# International Monetary and Financial Committee

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**IMFC Statement by Angel Gurría**
**Secretary-General**
**OECD**

# 2017 IMF and World Bank Spring Meetings

## *IMFC Written Statement*

**Angel Gurría**
**OECD Secretary-General**

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**The Global Economic Outlook**

1. **The OECD's March *Interim Economic Outlook* projects a modest pick-up in global growth to 3.3% in 2017 and 3.6% in 2018, supported by ongoing and projected fiscal initiatives**. These projections follow a five-year period in which the global economy has been stuck in a low-growth trap. While the pick-up is welcome, it would still leave global growth below the historical average of around 4% observed over the two decades prior to the crisis.

- In the **United States**, domestic demand is set to strengthen, helped by gains in household wealth and a gradual upturn in oil production. GDP growth is expected to pick up to 2.4% in 2017 and 2.8% in 2018, supported by an anticipated tax cut and a fiscal expansion, despite somewhat higher long-term interest rates and a stronger dollar.

- The moderate pace of growth is expected to continue in the **euro area** but is being held back in some countries by stubbornly high unemployment and underemployment — particularly of youth – as well as by banking sector weakness. GDP for the area as a whole is projected to expand at an annual rate of 1.6% in both 2017 and 2018.

- In the **United Kingdom**, growth is expected to ease further to 1.6% in 2017 and 1.0% in 2018 as rising inflation weighs on real incomes and consumption, while business investment weakens amid uncertainty about the United Kingdom's future trading relations with its partners as a result of Brexit.

- Fiscal easing and improvements to women's labour force participation in **Japan** will help GDP growth pick up to 1.2% in 2017 from 1.0% in 2016. Prospects will depend on the extent to which labour market duality is reduced and wage growth improves.

- Growth in **China** is projected to slip further to 6.5% this year and to 6.3% in 2018 as the economy continues to transition away from a reliance on external demand and heavy industry toward domestic consumption and services, and as it addresses excess capacity in a number of sectors and reins in credit expansion and corporate debt.

- Higher commodity prices and easing inflation are supporting a recovery from deep recessions in **Brazil** and **Russia**.

- Strong growth should continue in **India** at 7.3% in 2017 and 7.7% in 2018, helped by the implementation of key structural reforms and strong public sector wage growth.

2. **While global confidence has improved, consumption, investment, trade and productivity are all sluggish**. Productivity gaps between frontier and laggard firms have widened, contributing to a growing income gap as wages have stagnated at less productive firms.

3. **Inequalities of income, outcomes and opportunities continue to rise**. OECD analysis shows that the average income of the richest 10% of the population is about 10 times that of the poorest 10% across OECD countries, up from seven times in the 1980s. Further, the OECD's Wealth Distribution Database shows that the richest 1% of households in the OECD possesses 19% of total wealth, while the bottom 40% own just 3%.

4. **Financial vulnerabilities and policy risks could derail the modest global recovery**. There are apparent disconnects between the positive assessment reflected in financial market valuations and forecasts for the real economy. For example, equity prices —particularly in the United States —have increased significantly over the past six months, despite the rise in nominal interest rates and with long-term GDP growth and inflation expectations barely changed.

5. **The global interest rate cycle turned around mid-2016**. Some normalisation of interest rates as a result of rebalancing demand support from monetary to fiscal policy is welcome. However, the market response to higher rates, following a prolonged period of exceptional monetary stimulus and low yields, may not be smooth. Market expectations imply a rising divergence in short-term rates between the major advanced economies in the coming years. This creates a risk of exchange rate volatility, which could lead to wider instability in financial markets.

6. **In Europe, political uncertainty surrounding the Brexit negotiations and upcoming elections in some major jurisdictions remains elevated**. Also, weaknesses in some European banking sectors due to unresolved non-performing loan problems remain a concern.

7. **Risks to emerging market economies are significant, including from rapid growth in private credit, notably in China, and rising non-performing loans, particularly for India and Russia**. Many emerging market economies are also vulnerable to external shocks and currency mismatches, particularly those with high levels of overseas borrowings or those with a mismatch between foreign currency-denominated debts and export revenues.

8. **The economic environment is further clouded by low trust in governments and global policy uncertainty, which has increased significantly in 2016 according to news-based measures**. In the OECD, only 4 out of 10 citizens trust their governments.[1] The proliferation of high-level corruption, tax evasion and tax avoidance scandals have taken their toll. Many countries have new governments, face elections this year, or rely on coalition or minority governments. There is also significant uncertainty about the future direction of trade policy globally, partly reflecting falling public support for trade linked to disparities in outcomes across industries, workers and regions and partly pending the position the new US administration will adopt on trade issues. A roll-back of trade openness would be costly for global GDP and the many millions of jobs linked to global value chains.

