BETTER POLICIES FOR BETTER LIVES

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SESSION SUMMARY

PRESENTATION OF THE ECONOMIC OUTLOOK

Wednesday 25 May 2011

Moderator: **Anthony Gooch**, Director, Public Affairs and Communications, OECD
Angel Gurría, Secretary-General, OECD
Pier Carlo Padoan, Deputy Secretary-General and Chief Economist, OECD

In presenting the latest edition of the OECD's bi-annual *Economic Outlook*, **Angel Gurría** noted that, although there have been some positive recent signs, the crisis is not over and there is "clearly no room for complacency". According to the *Outlook*, the two-speed recovery features much faster growth in emerging market economies than in the OECD in both 2011 and 2012. Mr. Gurría said that growth "is becoming self-sustained, that is less driven by temporary government aid or by external demand".

However, downside risks predominate. These include: the sovereign debt crisis in some countries in Europe; the threat of a renewed rise in commodity prices; fiscal problems in the United States; the aftermath of the natural disasters in Japan; the possibility of a sharper slowdown in China than expected, overheating in emerging economies, renewed fragility in housing markets; and the need to repair the financial system.

With no fiscal or monetary policy room left to deal with these challenges, governments now need to "go structural" to unblock growth. For example, there is a need for labour market policy reforms to boost employment. Governments also need to look for new sources of growth, to stimulate innovation, to develop green technology, and to boost competition in product markets. On top of these structural reforms, governments also have to "go social", making greater efforts to reduce income inequalities and develop stronger welfare systems.

OECD Chief Economist **Pier Carlo Padoan** added that this latest version of the *OECD Economic Outlook* contains much longer-term projections than usual (up to 2026), although given the difficulty of predicting policy changes that far in advance, these are largely based on the assumption of "business as usual".

Over the longer term, some countries run the risk of creating a "debt trap" in which tight fiscal policies curtail growth, in turn making further progress on the fiscal front more difficult. Moreover, a number of countries must make greater efforts to make their external deficits more sustainable, and address the issue of potentially destabilising capital flows, which are heavily affected by structural policies.

In response to a question from the floor about the risks posed by policy deadlock in the US, Mr. Gurría noted that all countries need to address significant fiscal imbalances as soon as possible, or at least set credible timetables for doing so. Asked about the prospects for Latin America, Mr. Gurría commented that the region has fewer imbalances than in the past, with some countries having developed a culture of fiscal virtue.