

Update on Economic Outlook OECD Global Parliamentary Network

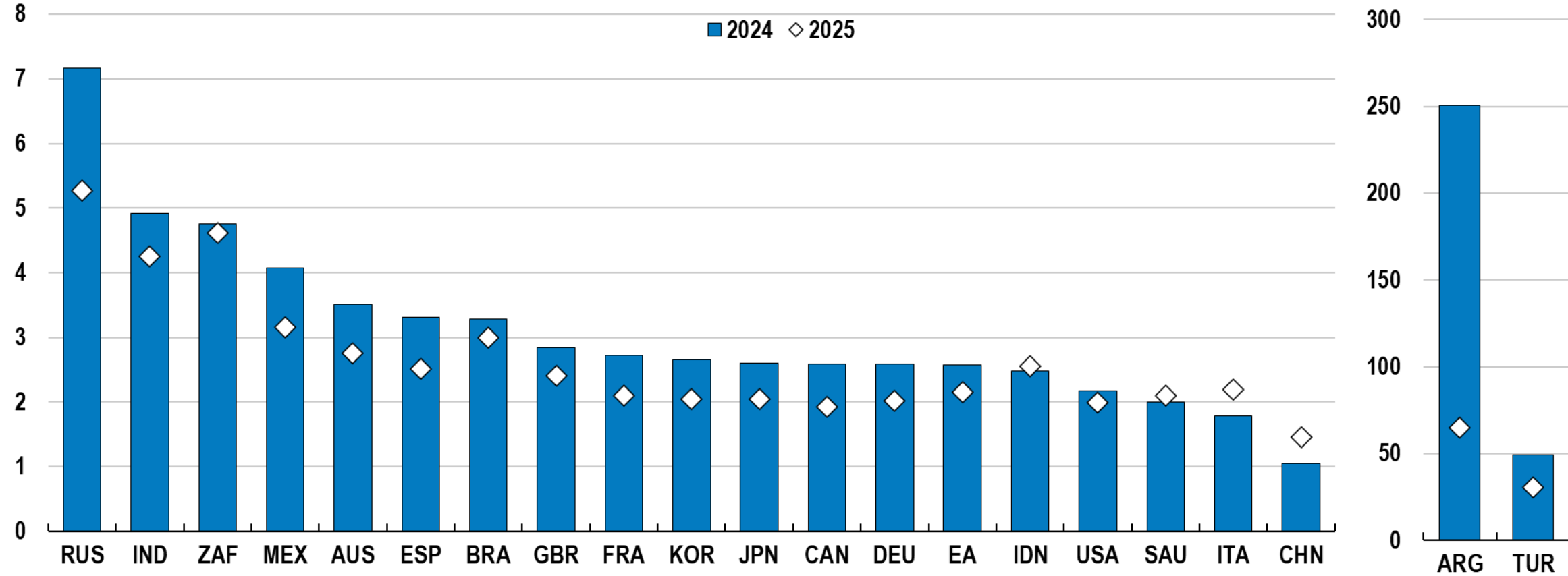
3 April 2024

Clare Lombardelli, OECD Chief Economist



Inflation is projected to decline towards targets

%, G20 economies



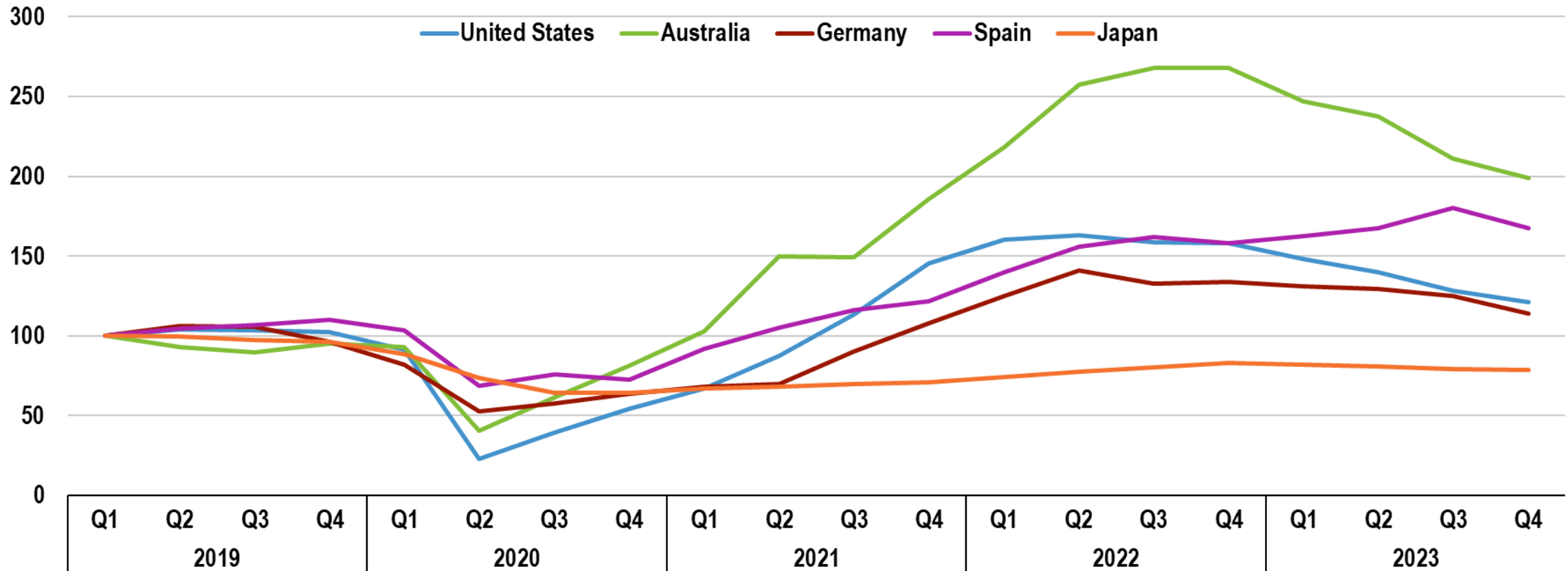
Note: Figure shows personal consumption expenditure price index for the United States, harmonised index of consumer prices for the euro area and its member states and the United Kingdom, and national consumer price index for all other economies. India projections are based on fiscal years, starting in April. Spain is a permanent invitee to the G20.
Source: OECD Interim Economic Outlook 115 database; and OECD calculations.



