EDITORIAL
ACHIEVING A RESILIENT RECOVERY

The recovery from the Great Recession has been slow and arduous, and has at times threatened to derail altogether. The major advanced economies are finally gaining momentum. Private-sector confidence is rebuilding. After years of weakness, investment and trade have started to rebound. While unemployment remains unacceptably high, the labour market situation is improving in most countries and has stopped deteriorating virtually throughout the advanced economies.

On the other hand, the pace of growth in the major emerging market economies has slowed. Part of this deceleration is benign, reflecting cyclical slowdowns from overheated starting positions - the growth rates now seen in China are undoubtedly more sustainable from both economic and environmental perspectives than the double-digit pace of a few years ago. However, managing the credit slowdown and the risks that built up during the period of easy global monetary conditions could be a major challenge.

The likelihood of some of the most worrisome events that have preoccupied markets and policymakers in recent years has diminished. Risks are overall better balanced although still tilted to the downside. Financial tensions in emerging markets are one risk that could blow the global recovery off course and have bigger spillovers than anticipated. It is not the only one. Falling inflation in the euro area could turn into deflation. Geopolitical risks have also increased since the start of the year.

Policy focus can now switch from avoiding disaster to fostering a stronger and more resilient recovery. The legacy of the crisis still needs to be addressed. The crisis has left scars in the labour market, notably higher unemployment and lower participation of the more vulnerable groups. Growth prospects are weaker than in the pre-crisis era. Moreover, one of the key lessons of the crisis is the need to make our economies and societies more resilient - more robust to shocks - and more inclusive, with the welfare gains from stronger growth better shared across the population. While steps have been taken in both areas, much more needs to be done.

After difficult years of low growth and fiscal stringency, policymakers are facing these challenges with depleted political capital. But they need to seize the opportunity to set global growth on a stronger and more sustainable footing. This is key to supporting confidence and has to be backed by macroeconomic and structural policy actions, including the promotion of institutional frameworks that support the implementation of reforms.

Given persisting downside risks, high unemployment, below-target inflation, and high levels of government debt, monetary policies need to remain accommodative in the main OECD areas. In particular, we call on the European Central Bank (ECB) to take new policy actions to move inflation more decisively towards target and to be ready for additional non-conventional stimulus if inflation were to show no clear sign of returning there.

The high levels of government debt in all major advanced economies mean that there is little room for fiscal accommodation. Nevertheless, following significant progress in stabilising their public finances, most OECD countries can afford the planned slowdown in structural budget improvement. This is not the case of Japan where consolidation needs remain very large. Given its high level of public debt, a credible medium-term fiscal consolidation plan is essential.

In most countries, reducing public debt to more prudent levels and managing future pension and health spending pressures will be a challenge and requires fiscal reforms to ensure the sustainability of public finances without compromising the quality of public services.

It is now time to speed up the pace of structural reforms. Such reforms, while often facing resistance from vested interests, can offer a win-win by raising growth potential and allowing many of the poorest to achieve higher living standards. These policies are critical to the success of Abenomics in Japan, as well as to rebalance of the euro area and foster the convergence to higher incomes by emerging economies.

While impressive reform efforts have been made by crisis countries, there remains substantial scope to boost productivity and create jobs through policies to remove barriers to domestic and international competition in both advanced and emerging economies. This would increase innovation and help get the most out of global value chains, as well as boost investment in the near term and support resilience.

As unemployment starts receding, measures to tackle long-term unemployment and make sure it does not become entrenched are a high priority that requires reforms to remove obstacles to more robust job creation and strengthen and redesign active labour market policies.

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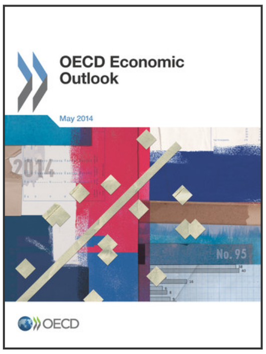

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