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



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Written Statement to the IMFC

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The Global Economic Outlook

1. **The global expansion continues to lose momentum in the context of heightened policy uncertainty, persistent trade tensions and ongoing declines in business and consumer confidence.** Global growth moderated more quickly than anticipated in the latter half of 2018, to around 3% on a quarterly basis – the weakest pace since mid-2016. Trade growth, a key artery in the global economy, also slowed sharply, particularly in Europe and Asia. However, financial market conditions have improved in recent months, with the partial reversal of significant risk repricing seen in 2018, amidst signals of more accommodative monetary policy than previously expected.

2. **In the March 2019 edition of the OECD’s “Interim Economic Outlook”, global GDP growth is projected to ease to 3.3% in 2019 and 3.4% in 2020, well below the rates seen in 2017-18.** Outcomes could be weaker still if downside risks materialise or interact, including: new trade barriers; continued policy uncertainty and prolonged sub-par growth in Europe; a disorderly Brexit; a sharper slowdown in China; and renewed financial market repricing.

3. **Decisive action by policymakers is required to ensure sufficient support for demand, reduce policy-related uncertainty, enhance resilience against risks and strengthen prospects for inclusive, medium-term growth.** Multilateral dialogue must be intensified to avoid new trade restrictions and to capitalise on opportunities for further liberalisation. Central banks should remain supportive and ensure long-term interest rates stay low. Fiscal and structural policies must be focused on addressing medium-term challenges. In the event of an even sharper global growth slowdown, coordinated policy action would provide the most effective and timely counterweight. The effectiveness of such action would be enhanced by planning growth-enhancing measures now – including additional structural reforms – that can be rolled out quickly.

4. **In the advanced economies, improved labour market conditions, lower headline inflation and supportive fiscal measures targeted at lower-income households in some countries should support real income growth and household spending.** Monetary policy support also continues to underpin activity. However, high policy uncertainty and declining confidence are set to weigh further on business investment and trade prospects.

- In the United States, GDP growth is projected to be around 2.5% in 2019 and a little over 2% in 2020, with support from fiscal easing slowly fading. While solid labour market outcomes and supportive financial conditions continue to underpin household incomes and spending, higher tariffs have begun to add to business costs and prices, and the growth of business investment and exports has moderated.

- GDP growth in the euro area slowed sharply in 2018 and is projected to remain soft, at 1% in 2019 and 1.2% in 2020. Wage growth and accommodative macroeconomic policies provide support for household spending, but policy uncertainty, weaker external demand and lower confidence are likely to weigh on investment. Growth is set to be softer in Germany than in France, reflecting higher exposure to the global trade slowdown, and remain soft in Italy.
- In Japan, GDP growth is set to be around ¾ per cent in 2019 and 2020. High corporate profits and severe labour shortages continue to stimulate investment, but confidence has eased and recent industrial production and export data have been very weak. Temporary spending increases and tax cuts in the FY2019 budget will cushion part of the headwinds from the scheduled increase in the consumption tax rate in October 2019.
- GDP growth is projected to be soft in the United Kingdom, at under 1% in both 2019 and 2020, even if assuming a smooth Brexit. The still-strong labour market continues to support household spending, but persistent uncertainty and the ongoing growth slowdown in the euro area are weighing on business confidence, investment and export prospects.

5. **In the emerging-market economies, collective growth prospects are projected to be steady over 2019-20.** The pause in monetary policy normalisation in the advanced economies and lower oil prices have reduced near-term risks, but weak global trade, financial stability risks and significant adjustment challenges from past financial market tensions continue to impede growth in many countries.

- GDP growth in China is projected to moderate gradually, to 6% by 2020. Investment and trade growth have slowed, but new fiscal policy stimulus is being implemented and monetary policy has eased. There is scope for further policy support if required, but such support would further delay the necessary deleveraging of the corporate sector and aggravate risks to financial stability.
- In India, GDP growth is set to remain robust, at around 7¼ per cent in FY2019 and FY2020. Business confidence and investment remain strong, and activity should benefit from easing financial conditions, lower oil prices, accommodative fiscal policy and recent structural reforms.
- A moderate recovery is underway in Brazil, with GDP growth projected to strengthen to around 2% this year and close to 2½ per cent in 2020. Stronger business confidence, reduced policy uncertainty, and improving labour markets will all underpin domestic demand. Successful implementation of the government's reform agenda, particularly pension reform, is key for a stronger upturn.

An intensification of trade restrictions would have significant costs

6. **Ongoing uncertainty regarding trade policies remains a significant source of downside risk to global investment, jobs and living standards.** Even if the United States and China conclude a trade agreement in the near-term, risks remain that other restrictive measures could be implemented later in 2019, including new restrictions in specific trade-sensitive sectors such as cars and car parts, with discussions about US-EU trade underway. These measures would hit Europe particularly hard, given motor vehicle exports represent around one-tenth of total EU merchandise exports to the United States and there are significant supply chain linkages that spread the impact widely across countries and sectors. Such measures would add considerably to the costs of tariff increases imposed so far and adversely affect business investment plans around the world.

