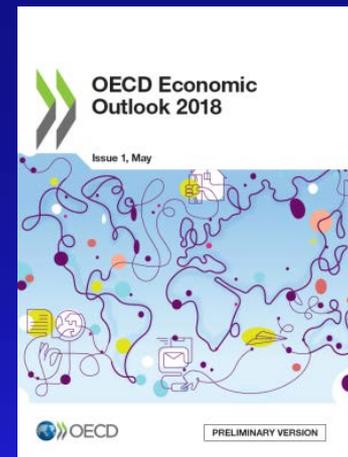


# OECD ECONOMIC OUTLOOK



*Stronger growth,  
but risks loom large*



**Ángel Gurría**  
OECD Secretary-General

**Álvaro S. Pereira**  
OECD Chief Economist ad interim

Paris, 30 May

**OECD  
FORUM  
2018**

**OCDE  
FORUM  
2018**



# Key messages

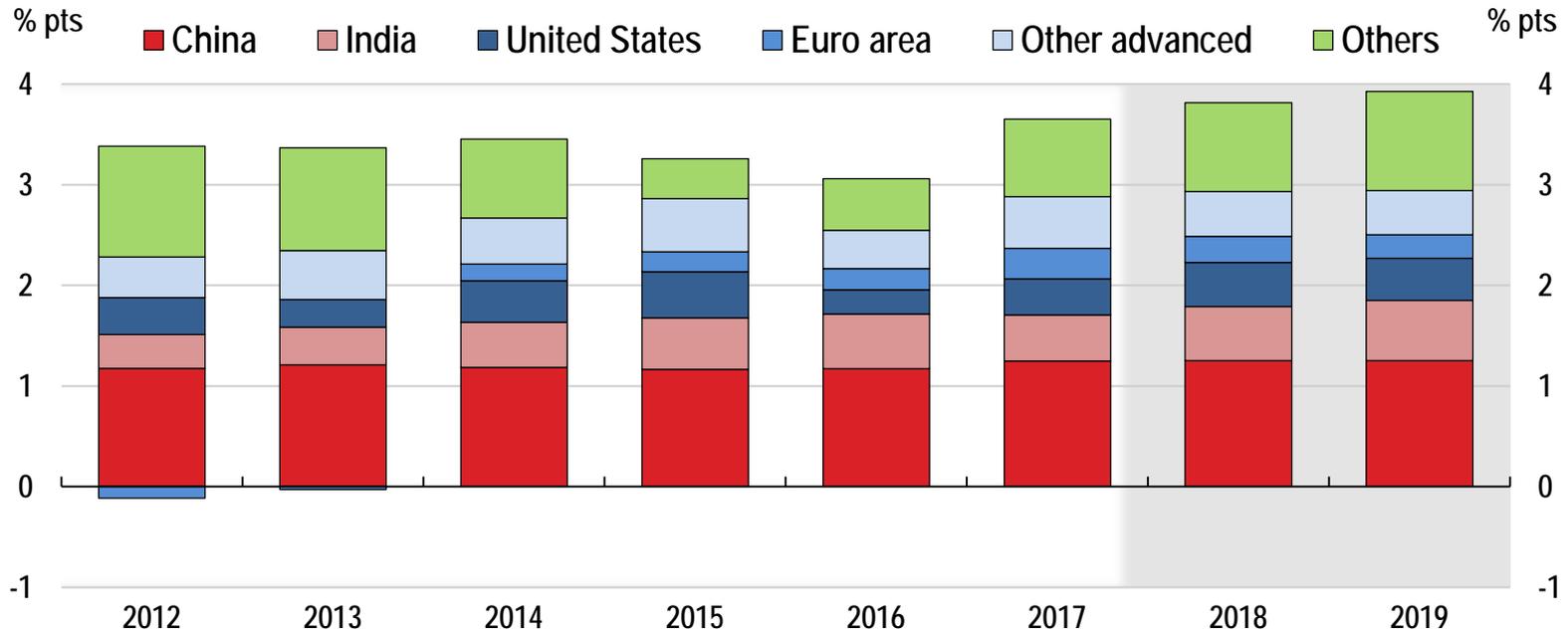
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- **Global growth will be around 4%**  
*Investment and trade have rebounded*
- **Monetary and fiscal policies have been supportive**  
*Three quarters of OECD countries are undertaking fiscal easing*
- **Job growth has been strong**  
*The OECD unemployment rate will be at its lowest since 1980*
- **Risks loom large over the next few years: oil prices, trade tensions, financial volatility**  
*Rising interest rates will pose challenges for highly indebted countries, households and corporations.*
- **Now is the time to reform for sustainable and inclusive growth**  
*Invest in education, skills, digital infrastructure*



# A stronger expansion

**Global GDP growth**  
*Contributions by regions*





# OECD Economic Outlook projections

## Real GDP growth

*Year-on-year, %*

	2017	2018	2019		2017	2018	2019
<b>World</b>	<b>3.7</b>	<b>3.8</b>	<b>3.9</b>	<b>G20</b>	<b>3.8</b>	<b>4.0</b>	<b>4.1</b>
<b>Australia</b>	<b>2.3</b>	<b>2.9</b>	<b>3.0</b>	<b>Argentina</b>	<b>2.9</b>	<b>2.0</b>	<b>2.6</b>
<b>Canada</b>	<b>3.0</b>	<b>2.1</b>	<b>2.2</b>	<b>Brazil</b>	<b>1.0</b>	<b>2.0</b>	<b>2.8</b>
<b>Euro area</b>	<b>2.6</b>	<b>2.2</b>	<b>2.1</b>	<b>China</b>	<b>6.9</b>	<b>6.7</b>	<b>6.4</b>
<b>Germany</b>	<b>2.5</b>	<b>2.1</b>	<b>2.1</b>	<b>India<sup>1</sup></b>	<b>6.5</b>	<b>7.4</b>	<b>7.5</b>
<b>France</b>	<b>2.3</b>	<b>1.9</b>	<b>1.9</b>	<b>Indonesia</b>	<b>5.1</b>	<b>5.3</b>	<b>5.4</b>
<b>Italy</b>	<b>1.6</b>	<b>1.4</b>	<b>1.1</b>	<b>Mexico</b>	<b>2.3</b>	<b>2.5</b>	<b>2.8</b>
<b>Japan</b>	<b>1.7</b>	<b>1.2</b>	<b>1.2</b>	<b>Russia</b>	<b>1.5</b>	<b>1.8</b>	<b>1.5</b>
<b>Korea</b>	<b>3.1</b>	<b>3.0</b>	<b>3.0</b>	<b>Saudi Arabia</b>	<b>-0.7</b>	<b>1.6</b>	<b>2.1</b>
<b>United Kingdom</b>	<b>1.8</b>	<b>1.4</b>	<b>1.3</b>	<b>South Africa</b>	<b>1.3</b>	<b>1.9</b>	<b>2.2</b>
<b>United States</b>	<b>2.3</b>	<b>2.9</b>	<b>2.8</b>	<b>Turkey</b>	<b>7.4</b>	<b>5.1</b>	<b>5.0</b>

Note: The European Union is a full member of the G20, but the G20 aggregate only includes countries which are also members in their own right.

