

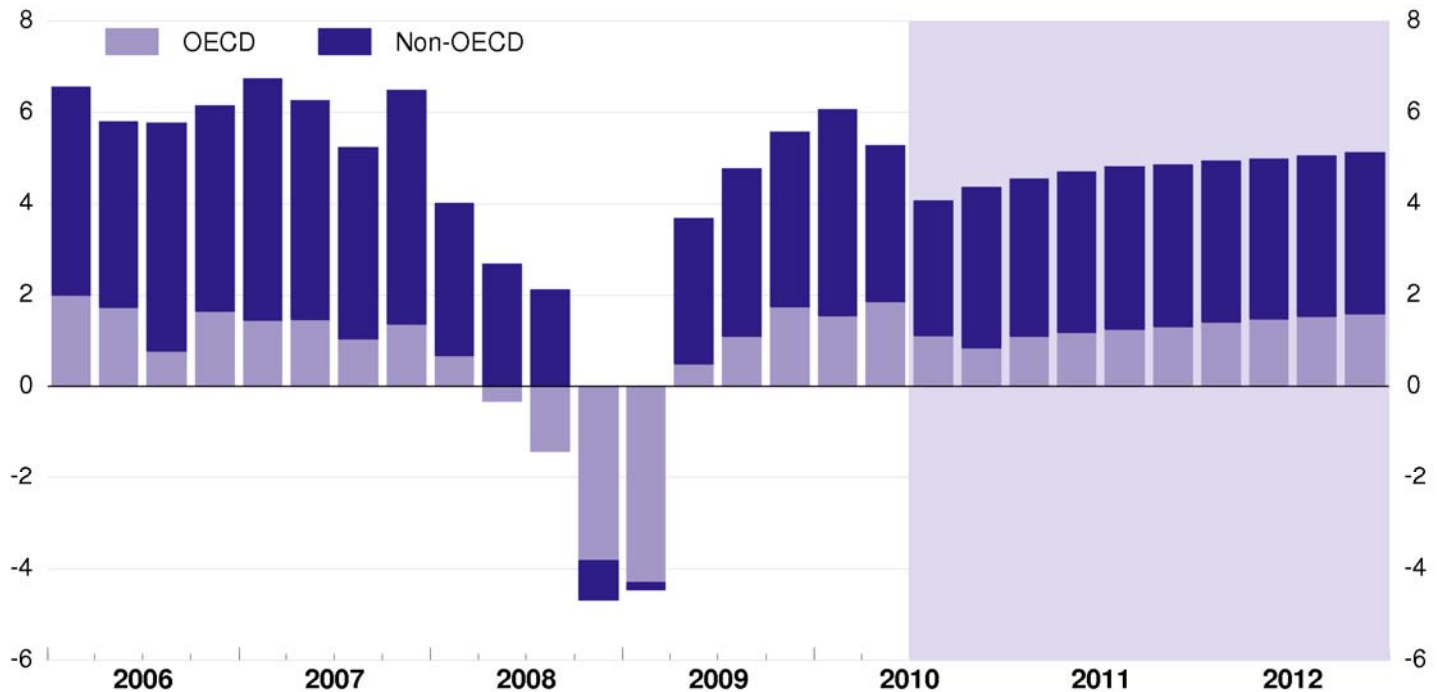


The Global Economic Outlook

Jørgen Elmeskov, OECD

It is a two-speed recovery

Contribution to annualised quarterly world real GDP growth, in per cent

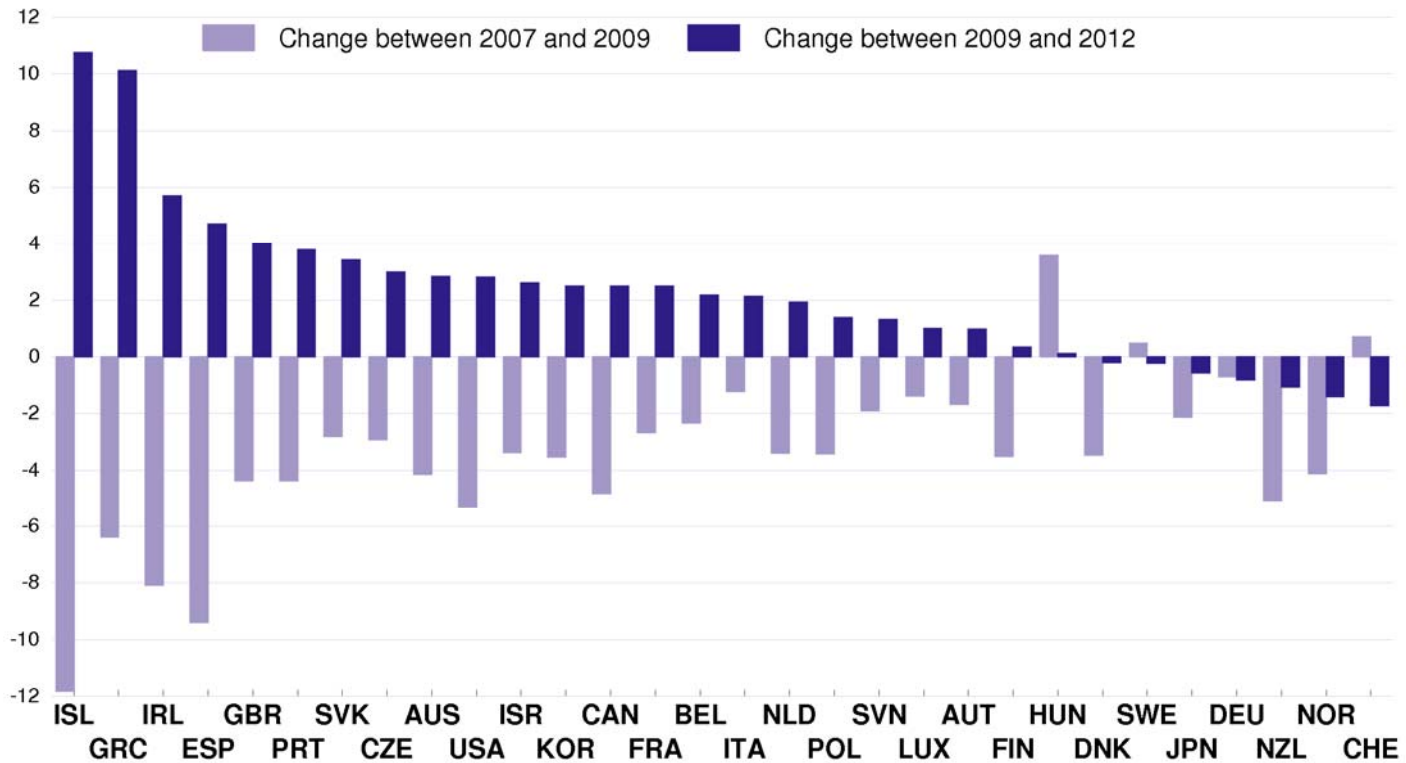


Note: Calculated using moving nominal GDP weights, based on national GDP at purchasing power parities.

Source: OECD Economic Outlook 88 database.

Fiscal policy is shifting from stimulus to contraction

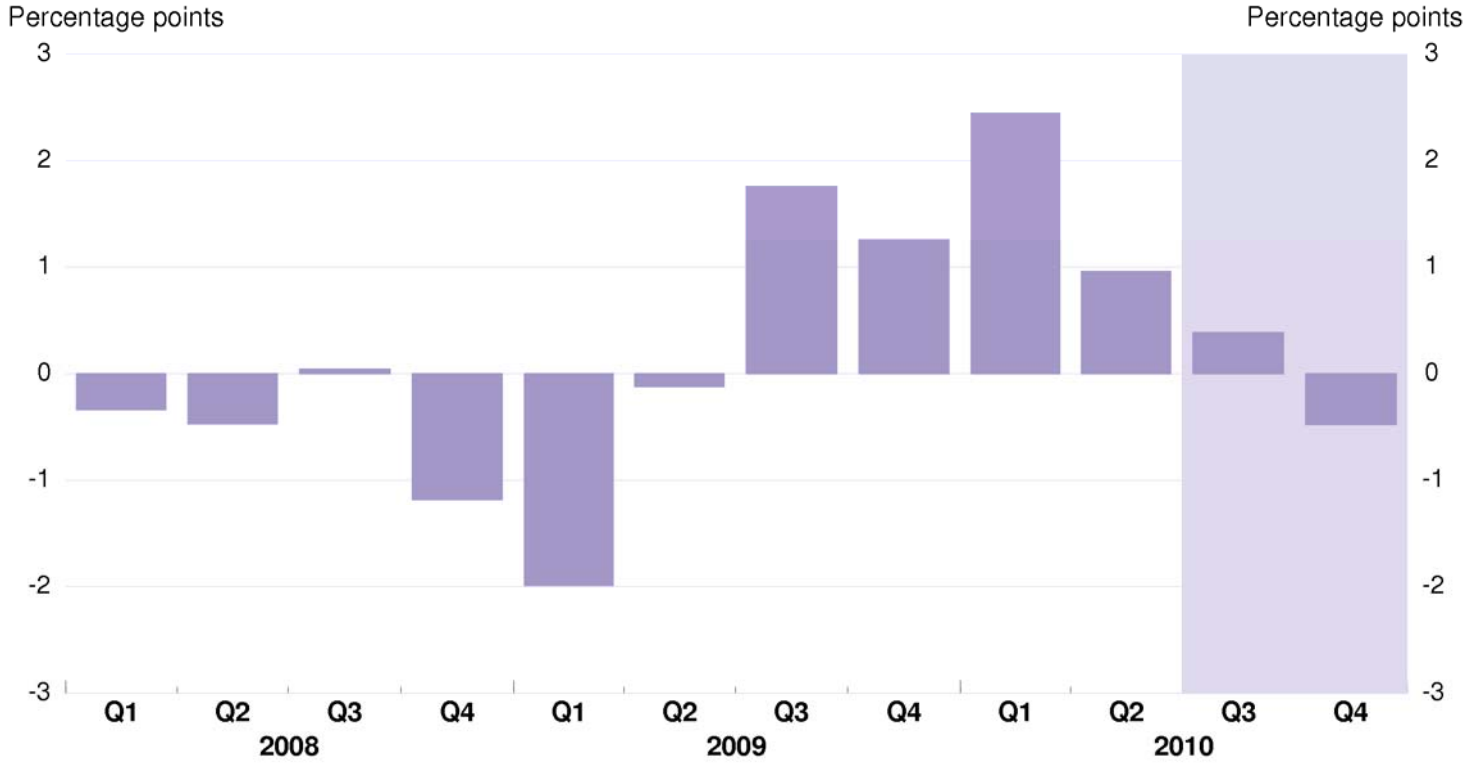
Change in underlying budget balance, in per cent of potential GDP



Source: OECD Economic Outlook 88 database.