## Policy Messages

### *Policy needs to manage risks, and make growth stronger and more inclusive*

9. **Policy needs to manage these risks, strengthen growth and ensure it is more inclusive**. Countries should use their increased fiscal space to implement fiscal initiatives that boost demand and make government taxes and spending more supportive of long-term growth and equity, without compromising debt sustainability.

10. **A durable return to healthy growth also requires greater political commitment to implement policy packages that support inclusion**. However, as shown in the OECD's *2017 Going for Growth* report, the pace of reform has continued to decline in recent years. Growing political headwinds are clearly one factor contributing to the steady slowdown in the pace of reforms observed since the immediate post-crisis years. Yet, the reforms are needed, not only to escape the low-growth trap, but also to prepare for rapid changes in technologies and the future of work.

[1] OECD. (2015). *Government at a Glance 2015*. OECD Publishing, Paris.

*Efforts to level the playing field must continue*

11. **A more progressive, more inclusive, more coherent, and more integrated package of trade, investment and domestic policies is required to ensure open markets work better for more people**. Stepping-up collective efforts to reduce unnecessary trade costs by resisting protectionism, streamlining customs procedures, removing tariff and non-tariff barriers, and easing regulatory restrictions —as per the data and evidence provided by the OECD's Trade Facilitation Indicators and its Services Trade Restrictiveness Index —is critical. Impediments and distortions to cross-border investment are equally pernicious and must also be addressed. Alongside these efforts, governments must embrace the full range of structural policies —from social protection and flexible labour markets to strategic investments in education, skills, innovation and physical infrastructure; from fostering responsible business conduct to addressing investor-state dispute settlement concerns —to ensure that the benefits of trade and investment are more widely and more equally distributed.

12. **Urgent action is needed to help restore citizens' trust in the fairness and transparency of global governance systems and the legitimacy of the processes underpinning global integration**. The OECD has developed standards in tax, investment, anti-corruption and integrity, corporate governance, responsible business conduct, SME financing, state-owned enterprises, consumer policy, digital economy, and development finance and is working closely with the G20, G7 and other international and regional fora to globalise their implementation and thus help restore citizens' trust.

*Stronger efforts to boost employment among youth, low-skilled workers and women are paying off*

13. **The increase in the number of actions taken over the past two years to lift employment is encouraging**. This is an indication of the greater attention that governments have paid to promoting inclusiveness, in particular with measures to facilitate the labour market integration of youth and low-skilled workers. In many countries, notably France and Italy, labour tax wedges on low-wage earners have been reduced to boost job creation, while individualised job-search support and wage subsidies have been stepped-up to facilitate the return to work of the unemployed. These efforts are paying off. Employment rates among youth have risen well over 10 per cent on average across the OECD in the past 2-3 years, despite subdued growth. Nonetheless, in these and other countries mainly from Southern Europe, the proportion of youth neither in employment, nor in education or training remains well above the pre-crisis level.

14. **Governments have also intensified their efforts to reduce the barriers women often face in joining the labour force and fulfilling career aspirations**. In some countries, access to childcare and early childhood education has been expanded. Considering the significant positive impact in terms of stronger growth and lower income inequality, further actions are needed to encourage more women to join and remain in the labour force. This includes promoting workplace cultures that are conducive to work-life balance. In emerging market economies, high informality remains a major barrier to both inclusion and growth. Specific policy remedies vary, but they include reforms of strict labour regulation combined with the development of stronger social safety nets.

15. **Achieving greater inclusiveness and reducing inequalities of income, outcomes and opportunities are important for the well-being of citizens and winning back their trust**. They are also necessary for safeguarding social cohesion and sustaining growth in the longer run. Further, achieving inclusive growth on a sustained basis requires addressing the productivity slowdown. The experience from the past two decades has shown that rapid technological advances do not automatically translate into broad-based productivity and income gains, including in the lower part of the earnings distribution.

16. **Ensuring that progress in technology and knowledge turns into higher and more widespread gains requires that workers, business managers and governments are better equipped to acquire the skills, and adopt the organisational structures and regulatory settings, to keep up with the pace of innovation**. While the recipe for reforms varies from country to country, the key ingredients include measures to promote business dynamism and the diffusion of innovation, to help workers cope with the rapid turnover of firms and jobs, and to better prepare youth for the labour market of the future.