1. Fiscal years starting in April.



# OECD Economic Outlook projections

## Real GDP growth

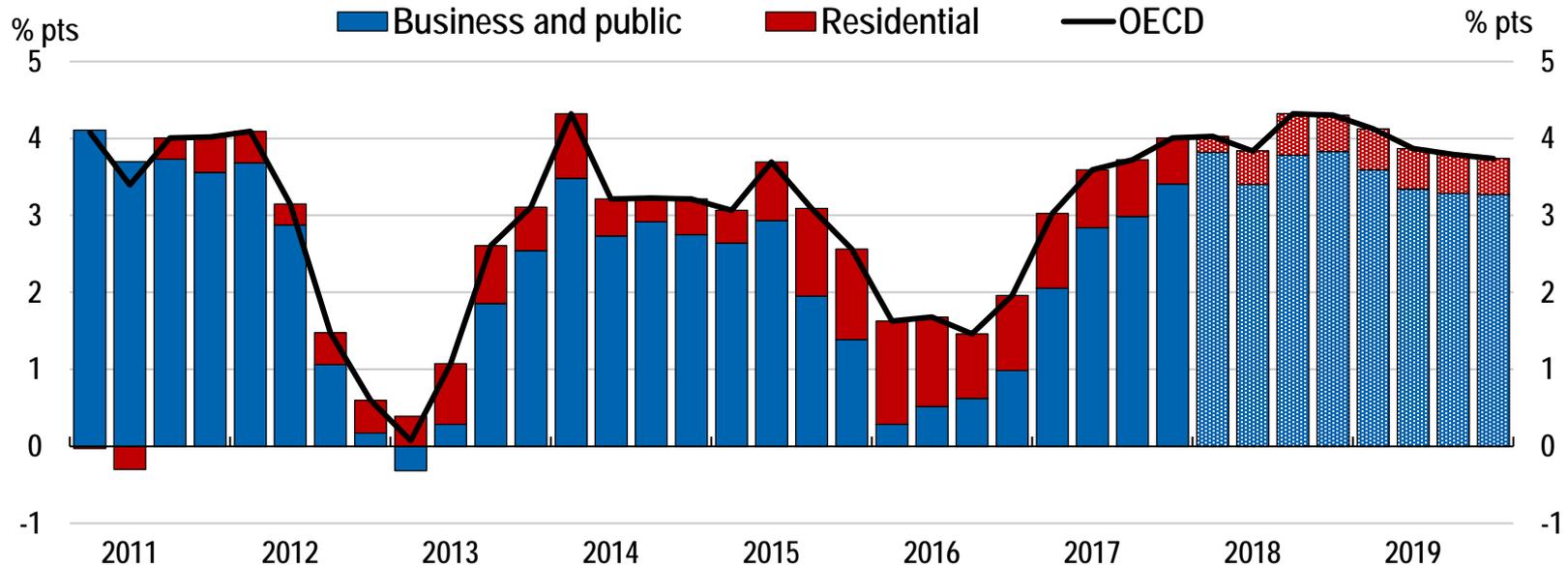
*Year-on-year, %*

	2017	2018	2019		2017	2018	2019
Austria	3.1	2.7	2.0	Latvia	4.5	4.1	3.6
Belgium	1.7	1.7	1.7	Lithuania	3.8	3.3	2.9
Chile	1.6	3.6	3.6	Luxembourg	2.3	3.6	3.8
Colombia	1.8	2.7	3.2	Netherlands	3.3	3.3	2.9
Costa Rica	3.2	3.7	3.7	New Zealand	3.0	3.0	3.0
Czech Republic	4.6	3.8	3.2	Norway	1.9	1.8	1.6
Denmark	2.2	1.7	1.9	Poland	4.6	4.6	3.8
Estonia	4.8	3.7	3.2	Portugal	2.7	2.2	2.2
Finland	2.6	2.9	2.5	Slovak Republic	3.4	4.0	4.5
Greece	1.3	2.0	2.3	Slovenia	5.0	5.0	3.9
Hungary	4.0	4.4	3.6	Spain	3.1	2.8	2.4
Iceland	3.6	2.8	2.6	Sweden	2.7	2.8	2.2
Ireland	7.8	4.0	2.9	Switzerland	1.1	2.3	1.9
Israel	3.3	3.7	3.6				



# Investment has rebounded

## Contribution to investment growth *OECD economies*



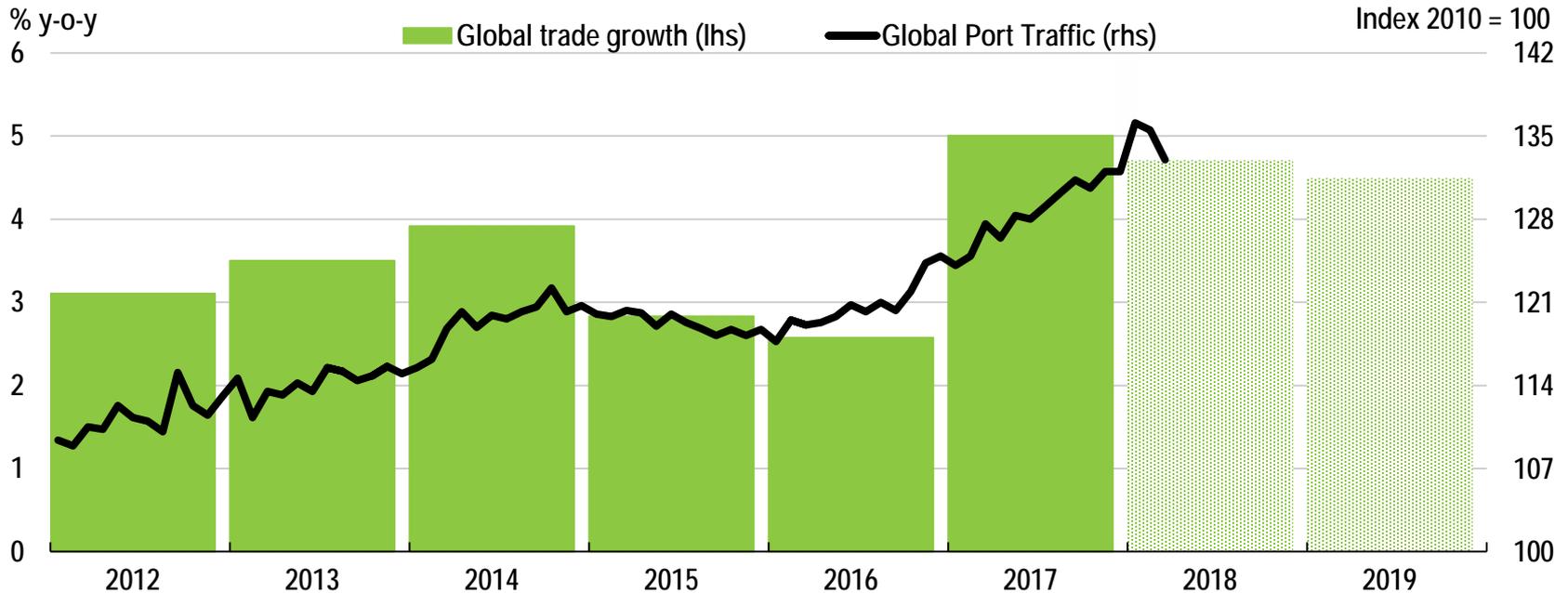
Note: Gross fixed capital formation, in volume. Data are year-on-year growth rates. Projections for 2018 and 2019.

Source: OECD Economic Outlook database; and OECD calculations.