Labour market remain tight even if pressures are easing

Job vacancies per unemployed

Index, 2019Q1 = 100



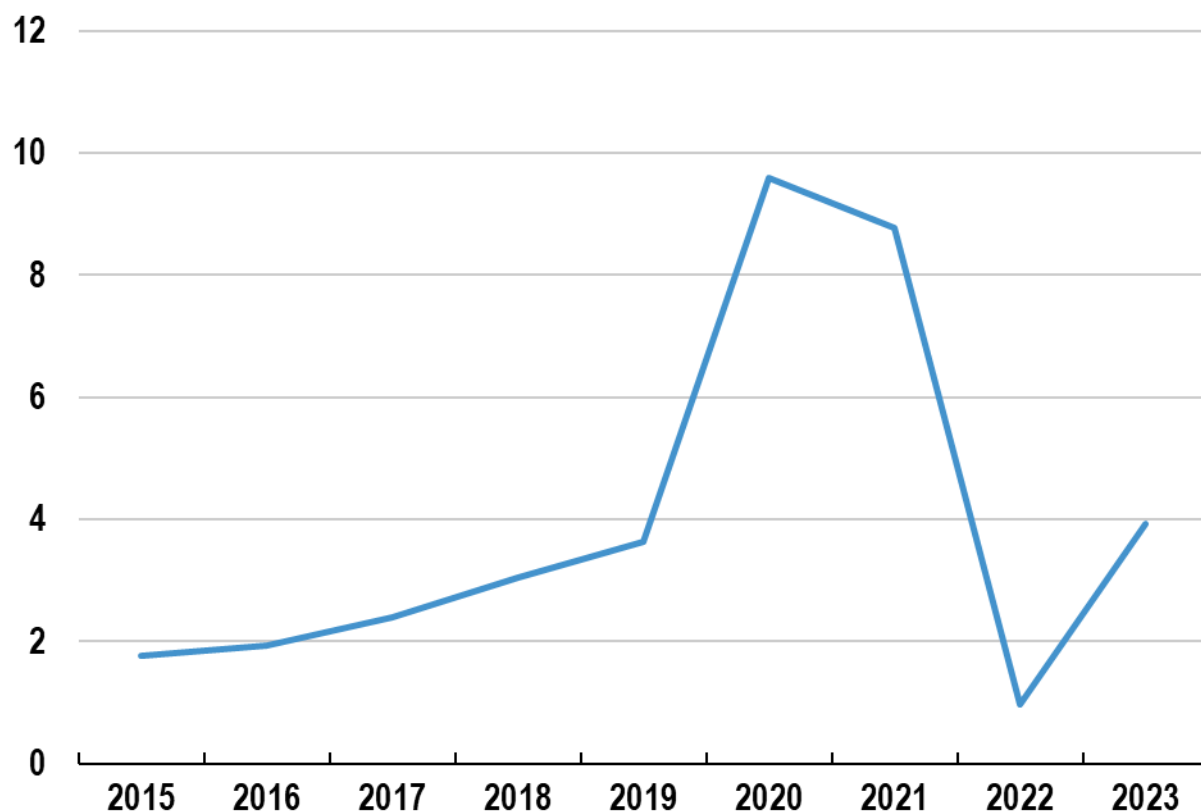
Note: Job vacancies per unemployed for the United States Australia, Germany and Spain is the number of unfilled vacancies (s.a.) over the number of unemployed population (s.a.). The unemployed population is the unemployed aged 15 and over for the United States and Australia, and the 3-month average of the unemployed population aged 15-74 for Germany and Spain. For Japan, job vacancies per unemployed is the ratio of active job openings to active applicants (s.a.).

Source: OECD Short Term Labour Situation database; Eurostat; Ministry of Health, Labour and Welfare, Japan; and OECD calculations.

