ECONOMIC OUTLOOK
No. 93

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&

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For a video link to the press conference and related material:
www.oecd.org/OECDEconomicOutlook

Summary of Projections

	2010	2011	2012	2013	2014
			Per cent		
Real GDP growth					
United States	2.4	1.8	2.2	1.9	2.8
Euro area	1.9	1.5	-0.5	-0.6	1.1
Japan	4.7	-0.6	2.0	1.6	1.4
Total OECD	3.0	1.9	1.4	1.2	2.3
China	10.4	9.3	7.8	7.8	8.4
Non-OECD	8.2	6.3	5.1	5.5	6.2
Inflation					
United States	1.9	2.4	1.8	1.3	1.8
Euro area	1.6	2.7	2.5	1.5	1.2
Japan	-0.7	-0.3	0.0	-0.1	1.8
Total OECD	1.9	2.6	2.1	1.5	1.9
China	3.2	5.5	2.6	2.5	2.6
Unemployment rate[1]					
United States	9.6	8.9	8.1	7.5	7.0
Euro area	9.9	10.0	11.2	12.1	12.3
Japan	5.0	4.6	4.3	4.2	4.1
Total OECD	8.3	7.9	8.0	8.1	8.0
World trade growth	12.7	6.1	2.7	3.6	5.8
Current account balance[2]					
United States	-3.0	-3.1	-3.0	-3.1	-3.3
Euro area	0.5	0.7	1.9	2.5	2.8
Japan	3.7	2.0	1.0	1.0	1.9
Total OECD	-0.4	-0.6	-0.5	-0.4	-0.3
China	4.0	1.9	2.4	2.3	1.4
Non-OECD	2.5	2.6	2.1	1.6	1.2
Fiscal balance[2]					
United States	-11.4	-10.2	-8.7	-5.4	-5.3
Euro area	-6.2	-4.1	-3.7	-3.0	-2.5
Japan	-8.3	-8.9	-9.9	-10.3	-8.0
Total OECD	-7.7	-6.4	-5.7	-4.3	-3.8
China	-0.7	0.1	-0.4	-1.4	-1.5
Short-term interest rate					
United States	0.5	0.4	0.4	0.3	0.2
Euro area	0.8	1.4	0.6	0.1	0.0
Japan	0.2	0.1	0.1	0.2	0.1

Note: Real GDP growth and real trade growth (the arithmetic average of world merchandise import and export volumes) are seasonally and working-day adjusted annualised rates. Inflation is measured by the increase in the consumer price index, except for the United States and the OECD where it is the increase in the private consumption deflator. Interest rates are: 3-month eurodollar deposit rate for the United States; 3-month certificate of deposit for Japan; 3-month interbank rate for the euro area.

1. Per cent of the labour force.
2. Per cent of GDP.

Source: OECD Economic Outlook 93 database.

Quarterly real GDP growth projections[1]

	2012 Q4	2013 Q1	Q2	Q3	Q4	2014 Q1	Q2	Q3	Q4
United States	0.4	2.5	1.6	1.8	2.6	3.0	3.2	3.4	3.4
Euro area	-2.4	-0.6	0.0	0.4	0.7	1.2	1.4	1.6	1.8
Japan	1.0	3.5	2.4	2.6	3.2	3.3	-4.3	1.6	1.5
Total OECD	-0.2	1.7	1.5	1.8	2.2	2.5	2.0	2.7	2.8
China	8.4	6.6	8.3	8.5	8.4	8.4	8.4	8.3	8.3
Non-OECD	6.6	4.5	5.8	5.7	5.8	6.3	6.6	6.6	6.4

1. Seasonally adjusted and working-day adjusted rates.
Source: OECD Economic Outlook 93 database

Real GDP
Percentage changes from previous years

	2007	2008	2009	2010	2011	2012	2013	2014
Australia	4.8	2.4	1.5	2.6	2.4	3.6	2.6	3.2
Austria	3.7	1.1	-3.5	2.2	2.7	0.8	0.5	1.7
Belgium	2.9	1.0	-2.8	2.4	1.9	-0.3	0.0	1.1
Canada	2.1	1.1	-2.8	3.2	2.6	1.8	1.4	2.3
Chile	5.1	3.1	-0.9	5.8	5.9	5.5	4.9	5.3
Czech Republic	5.7	2.9	-4.4	2.3	1.8	-1.2	-1.0	1.3
Denmark	1.6	-0.8	-5.7	1.6	1.1	-0.5	0.4	1.7
Estonia	7.5	-4.2	-14.1	3.3	8.3	3.2	1.5	3.6
Finland	5.3	0.3	-8.5	3.3	2.8	-0.2	0.0	1.7
France	2.2	-0.2	-3.1	1.6	1.7	0.0	-0.3	0.8
Germany	3.4	0.8	-5.1	4.0	3.1	0.9	0.4	1.9
Greece	3.5	-0.2	-3.1	-4.9	-7.1	-6.4	-4.8	-1.2
Hungary	0.1	0.7	-6.7	1.3	1.6	-1.8	0.5	1.3
Iceland	6.0	1.2	-6.6	-4.1	2.9	1.6	1.9	2.6
Ireland	5.4	-2.1	-5.5	-0.8	1.4	0.9	1.0	1.9
Israel	5.9	4.1	1.1	5.0	4.6	3.2	3.9	3.4
Italy	1.5	-1.2	-5.5	1.7	0.5	-2.4	-1.8	0.4
Japan	2.2	-1.0	-5.5	4.7	-0.6	2.0	1.6	1.4
Korea	5.1	2.3	0.3	6.3	3.7	2.0	2.6	4.0
Luxembourg	6.6	-0.8	-4.1	2.9	1.7	0.3	0.8	1.7
Mexico	3.2	1.2	-6.0	5.3	3.9	3.9	3.4	3.7
Netherlands	3.9	1.8	-3.7	1.6	1.1	-1.0	-0.9	0.7
New Zealand	3.3	-0.6	0.3	0.9	1.3	3.0	2.6	3.1
Norway	2.7	0.1	-1.6	0.5	1.2	3.2	1.3	3.0
Poland	6.8	5.0	1.6	3.9	4.5	2.0	0.9	2.2
Portugal	2.4	0.0	-2.9	1.9	-1.6	-3.2	-2.7	0.2
Slovak Republic	10.5	5.8	-4.9	4.4	3.2	2.0	0.8	2.0
Slovenia	7.0	3.4	-7.8	1.2	0.6	-2.3	-2.3	0.1
Spain	3.5	0.9	-3.7	-0.3	0.4	-1.4	-1.7	0.4
Sweden	3.4	-0.8	-5.0	6.3	3.8	1.2	1.3	2.5
Switzerland	3.8	2.2	-1.9	3.0	1.9	1.0	1.4	2.0
Turkey	4.7	0.7	-4.8	9.2	8.8	2.2	3.1	4.6
United Kingdom	3.6	-1.0	-4.0	1.8	1.0	0.3	0.8	1.5
United States	1.9	-0.3	-3.1	2.4	1.8	2.2	1.9	2.8
Euro area	3.0	0.3	-4.3	1.9	1.5	-0.5	-0.6	1.1
Total OECD	2.8	0.2	-3.6	3.0	1.9	1.4	1.2	2.3
Brazil	6.1	5.2	-0.3	7.5	2.7	0.9	2.9	3.5
China	14.2	9.6	9.2	10.4	9.3	7.8	7.8	8.4
India	10.0	6.0	5.4	11.3	7.6	3.8	5.3	6.4
Indonesia	6.3	6.0	4.6	6.2	6.5	6.2	6.0	6.2
Russian Federation	8.5	5.2	-7.8	4.5	4.3	3.4	2.3	3.6
South Africa	5.5	3.6	-1.5	3.1	3.5	2.5	2.8	4.3

Note: These numbers are working-day adjusted and hence may differ from the basis used for official projections.
Source: OECD Economic Outlook 93 database.

EDITORIAL

Multiple Paths to Recovery

While still disappointing, the global economy is moving forward, and it is doing so at multiple speeds. These multiple speeds reflect different paths towards self-sustained growth, with each path carrying its own mix of risks.

In the United States, large imbalances had built up prior to the crisis and eventually erupted, but the economy has undergone significant adjustment, which is beginning to bear fruit. The combination of a repaired financial system and a revival in confidence is driving growth. Private sector demand is stabilising as household deleveraging is far advanced, house prices are rebounding and wealth accumulation is supporting consumption. Employment is growing, adding to confidence. Fiscal policy should reduce the effects of excessive tightening coming from across-the-board sequestration, by refocusing or limiting the cuts in the current year, while ensuring a credible medium-term consolidation path. Monetary policy should remain accommodative but vigilant, as declining benefits of further quantitative easing are likely at some point to be outweighed by increasing costs in terms of misallocation and excessive risk-taking.

In Japan, imbalances had been building up long before the crisis, but a radically new policy is being implemented only now. High debt, weak potential growth and persistent deflation are being tackled by a policy mix which includes aggressive monetary policy and the promise of decisive fiscal consolidation, as well as the implementation of structural reforms. While the policy shift is welcome, it will take a delicate balancing act to boost growth in a more sustainable way, raise inflationary expectations to beat deflation and secure the sustainability of a huge public debt.