# Trade has recovered

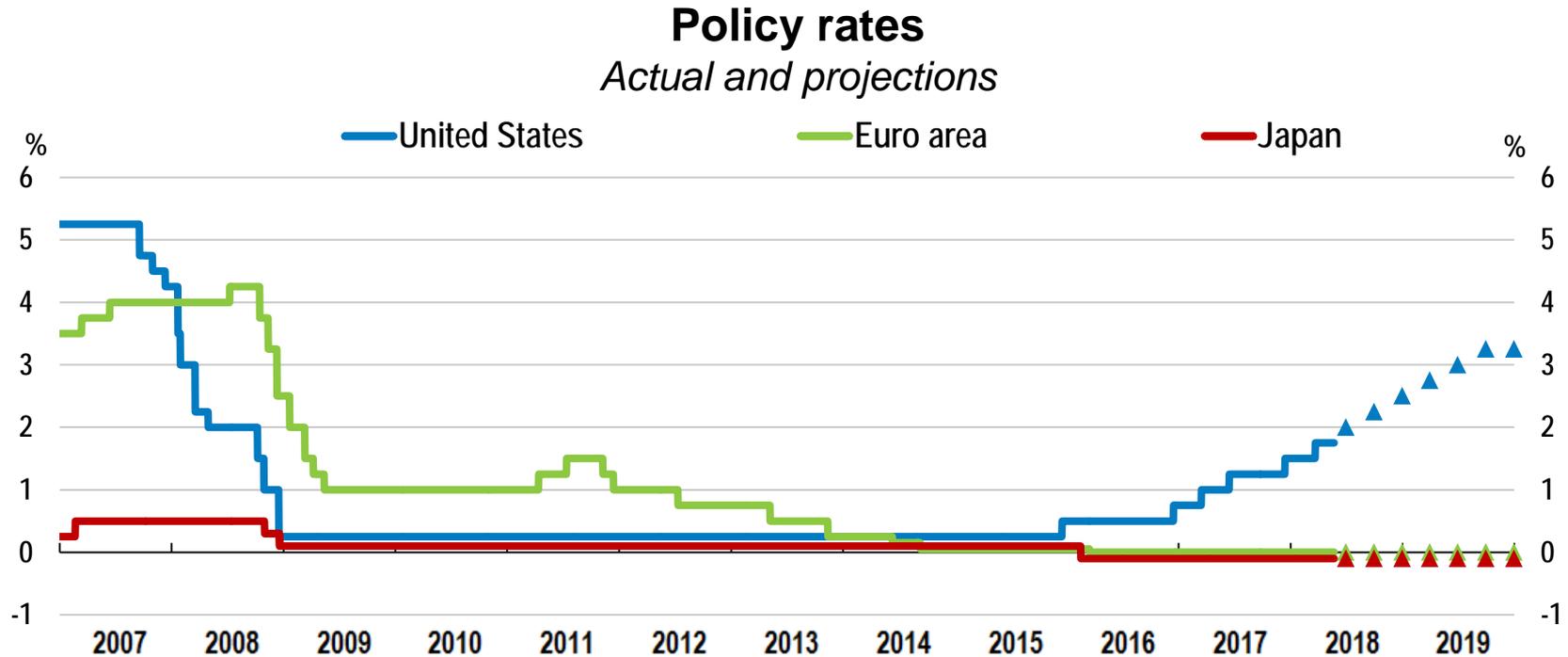
## Growth in global trade



Note: World trade is measured as goods and services trade volumes measured at market exchange rates in US dollars. Global Port Traffic is measured monthly through the RWI/ISL-Container-Throughput-Index, seasonally and working day adjusted. Projections for 2018 and 2019. Source: OECD Economic Outlook database; and RWI/ISL.



# Interest rates remain low, but are beginning to rise



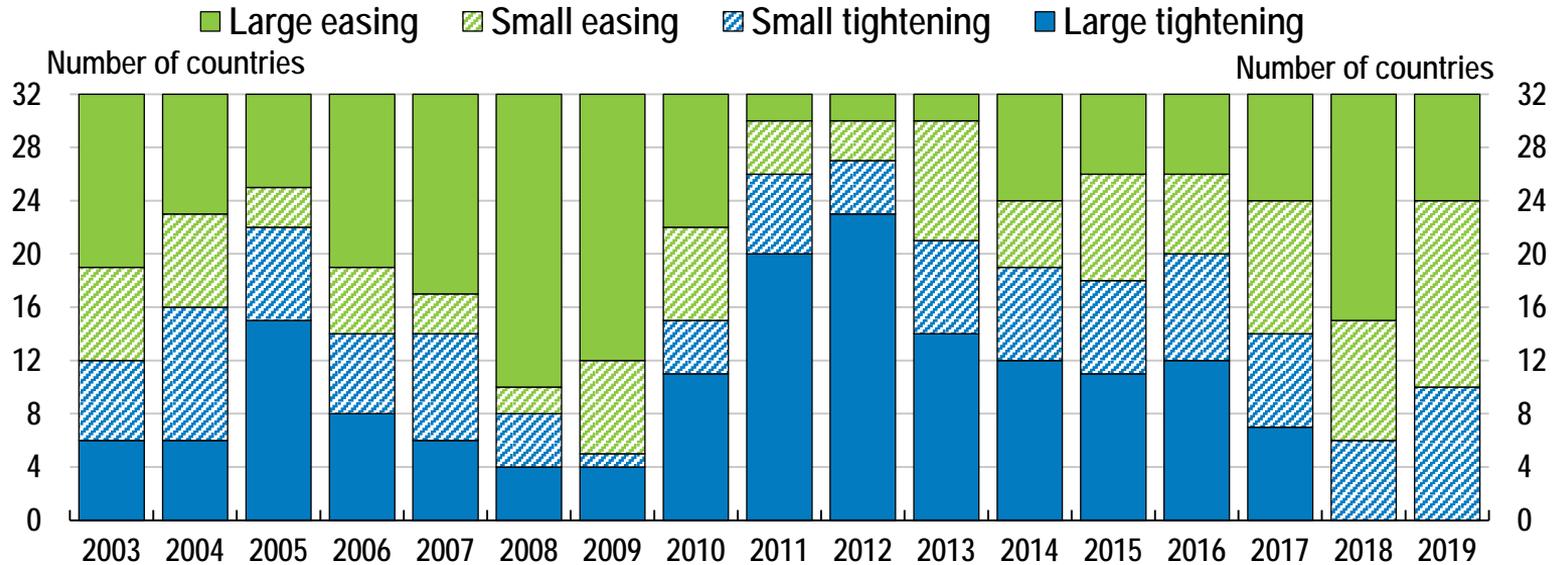
Note: Policy rates are the federal effective funds rate for the United States, the main refinancing operations rate for the euro area and the complementary lending facility rate for Japan.

Source: OECD Economic Outlook database.



# Fiscal policy is easing

## Change in fiscal stance in OECD countries



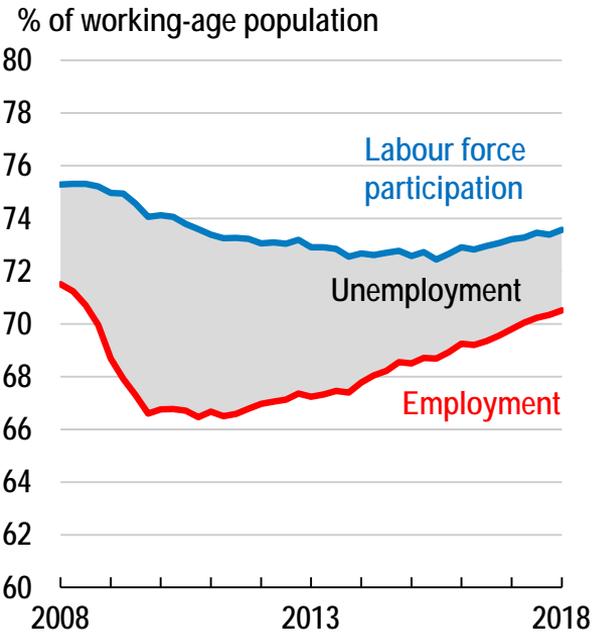
Note: The fiscal stance is calculated based on changes in the underlying primary balance as a percentage of potential GDP. Large fiscal easing is for a deterioration of the balance by more than 0.5% of potential GDP and small easing is for a deterioration by less than 0.5% of potential GDP. Large and small fiscal tightening are defined analogously. Chile, Mexico and Turkey are excluded due to the lack of data. Projections for 2018 and 2019.

Source: OECD Economic Outlook database; and OECD calculations.