Growth in China could slow more sharply than projected

7. **There are already signs that underlying trade growth is slowing in China, with adverse effects on key trading partners in Asia and Europe.** A repeat of the experience in 2015-16, when Chinese import volume growth halved from the rate seen in 2013-14, would have significant adverse consequences for global growth and trade. OECD estimates show that the first-year impact of a 2 percentage point decline in the growth rate of domestic demand in China would be an almost 0.4 percentage point reduction in global GDP growth. Export growth would fall particularly sharply in Japan, Germany, commodity-producing economies and other economies in East Asia. Greater uncertainty could add to these costs significantly, particularly in the advanced economies, by raising the cost of capital for companies. Spillovers from the slowdown from China would be larger still if monetary policymakers around the world were not able to react.

Brexit-related uncertainties persist

8. **The possibility that a withdrawal agreement between the UK and the EU will not be reached remains a serious downside risk and source of global uncertainty in the near-term.** If the United Kingdom and the European Union were to separate without an agreement, OECD analysis suggests that the increase in tariffs between the two economies as a result of WTO rules coming into effect would reduce GDP by around 2% (relative to baseline) in the United Kingdom in the next two years. This reduction would add to the adverse effects on GDP and business investment already seen relative to expectations prior to the vote in 2016. It may also induce further declines in business and financial market confidence and disruptions in financial markets. Some smaller countries with strong trade and investment links with the United Kingdom, including Ireland, the Netherlands and Denmark, would be relatively exposed, resulting in significant adjustment costs in particular regions or sectors. OECD estimates suggest that their bilateral exports to the UK could decline by around 15% in the medium-term in the event of trade being undertaken on WTO terms.

Significant financial vulnerabilities remain

9. **The prolonged period of very low interest rates since the financial crisis has resulted in an accumulation of financial vulnerabilities.** Asset valuations remain stretched in some markets and debt levels are high in both public and private sectors. The recent reversion in financial market conditions, offsetting part of the repricing that occurred in 2018, reflects expectations that very low rates will continue for some time, potentially resulting in a further build-up of financial vulnerabilities.

10. **Rising downside economic risks create the potential for rapid market adjustments to unexpected events and enhance the challenges of servicing elevated debt burdens, even if interest rates remain lower for longer than expected.** This is particularly the case in global corporate bond markets, where the outstanding stock of debt at the end of 2018 was twice that in 2008 in real terms, the quality of outstanding debt has declined, and there are signs of slower corporate earnings growth. Significant bond repayments are due in emerging market economies in the next three years, especially in China. The outstanding stock of leveraged loans, which now exceed USD 1 trillion, are also particularly exposed to downturns in cash flow, and could trigger significant repricing via fire sales and losses for investors.

11. **The strength and resilience of banking systems has improved significantly since the financial crisis, with regulations raising minimum capital and liquidity requirements.** The use of macro-prudential policies has also increased somewhat after the global financial crisis in the advanced economies. However, some risks have shifted to more lightly regulated non-bank financial institutions that now hold just under one-half of total global financial assets. The resilience of these institutions remains a concern and must be monitored on an ongoing basis, with minimum prudential standards established and enforced to safeguard financial stability.

Policy Requirements

12. **Key policy priorities include ensuring sufficient support for demand, preventing downside risks from materialising, and enhancing resilience and inclusiveness.** Supportive macroeconomic policies and ambitious supply-side policy reforms are required to strengthen medium-term growth prospects and improve opportunities for all. Enhanced multilateral dialogue to halt the slide towards protectionism and reinforce the global rules-based international trade system is needed to reduce policy-related uncertainties. Closer supervision of non-bank financial institutions and macro-prudential measures for highly-leveraged borrowers would help to minimise the build-up of financial vulnerabilities.

Macroeconomic policy requirements in advanced economies

13. **The pause in monetary policy normalisation in the main advanced economies is appropriate given rising uncertainty, contained inflation and weaker growth prospects.** Heightened uncertainty means the future direction and extent of further changes in monetary policy are increasingly dependent on incoming data. If tensions and policy uncertainty gradually fade, there is scope for a further gradual reduction in monetary policy accommodation in those economies in which growth remains at or above trend rates, including the United States. In contrast, further steps to enhance accommodation may be required in economies in which growth remains weak and downside risks continue to build. In the euro area, the priority for the ECB should be to ensure that long-term interest rates remain low for an extended period and that financial markets continue to function smoothly. In Japan, where inflation remains very low, current policy should be continued.