Fiscal policy and savings boosted demand in the United States

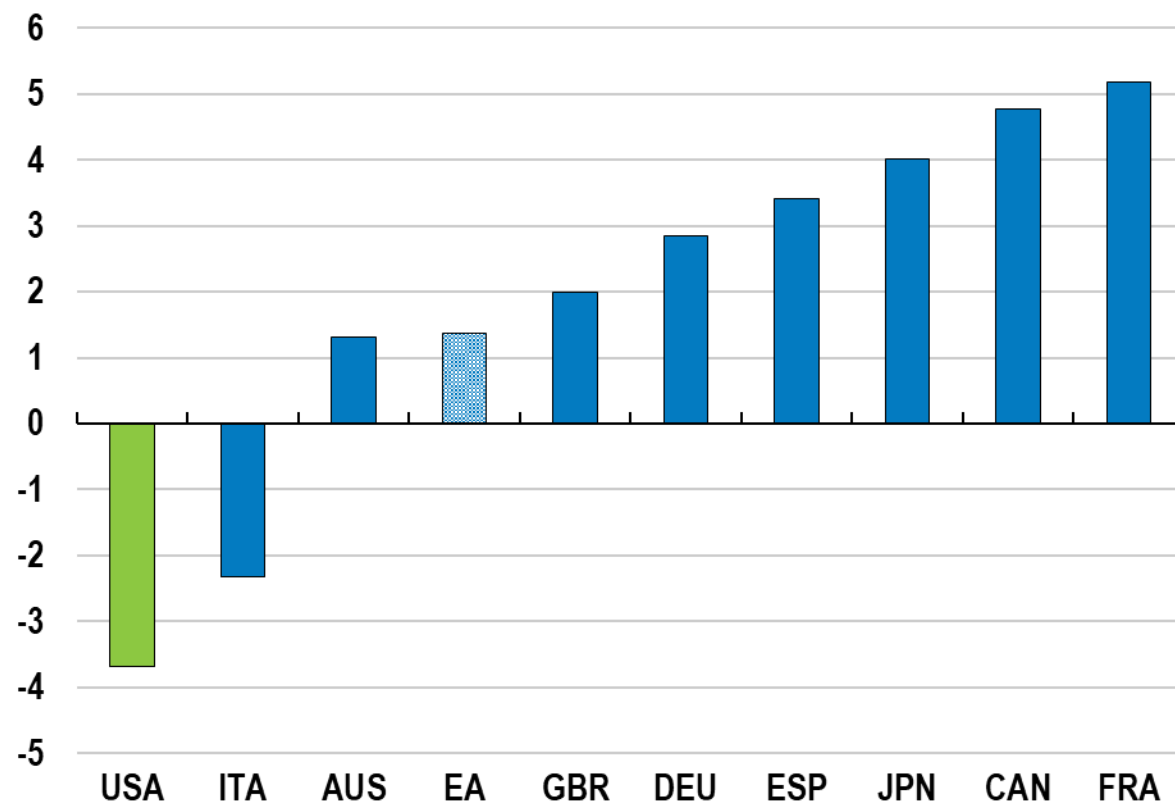
Underlying primary deficit

% of potential GDP, United States



Change in estimated excess savings over the last two years to 2023Q3

% pts of disposable income



Source: OECD Economic Outlook 114 database; and OECD calculations.