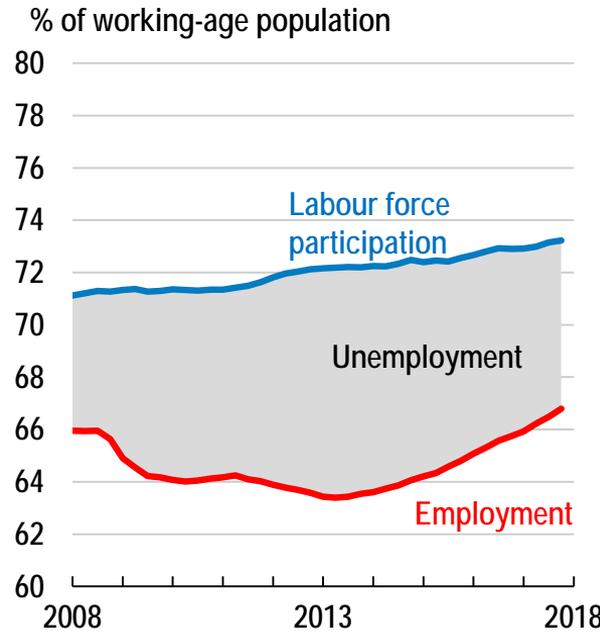


# Job creation is strong, but there is room to bring more people into work

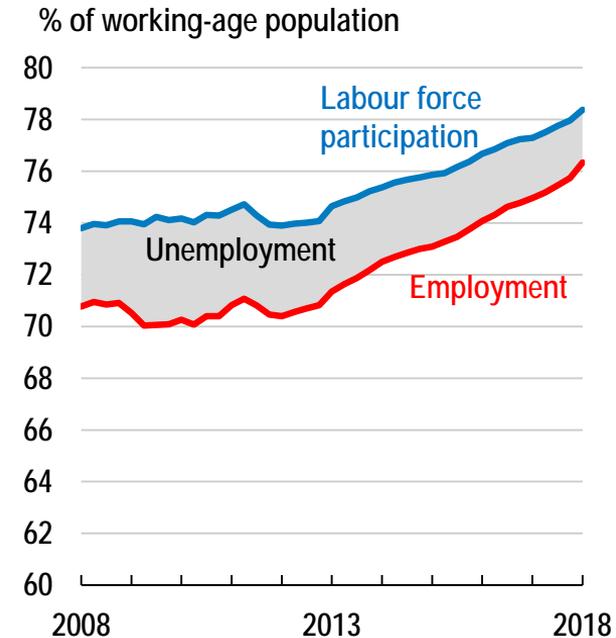
*United States*



*Euro area*



*Japan*



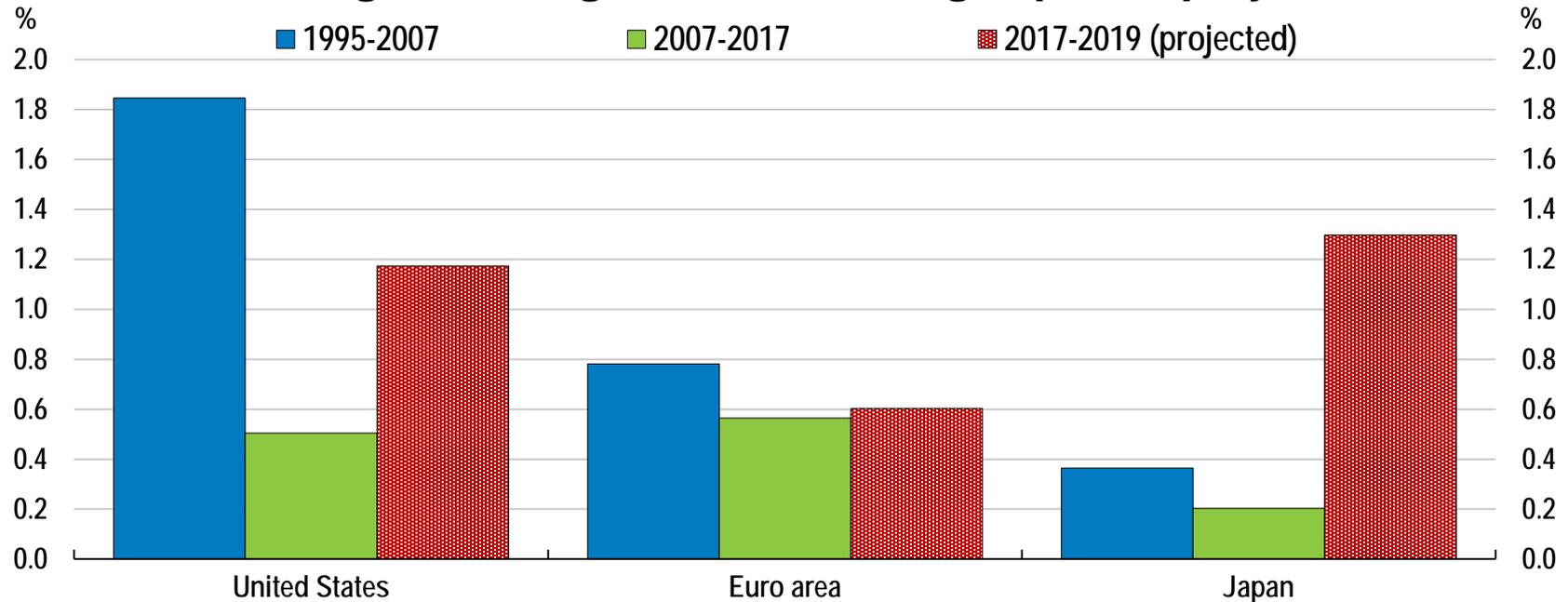
Note: Labour force participation rates and employment rates for working-age population aged 15-64 years. Unemployment as percentage of the working-age population is the difference between the two curves.

Source: OECD Short-Term Labour Market statistics.



# Wage growth is picking up, but remains moderate

## Average annual growth in real wages per employee

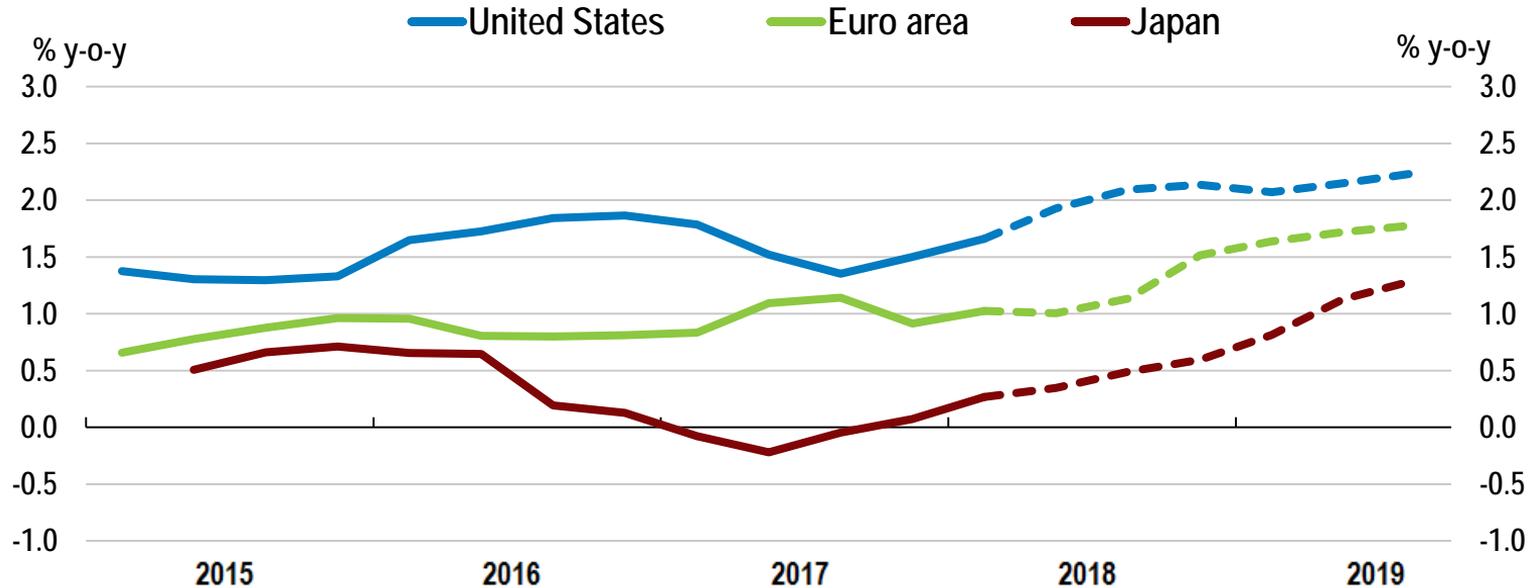


Note: Real wage growth is calculated from nominal wage growth and the GDP deflator. Projections for 2018 and 2019.  
Source: OECD Economic Outlook database.



# Inflation is set to rise moderately

## Inflation, excluding food and energy



Note: Core inflation excludes energy and food products and refers to harmonised data for the euro area. Dotted lines are quarterly projections for 2018 and 2019. The projections shown exclude the impact of the planned consumption tax hike in Japan.

Source: OECD Economic Outlook database.

