a seat at the table.

Combat the explosion of inequality in income distribution that lies behind this crisis. The new system of economic governance must **tackle the crisis of distributive justice** that has blighted the global economy. It must ensure more balanced growth in the global economy between regions, as well as within countries, between capital and labour, between high and low income earners, between rich and poor and between men and women.

The declaration adopted by governments at the end of their meeting was clear on the need for co-ordinated stimuli, but was short on detail. Indeed, the subsequent wrangling and time delays in putting measures in place are worrying. Fiscal deficits are being cited as constraints, yet there is no choice: governments must step in as investors of last resort as the private sector has seized up.

Better to incur deficits to support the recovery of the real economy than to face a collapse of public finances, not to mention investor and consumer confidence, due to the accelerating contraction of the real economy.

The G20 conclusions were more detailed on the areas where financial market supervision and regulation must be reformed–counter-cyclical capital requirements for banks, reformed executive pay, supervision of credit rating agencies, codes for hedge funds and private equity, reformed accounting standards, tighter regulation and transparency of offshore financial centres.

But on more open and legitimate governance and on social justice the G20 was silent. The silence must end, and trade unions will be returning to the debate with leaders in the weeks and months ahead, in the UK on the eve of the April 2 G20 summit, at G8 Labour Ministers meeting in Italy in May and at the OECD Ministerial Council Meeting in June and the subsequent G8 summit.

Working people need action. They require a seat at the table in these meetings and institutions. They have understandably little confidence that bankers and governments meeting behind closed doors will get it right this time. In fact, many business people and governments share this distrust. There must be full transparency, disclosure and consultation. The global union organisations are ready to play their role in this process. ■

Note: TUAC celebrated its 60th anniversary in December 2008, having been founded in 1948 as a trade union advisory committee for the European Recovery Programme, known as the Marshall Plan. More details on www.tuac.org



New pensions era

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Colin Melvin, CEO, Hermes Equity Ownership Services*

Could the credit crunch usher in a new paradigm of stewardship for pension fund trustees and the dawn of a more accountable capitalism?

Pension funds have been amongst the biggest casualties of the credit crunch after seeing billions of dollars wiped off their value virtually overnight–this could have been avoided if the owners of those companies had behaved responsibly. The guardians of our pension funds, the trustees, could have protected their beneficiaries by holding to account the boards of the banks and other companies in which they invested. They could have averted many of the irresponsible practices which seeded the credit crisis.

Despite the fact that governments have stepped in around the world with multi-billion dollar rescue packages to help ease the situation, there is still growing concern around the safety of our savings and impacts on the real economy. Trust and accountability in the entire financial system has reached an all time low and is continuing to suffer severe erosion. Ultimately it has been the public at large that has had to pick up the bill for this crisis and not once but three times, in what could be described as a "triple whammy" effect of the crisis:

as tax payers through our funding of the billion dollar bailout packages;
as pensioners through the value of our pension funds diminishing; and
as employees through job losses and reduced prospects.

It seems wrong for taxpayers to be subsidising the multi-billion dollar credit crunch, while seeing the value of their own pensions plummet.

Way before the credit crisis started, Hermes Equity Ownership Services had been leading the global debate, virtually as a lone voice, urging pension funds to be more attentive as corporate owners and to engage in active dialogue with the companies they are investing in to influence structure, direction and accountability. If this warning had been heeded we would have seen less of a crisis,

as some of the worst excesses such as high-risk loans and misaligned incentives would have been curbed.

OECD governments must now work together to promote good corporate governance and asset ownership and rebuild trust in companies and markets. It is essential that this collaboration produces well-supervised and mutually supportive regulatory frameworks which, alongside pioneering solutions from the private sector, will ensure corporate and investor accountability. This dialogue between policymakers is vital if we are to achieve long-term sustainable growth.

Poor asset ownership is at the heart of this crisis and it could have been prevented

This crisis is a product of the short-term focus of financial firms on Wall Street, in the City of London and elsewhere, which is entirely concentrated on the next quarter's earnings and other short-term financial measures. As institutional investors who own large swathes of corporations around the world, we need to think about long-term growth and adopt a far more sustainable approach, which will be better for all stakeholders and restore stability to the market. Pension fund beneficiaries rely on their trustees to act in their long-term interests and protect their investments. If they succeed, this will benefit us all–as current and future pensioners and employees. But their continuing failure will fuel further extraordinary profits for the financial services industry and create another asset-price bubble, this time seeded by public money.

We have seen banks taken into state ownership and a strict regulatory regime coupled with litigation is looming but these will be short-term fixes at best. The breakdown in trust between banks was linked to poor short-term lending practices, a vacuum of accountability and a lack of attention to the needs of their owners and customers. Their reluctance now to lend is already affecting the real economy in a myriad of ways.

Poor asset ownership is at the heart of this crisis and it could have been prevented. The majority of banks' shareholders are long-term institutional investors investing the pension fund savings of millions of people. By allowing the banking industry to act contrary to their own and their clients' interests, they failed to behave as responsible owners. Millions of pension fund beneficiaries are completely oblivious to the fact that the shares owned by their pension funds have been traded with no substantive dialogue between companies and the guardians of their pension funds, the trustees or their appointed agents. Furthermore, many such investors will have invested in ways that have damaged the financial system on which we all depend.

So is more regulation the answer? While we support regulation and improved transparency in the financial markets in specific areas such as short selling and stock lending, regulation alone is not sufficient and in some ways could be more harmful. We should regulate to promote good practice rather than simply proscribe the bad.

Empowerment of trustees

In 2009 we expect the pressure on pension fund trustees to intensify further as their role as corporate owners is better understood and their beneficiaries' retirement funds continue to diminish in value. In the coming months and years, trustees will suffer the disappointment of millions of beneficiaries wanting answers. It's a tough call to expect trustees, many of whom are part-time, to become experts on investments and the minutiae of exotic instruments used in the global markets today.

I believe that the more sustainable solution involves the empowerment of pension fund trustees in what will become a new paradigm in the stewardship of pension funds.

Hermes has been working alongside pension fund trustees to equip and support them with mechanisms designed to help them engage with the boards of the companies they are investing in, to ultimately create sustainable value for their investors. This pioneering approach is winning the support of trustees on behalf of millions of investors who have seen their life's savings eroded by the current credit crisis.

This new dialogue is beginning to have a positive impact on all the key stakeholders involved including:

Institutional investors–who see the value of adopting long-term investment strategies and holding the companies they are investing in to account;

Boards of directors–who are beginning to benefit from the support and challenge provided by long-term shareholders on a range of issues material to their businesses; and

Pension fund beneficiaries and savers–who will benefit from supporting this new path to corporate success, which will give them greater power as owners.

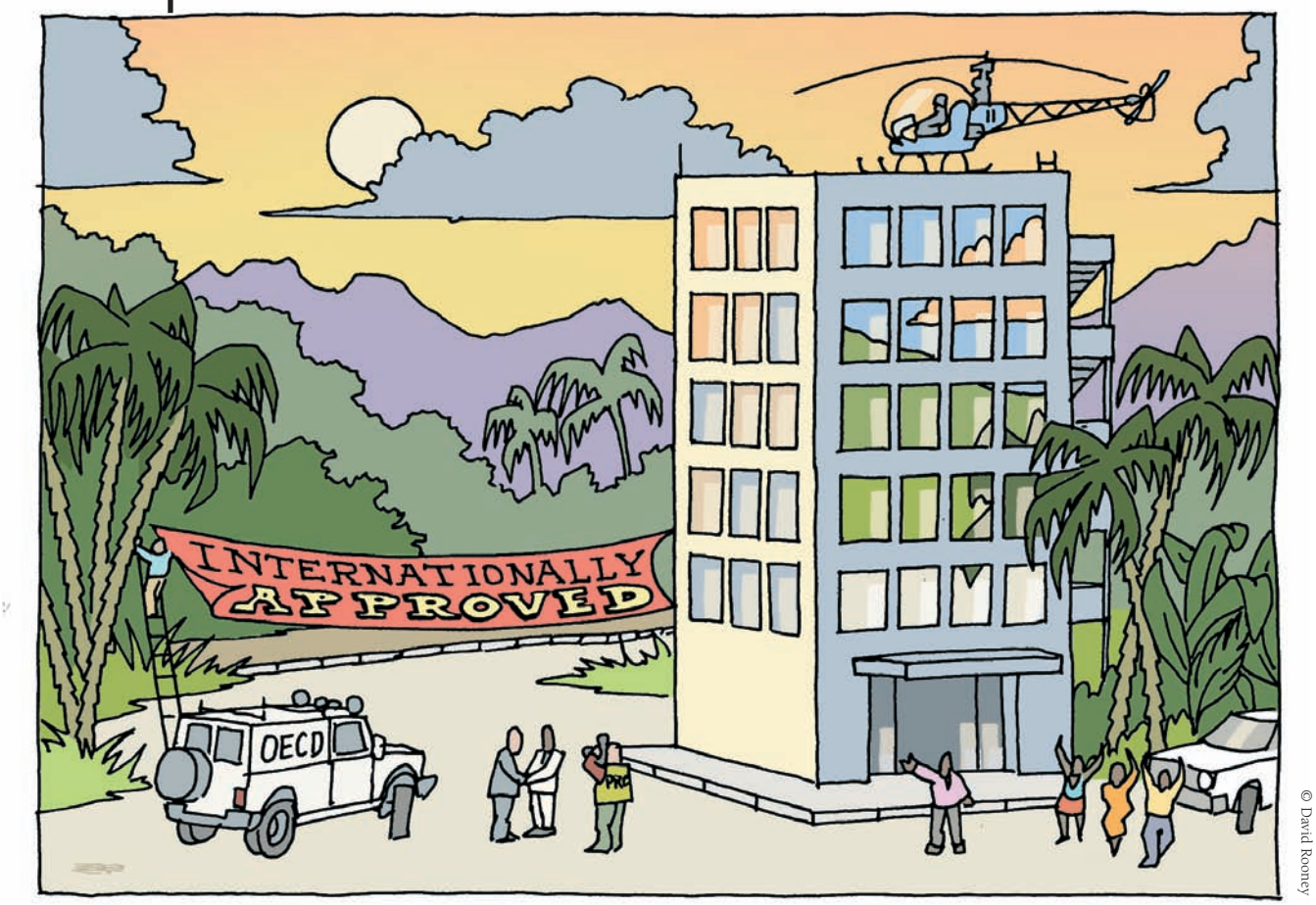
I hope that pension funds and other institutions will rise to the challenges presented by the credit crisis and embrace the opportunities that it presents to create a more stable platform for future growth.

We are at the dawn of an exciting moment in the creation of a more accountable capitalism.

A more constructive dialogue between institutional investors and the companies they are investing in will ultimately create a more sustainable solution to the credit crisis and a better future for all of us and for the generations to come. ■

***Hermes Equity Ownership Services** is one of the world's largest stewards of pension fund assets, representing shareholdings worth over £50 billion. It is currently attracting worldwide attention for its pioneering work in helping pension funds be engaged and active owners of companies and promote the long-term value of their equity investments. More information can be found at www.hermes.co.uk/EOS/eos_introduction.htm

OECD MNE Guidelines
A responsible business choice



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Paul Hohnen*

Far from being a snubbed "CSR Cinderella", the OECD Guidelines for Multinational Enterprises are being widely used by companies seeking to be recognised as leaders in responsible business practice and sustainable development. Governments should promote them further.

The global landscape of international initiatives to promote responsible business practice has become increasingly–and perhaps confusingly–crowded over the last decade. A diverse array of voluntary instruments has emerged, including hundreds of corporate codes of conduct, certification and labelling schemes, model codes, and sectoral initiatives, all designed to assist private and civil society organisations as they try to assess and respond to issues such as sustainable development, climate change or poverty alleviation.

Some of these initiatives have been developed by single organisations or sectors, while others have been developed through "multi-stakeholder" partnerships of business and non-profit organisations. Moreover, the current negotiation of the first ever guidance standard on 'social responsibility' by the International Organization for Standardization (ISO), expected for 2010, suggests that the trend to develop new voluntary instruments will continue.

The trend raises a number of policy questions for governments and businesses alike. These include how

well the various initiatives relate to agreed intergovernmental policies, the extent of their uptake and use, and their impacts. For OECD member countries there is an especially troubling question: have these new private corporate social responsibility (CSR) initiatives made the OECD Guidelines for Multinational Enterprises (MNEs) a kind of "CSR Cinderella"–attractive, but destined to be left behind?

As explained below, recent research among European companies suggests that the MNE Guidelines are well known and respected, but can still be more widely used.

In the universe of CSR initiatives, the OECD MNE Guidelines occupy a special place. Dating back to 1976, and revised in 2000, they are in fact one of the very earliest examples of comprehensive guidance on how to ensure that business operations are in harmony with government policies and the societies in which they do business.

Unlike privately developed initiatives, the Guidelines have been developed and adhered to by all 30 OECD governments, in close consultation with representatives of business and employee organisations and with NGO support. Some 11 non-OECD countries also adhere to the Guidelines and others are being considered.** This means that, together with the ILO Tripartite Declaration (1977) and the United Nations Global Compact (2000), the MNE Guidelines are today still one of the few responsible business guidance instruments that enjoy formal government recognition.

But a key question is how companies actually use these instruments. While some private initiatives are membership-based, and therefore the number of users can be reasonably accurately assessed, less is known about usage of the MNE Guidelines, since reporting on their use by companies is not required. This information gap is now gradually being filled, thanks to CSR and 'sustainability' reporting.

A survey conducted in July 2008 by Vigeo, a European agency that assesses and rates corporate CSR performance, sought to clarify how the largest publicly-listed European companies were using the three main governmentally-developed or endorsed instruments from the OECD, UN and ILO. These three were selected in part because they had been specifically endorsed by the 2007 G8 Summit.

The survey was carried out in consultation with the OECD and the Global Reporting Initiative (GRI), which is a sustainability reporting framework. Vigeo examined 89 responses from European companies to a survey, and supplemented these with independent analysis of 281 individual company CSR and sustainability reports carried out for the OECD.

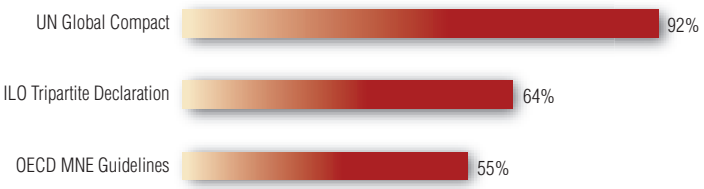
Vigeo's first finding shows that a clear majority of the respondent companies believed their CSR approach had been "based on or inspired by" the UN Global Compact, the ILO Tripartite Declaration and the OECD MNE Guidelines (see graph 1).

Furthermore, the survey also revealed that a large majority of companies had adopted the practice of referencing these internationally recognised guidance instruments in their annual CSR or sustainability reports. The UN Global Compact, which is based on ten short universal principles covering human rights, labour standards, environment and anti-corruption, was referenced in reports by 87% of respondents. The ILO Tripartite Declaration and OECD MNE Guidelines were referenced by 53 % and 39% of respondents respectively. Given that companies are not requested to reference their use of these instruments, this is a respectable performance.

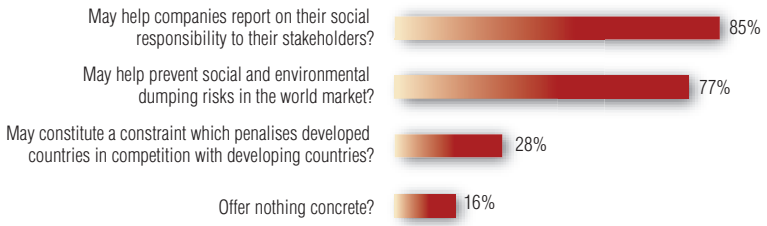
The Vigeo survey also specifically explored business attitudes to the value of the MNE Guidelines. A large majority of companies thought that the Guidelines could help companies in reporting on their social responsibility to their stakeholders, and only a small minority thought they offered "nothing concrete" (see graph 2). Indeed, over three quarters considered that the

Helpful guidelines?

1. Is your CSR approach based on or inspired by international instruments ?



2. Do you think OECD MNE guidelines:



Source: Vigeo

Guidelines could help prevent risks of social and environmental dumping in the world market. Barely over a quarter agreed with the proposition that the Guidelines could constitute a constraint, which penalised developed countries in competition with developing countries.

Another trend highlighted by the Vigeo survey was the use of more than one instrument in developing a company's CSR approach. For example, over 80% of the respondents that refer to the OECD MNE Guidelines in their reports also refer to GRI. This trend is supported by independent research for the OECD which suggests that over 30% of the companies covered by the Vigeo survey and participating in the UN Global Compact also refer to OECD MNE Guidelines.

Though they enjoy formal government recognition, a key question is how companies actually use these instruments

Nearly three quarters of this group also refer to GRI. In fact, some 86% of respondent companies to the Vigeo survey said they use the GRI framework in preparing their CSR or sustainability reporting. This is consistent with the findings of consultants KPMG International, which show that GRI is used by three quarters of Fortune Global 250 companies.

Importantly, the trend towards making specific voluntary reference to international instruments does not appear to be limited to European companies. Research by myself and Kernaghan Webb, Associate Professor in the Department of Law and Business at Ted Rogers School of Management in Toronto, suggests a similar pattern of behaviour among multinational companies around the world seeking to be recognised as leaders in the field of responsible business practices.

In fact, over a quarter of companies listed on the 2008 Dow Jones Sustainability Index (DJSI) reference the Guidelines in their 2007 CSR reports. European companies make up the bulk of references, but Canadian and Japanese companies also feature. We also find the Guidelines being cited by almost a quarter of companies listed on the 2008 Innovest/Corporate Knights Global 100 "Most Sustainable Companies". These include companies from Australia, Canada, Switzerland and the US.

And on the 2008 FTSE4Good Global Index, 14% of companies reference the Guidelines. While these are predominately European companies, the list includes US and Australian companies.

The same research points to the OECD Guidelines being among the most widely used global corporate responsibility instruments or initiatives, together with the ISO 140001 environmental management system standard, the GRI Guidelines, the UN Global Compact and various ILO instruments.

OECD and other governments that have adhered to the MNE Guidelines can take some comfort from the fact that the Guidelines are among the most popularly cited instruments used in the CSR space. This suggests they have both an inherent business value and recognised special status. The advent of CSR reporting should also be welcomed, as it has not only made corporate practice more transparent but also provided the business community with a platform for recognition of their values and performance.

However, the research invites wider and as yet unanswered questions. These include the overall level of awareness within the business community of the MNE Guidelines, and how comprehensively they are being followed. OECD Watch, a coalition of 84 civil society organisations, has highlighted a number of perceived deficiencies in the implementation of the Guidelines and recommended reforms.

Yet governments can expand and deepen the uptake of the Guidelines in a number of relatively easy ways, for instance, by encouraging National Contact Points to play a more active role in promoting awareness of the Guidelines in the business sector, and welcoming the growing practice of referencing use of the Guidelines in CSR and sustainability reporting. Going further, governments could require companies tendering for government business or seeking investment guarantees to demonstrate an awareness of the Guidelines. And governments could support research to explore how companies can optimise the value of the Guidelines and complementary CSR tools.

In tackling increasingly urgent global challenges such as poverty and climate change, it will be essential to have fully focused and engaged companies playing by the same rules. The OECD MNE Guidelines have a key role to fill in making sure they do. ■

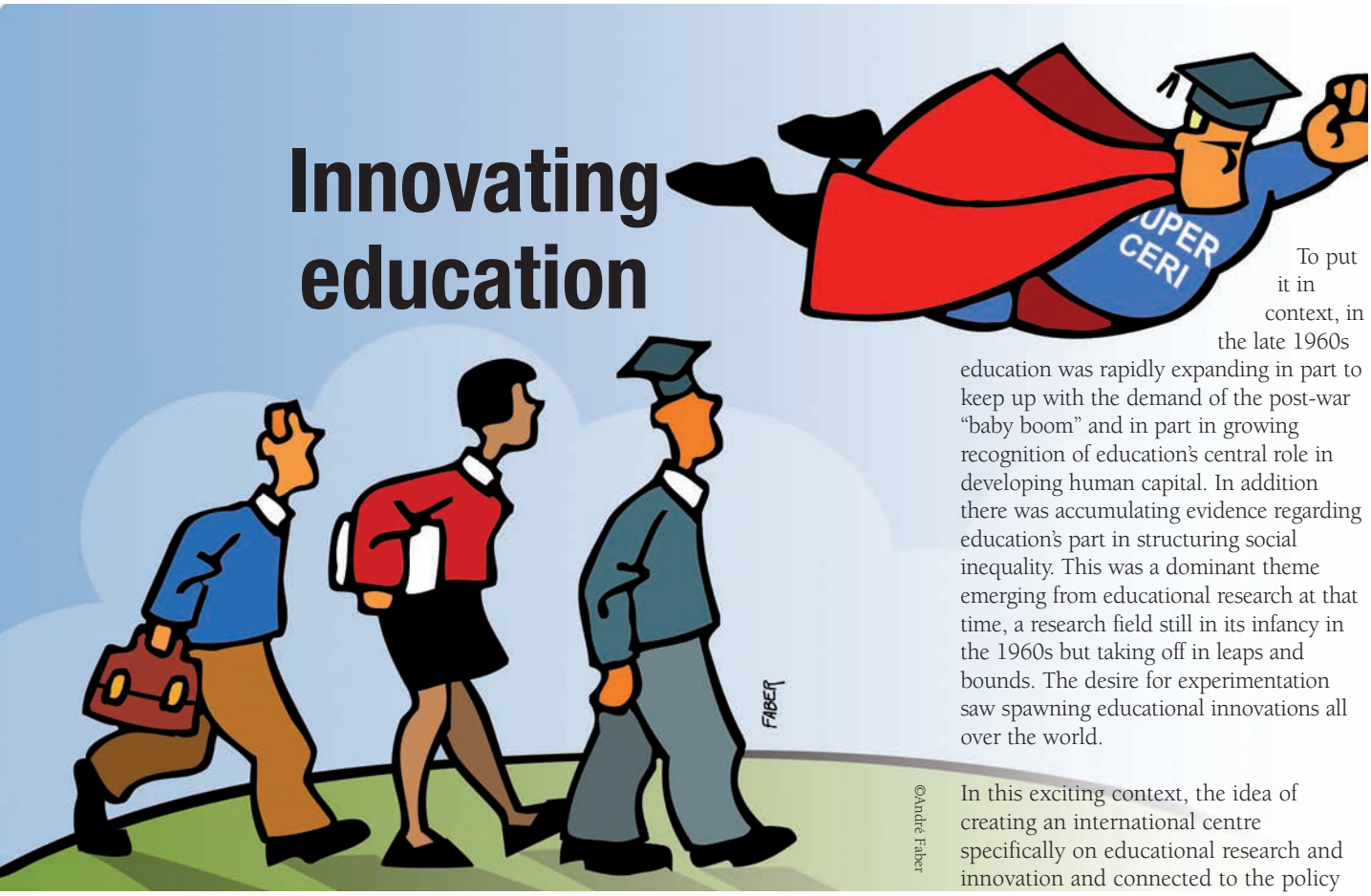
*A former diplomat to the OECD, Paul Hohnen is a consultant on responsible business initiatives and sustainable development.

**The 11 non-OECD adherents to the OECD MNE Guidelines are Argentina, Brazil, Chile, Egypt, Estonia, Israel, Latvia, Lithuania, Peru, Romania and Slovenia.

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Innovating education



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David Istance and **Vanessa Shadoian**
OECD Centre for Educational Research and Innovation

The Centre for Educational Research and Innovation celebrated its 40th anniversary in 2008. Its future is still very much ahead of it.

A professor of a well-known business school in Spain once remarked that the one thing people forget to do in a crisis is "think". He could have added "think innovatively". For 40 years, that is precisely what OECD's Centre for Educational Research and Innovation (CERI) has been doing: helping educators and policymakers think and so better tackle challenges and prepare for the future. How are patterns of teaching and learning changing in the face of scientific advances, new technologies and diverse student populations? What about innovation in the classroom? What might education systems and institutions look like in the future? These are just some of the questions CERI has tackled every day since it was founded four decades ago.

These questions have particular resonance today, especially in light of anxiety over the present economic and financial turmoil. Indeed, in some ways, 2008 resembles 1968 when CERI was established. That timing was no coincidence: new analyses and approaches as well as social and political change were being sought in the heady days of the 1968 social upheavals, with education in the forefront. The OECD was caught up in this desire for innovation, and CERI was born.

To put it in context, in the late 1960s education was rapidly expanding in part to keep up with the demand of the post-war "baby boom" and in part in growing recognition of education's central role in developing human capital. In addition there was accumulating evidence regarding education's part in structuring social inequality. This was a dominant theme emerging from educational research at that time, a research field still in its infancy in the 1960s but taking off in leaps and bounds. The desire for experimentation saw spawning educational innovations all over the world.

In this exciting context, the idea of creating an international centre specifically on educational research and innovation and connected to the policy world by its privileged location at the OECD was forged. It needed vision and entrepreneurialism from its architects, including Ron Gass, CERI's Director for its first 20 years (see article by Ron Gass), and a financial leg-up from two major foundations–the Ford Foundation and Royal Dutch Shell.

CERI has its own place at the table of OECD educational programmes. Its remit is to address the bigger picture, with forward-looking studies bringing in different disciplines and stakeholders. This neatly complements the comparative statistics, analyses and educational reviews carried out in the rest of the department. Perhaps less well-known is how CERI has served as a "nursery bed" for the more mainstream education work at the OECD over the years, nurturing new areas and handing them on as they come to stand on their own feet. This happened, for instance, with the OECD publication entitled *Education at a Glance*, which began life in CERI in 1992 and was built up there for a decade before moving

on to the high profile position it enjoys today.

Instead of addressing policy areas defined within the familiar institutional boundaries–such as early childhood policies, vocational education and training, higher education, teacher or leadership policies, evaluation–CERI has taken a transversal approach to address complex issues which is otherwise difficult in the departmentalised and often politicised world of national education systems. A selection from CERI titles over the years gives a flavour of its transversal, forward-looking spirit (see note below).

To take some of these examples, CERI in the 1970s was seeking to put lifelong learning in place long before the current policy focus which took off in the 1990s. The early work on disability (as the term 'handicapped' was no longer accepted parlance) was calling for radical

The post-crisis world of the future will be even more knowledge driven than ever

educational reorganisation in order to allow disabled students as far as possible to be in school alongside their contemporaries and showing how it could be done. CERI analysis of "new technologies" as they were called then, broke new ground in understanding how they might transform the teaching of reading, writing, science and mathematics, again well before the recent priority for investing in information and communication technologies to modernise education.

Recent CERI studies have been no less ambitious, bringing new dimensions and sometimes uncomfortable conclusions to emerging issues. Take knowledge management, for instance, where CERI work took the research into organisations and practices in other advanced sectors to argue that education's own knowledge management is largely inadequate for a world in which knowledge is central. In *What Schools for the Future?* we presented a set of six scenarios of what schooling might look like in 2020, which have been extensively used since in OECD and non-OECD countries to widen the horizons of educational planning.

CERI's work on trade in educational services jarred at first with many in education uncomfortable with the economic language and stakes at play. The notion that education was emerging as a global business was unpalatable to many. But the analysis revealed the size of the international learning market–around 2.4 million foreign higher education students in OECD countries–and the enormous disparities between the exporters and importers of educational services. Open technologies and the shared creation of knowledge, the implications for intellectual property rights, copyright and business and marketing plans: all have come under CERI's pathfinding spotlight. But CERI has not just looked inside institutions, classrooms and technology. We also took a hard look at what really makes up human capital. For a two-part study, *Understanding the Brain*, CERI brought together neuroscientists and educators to explore a rapidly-burgeoning field of research and to create synergies between disciplines normally worlds apart. As this magazine has reported, we described the brain as "a sculpture carved by experience". We emphasised the importance of understanding adolescence as a period of "high horsepower and poor steering". Furthermore education is not only for the young, as the field of neuroscience is charting how even ageing brains retain a remarkable capacity to learn.

So what of the future? Ambitious new work is examining new millennium learners in the digital age, teacher education for diverse student populations and "learning to innovate" programmes. Publications, seminars and conferences are in the pipeline. CERI will also be leading the educational contribution to the OECD-wide programme on Innovation, developing understanding both of the skills and capacities needed for people and countries to be more innovative and how education and training systems themselves can improve their capacity to innovate.

OECD Secretary-General Angel Gurría defined CERI's mission well at a conference on learning in May 2008: "to identify glimmering but significant signals just off the radar screen, to shed light and bring them into focus; to make connections between different and often novel perspectives; to provide an international forum for developing new ideas and knowledge; and all this with an eye always on policy rather than as isolated academic pursuits."

Not everyone has time to think in a crisis, but one thing seems clear: the world of the future will be even more knowledge driven than ever before. CERI is thinking now about that future, and stands ready to light the way forward for educators and policymakers for many years to come. ■

Some of CERI's thinking over the years can be found in these OECD publications:

- *Recurrent Education: A Strategy for Lifelong Learning*, 1973.
- *The Education of the Handicapped Adolescent: Integration in the School,* 1981.
- *New Information Technologies: A challenge for education,* 1986.
- *One School, Many Cultures*, 1989.
- *Education at a Glance,* 1992 and subsequently.
- *Environmental Learning for the 21st Century*, 1995.
- *Knowledge Management in the Learning Society,* 2000.
- *The Well-being of Nations: the role of human and social capital*, 2001.
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- *Understanding the Brain: The Birth of a Learning Science*, 2007.
- *Giving Knowledge for Free: The Emergence of Open Educational Resources*, 2007.
- All titles available at www.oecd.org/bookshop or by contacting observer@oecd.org
- **See also www.oecd.org/edu/ceri**



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Fighting climate change What do we do?

The UN Climate Change conference in Poznán, Poland in December ended with a mixed scorecard. There was agreement to move to the next level of negotiations, and some clarification on outstanding issues, but little substantial forward movement.

Critics may wonder if all countries are serious about the urgency of tackling climate change. Still, a number of countries and regions laid on the table their own plans to reduce emissions, and despite the slow progress in international discussions, a consensus appears to be building towards at least a basic framework for a new global agreement at the next UN climate summit in Copenhagen in December 2009.

No-one can predict how Copenhagen will go, but we do know that the tools to tackle climate change are available or within reach. It is a matter of finding the international commitment and leadership to put them in place. Some of these tools are outlined in a booklet which the OECD produced for Poznán and which is available online.

The context has become more complicated, with the current global economic turmoil. But while attention and resources are directed at the financial crisis and restoring growth, every day of inaction on greenhouse gas emissions (GHGs) is steadily carrying the planet towards a catastrophe of an immeasurably greater scale.

The good news is, there is time to act. As *Climate Change Mitigation: What Do We Do?* argues, although some climate change is already locked-in, measures taken now would help mitigate the worst dangers, and avoid an

irreversible build-up of greenhouse gases (GHGs).

Importantly, if measures identified by the OECD are introduced now as part of a policy mix, they can be cost-effective and relatively painless to the economy during the initial phase of application. What is needed initially is a clear and long-term policy signal, even if much of the initial action may be low-cost. As was repeated in Poznán and by experts and conferences over the past few years, to delay is to court disaster, and will certainly involve far greater expense.

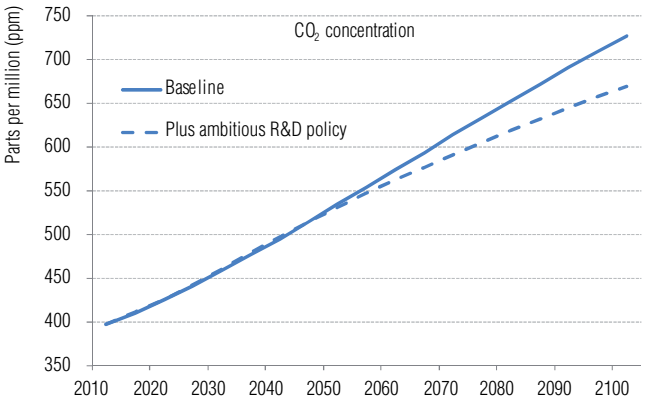
Certainly waiting for a solution to emerge, such as a sustained rise in energy prices to trigger behavioural changes which curb emissions, would not work, as recent oil price declines have testified. Also, coal remains a very important energy source in countries like the US, Germany and China, and non-conventional oils, such as tar sands in Canada, are also being developed. As these are carbon-intensive fuels, any reduction in carbon emissions elsewhere, for example in motor transport, are likely to be simply cancelled out by expanding fossil fuel power generation.