***Promoting business dynamism and the diffusion of technology and knowledge is important***

17. **To catch up with industry leaders and make the most of new technologies and workers' skills, lagging firms must be given incentives to make the necessary investment in R&D, new digital equipment and organisational know-how**. Governments can help by improving the level and efficiency of public support for private R&D as well as by facilitating the collaboration between research centres (or universities) and industry.

18. **Creating an environment that encourages firms to innovate also implies promoting the entry of new firms and the redeployment of resources from poorly performing firms to high-productivity ones**. This is how successful ideas and products can be tested and developed. For this to happen, poorly performing firms should either improve or be allowed to exit the market. Since the crisis, the share of non-viable, so called ''zombie'' firms, has risen from 4% to nearly 6% of total businesses across OECD countries. As they are trapping valuable resources, such firms are lowering productivity by close to 1% in countries where they are most prevalent.

19. **Facilitating the entry of new firms is also critical**. In a majority of countries, the scope for reducing regulatory barriers to firm entry and competition remains substantial, especially in services. In many countries and regions, regulatory fragmentation continues to hinder cross-border competition in services. Despite the more rapid pace of change, progress in reforming product market regulation has slowed significantly in recent years, contributing to an increasing gap between high- and low-productivity firms. In fact, the trend decline in business dynamism and the growing survival of low-productivity firms suggest that barriers to firm entry and exit may have risen.

20. **Beyond product market regulation, other policy factors influence firm turnover and competition**. For instance, a sound legal and judicial infrastructure and robust financial markets that serve the real economy play an important role. Continued efforts to strengthen the rule of law and fight against corruption, improve the governance of state-owned enterprises, increase the efficiency of bankruptcy procedures and the financial sector, or speed-up the resolution of non-performing loans in the banking system should therefore feature highly on reform agendas.

***Helping workers to cope with the rapid turnover of firms, jobs and tasks, while preparing young people for the labour market of the future, is critical***

21. **To ensure that all can benefit from renewed business dynamism and productivity, additional measures are needed to help workers cope with jobs turnover**. This is one reason why reform packages are so important for growth to be more inclusive. For example, OECD analysis has shown that spending more public money to help laid-off workers find a new job through work-search assistance and training is far more effective in countries where regulatory barriers to firm entry are low. This is because job opportunities are more abundant where new firms can enter the market more easily.

22. **Future advances in digital technologies and the growing importance of knowledge-based capital underscore the need for reforms in education to ensure that young people are prepared for the dynamic labour market of the future and have the right cognitive and non-cognitive skills to cope with technological change**. At the same time, more attention should be devoted to the significant share of workers who are either over- or under-skilled for their job. Addressing skills mismatch through better vocational education and training systems as well as adult or lifelong learning programmes is a priority for most countries.

23. **Closer relationships between business and educational offerings will better anticipate skills most likely to be in demand, help ensure that job market needs are reflected in educational and professional developments, and enable workers to navigate through the more rapid turnover of firms, jobs, and tasks of the future**. Reducing barriers to labour mobility, including through reforms of housing market policies and the decoupling of pension and other rights from specific jobs (pension mobility), will also help improve skills matching.

***Packaging reforms to exploit complementarities is key to achieving stronger, more inclusive growth***

24. **While encouraging innovation and business dynamism, including through greater market openness, is crucial to achieve healthy and sustained growth, it does not necessarily or automatically go hand in hand with inclusiveness**. Beyond investing in skills development and helping workers cope with jobs and tasks turnover, the effectiveness of redistribution through tax and transfer policies need to be strengthened to ensure that the benefits from technological progress and globalisation are broadly shared.

25. **Structural policies encompassing labour, product, and financial markets are the keys to productivity, employment and inclusiveness**. However, these policies operate within a macroeconomic policy framework. Fiscal initiatives involving spending and taxes in support of structural policies should weave together in a coherent way. Public investment in basic education, R&D and infrastructure, or lower labour taxes combined with spending on programmes to help workers upgrade skills and find jobs, are examples of measures that can support demand in the short run and boost growth in the longer run. However, very few advanced economies presently plan to increase public investment as a share of GDP in the coming years and some actually continue to reduce capital spending.

26. **By concentrating reform efforts in specific policy areas, governments run the risk of missing potential gains from policy synergies and reform complementarities**. The improved packaging of reforms would make them easier to implement, maximise their impact on growth and job creation and help reduce income inequality.