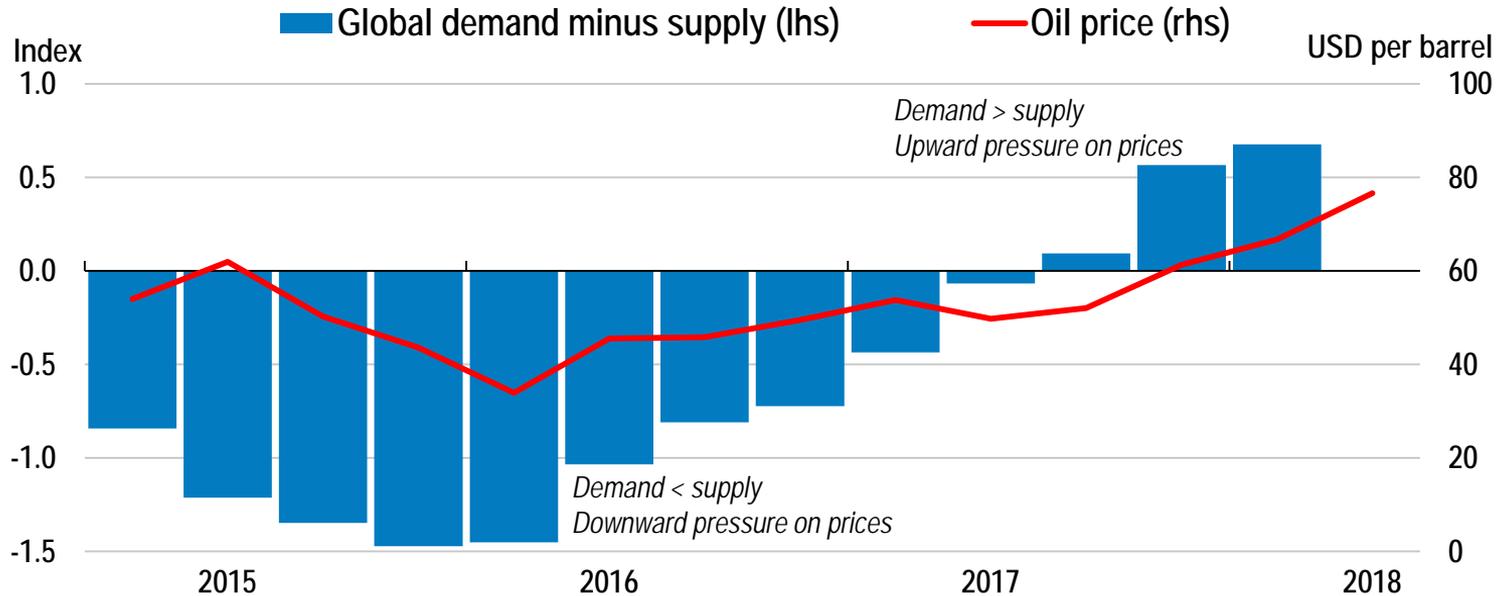


**RISKS LOOM  
LARGE**



# Oil prices have risen significantly

## Global demand-supply balance and oil prices



Note: The global demand-supply balance measures the difference between global supply and global demand, both indexed to 100 in 2012Q3, 4 quarter moving average. Oil price refers to crude oil Brent price. The last point for oil prices is the last available daily value, as of 28 May 2018. Source: International Energy Agency; Thomson Reuters; and OECD calculations.

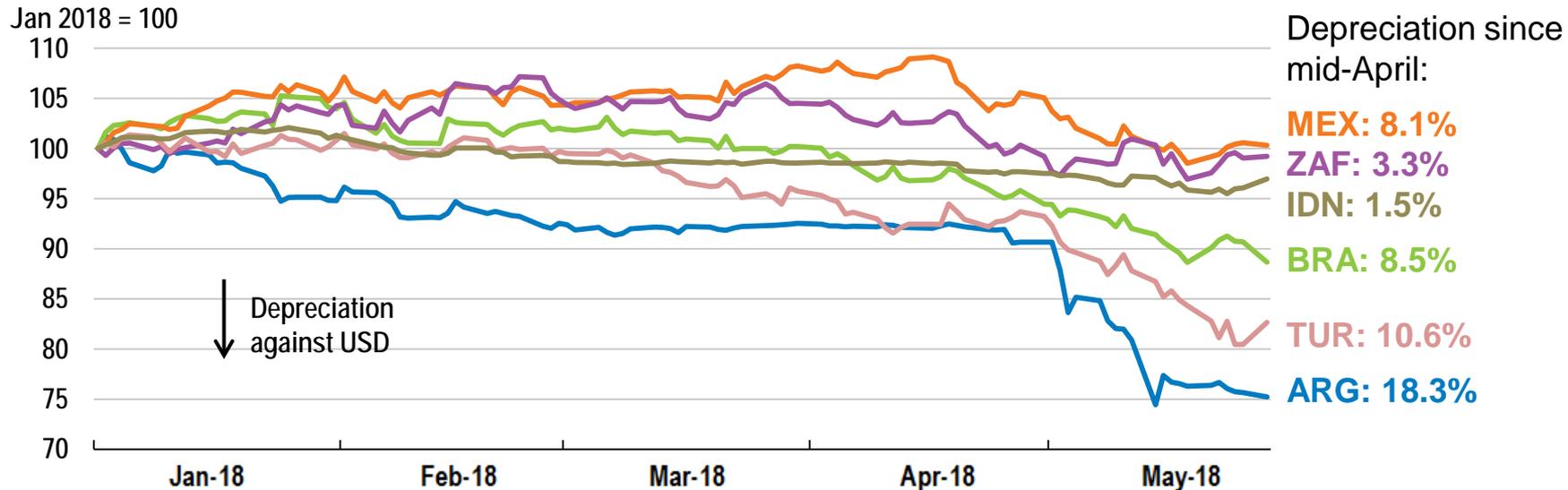


# Some emerging market economies have come under pressure

## EME exchange rates have depreciated recently

*USD exchange rate*

— Argentina — Brazil — Mexico — South Africa — Turkey — Indonesia



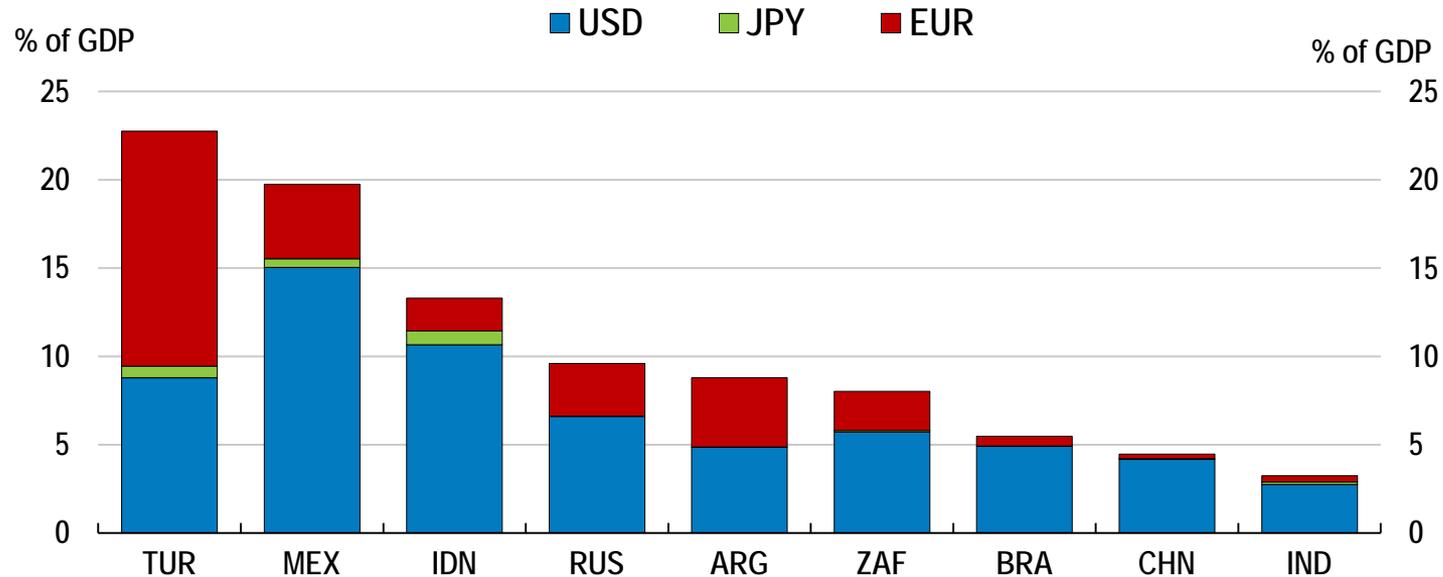
Note: Data as of 28 May 2018.