The only hope of meeting the challenge is an ambitious, comprehensive and radical international approach to reducing emissions. A growing worldwide consensus on the need to cut GHG emissions provides hope that an international framework for action could be agreed at Copenhagen. But agreeing to radical measures will need political vision and courage: most long-term models for stabilising GHG concentrations to a level that threatens only a moderate, rather than severe, impact on climate require reaching, over time, worldwide GHG emissions of between one quarter and one third of those in 2005. That will demand a significant effort to transform how our economies produce and consume energy and emit gases.

Such a transformation is economically rational, and the current economic downturn is no justification for delaying

Not low enough

The impact of R&D policies acting alone on CO_2 concentrations



Note: CO_2 emissions excluding emissions from land use, land-use change and forestry. Emissions of non-CO_2 gases are not covered by the model used in this analysis and are therefore excluded from these simulations.

Source: *Climate change mitigation: What do we do?*, OECD 2008

R&D alone would not be enough

the process, the report says. On the contrary, significantly reducing emissions can help to put countries onto a more sustainable growth path over the long term, including by reducing the significant economic and social risks associated with climate change impacts.

An economically rational strategy begins by reducing emissions using the current abundance of cheap options, followed by the gradual introduction of more radical, costly changes. For example, under-utilised technology is available to sharply reduce methane emissions from landfill. There are also many low or even no-cost options for increasing energy efficiency, but information or other market barriers are hampering their uptake. Importantly, this graduated approach would also offer an economic breathing space over the period of the next 10 to 15 years. But a long-term strategy that allows meeting initial targets through such "softer" means is achievable only if it is introduced now.

By first implementing the readily-available, cheaper options, there would be no need to scrap, at significant expense, carbon-intensive facilities such as power generators, well before the end of their life-span. Their replacement later allows for planning investment, and the development of new climate-friendlier technologies.

An effective programme must be comprehensive, both in the number of GHG sources it targets and the geographical spread of countries that adhere to it. As the report states, the costs of incomplete country coverage would be very high, not least because two thirds of GHG emissions worldwide are produced by developing countries outside the OECD, and this output is rising. That is why it is essential that major emitting countries from the developing world also participate in post-2012 climate action if ambitious emissions reductions are to be achieved. Some of the cheaper options for reducing emissions also fall in developing countries, and to keep the overall costs of action low, these opportunities need to be realised. This does not necessarily mean that these

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A transformation is economically rational, and the economic downturn is no justification for delaying the process

countries should pay for the emissions reduction–in many cases, a "decoupling" may be needed between who takes action, and who pays for it.

At present, worldwide GHG emissions, after doubling since the early 1970s, are set to grow by more than 70% between 2008 and 2050. The OECD maps time paths of scenarios with and without GHG reduction strategies, with projections reaching to the end of the century.

The mid-range estimate of global warming by 2100, in the absence of a new reductions policy, is close to 4° Celsius compared with pre-industrial levels. This is likely to produce destructive climatic events and, even if GHG concentrations were subsequently stabilised, global warming would continue during the next century.

One of the emissions mitigation scenarios examined by the OECD sees GHG concentrations on a pathway to stabilise eventually, at a level of about 550 parts per million in the atmosphere. This represents a fairly ambitious reduction strategy, although it is not as ambitious as some of the targets currently being discussed or proposed. The economic model used calculates the likely cost in reducing these emissions.

The scenario shows that, because of the resources that would be transferred from goods and services to GHG mitigation efforts, annual growth of the world economy between 2008 and 2050 would slow by 0.13 percentage points on average. The impact on GDP growth would be small in the early years, increasing significantly as of 2025. So, while under a no-new-policy baseline world GDP would be expected to grow by 300% from 2005 to 2050, under this emission reduction scenario it would instead grow by about 295%. But, the OECD insists, while an ambitious GHG abatement strategy is not cheap, it is economically rational, and would lead to more secure longer term growth.

This abatement strategy is driven by an implicit price of GHG emissions that equalises costs across all emission sources at each point in time. The cost of each successive phase of abatement options would gradually rise. Setting a price on emissions is most obviously found by using either a GHG tax, or a system of cap-and-trade. There are pros and cons in both; taxes provide an immediately clear price for polluters, but governments would be unable to commit to future tax rates. Cap-and-trade provides greater certainty as to resulting emissions, but the permit price can fluctuate through variations in supply and demand.

A successful strategy requires that its cost be equitable, to accommodate the gulf between poor and rich countries, with separately inequitable potential consequences for both. The OECD report outlines options to bridge these problems, although the way ahead remains partially clouded by both the obstacles and the choices.

The report raises more food for thought too. Take carbon leakage, which many people say would happen as one country's efforts to reduce emissions are thwarted

by a lack of action in another. However, *Climate Change Mitigation – What Do We Do?* argues that as more countries take action, leakage rates would rapidly fall to low levels. If just a very small coalition of countries took action, for instance the EU, the authors find that about 20% of the emission reductions in the EU would be offset by emission increases in other countries for a simulation of a 50% reduction in emissions by 2050. However, once the group of participating countries is expanded to include so-called Annex 1 countries to the UN climate change convention–essentially, other OECD countries, Russia and transition countries–this leakage rate falls to 9% of emissions.

The report also serves up a word of warning to those banking on R&D solutions through renewable energy and efficiency. The report agrees these must be part of the solution, but insists R&D alone would not be enough. R&D policies would not be able to stabilise long-run GHG concentrations in the absence of carbon pricing, the authors show, even with very large spending increases and optimistic assumptions about future technologies. This is because cheap abatement opportunities that already exist, such as energy efficiency improvements, would be missed out. Long-run emissions would still exceed the absorptive capacity of our planet. Also, it is unlikely that new technologies, such as carbon capture and storage, would be deployed aggressively enough without a carbon price.

So, can a global reductions strategy work? The OECD believes it can, but sees several conditions to be met. First, it must be credible enough to elicit the necessary behavioural responses for its application, and flexible enough to be able to meet mid-term corrections imposed by unexpected economic and/or environmental factors. The strategy must allow for a degree of de-coupling between where abatement occurs and who pays for it, so as to ensure reductions are achieved where they are cheapest–the low-hanging fruit. But it must still target all GHGs across every sector and among most countries. Above all, it must be implemented now, or the opportunity to act at a price we can still afford will vanish into the haze. ■ *GT/RJC*

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Paraná PART 1
The fast transition to modernity

The Fast Transition

Paraná is one of the 27 states from the Federative Republic of Brazil, bordering Paraguay and Argentina. It posses the largest remains of the araucarias forest, one of the most important subtropical forests of the world. The state occupies an area of 199.314km². State capital is Curitiba, another important cities are Londrina, Maringa and Ponta Grossa. Prana has transformed rapidly within the last 40 years from an agricultural based economy to a service and industry one.

Curitiba: The Green City


Mayor Beto Richa

The capital of Paraná is undoubtedly a city with an immense number of parks and green areas. As a result of its high standard of infrastructure and excellent quality of life, Curitiba is highly praised amongst the Brazilian capitals. It is dominantly a service-oriented city with services representing around 80% of the workforce currently employed. The Development Agency of Curitiba is one of the key instruments in the Municipality of Curitiba and has implemented several programs with the goal of attracting investments for the city. The agency is highly interested in attracting technology-oriented investments with a project for developing a Tech Park already on its way. Mayor Beto Richa has travel internationally in order to spread the word about Curitiba and about the Techno-Park initiative: "Our focus is to profile Curitiba as an attractive city for the installation of companies related to Knowledge and Technology. The government has actively approached potential investors and we are proud that more than 23 companies have signed intention letters to establish themselves on the Techno-Park. This will bring quality employment for our citizens." As part of this Techno Park, a Software Park already holds 21 companies and seven tech-incubators. That in itself has already created more than 63 ventures and currently houses 47 more.

Mr. Richa points out that the Municipal Government has heavily invested in social programs, employment policies, professional education and infrastructure. All of these measures together are meant to generate a higher level of social and economical development: "Curitiba has been recognized in the Brazilian media as one of the top 3 cities with the best infrastructure and the best new business destination."

The Steps Towards Growth With Social Justice

Two of the main challenges that Brazil has faced since the beginning of its industrialization are to minimize the environmental harm that development creates and to balance the unequal distribution of wealth. Achieving sustainable development with a fair distribution of wealth has become the ultimate goal.

Mr. Rodrigo Da Rocha Loures, who is President of the FIEP (Industry Federation of Parana), is a very active proponent of joint action between the private sector and the government in order to reach the social and economic goals of Brazil: "The private sector should work together with the government in order to achieve sustainable development for Brazil." Mr. Loures, who gave an example of a program sponsored by the FIEP called *Forum Futuro 10 Parana*, emphasized: "In this event we were able to get together the main social, entrepreneurial and political leaders to debate the future development of Parana." According to Mr. Loures, this is one of the several programs related to the sustainable development with social justice that the FIEP encourages.

Paraná's industrial transformation

The automotive boom that Brazil is currently experiencing has fundamentally sparked the development of several automotive suppliers, all of which have also experienced tremendous growth during the last few years. That is exemplified by the case of WHB. WHB is a foundry and machining family-owned company that was founded in 1993 on the east side of Curitiba. Mr. Teodoro Hübner Filho, the President and Founder of WHB, details: "Paraná has transformed from an agriculture-based economy to an industrial one. Governor Jaime Lerner was responsible for attracting large industries to the state such as Volvo, Siemens, New Holland and Robert Bosch. It was during these times when we started WHB, which was then a very small operation."

Despite the fact that WHB was small at that time, the company had big goals. In fact, WHB was projected to become the most modern foundry of ductile and gray iron in the Mercosul, serving the incipient automotive industry of the state, according to Mr. Hübner: "After splitting from my brother in 1993, I started WHB. Step by step we started earning clients, with the first being VW. Later came others, such as Ford, Fiat and so on. Obtaining financing was not an easy task. However, we were lucky enough to have had plenty of orders from our clients."


Mr. Teodoro Hübner

"When we started WHB, the vehicle production industry in Brazil was in the region of 700,000 to 800,000 cars per year. Today, it has expanded to over 3 million cars per year." Mr. Hübner is a true believer that quality and the continuous improvement of its production processes though technological advancement are key factors to maintaining the company's competitive edge in today's fast changing markets: "Our clients always request high-performance components. Our aim is always to exceed their expectations."

The company is clearly focusing on high performance added value products. At this moment, machining represents 75% of the sales while the foundering represents the other 25%. Growth and innovation are the driving forces.

"We have a very strong growth rate here at WHB. Revenues have increased by more than 100% during the last 5 years," stated Mr. Hübner. Among the products that WHB produces are cylinder blocks and heads, bedplates, differential cases, gearboxes, rocker arms, brake calipers, suspension parts, axles and transmission cases. All the major car manufacturers and auto part producers, such as VW, Visteon, Peugeot, New Holland, Fiat, Volvo, GM and Iveco, are clients of WHB.

In order to maintain the growth and the quality standards, WHB possesses a large human talent inventory and a dedicated quality-testing center. More than 1800 people work at WHB. The company is very focused on the professional development of its workforce. The company is also opening its own training facilities this year, as the demand for a qualified workforce is high and it also allows current workers to be offered the possibility of bringing their sons to the factory as apprentices. This creates stronger bonds between the company and the company staff.

Cementing success


Gov. Roberto Requião

With the Brazilian construction sector rapidly expanding, companies within that sector are finding it difficult to fulfill the demands of modern development. Parana is in fact home to several concrete production plants, one of which is Cimento Itambé.

Created by a group of entrepreneurs 36 years ago, Cimento Itambé has been a very innovative company throughout its history. The company is dedicated to the production of Portland cement and concrete of several very different varieties for a whole range of purposes. Mr. Paulo Aguiar, General Director at Cimento Itambé, describes the company as one focused on sales to industrial clients and special projects: "These are corporative clients who demand specific characteristics of the product as well as tailor-made solutions."

One of the main initial concerns for the production of cement was the supply of energy. The company envisioned that securing access to an independent supply with low environmental impact was the key to the success of the company early on in its being. In this regard, Cimento Itambé invested in a power plant, along with other parties, and owns a share of 25mw of energy. Part of this capacity for producing energy is used for Itambe's production facility. Mr. Paulo Aguiar, Cimento Itambe's General Director, comments: "Energy supply is a factor that worries the potential investors of large industrial projects. We have secured our electricity needs up to year 2013. That allows us to plan our growth smoothly in the long term."

As the Brazilian economy finally starts to grow, more opportunities arise for investors with infrastructure being one of those most in demand. "Brazil offers a very good pool of investment opportunities; rail transport, highways, ports and energy generation. All these areas require important investments in order to allow and encourage the economy to keep growing," states Mr. Aguiar.

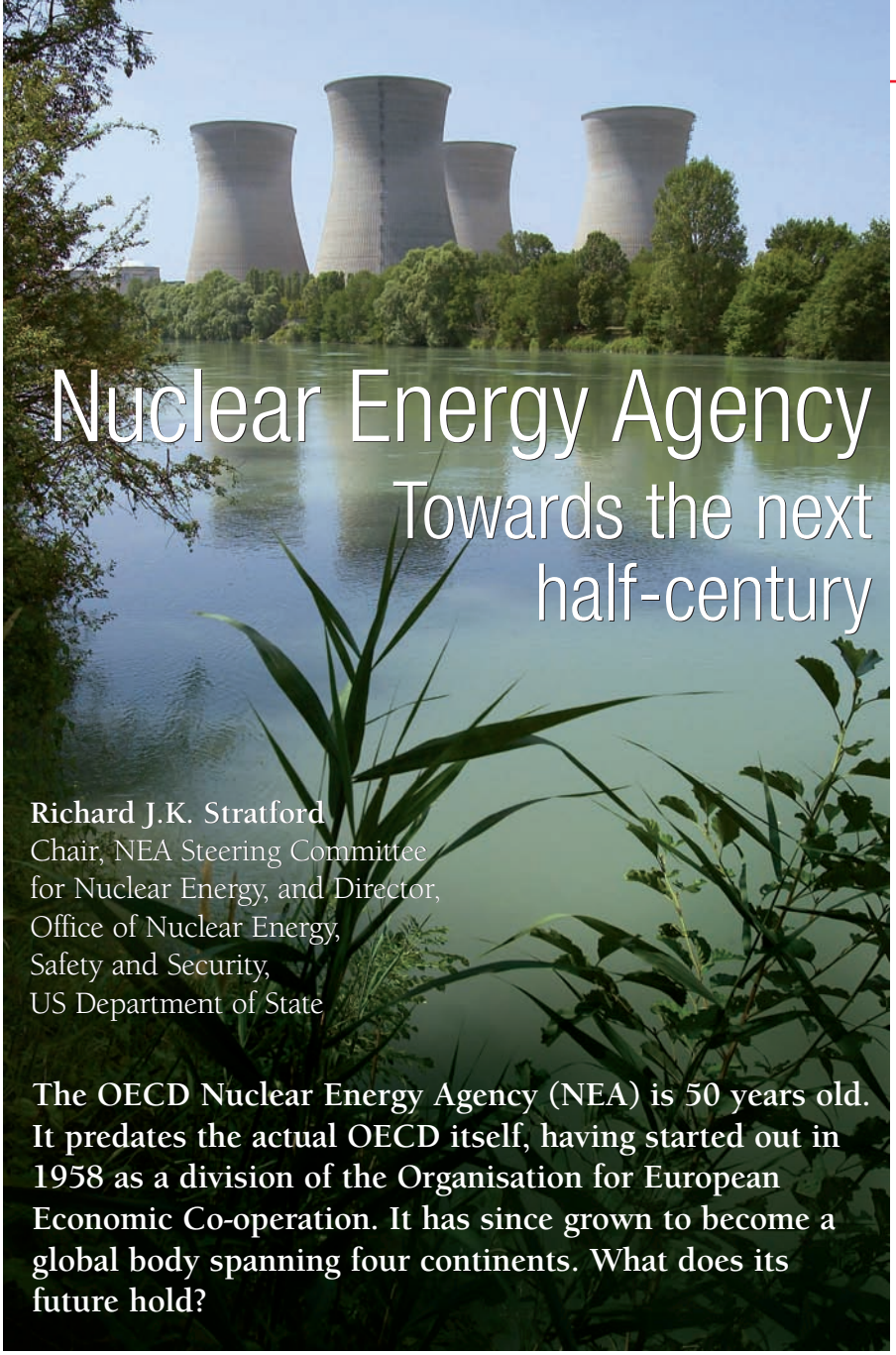

Mr. Paulo Aguiar

Mr. Aguiar also states that it is important for companies to take into account the social and environmental responsibilities that all large construction companies face today: "Any project now days has to take the environment impact that its projects has into full consideration and has to be eco-responsible."

Mr. Aguiar points out that the environmental impact is minimum at Cimento Itambé: "We do not have solid disposals, the liquid ones are totally recycled and the gaseous disposals are minimized by recycling and filtering."

For Cimento Itambé, the implemented environmental protection has been an important issue according Mr. Aguiar: "Our company possesses the most rigorous environmental certifications, such as ISO 14001:2004, and our own environmental program includes ecosystem recovery and environmental education." These programs include active participation with the authorities from the municipalities where the company is active. This includes the likes of Balsa Nova and Campo Largo. This participation is encouraged in order to implement programs for selective trash collection as well as infrastructure refurbishing for health and school facilities in the region.

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Nuclear Energy Agency
Towards the next half-century

Richard J.K. Stratford
Chair, NEA Steering Committee for Nuclear Energy, and Director, Office of Nuclear Energy, Safety and Security, US Department of State

The OECD Nuclear Energy Agency (NEA) is 50 years old. It predates the actual OECD itself, having started out in 1958 as a division of the Organisation for European Economic Co-operation. It has since grown to become a global body spanning four continents. What does its future hold?

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The NEA is a highly specialised agency which has been devoted to developing and maintaining international co-operation in the scientific, technological and legal bases required for the safe, environmentally friendly and economical use of nuclear energy for peaceful purposes.

If the NEA did not exist today, countries with nuclear power would be looking for ways to create something like it. For these countries who believe that nuclear energy is an appropriate component of an effective energy mix, the NEA is the right place for countries to focus together on how to make nuclear energy safer, more economical and more effective. Not all countries believe that nuclear power is an appropriate path to energy security, primarily for environmental and waste management reasons. Yet even some of these countries are NEA members, as they too believe they have an interest in making nuclear power as safe and reliable as possible.

Over the years, the NEA and its larger Vienna-based counterpart, the International Atomic Energy Agency (IAEA) which was founded in 1957, have worked together to make the potential benefits of nuclear energy better serve mankind. The IAEA and NEA missions are complementary, with the NEA focusing on improving the capability and safety of developed nuclear energy programmes among its members, while also looking to co-operate with other countries who are launching programmes of their own.

What are the challenges of the next 50 years? These can best be summed up with a brief set of personal observations, all of which suggest that the NEA can only grow in importance:

First, there is going to be an expansion of nuclear power in developed and developing countries alike.

Second, for developing countries, building infrastructure–including regulatory infrastructure–will be key.

Third, the NEA and the IAEA have complementary roles which are critical in making nuclear power safer, more effective and more economical.

Fourth, the IAEA also has the critical non-proliferation role of applying IAEA safeguards.

Fifth, the phrase "business as usual" is not acceptable for dealing with growth in greenhouse gas emissions.

Sixth, predictions of sharply rising demand for electricity almost certainly call for large increases in base load generation. Recession may slow the growth of demand for power but only for a limited time.

Seventh, fossil fuels are no longer considered the right way to provide large increases in base load electrical generation, both because of emissions and finite supply.

Eighth, renewables (wind, solar) may be helpful at the local level and may become cost effective in small quantities, but in my judgement it's hard to visualise renewables providing power in the 1,000–1,600 MWe range and that's what nuclear power can do.

Finally, the fact that nuclear power is emissions free makes it a useful option for

meeting a growing need for electricity while attempting to stabilise or reduce the greenhouse gas burden on the atmosphere. I believe that we need ambitious nuclear power programmes. But new programmes and expansion of existing programmes are likely to require strong government support, especially given present financial conditions.

Consider the fact that construction costs have sky-rocketed. A few months ago, the CEO of an American company that operated nuclear reactors remarked that they were about to take a decision on building two new nuclear reactors which at that time was in the neighbourhood of US$10-12 billion. Not long ago, a single reactor cost closer to $2 billion. For the CEO it was a particularly difficult decision, because he said that the entire company was only worth $27 billion. Rolling the dice on a bet of $10-12 billion was a sure way to go bankrupt if something went seriously wrong.

Waste management is an issue which we must still face, though efforts are being made to solve that problem. In my judgement the waste management issue is solvable, if not immediately then soon.

The world 100 years from now is not going to be just like today except with different clothing styles, cars with better mileage, and faster airplanes. 2108 is going to be as different from today technologically as we are from 1908. The NEA is 50 years old. Look at the technology of 1950 compared with the technology of today. Given the curve of technological development, the world of 2058, just 50 years from now, is going to be just as different from today as we are from 1950 or 1958.

There is also an ongoing discussion about whether countries could jointly pursue high-level waste disposal. It is a sensitive debate which will likely intensify as the nuclear industry expands, and this is the kind of issue which the NEA can help clarify with its dispassionate data and expertise.

In the meantime, governments will need to continue building infrastructure, to regulate safety and to support and help finance reactor construction. In this rapidly globalising world of the 21st century, governments must expect the NEA to make the same invaluable contribution to nuclear energy over the next 50 years as it has in the last half century. I am sure that with the right support, the Agency can help ensure that the "expansion phase" of nuclear energy in the years ahead is the safest, most reliable and most successful phase in nuclear energy's history. ■

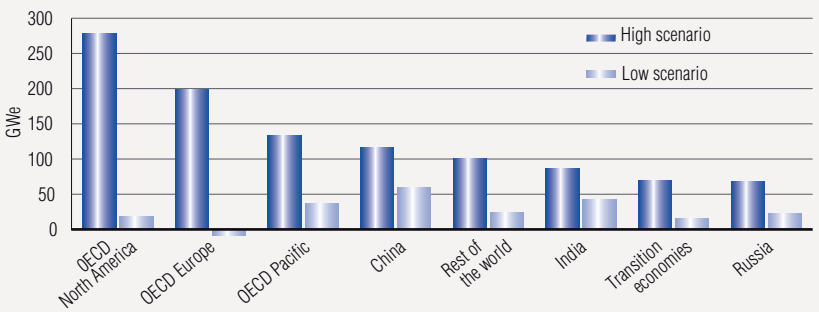
Reactor growth

With energy demand set to rise and pressure to reduce greenhouse gas emissions, what is the potential of nuclear energy to expand? That depends, says the new *Nuclear Energy Outlook* from the NEA. The authors suggests two scenarios to 2050: a low expansion scenario whereby currently declared intentions are not fully realised, leading to limited expansion, with most new plants simply as replacement; and a high growth scenario, based on current plans and government statements. The latter scenario sees an average of 12 new reactors built each year until 2030, **reaching 54 reactors per year in 2030-2050.** All regions show strong nuclear capacity growth, particularly OECD countries. But in the low scenario, the installed nuclear capacity in OECD Europe decreases. China and India show high increases in both scenarios and have the largest capacity additions of all regions in the low scenario.

According to the *Nuclear Energy Outlook,* while total capacity in OECD countries increases by a factor of only three between 2006 and 2050, capacities in China and India rise by factors of 16 and 25 respectively. In the low scenario, capacities do not change significantly in OECD North America and OECD Europe up to 2050. In OECD Pacific, nuclear capacity is projected to increase by around 50% by 2050 and, as in the high scenario, the strongest rates of growth are projected to occur in China and India (by factors of 9 and 12 respectively). Order *Nuclear Energy Outlook* at www.oecd.org/bookshop

Nuclear growth

Projected changes in installed nuclear capacity between 2004 and 2050



Source: NEA, *Nuclear Energy Outlook* 2008

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Nuclear energy in Belgium Still a future?

As countries consider to getting back on board the nuclear bandwagon, Belgium is committed to getting off and closing all its nuclear reactors by 2025. But with its neighbours France and Britain determined to give new impetus to their nuclear energy programmes, will Belgium soon follow suit? Jonathan Andrews talks to Theo Vanrentergem, senior advisor at the Belgian Energy Administration.

Ever since the 1960s, Belgium, lacking in natural resources, was one of the first countries that turned to nuclear power as a way for securing its future energy needs. However with a change of government in 1999, which included the green party, a new law was passed that specified all nuclear plants to be closed between 2014 and 2025.

Belgium's seven nuclear reactors now provide 55% of the country's energy requirements, with imported gas and renewable sources of energy filling the void. This void could grow if the law holds sway and all reactors close.

With the recent European Union (EU) guidelines to reduce greenhouse gas emissions by 20% by 2020, with a corresponding 20% increase in renewable energy supplies, the mood in Belgium is changing, as they grapple with how they will meet these commitments.

"The new EU agreement will be very difficult to achieve if Belgium closes all its nuclear reactors," Theo Vanrentergem argues, who detects a political shift back towards nuclear. "The latest report conducted by the government, *Energy 2020*, has proved that we will not be able to manage without nuclear. To find the gap we could increase gas production, or renewables or coal, but this would be at a price, both to the environment and to the economy."

All sides seem to be holding their breath until June when a new report by independent experts, GEMIX, will be released specifying the future ideal energy mix for Belgium. Although most are betting that the policy will be reversed and the lives of the nuclear power plants will be extended.

"The nuclear power plants could be extended," explains Mr Vanrentegem. Each power plant has a plant life management programme, which can be altered through ways of extending the life through replacing old technologies and updated safety processes. This means plants can last for 60 years or more. Steam generators in all the plants have been replaced, so all are in a good state to last a long time.

"Belgium is leading the way in waste management technology"

The nuclear industry in Belgium is not just focused on providing energy. Belgium, being a groundbreaker in adopting nuclear energy in the 1960s, has continued to lead the way in nuclear technology, waste disposal, decommissioning and medicinal purposes.

"Belgium is leading the way in waste management technology, and soon a depository will be built which will further our research into this area. Through our underground research laboratory we have been able to do many experiments, the quality of which is recognised worldwide," claims Mr Vanrentegem.

Being a leader in these areas, Belgium is not one to shy away from assisting other countries in these processes, to help ensure that safety is paramount.

"We co-operate a lot with the new EU countries in eastern Europe such as Hungary and the Czech Republic. Our focus here is waste disposal and new designs in assisting these operations," claims Mr Vanrentegem.

The Institute for Radioisotopes is one of the best in the world for medical nuclear research, which aim to improve cancer treatments. "We are the leader in producing the isotope 131 (iodine 131) and we are second in the world in producing the isotope Mo99 (molybdenum 99).

"Whatever the decision the government makes, the nuclear industry in Belgium is well placed to moving from 'using it, to not using it'. We are promoting ways and improving ways so that other countries utilise it and reduce the waste and better ways to reduce the waste," says Mr Vanrentegem. ■ *JWA*

Filling the skills gap

Nuclear power is back in the limelight as a possible way to improve energy security, and fight against global warming. But one issue to address, as this magazine has pointed out before, * is how to overcome shortages in skilled personnel brought on by rapid technical advancement and years of non-nuclear policies. Jonathan Andrews talks to Professor Horst-Michael Prasser about a new Swiss programme that aims to train a new generation of scientists to meet the growing nuclear demand.



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Professor Horst-Michael Prasser

"The nuclear energy industry is undergoing a renaissance," says Professor Horst-Michael Prasser, "in which there are great prospects for students." Many countries are now re-starting their nuclear programmes that were stopped after Chernobyl or by the influence of anti-nuclear environmental groups. France is building the first nuclear reactor in western Europe for nearly 20 years, with Britain, Germany and Austria all looking at re-starting their own nuclear programmes.

"Lots of countries that have never had a nuclear energy programme want to introduce this technology too. Poland and Turkey are starting to seriously move in this direction, I see a quite an upcoming growth in nuclear power in Europe," says Professor Prasser.

To help enable the growth of the industry, two of the leading institutions for nuclear research now offer a Master of Science in Nuclear Engineering. Jointly run by the Swiss Institute of Technology Zurich and Ecole Polytechnique Fédérale de Lausanne, students split their time between Zurich and Lausanne over one and a half years.

"The first semester in Lausanne covers fusion technology, research and nuclear engineering. In Zurich we teach more about the technologies, safety and the materials and fuels used," explains Professor Prasser, who runs the course. The next intake of students will begin in autumn this year. The current course includes 12 students coming from Argentina, Greece, Lebanon, US, China and Switzerland.

The classes have an international feel and already companies are contacting students before they finish. "You could almost call it head-hunting if you like," says Professor Prasser. "Some students will stay in Switzerland and work there and others may return home to work in their own country's nuclear industry or companies that they are already in contact with."

The field of employment after completing the course ranges from engineering and operational roles in nuclear utilities, to the vendors and developers of nuclear power plants and other nuclear installations. Students would also be in excellent positions to be political advisers, opinion makers, academics or also to undertake interdisciplinary research in other fields.

"The course won't restrict the students to a narrow field of careers," says Professor Prasser. "It will enable them to start a career outside the field of nuclear energy, such as conventional or hydroelectric power plants and related industries, in industrial companies or medical institutions applying nuclear techniques, and also in research and development in areas such as fluid-dynamics and materials science."

Similar courses are offered in Europe and other parts of the world, but as Professor Prasser emphasises they do not offer the same levels of infrastructure. Training that is included in the course includes working with a small reactor, KROKIS where students can perform hands on experiments. "Both institutions in Lausanne and Zurich have excellent international reputations, and have a rich and long tradition of nuclear education and research in this field. Secondly the students benefit from elective options and excellent infrastructure combined with a great ambience on the two campuses," claims Professor Prasser.

The course also addresses complementarities and synergies between nuclear energy, regenerative energies and efficient energy usage as essential contributions to sustainability.

"In view of the fact that 90% of primary energy is derived from fossil fuels, we should stop and try to counter the opposing view to nuclear energy. Renewables, plus efficiency use of energy, combined with nuclear energy is the only way forward. Otherwise we will not manage to reduce CO_2 emissions or reduce the consumption of fossil fuels."

"The course offered here aims to train the scientists of the future for dealing with a problem of today." ■ *JWA*

The MSc programme is open for application from 16 January to 15 March 2009 (applications via ETH Zurich). The programme starts in the autumn semester 2009.

*See Kaufer, B. (2004) Nuclear energy: Skills and the safety contract, in *OECD Observer*, No 246-247, December 2004-January 2005, available at www.oecdobserver.org

See also NEA (2008), Nuclear Energy Outlook, pp332-327, Paris

Sponsored statement



Why coherence counts for development

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Getting the point

Coherence in policies within countries and between them will be vital to restoring economic growth and development.

Cadmium is extremely toxic to humans. Ingestion or prolonged exposure to this heavy metal can cause fever, chills and muscle aches, and in the most extreme cases, kidney failure. So when the European Commission in 2002 set the permissible level of cadmium in swordfish at 0.05 mg/kg, most people considered it a wise policy choice.

Except in the Seychelles, where swordfish was an important export product to the EU. Why, they asked, did the EU forbid the import in mid-2003 of their swordfish while it permitted the import of crustaceans, oysters and beef liver that could contain up to 1.0 mg/kg of cadmium, or 20 times above the limit set for swordfish? This might have been passed off as an oversight, an error in calculation, until the fishermen went on to note that European vessels were allowed to catch swordfish in those same cadmium-laced waters. It took policymakers almost two years to revise the policy and set cadmium levels at a more reasonable level, thus

allowing the Seychelles to resume exporting swordfish in early 2005.

While all this was being sorted out, however, fishers in Seychelles lost their export earnings and many vessels diversified their activities by targeting sharks for their fins. The intensive fishing of sharks during the ban heightened conservation and management concerns for this vulnerable group.

