Business at OECD

Comments on the OECD Economic Outlook, May 2019

A fragile global economy needs urgent cooperative action

Introduction

Business at OECD (BIAC) shares the concern of the OECD about a weakening global economic momentum and the materialization of key political and economic risks. Only less than half of our members expect at least a moderate increase in exports while investment is considered to be trending sideways at best.

We stress that pursuing better trade and micro- and macroeconomic policies in major OECD economies is strongly warranted to reduce political risks and boost countries' growth potential in the medium term, as well as actual investment, trade and growth in the short term. In particular, we urge governments to stop talking the talk and start walking the walk on structural reform implementation across countries, which has been too poor in the past.

The current slowdown in economic growth in the OECD area is largely due to international conflicts and must therefore be tackled by enhanced international cooperation.

1. Economic Situation

- We are currently seeing an ongoing slowdown in global growth momentum. As the OECD's latest forecast from 21 May underlines, the global economy is suffering more than previously expected from trade tensions and political uncertainty.

- Projections for global growth saw a slight further downward revision to now 3.2% for 2019 (-0.1 pp from March's forecast), following growth of 3.5% in 2018. After bottoming out in 2019, growth is only expected to marginally improve to 3.4% in 2020 (unchanged from March). The Outlook includes downward revisions for several major economies (e.g. Japan, Korea, Australia, Canada) and warns that current growth rates are insufficient to bring about major improvements in employment or living standards. The Euro area already saw a substantial downward revision in the OECD's March projections (-0.8 pp from November); now expected to grow at a mere 1.2%.

- As key factors behind the global slowdown the OECD cites ongoing trade tensions, high policy uncertainty and a further erosion of business and consumer confidence. A disorderly Brexit is mentioned as a key risk which could drag down growth even more than currently expected. In addition, the OECD warns against risks from high public debt and low credit quality.

- Most worryingly, the OECD's warns that global growth could be undermined from vulnerabilities from China and the weakening European economy, a slowdown in trade and global manufacturing, the above-mentioned policy uncertainty and risks in financial markets.

- Finally, while the OECD's Economic Outlook is overall largely downbeat, a bright spot is that labor markets remain resilient for now, pointing to the likelihood that consumer spending will continue to support growth. In addition, the OECD notes that the slowdown is cushioned by generally still accommodative monetary policies, improvements in financial market conditions and still relatively low oil and commodity prices.

2. Policy responses

- There is a clear need to address the persisting global trade tensions and to avoid protectionism by reinforcing the global rules based international trade system through fostering multilateral dialogue, as the OECD's Outlook rightly mentions. Open markets, free trade, and a predictable level playing field are crucial for business. *Business at OECD* and its members, including the leading business federations in all 36 OECD member countries, are committed to a global rules-based trade and investment system that opens international markets and removes trade and investment barriers and unfair practices that impede fair competition around the world. We remain committed to work with OECD to promote the benefits of trade, recognizing the need for effective verification.

- Based on our survey of member federations, published on 20 May, we would expect only a very modest increase in the volume of export growth over the next 12 months compared to the last 12 months, with an average of 46% of our members expecting a moderate increase in their countries exports, while 29% expect no change and 25% a decrease. When it comes to investment, the majority of our members (38%) expects the outlook to be unchanged, with an equal share of survey participants expecting a moderate increase and decrease (both 29%). These are the results of our annual Economic Policy Survey conducted in April 2019.

- The current economic headwinds underline the importance of strengthening reform ambition in most countries and importantly its implementation, which, according to our 2018 *Business at OECD* analysis has been too sluggish in many countries (about three-quarters of respondents saw only a slow or moderate reform intensity in their countries over the past year). We therefore welcome the OECD's call to step up reform implementation across countries, including its in-depth analysis Box 1.4 on the Euro area.

- When it comes to fiscal policy, the OECD rightly points out that in (Euro area) countries with fiscal space, some additional easing and support for investment may be merited, which would help the benefits of structural reforms to appear more quickly. While it is also true that, as the OECD notes, low long-term interest rates may provide scope for well-designed supportive measures without impairing debt dynamics, high public debt levels in several countries still pose significant vulnerabilities and should therefore be reduced. In a large number of countries, fiscal policy should become more growth-friendly and directed to supporting public and private investment, in particular in "green growth" activities.

- When it comes to monetary policy, if uncertainty fades, there may remain some scope for additional interest rate rises in those economies where growth holds up, while in other economies, central banks should remain supportive and ensure long-term interest rates stay low.

- Finally, the Outlook rightly points out the need to rapidly address increasing skills shortages and mismatches in several OECD economies by adequate policy measures. This includes policies that support re- and up-skilling of the workforce, create adequate policy framework conditions for life-long learning, and more adequately reflect increasing life expectancy in the reform of retirement systems. This is particularly important against the background of the rapid digitalisation of our economy and changing skills requirements. Our member survey highlights improving human capital as one of the top 5 priorities for reform, alongside public sector efficiency, efficiency of general taxation/tax structure, public infrastructure and innovation policies, including raising effectiveness of R&D policies.

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