Source: Thomson Reuters; and OECD calculations.



# A number of emerging market economies are exposed to foreign currency debt

## Debt in foreign currency

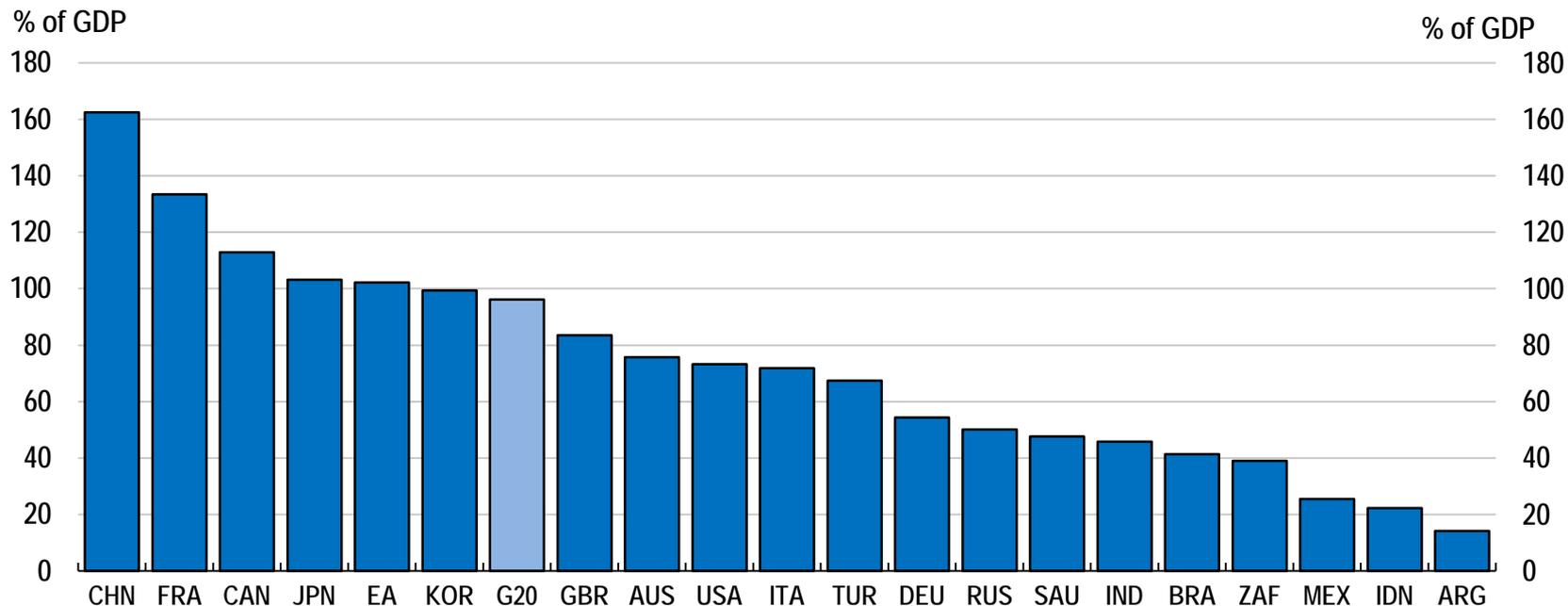


Note: Debt of non-bank borrowers in the form of bank loans and debt securities denominated in foreign currencies. Data as of 2017Q4.  
Source: Bank for International Settlements Global Liquidity Indicators database; and OECD calculations.



# High private sector debt creates vulnerabilities

## Credit liabilities of non-financial corporations



Note: Credit liabilities are on a non-consolidated basis. Data as of 2017Q3.

Source: Bank for International Settlements; and OECD calculations.



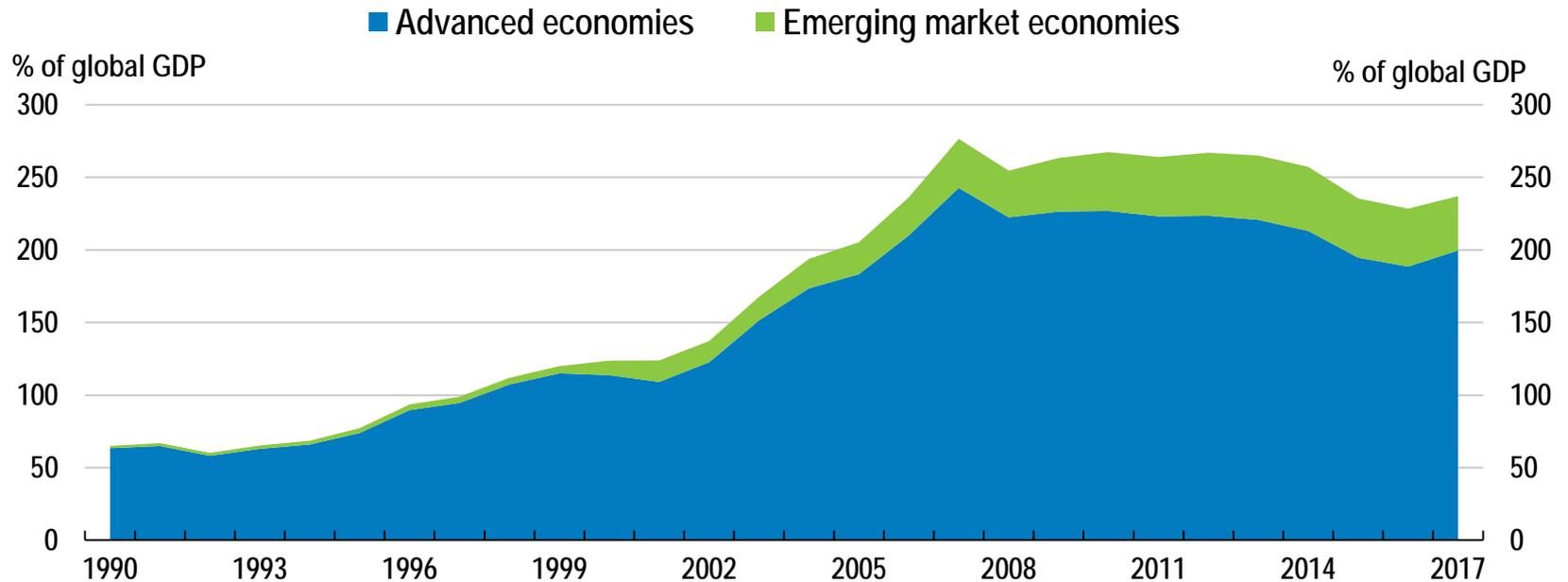
# Equity prices remain high despite a recent correction