The OECD has long stressed the importance of policy coherence, not just in fisheries, but in every area of activity, and particularly where development is concerned. Especially today, in the throes of an economic crisis, incoherent policy will only cause matters to get worse. In fact, one could say that the financial crisis is another example of incoherent, non-co-ordinated policies that world leaders are now trying to correct. OECD countries are leading this effort alongside emerging economies such as Brazil, China, India or Russia. If globalisation is to succeed as a vision, the accepted view is that it needs coherent and comprehensive policies to transform it into reality.

High food prices is a salient example of the shiver that runs through a global economy when policy decisions are taken without fully evaluating the possible outcomes: the global prices of many commodities such as rice sparked food riots in several developing countries earlier in 2008, leading governments to limit or even temporarily suspend exports. Crises of this order make it imperative that the sometimes subtle connections between policy and market forces must be identified. Otherwise, the objectives of both will be compromised.

In June 2008, the OECD Ministerial Council Meeting adopted the Declaration on Policy Coherence for Development (PCD). Two of the OECD accession countries, Estonia and Slovenia, adhered to the Declaration. Ministers agreed that global issues such as climate change, trade, food prices and effective aid to developing countries demanded comprehensive and coherent policies. Signatories of the Declaration pledged more dialogue with partner countries and called for more international co-ordination to ensure that the benefits of globalisation are shared more equitably.

But ministers also recognise that countries, peering into the gulf of a major recession, are apt to be more worried about not losing their own balance than in capping emissions or reducing poverty in developing nations. Introducing national reforms is never easy. Already, promoting policy coherence is a challenge within countries, with domestic interest groups and different government departments all with their own agendas to pursue. Convincing governments to consider the effect of reforms beyond their borders, as on those Seychelles fishers, is tougher still. Decision-makers need to be well informed, and need to see the overall costs and benefits of their initiatives before finally spending public money.

In an economic crisis, incoherent policy will cause matters to get worse

One danger to avoid is for an incoherent wrinkle to cause different policies to cancel each other out. Agriculture is a sector where policy is often at odds with itself. Some 75% of the world's poor live in rural areas. Of that, an estimated 86% depend directly or indirectly on agriculture for their livelihood. By contrast, less than 10% of people in OECD countries earn an income directly from agriculture. And while farmers in OECD countries receive support of some US$268 billion, total development assistance from OECD countries to poor nations comes to less than half that, at $104 billon.

Policies on climate change are also a particularly thorny issue for developing countries. There is a correlation between climate change and poverty. The Human Development Report, issued by the United Nations Development Programme, warns that delayed action on climate change will condemn more and more families to poverty and expose the most vulnerable to ecological disaster. OECD reports back this view. Future policies will have to be "climate proofed" if they are not to do more harm than good.

No-one knows exactly how much ground can be lost due to incoherent policy, though we do know that for policymaking, coherence within and across borders pays. Our organisation stands for economic co-operation and development around the world, and helping governments forge coherent development policies is a central part of our job. The adoption of the Declaration in June 2008 gives this mission real political support. If we can use it to help keep policymakers, businesses and other players, whether in fisheries or elsewhere, from tangling their lines and losing their catches as they attempt to restore growth, then everyone can win. And that includes the developing world. ■ *LT*

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- For further information please visit our web site: www.oecd.org/development/policycoherence
- Contact: Raili Lahnalampi, Advisor on Policy Coherence for Development, Office of the Secretary-General

Innovation and globalisation

OECD through its looking glass

Ron Gass*



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Like Alice, the OECD appears to be bursting through to the other side of its looking glass. Change may be the order of the day, but as the organisation approaches 50, lessons from past work on innovation might speak to the current economic crisis.

If progress is at the heart of the OECD role, how can it be defined in the contemporary world of globalisation and rapid change? The historian Arnold Toynbee gives us the clue. The rise and fall of civilisations is explained by Toynbee as the capacity to harness the latest available techniques *and* distribute the benefits to the population at large. In the contemporary world, translate this into the problems of India and China, not to mention the access to nuclear technology for those seeking to catch the train of progress.

It is therefore encouraging that the OECD has placed "innovation" at the centre of its current preoccupations. In this connection it is relevant to recall the results of the major OECD study in 1968 of technological gaps between Europe and the United States, called for by ministers because of the political concerns arising from US dominance of the science-based sectors of industry.

While these gaps clearly existed, the study showed the speed with which leadership positions changed because of the free flow of scientific information, technology transfers between countries and international investment. In the end the technology gap was seen as a management gap. The rise of the Japanese economy was the classical exemplar of this analysis, and today India and China can be seen as moving up the same innovation ladder.

The clear lesson is that where open markets prevail, for capital, technology and human resources, the spread of economic progress will follow. As globalisation progresses, this is likely to be more true than before.

Technological interdependence

But there is a second lesson to be drawn from the study of technological gaps: if innovations are diffused so speedily through international trade, what is the nature of the process and how can it be managed? The life of an innovation, through the research and development process, to a marketable product, and onto the widespread diffusion across frontiers, is essentially international.

Once labour costs dominate the factors of production, it is logical that it will be produced in countries where labour is relatively cheap. This "product-cycle" theory of international trade, which emerged from the technological gaps study, demonstrates the interdependence of countries in bringing innovations from technical originality protected by patents, through to mass markets.

One consequence of the product-cycle is that technology can be sold and bought at various stages of the cycle and, in consequence, a given country has a technological "balance of payments." All countries are involved in this process, and it is interesting to note that, as early as the 1970s, OECD had established pilot-teams in Mediterranean OECD countries, and in Latin America, to work out the strategy for the right balance between investment in research and development and buying in technology from other countries. Clearly, the advanced market economies have to be at the front edge of innovation and change. This is the only place for them in the emerging international division of labour. Job destruction and delocalisation cannot be avoided, and high rates of job creation are thus a sine qua non of success. This is the process of "creative destruction" of which Joseph Schumpeter was the prophet .

The snag is that OECD macroeconomists have historically tended to back Keynes and Friedman rather than Schumpeter. Their focus on static problems of resource allocation in perfectly competitive markets neglects innovation and the role of the entrepreneur. So could it be that OECD's economic foot is still on the wrong side of the mirror?

The former Director of Economics and Statistics, John Fay (later to become the editor of the OECD Observer) used to say to me:

"Ron, there's no such thing as a structural problem." What he meant was that in a perfect market imbalances would be smoothed out by the price mechanism. This impeccable piece of economic theory has played a dominant role in OECD thinking ever since the oil shocks. Even so-called "positive adjustment" and now "structural reform" were viewed mainly as a matter of getting rid of market imperfections—to the point where OECD was seen by some as somewhat doctrinaire.

Now, however, there are clear signs of OECD's evolutionary capabilities. The reviews of national economic policies have shifted substantially towards structural problems. The OECD Jobs Study partly took on the issue of enterprise creation and job creation, a step at least towards Schumpeterian analysis. But the trump card is perhaps OECD's work on long-term techno-economic waves, or K-waves, called after the Russian economist, Nicolai Kondratiev, waves which Schumpeter subscribed to, though which many classical economists reject.

Caution is called for, however. In the first half of the 20th century structural change was largely the result of war and economic depression. Despite globalisation and technological change, the second half was much more stable, to the point where there was debate about the "death" of the economic cycle. Macro-economic policies, and in particular monetary policies à la Friedman, appeared to have been successful in smoothing out the economic cycle. But then came the 21st century, and the financial crisis of 2008 changed the ball-game and put Keynes and government back on the agenda. But beyond this old duel, we are nevertheless in for competition between different models of capitalism–Asian, Islamic, Western, etc–in the race to catch the next K-wave of innovations.

Perhaps the OECD is right in having a foot on both sides of the mirror after all.

"Think global, act local"

Another sign of OECD's evolutionary capability is the shift towards territorially-based policies as a riposte under globalisation. Knowledge-based economies and information societies mean that creativity, innovation and entrepreneurship–going beyond "flexibility"–have to be spread throughout the population. Top-down macro-economic and structural policies need the backing of dynamic regional and local economic and job-creation policies. The mobilisation of endogenous human and cultural resources, rather than redistribution of income via subsidies, is the leitmotif of such policies. The economic culture then leans towards entrepreneurship and initiative, as opposed to assistance.

Powerful trends towards decentralisation, deconcentration and devolution, as exemplified by the slogan "Think global, act local," are at play in the OECD area, and beyond. New forms of governance, based on partnership between central governments, local territorial authorities and civil society are thus emerging. At the territorial level, there are new opportunities for democratic participation, with the aim of maximising citizens' access to information, economic opportunities, and decision-making, which the OECD is equipped to face, with its territorial and entrepreneurship departments.

But there is a rub. Globalisation and innovation produce more wealth, but they also tend to increase social inequalities. Margaret Thatcher's assertion that the market economy could produce the good society has worn thin. So too has the Marxist vision that the economy could be planned to meet social and political goals. The advanced, democratic economies and societies of the OECD cannot avoid the reality that globalisation and innovation are having powerful social effects. But can the OECD, an apolitical "policy pathfinder" help to sort out the societal paradigm?

Indeed, successive secretary-generals have taken significant initiatives themselves. Thorkil Kristensen, the first secretary-general who was in post during the 1968 student revolt, took part in a dialogue with student leaders from all OECD countries, and later submitted ideas to OECD members on "The Problems of Contemporary Society" (see Alexander King's Memoirs, p. 293). Mr Kristensen's successor, Emile Van Lennep established a new department as the "social arm" of the organisation. Then came Jean-Claude Paye, who initiated debates on 'The Active Society," seen as a pathway through the crisis of unemployment and the welfare state. Donald Johnston launched his new paradigm to reconcile the economic, social and environmental parameters of "sustainable development." Today's secretary-general, Angel Gurría, has positioned the OECD as a hub for discussing globalisation challenges, including climate change.

Looking back, one is struck by OECD's capacity to initiate new thrusts based on policy as opposed to party political ideas. Today innovation and globalisation have vast societal implications. We have gone from an "industrial" to a "post-industrial" society, and onto the "information" society. What's next? The heart of the matter could be that the pace of continuing change, resulting from innovation and globalisation, calls for *creative societies*. Indeed, once the current crisis-stricken financial markets are re-shaped, the only path to higher growth and productivity in the real economy will be to continue riding up on the emerging wave of pervasive technologies–in energy, environmental and biological technologies, and communications. "Flexibility", on the other hand, an OECD leitmotif, tends to view people as nothing more than a malleable factor of production. If Charlie Chaplin were to redo "Modern Times" today, he would have a heyday!

The OECD has rightly started a debate on the creative society. The educational sector should now take the lead, because education has always been the institution for preparing the future, as well as transmitting to young people the heritage of the past.

In so doing, it would really take the OECD through the mirror! ■

* Ron Gass is a retired OECD director, and had leading or founding roles in the Science, Industry and Technology as well as Education directorates, including the Centre for Educational Research and Innovation, departments, and more. The views expressed in this article are those of the author. See article on CERI.

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A new reality

Development policy challenges in the current crisis

Today in Doha, we all have a sense of a turning point. This conference is much more than a review of Monterrey. It is an emergency meeting on how to promote, preserve and protect the vital resources identified in Monterrey so that the current economic and financial crisis doesn't turn into a development catastrophe with consequences lasting for decades, long after the crisis is over.

The dramatic failure of the regulatory, supervisory, corporate governance, and risk management frameworks of the financial markets is now impacting the real economy. Countries and families around the world are already feeling the pain. Many developing countries will become even more vulnerable with lower growth, volatile exchange rates and stock markets, higher unemployment and poverty levels, more fragility, weaker health systems and even more difficulties in meeting the MDGs.

At the same time, we must remember that, as an OECD delegate said recently, "a crisis is a terrible thing to waste."

Indeed, the collective response to the crisis and the emergence of the "L20" reflect the acknowledgement of a new reality of power and responsibilities in the global economic governance of the 21st century.

We at the OECD are developing a strategic response to the crisis with two main strands. First, we are focusing on a set of policies, rules and incentives for designing a robust, reliable and flexible financial system. Our second focus is on restoring growth, along a low carbon path, while protecting the most vulnerable among the population.

This crisis has generated major public interventions in financial markets and beyond. At the OECD, we are also beginning to look at an exit strategy for the unwinding of such interventions when conditions allow. Why focus on OECD economies in Doha? Simply because the crisis started in developed countries and the best contribution they can make to developing and emerging economies is to overcome the recession and get on a path of vigorous growth as soon as possible.

In terms of the immediate situation, the OECD members and some non-members have agreed on three important actions:

First, the aid pledge. The members of the Development Assistance Committee of the OECD have reaffirmed their aid commitments and agreed to maintain aid flows at levels consistent with these commitments. This aid pledge should avert the situation of the 1990s, when aid budgets were slashed in the wake of recession.

Second, OECD members have issued a trade pledge, where countries agreed to conclude the Doha Development round with an ambitious and balanced outcome and refrain from policies inconsistent with such an endeavor.

Third, a pledge to maintain official support for trade credits, which have been freezing up at an alarming rate and threatening to shut down normal trade flows.

The Monterrey Consensus must remain a beacon even at this time of repair and reconstruction of the global economic and financial system. And as developing countries become increasingly vulnerable to the crisis, we need to push for sufficient, predictable and effective flows of aid through the implementation of the Paris Declaration and the Accra Agenda for Action. Together they constitute a significant aid reform agenda which needs strong political support.

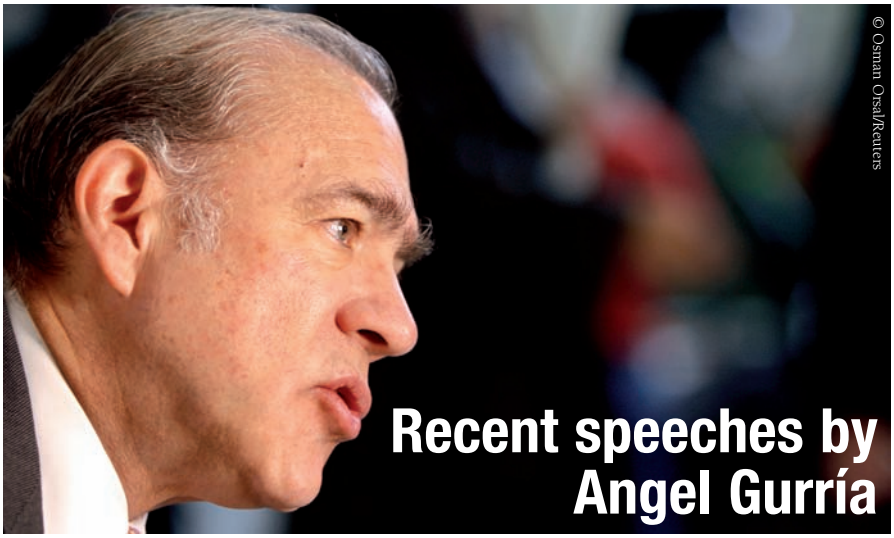
The regional multilateral development banks (the IDB, the AfDB, the ADB, etc.) must be provided by their shareholders with either, more capital, more liquidity or greater flexibility on their gearing ratio so that they can face the increasing demands for credit from emerging and developing economies, given the reluctance of financial markets to extend loans to them.

The World Bank, the IMF, the WTO, the ILO, the UNDP and the OECD, all are dealing with different aspects of the global economic agenda. Thus, the capacity to co-operate and speak with one voice about such issues can be a great contribution to addressing them effectively. We will be working towards that end.

We also need to assure that the crisis does not distract us from focusing on issues such as the food crisis or on climate change, the most important long term challenge of mankind. After all, the duration of the recession will be counted in months, while our climate change policy decisions of today will define the shape of the world for decades.

We at the OECD are working so that Monterrey, Accra, Washington, Doha, Poznan, London, La Madalena, Copenhagen become an articulated, coherent, mutually reinforcing chain of events and decisions leading to a single, simple and clear objective: making the world a better place to live.

Speech by Angel Gurría, Secretary-General of the OECD, at the International Conference on Financing for Development, Doha, 29 November 2008. This and other speeches available at www.oecd.org/speeches
For more on the Paris Declaration and Accra, see www.oecd.org/development
For more on the Monterrey Consensus, see www.un.org/ffd/



Recent speeches by Angel Gurría

For a complete list of speeches and statements, including those in French and other languages, go to www.oecd.org/speeches

The global economy and Turkey: an OECD perspective
15 December 2008
Remarks at a joint conference organised by the Turkish Industrialists' and Businessmen's Association (TÜSIAD), the Foreign Economic Relations Board (DEIK) and the Istanbul Stock Exchange Market (IMKB), Istanbul, Turkey

Why should finance ministers worry about climate change?
8 December 2008
Remarks at a high-level meeting of ministers of finance, Warsaw, Poland

Financing and pricing water
1 December 2008
Introductory remarks at the Global forum on sustainable development, Financing and pricing water: The roles of government policies, the private sector and civil society, OECD Conference Centre, Paris

Development policy challenges in the current crisis
29 November 2008
Speech at the International Conference on Financing for Development, Doha, Qatar

Innovation and sustainable growth in the globalised economy
18 November 2008
Remarks at the OECD - World Bank joint conference on innovation and sustainable growth in the globalised economy, OECD Conference Centre, Paris

OECD welcomes G20 Declaration and offers support
17 November 2008
Speech from Paris

Addressing the financial crisis: a focus on the human dimension
17 November 2008
Speech at the ILO, Geneva, Switzerland

Aid for trade: Making an impact
3 November 2008
Remarks at the OECD Policy Dialogue on Aid for Trade, OECD Conference Centre, Paris

Towards a fiscal policy for development
28 October 2008
Remarks at the launch of the *Latin American Economic Outlook 2009,* San Salvador, El Salvador

Competition law and policy
28 October 2008
Remarks at the launch of the *Peer Review of Competition Law and Policy in El Salvador,* San Benito, San Salvador

Pharmaceutical pricing policy
27 October 2008
Statement at the OECD High-Level Symposium on Pharmaceutical Pricing Policy, OECD Conference Centre, Paris, France

Tax matters
21 October 2008
Remarks at the conference on the Fight against international tax evasion and avoidance, OECD Conference Centre, Paris, France

Growing unequal?
21 October 2008
Remarks at the launch of *Growing Unequal*? at the OECD Conference Centre, Paris, France

Sustainable development
20 October 2008
Statement at the annual meeting of Sustainable Development Experts (AMSDE), OECD Conference Centre, Paris, France

Building the public services of tomorrow with, for and around customers
20 October 2008
Remarks at the fifth European conference on the quality of the public services, OECD Conference Centre, Paris, France

Nuclear thinking for a greener future
16 October 2008
Remarks at the 50th Anniversary of the OECD Nuclear Energy Agency, OECD Conference Centre, Paris, France

Development aid
12 October 2008
Statement to the WB/IMF Development Committee Meeting, Washington DC, US

Sovereign wealth funds
11 October 2008
Remarks at the IMF ministerial-level roundtable on the "Santiago Principles" for Sovereign Wealth Funds, Washington, DC, US

Financial crisis
11 October 2008
Oral statement to the International Monetary and Financial Committee, Washington, DC, US

Competitive cities and climate change
10 October 2008
Remarks at the OECD roundtable on urban strategy of mayors and ministers on "Competitive Cities and Climate Change", Milan, Italy

New ambassadors

17 December 2008 - Johannes Westerhoff is the new ambassador for Germany. He succeeds Matei Ion Hoffmann.

Calendar of forthcoming events

Please note that many of the OECD meetings mentioned are not open to the public or the media and are listed as a guide only. All meetings are in Paris unless otherwise stated. For a more comprehensive list, see the OECD website at www.oecd.org/media/upcoming, which is updated weekly.

DECEMBER 2008 - highlights

1-12 **UN Climate Change Conference**, with participation of the OECD Secretary-General, Poznań, Poland.

15-16 Official visit of the Secretary-General to Ankara, Turkey. Publication of the ***Environmental Performance Review of Turkey***.

17 ***OECD Economic Survey of Korea*** published.

18 ***OECD Economic Survey of the Euro area***, publication launched.

JANUARY

19-20 Official visit of the Secretary-General to Finland to celebrate the **40th anniversary of Finland's accession to OECD**. Helsinki, Finland.

19-21 **Statistical Data and Metadata eXchange (SDMX)**, conference sponsored by the OECD Statistics Directorate, BIS, ECP, Eurostat, IMF, UN and the World Bank. Paris, France.

21-23 **European Business Ethics Forum 2009**, organised by CEA-CED, the ECOA of the US, EBEN and IBE, with participation of the Secretary-General. Paris, France.

21-23 **Energy Efficiency**, workshop organised by the International Energy Agency.

26 **Creating Opportunities: Integration, Work and Social Mobility - European experiences and perspectives**, symposium organised by the German government. Berlin, Germany.

26 "Rencontres économiques avec l'Amérique Latine - Caraïbes", forum organised by the French Ministry for Economy, Finance and Employment, the OECD Development Centre and the Inter-American Development Bank. At the French Finance Ministry. Paris, France.

28-30 **Knowledge and Research in Management in Science, Engineering and Innovation for Development**, conference organised by the Directorate for Science, Technology and Industry.

28-1/2 **World Economic Forum**, annual meeting. Davos, Switzerland.

FEBRUARY

5 **Fair Overall Conditions for a Social and Open Global Economy**, follow-up discussion with the German Federal Chancellor Angela Merkel and the Secretary-General. Berlin, Germany.

9-10 ***OECD Economic Survey of the Slovak Republic*** launched, with participation of the Secretary-General. Bratislava, Slovak Republic.

9-10 **Building Strong Partnerships with the Private Sector for Better Jobs and Inclusion**, meeting of the OECD LEED Forum on Partnerships and Local Governance, organised by the Centre for Entrepreneurship, SMEs and Local Development. Vienna, Austria.

18 **Annual meeting of the NATO Parliamentary Assembly**, with the OECD Secretariat.

19 High-level parliamentary seminar on the **Financial Market Crisis**, organised by the OECD Public Affairs Division.

19-20 Global Forum on **Competition**, annual meeting organised by the Directorate for Financial and Enterprise Affairs.

20-21 **Sustainable capitalism: Finance, commodities and the common good**, conference organised by the Aspen Institute, with participation of the Secretary-General. Rome, Italy.

24-25 **OECD Tractor Codes**, annual meeting organised by the Directorate for Trade and Agriculture.

MARCH

9 **International Women's Day**.

16-22 **5th World Water Forum**, Istanbul, Turkey.

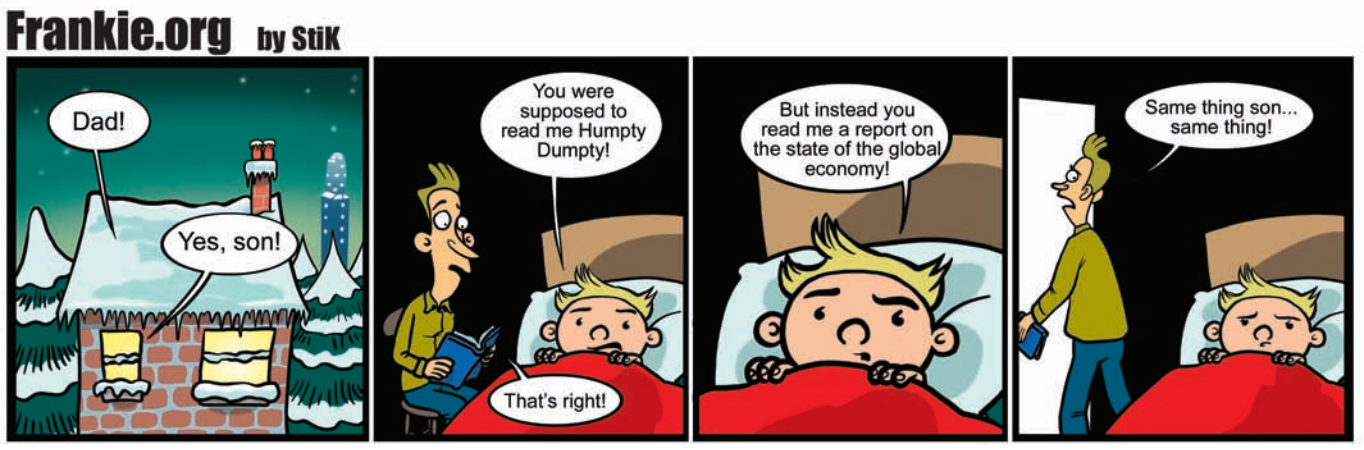
30-31 **Regional Responses to Global Issues**, ministerial meeting of the Territorial Development Policy Committee, organised by the Directorate for Public Governance and Territorial Development.

31-2/4 **Education for Sustainable Development**, conference organised by UNESCO, with participation of OECD. Bonn, Germany.

APRIL

2-3 **OECD Global Science Forum** meets.

25-26 2009 spring meetings of the World Bank Group and the IMF. Washington, D.C., US.



Sustainable reading

Sustainable Development: Linking Economy, Society, Environment



Humanity has few stranger monuments than the *moai* of Easter Island. Weighing up to 270 tonnes, these huge figures, like the pyramids of ancient Egypt, are all that's left of what must once have been a creative and complex society–but a society that also used its resources unsustainably, effectively destroying the ecosystem base of its island home.

Are we following in the same footsteps? That's the question at the beginning of *Sustainable Development*, the second title in the "OECD Insights" series, which aims to discuss current policy problems for non-specialist readers.

With minds currently focused on fixing the global economy, this might seem like a strange time for such a book. But the threat of climate change is as pressing as ever. Our societies clearly need to ask some wider questions, about the impact of economic growth on society and the environment, or indeed, whether growth can deliver solutions to environmental challenges. These are the questions that lie at the heart of the concept of sustainable development: How does growth interact with the environment and the health of our societies? And how will it affect future generations?

Sustainable Development makes clear that there are no easy answers, but it does provide a range of interesting ways to at least start thinking about them. The concept of sustainable development itself is one – i.e., striking a three-way balance between economic, social and environmental goals based on the needs of societies of both today and tomorrow. We don't want to leave a wrecked planet to our heirs, but nor do we want to leave them an impoverished one.

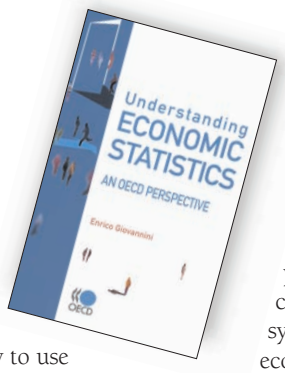
The authors untangle difficult concepts, such as the "water footprint": Did you know that a cup of tea "costs" 30 litres of water to produce, while a cup of coffee costs 140 litres?

As a footnote, *Sustainable Development* was launched in Australia in early December 2008 using print-on-demand technology, which means books are printed in a bookshop only when they are ordered, and not printed in Europe and then shipped to the four corners of the planet. That yielded an environmental saving of almost 6kg in carbon emissions per book. Small change, perhaps, but at least it is a book that practised what it preaches.

ISBN 978-92-64-14778-5

Uncrunching the numbers

Understanding Economic Statistics: An OECD Perspective



As every number cruncher knows, there is a plethora of statistics available in print or online. Very often, the trouble is not how to find the numbers you want, but what to choose and how to use them when you do? How can you be sure about the quality of statistics you find?

Good economic statistics are fundamental for good research and policymaking, and *Understanding Economic Statistics: An OECD Perspective* shows how to avoid confusion and get to the information the user really wants. Its aim is to help readers to better understand how to use economic statistics in general and OECD statistics in particular.

If you want to know how the production of international statistics is organised, who the main data producers are and what databases are available over the internet, this is the book for you. Students and researchers will find it useful in gathering the evidence they need to do their work. The book will help journalists and other analysts evaluate economic trends or assess the effectiveness of policies.

It starts by giving a brief account of how the demand for statistics has evolved over the last 50 years and also takes a look into the future. If you wish to know the difference between a trend, a cycle and a seasonal variation, or how an economic system is defined, or even how the growth of an economy is measured, then this book will tell you. *Understanding Economic Statistics* describes how the international statistical system is organised and tells us who the main producers of economic statistics are. It also contains references to the main databases available on the internet. A whole chapter is entirely devoted to the OECD's own statistical work and shows how to compare the economic structure of OECD countries, or measure innovation or globalisation.

So, can you always believe the numbers you read? This book debates this question and helps distinguish between good and bad data, including official ones. Readers will quickly realise that, much to statisticians chagrin, not all policy decisions are based on them!

ISBN 978-92-64-03312-2

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OECD's twice yearly economic forecast projects weaker growth and higher inflation over the next two years. The *OECD Economic Outlook* makes projections not only for countries in the OECD area but also for selected countries outside the OECD, and includes extensive statistical data, making it a heavily used reference tool for economists worldwide.



In celebration of the 60th Anniversary of the Marshall Plan— from which the OECD was formed—*The Marshall Plan: Lessons Learned for the 21st Century* applies the lessons learned from it to some of the problems confronting emerging market economies and democratic societies. "Long live the spirit of Marshall's vision!" – Thomas C. Shelling, Nobel Prize in Economics 2005.



Among the most heavily used OECD publications by those using Google Books, are various OECD Glossaries, and the *OECD Glossary of Statistical Terms* will undoubtedly also rapidly rise to the top of the list. As one of the foremost producers of economic statistics, OECD is also involved in defining terms and setting standards for the collection of statistics. This book reflects work done by OECD on statistical terms across a variety of fields.

Publications listed on these pages are available at subscribing institutions via our online library, **SourceOECD**, at the URLs indicated. If your institution is not a subscriber, ask your librarian to subscribe today! These publications are also available through the **OECD Online Bookshop** at www.oecd.org/bookshop

ECONOMICS

OECD Economic Outlook No. 84, December 2008
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Statistics, Knowledge and Policy 2007: Measuring and Fostering the Progress of Societies
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EDUCATION



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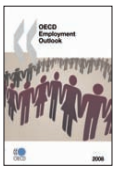


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This year's edition of *Education at a Glance* finds that soaring student numbers are posing challenges for universities across the OECD area. Governments are facing tough decisions on funding and quality standards to ensure that their education systems respond adequately to booming demand for degrees. As always, this fact-filled annual also includes a wealth of data on participation, expenditure and resources, outcomes and governance.



***Trends Shaping Education* looks at how changes elsewhere in our lives,** such as changes in lifestyle and family structure, climate change, the growth of the internet, and the rise in obesity and the use of mobile phones, might affect education. Bursting with facts and figures, it provides a fascinating perspective on education not seen elsewhere.



Employment discrimination is still a big problem in OECD countries. The *OECD Employment Outlook 2008* finds that women are still 20% less likely than men to have a paid job in OECD countries and they earn on average 17% less than men. The Outlook also makes a series of recommendations to alleviate the problem.

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This year marks the 50th Anniversary of the *OECD Model Tax Convention,* which is the model countries (both OECD and non-OECD) use when entering into bilateral tax treaties dealing with instances in which income and capital might be subject to taxation in more than one country. There are now more than 3,000 such bilateral treaties, which give those who engage in activities internationally confidence that they will not be subject to double taxation in those countries with treaties.



Broadband connects consumers, businesses, and governments and facilitates social interaction. Hence, broadband policies are now a vital instrument to ensure the competitiveness of OECD countries and to address pressing societal concerns. *Broadband Growth and Policies in OECD Countries* examines broadband developments and policies, and highlights challenges such as connecting users to fibre-based networks or coverage of rural areas. It also outlines emerging issues that may need policy attention as we move to next-generation networks.



***Pharmaceutical Pricing Policies in a Global Market* examines the national and transnational effects of pharmaceutical pricing policies,** and their implications for the availability of medicines in other countries, the prices of these medicines, and innovation in the pharmaceutical sector.

