



# **International Monetary and Financial Committee**

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**Statement by Angel Gurría**  
Secretary-General  
Organisation for Economic Co-operation and Development



# **IMF/WB Spring Meetings**

## **Written Statement for the IMFC**

**Remarks by Angel Gurría,**

**Secretary-General**

**OECD**

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## **The outlook for the global economy**

Prospects for the global economy have improved in recent months, although the recovery remains lacklustre and uneven across countries and regions. Conditions have improved notably in the United States, where activity is picking up, whereas the situation in the euro area continues to be particularly fragile. In Japan, growth has been weakening after the bounce back in activity related to reconstruction work and the rapid restoration of supply chains following the earthquake and tsunami in March last year. At the same time, the dynamic emerging-market economies, including China, which have provided much impetus for the recovery, are now showing signs of a slowdown.

The fragility of the recovery is reflected in labour market developments. In the United States the unemployment rate continues to fall gradually, whereas in the euro area the average unemployment rate has edged upwards once again. Joblessness remains at historically high levels among the long-term unemployed and youth. Currently at 8.2%, the OECD-wide unemployment rate is equivalent to almost 45 million persons unemployed, about 14 million more than the number of jobless persons immediately preceding the crisis. Persistently high unemployment poses the risk that vulnerable workers, who are in greater danger of being jobless over prolonged spells, end up dropping out of the labour force altogether.

Progress is being made to deal with the euro area's sovereign and banking crises. This includes the recent measures announced by the Euro group, which need to be seen in a broader context, where the International Monetary Fund substantially boosts its resources for the benefit of all its Members, but where, if required, a share would be made available to European countries. The financial support for Greece, the increase in the combined lending ceiling of the EFSF and the ESM, and ongoing initiatives to enhance the fiscal, financial and economic governance of the euro area, including through the establishment of a fiscal compact, are additional pillars of the European strategy. At the same time, the liquidity support provided by the European Central Bank to European banks has contributed to ease financial market conditions somewhat.

Nevertheless, tensions remain in financial markets. Euro-area sovereign bonds have come under some renewed pressure, with a marked increase in the yield on the sovereign spreads of the peripheral European countries, especially Italy and Spain. Counterparty risk has built up, leading to collateral calls and fears of insolvency in unstable periods. Equity prices have also fallen recently in many advanced and emerging-market economies, and recent euro-area bank lending has remained weak, in particular where the capital shortfalls of banks are large and the quality of bank loans is relatively poor.

The balance of risks to the outlook is on the downside. The global banking and financial system remains a major concern. Since the start of the crisis, bank business models that incorporate capital market products alongside standard lending have been subject to unprecedented pressure. Key vulnerabilities include: exposure by European banks to adverse price movements in large holdings of their own governments' sovereign debt; exposure by US banks to their European counterparts via the selling of guarantees on European securities, including credit default swaps; and regional housing weakness in the United States and Europe. In addition, financial market stress in emerging-market economies where balances of payments are deteriorating and asset prices are high could exacerbate downside risks. The recent surge in oil prices also poses a threat to the recovery. Other commodity prices have also increased in recent months, but they remain below their recent peaks. This has helped to quell inflation in emerging-market economies while underlying inflation in most advanced economies remains moderate.

### **Policy requirements in the current juncture**

An effective response to current uncertainties requires strong international cooperation, involving advanced and emerging-market economies. Such a collaborative response will have to provide credible long-term commitments to tackling common challenges, including those related to deleveraging, demand rebalancing and pro-growth reforms, depending on country circumstances and needs, rather than short-term fixes that would ultimately prove to be self-defeating.

The fragility of the world economy calls for continued macroeconomic policy support. Accommodative monetary policy stances will be warranted for a considerable time to come, as will maintaining support through quantitative measures. There is further scope for monetary policy easing in some emerging-market economies. Fiscal consolidation, particularly within the euro area, should continue at a pace that reflects country-specific circumstances; where possible, fiscal space should be used in the short term, while maintaining the medium-term credibility of consolidation. In the United States, uncertainty over the fiscal stance in 2013 still looms, and a credible fiscal framework must be put in place.

Much remains to be done in the euro area. While recent decisions are welcome to strengthen the euro area economies and restore confidence, measures to shore up the European financial sector have yet to be implemented, including a recapitalisation of weak banks to break the link between sovereign debt and banking woes. An array of structural reform measures are required to address fundamental imbalances, in both surplus and deficit countries, and to boost growth overall. These reforms include strengthening the Single Market, as well as reforms to product market regulation, labour market institutions and tax systems. Many of these reforms would boost activity even in the short run.