In the euro area, still-rising unemployment is the most pressing challenge for policy makers. Protracted weakness could evolve into stagnation with negative implications for the global economy. Such a perspective would resonate negatively with large persistent risks of adverse interactions between weakly capitalised banks, public debt financing requirements and exit risks. The more positive news is that in many euro area countries adjustment, both fiscal and structural, has been going on for several years. Government debt ratios should start to decline soon with positive implications for market risk assessments. And once debt ratios begin to decline, only modest additional fiscal tightening would be needed to bring them to safe levels over the medium term. The improvement in competitiveness in some countries also reflects structural efforts. However, reform fatigue is mounting as visible results in growth and jobs still fail to materialise, in part because reforms can take time to bring results but also due to the weak macroeconomic environment. Higher wages and product market liberalisation in surplus countries would provide a more symmetric and effective rebalancing, while supporting growth.

The macroeconomic policy stance in the euro area should be more supportive to avoid dissipating the benefits of adjustment. The ECB has appropriately lowered its policy rate and committed to maintain an accommodative stance for as long as needed, but more can be done through further non-conventional measures. In addition, progress on financial sector repair is needed to ensure that the impact of monetary policy is uniformly transmitted to the real economy. As weakness persists, the automatic stabilisers should be allowed to operate freely. Last but not least, the strengthening of euro area institutions, in particular banking union, must continue. As euro area policy has often been behind the curve, perceptions of strong disagreement among members states could have negative consequences on confidence and exacerbate fragmentation.

Outside the major developed economies, there is a large and heterogeneous group of "innocent bystanders", some advanced and many emerging market economies, without large pre-crisis imbalances and with solid growth in the recovery, but where new imbalances, often resulting from spillovers from the policy stance in other regions, are emerging through inflationary pressures and high and rising asset prices.

What lessons can be drawn from such diverse performance across countries? To some extent, at least, different paths to sustainable growth reflect uneven progress in two dimensions: confidence-building and financial sector repair.

Confidence is essential for both companies and households to boost spending, especially on investment, which continues to remain below average in many advanced and some emerging countries. It is the duty of policy to rebuild confidence through credible medium-term frameworks involving all policy pillars: monetary, fiscal, financial, structural, and, especially in the case of the euro area, institutional. The policy mix should be balanced and based on multiple pillars, as relying only on a limited set of instruments could lead to renewed instability.

Financial sector repair is needed to ensure that confidence feeds into stronger activity. The difference in the paths to recovery reflects, importantly, the decisive action in this area in the United States relative to the long delay in Japan and in the euro area.

Fiscal policy will continue to be geared towards consolidation. Its composition should be adjusted to make it more growth-friendly and improve its impact on equity and income distribution. The pace of deficit reduction should be slower if weakness persists. In this respect, it may be worth recalling that, contrary to widespread perceptions, the pace of consolidation on the two sides of the Atlantic has been not so dissimilar. Differences in activity and employment performance are likely to reflect differences in labour market institutions and financial sector repair.

With limited fiscal space, monetary policy will continue to bear most responsibility for supporting activity, including through unconventional measures. The United States and now Japan have taken this route, less so the euro area. At the same time, protracted monetary easing may lead to excessive risk taking, bubbles and resource misallocation. Exit from unconventional monetary policy, when needed, may be difficult to manage and less smooth than desirable, possibly leading to sharp rises in bond yields and serious negative consequences for growth in a number of advanced and emerging economies.

In any case, restoring a more normal stance of monetary policy can hardly be achieved without a sustainable fiscal path. And debt sustainability cannot be obtained without sustained and sustainable growth which, in turn, requires strong efforts in structural reforms, From this point of view, Japan, among the large advanced economies has been lagging behind, less so the euro area. In the euro area, however, progress is still needed in addressing barriers in labour markets, and especially those facing the young generations.

Finally, in such a diverse, multiple-path environment, internal and external imbalances are more likely to increase than the opposite. Current account imbalances are still large and could be rising in the future, while unorthodox monetary policies are likely to generate shock waves both during their implementation and once they begin to be withdrawn. National policy frameworks will be less credible if they conflict with each other or disregard spillover effects. Adjusting the composition of national policy packages in a cooperative fashion to facilitate rebalancing and minimise adverse spillover effects is necessary. It is also possible.

29 May 2013

Pier Carlo Padoan
Deputy Secretary-General and Chief Economist

WHAT IS THE GLOBAL ECONOMIC OUTLOOK?

Paris, 29 May 2013

Angel Gurría, Secretary-General and Pier Carlo Padoan,
Deputy Secretary-General and Chief Economist

Divergent recovery paths in a changing global environment

A variety of factors account for the different speeds at which growth is projected to strengthen in advanced economies

- Household deleveraging
- Health of the financial system
- Fiscal consolidation
- Monetary policy stance (generally supportive but with some variation)

The global environment is characterised by risks and uncertainties

- Persisting imbalances
- Spillovers from exceptional liquidity conditions
- Possible weaker potential growth

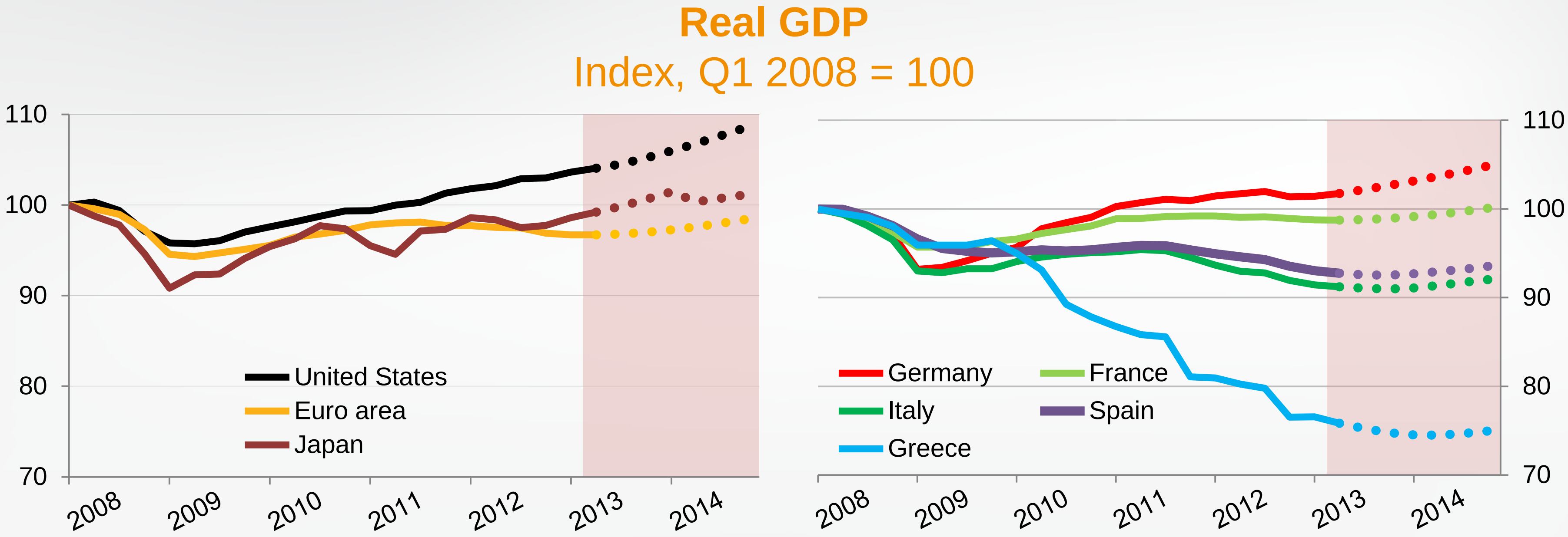
OECD growth projections

Change in real GDP, in per cent

	2011	2012	2013	2014
United States	1.8	2.2	1.9	2.8
Euro area	1.5	-0.5	-0.6	1.1
Japan	-0.6	2.0	1.6	1.4
Total OECD	**1.9**	**1.4**	**1.2**	**2.3**

Source: OECD Economic Outlook 93 database.

Divergent recovery paths across major economies and within the euro area



Source: OECD Economic Outlook 93 database.