Note: Excess savings are the cumulative sum of quarterly saving flows since 2020Q1 relative to the levels that would have occurred if the saving rate had been equal to the average 2015-19 saving rate. The data for Japan are estimated from 2021Q1 onwards.

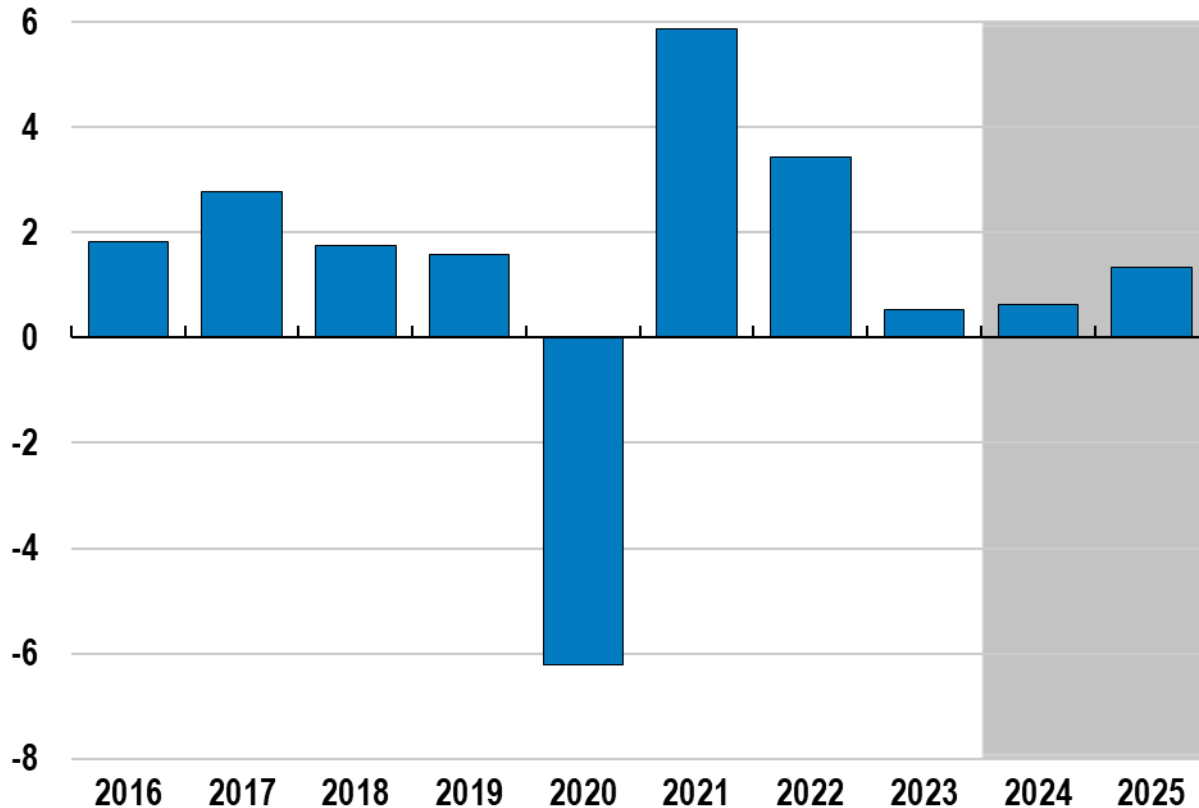
Source: OECD Interim Economic Outlook 115 database; OECD Quarterly National Accounts database; and OECD calculations.