The inventory cycle is no longer contributing to growth

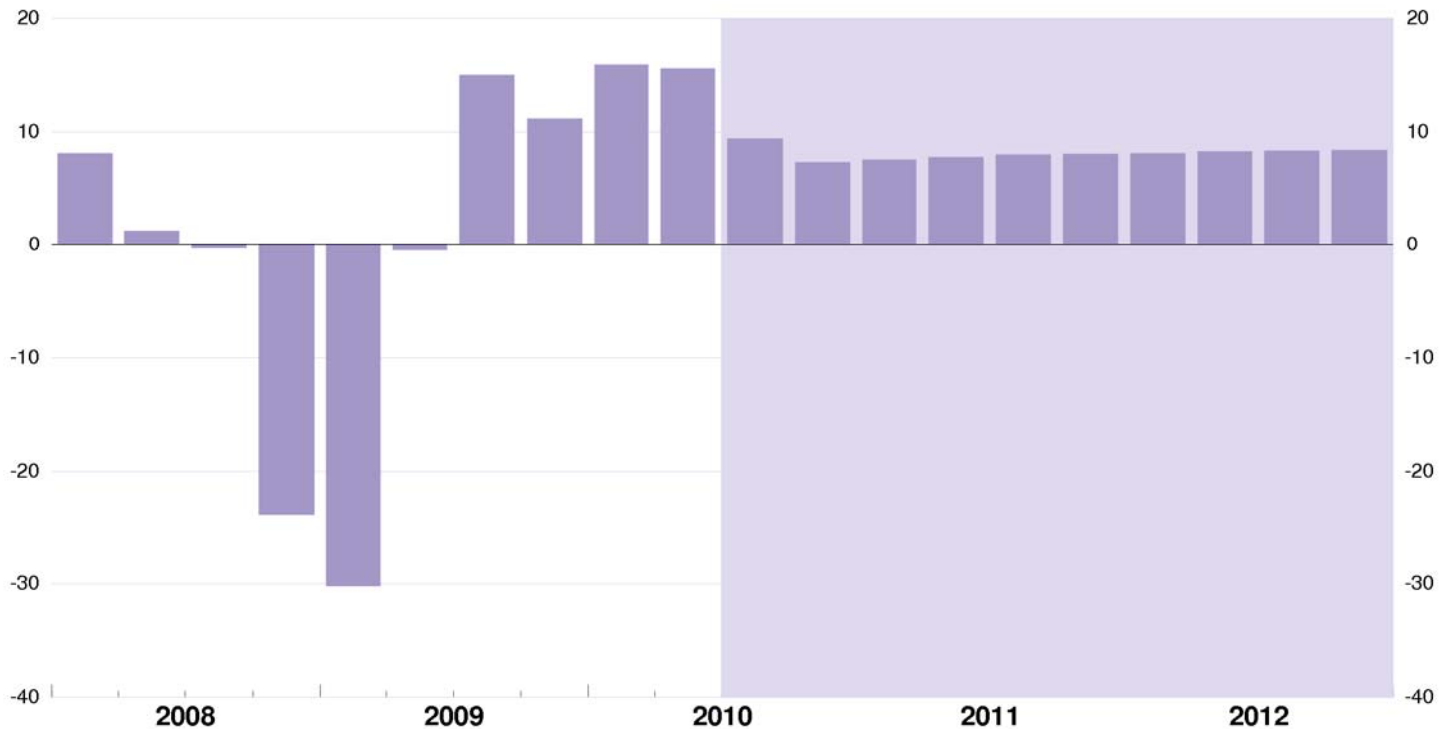
Contribution from stockbuilding to real GDP growth, percentage points



Source: OECD Economic Outlook 88 database.

The bounce from trade recovery is over

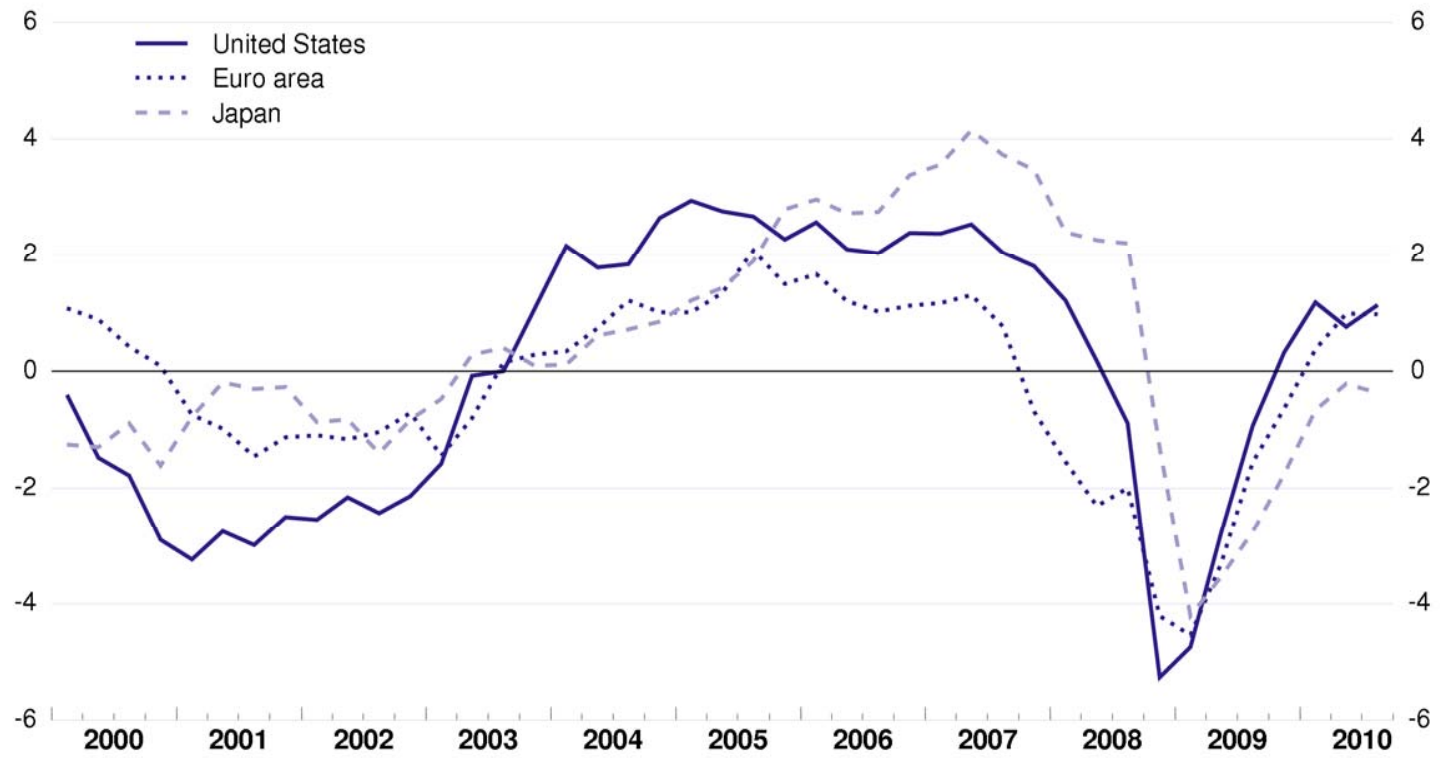
Quarterly world trade growth, annualised in per cent



Source: OECD Economic Outlook 88 database.