OECD growth projections

The upturn continues to diverge across countries:

- The United States is likely to grow faster than other large OECD economies, in spite of short-term fiscal drag
- Various policy influences make for an irregular growth pattern in Japan
- Euro area growth remains constrained by on-going drag from fiscal consolidation and weaknesses in the financial system

In short:

- Some countries are well advanced in dealing with the crisis
- Japan and especially the euro area are taking longer to respond adequately
- Some economies, which did not suffer pre-crisis imbalances, are affected by monetary conditions

Growth in EMEs is stronger than in OECD countries, but diverse

Real GDP growth, in per cent

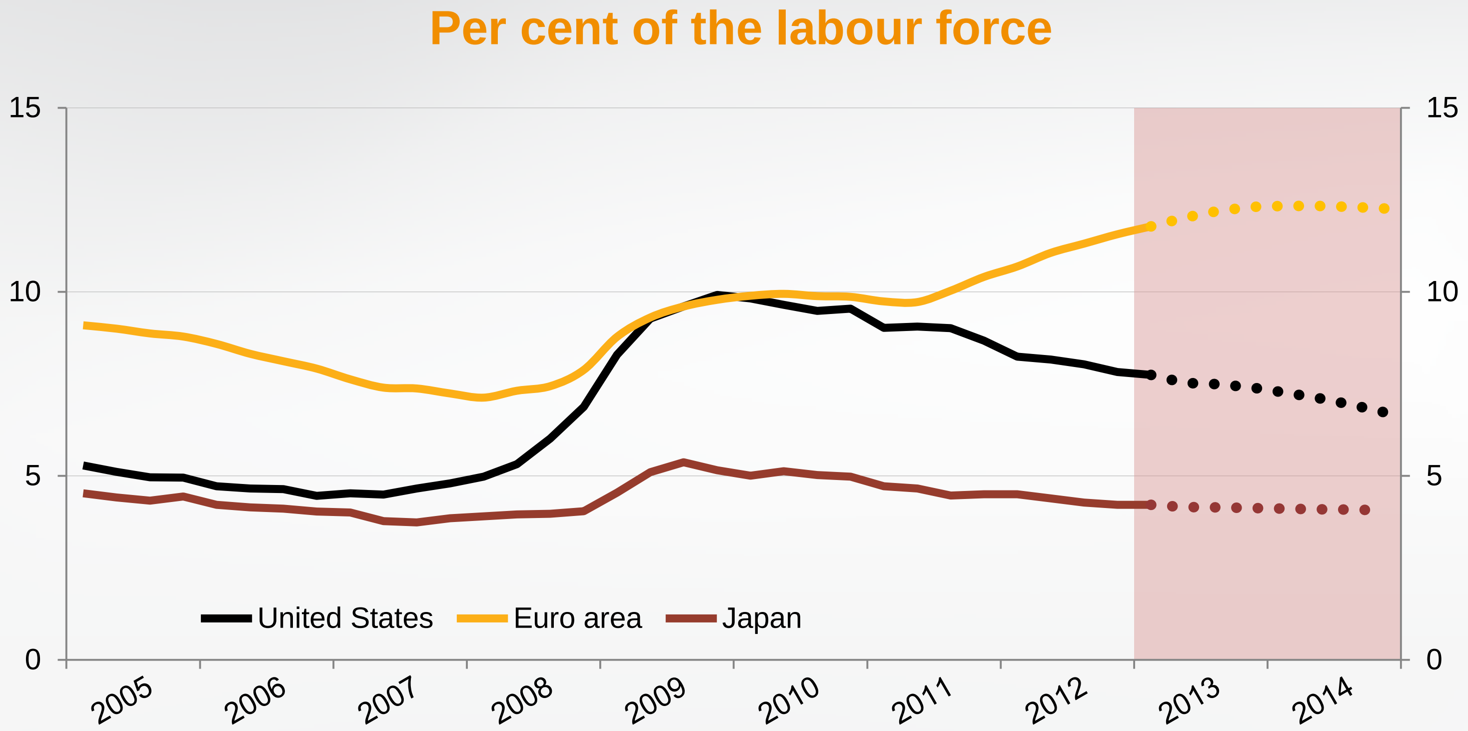
	2010	2011	2012	2013	2014
Brazil	7.5	2.7	0.9	2.9	3.5
China	10.4	9.3	7.8	7.8	8.4
India	11.3	7.6	3.8	5.3	6.4
Indonesia	6.2	6.5	6.2	6.0	6.2
Russian Federation	4.5	4.3	3.4	2.3	3.6
South Africa	3.1	3.5	2.5	2.8	4.3
Non-OECD [1]	**8.2**	**6.3**	**5.1**	**5.5**	**6.2**

1. Includes OECD estimates and projections for Argentina, Brazil, China, India, Indonesia, Russian Federation, Saudi Arabia, South Africa, the aggregate Dynamic Asian Economies (comprising Chinese Taipei, Hong Kong, Malaysia, Philippines, Singapore, Thailand and Vietnam), the aggregate Other Major Oil Producers (comprising Azerbaijan, Kazakhstan, Turkmenistan, Brunei, Timor-Leste, Bahrain, Iran, Iraq, Kuwait, Libya, Oman, Qatar, UAE, Yemen, Ecuador, Trinidad and Tobago, Venezuela, Algeria, Angola, Chad, Republic of Congo, Equatorial Guinea, Gabon, Nigeria and Sudan), and the aggregate Rest of non-OECD (comprising all other non-OECD countries, using IMF World Economic Outlook data for past years), weighted by nominal GDP at PPP rates in 2005.
Source: OECD Economic Outlook 93 database.

Job markets will improve in some parts of the OECD, but not everywhere

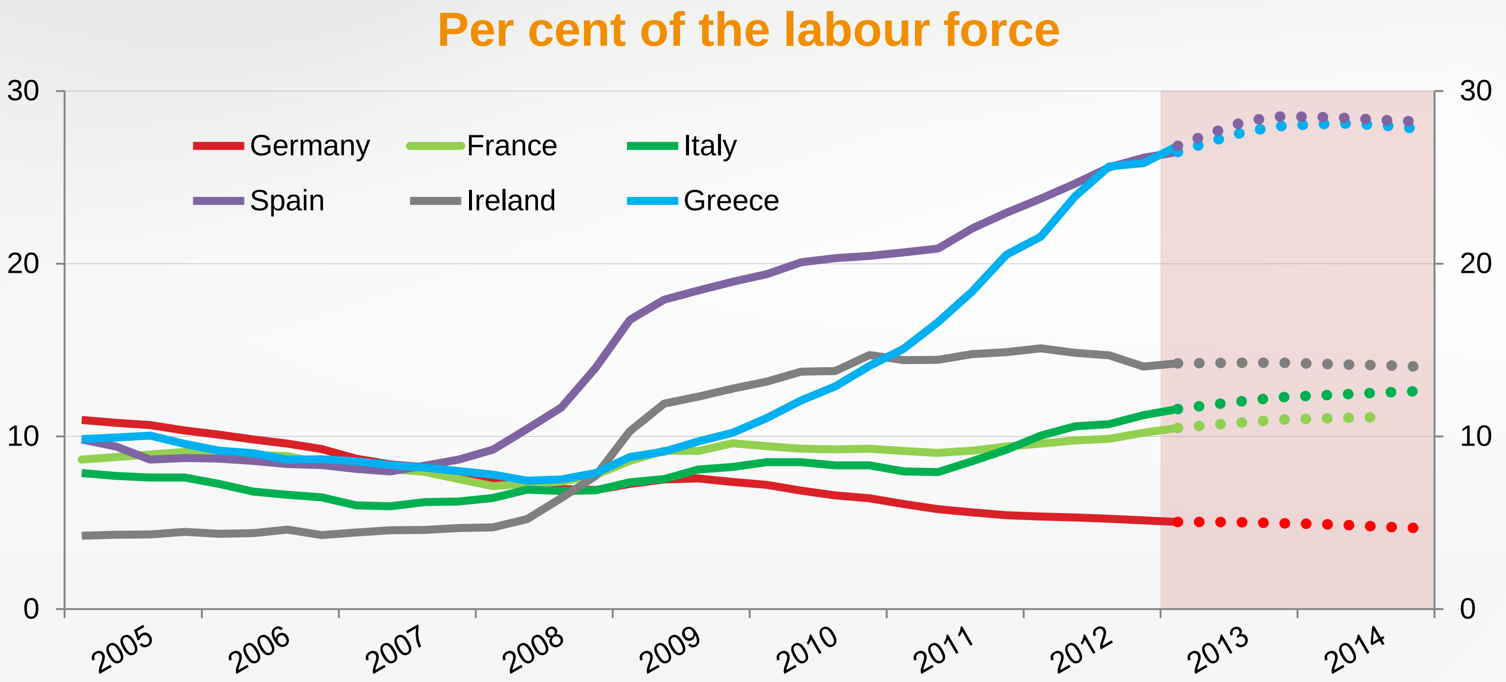
- **Labour markets are set to firm gradually in the United States and Japan**
- **But unemployment is likely to continue to rise further in the euro area, stabilising at a very high level only in 2014**
- **Structural reforms are essential to prevent cyclical unemployment from becoming structural and address youth unemployment**

Unemployment rates are diverging



***Source*:** OECD Economic Outlook 93 database.

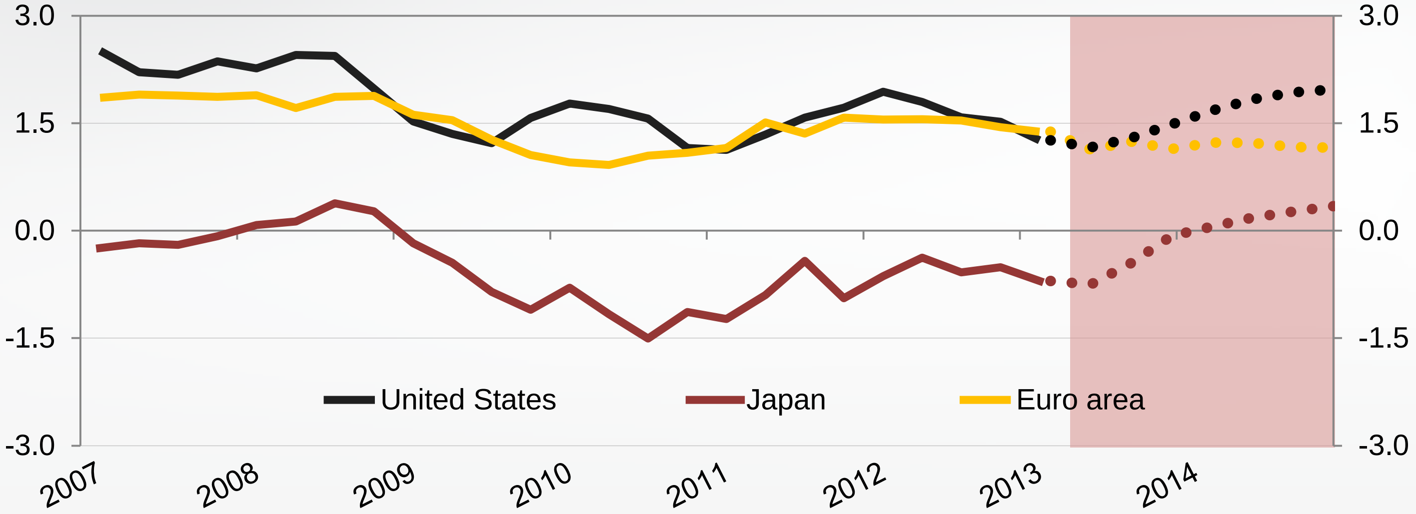
Unemployment is high and rising in many euro area countries



Source**:** OECD Economic Outlook 93 database.