Growth will be weak in the euro area in 2024

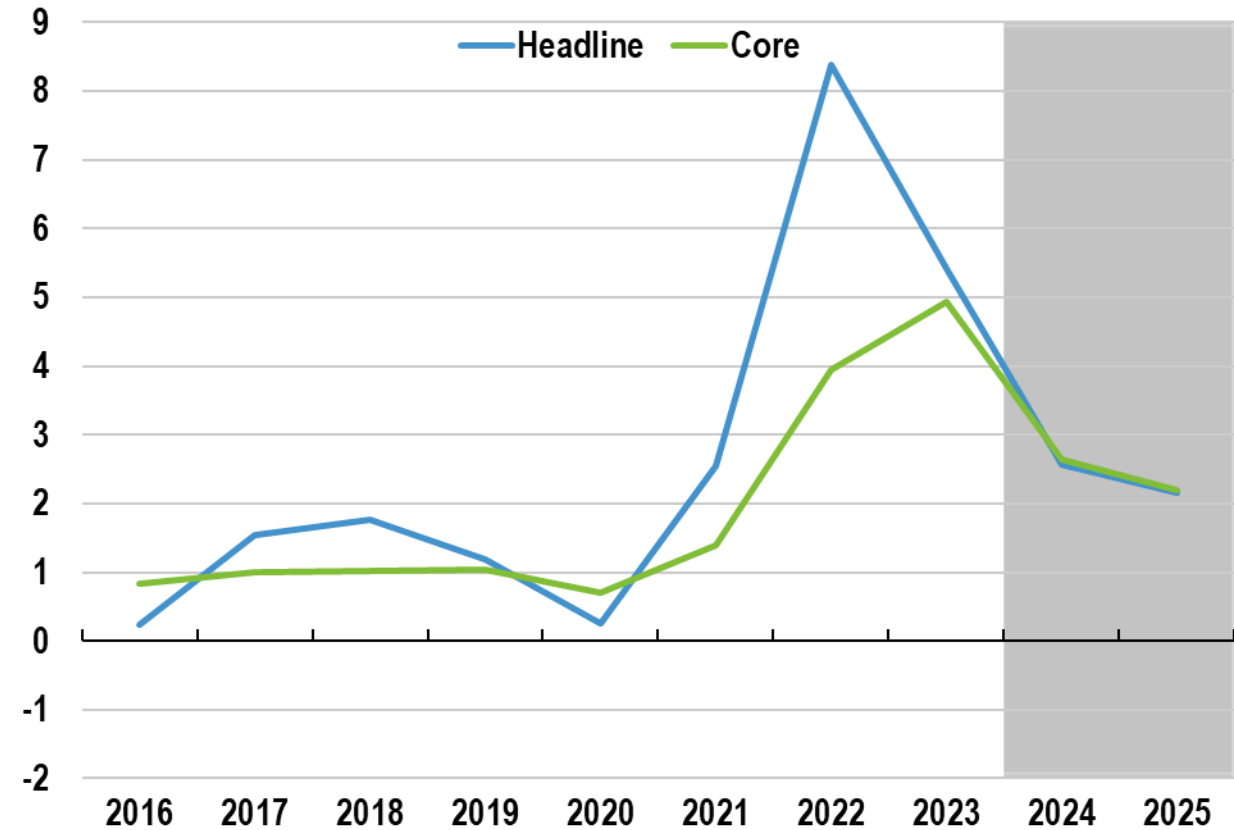
Real GDP growth

%, euro area



Inflation

%, euro area



Note: Shaded area refers to OECD projections.