Financial conditions have stabilised

OECD Financial Conditions Index¹

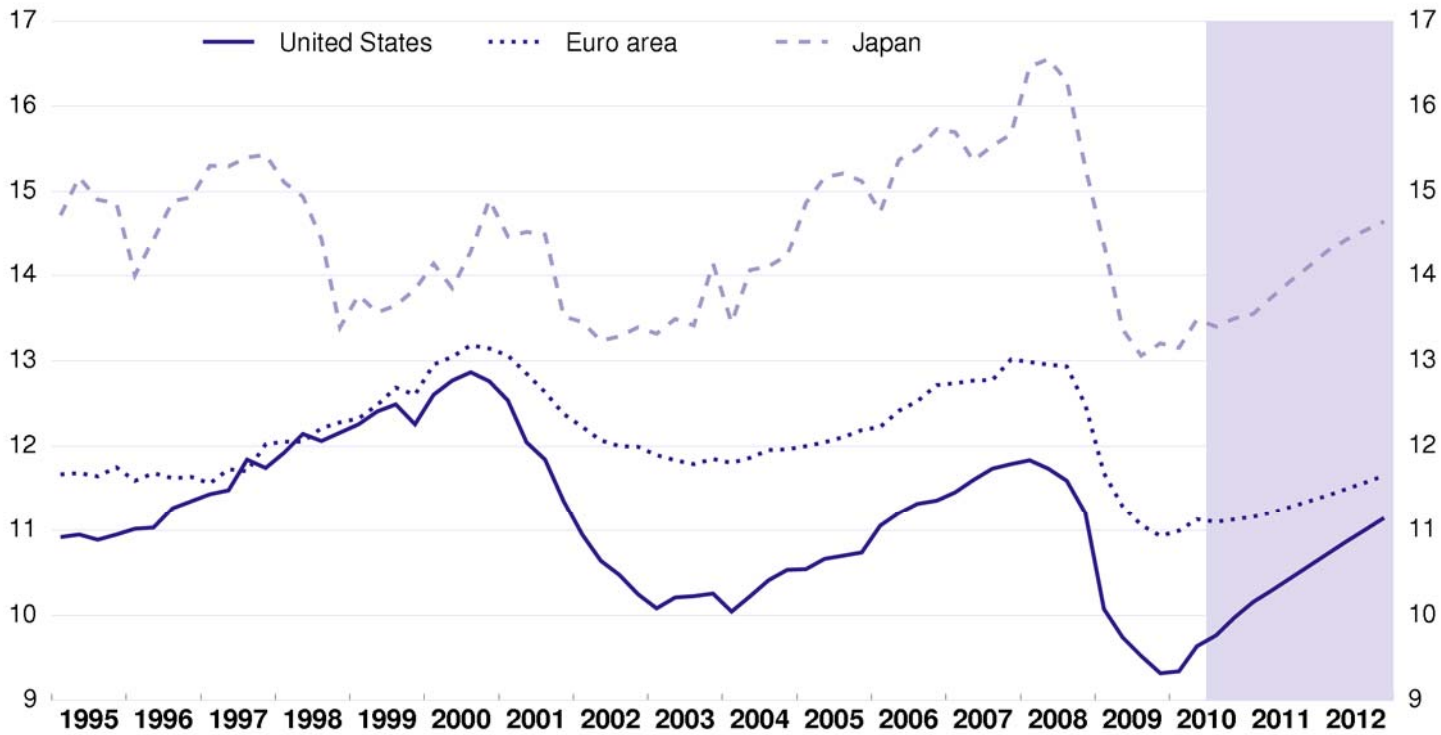


1. A unit decline in the index implies a tightening in financial conditions sufficient to produce an average reduction in the level of GDP by 1/2 to 1% after four to six quarters. See details in Guichard, S., D. Haugh and D. Turner (2009), "Quantifying the effect of financial conditions in the Euro Area, Japan, United Kingdom and United States", *OECD Economics Department Working Papers*, No.677.

Source: Datastream; OECD Economic Outlook 88 database; and OECD calculations.

Business investment is expected to continue to recover

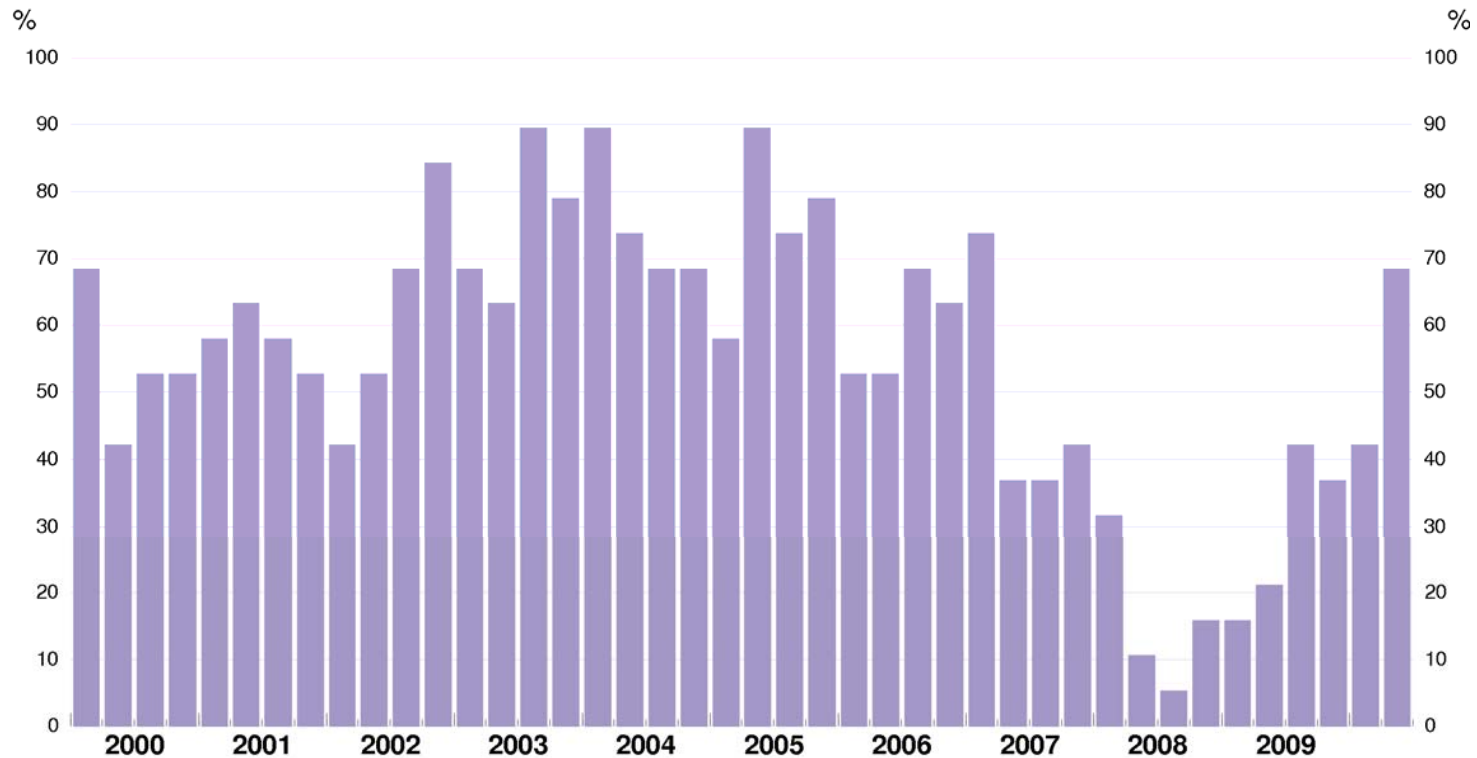
In per cent of nominal GDP



Source: OECD Economic Outlook 88 database.

Residential investment has bottomed

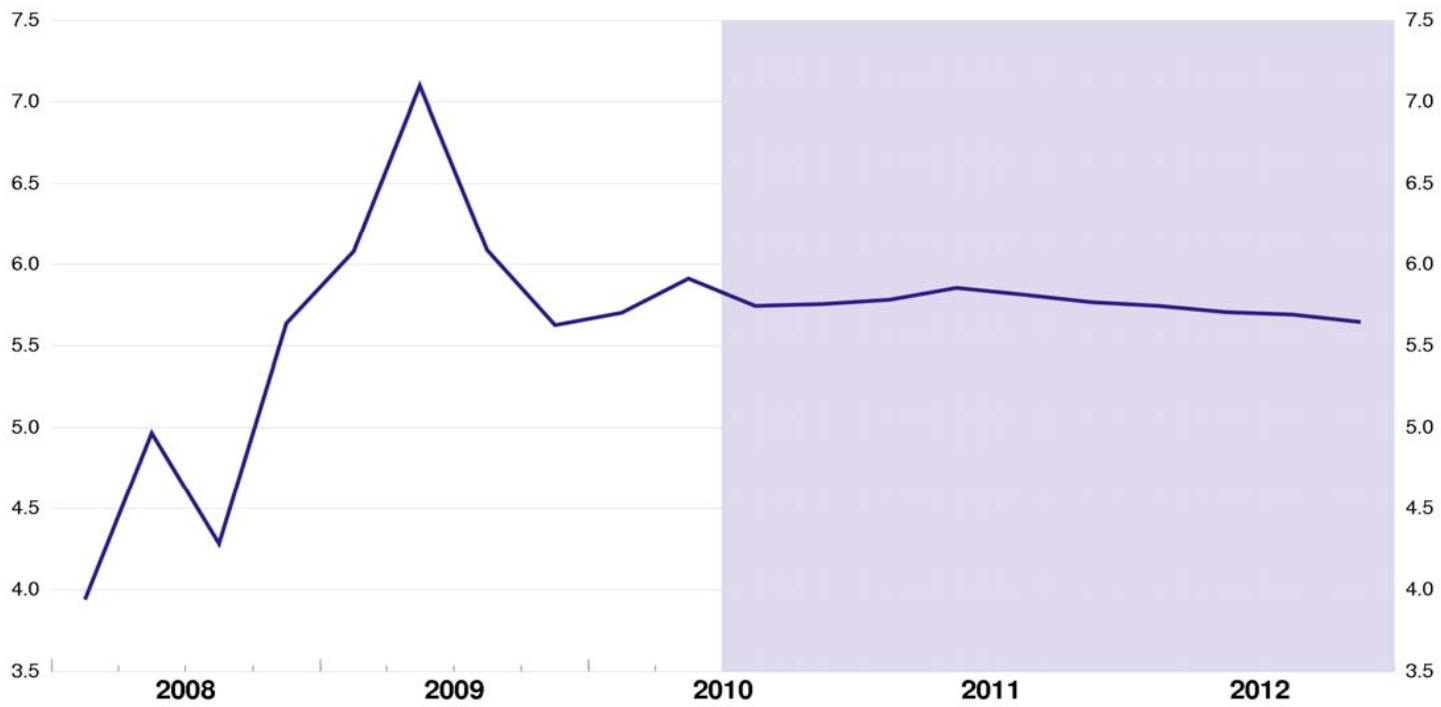
Proportion of OECD countries with rising real housing investment, based on quarter-on-quarter change



Source: OECD Economic Outlook 87 database; and various national sources, see Table A.1 in Girouard, N., M. Kennedy, P. van den Noord and C. André (2006), "Recent house price developments: the role of fundamentals", *OECD Economics Department Working Papers*, No.475.