Inflation dynamics vary across the main economies

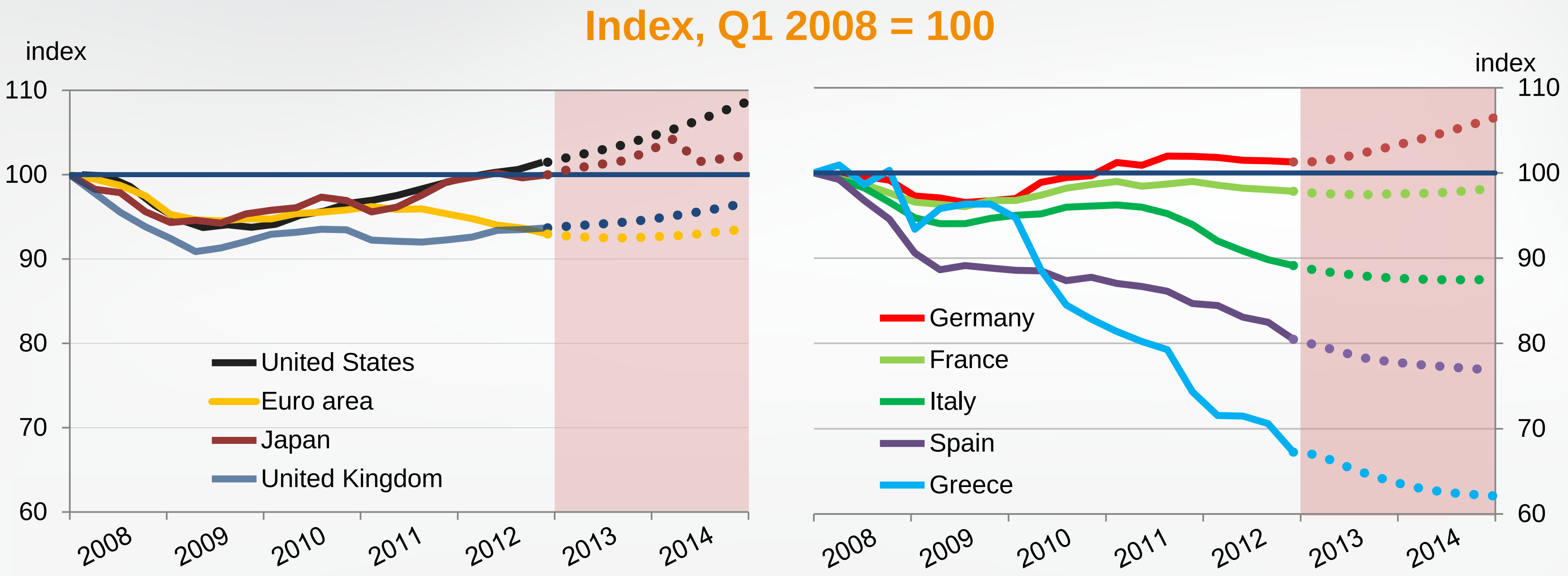
Core inflation[1], per cent



1. Year-on year percentage change. For the United States, personal consumption deflator excluding food and energy; in the euro area, harmonised index of consumer prices excluding food, energy, tobacco and alcohol; in Japan, consumer price index excluding food and energy. The Japanese data are adjusted to exclude the impact of the assumed consumption tax increase in 2014q2.

***Source*:** OECD Economic Outlook 93 database.

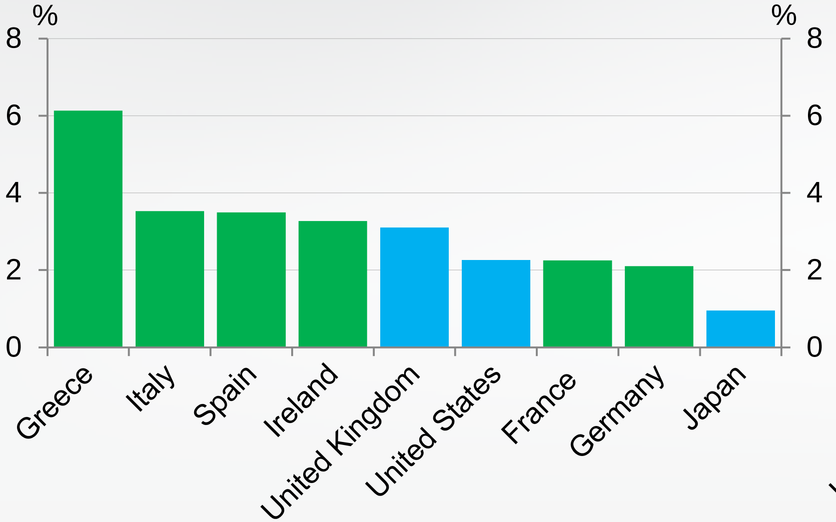
Private domestic demand has been particularly weak in much of Europe



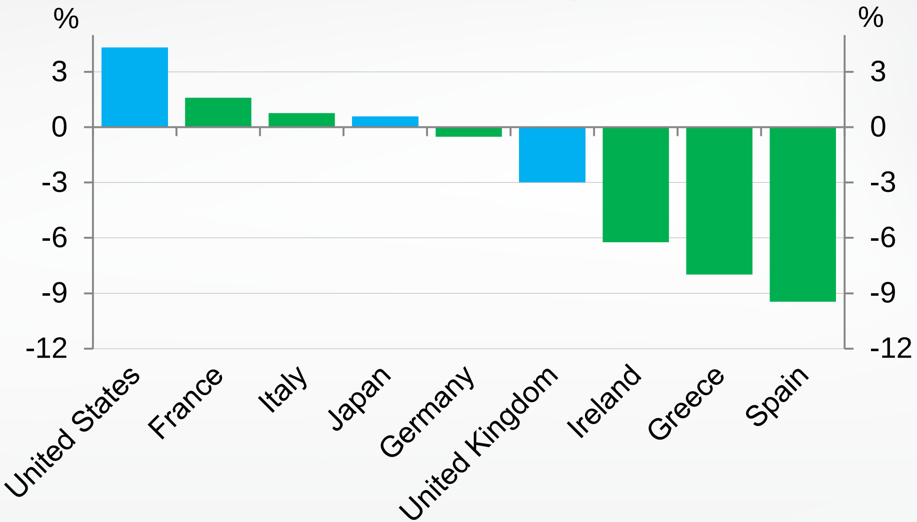
***Source*:** OECD Economic Outlook 93 database, and OECD calculations.

Tight credit conditions in many countries underpin the tepid growth outlook…

Cost of credit[1]



Growth of credit to the private sector[2]



Note: Euro area countries shown in green, others in blue.

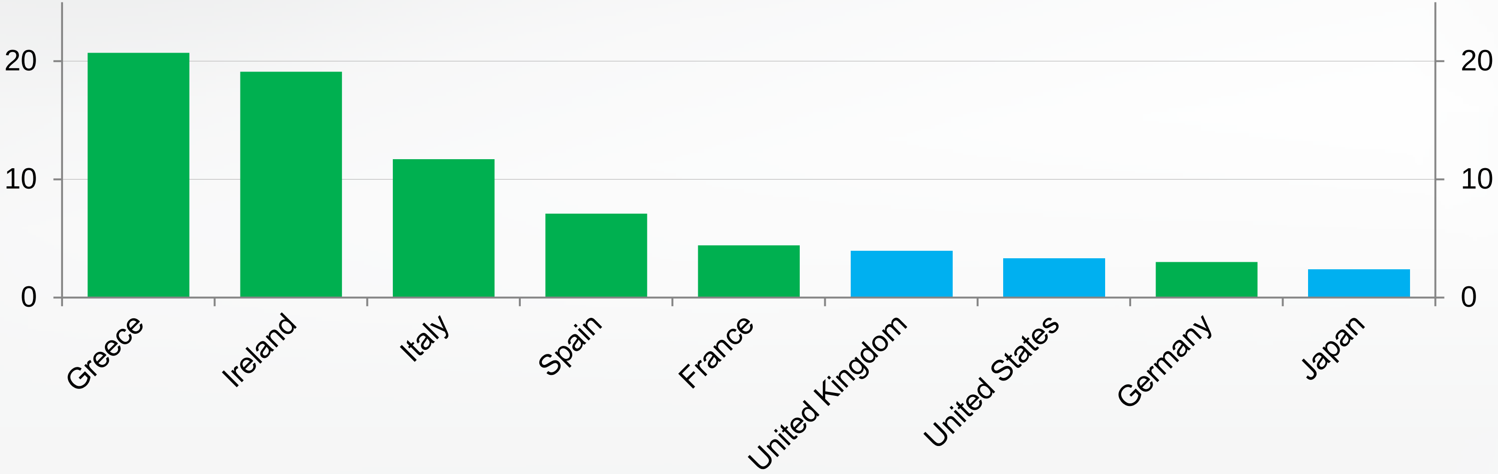
1. Interest rate on new loans to non-financial corporations (all maturities) with the exception of Greece where it refers to new loans with maturity of up to one year. For the United States and the United Kingdom, interest rate on outstanding loans. Year-on-year percentage change in 2013 Q1.