Source: OECD Interim Economic Outlook 115 database; and OECD calculations.

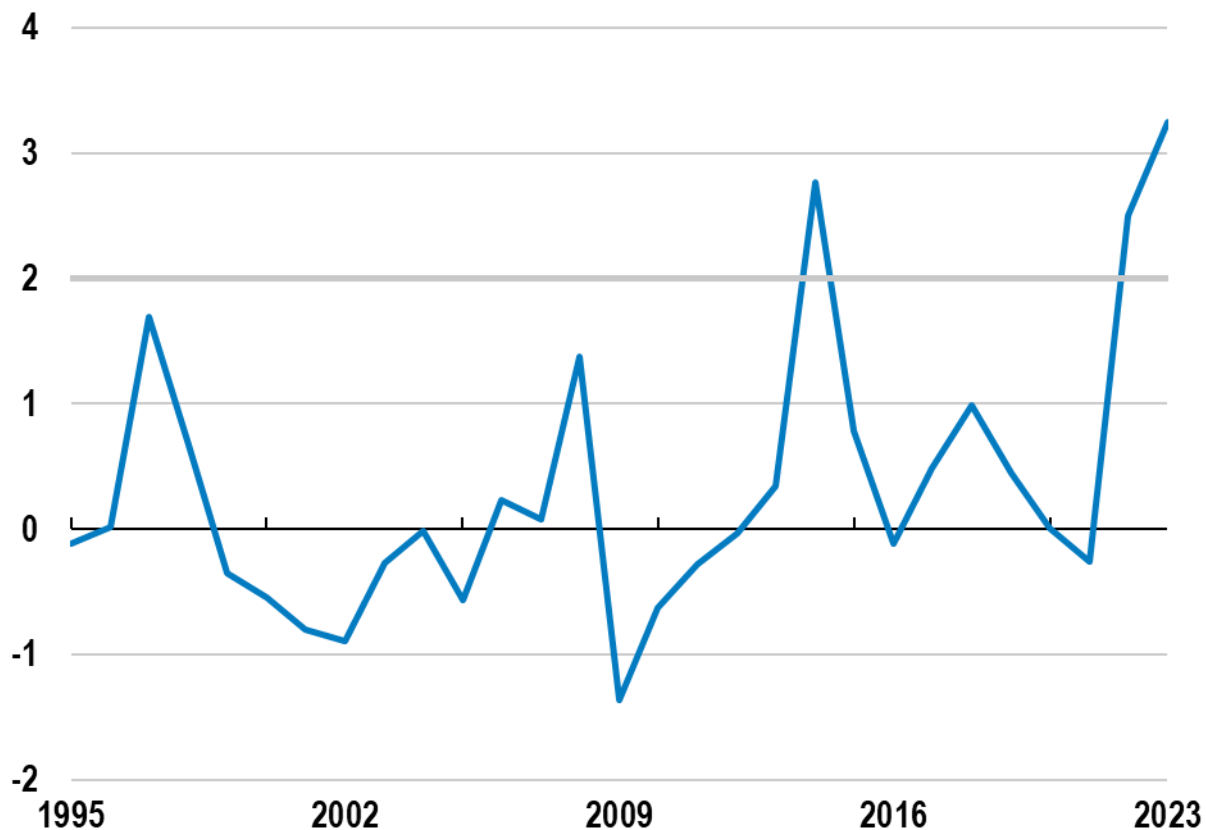
Note: Shaded area refers to OECD projections.
Source: OECD Interim Economic Outlook 115 database; and OECD calculations.