Household saving rates are stabilising

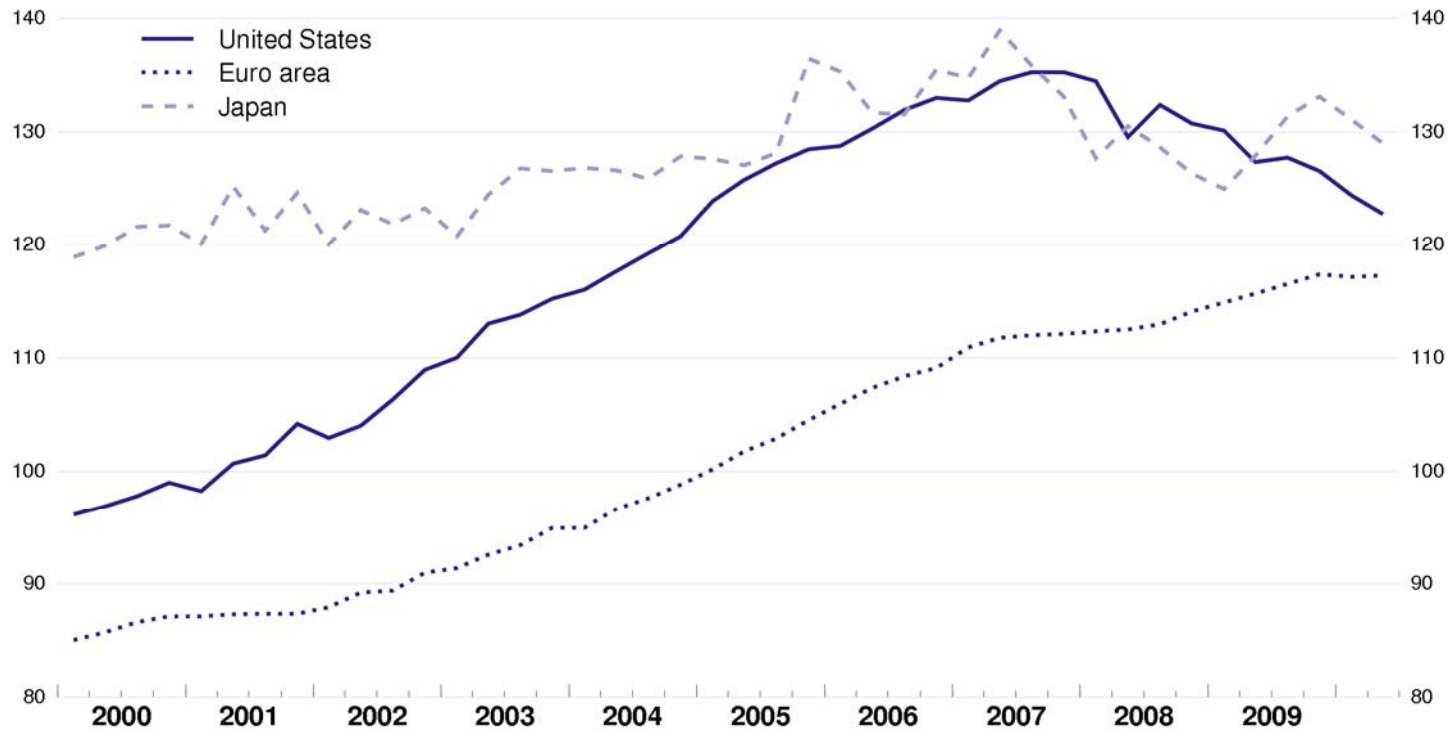
OECD-wide saving rate, per cent of disposable income



Source: OECD Economic Outlook 88 database.

Households no longer run up debt

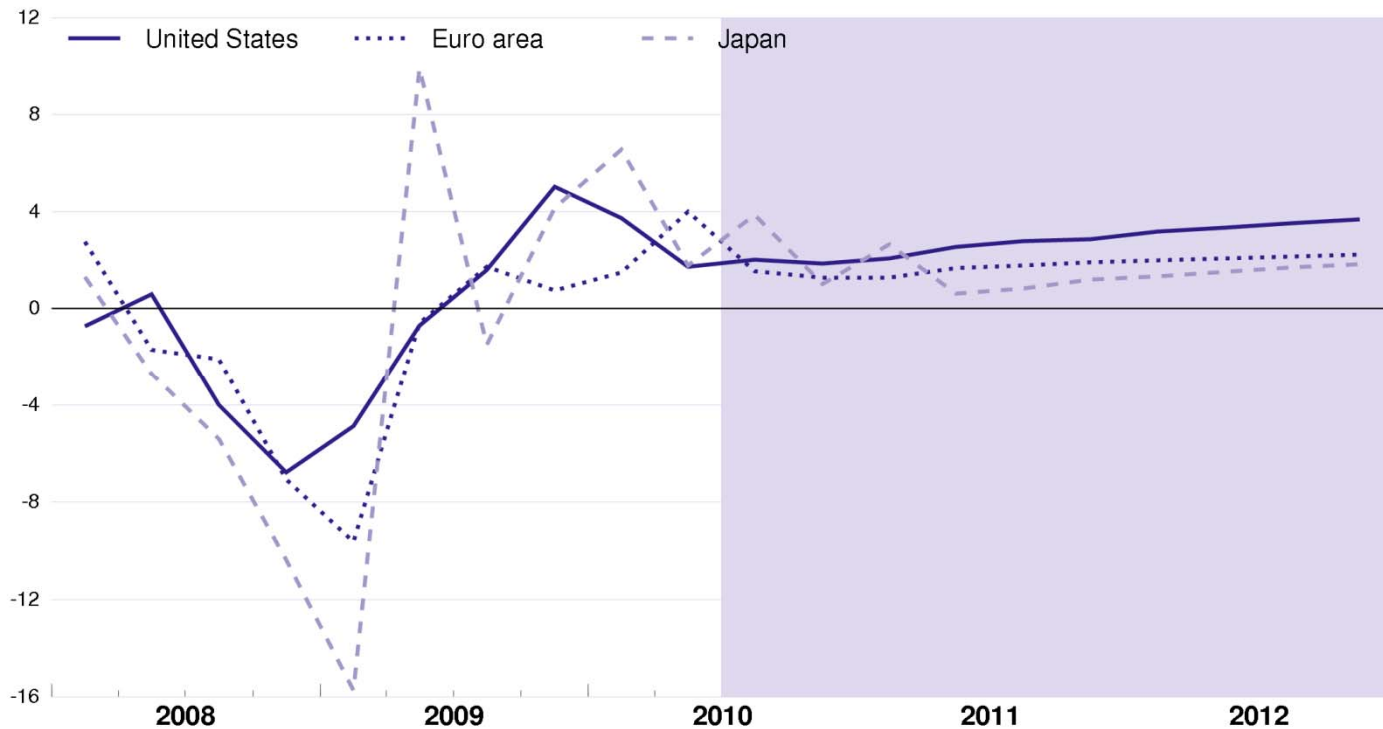
Financial liabilities, in per cent of disposable income



Source: European Central Bank; and Economic Outlook 88 database.

Individual OECD regions are set to recover at different speeds

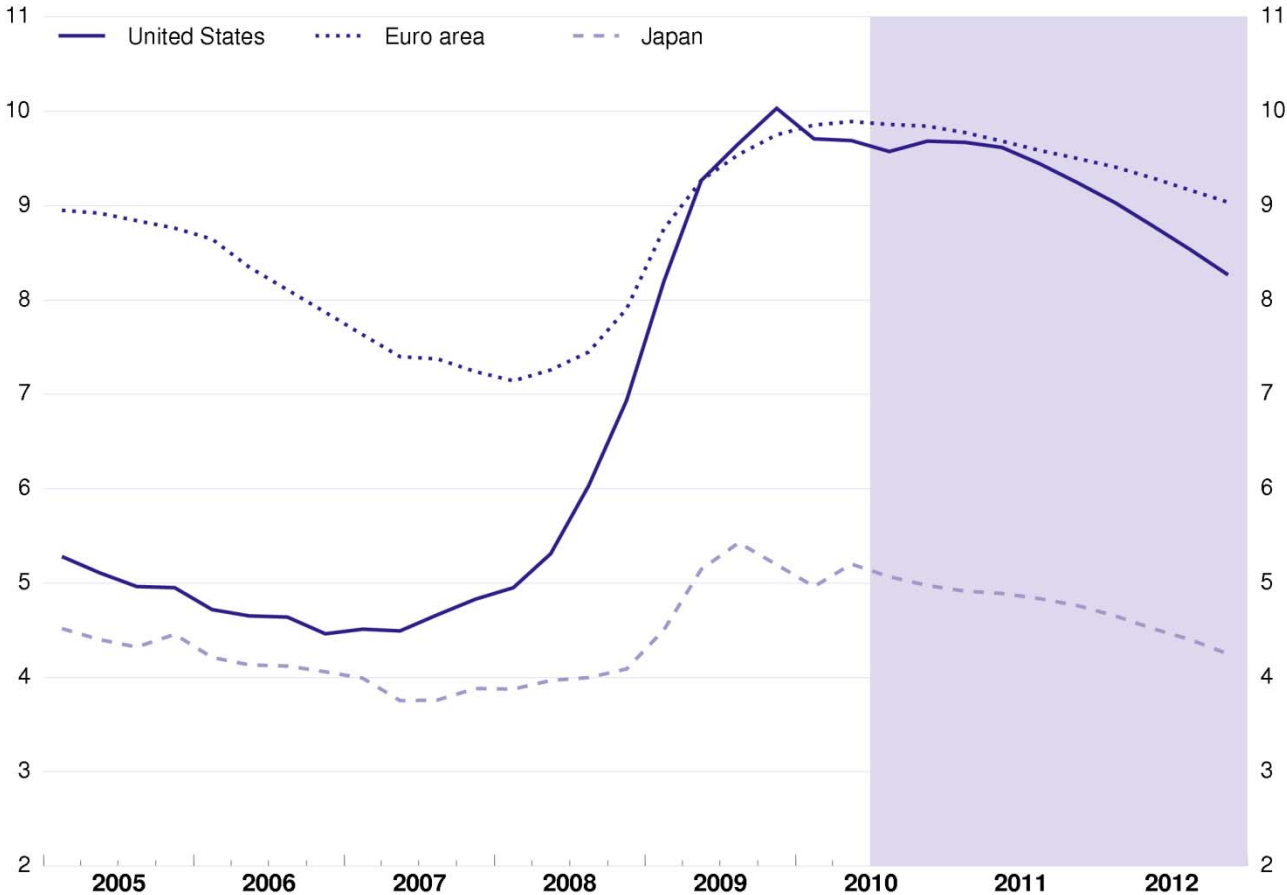
Annualised quarterly real GDP growth, in per cent



Source: OECD Economic Outlook 88 database.