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OECD's new statistical browser, OECD.Stat is now available on SourceOECD. The OECD.Stat environment provides access to most OECD data in a much more user-friendly environment than was previously available, and provides some new data that was previously not available. With a number of OECD databases now being constantly updated, OECD.STAT allows faster access to new data and updates than was possible before.
Visit it at www.SourceOECD.org/OECDdotStat

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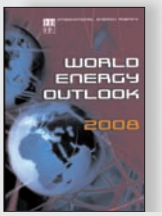
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Babies and Bosses: Balancing work and family life

Building Public Awareness of Development. Communicators, Educators and Evaluation

Focus on energy

HIGHLIGHTS

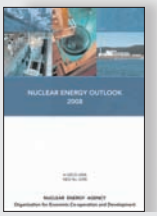


World Energy Outlook 2008

World Energy Outlook 2008 draws on the experience of another turbulent year in energy markets to provide new energy projections to 2030, region-by-region and fuel-by-fuel. It incorporates the latest data and policies. *World Energy Outlook 2008* focuses on two pressing issues facing the energy sector today: prospects for oil and gas Production - including field-by-field analysis of production trends, an assessment of developing new reserves, and a bottom-up analysis of upstream costs and investment—and Post 2012 Climate Scenarios—in which scenarios are presented for two different cases to assess the potential outcome of cap-and-trade policies and various sectoral approaches. With extensive data, detailed projections and an in-depth analysis, *WEO 2008* provides invaluable insights into the prospects for the global energy market and what they mean for climate change.

12-Nov-2008, 600 pages, €150 $231 £117 ¥24 000

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Nuclear Energy Outlook 2008

World energy demand continues to grow unabated and is leading to very serious concerns about security of supply, soaring energy prices and climate change. Nuclear energy is being increasingly seen as having a role to play in addressing these concerns. This Outlook uses the most current data and statistics available and provides projections up to 2050 to consider growth scenarios and potential implications on the future use of nuclear energy.

15-Nov-2008, 460 pages, €105 $161 £81 ¥16 800

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INTERNATIONAL ENERGY AGENCY

Deploying Renewables: Principles for Effective Policies
The IEA estimates that nearly 50% of global electricity supplies will have to come from renewable energy sources if we want to halve CO_2 emissions by 2050. This book examines policies needed to achieve this goal.
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Natural Gas Market Review 2008
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26-Sep-2008, 290 pages, €80 $123 £62 ¥12 800
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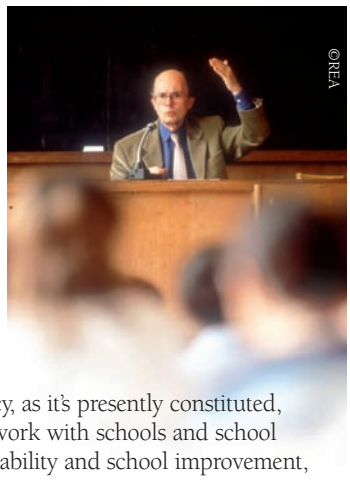
When accountability in school doesn't work

Improving School Leadership

Does accountability always spur better school performance? Not necessarily as people think, as this extract from *Improving School Leadership* explains:

"An even more costly misconception of the main effects view is that schools will do better if they are given clear information about their performance. In this view, delivering clear information to schools and their communities about their performance will have a galvanising effect on the people who work in them, and will cause them to do something they would not otherwise have done to improve teaching and student performance. When I talk to my students and to groups of practitioners about this view of accountability, I ask them to imagine schools, on a grand scale, in which teachers have systematically squirreled away in their classroom closets all their best and most powerful instructional ideas and practices, saving them for the day when the accountability system smacks them on the head. Then, magically, the good ideas come out of the closet and school performance, just as magically, increases.

In fact, people in schools are working pretty reliably at the limit of their existing knowledge and skill. Giving them information about the effects of their practice, other things being equal, does not improve their practice. Giving them information in the presence of new knowledge and skill, under the right conditions, might result in the improvement of their practice, which might, in turn, result in increased student performance. In the 1970s, Thomas Schelling, the Nobel laureate economist, called this distinction, "doing the right thing versus knowing the right thing to do". Accountability policy, as it's presently constituted, makes no such distinction. As I work with schools and school systems around issues of accountability and school improvement, I am constantly amazed at how little they seem to know about things that I consider to be central to the process of school improvement. I want to stress that these are schools that have been operating in a performance-based accountability system for at least a decade."



By Richard F Elmore, Volume 2, page 41, Paris 2008.

ISBN 978-92-64-03308-5

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Economic outlook 2009 2010

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A gloomy outlook

Managing the global financial crisis and economic downturn

Klaus Schmidt-Hebbel, OECD Chief Economist

Many OECD economies are in or are on the verge of a protracted recession of a magnitude not experienced since the early 1980s. As a result, the number of unemployed in the OECD area could rise by 8 million over the next two years. At the same time, inflation will abate in all OECD countries and some even face a risk, albeit small, of deflation.

This *Economic Outlook* represents a substantial downward revision from just a few months ago: many of the downside risks previously identified have materialised. The financial turmoil that erupted in the United States around mid-2007 has broadened to include non-bank financial institutions and has rapidly spread to the rest of the world. Following the collapse of Lehman Brothers in mid-September, a generalised loss of confidence between financial institutions triggered reactions akin to a "blackout" in global financial markets.

Spreads in credit and bond markets surged to very high levels, paralysing credit and money markets. Prompt and massive policy action to restore confidence and provide liquidity appears to have successfully limited the period of panic, but the need for financial institutions to operate with less leverage and to repair their balance sheets remains. This process of adjustment will take time and impair the flow of credit, and is the key factor weighing on activity going forward.

I would like to emphasise upfront that the uncertainties associated with this *OECD Economic Outlook* are exceptionally large, especially those related to the assumptions regarding the speed at which the financial market crisis–the prime driver of the downturn–is overcome. Specifically, we assume that the extreme financial stress since mid-September will be short-lived, but will be followed by an extended period of financial headwinds through late 2009, with a gradual normalisation thereafter. On this basis, as well as our usual assumptions that exchange rates and the oil price are maintained at their recent levels, the main features of the economic outlook are the following:

US output declines through the first half of next year, then gradually picks up as the effects of the credit squeeze abate, the housing downturn bottoms out and monetary policy stimulus takes hold. The recovery, however, is likely to be languid, as consumption is held back by the large losses in households' wealth. Inflation eases significantly, as the recent declines in commodity prices filter through the economy and as economic slack exerts downward pressure on prices.

Euro area activity also falls over the next six months, as tighter financial conditions, subdued income growth and negative wealth effects from lower equity and house prices damp consumption and investment. Economic activity then gradually recovers as monetary easing gains traction and the effects of global financial market turbulence dissipate. Inflation will ease considerably, to reach a level by early next year that is consistent with the ECB's inflation target.

Japan has not been at the epicentre of the financial crisis, but after a brief growth spurt in early 2009 due to fiscal stimulus, output is set to stagnate over the second half of 2009, as the global economic downturn and the recent appreciation of the yen curtail external demand. With persistent economic slack and anaemic wage growth, deflation may return by mid-2009.

Other OECD countries where the economic downturn will be severe include Hungary, Iceland, Ireland, Luxembourg, Spain, Turkey and the UK. These economies are most directly affected by the financial crisis which in some cases has exposed other vulnerabilities, or by severe housing downturns.

The **major non-OECD countries** are in many cases also slowing due to the combined effect of more difficult international credit conditions, earlier policy tightening, income losses due to lower commodity prices, and weaker demand from OECD countries. However, the slowdown in growth is from high levels.

The financial crisis is not the only development shaping the projections. Other important drivers include ongoing adjustments in housing markets, which in many European economies, based on past housing cycles, still have a long way to go. Moreover, they come on top of negative wealth effects from the steep fall in equity prices. Partially offsetting these contractionary forces is the sizeable monetary stimulus, including non-traditional means, recently introduced and built into the projections, and the boost to real household incomes due to sharply lower commodity prices.

Our projections carry both upside and downside risks, but they are skewed to the negative side for 2009. The **dominant downside risks** include a longer than assumed period before financial conditions normalise, further failures of financial institutions, and the possibility that emerging market economies will be hit harder by the downturn in global trade and foreign investor risk re-assessments. The upside risks are less significant, but adjustment in bank balance sheets may advance more quickly in response to the comprehensive and unprecedented policy measures introduced. Also governments may introduce policy stimulus over and above that factored into the projections. For 2010, widespread risks remain, but these are more equally distributed, reflecting the possibility of an earlier economic recovery.

Against the backdrop of a deep economic downturn, additional macroeconomic stimulus is needed. In normal times, monetary rather than fiscal policy would be the instrument of choice for macroeconomic stabilisation. **But these are not normal times.** Current conditions of extreme financial stress have weakened the monetary transmission mechanism. Moreover, in some countries the scope for further reductions in policy rates is limited. In this unusual situation,

fiscal policy stimulus over and above the support provided through automatic stabilisers, which the slowdown triggers via social spending, tax, and so on, has an important role to play.

Fiscal stimulus packages, however, need to be evaluated on a case-by-case basis in those countries where room for budgetary manoeuvre exists. It is vital that any discretionary action be **timely and temporary** and designed to ensure maximum effectiveness. Infrastructure investment is often mentioned as a desirable instrument for stimulus. While it will boost both supply and demand, provided the investments are well chosen, the trouble is infrastructure investment typically takes a long time to be brought on stream and, once begun, is difficult to wind down in line with a recovery in activity. Alternatives, such as tax cuts, rebates or social payments aimed at credit-constrained, poorer households, might prove more effective in boosting demand.

Once there are clear signs of a recovery taking hold, it will be necessary to begin promptly to unwind the macroeconomic stimulus in place to **prevent inflationary pressures** from gaining a foothold. At the same time, with high public debt in many OECD economies, it will be equally important that a credible fiscal framework is in place to ensure long-run **public finance sustainability**, especially in the face of spending pressures associated with population ageing.

Although the concerted efforts taken to stabilise financial markets appear to be working, governments must be prepared to modify them in light of evidence on their effectiveness. They must also be ready to expand them if the need arises. Such support should be limited to sectors or firms that are of systemic importance. Moreover, the now global scale of the financial crisis underscores more than before the necessity for **international co-ordination** to avoid measures that distort competition or effectively shift the problem to other countries. It is equally important that exceptional measures are designed and implemented in ways that allow their orderly removal as conditions in financial markets normalise. Individual countries may find it difficult, acting on their own, to unwind the exceptional measures that are currently needed, again pointing to the need for co-operation. At the same time, steps that encourage mortgage loan workout solutions merit consideration to reduce foreclosures which are costly to all parties involved and thereby lower the risk of further aggravating conditions in financial markets.

Reform of **financial market supervision and regulation** is clearly necessary to build a more resilient financial system. Here, our efforts need to focus on identifying the market imperfections that gave rise to the incentives for excess risk taking and high leverage, as well as the regulatory failures that together caused this unprecedented global financial crisis. This will involve, for instance, strengthening and streamlining the prudential oversight of financial and capital markets, and plugging the gaps and inconsistencies in regulatory regimes. It also requires enhancing transparency of market instruments, transactions, and the governance rules that determine corporate incentives and decisions. The tendency for pro-cyclicality of financial markets and macroeconomic policies also has to be corrected and ideally reversed.

The recent G20 meeting this November initiated an action plan and a process for addressing many of these issues. I welcome, in particular, the commitment of the G20 to continue furthering multilateral co-ordination to overcome the immediate problems facing the global economy and to strengthen the international financial architecture over the medium term. For its part, the OECD will support the global concerted effort to re-launch the world economy. In this context, the OECD drawing on its structural analysis expertise will identify policy reforms that support the functioning and performance of financial markets and policies that promote higher growth.

The reform agenda is comprehensive and the many complex issues involved will take time to address. It will be important, therefore, to remain focused on the objective of strengthening the global financial architecture. While substantial government intervention to support financial markets has proven necessary because of their systemic importance, **back-pedalling on open and competitive markets would prove very costly**, and pressure to move in this direction must therefore be resisted. Indeed, the experience of the past year has highlighted the importance of continuing with structural reforms that boost growth and strengthen the resilience of our economies to better withstand and absorb shocks. In this respect, a quick, successful completion of the Doha Development Round of global trade talks would contribute to supporting world growth, boost confidence, and demonstrate a commitment to competitive and open markets. ■

This article is based on the editorial of *OECD Economic Outlook* No. 84, preliminary edition, November 2008. The sign-off date was 25 November 2008. Order the full edition at www.oecd.org/bookshop
A recent interview with Mr Schmidt-Hebbel, in which he elaborates on this editorial, can be viewed at www.oecd.org/economics

OUTLOOK SUMMARY*

	2008	2009	2010
Real GDP growth (% change)			
US	1.4	-0.9	1.6
Japan	0.5	-0.1	0.6
Euro area	1.0	-0.6	1.2
Total OECD	**1.4**	**-0.4**	**1.5**
Inflation (%)			
US	3.6	1.2	1.3
Japan	1.4	0.3	-0.1
Euro area	3.4	1.4	1.3
Total OECD	**3.3**	**1.7**	**1.5**
Unemployment (% of labour force)			
US	5.7	7.3	7.5
Japan	4.1	4.4	4.4
Euro area	7.4	8.6	9.0
Total OECD	**5.9**	**6.9**	**7.2**
Current account balance (% of GDP)			
US	-4.9	-3.9	-3.6
Japan	3.8	4.3	3.9
Euro area	-0.4	-0.1	0.0
Total OECD	**-1.5**	**-1.1**	**-1.1**
Fiscal balance (% of GDP)			
US	-5.3	-6.7	-6.8
Japan	-1.4	-3.3	-3.8
Euro area	-1.4	-2.2	-2.5
Total OECD	**-2.5**	**-3.8**	**-4.1**
Short-term interest rate (%)			
US	3.3	1.7	2.0
Japan	0.8	0.7	0.4
Euro area	4.7	2.7	2.6
World trade growth (% change)	**4.8**	**1.9**	**5.0**

* Assumptions underlying the projections include:

- no change in actual and announced fiscal policies;
- unchanged exchange rates as from 28 October 2008; in particular 1$ = 95.69 yen and 0.80 euros;
- price of oil for a barrel of Brent crude is fixed at US$60;
- in the US, the target federal funds rate is assumed to be eased to 0.5% early in 2009 and then, as the economic environment begins to improve, interest rates are raised towards the end of 2009 and in 2010 reaching 2.5% by December 2010;
- in the euro area, policy rates are assumed to be eased by 125 basis points by early 2009. They will then remain at 2% until mid-2010 before being gradually raised to around 2.5% by the end of 2010;
- in Japan, the policy interest rate is assumed to remain at 30 basis points in 2009 and 2010.

Note: Cut-off date for other information used in the compilation of the projections is 14 November 2008;

Source: *OECD Economic Outlook*, No. 84, Preliminary edition, November 2008



United States

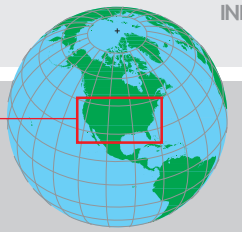
Extreme conditions

The US economy is facing extremely difficult conditions. The financial crisis has intensified at a time when growth had already been weakened by the prolonged housing downturn. A credit crunch is likely to result in a pronounced contraction in activity over the near term and a further deterioration of the labour market. Once financial conditions normalise, GDP growth should resume but at a slower pace than in past recoveries, in part because of negative wealth effects. In response to lower commodity prices and the opening of a large output gap–that is, a shortfall between actual and potential output–inflation should recede significantly to around 1.5% in 2010.

An additional fiscal stimulus package might become desirable in the near term if financial conditions do not quickly improve. Once the crisis has passed, the focus should shift to restoring fiscal sustainability by reducing the budget deficit and tackling the challenge of rising entitlement spending. The unfolding events since mid-2007 have highlighted the need for a major overhaul of financial regulation and supervision, a process which should be started soon to boost investor confidence and thus help to revive the economy.



KEY ECONOMIC FORECAST & INDICATORS

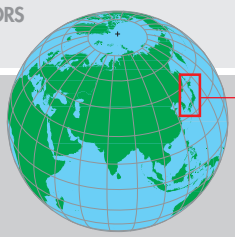


Population (000s) 2006	299 398
Area (000 sq km)	9 376
Currency	Dollar
GDP (Billion US$) 2007	13 776.5
Life expectancy at birth (Women, Men) 2005	80.4, 75.2
Total labour force (000s) 2005	152 672
Government	Federal Republic

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	1.4	-0.9	1.6
Household savings ratio	1.6	2.8	2.5
Consumer price index	4.3	1.6	1.5
Short-term interest rate (%)	3.3	1.7	2.0
Unemployment rate (%)	5.7	7.3	7.5
General government financial balance (% GDP)	-5.3	-6.7	-6.8
Current account balance (% GDP)	-4.9	-3.9	-3.6

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS



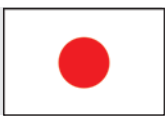


Population (000s) 2006	127 770
Area (000 sq km)	378
Currency	Yen
GDP (Billion US$) 2006	4 273.5
Life expectancy at birth (Women, Men) 2006	85.8, 79.0
Total labour force (000s) 2006	66 570
Government	Constitutional Monarchy

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	0.5	-0.1	0.6
Household savings ratio	3.3	3.5	3.2
Consumer price index	1.4	0.3	-0.1
Short-term interest rate (%)	0.8	0.7	0.4
Unemployment rate (%)	4.1	4.4	4.4
General government financial balance (% GDP)	-1.4	-3.3	-3.8
Current account balance (% GDP)	3.8	4.3	3.9

Source: OECD

Japan

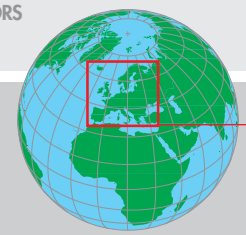


Expansion at an end

External shocks from the run-up in commodity prices and then international financial turbulence have brought Japan's expansion to an end. Equity prices have plummeted and the yen has appreciated substantially. With falling exports, activity is projected to remain weak through 2009, pushing up unemployment and reducing headline inflation to near zero. A recovery in domestic demand is projected to lift output growth to around 1% during 2010, still short of the growth of potential.

The cut in the policy interest rate by the Bank of Japan should be accompanied by measures to support activity by providing sufficient liquidity to the market to limit the impact of financial stress and mitigate deflationary pressures. While the fiscal stimulus announced in late October will cushion the downturn in 2009, it will be important to focus again on fiscal consolidation as the economy stabilises, given the very high public debt ratio and the costs of ageing. Structural reforms to boost productivity, particularly in the service sector, remain a priority to improve living standards in the face of a shrinking working-age population.

KEY ECONOMIC FORECAST & INDICATORS





Euro area



Below potential

The euro area economy has slipped into recession this year, with tighter financial conditions, negative wealth effects, weaker housing market activity and greater uncertainty all reducing domestic demand. Growth is expected to remain below potential until the middle of 2010, before picking-up as the effects of monetary policy easing and the dissipation of stress in global financial markets emerge. Lower commodity prices and the emergence of a sizable negative output gap as production slows below potential will dampen inflationary pressures, with headline inflation projected to fall to around 1.5% during 2009.

With inflationary pressures already easing, there is scope for additional monetary stimulus, which should be prompt to minimise the downside risks to activity. The loss of tax revenues from financial and housing markets and the costs of emergency actions to alleviate financial turmoil will add to budgetary pressures. Any additional discretionary fiscal measures should be well-targetted and, reflecting the need for medium-term fiscal consolidation, temporary. Growth prospects would be enhanced by implementing measures to strengthen the regulatory and supervisory frameworks in European financial markets.

Population (000s) 2007	317 250
Area (000 sq km)	2 456
Currency	Euro
GDP (Billion US$) 2007	12 195.40
Life expectancy at birth (Women, Men) 2003	82.5, 76.7
Total labour force (000s) 2007	151 686

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	1.0	-0.6	1.2
Household savings ratio	9.9	10.6	10.6
Consumer price index	3.4	1.4	1.3
Short-term interest rate (%)	4.7	2.7	2.6
Unemployment rate (%)	7.4	8.6	9.0
General government financial balance (% GDP)	-1.4	-2.2	-2.5
Current account balance (% GDP)	-0.4	-0.1	0.0

Source: OECD



Germany

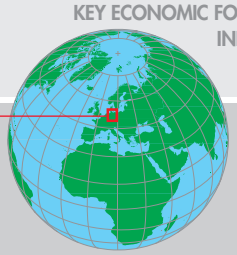
Further contraction

After a strong start into 2008, activity has contracted reflecting muted consumption and weakening export growth. Activity is projected to contract further in 2009 on the back of falling investment spending and weakness in the main trading partner economies. Private consumption will make a small positive contribution to growth because disinflation increases the purchasing power of past wage settlements. Activity is expected to pick up in late 2009 and return towards trend growth rates in the second half of 2010.

The government balance may be around zero again in 2008 but will turn negative next year as income tax revenues suffer and unemployment spending starts to rise again due to deteriorating labour market conditions. Automatic stabilisers should be allowed to operate but discretionary measures that involve long-term spending programmes should be avoided. A stimulation programme should be timely, well targeted and temporary.



KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2006	82 368
Area (000 sq km)	357
Currency	Euro
GDP (Billion US$) 2007	2 768.5
Life expectancy at birth (Women, Men) 2006	82.4, 77.2
Total labour force (000s) 2006	41 521
Government	Federal Republic

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	1.4	-0.8	1.2
Household savings ratio	11.6	12.9	13.0
Consumer price index	2.9	1.1	1.3
Short-term interest rate (%)	4.7	2.7	2.6
Unemployment rate (%)	7.4	8.1	8.6
General government financial balance (% GDP)	0.0	-0.9	-1.0
Current account balance (% GDP)	6.4	6.2	6.1

Source: OECD



France

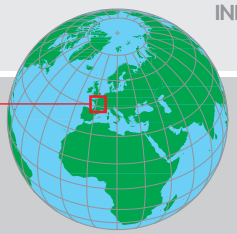
A widening budget deficit

Growth is likely to fall below 1% in 2008 as a whole amid sharply deteriorating global economic conditions in the latter part of the year, due primarily to the financial crisis. The impact of this turbulence will reverberate well into 2009, with negative growth expected until the middle of the year, followed by a gradual pick-up of activity to above-potential rates by mid-2010.

As a result, a significant widening of the general government deficit is expected in both 2009 and 2010, despite the announced tightening of fiscal policy over the next few years, which is projected to result in a modest fall in the underlying deficit. While the government should let the automatic stabilisers operate fully in the short term, the scope for additional discretionary measures is limited by the poor public finance position and prospects. The focus on expenditures control and reform of the public administration should be maintained.



KEY ECONOMIC FORECAST & INDICATORS

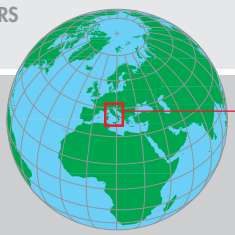


Population (000s) 2006	61 353
Area (000 sq km)	549
Currency	Euro
GDP (Billion US$) 2007	2 080.3
Life expectancy at birth (Women, Men) 2006	84.4, 77.3
Total labour force (000s) 2006	27 575
Government	Republic

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	0.9	-0.4	1.5
Household savings ratio	12.7	13.3	13.2
Consumer price index	3.3	1.0	0.8
Short-term interest rate (%)	4.7	2.7	2.6
Unemployment rate (%)	7.3	8.2	8.7
General government financial balance (% GDP)	-2.9	-3.7	-3.9
Current account balance (% GDP)	-1.6	-1.5	-1.6

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS





Population (000s) 2006	58 435
Area (000 sq km)	301
Currency	Euro
GDP (Billion US$) 2007	1 767.9
Life expectancy at birth (Women, Men) 2004	83.8, 77.9
Total labour force (000s) 2006	24 662
Government	Republic

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	-0.4	-1.0	0.8
Household savings ratio	9.2	9.1	8.4
Consumer price index	3.5	1.5	1.5
Short-term interest rate (%)	4.7	2.7	2.6
Unemployment rate (%)	6.9	7.8	8.0
General government financial balance (% GDP)	-2.5	-2.9	-3.1
Current account balance (% GDP)	-2.6	-2.1	-2.6

Source: OECD



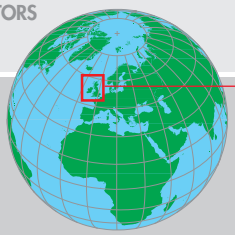
Italy

Recession spreads

The recession in Italy, which began early this year, is likely to extend through much of 2009, as in many other OECD countries. Global financial turmoil hit an economy already weakened by several years of low productivity growth, deteriorating competitiveness and high public debt, though solid job creation and falling unemployment had been bright spots. Recovering confidence towards the end of 2009 should allow output to accelerate significantly during 2010.

After a substantial reduction in the budget deficit in 2007, the fiscal stance turned somewhat expansionary in 2008. The government's three-year budget plan for 2009-11 recognises that high public debt and rising risk spreads leave little choice but to resume fiscal consolidation and the cyclically adjusted deficit indeed shrinks in these projections. But under current circumstances, the automatic stabilisers from lower activity should be allowed to operate as the economy weakens. Cuts in public employment foreseen in budget plans should be carefully implemented so as to contribute to improved efficiency as well as fiscal savings.

KEY ECONOMIC FORECAST & INDICATORS





United Kingdom



Further weakening ahead

Population (000s) 2006	60 587
Area (000 sq km)	245
Currency	Pound
GDP (Billion US$) 2007	2 111.9
Life expectancy at birth (Women, Men) 2005	81.1, 77.1
Total labour force (000s) 2006	29 942
Government	Constitutional Monarchy

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	0.8	-1.1	0.9
Household savings ratio	-0.2	1.1	0.9
Consumer price index	3.7	2.7	1.9
Short-term interest rate (%)	5.6	2.8	2.7
Unemployment rate (%)	5.5	6.8	8.2
General government financial balance (% GDP)	-3.6	-5.3	-6.5
Current account balance (% GDP)	-1.9	-1.5	-2.1

Source: OECD

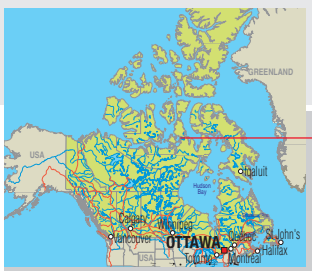
Economic conditions have deteriorated markedly and forward-looking indicators suggest a further sharp weakening in activity over the next quarters. The adjustment in the construction sector is expected to continue, while house prices are likely to fall further. These factors, combined with turmoil in the banking and financial sectors, are already cutting domestic demand. Growth may resume only in late 2009. Unemployment is set to rise rapidly, but should stabilise in 2010. Inflation should recede, reflecting the recent falls in energy and food prices and the increasing output gap.

Given the dramatically weaker outlook and signs that inflation expectations are now declining, the Bank of England should continue to cut its policy rate rapidly, particularly because fiscal policy is constrained by the weak budgetary position. The fiscal rules are likely to be reformulated; it is important to set out a credible plan for putting the public finances on a sound footing as soon as the economy recovers. The comprehensive plan to restore confidence in financial markets is welcome.

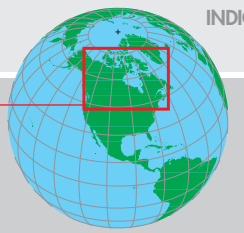


Canada

Slack will grow



KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2006	32 649
Area (000 sq km)	9 976
Currency	Dollar
GDP (Billion US$) 2007	1 259.4
Life expectancy at birth (Women, Men) 2005	82.7, 78.0
Total labour force (000s) 2006	17 654
Government	Confederation

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	0.5	-0.5	2.1
Household savings ratio	2.8	3.5	3.2
Consumer price index	2.6	1.2	1.0
Short-term interest rate (%)	3.5	2.1	2.6
Unemployment rate (%)	6.1	7.0	7.5
General government financial balance (% GDP)	0.3	-1.3	-1.7
Current account balance (% GDP)	0.4	-1.7	-1.4

Source: OECD

The economic downturn that started in 2007, as exports slowed in response to the deflating US housing bubble, continues to worsen. Sharply deteriorating conditions in global financial markets, generalised softness in the US economy and receding commodity prices are amplifying export weakness and dragging down domestic spending. Output has been contracting since August 2008, and slack is projected to grow until the global financial crisis has run its course and external demand bounces back in 2010. The domestic banking and housing sectors are in relatively good shape, however, and no government bail-outs have taken place.

Excess capacity and lower commodity prices are alleviating inflation pressures, allowing the Bank of Canada to boost its expansionary stance. The general government is expected to move into deficit in 2009 and 2010, a largely cyclical outcome that is not alarming and leaves room to absorb eventualities but underlines the need to keep a lid on discretionary expenditure increases.



Australia

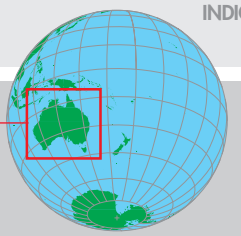
Weaker growth

GDP growth could well weaken from 2.5 % in 2008 to around 1.75 % in 2009 before picking up to 2.75 % in 2010. This would still imply that, despite the depressed international environment, the impact of the financial crisis and the fall in the terms of trade should be relatively contained. Unemployment is likely to increase, however, and inflation may dip below 3% in 2010.

The expected reduction of inflation due to the current slowdown, along with the need to preserve the stability of the financial system, militates for looser monetary conditions. The recent budget measures, made possible by the significant fiscal leeway built in the previous years, will also support activity, although their effectiveness might be limited if confidence is not restored. It is important for the ongoing reform of industrial relations to preserve labour-market flexibility.



KEY ECONOMIC FORECAST & INDICATORS

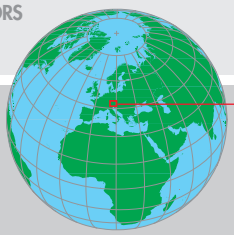


Population (000s) 2006	20 701
Area (000 sq km)	7 687
Currency	Dollar
GDP (Billion US$) 2007	761.3
Life expectancy at birth (Women, Men) 2006	83.5, 78.7
Total labour force (000s) 2006	10 765
Government	Independent Federal State, UK Monarch

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	2.5	1.7	2.7
Household savings ratio	1.4	3.5	3.1
Consumer price index	4.6	3.3	2.4
Unemployment rate (%)	4.3	5.3	6.0
Short-term interest rates	7.1	4.3	5.0
General government financial balance (% GDP)	1.8	0.6	0.3
Current account balance (% GDP)	-5.1	-6.8	-7.4

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS





Population (000s) 2006	8 282
Area (000 sq km)	84
Currency	Euro
GDP (Billion US$) 2007	313.9
Life expectancy at birth (Women, Men) 2006	82.7, 77.1
Total labour force (000s) 2006	4 124
Government	Federal Republic

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	1.9	-0.1	1.2
Household savings ratio	11.8	12.2	12.2
Consumer price index	3.3	1.1	0.8
Unemployment rate (%)	4.9	5.7	6.0
General government financial balance (% GDP)	-1.0	-2.7	-3.5
Current account balance (% GDP)	3.6	3.7	4.0

Source: OECD

Austria

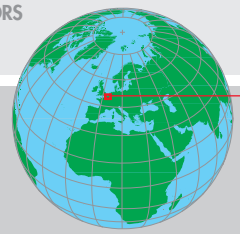


Contracting in 2009

Largely as a result of a worsening external environment, growth has declined and the economy is set to contract in 2009 before recovering in 2010. Headline inflation is projected to ease as energy and food prices fall, economic slack increases and import prices decelerate.

The recent fiscal support measures coupled with the working of the automatic fiscal stabilisers will help limit the extent of the slowdown. Preserving wage moderation will be important to avoid competitiveness losses and inflation pressures. Ensuring financial stability and more international cooperation of financial supervisors are essential, especially in light of the Austrian financial sector's large exposure to Central and South-Eastern European countries and to foreign currency lending.

KEY ECONOMIC FORECAST & INDICATORS





Belgium



Structural measures needed

Activity is projected to contract slightly and, thereafter, growth may remain below potential well into 2010, before rebounding on the back of easier monetary conditions, renewed growth in real incomes and a recovery in world trade. As a result, unemployment will increase over the projection period. Headline inflation should decline with the fall in energy and food prices, although core inflation should show more persistence.

The automatic stabilisers should be allowed to work fully during the downswing, but securing fiscal sustainability over the longer term will at some point require longer-term structural measures to achieve expenditure restraint at all levels of government. Abolishing the automatic wage indexation would allow for a more rapid decline in core inflation.