2. Year-on-year percentage change in 2013 Q1.

Source: ECB, national central banks, Datastream.

...partly reflecting slower progress in cleaning up the banking system

Non-performing loans[1]
As percentage of total loans

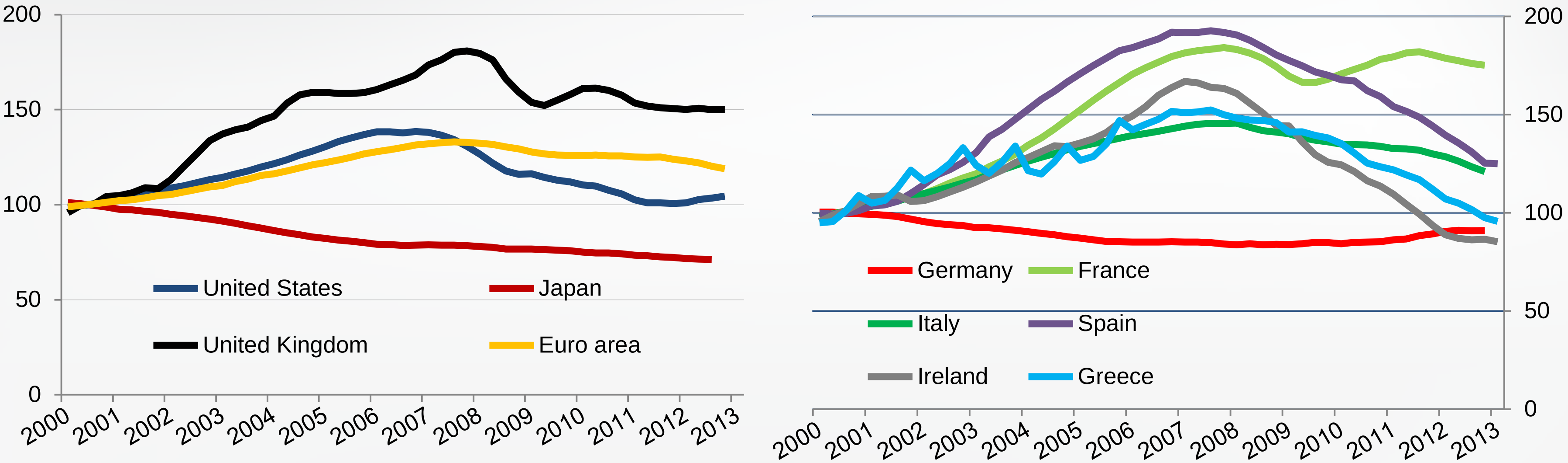


1. For the United States, end-2012; for Germany, United Kingdom and Italy, end-2011; for France, Spain and Ireland, end-June 2012; for Greece and Japan, end-September 2012.
Note: Euro area countries shown in green, other countries in blue.
Source: ECB, national central banks, Datastream.

House prices are rising in the United States but still falling in much of Europe

Real house prices

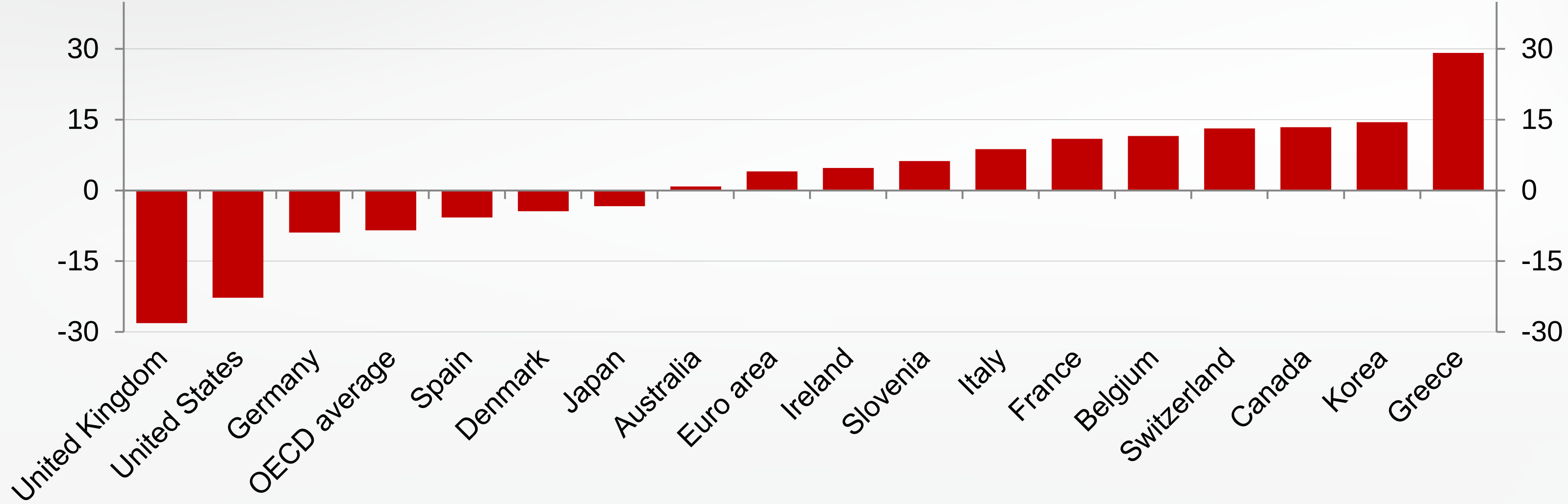
Index, 2000 = 100



Source: OECD.

Households have been deleveraging in some countries, but not in others

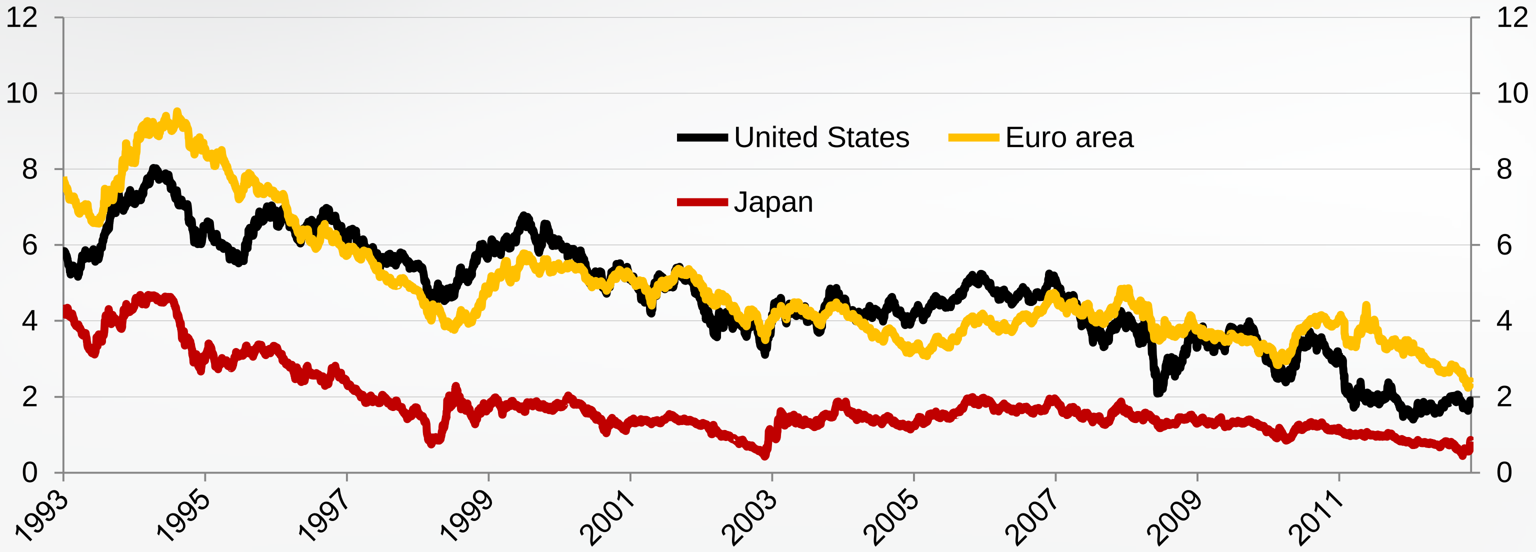
Household gross debt as a percentage of gross disposable income, change from 2007 to 2012



Note: OECD average is weighted by nominal GDP at PPP rates in 2010.
***Source*:** OECD national accounts, OECD Economic Outlook 93 database, national central banks' statistics, national statistical institutes, ECB, Eurostat.