The reform agenda is also broad in financial markets. While current vulnerabilities call for central banks to continue to provide liquidity, a more fundamental process of reform of the global banking system remains imperative. The OECD continues to emphasise the urgency of improving the equity capital positions of banks, particularly in Europe, and the separation of traditional and investment banking activities. Separation of well-capitalised, well-governed and deposit-insured banks from investment banking will improve the appropriate pricing of risk by reducing the cross-subsidisation and too-big-to-fail guarantees, while also helping to cushion domestic growth and jobs from bouts of extreme global market volatility.

Keeping markets open to international trade and investment continues to be a crucial precondition for the recovery. Several countries with an open capital account have recently taken further measures to counter capital inflows, while others with a more restrictive capital regime have announced plans to liberalise progressively over time. In both cases, the potential for spillover effects calls for policy dialogue and other forms of international co-operation, such as in the G20, the IMF and the OECD, whose 34 member countries are committed to a free capital flow regime while retaining the flexibility to take national measures subject to transparency and dialogue. The OECD has now opened its Code of Liberalisation of Capital Movements to adherence by non-member countries, which are invited to join on the same terms and conditions as OECD members.

### **Pro-growth structural reform**

Longer-term challenges associated with the legacies from the crisis have yet to be addressed. In some cases, lower potential output, higher overall and long-term unemployment, vast debt overhangs and disrupted capital markets could lead to permanently lower growth in advanced economies. While emerging-market economies continue to exploit their catch-up potential, advanced economies, which are closer to or at the technological frontier, will be able to grow only to the extent they can push the frontier itself, which requires tapping into new sources of growth. In addition, imbalances, both within and between countries, have been a contributing factor to the financial crisis, and need to be tackled. Policies that solely pursue national goals are increasingly challenged and become less effective.

Continued progress on structural reforms is critical. Recent OECD analysis shows that a broad and ambitious reform agenda could raise annual GDP growth by as much as one per cent on average across the OECD over the next ten years. In the major emerging-market economies, pro-market reforms could deliver sizeable gains by opening up protected sectors to competition and creating jobs. Productivity-enhancing reforms, such as a reduction in barriers to entry in product markets and services, can help restore the external competitiveness of some European countries. Improving the corporate governance and transparency of state-owned enterprises is also key to raising competitiveness and ensuring competitive neutrality.

Structural reforms can bear fruit, even in the short term. Evidence provided by recent OECD research shows that a comprehensive package of structural reforms has positive impacts on growth and employment after only a couple of years, even if it takes longer for the full effects of reforms to come to fruition. Moreover, there is little evidence of the often-feared short-term negative effects of reforms. Indeed, a comprehensive strategy that maximises synergies across policy domains, such as, for example, labour and product market reforms, enables governments to minimise or even alleviate the transitional costs that may be associated with individual reforms when adopted in isolation.



Structural reforms can contribute to narrowing global imbalances, creating fiscal space and fostering green and inclusive growth. Green growth, innovation and structural policies can be mutually reinforcing and contribute to sustainable development. Environmental policies can boost economic growth potential and support the recovery in the short run through the creation of new markets and by boosting green investment. Spillovers from green innovation can enhance the productivity of the economy. Structural reform can smooth the transition towards a greener growth path by facilitating the necessary reallocation of resources. Green taxes and the abolition of fuel subsidies can strengthen the price signals that are essential for green innovation and energy security, while supporting fiscal sustainability. Responsible Business Conduct (RBC) and green investment can also make an important contribution to greening the economy.

### **A new vision for growth**

Looking beyond the crisis, the world cannot go back to business as usual. A new vision for growth needs to be developed and sustained in recognition of new challenges, opportunities and sources of growth, for advanced, developing and emerging-market economies. It will be crucial to deal with issues of green growth and innovation based on knowledge-based assets, such as software and design, and managerial practices and skills. Financial market reforms should address instability and support long-term growth. At the same time, growth will need to become more inclusive, and quality of life will need to be recognised as a distinct outcome, which is not always well correlated with output growth. The OECD will be looking more closely at the features and implications of new approaches to economic challenges where growth, equity, environmental concerns and wellbeing are taken into joint consideration.