



# **International Monetary and Financial Committee**

Thirty-First Meeting  
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**IMFC Statement by Angel Gurría  
Secretary-General  
The Organisation for Economic Co-operation and Development**

# **IMF and World Bank Spring Meetings**

## **Written Statement for the IMFC**

**Remarks by Angel Gurría,**

**Secretary-General**

**OECD**

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## Global Economic Outlook

The Spring of 2015 has brought encouraging signs for the global economy. Lower oil prices and widespread monetary easing have raised the potential for the acceleration of growth that is so needed in many countries, especially in Europe. Strong domestic demand is driving growth in the United States, which is projected to grow by 3.1% this year. In Japan, monetary and fiscal stimulus and higher wage settlements provide the impetus for faster near-term growth, projected at 1% this year, but longer-term challenges remain. A gradual slowdown in China, towards the “new normal” growth target, around 7%, is expected to continue. India is expected to be the fastest-growing major economy over the coming two years, projected at 7.7 % this year and 8% in 2016, while the outlook is likely to worsen for many commodity-exporting nations, with Brazil falling into recession.<sup>1</sup>

Nevertheless, the near-term outlook is still one of moderate, rather than rapid, world GDP growth. Real investment remains sluggish in many countries, despite highly favourable financing conditions. Moreover, the recovery has yet to fully translate into more jobs and higher wages. Unemployment remains far too high in many countries, while participation and wage growth often remain weak.

Significant risks also remain. In particular, abnormally low inflation and interest rates create a growing risk of financial instability with risk-taking and leverage driven by liquidity, rather than fundamentals. Moreover, projected growth rates remain too low to fully and quickly repair labour markets. The widespread easing of monetary policy over the past few months, affecting countries accounting for roughly half of global GDP, has resulted in improvements in global financial conditions. However, a number of the associated moves in exchange rates have been large, raising the potential for overshooting in some cases. While central bank policies remain the centrepiece of the recovery, the exclusive reliance on monetary policy to manage demand should be avoided to mitigate these risks.

Slower growth in most emerging economies, while reflecting a necessary rebalancing, underlines the risks of financial instability. In addition, debt in many emerging economies has risen rapidly since the crisis. A full-blown financial crisis driven by foreign currency debt exposures appears less likely than in the past. However, some countries are still too dependent on portfolio inflows and short-term loans from foreign banks, and have a high share of debt in total foreign liabilities and domestic companies with large foreign currency debts.

## Macroeconomic and financial policy directions

The modest recovery in advanced economies and weak inflationary pressures, with still-substantial slack in many economies, means that monetary policies should remain very accommodative. Lower oil prices and the appreciation of the dollar make it appropriate for the Federal Reserve to wait longer before raising policy interest rates. Meanwhile, in the euro area and Japan, where the recovery is less established and inflation remains below target, the current monetary policy stimulus programme should be maintained for some time to come.

Substantial progress in fiscal consolidation has already been achieved in the United States and the euro area. With the ECB undertaking exceptional policy stimulus and given the considerable progress already made in fiscal consolidation since the crisis, fiscal policy in the euro area can be more supportive of demand, and in particular investment. The euro area's fiscal rules are essential to the stability of the monetary union, but have created uncertainty in recent years, not least because of the repeated use of ad hoc extensions of deadlines. The uncertainty created by this approach reduces the demand benefits of any expansionary changes in policy. In Japan, the government debt-to-GDP ratio is exceptionally high and presents major challenges. In the short run, boosting nominal GDP growth through a return to sustained low positive inflation will help to improve the debt dynamic. However, beyond that horizon, an

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<sup>1</sup> OECD Economic Outlook, Interim Report March 2015

extended period of fiscal consolidation will be necessary to get the public debt to GDP ratio moving down to safe levels.

In China, policymakers face a significant tension between meeting growth targets and pursuing the goal of rebalancing the economy toward domestic demand, while ensuring that financial risks are managed. As the economy has slowed and the property market has weakened, further monetary stimulus and fiscal policy support measures have been put in place. In India, the quality of consolidation should be improved, with a shift in expenditure from subsidies to social and physical infrastructure. Redesigning the fiscal rule in Brazil to take account of the business cycle, for example by adopting an expenditure rule, would make a credible commitment to the necessary improvement in the primary balance as the economy recovers.

### **Boosting investment and firing the trade engine**

Both advanced and emerging economies face weaker growth of potential output than in the past as the result of the crisis and underlying secular trends such as demographics and narrowing scope for catch-up convergence in productivity. Increasing investment is vital to raise productivity in the medium term and will be the main focus of the OECD Ministerial Council Meeting in early June. In Europe, the Juncker Plan provides an important opportunity to catalyse private investment using public support within the current fiscal constraints, including investment in cross-border infrastructure in network industries. The effectiveness of the Plan requires full implementation of its third pillar related to the removal of regulatory obstacles to investments.