Population (000s) 2006	10 542
Area (000 sq km)	31
Currency	Euro
GDP (Billion US$) 2007	371.7
Life expectancy at birth (Women, Men) 2006	82.3, 76.6
Total labour force (000s) 2006	4 647
Government	Constitutional Monarchy

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	1.5	-0.1	1.3
Household savings ratio	7.9	8.0	7.9
Consumer price index	4.6	1.9	1.6
Unemployment rate (%)	6.8	7.4	7.8
General government financial balance (% GDP)	-0.7	-1.3	-1.6
Current account balance (% GDP)	-3.3	-2.4	-2.7

Source: OECD



Czech Republic

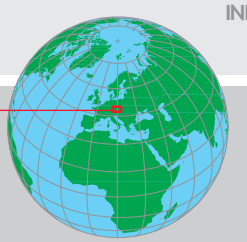
Skills shortage

Growth slowed in the first half of 2008 and is not expected to return to trend again until 2010. The slowdown started with weaker domestic demand in 2008, as the inflation spike eroded consumers' purchasing power, and will continue as export market growth slows. The rebound is projected to be driven by both private consumption and exports. Inflation is expected to decelerate substantially in 2009 as the impact of one-off government measures wears off and global energy and commodity prices fall.

The key impediment to continued high trend growth is a shortage of labour and skills. The government could ease this shortage by further reducing marginal income tax rates and increasing graduation rates from tertiary education. Additional reforms of healthcare and pension systems are needed to ensure fiscal sustainability and enhance efficiency of public spending.



KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2006	10 251
Area (000 sq km)	79
Currency	Koruna
GDP (Billion US$) 2007	246.6
Life expectancy at birth (Women, Men) 2006	79.9, 73.5
Total labour force (000s) 2006	5 199
Government	Parliamentary Democracy

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	4.4	2.5	4.4
Consumer price index	6.6	2.0	2.6
Unemployment rate (%)	4.5	5.2	5.5
Short-term interest rates	4.0	3.9	3.8
General government financial balance (% GDP)	-1.6	-1.9	-1.7
Current account balance (% GDP)	-2.3	-2.9	-3.3

Source: OECD



Denmark

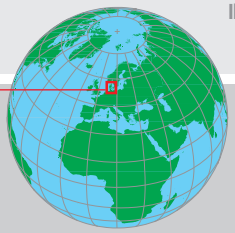
Severe capacity pressures

After years of strong expansion, the construction boom is now over and falling house prices have put an end to debt-financed consumption growth. As the impact of global financial turmoil materialises, exports are likely to remain weak during 2009, leading businesses to cut back investment.

Denmark enters the slowdown with severe capacity pressures and wages rising much faster than warranted by productivity growth. There is thus little need presently for fiscal demand stimulus, especially since monetary conditions are set to ease along with those of the euro area. Aggressive fiscal stimulus to keep unemployment at recent record-low levels would magnify the loss of competitiveness and, ultimately, challenge the stability of the fixed exchange rate regime. This would make it difficult to lower interest rates in line with cuts in the euro area.

KEY ECONOMIC FORECAST & INDICATORS



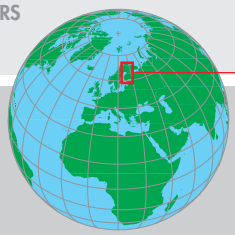


Population (000s) 2006	5.435
Area (000 sq km)	43
Currency	Krone
GDP (Billion US$) 2007	199.1
Life expectancy at birth (Women, Men) 2006	80.7, 76.1
Total labour force (000s) 2006	2 904
Government	Constitutional Monarchy

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	0.2	-0.5	0.9
Household savings ratio	-1.9	-0.7	1.7
Consumer price index	3.5	1.6	1.6
Unemployment rate (%)	3.1	4.0	4.5
Short-term interest rates	5.1	3.2	2.7
General government financial balance (% GDP)	2.4	0.1	-0.6
Current account balance (% GDP)	0.8	0.9	2.0

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS





Population (000s) 2006	5 267
Area (000 sq km)	338
Currency	Euro
GDP (Billion US$) 2007	186.7
Life expectancy at birth (Women, Men) 2006	83.1, 75.9
Total labour force (000s) 2006	2 670
Government	Republic

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	2.1	0.6	1.8
Consumer price index	4.0	1.9	1.6
Unemployment rate (%)	6.2	6.5	6.8
General government financial balance (% GDP)	4.6	3.3	2.7
Current account balance (% GDP)	2.9	2.4	2.5

Source: OECD

Finland

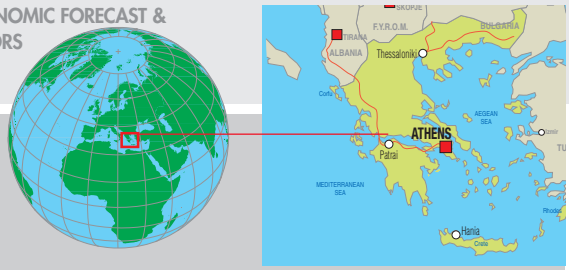


Investment declines

Economic activity has slowed substantially, mainly due to a decline in investment. Output growth is projected to be subdued in 2009, before recovering during 2010. Unemployment is likely to drift up during 2009, but should stabilise in 2010. Lower commodity prices and growing slack in the economy should bring down inflation from the current high rate.

The strong fiscal position provides room for fiscal manoeuvre. While the fiscal surplus is likely to fall considerably during 2009, due to weaker activity and sizeable tax cuts, it should remain close to 3% of GDP in 2010, as the recovery takes hold. Labour market mismatches need to be addressed to ensure a further decline in structural unemployment. The closing of the remaining early retirement schemes would raise employment and underpin fiscal sustainability over the medium term.

KEY ECONOMIC FORECAST & INDICATORS



Greece



Fiscal consolidation should continue

Economic activity has already weakened due to slowing domestic demand. Growth is expected to be subdued until mid-2009 in the context of a sluggish external environment, but to firm gradually thereafter. Inflation is set to decline, but the persistent differential with the euro area is likely to remain.

Despite weaker economic conditions, fiscal consolidation should continue, relying on better control of public spending. A reform of the pension system and greater efficiency in healthcare and public administration are essential. Recent measures to broaden the tax base are welcome. The strengthening of competition in network industries and a reduction in labour market rigidities would help to reduce inflation and improve long-term growth prospects.

Population (000s) 2006	11 149
Area (000 sq km)	132
Currency	Euro
GDP (Billion US$) 2007	324.1
Life expectancy at birth (Women, Men) 2006	82.0, 77.1
Total labour force (000s) 2006	4 880
Government	Republic

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	3.2	1.9	2.5
Consumer price index	4.5	2.7	2.4
Unemployment rate (%)	7.6	8.0	8.2
General government financial balance (% GDP)	-2.8	-2.7	-3.1
Current account balance (% GDP)	-14.5	-13.9	-13.2

Source: OECD



Hungary

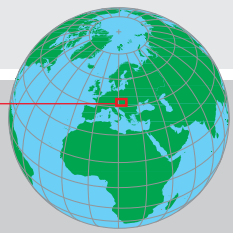
Control financial vulnerabilities

Against the background of global financial turbulence, economic activity is set to decline in 2009, before picking up with the recovery in world trade and with higher confidence following international financing support. Inflation should decelerate towards the 3% target as wage growth remains moderate. The current account deficit should narrow.

Controlling financial vulnerabilities is a key policy priority. The most urgent challenge is to move forward with announced measures to improve banks' risk management (including stress testing), particularly regarding households' large foreign currency exposure. Efforts to restore the sustainability of public finances should continue and past profligacy in election years avoided, so as to provide room for reducing tax and social security wedges when the financial crisis subsides.

KEY ECONOMIC FORECAST & INDICATORS





Population (000s) 2006	10 071
Area (000 sq km)	93
Currency	Forint
GDP (Billion US$) 2007	189.3
Life expectancy at birth (Women, Men) 2006	77.4, 69.0
Total labour force (000s) 2006	4 247
Government	Parliamentary Democracy

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	1.4	-0.5	1.0
Consumer price index	6.4	3.6	3.2
Unemployment rate (%)	7.9	8.9	9.2
Short-term interest rates[1] (% GDP)	8.9	8.3	7.2
General government financial balance (% GDP)	-3.4	-3.6	-3.5
Current account balance (% GDP)	-6.1	-6.1	-5.4

Source: OECD



Iceland

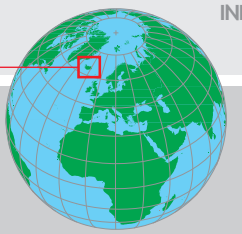
A deep recession

After a long period of unbalanced growth, the Icelandic economy has entered a deep recession following the failure of its major banks. The economy is projected to shrink until early 2010 and unemployment to soar over the next two years. Following a large depreciation of the currency, inflation is projected to spike higher, though to fall back sharply once the exchange rate effects have passed through and the effects of substantial economic slack come to bear. The current account deficit should decline markedly.

The authorities are facing very difficult challenges. Apart from remedying the banking crisis, they will need to ensure that inflation does indeed fall quickly. The central bank's task would be facilitated if wage setters were to look through much of the spike in inflation resulting from the depreciation of the exchange rate. Bank regulation will need to be reformed, including through stricter rules on bank governance, to ensure that a similar crisis does not recur.

KEY ECONOMIC FORECAST & INDICATORS



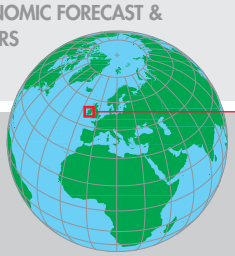


Population (000s) 2006	304
Area (000 sq km)	103
Currency	Krona
GDP (Billion US$) 2007	11.8
Life expectancy at birth (Women, Men) 2006	83.0, 79.4
Total labour force (000s) 2006	175
Government	Constitutional Republic

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	1.5	-9.3	-0.7
Consumer price index	12.1	14.9	6.9
Unemployment rate (%)	2.8	7.4	8.6
General government financial balance (% GDP)	3.2	-1.9	-3.8
Short-term interest rates	16.0	17.1	12.6
Current account balance (% GDP)	-24.0	-13.9	-11.3

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS





Population (000s) 2006	4 233
Area (000 sq km)	70
Currency	Euro
GDP (Billion US$) 2007	185.1
Life expectancy at birth (Women, Men) 2006	82.1, 77.3
Total labour force (000s) 2006	2 114
Government	Republic

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	-1.8	-1.7	2.6
Consumer price index	3.1	0.9	0.9
Unemployment rate (%)	5.9	7.7	7.8
General government financial balance (% GDP)	-5.6	-7.1	-7.0
Current account balance (% GDP)	-6.2	-6.3	-5.2

Source: OECD

Ireland

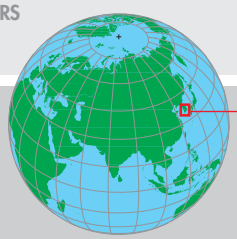


Fiscal revenues slump

Activity is contracting as the severe housing market correction has weakened the wider economy, and the weakness will persist well into 2009. Growth will recover in 2010 as the housing construction cycle bottoms out and the financial turmoil wanes.

To support the stability of the financial system, the ceiling on the deposit guarantee scheme has been raised and the government has introduced a scheme to guarantee bank liabilities. A fiscal deficit has emerged as revenues have slumped. Fiscal policy should be allowed to support demand in the near term but once the recovery is underway substantial measures will be needed to restore medium-term sustainability. Competitiveness needs to be improved; the outline national pay agreement may help but more is required to boost competition in network industries (telecoms, energy, etc) and sheltered service sectors.

KEY ECONOMIC FORECAST & INDICATORS





Korea



Stimulus will mitigate downturn

Korea has been hit hard by the global financial crisis and the earlier commodity price shock, which together ended the expansion and pushed up inflation. Sharp depreciation of the won since mid-September has further clouded the economic outlook. Growth is projected to fall to below 3% in 2009 and then pick up gradually as the world economy improves.

The fiscal stimulus in the 2008 supplementary budget and tax cuts will mitigate the downturn. Monetary policy should focus on supporting activity and financial-market stability until conditions normalise. Foreign exchange market intervention in support of the won is likely to be costly and ineffective in the face of the global financial turbulence, and should therefore be limited to smoothing operations.

Population (000s) 2006	48 297
Area (000 sq km)	100
Currency	Won
GDP (Billion US$) 2007	1 203
Life expectancy at birth (Women, Men) 2006	82.4, 75.7
Total labour force (000s) 2006	23 978
Government	Republic

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	4.2	2.7	4.2
Household savings ratio	3.7	4.2	4.7
Consumer price index	5.0	3.9	2.9
Unemployment rate (%)	3.2	3.6	3.6
Short-term interest rates	5.3	4.1	4.9
General government financial balance (% GDP)	4.8	3.8	3.6
Current account balance (% GDP)	-1.1	0.8	1.0

Source: OECD

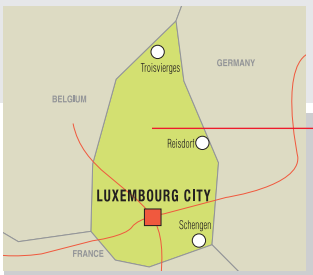


Luxembourg

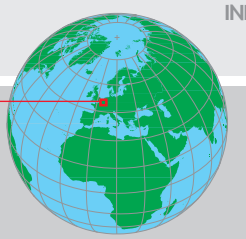
Financial sector hit

The international financial crisis is sharply reducing economic growth, initially in the financial sector, but subsequently in broader domestic demand. These effects should persist into 2010. Consequently, unemployment will rise further, while core inflation will fall slowly.

The automatic stabilisers should be allowed to operate during the downswing, but the government should aim to improve the structural balance over the medium term to secure fiscal sustainability. For 2009, these automatic stabilisers will be largely responsible for moving the budget into a deficit of more than 0.5% of GDP. On the spending side, a focus is to boost social welfare infrastructure. The main uncertainty is the duration and severity of the turmoil on the international financial markets, which will govern the extent of the slowdown in the all-important financial sector.



KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2006	469
Area (000 sq km)	3
Currency	Euro
GDP (Billion US$) 2007	39.3
Life expectancy at birth (Women, Men) 2006	81.9, 76.8
Total labour force (000s) 2006	330
Government	Constitutional Monarchy

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	2.4	-0.5	1.9
Consumer price index	4.5	1.9	1.7
Unemployment rate (%)	4.5	6.5	7.0
General government financial balance (% GDP)	1.6	-0.6	-1.5
Current account balance (% GDP)	6.6	5.1	6.1

Source: OECD



Mexico

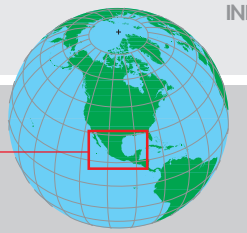
Low oil prices could constrain budget

Economic growth is set to fall well below potential in 2008 and 2009, before gradually recovering in 2010. The weak US economy and a fall in oil production will cut exports over the next several quarters, while the effects of the financial turmoil will depress domestic demand growth. Activity will recover through 2010 as global economic conditions improve. Inflation will return to near the target rate as commodity prices fall, activity slows and monetary tightening keeps expectations anchored, although the recent sharp depreciation of the peso will put upward pressure on prices.

Fiscal policy will be supportive in the near term, cushioning the shocks to demand. However, the balanced budget rule has resulted in spending too much of the oil windfall over the past years, and may now constrain fiscal policy if oil prices remain at lower levels. Gradual loosening of the monetary stance is justified unless the recent depreciation of the peso revives inflationary pressures. To boost longer term growth, reforms should focus on enhancing public spending efficiency, product and labour market flexibility, and competition.

KEY ECONOMIC FORECAST & INDICATORS



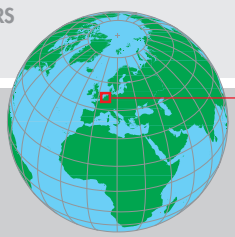


Population (000s) 2006	104 874
Area (000 sq km)	1 996
Currency	Peso
GDP (Billion US$) 2007	1 350.2
Life expectancy at birth (Women, Men) 2006	78.1, 73.2
Total labour force (000s) 2006	43 216
Government	Federal Republic

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	1.9	0.4	1.8
Consumer price index	4.9	5.3	3.8
Short-term interest rates	7.9	7.1	5.9
Unemployment rate (%)	4.1	4.6	4.4
Current account balance (% GDP)	-1.3	-3.1	-3.1

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS





Population (000s) 2006	16 346
Area (000 sq km)	41
Currency	Euro
GDP (Billion US$) 2007	633
Life expectancy at birth (Women, Men) 2006	81.9, 77.6
Total labour force (000s) 2006	8 597
Government	Constitutional Monarchy

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	2.2	-0.2	0.8
Household savings ratio	5.8	5.8	6.1
Consumer price index	2.3	1.8	1.6
Unemployment rate (%)	3.1	3.7	4.1
General government financial balance (% GDP)	1.0	0.0	-0.9
Current account balance (% GDP)	7.2	6.8	6.5

Source: OECD

Netherlands

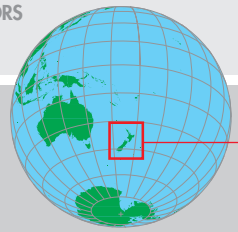


Budget situation to deteriorate

After coming to a halt in mid-2008, growth will turn negative in 2009. The following year a recovery will get under way as stronger domestic demand is underpinned by easier monetary policy, real income growth is supported by lower inflation, and exporters benefit from stronger world trade. However, a tight labour market will create some persistence in core inflation.

Wage pressure would be eased by introducing measures to increase the labour supply. The budget situation will deteriorate over the short-term, but nevertheless the automatic stabilisers should be allowed to work fully. The main domestic downside risk to the projections is that the financial crisis may have a stronger effect on pension assets, forcing pension funds to hike contribution rates in order to guarantee solvency. This would reduce net income growth, jeopardising a recovery in private consumption, as happened in early 2003.

KEY ECONOMIC FORECAST & INDICATORS





New Zealand



Cushioning the downturn

New Zealand has entered recession ahead of other OECD countries, a victim of simultaneous domestic and foreign shocks. The outlook remains subdued because the large macroeconomic imbalances built up over the past decade–inflation, housing overvaluation, high household debt and a huge current account deficit–will take some time to unwind.

Macroeconomic policies are in a good position to cushion the downturn. Tight monetary policy, in place for some time, is now being eased, and a fiscal expansion is starting from a point of significant surplus and low debt. It will be important to maintain the strong inflation targeting and fiscal sustainability frameworks and to facilitate the shift of resources to the tradeables sector. The main risk is the possibility of more costly offshore funding and, in particular, the heightened risk aversion which could cause further reductions in the carry trade, unwanted currency depreciation and higher inflation.

Population (000s) 2006	4 185
Area (000 sq km)	269
Currency	Dollar
GDP (Billion US$) 2007	113.3
Life expectancy at birth (Women, Men) 2006	81.9, 77.9
Total labour force (000s) 2006	2 209
Government	Parliamentary Democracy

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	-0.5	-0.4	1.9
Consumer price index	4.0	2.3	2.1
Unemployment rate (%)	4.0	5.4	6.0
Short-term interest rates	8.3	4.9	5.5
General government financial balance (% GDP)	2.5	-0.6	-1.6
Current account balance (% GDP)	-9.5	-7.6	-6.6

Source: OECD



Norway

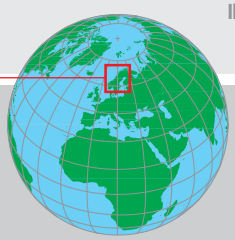
Inflation concern

After the remarkable performance of the past few years, the Norwegian economy is now slowing toward its potential rate of growth. Domestic demand is moderating as a result of the increased cost of borrowing, falling house prices and declining terms of trade. Inflation remains higher than desirable and rising labour costs are undermining competitiveness. The off-shore (oil and gas) sector will continue to support mainland demand through spill-over from oil investment.

The central bank should continue to monitor inflation pressures but pay increasing attention to the impact of financial turbulence on the real economy, as it did recently with successive cuts in policy rates. The structural budget deficit is likely to exceed the 4% rule in 2009 due to adverse stock market effects on the value of the Government Pension Fund. While this is appropriate in current cyclical conditions, fiscal stimulus should remain temporary in view of long-term budgetary challenges.



KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2006	4 661
Area (000 sq km)	324
Currency	Krone
GDP (Billion US$) 2007	260.0
Life expectancy at birth (Women, Men) 2006	82.9, 78.2
Total labour force (000s) 2006	2 446
Government	Constitutional Monarchy

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	2.7	1.3	1.6
Household savings ratio	2.0	5.2	7.0
Consumer price index	3.6	2.5	1.8
Unemployment rate (%)	2.6	3.0	3.3
Short-term interest rates	6.1	4.8	4.3
General government financial balance (% GDP)	20.0	14.0	13.1
Current account balance (% GDP)	16.2	13.3	14.3

Source: OECD



Poland

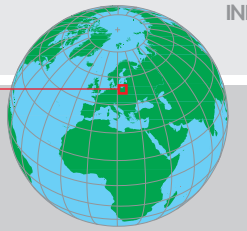
Euro debate intensifies

The pace of expansion decelerated moderately in the first half of 2008 and recent data point to a further weakening of activity. Amid the global slowdown, growth is projected to fall below potential, although income tax cuts should support private consumption. With declining oil prices and persisting, albeit abating, demand pressures in labour and product markets, core inflation is expected to subside more gradually than headline inflation.

Fiscal policy has been somewhat expansionary in 2008, though significant underspending on infrastructure investment has led to an unexpectedly low central government budget deficit. The debate over the adoption of the single currency has intensified. A structural improvement in the fiscal balance and a permanent reduction in inflation are key hurdles en route to meeting the Maastricht criteria.

KEY ECONOMIC FORECAST & INDICATORS



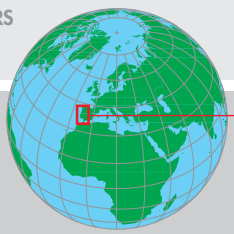


Population (000s) 2006	38 132
Area (000 sq km)	313
Currency	Zloty
GDP (Billion US$) 2007	608.5
Life expectancy at birth (Women, Men) 2006	79.6, 70.9
Total labour force (000s) 2006	16 992
Government	Republic

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	5.4	3.0	3.5
Consumer price index	4.2	3.2	3.6
Unemployment rate (%)	7.2	7.1	7.6
General government financial balance (% GDP)	-2.3	-2.7	-2.9
Short-term interest rates	6.4	6.6	6.6
Current account balance (% GDP)	-5.3	-6.3	-6.3

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS





Population (000s) 2006	10 586
Area (000 sq km)	92
Currency	Euro
GDP (Billion US$) 2007	231.2
Life expectancy at birth (Women, Men) 2006	82.3, 75.5
Total labour force (000s) 2006	5 587
Government	Parliamentary Democracy

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	0.5	-0.2	0.6
Household savings ratio	6.9	7.3	7.4
Consumer price index	2.8	1.3	1.6
Unemployment rate (%)	7.6	8.5	8.8
General government financial balance (% GDP)	-2.2	-2.9	-3.1
Current account balance (% GDP)	-10.9	-10.2	-10.1

Source: OECD

Portugal

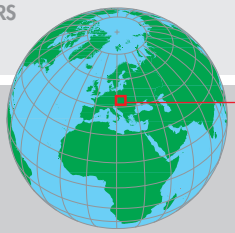


Fiscal position deteriorates

Economic activity moderated in the first half of 2008, as investment and export growth softened. In line with the recent intensification of the financial crisis and expectations of a significant slowing in Portugal's export markets, activity is expected to contract until the second half of 2009, before recovering slowly in 2010. The unemployment rate is set to increase from its already high level. The sizeable negative output gap and lower food and energy prices will reduce inflation.

The fiscal position is likely to deteriorate in 2009 and 2010 as weaker economic conditions reduce revenue growth. Further fiscal consolidation and structural reforms are required in the medium term to strengthen economic performance. Greater public sector efficiency and a more favourable business environment would foster private sector confidence and economic growth.

KEY ECONOMIC FORECAST & INDICATORS





Slovak Republic



Highest growth in OECD

Although the Slovak Republic will continue to maintain the highest growth rate among OECD countries over the next two years, activity is expected to decelerate significantly in 2009. In particular investment spending and trade growth are likely to be adversely affected by the effects of the financial crisis. Growth is envisaged to return to close to its potential rate towards the end of the projection horizon. Inflation rates should decline from their currently high levels, but to stay above euro area levels.

Dealing with the adoption of the euro, which will take place on 1 January 2009, will determine policy priorities. Although the expected slowdown will damp the danger of a boom-bust cycle induced by low real interest rates, fiscal policy should be used cautiously. Rising house prices and household indebtedness should be closely watched.

Population (000s) 2006	5 391
Area (000 sq km)	49
Currency	Koruna
GDP (Billion US$) 2007	107.1
Life expectancy at birth (Women, Men) 2006	78.2, 70.4
Total labour force (000s) 2006	2 655
Government	Parliamentary Democracy

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	7.3	4.0	5.6
Consumer price index	4.4	2.8	2.8
Unemployment rate (%)	9.7	9.4	9.0
Short-term interest rates	4.2	2.7	2.6
General government financial balance (% GDP)	-2.1	-2.0	-1.5
Current account balance (% GDP)	-5.0	-4.1	-2.2

Source: OECD



Spain

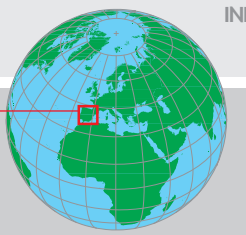
Unemployment will rise

GDP is projected to fall in 2009, as residential construction continues to contract, before recovering modestly in 2010. Unemployment will continue to increase substantially. Inflation should recede as a large negative output gap opens up and commodity prices moderate, while falling imports should significantly reduce the current account deficit.

Discretionary fiscal policy easing of around 1.5% of GDP has been supporting growth in 2008. The automatic stabilisers should also be allowed to operate in 2008 and 2009. Steps will then need to be taken to curb spending pressures in the longer term. Eliminating the indexation of wages to past inflation would preserve competitiveness, mitigating the downward cycle. With potential growth expected to decline in line with lower immigration flows and slowing rises in female participation, further steps to nurture competition in product and services markets need to be taken to increase productivity growth.



KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2006	44 068
Area (000 sq km)	505
Currency	Euro
GDP (Billion US$) 2007	1 377.8
Life expectancy at birth (Women, Men) 2006	84.4, 77.7
Total labour force (000s) 2006	21 585
Government	Parliamentary Monarchy

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	1.3	-0.9	0.8
Household savings ratio	11.2	12.7	13.8
Consumer price index	4.4	1.8	1.5
Unemployment rate (%)	10.9	14.2	14.8
General government financial balance (% GDP)	-1.5	-2.9	-3.8
Current account balance (% GDP)	-9.7	-7.4	-6.4

Source: OECD



Sweden

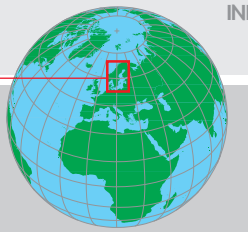
Scope to cut interest rates

The Swedish economy stalled in the first half of 2008 and is expected to weaken in the near term, as the effects of the international financial crisis take their toll. Consumption is projected to pick up late next year as the turmoil subsides and thanks to further income tax cuts and lower interest rates. Export growth should gradually recover as Sweden's export markets expand again. Residential investment is expected to contract, with weaker house prices and confidence compounding unfavourable demographic patterns. Employment and labour force participation are both expected to decline, and labour productivity growth is expected to remain weak in the coming quarters.

With widening slack and lower commodity prices, the Riksbank, Sweden's central bank, has scope to continue to cut interest rates. The announced fiscal easing in 2009 will support demand and is structured to contribute, over time, to improving supply.

KEY ECONOMIC FORECAST & INDICATORS



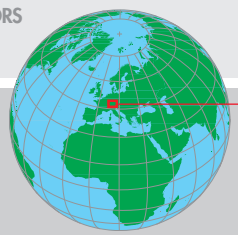


Population (000s) 2006	9 081
Area (000 sq km)	450
Currency	Krona
GDP (Billion US$) 2007	334.1
Life expectancy at birth (Women, Men) 2006	82.9, 78.7
Total labour force (000s) 2006	4 671
Government	Constitutional Monarchy

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	0.8	0.0	2.2
Household savings ratio	9.2	10.3	9.2
Consumer price index	3.5	1.5	1.1
Unemployment rate (%)	6.1	7.0	7.7
Short-term interest rates	3.9	2.1	2.2
General government financial balance (% GDP)	2.8	0.5	0.4
Current account balance (% GDP)	6.5	6.5	6.9

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS





Population (000s) 2006	7 484
Area (000 sq km)	41
Currency	Franc
GDP (Billion US$) 2007	303.7
Life expectancy at birth (Women, Men) 2006	84.2, 79.2
Total labour force (000s) 2006	4 477
Government	Federal Republic

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	1.9	-0.2	1.6
Consumer price index	2.5	1.0	1.1
Unemployment rate (%)	3.5	3.9	4.2
Short-term interest rates	2.7	1.7	1.9
General government financial balance (% GDP)	1.1	0.3	0.0
Current account balance (% GDP)	8.0	9.4	9.8

Source: OECD

Switzerland

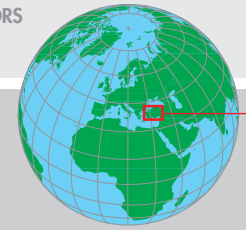


Financial services risk

Economic activity is expected to contract somewhat in 2009, due to poorer export prospects and a diminished contribution of financial services, followed by a rebound in 2010 as global financial market turbulence abates. Inflation is projected to fall back to 1%, reflecting lower oil prices, the opening of an output gap and wage moderation. A further reduction in policy interest rates may be needed, but monetary policy stimulus will have to be withdrawn in the course of 2010. Fiscal policy should allow automatic stabilisers to operate.

Reduced profits of Swiss multinationals abroad, including in the financial sector, are narrowing the current account surplus. As financial services contribute over 12% to Swiss GDP, significantly more than in most OECD countries, a prolonged decline in global activity in this sector would directly affect economic growth and tax revenues.

KEY ECONOMIC FORECAST & INDICATORS





Population (000s) 2006	72 974
Area (000 sq km)	781
Currency	Lira
GDP (Billion US$) 2007	893.7
Life expectancy at birth (Women, Men) 2006	74.0, 69.1
Total labour force (000s) 2006	25 276
Government	Republican Parliamentary Democracy

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	3.3	1.6	4.2
Consumer price index	10.3	8.3	7.6
Short-term interest rates	18.3	15.5	13.7
Unemployment rate (%)	9.7	10.5	10.6
Current account balance (% GDP)	-6.7	-6.1	-5.7

Source: OECD

Turkey



Investor confidence is crucial

The economy slowed in 2008 as weakness in domestic demand was compounded by the international slowdown in the wake of financial market turbulence. Growth is expected to decline to below 2% in 2009 before recovering to 4.2% in 2010, in line with the global recovery.

As the current account deficit is large and the volatility of the exchange rate has considerably increased, supporting investor confidence is crucial. Fuller fiscal transparency and implementing credible spending rules would facilitate the operation of automatic stabilisers without undermining confidence. If systemic liquidity risks emerge in the financial system, the government should be prepared to introduce contingency support mechanisms to preserve the hard-won stability of the financial sector.

Note about the *OECD Observer* snapshots: All GDP values in the tables are at current market prices, adjusted for purchasing power parities. Data in the lower tables come from the *OECD Economic Outlook* preliminary edition. For the upper tables, sources include *OECD in Figures*, *OECD Main Economic Indicators* and other sources.

These country snapshots were brought to you courtesy of the *OECD Economic Outlook,* No. 84, 2008.

The full edition contains more complete analysis and background, as well as a special chapter on inflation and commodity prices. It is packed with useful graphs and statistics from the OECD's renowned databank.

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Brazil

Inflationary pressures

The expansion that gathered pace during 2007 was sustained in the first half of 2008, although activity appears to be slackening owing to a worsening of financial conditions. Domestic demand has been the main driver of growth. The trade surplus is shrinking, essentially due to buoyant demand for imports, and the current account has shifted into deficit. Dynamism in the labour market continued to deliver robust job creation. Inflation picked up considerably through mid-year.

Further monetary tightening is expected in the near term, despite a falling output gap in 2009, to quell the inflationary pressures arising from a sharp exchange rate depreciation. The primary budget surplus target is expected to be met, although the 2009 draft budget law calls for further increases in expenditure. Reversing the trend of increasing public spending is among Brazil's main macroeconomic policy challenges.