# Deep financial integration has increased exposure to foreign shocks

## International financial assets and liabilities

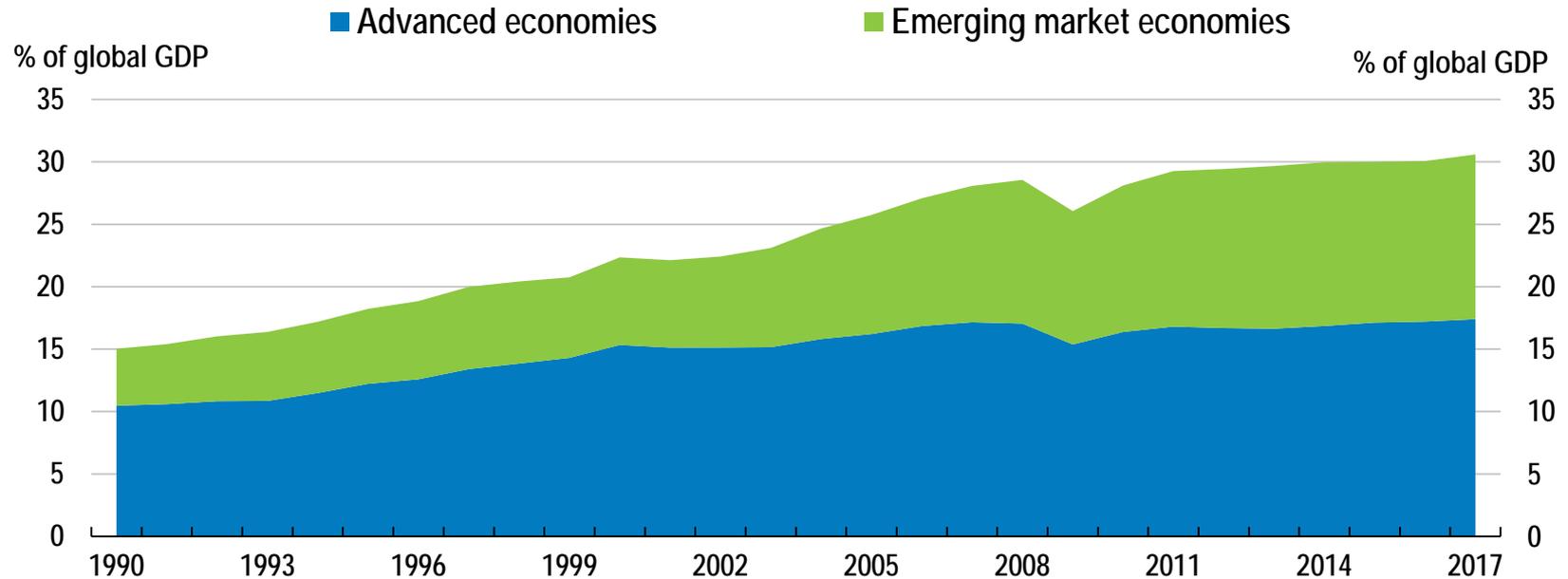


Note: Sum of external assets and liabilities. Country sets vary over time depending on the availability of series for individual economies.  
Source: IMF Balance of Payments Statistics; OECD Economic Outlook database; and OECD calculations.



# A negative shock to trade would be more harmful than in the past

## Global exports and imports



Note: Trade is the average of exports and imports in a given year. Both trade and GDP are measured in volumes in US dollars at market exchange rates.

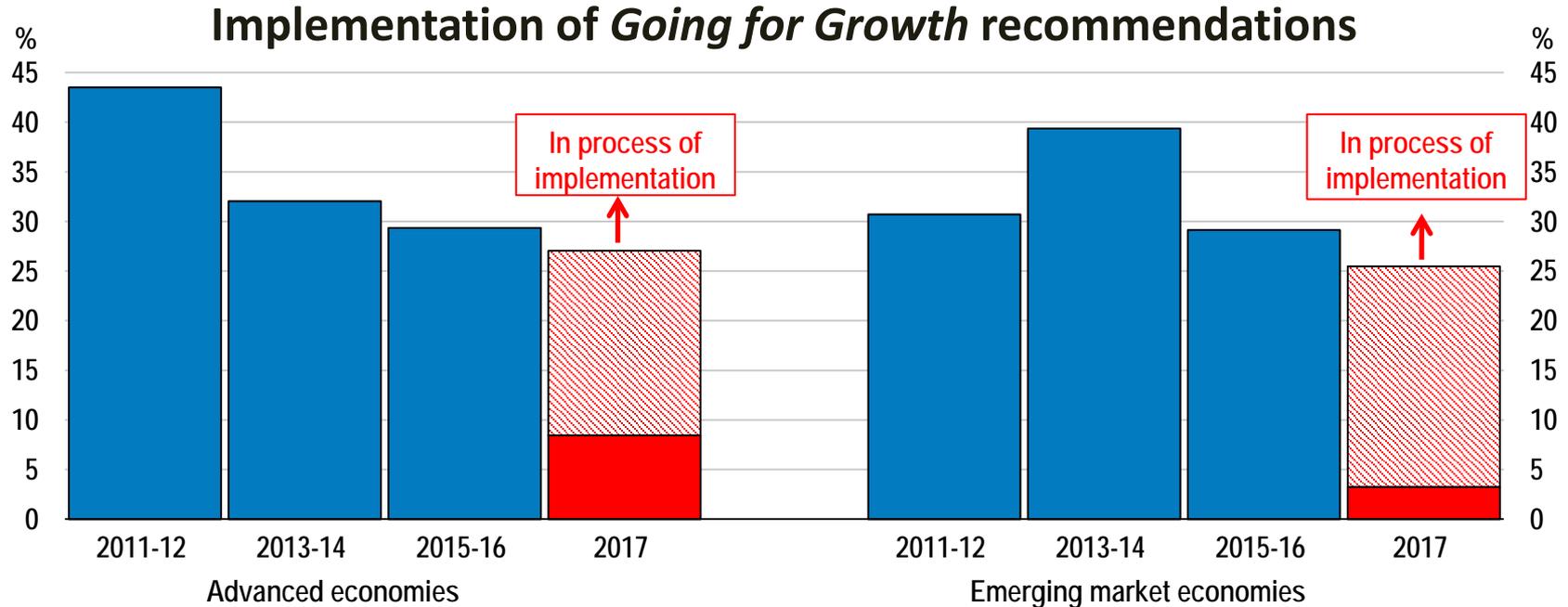
Source: OECD Economic Outlook database; and OECD calculations.



**POLICIES TO MAKE  
GROWTH MORE SUSTAINED  
AND INCLUSIVE**



# Step up structural reform ambition



Note: The estimated take-up of reforms is captured by the Going for Growth indicator of reform responsiveness. Fully coloured bars refer to the share of fully implemented reforms. For 2017, reforms in process of implementation are shown to ensure comparability with previous 2-year periods. Emerging market economies include Argentina, Brazil, Chile, China, Colombia, Costa Rica, Indonesia, India, Mexico, Russia, Turkey and South Africa. Advanced economies include all non-emerging OECD member countries and Lithuania. Source: OECD *Going for Growth*.

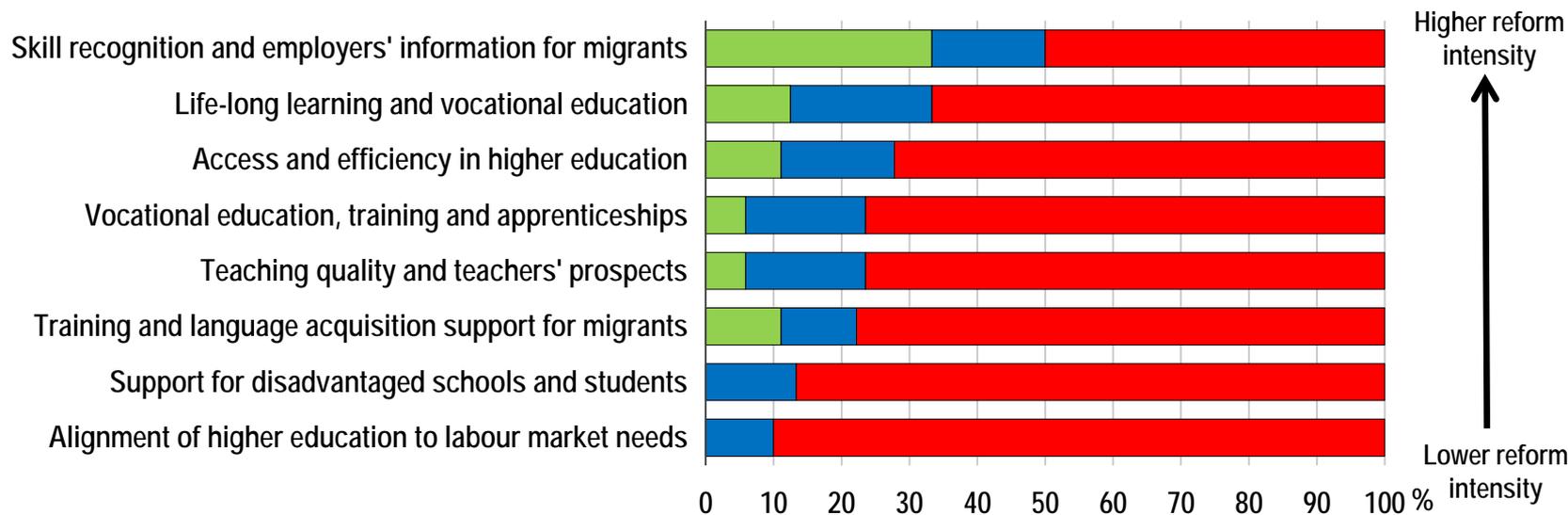


# Invest in education and skills for medium-term inclusive growth

## Take-up of reforms

Share of *Going for Growth* recommendations

■ Fully implemented ■ In process of implementation ■ No action taken in 2017



Note: Refers to reform priorities identified in *Going for Growth* in 2017 for the 46 economies covered.