Unemployment is falling slowly

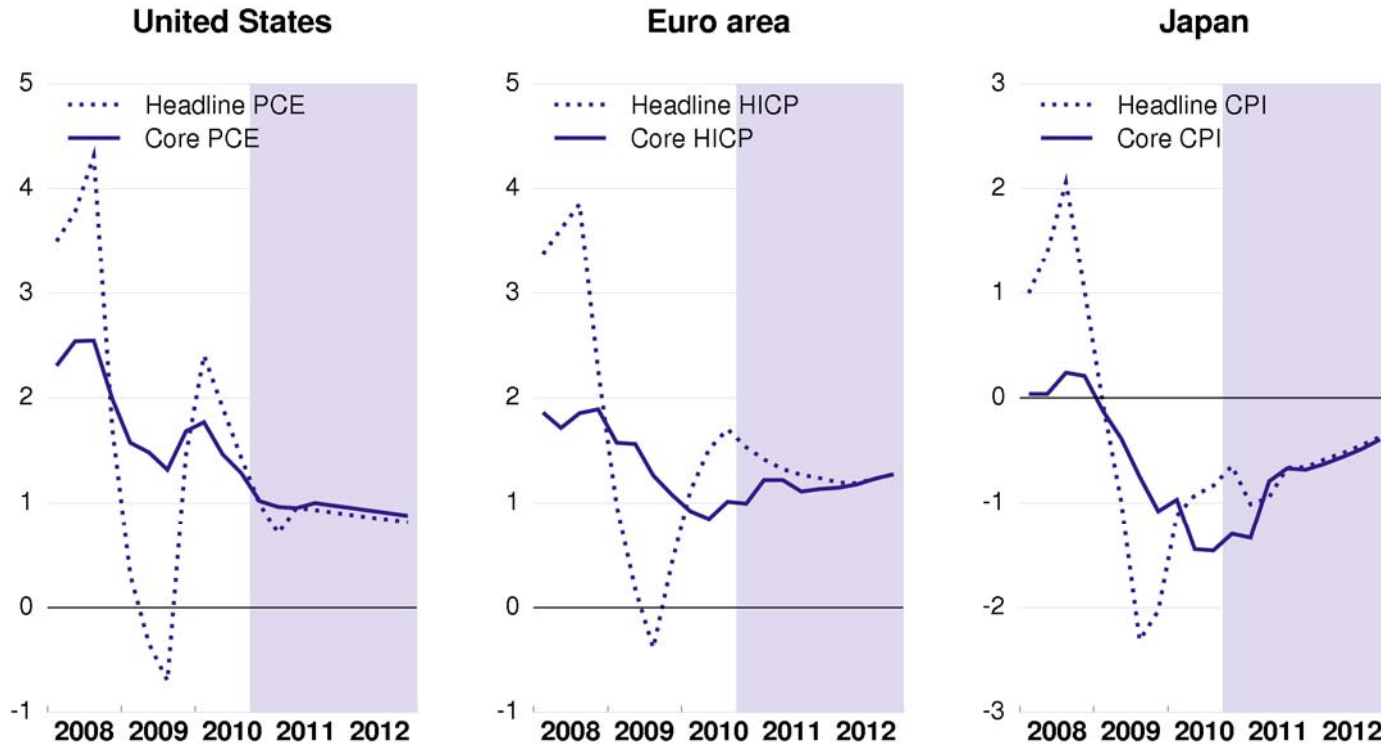
In per cent of labour force



Source: OECD Economic Outlook 88 database.

Inflation is likely to remain tame

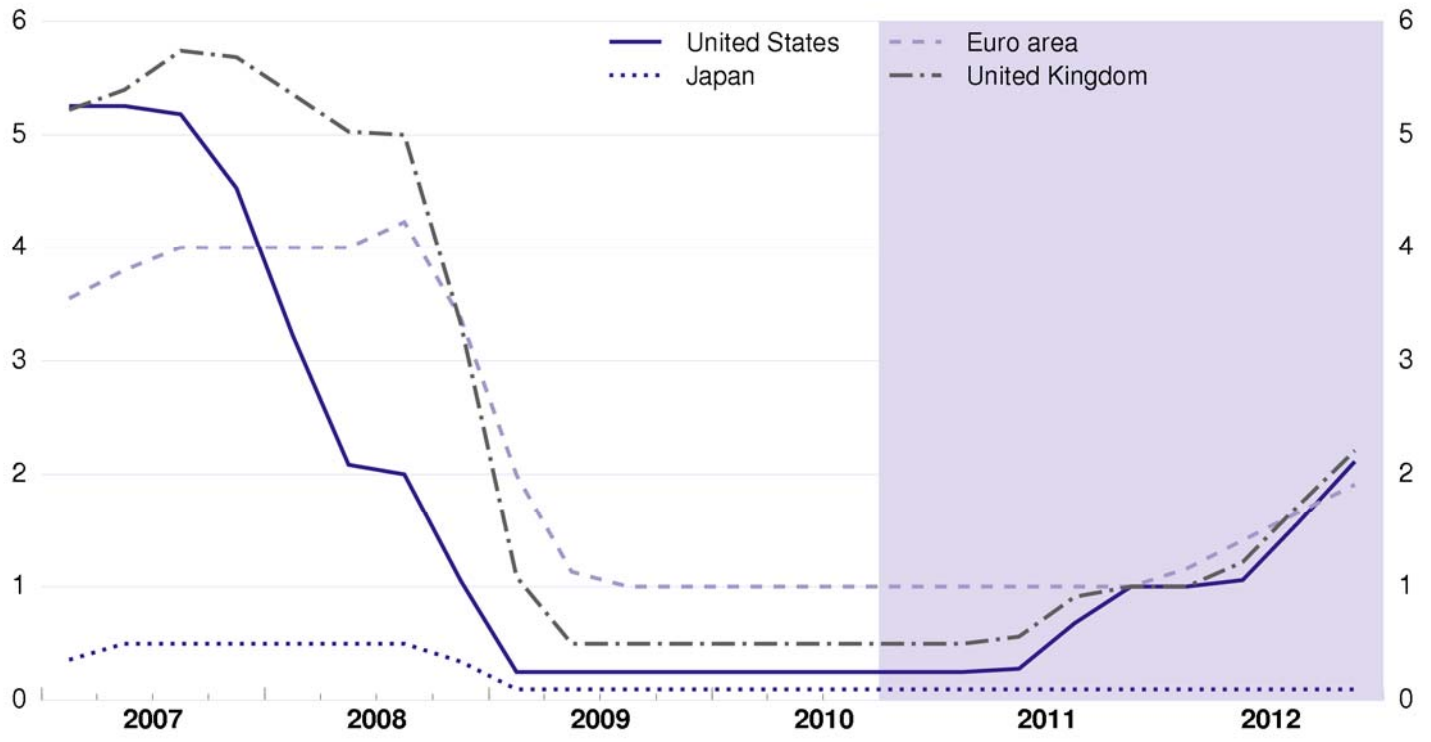
12-month percentage change



Note: PCE deflator refers to the deflator of personal consumption expenditures, HICP to the harmonised index of consumer prices and CPI to the consumer price index.
Source: OECD Economic Outlook 88 database.

Monetary policy is set to remain accommodative

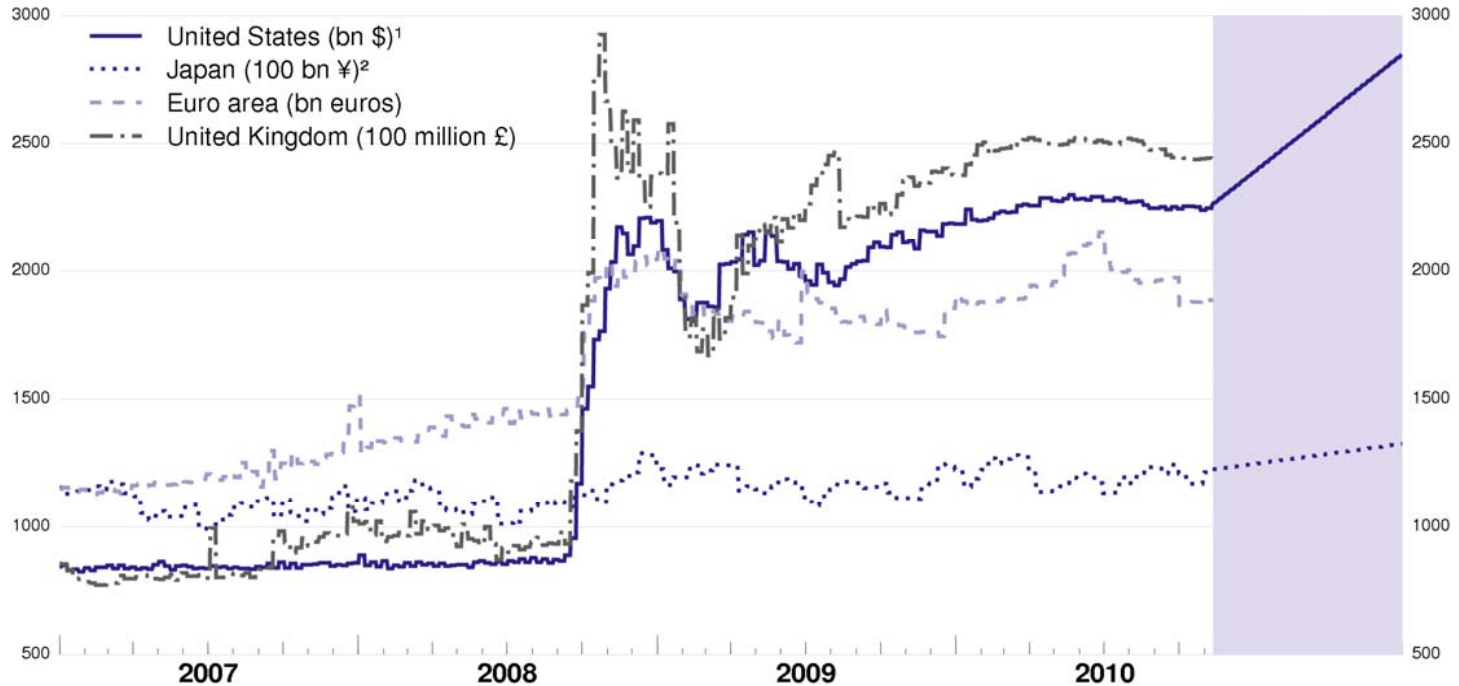
Policy rates, percentage points



Source: Datastream; and OECD projections.