KEY ECONOMIC FORECAST & INDICATORS

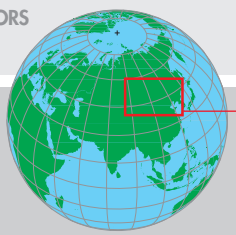


Population (000s) 2007	189 370
Area (000 sq km)	8 515
Currency	Réal
GDP (Billion US$) 2007	1 313.9
Life expectancy at birth (Women, Men) 2007	76.5, 69
Total labour force (000s) 2006	98 846
Government	Federal Republic

	2008	2009	2010
	% change unless otherwise indicated		
Real GDP growth	5.3	3.0	4.5
Inflation (CPI)	6.3	5.3	4.5
Fiscal balance (% of GDP)	-2.0	-1.8	-0.9
Primary fiscal balance (% of GDP)	4.3	3.8	3.8
Current account balance (% GDP)	-1.7	-2.2	-2.4

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS





Population (000s) 2007	1 321 300
Area (000 sq km)	9 597
Currency	Renminbi
GDP (Billion US$) 2007	3 281
Life expectancy at birth (Women, Men) 2006	74, 70
Total labour force (000s) 2007	786 450
Government	Communist state

	2008	2009	2010
	% change unless otherwise indicated		
Real GDP growth	9.5	8.0	9.2
Inflation	5.0	2.5	2.7
Consumer price index	6.1	3.0	2.5
Fiscal balance (% of GDP)	2.0	0.8	1.0
Current account balance (% GDP)	9.7	9.4	9.1

Source: OECD

China

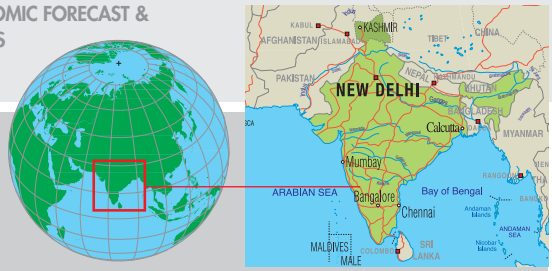


Growth slows

GDP growth has fallen, from a peak of nearly 12% to a pace in the high single digits. Export growth is weakening and, with slower capital formation, domestic demand is also projected to ease in 2009, before recovering in 2010. Disinflation is on course to continue, in part due to moderating commodity prices but also reflecting slower output growth.

The fiscal position is healthy and, even though the government has already introduced a package to stimulate demand, income tax cuts could also be considered. With headline inflation declining, monetary policy has scope to further offset the impact of the global downturn, following recent interest rate cuts. Lower inflation also provides an opportunity to realign energy prices with underlying costs; major hikes in electricity prices are required to alleviate shortages and stimulate much-needed investment spending in the sector.

KEY ECONOMIC FORECAST & INDICATORS



India



Fiscal retrenchment?

Growth has continued to slacken to under 8% by the second quarter of 2008. Inflation is high, driven by commodity prices, but the peak appears to have passed. The current account deficit has risen substantially and there is downward pressure on the exchange rate. The economy is projected to slow further over the next year and to recover in tandem with the world economy in 2010.

Unchecked fiscal spending during the expansion has left the Indian authorities with little room for manoeuvre in the ongoing slowdown. At the same time, foreign institutions have become more reluctant to invest in India. A period of fiscal retrenchment seems desirable, focused on making government subsidies available only to those in real need.

Population (000s) 2005	1 091 000
Area (000 sq km)	3 287
Currency	Rupee
GDP (Billion US$) 2007	1 006
Life expectancy at birth (Women, Men) 2006	66, 63
Total labour force (000s) 2005	470 794
Government	Democracy

	2008	2009	2010
	% change unless otherwise indicated		
Real GDP growth	7.0	7.3	8.3
Inflation	10.4	5.0	4.0
Consumer price index	10.3	6.0	4.5
Short-term interest rate	10.2	8.7	7.5
Long-term interest rate	8.6	7.8	8.1
Fiscal balance (% of GDP)	-9.5	-10.0	-9.5
Current account balance (% GDP)	-3.2	-2	-2.0

Source: OECD

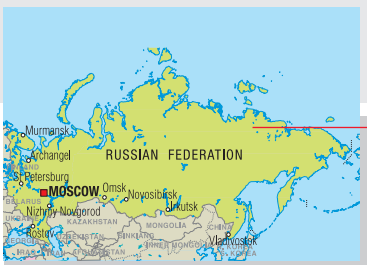


Russian Federation

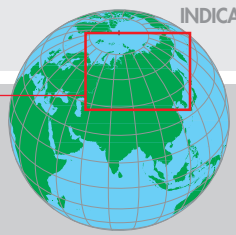
Worsening balances

The fall-out from the global financial crisis will sharply reduce real GDP growth in Russia through 2009, with a pick-up expected in 2010. With a reversal in the substantial rise in oil and metal prices, the pattern of terms of trade gains fuelling rapid growth in domestic demand has come to an end. Inflation has risen strongly, but may now have peaked and should decline in 2009-10. Fiscal and current account balances are expected to worsen sharply.

Policy challenges will multiply in a new environment of more binding fiscal constraints. At a minimum, less economically efficient forms of stimulus, like reducing the rate of value-added tax, should be resisted. As to monetary policy, countering the effects of short-term speculative capital outflows on the exchange rate is justifiable, but reserves should not be run down to postpone adjustments warranted by economic fundamentals. The authorities have responded decisively to threats to banking system stability, but further action, including improved co-ordination with foreign regulators given the global scale of the problem, may be needed.



KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2007	142 000
Area (000 sq km)	17 098
Currency	Rouble
GDP (Billion US$) 2007	1 289.5
Life expectancy at birth (Women, Men) 2006	73.2, 60.4
Total labour force (000s) 2007	75 046
Government	Federation

	2008	2009	2010
	% change unless otherwise indicated		
GDP growth	6.5	2.3	5.6
Inflation	13.6	7.5	6.5
Fiscal balance (% of GDP) (b)	5.5	-1.8	-1.2
Current account balance (% GDP)	6.5	0.5	-0.8

Source: OECD



Chile

Expansion moderates

After several years of robust expansion, activity is projected to moderate and inflation to recede. The slowing world economy, tighter financial conditions and lower investments in mining and energy will all slow growth. Inflation will decline gradually as second-round wage increases from high commodity prices wear off and expectations are re-anchored to the central bank's target. Past current account surpluses have disappeared as copper prices have retreated from high levels.

To ensure an orderly decline in inflation, policies should remain prudent. Depending on world macroeconomic and financial developments, a gradual loosening of the monetary policy stance may be warranted unless the recent depreciation of the peso revives inflationary pressures. The fiscal rule provides an appropriate mild countercyclical cushion to activity.

KEY ECONOMIC FORECAST & INDICATORS



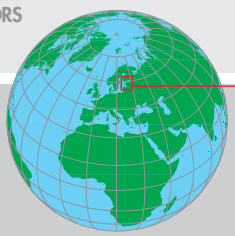


Population (000s) 2007	16 600
Area (000 sq km)	757
Currency	peso
GDP (Billion US$) 2006	145.8
Life expectancy at birth (Women, Men) 2005	81.4, 75.4
Total labour force (000s) 2006	6 803
Government	Representative democracy

	2008	2009	2010
	% change unless otherwise indicated		
Real GDP growth	3.9	2.6	3.1
Inflation (CPI)	8.0	5.6	3.8
Fiscal balance (% of GDP)	7.0	1.5	1.6
Structural fiscal balance (% of GDP)	0.5	0.5	0.5
Current account balance (% of GDP)	-1.6	-2.9	-2.6

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS





Population (000s) 2007	1 342
Area (000 sq metres)	45.2
Currency	Estonian Kroon
GDP (Billion US$) 2007	20.897
Life expectancy at birth (Women, Men) 2007	78.73, 67.13
Total labour force (000s) 2007	687.4
Government	Parliamentary Republic

	2008	2009	2010
	% change unless otherwise indicated		
Real GDP growth	-1.9	-2.0	2.9
Inflation (harmonised CPI)	10.7	5.1	3.2
Fiscal balance (% of GDP)	-0.7	-2.4	-1.4

Source: OECD

Estonia

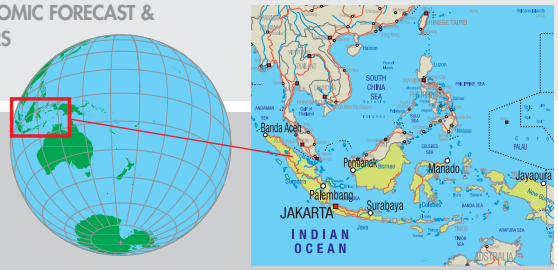


Drop in demand

Real GDP will continue to decline in 2009, reflecting mostly a sharp drop in domestic demand, as gross fixed investment is expected to drop in real terms by over 6% and consumer spending by 1.6% compared with 2008. Growth is projected to gradually pick up by the end of 2009 and into 2010, driven by stronger exports. Currently high inflationary pressures are expected to weaken in 2009, but the past real exchange rate appreciation will make the desired export driven recovery challenging.

The currency board and the government's commitment to the balanced budget rule limit macroeconomic policy options to support the recovery. More labour market flexibility, in particular more rapid wage adjustment and higher regional mobility, would be desirable in this context.

KEY ECONOMIC FORECAST & INDICATORS



Indonesia

Demand will buoy economy

Strong domestic demand continued to underpin growth in the first half of 2008. Investment was particularly robust. Imports are growing faster than exports, but the trade and current accounts are still in healthy surpluses. Inflation rose substantially following a hike in regulated domestic fuel prices in May.

Domestic demand, especially private consumption, is set to remain the main driver of growth in 2009. Exports are also likely to continue to perform reasonably well, despite the slowdown in global demand and falling commodity prices. Monetary policy is being tightened and measures to tackle worsening credit conditions are being taken. Outlays on fuel-price subsidies are being contained but the budget will continue to be vulnerable to fluctuations in international energy costs in the absence of a formal mechanism for adjusting domestic fuel prices.

Population (000s) 2007	224 900
Area (000 sq km)	1 919
Currency	Rupiah
GDP (Billion US$) 2007	432.8
Life expectancy at birth (Women, Men) 2006	70.0, 66.4
Total labour force (000s) 2007	109 200
Government	Republic

	2008	2009	2010
	% change unless otherwise indicated		
Real GDP growth	6.2	5.4	6.0
Inflation	12.0	7.0	6.0
Fiscal balance (% of GDP)	-1.3	-1.5	-1.5
Current account balance ($ billion)	4.0	3.0	2.0
Current account balance (% GDP)	0.8	0.5	0.3

Source: OECD

Israel

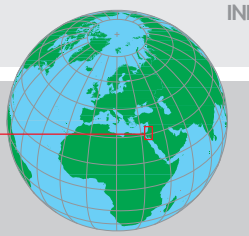
Monetary easing

Global financial turmoil is deepening the slowdown, with the pace of economic activity not expected to pick up substantially before the latter part of 2009. The central bank has already cut its policy rate in reaction to the crisis in financial markets.

Monetary policy should remain biased towards easing in the near term. Further ahead, assuming a relatively trouble-free recovery from the financial crisis, the policy stance should tighten. Consideration of an increase in the fiscal spending ceiling should be put on hold in light of the increased economic uncertainty. Weaker GDP growth and completion of the schedule of tax cuts imply that revenue increases will be low in 2009 and 2010. The impact of the global credit crunch on the economy could be more pronounced than projected.



KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2006	7 116.7
Area (000 sq km)	22.1
Currency	New Israeli shekel
GDP (Billion US$) 2007	164
Life expectancy at birth (Women, Men) 2006	82.2, 78.5
Total labour force (000s) 2006	2 809.7
Government	Parliamentary democracy

	2008	2009	2010
	% change unless otherwise indicated		
Real GDP growth	4.7	2.0	3.8
Inflation	4.8	3.0	1.5
Fiscal balance (% of GDP)	-1.5	-1.9	-1.3
Current account balance (% of GDP)	2.6	3.0	3.1

Note: For technical reasons, this table uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

Source: OECD and Israel Central Bureau of Statistics



Slovenia

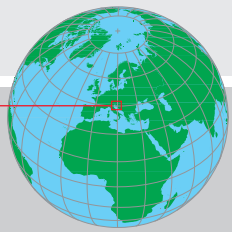
More competition needed

Economic activity is likely to slow significantly in 2009, driven in particular by a sharp deceleration in investment in construction. The following year, economic growth should return toward trend as both fixed investment and private consumption recover. Headline inflation is expected to subside due to falling commodity prices, although planned public wage increases will exert upward pressure on core inflation.

With European Central Bank monetary policy likely to remain accommodating for Slovenia during the projection period, the fiscal policy stance should remain at least neutral to avoid adding to inflationary pressures. Competition in product markets needs to be nurtured to help reduce prices and improve productivity.

KEY ECONOMIC FORECAST & INDICATORS



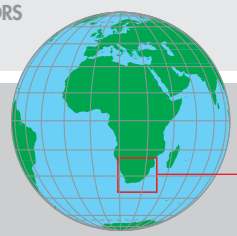


Population (000s) 2007	2 019
Area (000 sq metres)	20
Currency	Euro
GDP (Billion US$) 2007	45.9
Life expectancy at birth (Women, Men) 2006	81.9, 74.8
Total labour force (000s) 2006	1 030
Government	Republic

	2008	2009	2010
	% change unless otherwise indicated		
Real GDP growth	4.8	2.1	3.5
Inflation (CPI)	4.9	3.0	2.8
Fiscal balance (% of GDP)	0.3	-0.7	-0.4

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS





Population (000s) 2007	47 851
Area (000 sq km)	1 221
Currency	Rand
GDP (Billion US$) 2007	283.4
Life expectancy at birth (Women, Men) 2006	52.5, 49
Total labour force (000s) 2007	17 444
Government	Republic

	2008	2009	2010
	% change unless otherwise indicated		
Real GDP growth	3.3	3.0	4.2
Inflation	11.4	6.9	5.7
Fiscal balance (% of GDP)	0.1	-1.6	-1.1
Unemployment	23.3	23.1	22.5
Current account balance (% GDP)	-7.7	-6.5	-5.8

Source: OECD

South Africa



Slower expansion

This year's economic slowdown is projected to continue, reflecting weaker consumption growth and worsening terms of trade. Real GDP growth is expected to fall to about 3% in 2009 before rebounding to above 4% in 2010, with the FIFA World Cup providing a fillip to activity. Inflation is expected to turn down, returning to the central bank's target range in 2010, as a result of the monetary tightening over the past two years and falling food and energy prices. Current account deficits will remain large with lower export prices broadly offsetting weaker import volume growth.

The projected move back into budget deficits is not worrisome, but fiscal policy should more than claw back the cyclical easing over the medium term, in order to get to cyclically adjusted balance. Monetary policy should continue to focus on price stability, but with food and energy prices falling, some easing may be possible earlier than previously envisaged. Prospects for long-term growth and meeting official employment targets would be improved by strengthening product market competition, with lighter regulation and less costly compliance being high priorities.

Note: Chile, Estonia, Israel, Russia and Slovenia are formally candidates for accession to the OECD. The organisation is strengthening its co-operation with Brazil, China, India, Indonesia and South Africa under an "enhanced engagement" programme. For more on these issues, see www.oecd.org/accession



© REUTERS/Susana Vera

Spain's economy

For rent, but for how much?

Overcoming challenges in employment, housing and education would help put Spain back on the road to recovery.

The financial crisis has hit the world economy hard. But how quickly economies get back up will differ with each country. Spain is especially vulnerable because of the seriousness of its housing construction crisis. In addition, Spanish households are among the most heavily indebted of OECD countries. Between 2000 and 2006, the percentage of debt against net disposable income climbed from 85% in 2000 to over 100% across the euro area, whereas in Spain it reached 150%. Firms are highly indebted too. Moreover, the last decade of strong growth relied too heavily on expanding employment, not least in the bloated construction sector. The OECD's *Economic Survey of Spain*, published in November 2008, puts its finger on the challenges, and recommends ways of tapping new sources of growth by accelerating productivity improvements, including through better use of human capital.

While prudence in the regulation of Spanish banks may cushion them in the storm, employment has been sucked into the maelstrom. Unemployment in Spain has already risen rapidly, reaching an eight-year high in November, topping 11%, the highest in the euro area, according to the latest *OECD Economic Outlook*.

To some extent, the steep rise in unemployment reflects the still large number of workers joining the labour market. Female labour market participation is rising and immigration is strong, although the OECD expects both to ease off in coming years. But employment losses are also large and have occurred despite stringent labour laws that make it difficult to fire workers on permanent contracts. Spain is one of the toughest OECD countries in terms of employment protection legislation (EPL). Take severance pay awarded in unfair dismissals: these go up to 45 days of wages per year of service, with a ceiling of 42 months for standard contracts. In 90% of cases of contested dismissal, courts rule in favour of the employee. This may appear to protect jobs during a recession, but as companies need to be able to shed jobs in a downturn, overly rigid protection ends up acting as a dead weight on the long-term health of the economy.

Indeed, this rigidity has not prevented high unemployment. To keep these costs down, firms end up hiring on temporary contracts, especially young workers, where firing costs are only eight days of wages per year of service. Indeed, there is evidence that this recourse to temporary contracts may even go beyond the legal limit. Although their share in total employment has recently fallen, they still account for 27% of all contracts; twice the OECD average of 13%. Reduce the differences between permanent and temporary contracts, or better still, introduce a new contract based on uniform job protection standards that are not too rigid, and costs will fall and those very jobs would likely be safer.

There are other consequences from rigid contracts too. For a start, permanent contracts end up being rarer than they should be, and as compensation entitlements are lost in cases of dismissal or a move to another job, employees who already have these contracts cling on to them. This reduces worker turnover and probably all round motivation too. Worst of all, rigid permanent contracts make it difficult for young people to get a foot on the rung, which damages productivity prospects, especially as so many young workers are highly qualified graduates. As a result, many workers on temporary contracts take on jobs which underutilise their skills, and many find it harder to get managerial and professional positions than their counterparts elsewhere in the OECD.

But if employees stay put, and young workers fail to find jobs that match their skills, it is also for reasons beyond the job contract. Consider the struggling housing market which was one of the main drivers of Spain's boom in recent years. Housing in Spain is heavily skewed towards home ownership, with little provision for

individuals and families looking to rent. Until recently, only home owners could deduct mortgage expenses from personal income tax; now rent payments are subject to the same deductions. And since applications for social housing are a lengthy process, people shun jobs that require them to relocate.

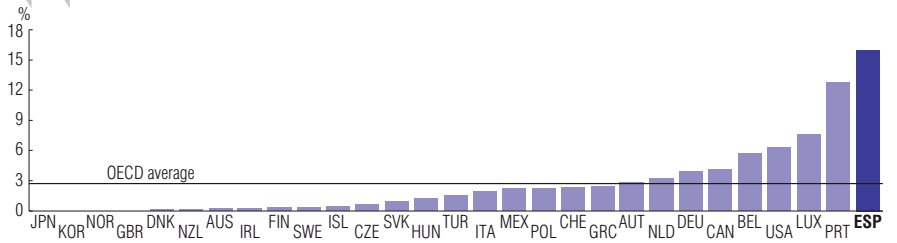
Nor is the situation better for landlords. Legal procedures to enforce the payment of back rent or evict a tenant are so cumbersome that most property owners won't even entertain the idea of renting out their accommodation. Faced with so many barriers, the tendency is just to stay where you are, as you are. The government has taken steps to speed up these legal procedures. Further steps in this direction would not only help better match workers' skills to jobs, but would accelerate a recovery in residential construction by boosting occupancy in the many new houses that sprung up around the country during the boom and still lie empty. After all, two thirds of Spain's 18-35 year olds live with their parents, and many of these people would be more likely to move to a new home if renting were easier.

Education is another challenge the authors highlight and one that should not be neglected in the recession. True, there have been great leaps forward over the last thirty years. Spanish education has near-full coverage for children between the ages of 3 and 6, and the graduation rates in higher education are above the OECD average. But secondary education has fared less well. "Other things being equal, living on the Mediterranean has had a depressing impact on attendance in upper secondary education" the authors of the Survey claim. The housing boom, fuelled in part by a flourishing tourist industry, is over; and workers in these sectors–especially young people who left school without diplomas because jobs in tourism and construction were plentiful–now face difficulties.

So how does education help? Even in the last halcyon decade, when jobs for unskilled workers were abundant, pupils who quit school had no easy task getting work. In 2001, 41% of workers without a school certificate took a year to find a job, compared to 29% with the upper secondary vocational certificate, called CFPM. Then why leave school?

Fewer repeats please

Repetition rates in lower secondary education across OECD countries[1]



1. School principals were asked what percentage of students in their school repeated a grade at the levels of lower secondary education (ISCED 2) in the previous year of schooling

Source: *OECD Economic Surveys: Spain*

StatLink http://dx.doi.org/10.1787/486410707333

Nearly 16% of pupils have repeated at least one year, a figure well above the OECD average of 3%

One key answer lies in the repeats system. In almost two thirds of cases, pupils who have repeated one or more grades but have attained the legal age limit of compulsory education, have no wish to stay on, especially if job prospects look good. Nearly 16% of pupils in lower secondary education have repeated at least one year, a figure well above the OECD average of 3%. Yet school performance has not benefited.

Another reason may be background. Many parents–especially the poorest–never finished their own schooling, and are unable to help the child in his or her studies. A pupil whose parents failed to complete lower secondary education runs an almost 50% risk of failure. A third explanation is the absence of external exams. The OECD has found a strong negative correlation between the incidence of grade repetition and exposure to external exams. Such exams are one way of holding schools accountable for the educational performance of their pupils, including the weakest ones.

Spanish schools are also among the least autonomous in OECD countries. Schools exert little influence over the hiring of teachers, and many teachers lack qualifications (40% of reading skills are taught by staff who have no training in this area, the report says), and there are few financial incentives to motivate teachers. Teachers are also ill-equipped to deal with the cultural diversity brought on by Spain's immigrant population, which by last count was 10% of teenage pupils.

In May 2006, the government approved the "Ley orgánica de educación" (Organic Education Law or "LOE"), which is implementing measures to address many of these problems; it should be fully implemented by 2010. But more steps are needed. For example, external testing of every school has to be more widely implemented, while more attention should be given to key competencies in awarding higher school grades, and to excellence when it comes to the appointments of head teachers.

A rigid labour market, restricted geographical mobility, and too many youth dropping out of school prematurely are not the only weak points that Spain will have to strengthen, and several others are detailed in the Survey. But though they are too easily overlooked, tackling them would bring solid benefits for the entire economy. ■ *LT*

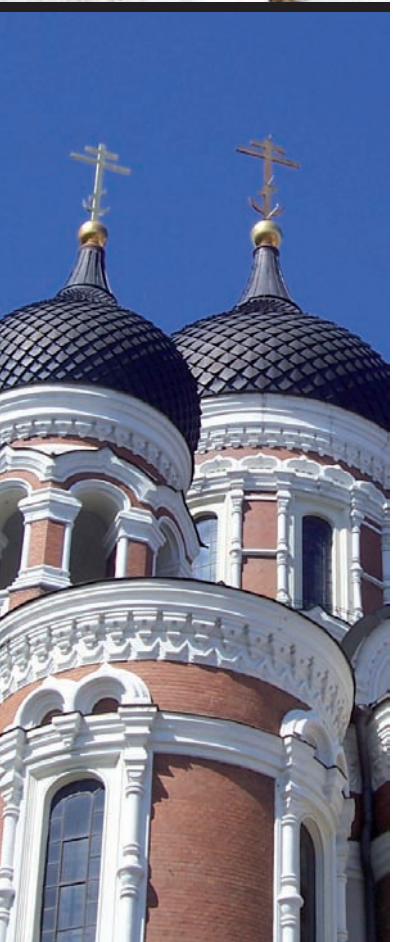
For more detail on Spain's economy, contact senior economist, Andres.Fuentes@oecd.org

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- For more, see www.oecd.org/spain







Special focus
Baltic region







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This special extra on the Baltics was prepared by Pressgroup Holdings Europe especially for the OECD Observer.

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Recent developments in the Baltic economies



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By **Maris Lauri,** Senior Analyst, Hansabank Markets, Estonia

The slowdown of the Baltic economies began in 2007. In Estonia it developed slightly earlier than in Latvia and in Lithuania. The Latvian economy grew 10.2% (compared to 11.9% in 2006), the Lithuanian economy 8.9% (compared to 7.8% in 2006) and the Estonian economy 6.3% (compared to 10.4% in 2006). The global economic developments have had stronger than assumed effects on the three economies, and the financial turmoil, which arose in September, has made the situation and outlook worse. Estonia and Latvia are now in recession, while Lithuanian growth rates are retreating rapidly. The outlook for 2009 is gloomy for all three countries and only 2010 may bring better developments, but much depends on how the global economy and financial markets perform.

Reasons behind the slowdown

The major reasons for the Baltic slowdown are that factors supporting the previous years strong growth have now lost their strength. For example European Union (EU) accession was one of the main contributors for high optimism, very low interest rates, increased foreign capital and greater business contacts. Therefore the rapid economic growth in the Baltics, mostly based on domestic demand, caused many imbalances to emerge and deepen with fast growth of asset prices, labour costs, current account deficits and debt, being the most pronounced ones. The situation in the global economy was also much better and supportive in previous years. Starting from 2007 global developments have had their impact on the Baltic economies as well through increasing pessimism and inflation, mainly stemming from increased energy and food prices. Financial turmoil has hit the Baltic economies very seriously as they have now fallen from being favourites to a much lower position; both extremes are unjustified and have implications.

The worsening economic situation in the Baltics hasn't remained unnoticed by rating agencies that have lowered their

ratings and outlooks for all three Baltic countries. S&P downgraded Latvian long-term rating in November 2008 to BBB-, Moodys' to A3 and Fitch in October to BBB-. Fitch has lowered the Lithuanian rating in October 2008 to A- and S&P at the same time to BBB+; Estonian ratings were lowered at the same time to A and A-, respectively. Moodys' has kept the Lithuanian rating from September 2006 (A2) and the Estonian rating from November 2002 (A1), but has changed the outlook to negative. The latter applies to other ratings as well.

The slowdown of economic growth is most vividly seen in domestic demand where growth rates have fallen below zero in Estonia (in the 3rd quarter -9.5% year on year) and Latvia (-9.3% year on year). The major reason is the decrease in investment, though household consumption growth rates have been rather small as well. Lithuanian domestic demand has shown signs of a slowdown too, and in the 3rd quarter only 3.2% year on year growth was reported.

In 2007 household consumption grew 7.9% in Estonia, 13.7% in Latvia and 12.4% in Lithuania. For now growth rates for the first two have slipped to -3.5% and -10.6% year on year (3rd quarter data) and even smaller figures are expected in the following quarters. Households have become increasingly pessimistic about their future as the price growth "eats" their incomes – and the prices of basic necessities have grown the most. Although now inflation fears are retreating, a new source of pessimism has emerged – unemployment – as autumn brought extensive layoffs. Increasing interest rates and a fall in the residential real estate market have significantly cut household borrowing.

Growing investments

Investments in 2007, including inventories, grew 8.6% in Estonia, 16.3% in Latvia and 21.9% in Lithuania. However, this growth was in significant part a result of increasing inventories. For now investments are falling in all three countries: in the 3rd quarter gross investments fell by 22% year on year in Estonia and 12.6% in Latvia, while in Lithuania investments started also to fall in the 3rd quarter (12.3% year on year). Investments are currently mostly supported by the public sector further boosted by EU structural funds. The weakest area in investments is residential construction as the market is stagnating. Business construction continued to grow until the autumn, but is expected to slow significantly in the second half of 2008.

Investments in machinery and equipment are currently growing as companies have intensified their restructuring processes. With growing wages, energy prices and a shortage of labour, this is the only way to keep and improve the competitiveness of production. Many companies have returned to their main business activity after finding that residential real estate is not an attractive investment opportunity as before. Still, restructuring needs time and the global growth outlook is not very attractive now. Therefore the banks clearly prefer exporting companies, and governments have recognised the need to promote exports (e.g. money from EU funds, special programmes, etc). The major question, as in the whole world, at the end of 2008 is a question of financing and the cost of it.

Developments in the labour market

The labour market in the Baltics remained strong with employment growing and unemployment not starting to grow until the middle of the year. In 2007 employment grew by 0.7% in Estonia, 3.5% in Latvia and 1.9% in Lithuania and hence the employment rate reached 69.4% in Estonia, 68.3% in Latvia and 64.9% in Lithuania (EU average is 65.4%). That was reflected by the fall of unemployment to 4.7% in Estonia, 6% in Latvia and 4.3% in Lithuania (EU 7.1%). The change came in the middle of the 2008 after vacancy rates fell and companies ended expansion. Unemployment rates have steadily grown in the 2nd half of 2008 rising to 7.5% in October in Estonia (4.3% in April) and to 7.2% in Latvia (6.5% in May). The Lithuanian unemployment rate has fluctuated between 4.5-5% throughout 2008, but is expected to increase in the next few months.

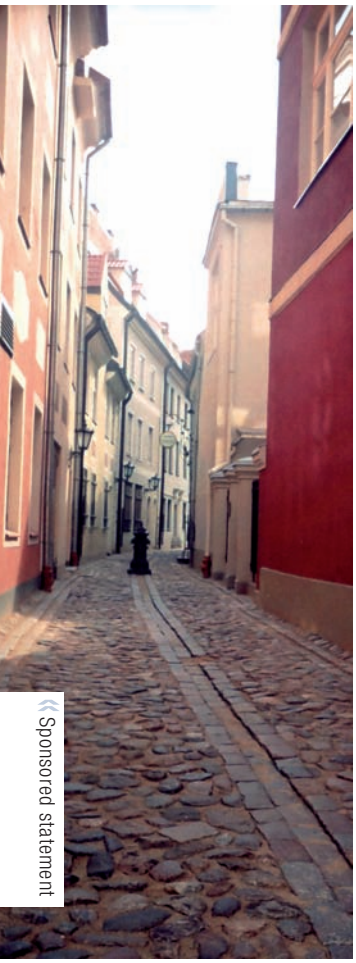
The growth in labour costs in 2007, and in early 2008, reflected the good times of previous years, when there was a huge shortage of labour and both businesses and households were very optimistic about the future. As a result wage growth reached very high levels in 2007 and even in early 2008. In Estonia total labour costs grew 19.6%, in Latvia over 30% and in Lithuania close to 21% in 2007. Still, tax revenues indicate that the wage growth has started to slow rather rapidly during 2008 and analysis points out that in the private sector wage growth has ended in Estonia and Latvia. Household incomes may be even falling as working hours are falling and unemployment grows.

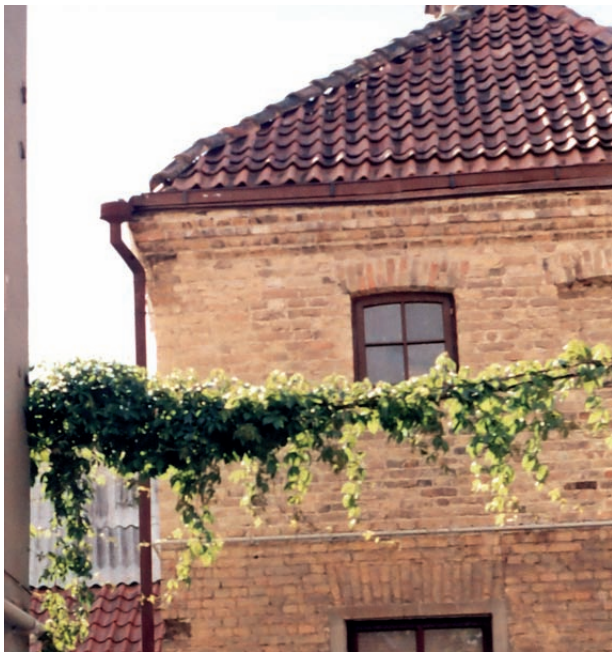
Despite rapidly growing wages, labour costs in the Baltic economies have remained low. As of 2007 the average hourly labour cost in Estonia was 6.4 euros, in Latvia 4.7 euros and in Lithuania 4.3 euros (2006 data).