Sovereign bond yields in the main economies are exceptionally low

Yields on benchmark 10-year government bonds, percent

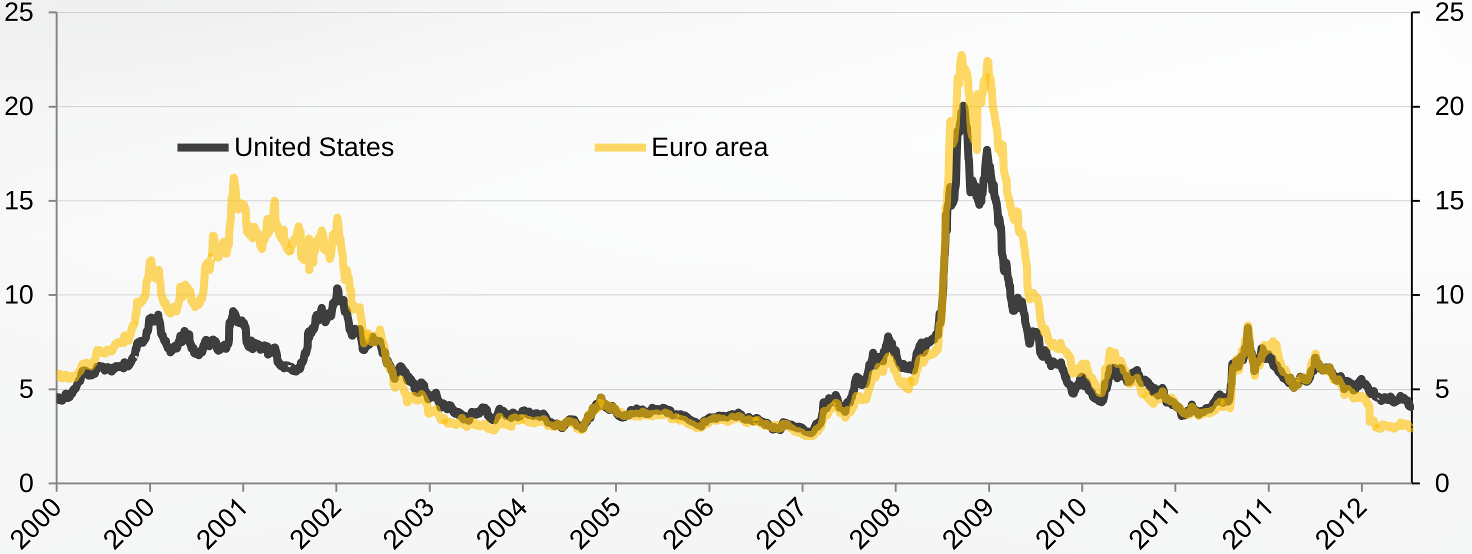


Note: For the euro area, weighted average yield of the benchmark bond series from each European Monetary Union member, weighted by 1996 GDP as published by Eurostat.

***Source*:** Datastream, and OECD calculations.

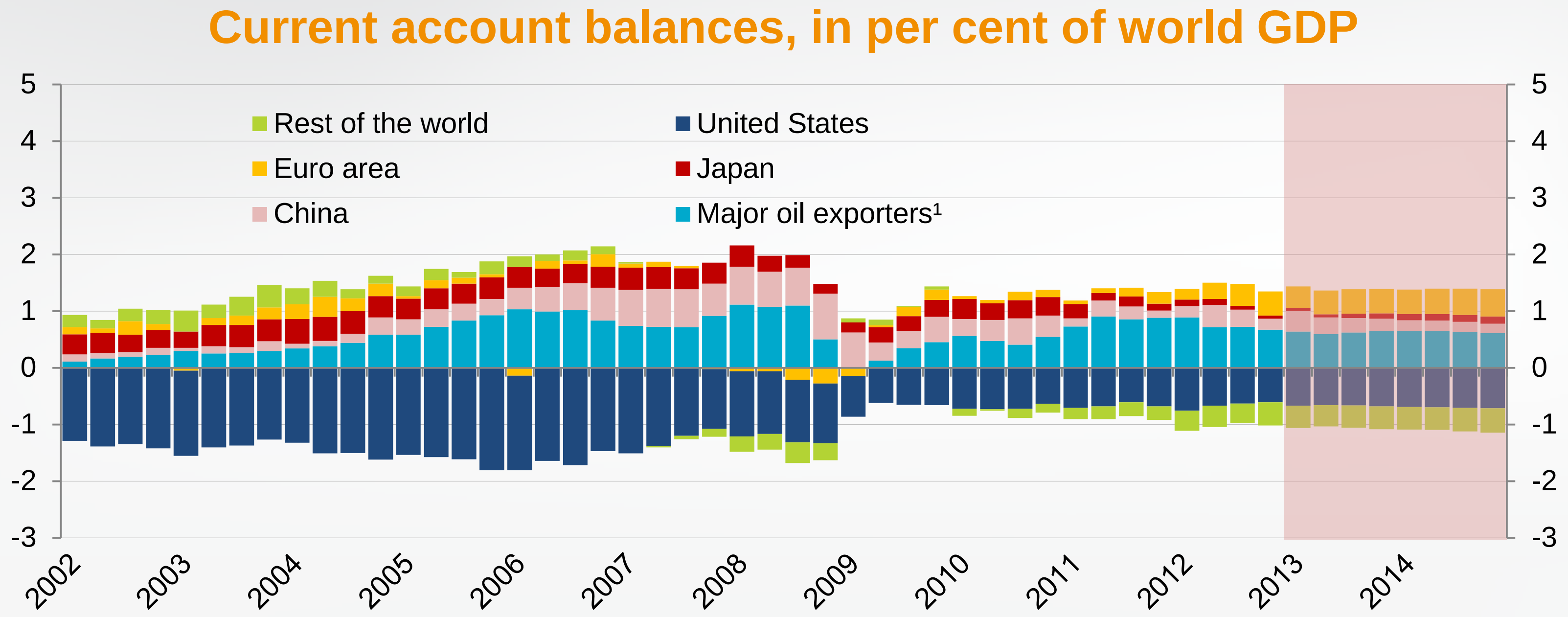
High-yield corporate bond spreads have narrowed to pre-crisis levels

Spread between yields on sub-investment-grade corporate bonds and government bonds, per cent



***Source*: Datastream and OECD calculations.**

The narrowing of global imbalances has stalled

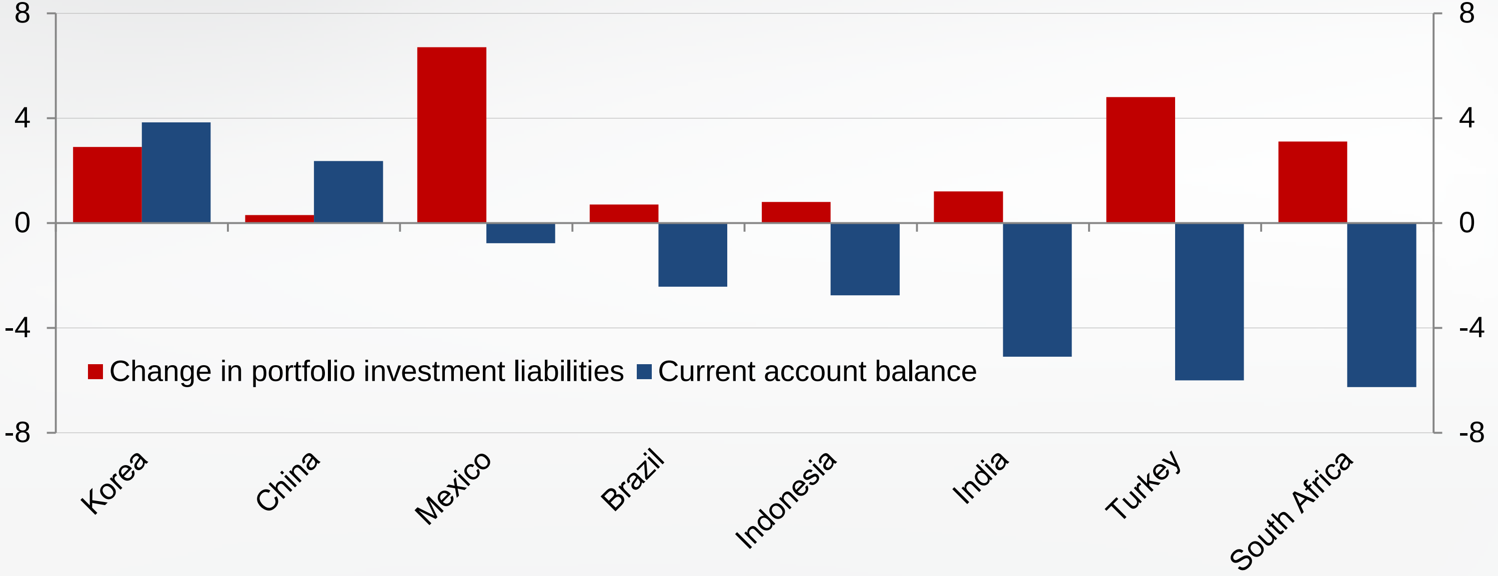


1. Azerbaijan, Kazakhstan, Turkmenistan, Brunei, Timor-Leste, Bahrain, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Russian Federation, Saudi Arabia, United Arab Emirates, Yemen, Ecuador, Trinidad and Tobago, Venezuela, Algeria, Angola, Chad, Republic of Congo, Equatorial Guinea, Gabon, Nigeria and Sudan.