Unconventional monetary policy should continue to play an important role

Central bank liabilities



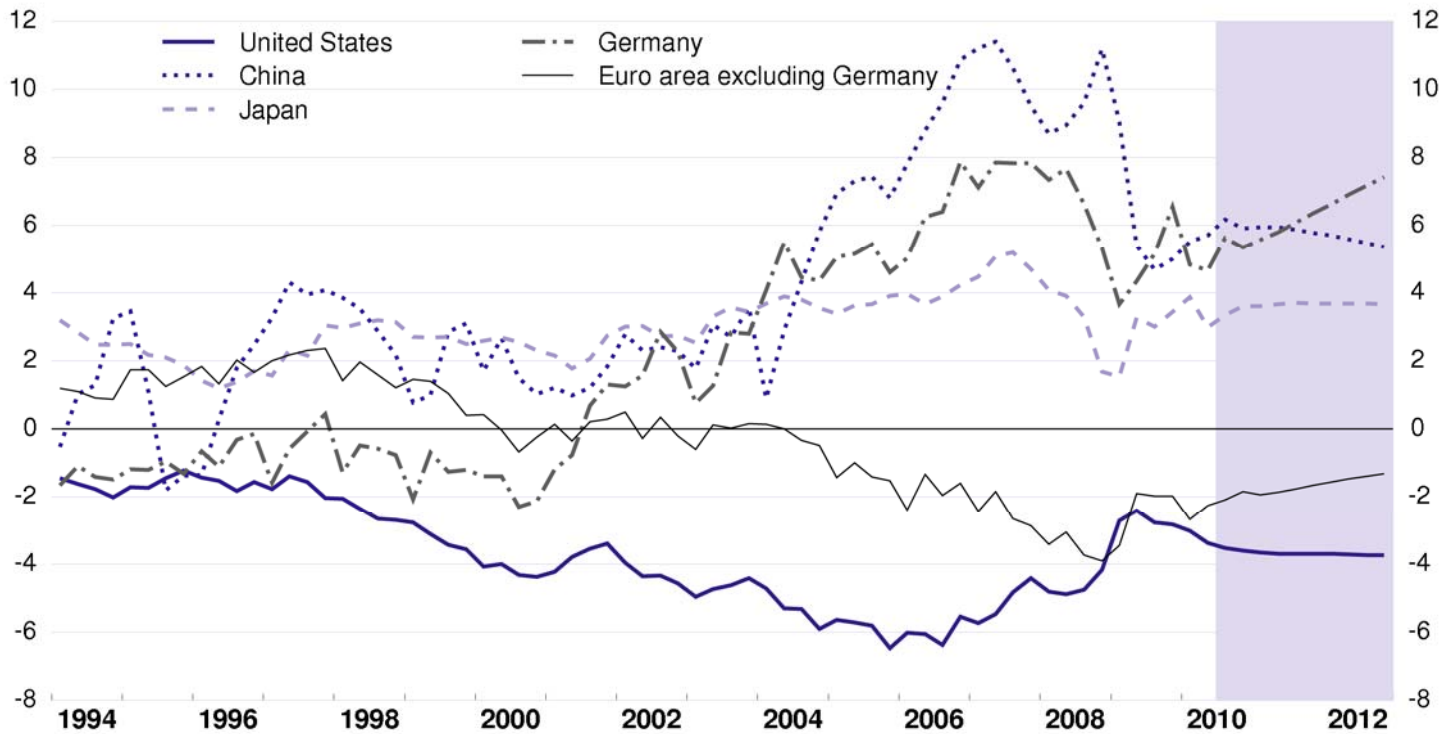
1. An additional \$600 trillion of asset purchases by the Federal Reserve is expected to be completed by the end of Q2 2011.

2. A new 10 trillion yen tranche of Bank of Japan lending against collateral began in September 2010. The timing remains unspecified. This comes on top of a 5 trillion yen program which is expected to be completed by around the end of 2011.

Source: Federal Reserve; Bank of Japan; European Central Bank; and Bank of England.

Global imbalances remain wide

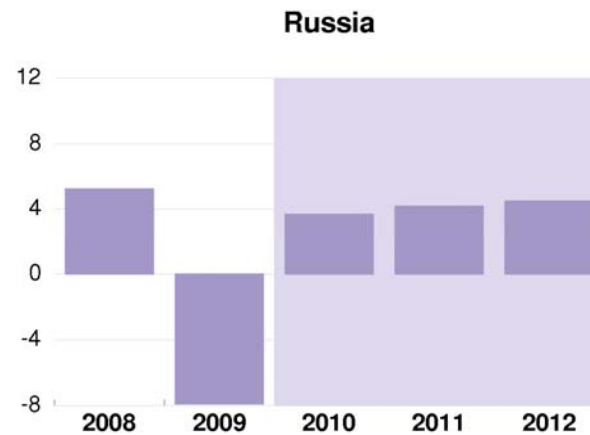
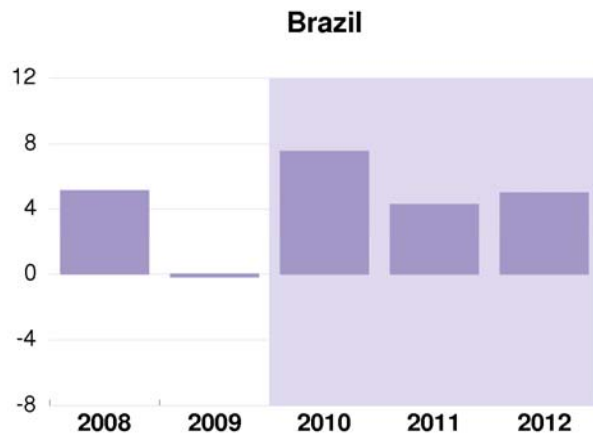
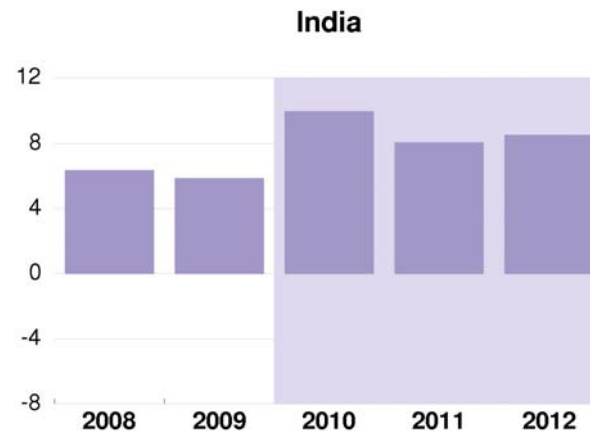
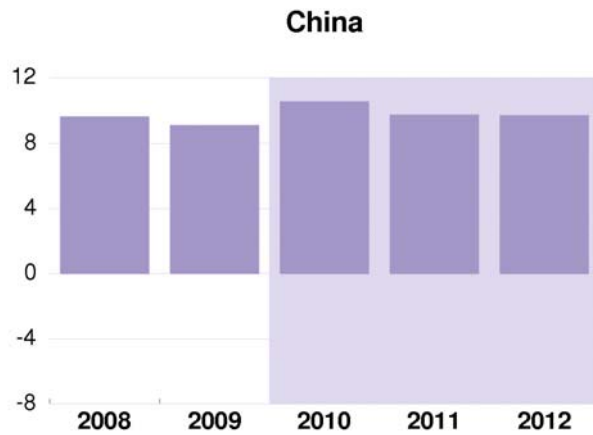
Current-account balance, in per cent of GDP



Source: OECD Economic Outlook 88 database.