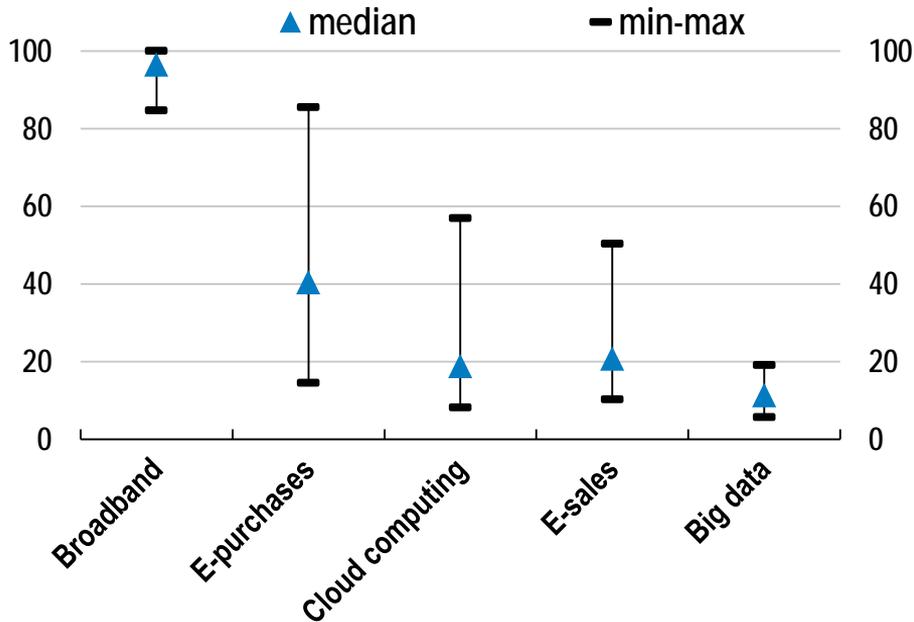
Source: OECD *Going for Growth* 2018.



# Boost job creation and business dynamism in the digital era

## Diffusion of ICT technologies is uneven

*% of firms using technologies, 2016, OECD countries*



## Recommendations

- ✓ Improve digital and physical infrastructure
- ✓ Enhance R&D collaboration between universities and industry
- ✓ Streamline permits and licensing, cut red tape
- ✓ Reduce barriers to entry in professional services

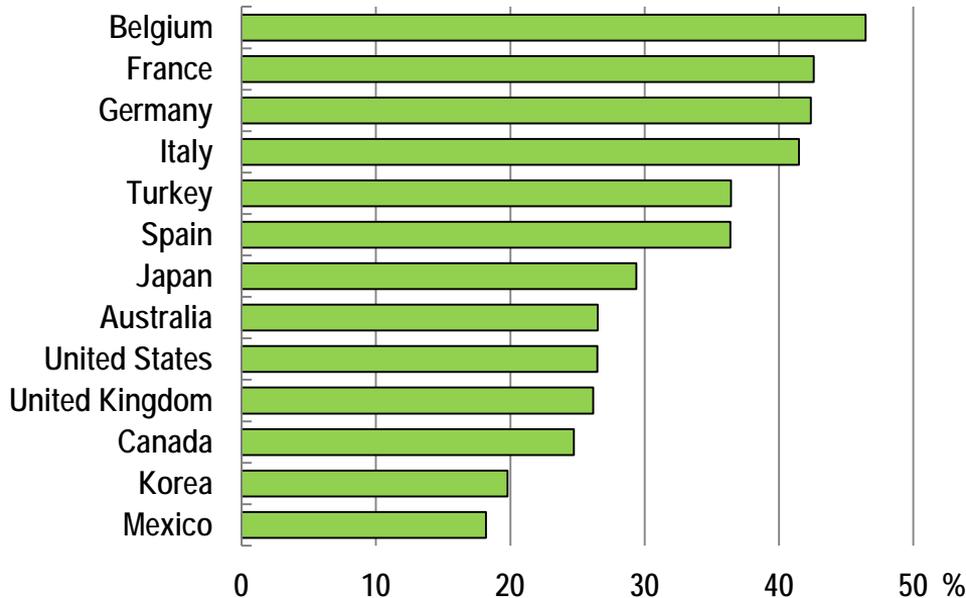
Note: Based on up to 28 OECD countries per technology.  
Source: OECD ICT Access and Usage by Business database.



# Use fiscal instruments to make growth work for all

## Tax wedge on low income labour

*Average effective tax rates, 2016*



## Reforms to the tax and spending mix would boost output and enhance equality

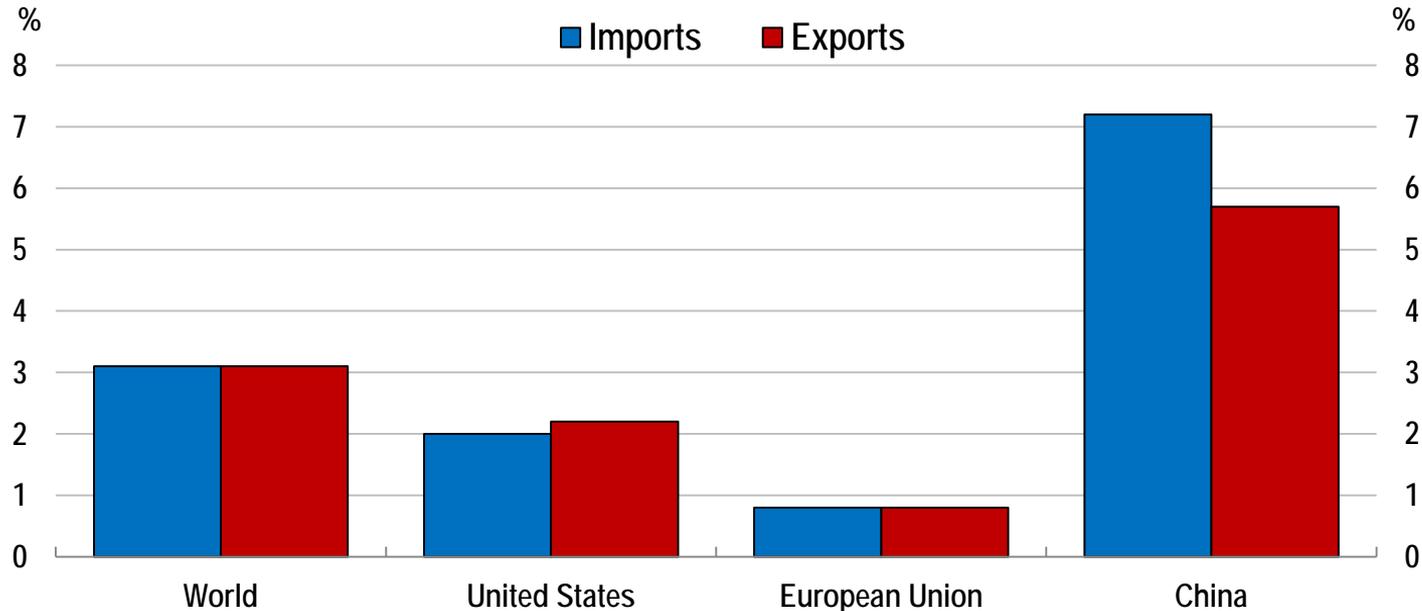
- ✓ Reduce the tax wedge on low-income earners
- ✓ Raise environmental taxes and recurrent property taxes
- ✓ Increase public investment
- ✓ Increase family and child allowances and subsidies for childcare



# Reduce trade barriers to boost productivity and incomes

## Increase in trade from multilateral tariff reductions

*Estimated medium-term impact of lowering tariffs in all G20 economies*



Note: Scenario in which tariffs are reduced by all G20 economies to the lowest level applied across them for each sector.

Source: OECD METRO model simulations.



# Key messages

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- **Global growth will be around 4%**  
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