14. **Fiscal policy priorities differ across economies, reflecting differences in macroeconomic conditions and imbalances and in policy needs.** Public debt levels generally remain high, but low long-term interest rates provide scope for well-designed supportive measures where needed, without impairing debt dynamics. Policy choices should focus on measures that strengthen the prospects for solid and more inclusive growth in the medium-term. New initiatives such as enhanced childcare support, investment in physical and digital infrastructure and skills, and stronger support for low-income households can also be financed in a budget-neutral manner via offsetting reductions in low-multiplier expenditures, increases in the least-distortive taxes, and broader tax bases.

15. **In the euro area, coordinated macroeconomic and structural policy actions are required to strengthen incentives to invest and overcome the dual challenges of soft near-term demand and weak medium-term growth prospects.** New fiscal measures in those economies with fiscal space would help the benefits of structural reforms to appear more quickly, allow monetary policy to remain accommodative for longer, and deliver higher output in the short- and medium-term.

Macroeconomic policy requirements in the emerging market economies

16. **Policy requirements differ across the major emerging market economies.** In China, policy has been eased as appropriate, given demand weakness, and scope remains for further measures if required. However, careful targeting is needed to avoid adding to high corporate sector indebtedness and medium-term deleveraging challenges. Other emerging market economies with robust macroeconomic policy frameworks, flexible exchange rates, and manageable exposures to foreign-currency-denominated debt, also have scope to ease monetary policy as inflation declines, while taking the opportunity to improve their fiscal positions if needed. A tighter policy stance remains necessary in economies where concerns persist about the sustainability of fiscal or external positions, in order to retain investor confidence. Nominal interest rates can go down as inflation moderates from its current high levels, but there is little scope for lower real interest rates. The priority in these economies is to improve confidence by undertaking reforms that enhance the prospects for fiscal and financial sustainability in the medium term.

Structural policy ambition needs to be improved in all countries

17. **The prospects for strong and sustained improvement in living standards and incomes in the medium term remain weaker than prior to the crisis in all economies.** As documented in the forthcoming edition of the OECD's *"Going for Growth"* report, structural reform efforts have stabilised in both advanced and emerging-market economies in recent years, but at a level below that achieved in the aftermath of the crisis. Improved reform ambition in both advanced and emerging-market economies would help to enhance living standards, strengthen medium-term prospects for investment and productivity, and allow the benefits of growth to be distributed more widely. New liberalisation initiatives by governments to reduce the unnecessary costs of non-tariff measures or to tackle barriers to cross-border services trade would also bring benefits to all economies and consumers.

18. **In all countries, stronger reforms are needed to promote business dynamism and knowledge diffusion and enhance innovation capacity.** Further measures are also essential to help restore trust and confidence in government, and promote equality of opportunity, as highlighted in the OECD's new *"Risks that Matter"* Survey. Key steps include helping workers acquire new skills that enable them to benefit from fast-changing labour markets. This would help create new opportunities for those workers and regions most exposed to the impact of global integration and the challenges brought by the ongoing digital transformation of societies – as stressed in the new *"OECD Jobs Strategy"*, the flagship OECD reports *"Going Digital: Shaping Policies, Improving Lives"* and *"How's Life in the Digital Age?"*, and the *"OECD Framework for Policy Action on Inclusive Growth"*. Improved efficiency of tax and transfer policies, including better targeting of transfers, also needs to be an integral part of well-designed policy packages to make work pay and help strengthen real income growth amongst poorer households.

Delivering more inclusive, people-centred and green growth will complement macroeconomic and structural policy objectives

19. **All countries must strengthen their efforts to foster more inclusive, people-centred growth.** This includes: designing more effective social safety nets; ensuring education and skills policies are calibrated to the digital age; delivering quality affordable healthcare and housing; and supporting sustainable infrastructure. New approaches found in the OECD PISA Global Competence Framework, the new OECD Jobs Strategy, and the OECD's Framework for Policy Action on Inclusive Growth are helping countries to equip their citizens for today and tomorrow. Alongside these efforts, it is critical for countries to: reduce the intergenerational transmission of disadvantage by focusing on children's well-being; pilot measures to facilitate migrant and refugee integration; tackle entrenched gender gaps; and advance women's empowerment. The importance of bridging spatial inequalities – between leading and lagging regions and urban and rural areas – should also not be underestimated.

20. **The joint OECD-UN Environment-World Bank report, *Financing Climate Futures: Rethinking Infrastructure*, along with the OECD's flagship study for the G20, *Investing in Climate, Investing in Growth*, confirm the complementarities between decisive climate action and strong, sustainable and inclusive economic growth.** Countries must embrace a much more transformative agenda to align finance and investment with the goals of the Paris Agreement, and to ensure a low-emission, climate resilient future. The *Financing Climate Futures* report sets out a policy roadmap to guide countries in their efforts, focusing on six priorities: planning infrastructure for a low emission and resilient future; unleashing innovation to accelerate the transition; ensuring fiscal sustainability; resetting the financial system in line with long-term climate risks and opportunities; rethinking development finance; and empowering sub-national governments.