GENERAL ASSESSMENT OF THE MACROECONOMIC SITUATION.

Source:

OECD Economic Outlook. May2013, Vol. 1 Issue 93, p9-65. 57p. 14 Charts, 15 Graphs.

Document Type:

Article

Subject Terms:

\*MACROECONOMICS

\*SECURITIES markets

\*MONETARY policy

\*LABOR market

\*UNEMPLOYMENT

\*MARKET equilibrium

OECD countries -- Economic conditions

NAICS/Industry Codes:

523210 Securities and Commodity Exchanges

523110 Investment Banking and Securities Dealing

Abstract:

• In the absence of adverse events, growth in advanced economies should strengthen gradually after the middle of 2013 and through 2014, helped by on-going support from accommodative monetary policies, improving financial market conditions and a gradual restoration of confidence.• The upturn continues to diverge across countries, with the United States likely to grow faster than other large OECD economies. Euro area growth remains constrained by the lingering effects of the euro area crisis, the on-going drag from fiscal consolidation and weaknesses in credit markets. Various policy influences seem likely to result in an irregular growth pattern in Japan. Within an overall pattern of only modest and gradual acceleration, growth outcomes in emerging market economies are also diverging, with China in the lead and growth in others restrained by structural factors, with stagflationary tendencies in some.• Labour markets are set to firm gently in the United States and Japan, but unemployment is likely to continue to rise further in the euro area, stabilising at a very high level only in 2014. Structural reforms are essential to prevent cyclical unemployment from becoming structural.• Inflation is likely to drift up from its current low rate in the United States, while aggressive monetary easing could see deflation give way to moderately positive underlying inflation in Japan. By contrast, inflation in the euro area is set to remain very low. Inflation rates are likely to vary across the large emerging market economies.• Monetary policy needs to remain extraordinarily easy in the United States. However, the pace of further easing through additional asset purchases may need to be gradually reduced. Additional easing of monetary policy is needed in the euro area, with interest rates reduced as much as possible and asset purchases being undertaken in a manner consistent with the nature of the euro area. The recent quantitative and qualitative monetary easing in Japan is overdue and should help to attain the new inflation target.• Countries should proceed with their structural fiscal consolidation commitments whilst allowing the automatic stabilisers to operate fully. In the United States, the automatic across-the-board budget spending cuts should be made less harmful to growth and a credible long-term fiscal plan needs to be put in place; in Japan, fiscal consolidation should commence in 2014, as planned, and a credible medium-term fiscal plan is necessary to maintain market confidence in the face of challenging debt dynamics; and in the euro area, structural consolidation should proceed at the slower pace planned and should by 2014 have reached a level that would lead to declining debt ratios in the longer term in the area as a whole and in most member countries.• Downside risks to the outlook still dominate, even if they have narrowed as a result of actions by the monetary authorities in the euro area and the resolution of the fiscal cliff in the United States.• Negative risks still remain in the euro area, and events could still trigger off adverse interactions between weakly capitalised banks, government finances, the real economy and exit risks. Further policy measures and institution building are necessary to reduce such risks, including expediting the construction of a full-fledged banking union. Structural reforms remain crucial to address underlying economic imbalances between the core and the periphery, though progress has been made in the periphery.• Potential bond market instability in the run-up to the eventual move towards exit from unconventional monetary policy is also a downside risk; if a sharp rise in US government bond yields were to occur it could have serious consequences for the global economy. • Fiscal policy risks also remain, related to uncertainty about the impact of poorly targeted budgetary sequestration in the United States and unsustainable public finances in Japan.• A risk shared by OECD and emerging market economies is that the rate of potential growth has become more uncertain since the onset of the global crisis. [ABSTRACT FROM AUTHOR]

Copyright of OECD Economic Outlook is the property of Organisation for Economic Cooperation & Development and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use. This abstract may be abridged. No warranty is given about the accuracy of the copy. Users should refer to the original published version of the material for the full abstract. (Copyright applies to all Abstracts.)

ISSN:

0474-5574

Accession Number:

89361197