Strong exports and weakening imports

Exports have been surprisingly good in all three Baltic countries in 2007 and in the first half of 2008. Estonian exports and imports have been affected by the fallout over the cutting of Russian oil shipment in the spring of 2007, and also by restructuring in one major electronics company from mid-2006 until the end of 2007. Otherwise exports have grown well and hence in the nine months of 2008 goods and service export values have grown 10% year on year . Latvian exports grew 23.5% in 2007 as companies that went through restructuring in 2006-2007 started to expand their exports. The beginning of this year has seen only marginally smaller growth rates, although growth rates have now fallen to around 10%. Lithuanian exports growth slowed in 2007 to 9.5% as the dominating exporter, oil refinery Mažeikiu Nafta, was closed for repair works for most of the year. Early this year brought growth rates close to 30% year on year and there they have remained so far, but they are not expected to continue into the New Year.

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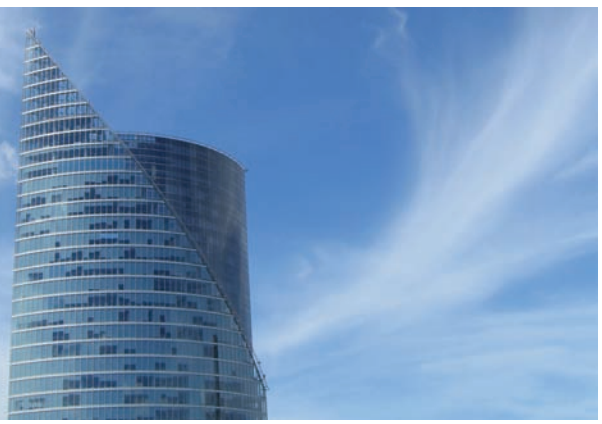


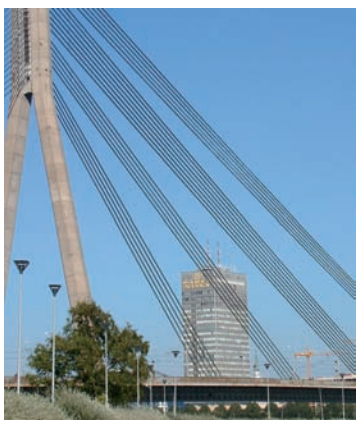




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Higher value-added products are taking a constantly bigger share as exports of machinery and equipment, chemicals and metal products are growing rapidly.

The weakening domestic demand has brought down import growth rates from late 2007, to 7.5% by value in Estonia 21.4% in Latvia and 14.2% in Lithuania in 2007. In eight months of 2008 imports to Estonia fell 2.9% and 9.7% in Latvia. In Lithuania imports of oil boosted import growth to 20%, but growth has slowed since May. Higher prices of imports (energy products, but also food to a lesser extent) had strongly affected nominal growth rates of imports though these are now falling rapidly.

Relatively strong exports and weakening imports have improved external balances. Estonian and Latvian results are clearly improving for now, while Lithuania is only entering into the correction phase. In 2007 the Estonian current and capital account deficit was 16.9% of GDP, Latvian deficit 21.8% and Lithuanian 12.8%, but for now it has fallen to 11% in Estonia, to 13.5% in Latvia and to 11.9% in Lithuania.

Inflation problematically high

The main problem facing the Baltic countries is inflation which has only now started to retreat. In 2007 average consumer price inflation reached 6.7% in Estonia, 10.1% in Latvia and 5.8% in Lithuania, higher levels were expected in 2008 as the slowdown became visible only in recent months. As of June annual growth rates have reached 11.4%, 17.7% and 12.5% year on year, respectively, but for November they fell to 8%, 11.8% and 9.1%, respectively. The rapid growth of prices was mostly a result of external price pressures (e.g. oil, natural gas, food) which have triggered the increase of many regulated prices (e.g. heating, electricity, public transport), and some policy choices, i.e. increase of tax rates due to EU requirements. Base inflation is falling in Estonia and Latvia, suggesting that weakening demand is about to bring down inflation rates rather strongly and quite soon. This however will not be enough to bring down annual average

inflation rates in 2008, although in the next 12 months annual price growth will fall below 5% and maybe even below 2-3%. The fulfilment of the Maastricht inflation criteria is highly dependent on inflation in other countries and global price movements. So the entering of the Baltic countries to the euro zone in 2011-13 is still probable, if they manage to keep budget deficits below 3% of GDP, which is extremely difficult in the current global recession.

This article dates from 8 December 2009. The statistics and opinions used in this report are those of Hansabank Markets only and should not be taken as endorsement by the OECD or the governments of the Baltic region states. Estonia is a candidate for OECD accession. A snapshot of the November OECD overview of Estonia is available in the Economic Outlook Special Focus of this edition and a longer version can be consulted at www.oecd.org/estonia. A new OECD Economic Survey of Estonia will be published in the first quarter of 2009. For details, write to news.contact@oecd.org


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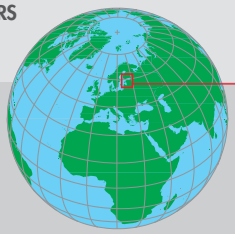
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KEY ECONOMIC FORECAST & INDICATORS





Population (000s) 2007	1 342
Area (000 sq metres)	45.2
Currency	Estonian Kroon
GDP (Billion US$) 2007	20.897
Life expectancy at birth (Women, Men) 2007	78.73, 67.13
Total labour force (000s) 2007	687.4
Government	Parliamentary Republic

	2008	2009	2010
	% change unless otherwise indicated		
Real GDP growth	-1.9	-2.0	2.9
Inflation (harmonised CPI)	10.7	5.1	3.2
Fiscal balance (% of GDP)	-0.7	-2.4	-1.4

Source: OECD

Estonia

Drop in demand



Real GDP will continue to decline in 2009, reflecting mostly a sharp drop in domestic demand, as gross fixed investment is expected to drop in real terms by over 6% and consumer spending by 1.6% compared with 2008. Growth is projected to gradually pick up by the end of 2009 and into 2010, driven by stronger exports. Currently high inflationary pressures are expected to weaken in 2009, but the past real exchange rate appreciation will make the desired export driven recovery challenging.

The currency board and the government's commitment to the balanced budget rule limit macroeconomic policy options to support the recovery. More labour market flexibility, in particular more rapid wage adjustment and higher regional mobility, would be desirable in this context.

This country snapshot is based on OECD Economic Outlook No 84, November 2008. Order the full version at www.oecd.org/bookshop. The OECD's first Economic Survey of Estonia will be issued in the first quarter 2009.



The OECD goal

Estonia is currently the only Baltic region candidate for accession to the OECD. It first showed a formal interest in joining the organisation way back in the mid-1990s after the establishment of the OECD Baltic Regional Programme, which it participated in from 1998-2004. On 16 May 2007 the OECD ministerial council adopted a resolution to open membership talks with Estonia and a roadmap to accession was issued on 30 November 2007. The roadmap describes the process of accession, lists the policy reviews to be undertaken, the committees to be consulted and how they should proceed; stipulates the steps that the candidate country should take to conclude the process; and indicates the amount of resources required to cover the costs of the procedure. The cost of the accession process should be covered by the candidate country.

Estonia is one of five accession candidates to the OECD, along with Chile, Israel, Russia and Slovenia. This rather small group reflects the fact that the accession procedure is complex and can be long, as it involves a series of examinations to

assess a country's ability to meet OECD standards in a wide range of policy areas. Joining the OECD supposes accepting a large number of OECD internal rules, and positioning on instruments such as guidelines, conventions, agreements, etc, not least of which is the OECD Convention of December 1960. Moreover, being a member of the organisation implies a commitment to participate as fully as possible in ongoing OECD work.

There have already been several OECD policy reviews of Estonia (or of the Baltic countries together) in areas, such as education, competition law and policy, investment, labour market policy, bribery, insurance and pensions, and in 2009, the first full economic survey. These reports reflect a decade of close co-operation and engagement. Estonia signed the OECD Declaration on International Investment and Multinational Enterprises in September 2001 and acceded to the OECD Anti-Bribery Convention in December 2004. It now participates fully or as a regular observer in some seven OECD committees and working groups, in areas such as investment, bribery, IT, maritime affairs, and pensions. It is involved on a more ad hoc basis in work on biotechnology, trade, agriculture, and more. It also participates in other OECD-related fora, such as the Bologna Process to improve European higher education, and in the International Transport Forum.

Individual websites have been set up for authorised users to provide information on the accession process in general for each country and include questionnaires, publications and other documentation relevant to the review processes. On statistics, for instance, an action plan has been drawn up to help each candidate country meet requirements when producing comparable economic, social and environment data. See http://www.oecd.org/std/nm-countries/accession

The Estonian foreign ministry has just launched a new website in Estonian on relations with the OECD at http://www.vm.ee/est/kat_497/

For more on Estonia's accession process, including government statements and press releases, see www.oecd.org/estonia. Contact OECD's Centre for Co-operation with Non-Members at ccnm.contact@oecd.org

Foreign bribery warning

Being a member of the OECD also means having a thick skin and being able to take on criticism, as well as praise, from fellow members. This is the so-called peer review process which all countries sign up to in the spirit of co-operation and improving performance. No country is sacrosanct, whether large or small, when it comes to scrutinising policy strengths and weaknesses. Indeed, as a non-member Estonia has already had a strong foretaste of this, in the 2008 review of its anti-bribery laws and policies. The review was carried out by the 37-country OECD Working Group on Bribery–i.e. including Estonia and six other non-OECD countries.

The report pulls no punches, for while lauding Estonia's achievements, in outlawing tax deductibility of bribes for instance, it has nonetheless focused its anti-corruption efforts on domestic bribery only, and the report is critical of what it calls "very low awareness of the foreign bribery offence and the OECD Convention" in the Estonian public and private sectors. Stopping bribery of foreign public officials is the specific aim of the OECD Convention and rectifying this shortfall merited strong measures, the group said. Other weak spots in Estonia's laws on foreign bribery were highlighted, notably in corporate liability for such crimes, which the anti-bribery group said should be expanded to make prosecution of legal persons that commit foreign bribery both more likely and more effective.

Meanwhile, as the report acknowledges, shortly before the adoption of the OECD study, Estonia had already taken additional steps to raise awareness of foreign bribery within the tax authorities and the foreign affairs ministry, and its parliament adopted amendments to the penal code.

The report is available at: www.oecd.org/dataoecd/60/57/40953976.pdf

Education challenges

Few tertiary education systems have accommodated as much change in a short period of time as Estonia has in the period since the restoration of independence in 1991. This is the conclusion in the 2007 OECD review of Estonia's third level education system. But the report also highlights challenges. True, Estonia has built a tertiary education system that has responded to the major problems inherited from the Soviet period, including a remarkable expansion, more diversity and the successful integration of the research units of the Academy of Sciences into the universities. This is all the more remarkable, the report says, considering the limited resources available to the task of higher education reform during that time.

The challenges pointed to by the report can be summed up in a need to consolidate those achievements and making tertiary education even more competitive and relevant to society's wider needs. This means enhancing the outward focus of institutions, for instance, with more integration and collaboration between institutions within and across sectors, and building stronger educational links to employers, regions and labour markets. It also means fostering more openness to the world and reassessing priorities in the allocation of public resources.

As in many countries, funding is a major challenge. Estonia has a rather discriminatory fee policy, the report explains, whereby a proportion of students pay full tuition while the others pay no tuition fees. That means an unfair burden on some, even though all students benefit from education and society has an interest in educating everyone. The report recommends a more equitable and efficient arrangement that would involve all students contributing towards the costs of their tuition and most (if not all) students receiving some public subsidy. ● *RJC*

The OECD Review of Tertiary Education in Estonia can be ordered at www.oecd.org/bookshop, ISBN 978-92-64-03910-0

Higher education in Estonia

By **Nicola Hijlkema,** Vice Rector for International Relations, Estonian Business School

When tiny Estonia joined the European Union in 2004 as one of the 10 so-called "new Europeans", it completed a process which began with its earlier membership of NATO, its introduction in 2002 of the Bologna process reforming higher education, and its participation for many years in the ERASMUS student exchange programme.

For such a small country – 1.4 million inhabitants — Estonia is well endowed with institutions of higher education. There are six public and four private universities, plus 10 university colleges situated in larger Estonian cities and the regions. Finally, there are professional schools such as the Estonian Maritime Academy, the Defence School, the Public Service Academy of Estonia (police, border guards and customs) and the Estonian School of Hotel and Tourism Management.

All university courses, whether private or public, must be accredited at the national level. Given the small size of the country, the peer review teams in this process always comprise academic experts from abroad, often from Finland and other Nordic countries.

In principle, public education is free, but there are an increasing number of charges even in public universities. Private university level education is relatively rare, and not encouraged in official circles, but even students of such institutions can benefit from some state support. All university students have access to a small state loan each year of €2,000, and there is some movement towards the provision of private bank loans which can be used for further education. As in most of northern Europe, the majority of students are in full-time employment and study part-time.

By law, public universities should teach mainly in Estonian. The Estonian Business School is the only private university level business school, and has led the way by introducing courses taught in English, in order to provide the international elements which are needed in a country of this size. Today, even in the public universities, more and more general courses are being introduced in English. About 30% of Estonia's inhabitants are ethnic Russians, which creates some unique challenges for higher education. Although Russian-speaking students can start their studies in Russian, they must speak English or Estonian by graduation. Many prefer to study entirely in English, in order to improve their career options, and for this choose private institutions. Official language policies are intended to protect the Estonian language, which is a member of the unique Finno-Ugrian group, only being related to Finnish (fairly close) and Hungarian (very distantly). However, the difficulty of the language means that English is widely spoken to accommodate foreigners. This creates an obvious advantage for Estonian graduates, many of whom are often fluent not only in English and Russian, in addition to their native tongue, also at least one other European language, such as German. Altogether 40% of all Estonian high school graduates choose to pursue higher education after completing their basic and upper secondary studies. As in many countries, business is a very popular area of study. Recent figures quote some 6,000 students nationwide enrolled in Bachelor programmes and 3,000 in Master programmes in this discipline, some 17% of the students who continue into higher education.

As a former republic of the Soviet Union, Estonia has a somewhat unusual situation with regard to teachers of business studies. Many of them are under 40 years of age, since these are academics who graduated after Estonia's return to independence in 1991. In areas such as marketing, finance and entrepreneurship, there is a generational gap, where earlier studies were inappropriate for current academic institutions, and younger faculty members are still finishing their PhDs in their chosen discipline. It is therefore extremely common for business faculties to employ professionals from companies, thus introducing current market practices into the classroom.

Like many Central and Eastern European countries, Estonia has a high regard for academic achievement. Although the Bologna process introduced the three-year Bachelor programme, most students still prefer to complete their higher education with a two-year Masters degree. However, the demographic situation shared with the whole developed world means that the future of Estonian universities, and the country's economic well-being, will depend on the outcome of the current debate on how to attract international candidates to make up the shortfall in national students..

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Estonian Business School

Latvia
a smart investment

Latvia, a country of 2.3 million people, is at the crossroads between northern, western and eastern European markets and at the heart of Europe's fastest-growing region – the Baltic Sea Region. The strategic location of Latvia has been the major influence on the country's diverse historical and cultural experiences. Today, it is this location which forms the basis for Latvia's economic success. Investing in Latvia gives direct access to the European Union's (EU) 450 million customers but also to 250 million customers in neighbouring Russia and the Commonwealth of Independent States (CIS).









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Access to skills

There are few countries with a better-trained or better-motivated work force than Latvia. The highly educated workforce is rated the top in Europe and second in the world in terms of university students per capita, and possesses a northern European culture and work ethic.

In addition, the history of Latvia equips it with unequalled experience and business knowledge when working with Russia and other CIS countries. Over 90% of Latvians speak fluent Russian and 70% of people under 40 speak English. German and Scandinavian languages are also widely spoken.

Latvia has an abundance of potential business ventures, not least because of the great entrepreneurial spirit running through the country. Until 2007 Latvia was one of the best economic performers among the EU countries having the fastest growing economy at 10.2% GDP growth in 2007. This year, together with world wide economic corrections, our growth rate is lower and we expect it to be between 2-4% in the coming years.

However it's not just the potential of Latvia that makes investing here so appealing, it is also Latvia's location within Europe's most dynamic regional market, the Baltic Sea Region with seamless access to 100 million affluent consumers.

Gateway to the EU and Russia/CIS

In terms of logistics, Latvia is one of the best locations to establish a business in Northern Europe. Riga itself is the largest Baltic city and located in the middle of the region. This has historically meant economic success; Latvia is one of only four EU countries to share a border with Russia, making it ideal for east-west trade. The Trans-Baltic highway runs the length of the country, providing a north-south transport corridor, dissected by the highway to Moscow, a well-developed freight route. These routes also connect to Riga International Airport, the fastest growing capital city airport in Europe, with direct flights to more than 60 destinations.

Opportunity must always coincide balance with stability, and Latvia provides both – diverse and numerous business opportunities within the security of the EU and NATO. In addition, successive Latvian governments, all with centre-right majorities, have followed long-established and consistent policies. In addition to its well-developed financial systems, the Latvian Lat is pegged to the Euro with 1 Lat = 1.42 Euro, part of the medium-term plan to adopt the Euro.

Business Incentives

Companies investing in Latvia have an ideal opportunity to qualify for EU Structural Fund support scheme for 2007 to 2013. These funds provide financial grants in various operational sectors such as training programmes, innovation, research and development (R&D), value-added manufacturing and technology-knowledge transfer. Latvia possesses four separate Special

Economic Zones, are all well connected to transport and other infrastructure. To encourage investment, they offer corporate tax discounts (as much as 80%), as well as 0% VAT and no custom or excise duties.

Despite the business-friendly environment, foreign investment is rarely completely straightforward. That is why extensive assistance from the Investment & Development Agency of Latvia (LIAA) is also available, at no cost, to assist all stages of planning and implementation, giving help in areas ranging from location and establishment through to local networking.

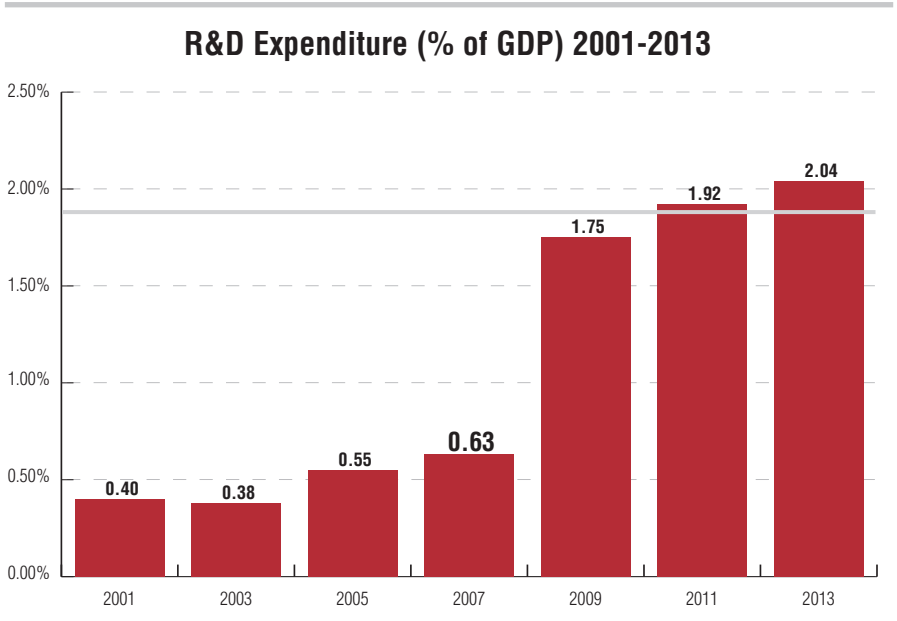
Latvia's corporate income tax rate is among the lowest in Europe at a flat rate of 15%. Personal income tax is also at a low flat rate of 25%. Productivity growth rates are very high and increasing as a result of utilising ground-breaking IT technologies and the reorganisation of human resource capabilities. Although Latvia can no longer be considered a low-cost country, its labour prices are still very competitive, especially in comparison to those in older EU member countries.

As a small country in today's globalised world, Latvia knows full well the importance of attracting foreign investment to sustain economic development. The Latvian government and local authorities have worked diligently to streamline procedures for doing business in Latvia, for instance, companies can be established in just one day. As a member of the EU, Latvia operates under Europe-wide legislation, so unpleasant surprises can be ruled out.

For more information, visit the website of the Investment & Development Agency of Latvia www.liaa.gov.lv

Innovation goes hand in hand with Latvia's technological competitiveness

Innovation and a knowledge-based economy are key words that attract investors interested in long-term growth. The Economist Intelligence Unit in its 2007 study "Innovation: Transforming the way business creates", has placed Latvia in the top 40 of countries most favourable to innovation. Latvia's forecasted growth in rapid innovation performance is the second highest at 10.6% in the period 2007–2011. What can you expect from Latvia in terms of an innovative environment?



Source: Central Statistics Bureau 2008, LIAA calculations

Innovative traditions and regional characteristics

In Latvia innovation is not something that has become fashionable in the last decade; world-scale inventions and research in engineering began in Latvia at the beginning of the 20th century. Such inventions include, the spy-camera Minox and the development of export medicines and space technologies for the Soviet Union.

Today the research mentality of Latvia is similar to the Nordic countries. Latvia is determinedly moving towards achieving quantitative results as seen in its neighbouring Scandinavian countries.

In 2013 – Fourfold increase of Research & Development (R&D) expenditure

The long-term vision of Latvia is related to the National Development Plan whose main drive is a knowledge-based economy. There has been a great increase in national aid for the R&D sector, which has been supported by the Competitiveness and Innovation Programme 2007–2013. Before 2005 the total R&D expenditure accounted for approximately 0.5% of GDP. By 2013, it will increase approximately to 2.0%, that is more than fourfold. The main driving force of R&D expenditure growth is the gradual increase of national financing (until it reaches 1.5% from GDP) and from the EU Structural Funds (total estimated amount of financing for the R&D sector is 730 million by 2013).

420 new products, 360 commercialised ideas, and more...

To achieve a balanced growth in innovation, the proposed investment in R&D are divided into four main categories:

- Science,
- Education,
- Businesses, and
- The transfer of technology and knowledge into infrastructure.

In each of these categories several grant

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systems are available. Once all investments are received, after 2013, the capacity and effectiveness of innovation will grow substantially. Ten high-tech production facilities are planned for this period, 420 new products in production, 360 commercialised ideas and 105 working enterprises in business incubators.

Due to increase of funds to innovation, the following results are expected:

- Science - 10-50 infrastructure & ITC projects, 600 additional scientists, support to 200 priority research fields, 10-70 international technology projects;
- Education – 10-100 new technology study programmes;
- Technology and knowledge transfer infrastructure - 7 additional competence centres, a number of new business incubators and technology transfer centres;
- Strengthening and creating 8-12 sector clusters.

Where to find technology solutions?

New technology solutions can emerge wherever and in every sector. Latvia has been recognised worldwide for its highly competent sectors such as pharmacy, material science, IT, magneto hydrodynamics, biomedicine and wood chemistry.

The most prominent research centres in Latvia, recognised internationally and having the largest volume of contract research, are the Institute of Solid State Physics of the University of Latvia and the Institute of Organic Synthesis.

In addition to these two institutes, one should mention the Biomedical Research and Study Centre of the University of Latvia (genome analysis, determination of DNA structure and molecular diagnostics), Riga Technical University (engineering, energy, new materials and industrial design) and the University of Latvia (IT, lasers, data processing algorithms).

Opportunity to tap into the innovative potential of Latvia

Some of the possible ways to become involved in the favourable environment for innovation include:

- Development of new technologies, materials and products in any of the research centres of Latvia or in technology companies;
- Participation in business to support an innovative idea by attracting at the same time the financial support, for example, an EU programme for developing new products, creation of a high-tech production facility;
- Help in the introduction of innovative solutions in traditionally strong sectors like food and wood processing industries.

There are many possibilities all characterised by creativity, competence and cost saving to tap into the Latvian innovation sector.

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LIAA
Latvijas Investīciju un attīstības aģentūra
Investment and Development Agency of Latvia

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Latvia
a leader in green energy

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Latvenergo Group is the leading energy utility in Latvia that provides generation, transmission, distribution, trading, telecommunications and information technology services to customers. From the total volume of electricity produced in Latvia 90% is generated by Latvenergo AS. It heads the field in *green* energy both in the Baltics and the European Union (EU).

It began operations in 1939 with the construction of Ķegums hydropower plant and today has three hydropower plants on the river Daugava, two combined heat and power plants in Riga, as well as the Aiviekste hydropower plant, Ainaži wind park and SIA Liepājas enerģija.

The Daugava hydropower plants include Ķegums HPP with a total capacity 264.1 MW, Pļaviņas HPP – with 868.5 MW and Rīga HPP – with 402 MW. The three Daugava hydropower plants generate about 71% of the total electricity volume, generated by Latvenergo.

As the hydropower plant capacity constitutes a large proportion of the total generating capacity of Latvenergo Group, it should be remembered that this capacity largely depends on water inflow in the Daugava, and thus the yearly output can fluctuate from 1,800 GWh to 4,500 GWh.

To improve electricity generation in the future, Latvenergo Group invests every year in modernising technology and hydrotechnical constructions, as well as enhancing dam safety in the Daugava hydropower plants. In 2007 total investments in the Daugava hydropower plants constituted LVL 13,095 million (18,500 million euros), 67% of which were invested in modernising technological equipment and 30% in restoration of hydrotechnical constructions.

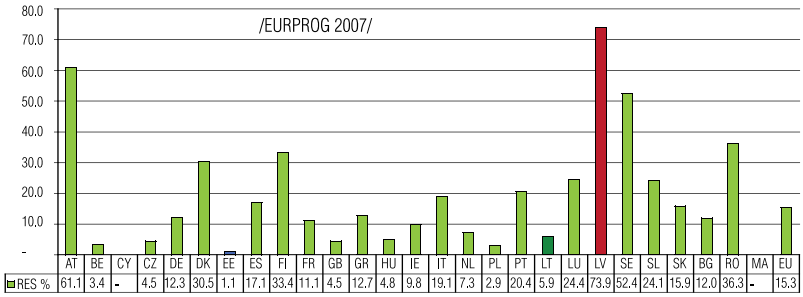
Optimal use of electricity generated from renewable resources is one of the Latvenergo Group key goals. Hydrotechnical constructions in big hydropower plants impact upon the environment. Consequently, the company invests considerable resources, compensating for environmental harm caused by the Daugava hydroelectric power plants (HPPs). In 2007 the company invested 1.7 million euros in strengthening the banks of the water reservoirs and for protective engineering constructions of the Daugava HPPs and more than half a million euros was invested in restoring fish stocks.

Latvenergo Group invests in upgrading its fixed assets and capacities by using new, environmentally friendly technologies and in 2005 a new power generating facility Rīga TEC-1 (CHPP) was put into operation; at a cost of 106 million euros. Two gas turbines, one steam turbine and two hot water boilers for district heating have been installed in the plant. The installed electric capacity reaches 144 MWel, and the heat capacity – 377 MWth. The generated electricity volume is almost four times greater due to the use of more efficient fuel.

At beginning of 2009 Rīga TEC-2 (CHPP) was put into operation. The total investment is 177 million euros and it will come into operation in the autumn of 2008. The new plant operates both in cogeneration cycle and condensation regime. The fuel use efficiency ratio in cogeneration cycle is to reach 88%, but in condensation regime – 57% (outside temperature at 0°C). Due to more efficient fuel use, the new facility will generate three times more electricity per heating unit, thus minimising the harmful impact on the environment.

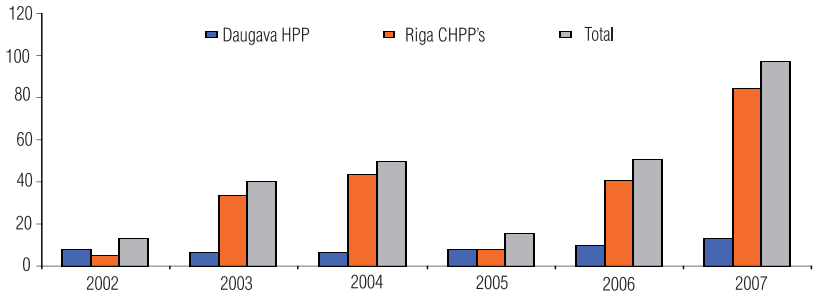
After reconstruction, the electricity generated in cogeneration cycle will increase on average from 820 GWh per year to about 2,200 GWh per year, thus

Ratio of electricity, generated from renewable sources in 2005, of the total electricity volume generated in the country, TWh



	AT	BE	CY	CZ	DE	DK	EE	ES	FI	FR	GB	GR	HU	IE	IT	NL	PL	PT	LT	LU	LV	SE	SL	SK	BG	RO	MA	EU
RES %	61.1	3.4	-	4.5	12.3	30.5	1.1	17.1	33.4	11.1	4.5	12.7	4.8	9.8	19.1	7.3	2.9	20.4	5.9	24.4	73.9	52.4	24.1	15.9	12.0	36.3	-	15.3

Latvenergo Group Investments in Generation (million lats*)



giving to Latvia an additional 1,400 GWh per year.

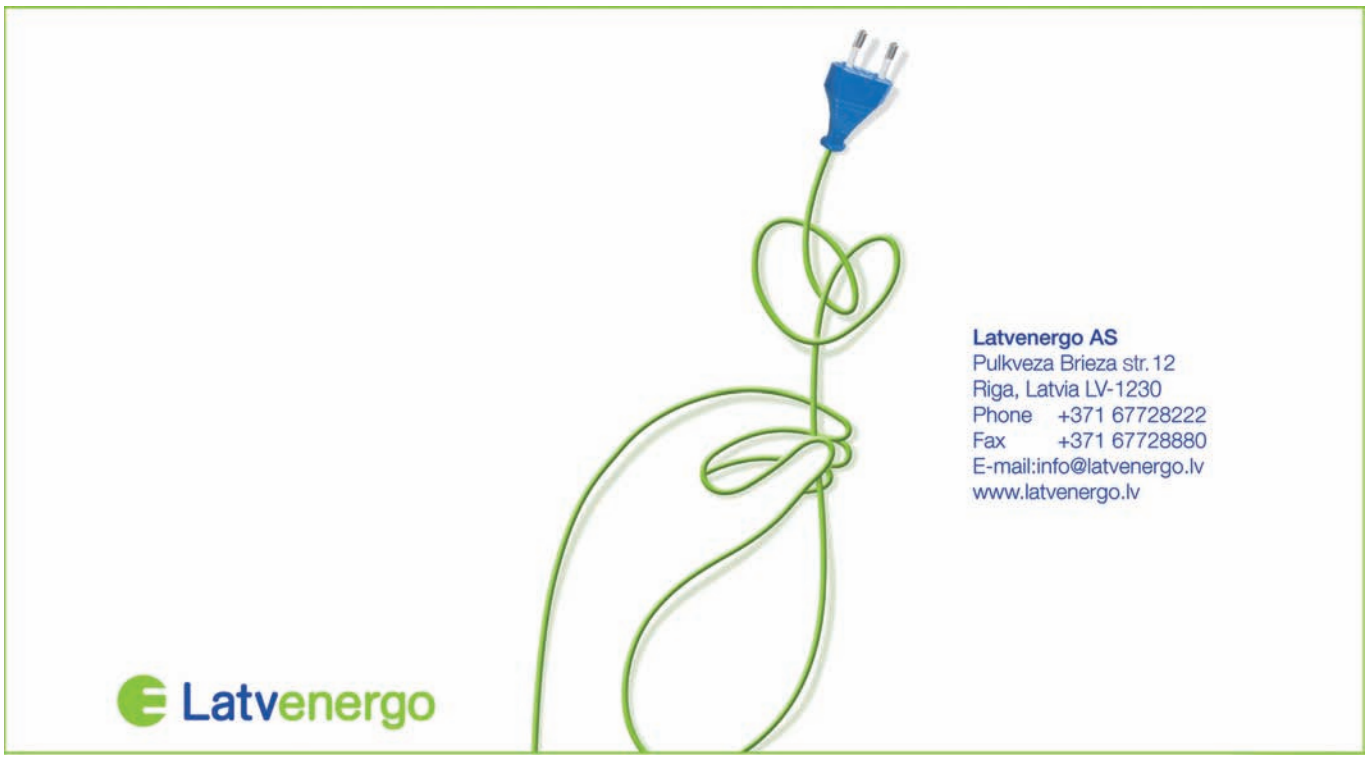
The reconstructed Rīga TEC-2 is the most state-of-the-art plant for electricity and heat generation in the Baltic region. It will increase Latvia's energy independence, as well as ensuring maximum effective and efficient electricity supply.