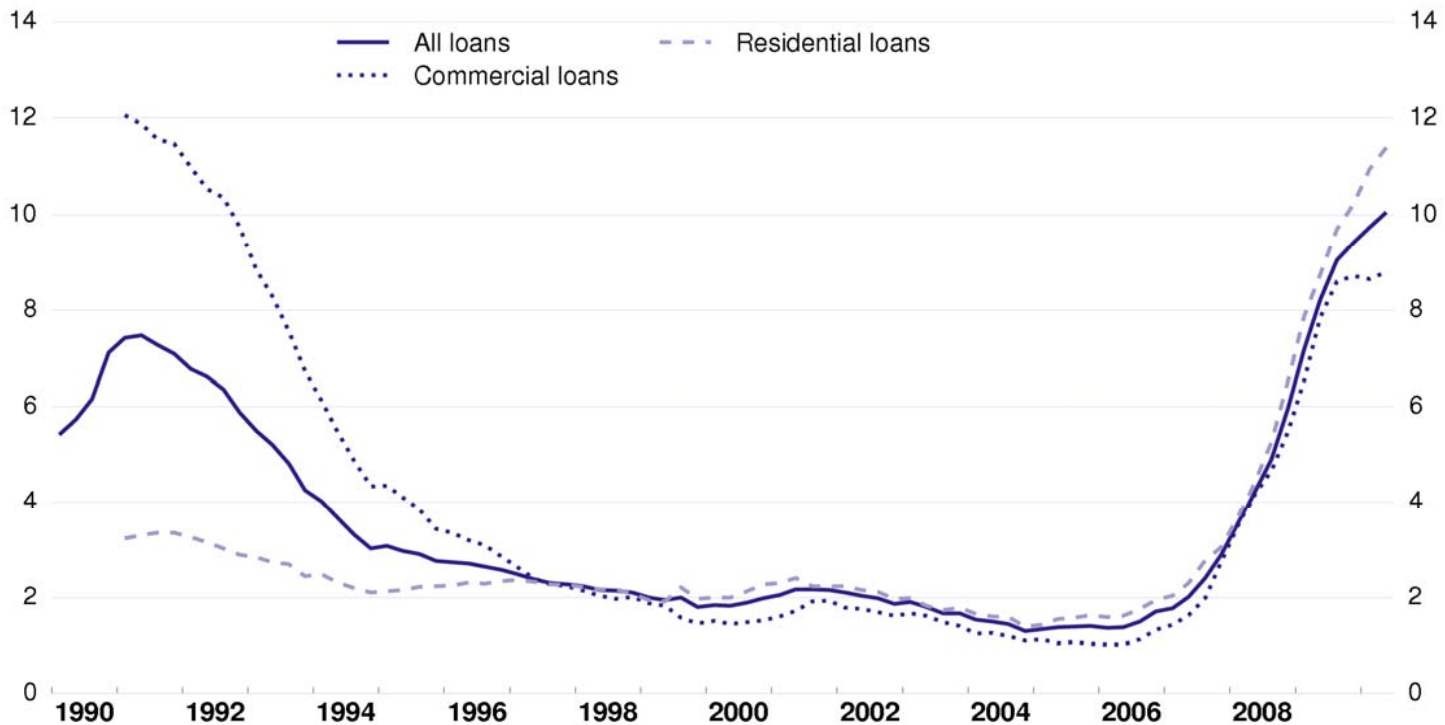
Continued robust growth in the non-OECD

Real GDP growth, per cent



The US housing sector continues to adjust

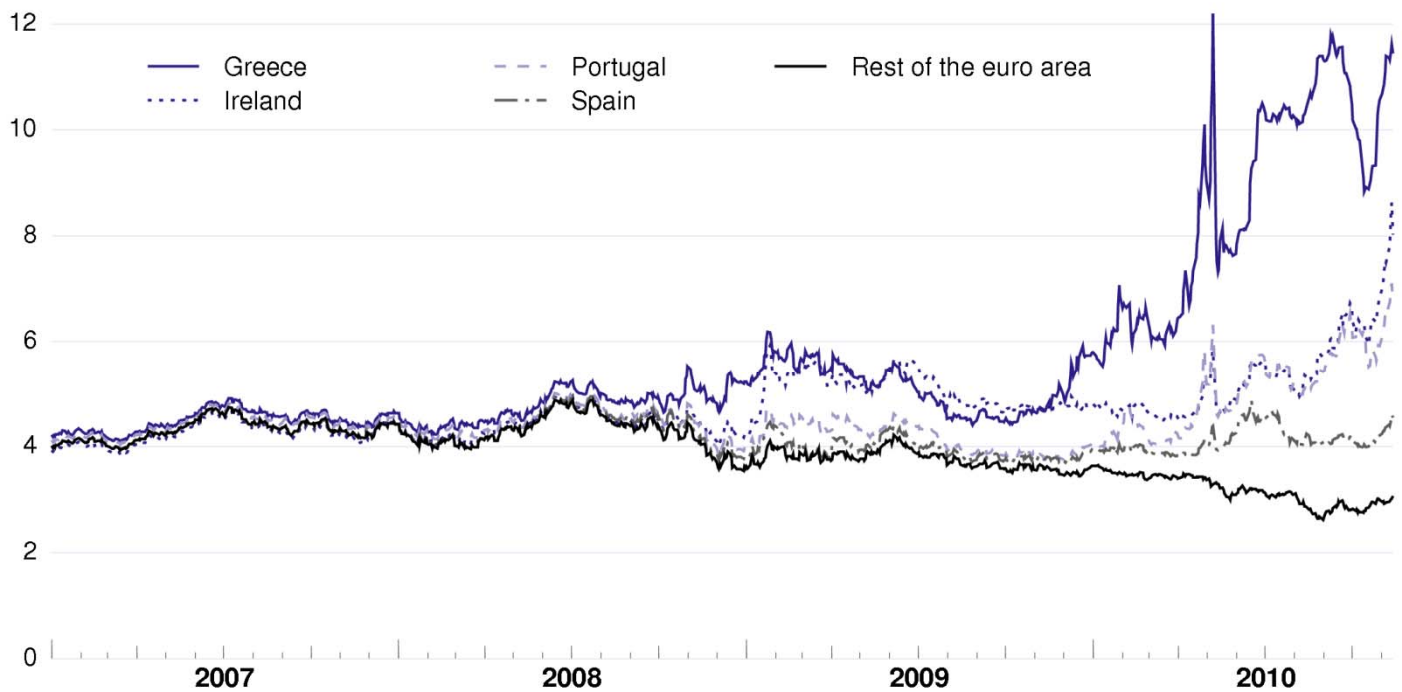
Delinquency rates on real estate loans,¹ in per cent



1. Delinquent loans are those past due thirty days or more.
Source: Datastream; and OECD Economic Outlook 88 database.

Risks associated with sovereign debt are high

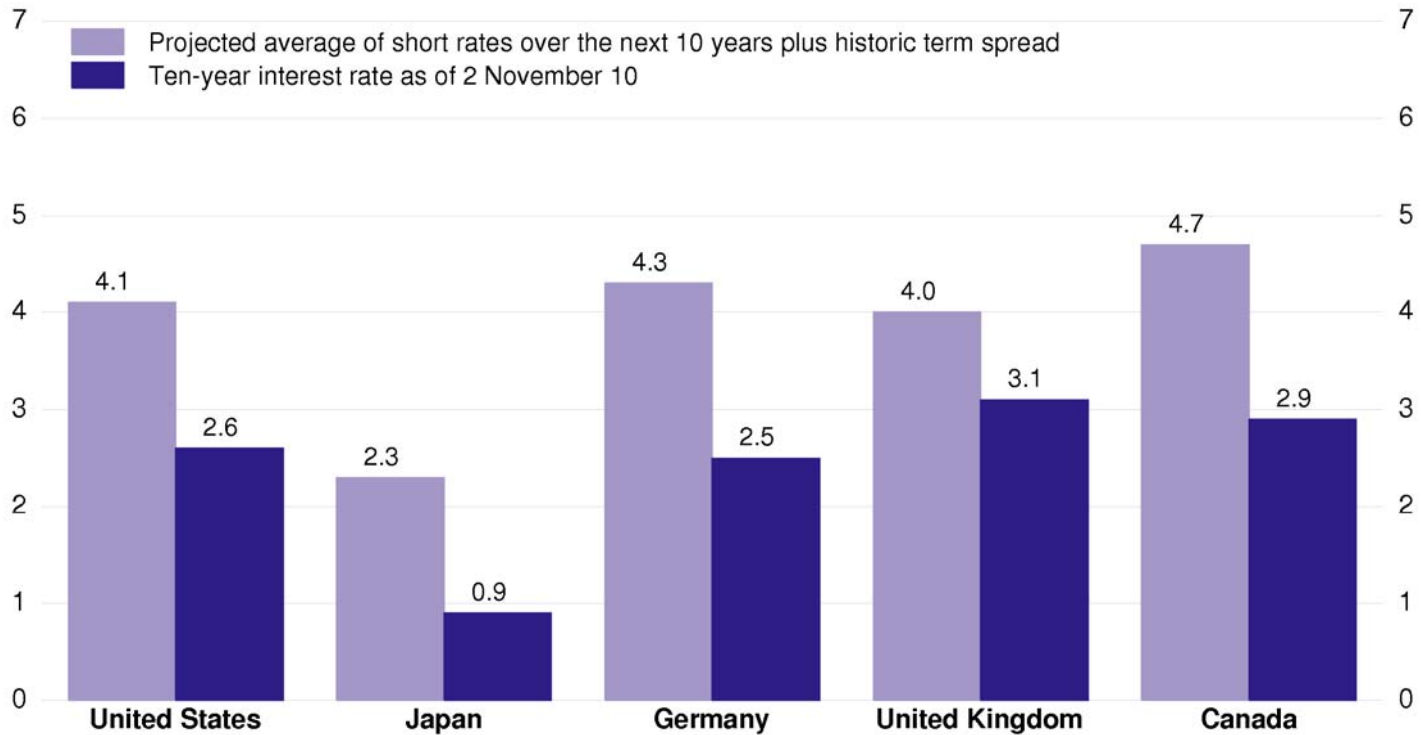
10-year government bond yields, percentage points



Source: Datastream.

Government bond yields vs. future short rates

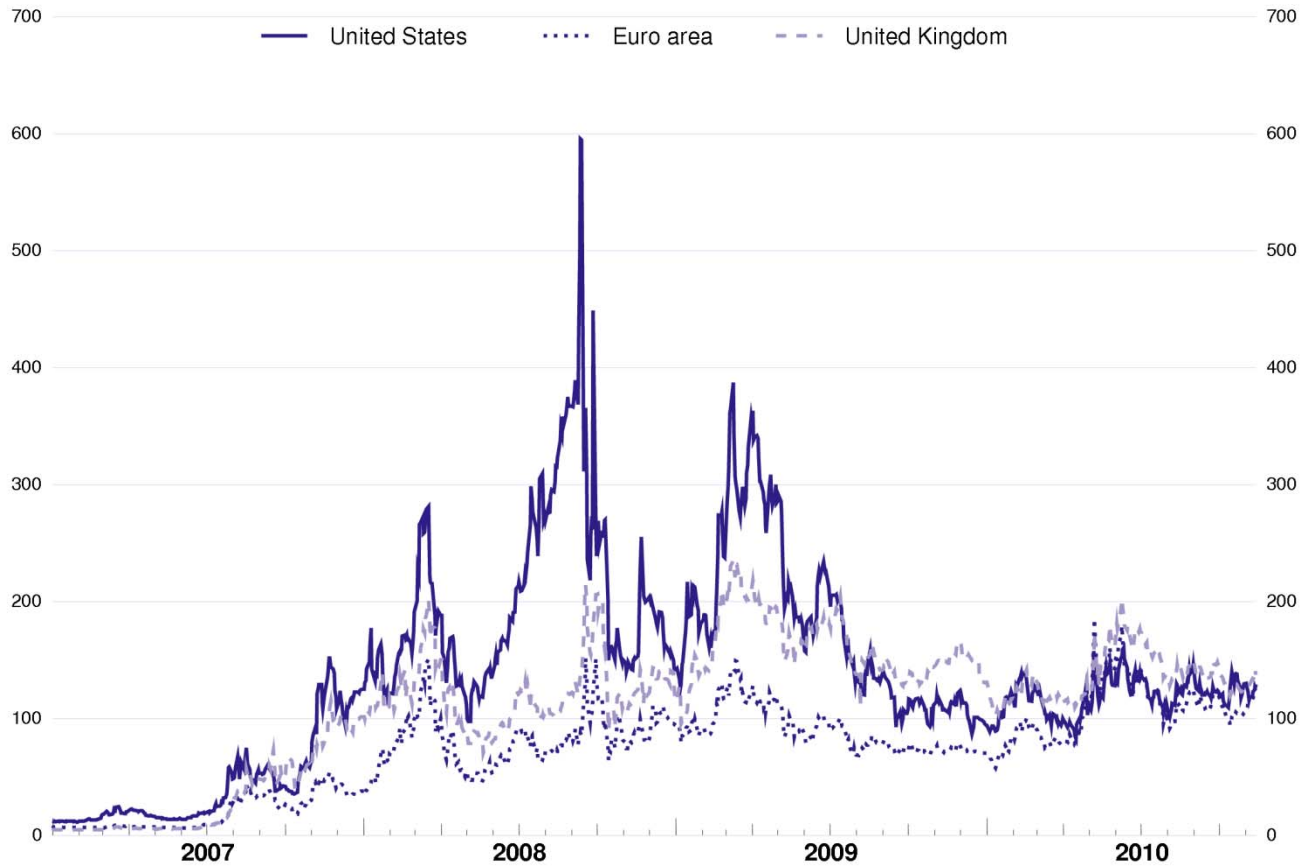
percentage points



Source: Datastream; OECD Economic Outlook 88 database; and OECD calculations.