Continued efforts to open up trade and reduce barriers to foreign direct investment more widely will also be important. The OECD's Policy Framework for Investment offers a comprehensive and systematic approach to improving investment conditions, and is now being updated and enriched to build on countries' experiences to date. The OECD's Services Trade Restrictiveness Indicator also offers a useful tool for countries to address obstacles to trade in services. Policy efforts are also needed to encourage companies to deploy their large cash piles into productive investment. Tax reform and a quick and effective implementation of the G20/OECD Base Erosion and Profit Shifting initiative can help in this regard.

The financing of investment by banks remains challenging as a result of ongoing adjustments in their balance sheets. A broader range of policies is needed to incentivise risk taking, and overcome investors' reluctance to invest in the real economy, in innovation, SMEs and infrastructure. The OECD has been supporting such efforts, in particular via its work on Institutional investors and long-term investment spearheaded by a G20/OECD Task Force. The OECD has also launched a large Network on Institutional Investors and Long-Term Investment, gathering private sector representatives engaged in long-term investment business, with the objective of further developing consultation and dialogue.

There also needs to be a collective effort to fire-up the engine of trade and find ways to help countries increase their participation in international trade flows. The OECD has designed a new metric to measure global trade flows – Global Value Chains (GVCs). GVCs challenge our conventional wisdom on how we look at economic globalisation and in particular, the policies that we develop around it. The OECD is working on several fronts to help policy makers better understand the effects of GVCs on a number of policy domains including: trade policy; investment policy; and risk assessment. Momentum must also continue to tackle barriers to trade, particularly in the services sector, which today represents almost half of value added exports.

### **Structural reforms for stronger growth**

Action to increase investment must be accompanied by bold structural reforms. Growth-friendly structural policies can help create jobs and drive innovation via stronger competition. While the pace of structural reform in emerging economies has increased over the past two years, the pace of reforms in advanced economies appears to have slowed compared with the immediate post-crisis years. Some major advanced economies have undertaken

considerable steps in recent years, but others have made little progress. The G-20 commitment to comprehensive Growth Strategies at the Brisbane Summit in November 2014 was an important step forward. The measures are estimated by the OECD and IMF to raise G-20 GDP by roughly 2.1 percent by 2018 relative to a baseline scenario if fully implemented.

Countries should also adopt more effective policies to boost their innovation capacity and investment in knowledge-based assets. Innovation can help accelerate the recovery and support sustainable growth. It is a powerful engine for development and for addressing social and global challenges. Policies that provide an environment that is conducive to business and to investment in the knowledge infrastructure underlying innovation could play a key role in generating employment and enhancing productivity growth through cutting edge knowledge creation, application and diffusion.

### **Connecting people with jobs and protecting the vulnerable**

Although unemployment is now falling, it remains very high in many economies. Almost 43 million persons are currently unemployed in the OECD area, which is 10.4 million more than immediately preceding the crisis. The rise in youth unemployment is of particular concern, especially in those OECD countries where youth unemployment has risen to dramatic levels: 51.8% in Spain, 50.9% in Greece, 42.3% in Italy, 33.5% in Portugal and 26.9% in the Slovak Republic. In emerging economies, employment growth remains weak or heavily concentrated in informal and low-paying jobs.

Policies should place a greater emphasis on well-designed active labour market programmes to help workers shift from declining firms and sectors to areas of expanding job opportunities and to prevent the long-term unemployed from becoming permanently detached from the labour market. These programmes should also cover business creation, as many countries have successfully supported unemployed people and other vulnerable groups in creating their own jobs. Structural labour market reforms can also encourage the creation of more and better quality jobs and improve the chances of many, including youth and other new entrants to the labour market. In some cases, this means striking a better balance between employment protection rules for permanent contracts and those for temporary contracts. Tax simplification and extensions of social insurance coverage are among the measures that can help to tackle high rates of informality in many emerging economies.

Improving job quality is also critical, especially in emerging economies where employment is heavily concentrated in informal and low-paid jobs. The OECD uses three key dimensions of quality jobs: earnings (the level of earnings and degree of inequality); labour market security (risk of job loss and income support available); and quality of the working environment (work conditions). The good news is that the OECD analysis suggests little sign of a trade-off between job quantity and job quality. This means that policy makers do not have to choose one at the expense of the other. However, promoting job growth, while enhancing job quality, requires the support of consistent policies. These range from wage-setting arrangements and employment protection legislation to social protection schemes and occupational health and safety requirements. In the long-term, providing people with the skills they need and ensuring that they can adapt and improve those skills will also be a key to the success of countries in creating more and better jobs.