In 2006 a new underwater cable *Estlink*, connecting the electricity networks of the Baltic and Nordic States, was put into operation, thus providing Latvenergo Group with the possibility of selling electricity at the *Nord Pool* power exchange. It is a new development that connects the Baltic States for the first time to direct connection to the power systems of Central Europe.

Development of the electricity market is essential for the future growth of Latvenergo Group, which can be promoted by constructing new interconnections with the Nordic countries. ●

Latvenergo AS is heading the corporate group. Latvenergo Group includes five subsidiaries: Augstsprieguma tīkls AS (Transmission System Operator), Sadales tīkls AS (Distribution System Operator) and Liepājas enerģija SIA, Latvenergo Kaubandus OÜ, Latvenergo Prekyba UAB.

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Old traditions revived in the Baltics

By **Sten Luiga,** Senior Partner, Borenius Tallinn
Ieva Azanda, Senior Associate, Borenius Riga
Dr Dalia Foigt, Senior Partner, Borenius Vilnius

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The demand for more corporate social responsibility (CSR) is being driven by the realisation that the state cannot do everything alone and corporate responsibility can assist business development and efficiency. Despite the fact that the basis of CSR has been recognised by Western societies since 1960, the principles have only become known in the Baltic countries in the last five years and before that awareness of CSR among firms in the Baltic States was low. Although some elements such as responsibility for the working environment, business ethics and involvement in charities had been part of the Baltic business culture since the first foreign capital arrived, introducing a culture of corporate responsibility to the region's business spheres was different. The demand for CSR itself started to develop only recently. And that demand is on the rise.

Following the fall of the Soviet Union, which brought rapid economic growth along with wide-scale privatisation, it was understandable that at the beginning most companies were more focused on their own survival and did not pay much attention to their responsibilities to society. Hence, the idea of business ethics only started to form after Estonia, Latvia and Lithuania regained their sovereignty in the early 1990s.

Not only are large companies now showing their interest in CSR, but smaller ones are also taking part in such programmes and have created their own principles and even codes for CSR. For example, policies have been adopted relating to environmental protection, health and safety for employees, equal rights for its employees - following the prohibition of discrimination in respect of age, gender, origin and convictions - and fair competition.

It is important to note that most companies in the Baltic region not only decide their own principles and codes of CSR, but they make evaluations each year as to how these principles are being applied.

From profit making to social outlook

The ideas of the American economist, and founder of *laissez-faire* theory, Milton Friedman were strongly supported, mostly in Estonia, but also in the other Baltic States, and it followed that the most important goal for companies was to make a profit at any cost. Now, with good growth in the last few years in the region's economy, the trends of socially responsible businesses have found a way to business leaders in the three neighbouring countries. It is not only important what business is done, but rather how it is done.

A number of reasons explain why CSR has been introduced to a wider number of businesses in the past five years. By becoming a full member of the European Union (EU) in May 2004, Estonia had to adapt the economic and political traditions and rules of European society. Joining the EU has had similar influences on Latvia and Lithuania. Although the integration of European legislation and cultural aspects is still in progress, Estonian economic and political leaders have gained new ideas and experience of business ethics. Also one cannot overlook the influence of half a century of doing business in a totalitarian regime and transferring corporate responsibility towards society.

Secondly, to be competitive a company requires constant investment and improvement. The loan market is one option for further developments of companies. Not only Estonian but also Latvian and Lithuanian businesses have started to actively apply for loans from European financial institutions like the European Bank for Reconstruction and Development and other structural funds. Companies' social activity is very closely monitored in the process of the loan application whether approved or not. Hence, it is of increasing importance for a company to adopt a high standard of corporate governance, assuring a good working environment and improving the business atmosphere as a tool for economic growth. As a whole this has enhanced the evolution of CSR in the Baltic States.

Last but not least, the arrival of foreign capital left its mark in the expansion of CSR programmes. As the financial sector and the flow of monetary assets carries a significant importance in the Estonian economy at large, the success of the banking sector influences other areas of activities as well. Leading domestic commercial banks, which are mostly foreign capital based, have long-term knowledge in responsible ways of doing business. The pioneer in this field is a subsidiary of the leading Swedish banking group. They operate in Stockholm and in all three Baltic countries and were the first to introduce scholars to successful students and to organise charity funds for sectors in need.

Parallels can be found from the neighbours of Estonia. In Latvia similarities emerge when looking at the business conduct of a major pharmaceuticals firm, which has joined the UN Global Compact, uniting socially responsible businesses from the whole world. Being aware that the best way to support the development of science is via educating the new generation of scientists, this enterprise allocates scholarships to both

well-recognised scientists and also complete newcomers to the arena of scientific research.

Moreover, though not yet members of the OECD, commitment to CSR is also reflected in the fact that all three Baltic states adhere to the OECD Guidelines on Multinational Enterprises.

Legal issues under focus

Laws regulating the implementation of CSR in Estonia do not provide any specific provisions for supporting the field. As the Commercial Code requires from management that business entities should be managed in an economical profitable way, the managers of the companies must have a strong mandate from their shareholders for making donations and supporting charities.

In Estonia, tax legislation regulates the implementation of CSR behaviour. For example, companies may, on their own approval, use 3% of sums subject to social taxes or 10% of the profit earned during the previous financial year for non-governmental organisations (NGO), recognised as such by the government of Estonia. All other donations may cause additional tax liability in case management cannot relate the charity activity to the business of the company.

In Lithuania, there is no obligatory legislation concerning CSR at the moment. The companies may create their own policy of CSR or follow the guidelines of the plan to stimulate social responsibility of enterprises for years 2006-2008 from the Ministry of Social Security and Labour, or maintain the status quo—it is their choice to make.

As for the first option, the creation of their very own CSR policy, the companies are free to choose their own methods following the principle that "everything that is not banned is allowed".

But these methods should not aim to avoid legal requirements and to increase profits. For example, the enterprise cannot buy new cars or other expensive presents for their workers and pay them smaller salaries in order to avoid tax liabilities, declaring at the same time that they are improving working conditions. Such CSR policy will definitely draw attention of state tax inspectors. So



Dalia Foigt



Sten Luiga



Ieva Azanda

when a company wants to start its activity in the field of CSR, legal requirements regarding taxes should be considered in order to avoid unpleasant encounters with the taxman.

As regards national policy in the field of CSR, in 2005 the Lithuanian Ministry of Social Security and Labour passed a plan aiming to stimulate the social responsibility of companies for the years 2006-2008. This legal act defines CSR and also lists the ways to increase the knowledge of CSR in the business community. One way is public homage of the company that implements social responsibility in their activities. For this purpose awards for National Responsible Businesses for the year 2007 took place in the beginning of 2008. These awards were given for "Socially Responsible Enterprise of the Year 2007", "Workplace of the Year 2007" and "Partner of the Year 2007".

The media has also taken its own initiative to increase the importance of CSR. Its involvement includes: "The Most Respected Companies of Lithuania for the Year 2008" award - the purpose of which was to promote ethical and honourable businesses. This award was arranged by a private newspaper and several companies, and included recognition for the most respected company, the best leadership, and the most responsible enterprise.

Recently the Draft Law on Social Initiative was presented for the consideration of the Lithuanian Government. The term "social initiatives" is defined in the draft law that embodies CSR, and is considered to be the voluntary activity of companies designated to increase the social welfare of employees and other individuals, to promote their loyalty, to secure human rights, to improve public health, to follow environmental standards, to implement clear and ethical business practices, to increase prestige, attractiveness and competitive ability of enterprises and to achieve other societal goals and of socially responsible business. Charity is not considered a social initiative.

In this perspective, Lithuania, compared to Estonia and Latvia, has taken a giant leap towards making a legal framework to follow when talking about CSR.

Not only charity

CSR should not only be associated with charity activities or granting donations, but it should rather reflect a behaviour, the aim of which is to take an interest in politics, family, social status, welfare, health and the well-being of employees and partners. The most basic and initial form of CSR that can be met in the Baltic region is undeniably charitable donations.

Money is commonly donated by firms and businesses to charitable causes. The Baltic economies have developed fast in which at least some industries and employers have started to recognise that their employees require more than a simple wage in exchange for a number of hours worked or projects completed. Thus, another CSR trend could be labelled as "better understanding" and dialogue between the corporations and their employees aimed at achieving the optimum model for both sides. In addition, companies have started to understand that it is in their best interests in the future to support the development of specific professions.

The ways in which law firms are involved in CSR are numerous. There are firms sponsoring moot court petitions organised in Vienna and The Hague. Others are donating money or additions to the library collections of universities while a number of experienced professionals are combining their daily legal work with teaching at various academic institutions where young lawyers are trained. Thereby the practising specialists can integrate themselves with the academic environment, helping to improve the level of university education available in the country and, what cannot be forgotten, the lawyers can spend some time discussing the issues they encounter every day when providing legal assistance with soon-to-be newcomers to the industry.

Change of mindset

The surveys conducted in recent years show that business leaders in Estonia, as well as Lithuania and Latvia, understand CSR as an ethical way of carrying out business and the business entity must act as a part of society caring for its fellow citizens. The business as a subject must act and operate justly as any citizen should. Any firm with developed and applied CR culture is successful due to motivated employees and the value it earns through a good relationship between personnel and loyal clients.

The trend in Estonia is that CSR adaption in daily business is firstly preceded by economic profitability, which is then transferred to social support and is binding for the company, its partners and employees. The profits earned by Estonian companies in previous years have allowed them to improve the poorer aspects of society and plug holes.

There is still a long way to go as not all Estonian businesses recognise these principles. Many believe that the main focus of business entities should be earning profits for their shareholders, paying taxes and providing people with places to work. In light of this view, CSR has been thought of more as an evolving alternative. The solution for such a standpoint might be a partnership between the company and an NGO, whereby both parties follow their main principles - the company earning its turnover and the NGO helping those in need.

In Latvia, legal businesses have been attempting to widen the concept and address the issues of legal education and handle *pro bono* cases when needed. Recently, other industries have started to show signs of more developed understanding of the concept too. For instance, large supermarket chains have incorporated environmental responsibility in their business and have started offering bags that are biodegradable, to replace their plastic counterparts. Bearing that in mind, it could very well be that the days of pure profit-driven business in Latvia are over.

Any company operating in the 21st century must implement the principles of CSR. The reasons may lie not only in the ethical beliefs but also in the responsibility companies have to their environment and society. Nevertheless, the principles of CSR should comply with the fact that each business is obliged to earn its shareholders a profit and to increase market share. It is important to note that CSR can also be applied as a tool to achieve economic goals and a corporate mission.

Sponsored statement

Pensions creak

Falling stock markets around the world have hit private pension systems hard. By October 2008, the total assets of private pension plans in OECD countries had declined by about US$5 trillion, or nearly 20% of their value compared to December 2007 when their assets stood at $28 trillion; for perspective, US GDP was about $14 trillion in 2007. Two thirds of the losses ($3.3 trillion) are estimated to be in the US, according to the latest edition of OECD's newsletter, "Pension markets in Focus". The UK, Australia, Canada, the Netherlands and Japan together accounted for $1.2 trillion in lost asset values.

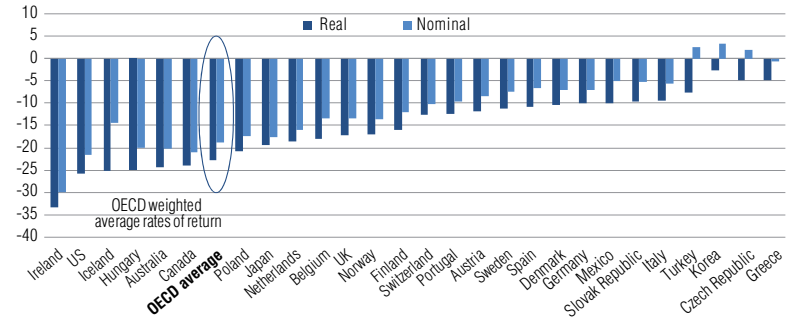
Pension funds, which account for most private pension assets, have been hit hardest where equities make up over a third of total assets invested. Irish pension funds were worst hit, losing around a third of their value.

The fall in equity values of defined benefit pension plans, where benefits are linked to wages, means future liabilities exceeding assets in more funds. Many companies may have to pay more into their pension funds, and some are already closing such schemes to new employees. Germany, Sweden, the UK and the US have guarantee funds that insure benefits if a company goes bankrupt. But if many firms do go bankrupt, these funds might need government bailouts too.

OECD guidelines for the governance of pension funds will be released in January 2009. See www.oecd.org/daf/pensions/pensionmarkets See also article by Colin Melvin of Hermes Equity Ownership Services.

Poorer pensions

Nominal and real pension fund returns in selected OECD countries, % changes, January-October 2008



Note: see StatLink for notes and details

Source: OECD "Pension Markets in Focus", December 2008

StatLink http://dx.doi.org/10.1787/514583284066

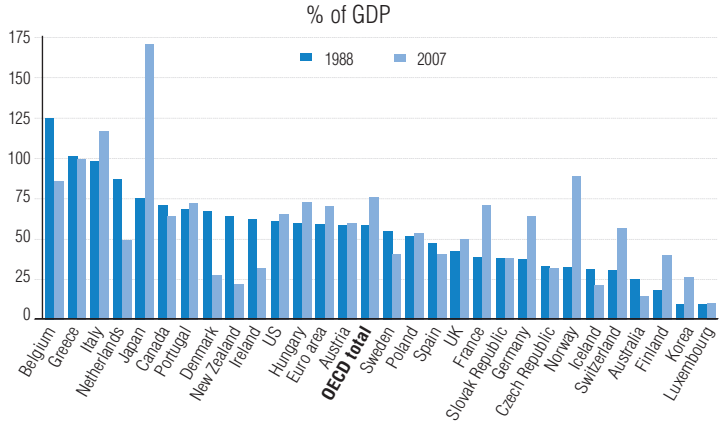
Debt burdens

The financial crisis and economic downturn are likely to put upward pressure on government debt. The trouble is, according to *OECD in Figures 2008*, public debt (general government debt, which includes central and local government) had already risen quite sharply in the OECD as a whole since 1987, from 59% of GDP to 75% in 2007. Two decades ago, Belgium had the highest public debt, but today that position is filled by Japan, whose debt rose from below 60% to 170% of GDP. Italy's debt has also shot above 100% of GDP in the past 20 years.

The figure of 60% of GDP was one of a handful of targets European governments set at the start of the 1990s to prepare for economic and monetary union, and eventually the euro. In 2007 euro area public debt stood above that benchmark at 71%, though this represents a decline from over 80% in 1998. The figures for France and Germany have risen, from 50% to 71% and from 38% to 64%. US public debt stood slightly higher than 20 years ago, and Canada's slightly lower. Several countries managed to reduce their public debt/GDP ratios quite significantly, including Australia, Belgium, Denmark, Ireland, the Netherlands, New Zealand and Spain. One country to be badly hit by the financial crisis was Iceland; its public debt had also eased in the last two decades to just 22% of GDP in 2007. See www.oecd.org/infigures

Public debt

% of GDP



Source: *OECD in Figures 2008*

StatLink http://dx.doi.org/10.1787/466861461214

Indicators

			% change from: previous period	% change from: previous year			level: current period	level: same period last year
Australia	Gross domestic product	Q3 08	0.1	1.9	Current balance	Q3 08	-8.60	-14.71
	Leading indicator	Oct. 08	-28.5	-344.6	Unemployment rate	Oct. 08	4.30	4.30
	Consumer price index	Q3 08	1.2	5.0	Interest rate	Oct. 08	6.03	6.91
Austria	Gross domestic product	Q3 08	0.1	1.5	Current balance	Q2 08	3.84	3.71
	Leading indicator	Oct. 08	-120.5	-641.8	Unemployment rate	Oct. 08	3.00	4.30
	Consumer price index	Oct. 08	-0.1	3.1	Interest rate		*	*
Belgium	Gross domestic product	Q3 08	0.1	1.3	Current balance	Q2 08	-10.85	1.41
	Leading indicator	Oct. 08	-110.4	-534.2	Unemployment rate	Oct. 08	6.60	7.10
	Consumer price index	Nov. 08	-0.6	3.1	Interest rate		*	*
Canada	Gross domestic product	Q3 08	0.3	0.5	Current balance	Q3 08	5.41	1.67
	Leading indicator	Oct. 08	-100.2	-493.6	Unemployment rate	Oct. 08	6.20	5.80
	Consumer price index	Oct. 08	-1.0	2.6	Interest rate	Nov. 08	2.78	4.77
Czech Republic	Gross domestic product	Q3 08	1.0	4.2	Current balance	Q2 08	-2.67	-0.83
	Leading indicator	Oct. 08	-140.5	-783.2	Unemployment rate	Oct. 08	4.40	4.90
	Consumer price index	Oct. 08	0.0	5.9	Interest rate	Nov. 08	4.24	3.73
Denmark	Gross domestic product	Q3 08	-0.5	-1.4	Current balance	Q2 08	1.57	1.40
	Leading indicator	Oct. 08	-71.5	-773.7	Unemployment rate	Oct. 08	3.20	3.50
	Consumer price index	Oct. 08	-0.2	3.7	Interest rate	Nov. 08	5.10	4.61
Finland	Gross domestic product	Q2 08	0.8	2.4	Current balance	Sept. 08	0.53	1.37
	Leading indicator	Oct. 08	-85.4	-656.5	Unemployment rate	Oct. 08	6.40	6.70
	Consumer price index	Oct. 08	0.0	4.4	Interest rate		*	*
France	Gross domestic product	Q3 08	0.1	0.6	Current balance	Sept. 08	-5.69	-2.66
	Leading indicator	Oct. 08	-72.2	-555.1	Unemployment rate	Oct. 08	8.20	8.00
	Consumer price index	Oct. 08	-0.1	2.7	Interest rate		*	*
Germany	Gross domestic product	Q3 08	-0.5	0.8	Current balance	Q3 08	59.07	65.42
	Leading indicator	Oct. 08	-162.4	-830.7	Unemployment rate	Oct. 08	7.10	8.10
	Consumer price index	Oct. 08	-0.2	2.4	Interest rate		*	*
Greece	Gross domestic product	Q2 08	0.8	3.5	Current balance	Sept. 08	-4.91	-3.72
	Leading indicator	Oct. 08	-10.2	-218.7	Unemployment rate	Jun. 08	7.50	8.40
	Consumer price index	Oct. 08	0.0	3.9	Interest rate		*	*
Hungary	Gross domestic product	Q3 08	-0.1	0.9	Current balance	Q2 08	-2.64	-2.42
	Leading indicator	Oct. 08	-174.7	-735.6	Unemployment rate	Oct. 08	8.10	7.70
	Consumer price index	Oct. 08	0.2	5.1	Interest rate	Nov. 08	12.45	7.30
Iceland	Gross domestic product	Q2 08	4.9	4.9	Current balance	Q2 08	-1.79	-0.87
	Leading indicator		..	..	Unemployment rate	Oct. 08	2.10	0.90
	Consumer price index	Nov. 08	1.7	17.2	Interest rate	Nov. 08	18.57	14.25
Ireland	Gross domestic product	Q2 08	-0.5	-0.7	Current balance	Q2 08	-3.43	-2.36
	Leading indicator	May 08	-81.4	-686.3	Unemployment rate	Oct. 08	7.10	4.70
	Consumer price index	Oct. 08	-0.2	4.0	Interest rate		*	*
Italy	Gross domestic product	Q3 08	-0.5	-0.9	Current balance	Jun. 08	-3.89	-2.24
	Leading indicator	Oct. 08	-10.1	-405.4	Unemployment rate	Jun. 08	6.80	6.00
	Consumer price index	Nov. 08	-0.4	2.7	Interest rate		*	*
Japan	Gross domestic product	Q3 08	-0.1	0.0	Current balance	Sept. 08	9.10	19.46
	Leading indicator	Oct. 08	-93.7	-325.2	Unemployment rate	Oct. 08	3.70	4.00
	Consumer price index	Oct. 08	-0.1	1.7	Interest rate	Oct. 08	0.79	0.75
Korea	Gross domestic product	Q3 08	0.6	3.8	Current balance	Oct. 08	3.41	0.77
	Leading indicator	Oct. 08	-113.8	-471.9	Unemployment rate	Oct. 08	3.20	3.20
	Consumer price index	Nov. 08	-0.3	4.5	Interest rate	Nov. 08	5.62	5.43
Luxembourg	Gross domestic product	Q2 08	1.1	2.8	Current balance	Q2 08	1.07	0.96
	Leading indicator	Oct. 08	-136.4	-682.5	Unemployment rate	Oct. 08	4.20	4.00
	Consumer price index	Nov. 08	-0.8	2.0	Interest rate		*	*
Mexico	Gross domestic product	Q3 08	0.6	1.6	Current balance	Q3 08	-5.81	-1.98
	Leading indicator	Oct. 08	-36.0	-186.7	Unemployment rate	Oct. 08	3.90	3.70
	Consumer price index	Oct. 08	0.7	5.8	Interest rate	Nov. 08	7.96	7.60
Netherlands	Gross domestic product	Q3 08	0.0	1.6	Current balance	Q2 08	15.88	13.26
	Leading indicator	Oct. 08	-150.0	-734.4	Unemployment rate	Oct. 08	2.50	2.90
	Consumer price index	Nov. 08	-0.4	2.3	Interest rate		*	*
New Zealand	Gross domestic product	Q2 08	-0.5	-0.3	Current balance	Q2 08	-3.59	-2.73
	Leading indicator	Sep. 08	32.2	-105.2	Unemployment rate	Q3 08	4.10	3.50
	Consumer price index	Q3 08	1.5	5.1	Interest rate	Nov. 08	6.25	8.73

			% change from: previous period	% change from: previous year			level: current period	level: same period last year
Norway	Gross domestic product	Q2 08	0.6	3.3	Current balance	Q3 08	20.74	15.88
	Leading indicator	Oct. 08	-103.3	-707.5	Unemployment rate	Sept. 08	2.50	2.50
	Consumer price index	Oct. 08	0.4	5.5	Interest rate	Nov. 08	6.19	5.78
Poland	Gross domestic product	Q3 08	1.2	5.6	Current balance	Sept. 08	-2.99	-1.40
	Leading indicator	Oct. 08	-44.0	-791.0	Unemployment rate	Oct. 08	6.40	8.70
	Consumer price index	Oct. 08	0.4	4.1	Interest rate	Oct. 08	6.85	5.21
Portugal	Gross domestic product	Q3 08	0.0	0.7	Current balance	Sept. 08	-2.26	-2.31
	Leading indicator	Oct. 08	-181.6	-991.8	Unemployment rate	Oct. 08	7.80	7.90
	Consumer price index	Oct. 08	-0.2	2.3	Interest rate		*	*
Slovak Republic	Gross domestic product	Q3 08	1.5	7.6	Current balance	Q2 08	-2.34	-1.04
	Leading indicator	Oct. 08	-98.9	-542.6	Unemployment rate	Oct. 08	10.00	10.70
	Consumer price index	Oct. 08	0.4	5.2	Interest rate	Nov. 08	3.30	4.07
Spain	Gross domestic product	Q3 08	-0.2	0.9	Current balance	Sept. 08	-13.69	-13.15
	Leading indicator	Oct. 08	-66.7	-641.0	Unemployment rate	Oct. 08	12.80	8.50
	Consumer price index	Oct. 08	0.3	3.6	Interest rate		*	*
Sweden	Gross domestic product	Q3 08	-0.1	0.3	Current balance	Q3 08	11.13	8.99
	Leading indicator	Oct. 08	-31.2	-583.1	Unemployment rate	Oct. 08	6.60	5.90
	Consumer price index	Oct. 08	0.2	4.0	Interest rate	Nov. 08	3.20	4.02
Switzerland	Gross domestic product	Q2 08	0.4	2.4	Current balance	Q2 08	11.25	17.97
	Leading indicator	Oct. 08	-16.6	-367.3	Unemployment rate	Q3 08	3.50	3.60
	Consumer price index	Oct. 08	0.5	2.6	Interest rate	Nov. 08	1.26	2.75
Turkey	Gross domestic product	Q2 08	-2.4	2.1	Current balance	Q3 08	-11.64	-9.75
	Leading indicator	Oct. 08	-228.6	-878.2	Unemployment rate	Aug. 08	9.80	9.20
	Consumer price index	Oct. 08	2.6	12.0	Interest rate	Apr. 08	16.65	17.86
United Kingdom	Gross domestic product	Q3 08	-0.5	0.3	Current balance	Q2 08	-21.59	-24.65
	Leading indicator	Oct. 08	-88.0	-645.3	Unemployment rate	Aug. 08	5.70	5.30
	Consumer price index	Oct. 08	-0.3	4.5	Interest rate	Nov. 08	4.40	6.36
United States	Gross domestic product	Q3 08	-0.1	0.7	Current balance	Q2 08	-183.15	-194.09
	Leading indicator	Oct. 08	-124.6	-659.5	Unemployment rate	Oct. 08	6.50	4.80
	Consumer price index	Oct. 08	-1.0	3.7	Interest rate	Oct. 08	4.32	5.08
Euro area	Gross domestic product		..	..	Current balance	Sept. 08	-15.18	2.39
	Leading indicator	Oct. 08	-93.5	-633.2	Unemployment rate	Oct. 08	7.70	7.30
	Consumer price index	Oct. 08	0.0	3.2	Interest rate	Nov. 08	4.24	4.64
Russia[1]	Gross domestic product	Q2 08	1.2	7.5	Current balance	Q2 08	26.44	14.63
	Leading indicator	Oct. 08	-396.0	-1047.8	Unemployment rate		..	..
	Consumer price index	Oct. 08	0.9	14.2	Interest rate	Sept. 08	9.68	7.70
Brazil[2]	Gross domestic product	Q2 08	1.6	6.2	Current balance	Q1 08	-8.88	1.97
	Leading indicator	Oct. 08	-28.4	-38.0	Unemployment rate		..	..
	Consumer price index	Oct. 08	0.5	6.4	Interest rate		..	..
China[2]	Gross domestic product		..	..	Current balance		..	..
	Leading indicator	Oct. 08	-173.3	-703.6	Unemployment rate		..	..
	Consumer price index		..	..	Interest rate	Oct. 08	4.25	3.88
India[2]	Gross domestic product	Q3 08	2.5	7.5	Current balance	Q1 08	-7.16	-1.68
	Leading indicator	Oct. 08	-109.7	-662.6	Unemployment rate		..	..
	Consumer price index	Oct. 08	1.4	10.4	Interest rate		..	..
Indonesia[2]	Gross domestic product	Q2 08	1.7	6.4	Current balance	Q1 08	2.65	2.48
	Leading indicator	Oct. 08	-170.4	-385.3	Unemployment rate		..	..
	Consumer price index	Nov. 08	0.1	11.5	Interest rate	Sept. 08	9.45	7.44
South Africa[2]	Gross domestic product	Q2 08	1.2	4.2	Current balance	Q1 08	-5.99	-4.30
	Leading indicator	Sep. 08	-82.4	-869.1	Unemployment rate		..	..
	Consumer price index	Oct. 08	0.0	12.1	Interest rate	Oct. 08	10.94	9.77

Definitions and notes

Gross Domestic Product: Volume series; seasonally adjusted. **Leading Indicators:** A composite indicator based on other indicators of economic activity, which signals cyclical movements in industrial production from six to nine months in advance. **Consumer Price Index:** Measures changes in average retail prices of a fixed basket of goods and services. **Current Balance:** Billion US$; seasonally adjusted. **Unemployment Rate:** % of civilian labour force, standardised unemployment rate; national definitions for Iceland, Mexico and Turkey; seasonally adjusted apart from Turkey. **Interest Rate:** Three months; *refer to Euro area.

..=not available

[1]Accession candidate to OECD

[2]Enhanced engagement programme

Source: Main Economic Indicators, December 2008

How deep?

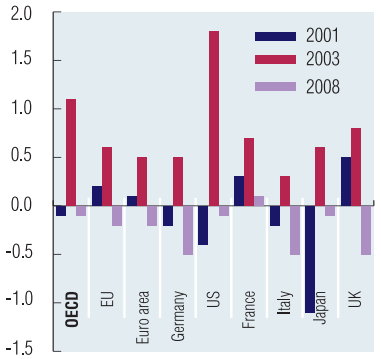
The crisis sweeping the world's economy is reflected in the output results for the third quarter of 2008, when GDP of the OECD area fell by 0.1% compared with the previous quarter. This was the first decline since 2001.

France is the only country to register a positive growth with a rise of 0.1% compared with the previous quarter. However, in Germany, Japan and Italy GDP contracted over the last two quarters. This was also the case for the euro area, where growth fell by 0.2% for the second and third quarters of 2008. In the US, where the largest fall was recorded, growth slid from 0.7% to 0.1% between the second and third quarters.

Growth rates in the third quarter of 2008 were almost all lower than in 2001. Also, US growth has fallen by nearly two percentage points since the third quarter of 2003, the year when growth was at its peak of the last seven years. For France, the rate slid from 0.7% over that period, in Germany, there was a slide of a percentage point from 0.5 to -0.5%, while the UK saw a slightly steeper drop from 0.8% to -0.5%.

Lower activity

% real change in GDP, 3rd quarter compared with preceding period



Source: *OECD Quarterly National Accounts*

Patent surge

Over 400 international patent applications are filed every day and are a good measure of a country's scientific and technological performance. The US accounts for the largest share of international patent applications with 33%, though its share has fallen since 1995, as has that of the EU.

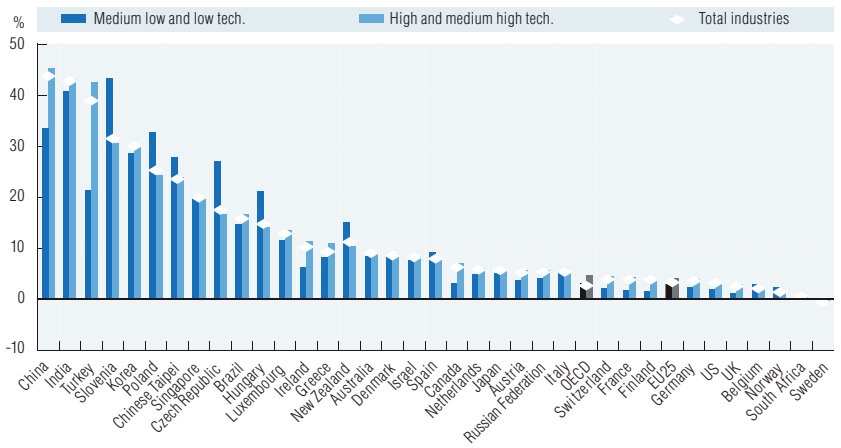
Yet, as the 2008 *Science, Technology and Industry Outlook* finds, the number of patents filed has increased sharply over the past decade. The reason is Asia, particularly China and India. While patent applications from OECD countries remained stable from 1997 to 2004, growing by just 3% annually, the share of patents filed from Asian economies surged. China had the highest annual growth rate of international patent filings at 44%, closely followed by India at 43%. Japan, the world's second top filing country, saw an annual increase of 6%, while patents filed by Korea jumped by 30% each year. Turkey's patent growth was also high at 39%.

Knowledge and ideas are key to future long-term growth, though whether the pace of applications falls with the economic crisis remains to be seen. IT, biotechnology, telecommunications and other high and medium technologies account for the strongest patent application growth in these countries. But patent applications for medium-low and low technology industries, such as textiles, food, wood and paper industries have also risen, particularly in central European countries such as Hungary, the Czech Republic and Slovenia.

OECD Science, Technology and Industry Outlook at www.oecd.org/bookshop, ISBN 978-92-64-04991-8

Patent growth

Annual % growth rates of patenting, 1997-2004



Applications filed under the Patent Co-operation Treaty. Only countries with more than 200 PCT filings during 2002-04 are included.

Source: *OECD Science, Technology and Industry Outlook 2008*

StatLink http://dx.doi.org/10.1787/451152124658