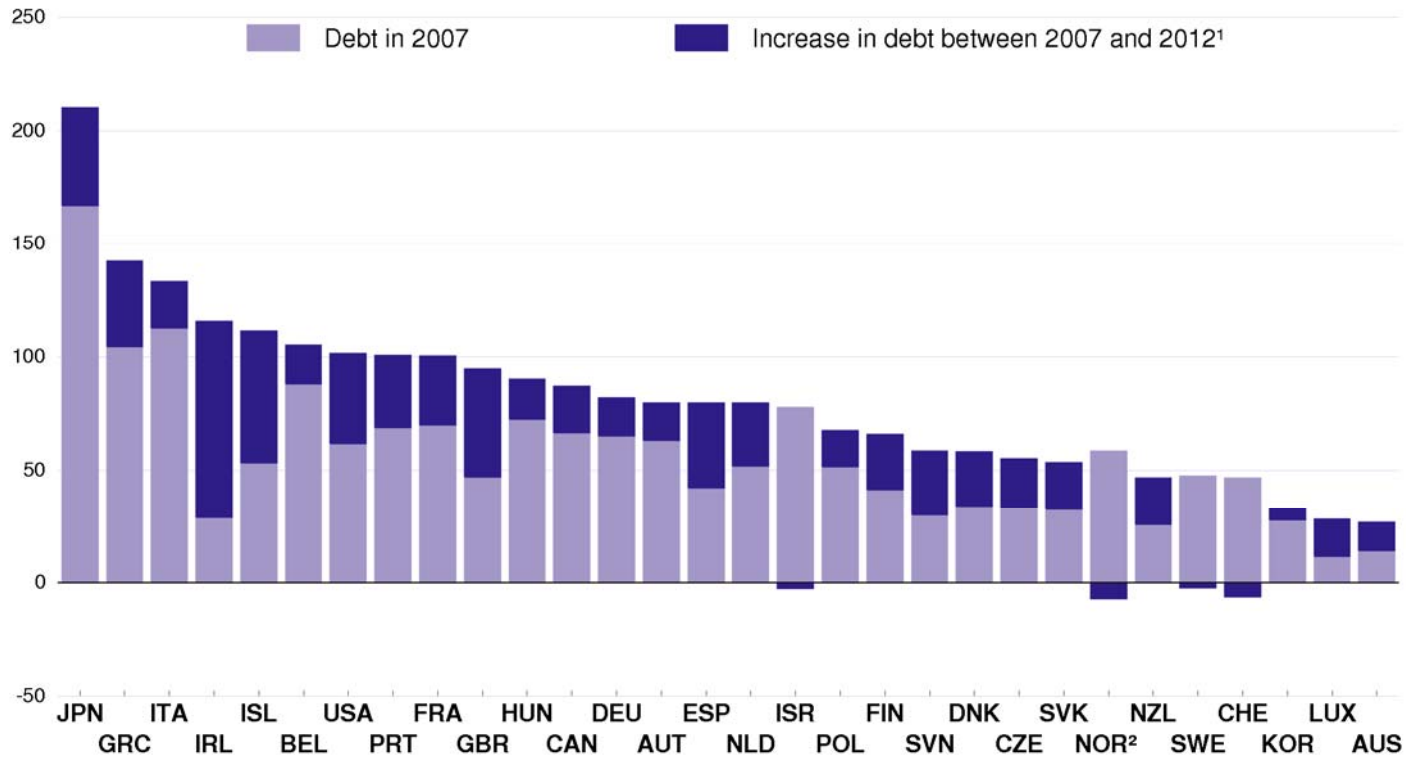
Risks are still perceived in the banking sector

CDS rates for 5-year bank debt



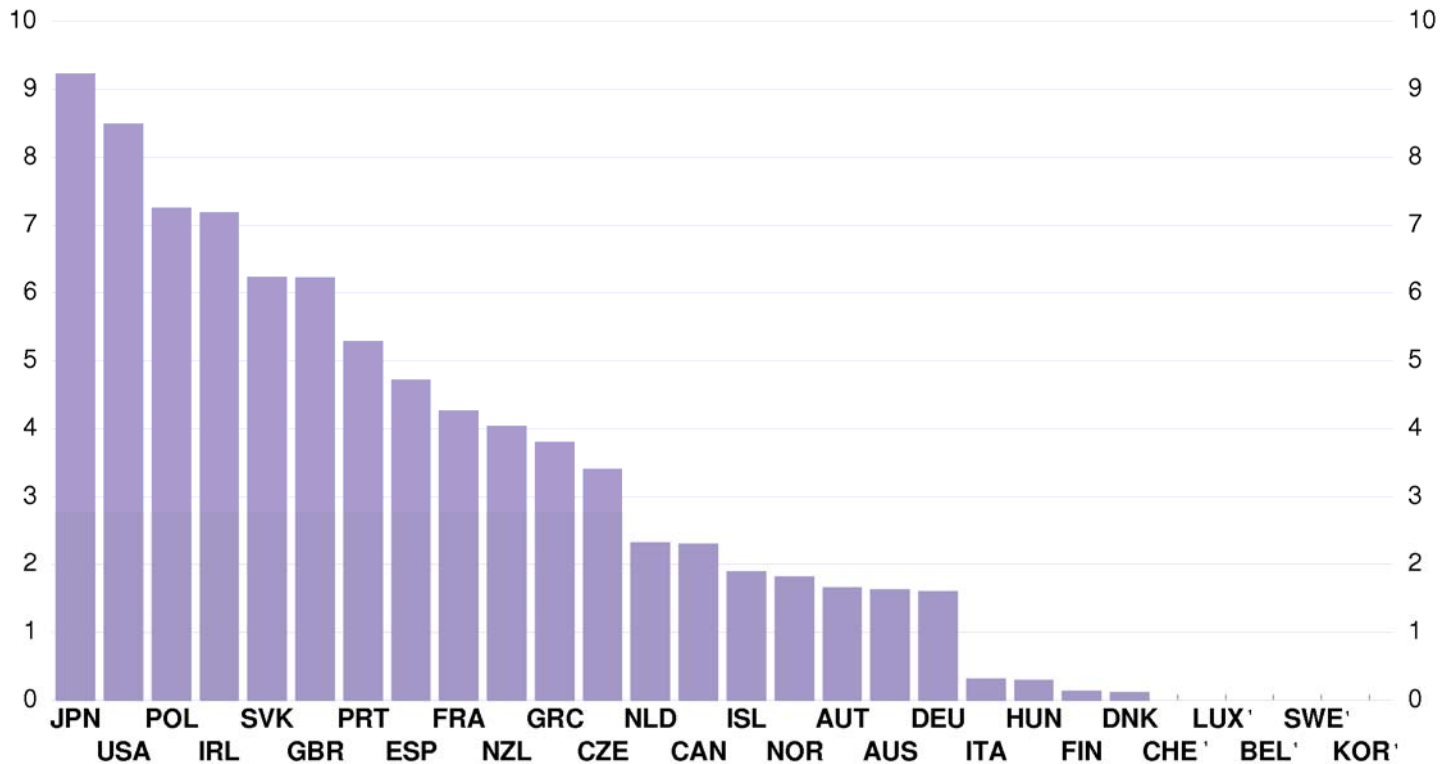
Public debt is rising rapidly

Government gross debt, per cent of GDP



Substantial consolidation is required for debt to stabilise

Required change in underlying primary balance to stabilise debt over the long term, in per cent of potential GDP



1. No consolidation is needed to achieve the target.

Source: OECD Economic Outlook 88.

There are pros and cons of different fiscal consolidation instruments

Consolidation instruments and objectives				
	Fiscal effect	Equity	Short-run Demand	Medium-term growth
Public sector consumption and				
<i>Wage Rates</i>	+++	?	--	+
<i>Employment</i>	++	?	-	+
with efficiency gains	++	0	-	++
with no efficiency gains	++	-	-	0
<i>Competitive tendering of</i>	+	?	-	+
Subsidies and tax expenditures	++	?	-	++
Pension reform				
Increase in retirement age	++	+	+	+
Lower pension replacement rate	++	-	-	+
Social Transfers				
Targeted cuts	++	+	-	?
Across the board cuts ¹	+++	--	--	?
Income Taxes				
Across the board increases ¹	+++	-	--	-
Increase Progressivity	+	+	-	--
Indirect Taxes				
Remove exemptions	++	-	-	+
Across the board increases	+++	-	--	-
Environmental taxes/emission	++	?	-	?
Privatisation	+	?	?	+
Structural Reforms				
Employment increasing	++	+	?	++
Productivity increasing	+	?	?	++

1. All transfers or all tax rates changed by the same proportion in percentage points.

Source: OECD Economic Outlook, No. 88, November 2010.

Lower structural unemployment would help budgets

Steady-state effect on budget balance of a 1 percentage point decline in the unemployment rate, per cent of GDP