Given the difficult labour market context, special attention should also be given to supporting the most vulnerable groups through an adequate social safety net. At the same time, it is necessary to ensure, for those able to work, that benefits are conditional on active participation in job search and programmes to improve employability.

The rise in inequality that occurred in recent decades has, if anything, picked up pace since the crisis. It has become increasingly clear that the benefits of growth do not automatically 'trickle down' to all sectors of society. High levels of income inequality are associated with lower social mobility, making it harder for talented and hard-working people to get the rewards they deserve. In the absence of policy action, inequality is likely to continue rising as higher-skilled workers benefit from innovation. Growth must become more inclusive and more attention will have to be paid to measuring and improving wellbeing. The OECD has been examining new approaches to economic challenges where

growth, equity, environmental concerns and wellbeing are taken into joint consideration, with a view to developing a multi-disciplinary approach allowing a better understanding of the interconnectedness of different policy areas.

### **International collective action**

2015 is a year for action on the international stage. The world urgently needs to make the shift to a low carbon economy. New OECD projections carried out under NAEC suggest that world GDP in 2060 may cumulatively shrink by between 0.7% and 2.5%, should global temperature increase between 1.5° and 4.5°C.<sup>2</sup> The UN process will be central in catalysing action and securing the necessary political will to finalise an ambitious, global legal climate agreement at COP 21 in 2015. The OECD *Green Growth Strategy* highlights the importance of eliminating fossil fuel subsidies, introducing an appropriate price on carbon and removing barriers to the mobilisation of investment in green technologies. But these environmental policies won't be sufficient to achieve the transition to low carbon-economies. Many other policies in areas including tax policy, regulatory policy, or urban planning also have an impact on the amount of carbon emitted as well as on cost and hence need to be aligned with our goal of achieving zero net emissions in the second half of this century. Together with the International Energy Agency, the Nuclear Energy Agency and the International Transport Forum the OECD has launched a project to explicitly look at these non-environmental policies and see how they could be better aligned with the low-carbon transition.

The effort to fight against tax evasion and avoidance must continue apace. A total of 93 jurisdictions have committed themselves to implement the new global standard for Automatic Exchange of Information (AEOI) for tax purposes in either 2017 or 2018. In cooperation with the World Bank Group, the 126-country Global Forum on Transparency and Exchange of Information for Tax Purposes provides assistance to interested developing countries to implement and benefit from the automatic exchange standard. The OECD is also working to strengthen awareness and co-operate across government agencies on effective approaches to tackle illicit tax evasion, money laundering and bribery. The OECD/G20 Base Erosion and Profit Shifting (BEPS) Project is tackling gaps in international tax rules that enable multinational enterprises to exploit loopholes in the current rules and minimize their tax payments in both developed and developing countries. With eight of the fifteen actions still to be delivered by the end of this year, we will address some of the most egregious arrangements used by multinationals to separate their corporate profits from the location of their underlying economic activities.

Collective action must also continue in the fight against corruption. Corruption is one of the greatest impediments to growth and development. It also erodes trust in governments, businesses and markets. We have to recover this trust if economic reforms are to deliver, and this can only be accomplished through effective and inclusive multilateral cooperation. The Anti-Bribery Convention is the cornerstone of OECD efforts to combat corruption. The Working Group on Bribery will continue its efforts to increase the enforcement of foreign bribery in the 41 Parties to the Convention. This work will be complemented by our new Trust and Business (TNB) Project that focuses on how to close the implementation gap between the actual conduct of businesses and the standards we have put forward. Finally, the OECD has convened a High-Level Advisory Group on Anti-Corruption comprising distinguished experts to take forward the OECD's anti-corruption strategy.

Global efforts to promote sustainable investment and ensure that business investments benefit society will also be necessary. The OECD Guidelines for Multinational Enterprises are the most comprehensive set of recommendations on responsible business conduct addressed by governments to their multinational enterprises operating at home or abroad. OECD work helps enterprises carry out due diligence in specific sectors to help businesses identify, prevent, mitigate and account for how they address actual and potential adverse impacts as an integral part of their operations. A unique aspect of the Guidelines are the National Contact Points (NCP), which, inter alia, provide access to remedy those affected by adverse business impacts related to the non-observance of labour, environmental, human rights and other standards reflected in the Guidelines. So far, over 300 cases have been handled by National Contact Points, related to company operations in 90 countries, and the numbers continue increasing.

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<sup>2</sup> OECD@100: Policies for a shifting world