***Source*:** OECD Economic Outlook 93 database.

Some EMEs are reliant on portfolio inflows

Net portfolio inflows and current account balances, in per cent of GDP



Note: Data for portfolio investment refer to 2012 for Brazil, Indonesia, Mexico and Turkey, 2011q4-2012q3 for India, Korea and South Africa, and 2011q3-2012q2 for China. Data for current account balances refer to 2012.

Source: *Datastream; and OECD Economic Outlook 93.*

Risks to the outlook

- **A renewed intensification of the euro area crisis. Very weak economic activity and persistent unemployment could prolong stagnation.**
- **Potential financial market instability in the run-up to the eventual exit from unconventional monetary policy**
- **Remaining fiscal policy risks, e.g. in relation to the impact of poorly targeted budgetary sequestration in the United States and unsustainable public finances in Japan**
- **Potential growth rates turning out, post-crisis, to be lower than we think**

Policy responses

Policy should provide well designed medium-term frameworks involving all policy pillars:

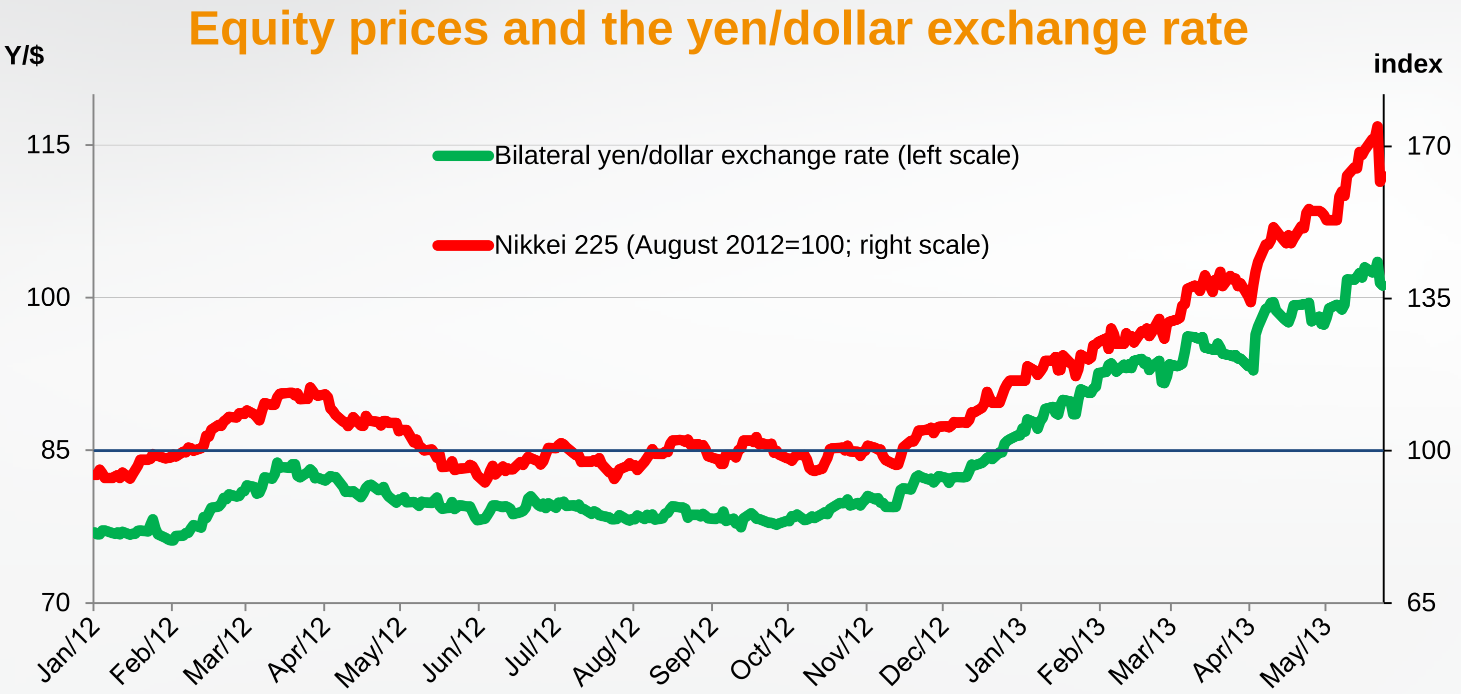
- Monetary – support activity and beat deflation
- Fiscal – medium-term consolidation
- Structural – boost growth and employment
- Financial – increase bank capitalisation where needed
- Institutional – e.g. banking union in the euro area

Monetary policy

Monetary policy should remain easy in all major OECD economies, but the mix of costs and benefits from additional stimulus varies across regions:

- In the United States, the pace of further easing through additional asset purchases may need to be gradually reduced as conditions improve
- Additional easing of monetary policy is needed in the euro area via asset purchases and further reductions in interest rates
- The intensification of quantitative and qualitative easing in Japan is overdue and should help to attain the new inflation target

Monetary policy shifts in Japan have had strong effects on asset prices



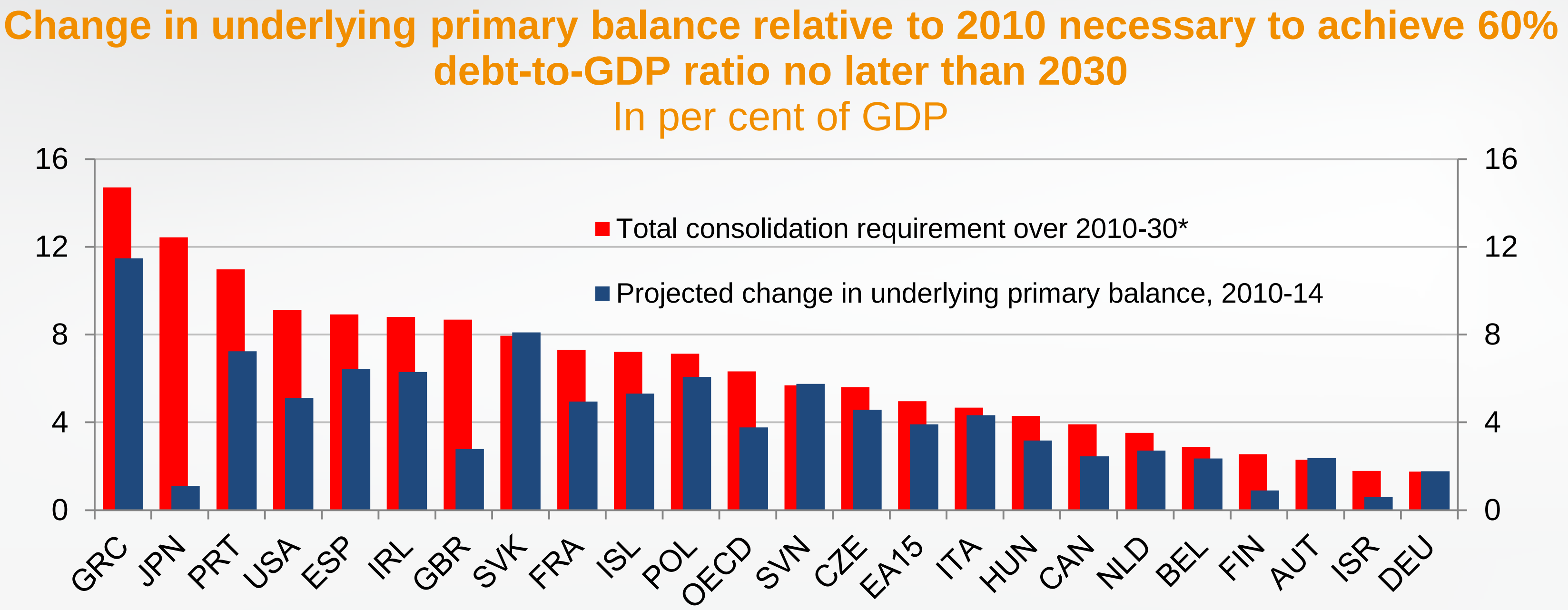
***Source*: Datastream, and OECD calculations.**

Fiscal policy

Countries should proceed with structural fiscal consolidation commitments. Automatic stabilisers to operate fully if growth weakens. Composition should be growth/equity friendly.

- In the United States, the automatic across-the-board budget spending cuts should be made less harmful to growth and a credible long-term fiscal plan should be put in place
- In Japan, fiscal consolidation should commence in 2014 in the context of a credible medium-term fiscal plan to maintain market confidence in the face of challenging debt dynamics
- In the euro area, important progress is being made. Structural consolidation should proceed at the slower pace planned, which would still almost stabilise debt ratios in the euro area as a whole in 2014.

Many countries have achieved most of the adjustment needed, others have far to go



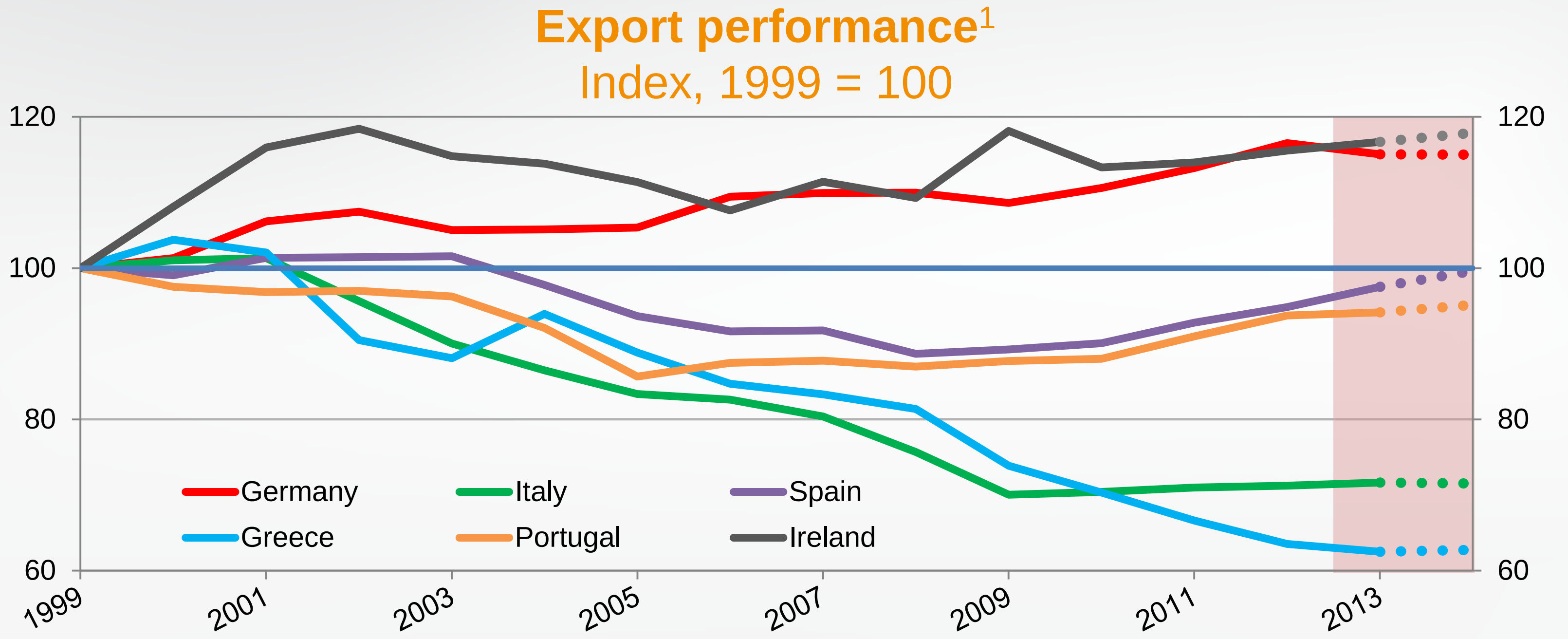
* Sum of the projected change in the underlying primary balance between 2010 and 2014 and the remaining requirement from 2014, defined as the difference between the primary balance in 2014 and the average primary balance between 2015 and 2030, except for those countries for which the debt target is achieved only after 2030, in which case the average is calculated up until the year that the debt target is achieved.

***Source*:** OECD Economic Outlook 93 database, and OECD calculations.

Fiscal policy

- **Beginning to bear fruit in spite of weak macro environment**
- **Further efforts needed also because of lower potential growth**
- **Will contribute significantly to fiscal consolidation**

Reforms are contributing to improved export performance in the euro area

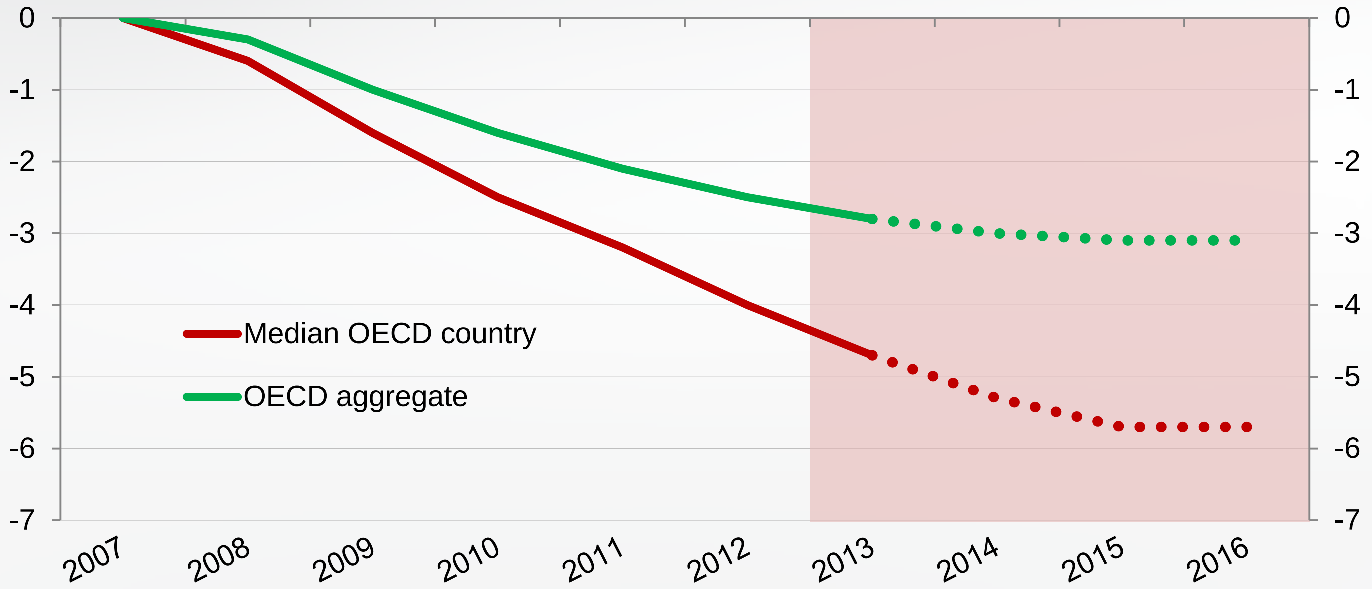


Note: The change in export performance for a given country is given by the ratio of export volume growth to the growth in that country's export markets.

***Source*:** OECD Economic Outlook 93 database.

The crisis has had lasting effects on potential output in OECD economies

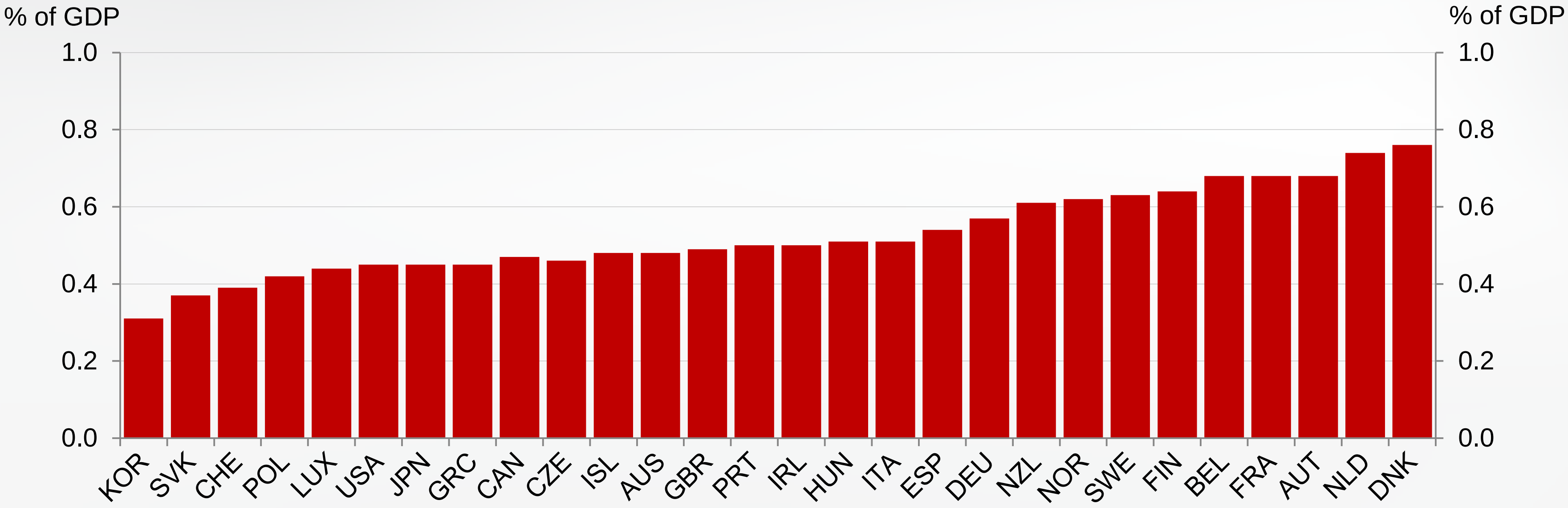
Percentage reduction in potential output relative to pre-crisis trend



Source**:** OECD Economic Outlook 93 long-term database.

Structural reforms would help with needed fiscal consolidation

Effect of 1% higher potential employment on the primary balance



Source: Economic Outlook 88.

There is light at the end of the tunnel if policy makers get ahead of the curve.

Thank you!