Monetary policy is returning to “normal” in Japan

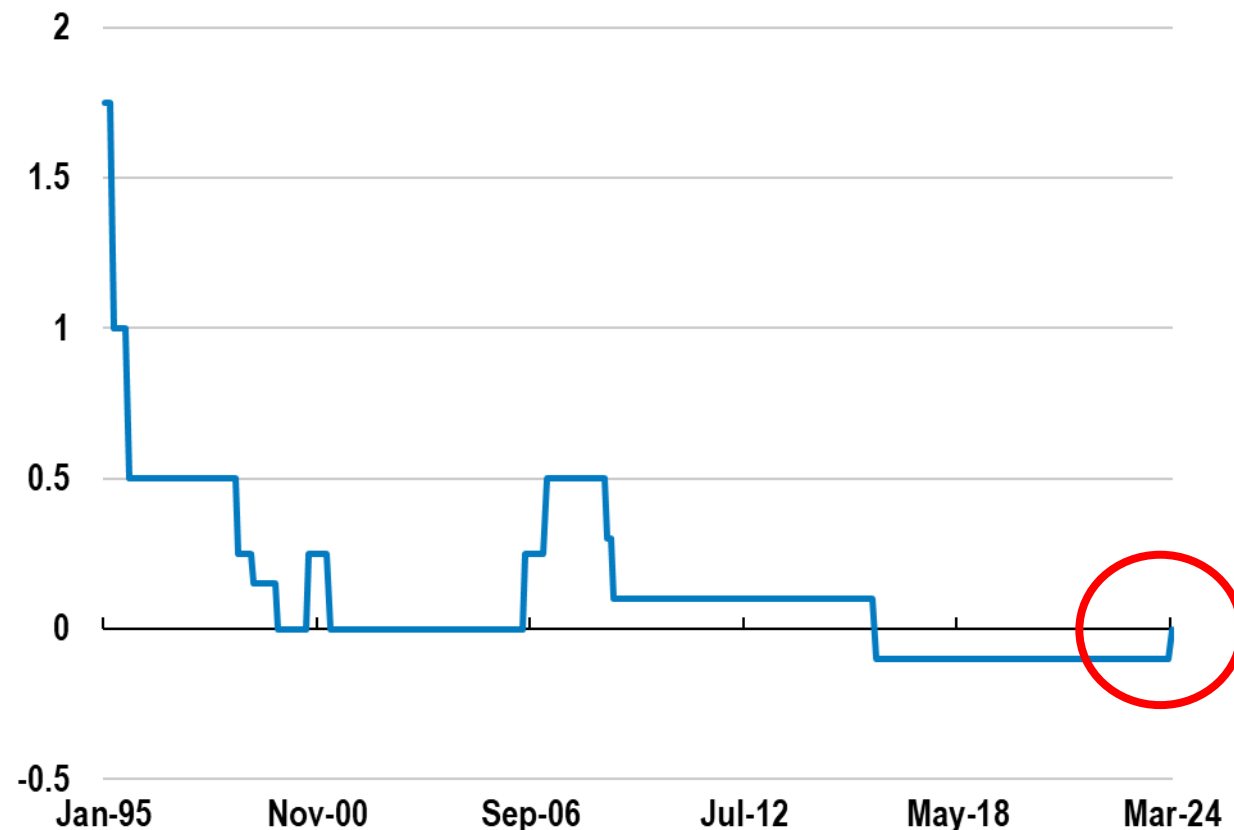
Inflation

%



Policy rate

%



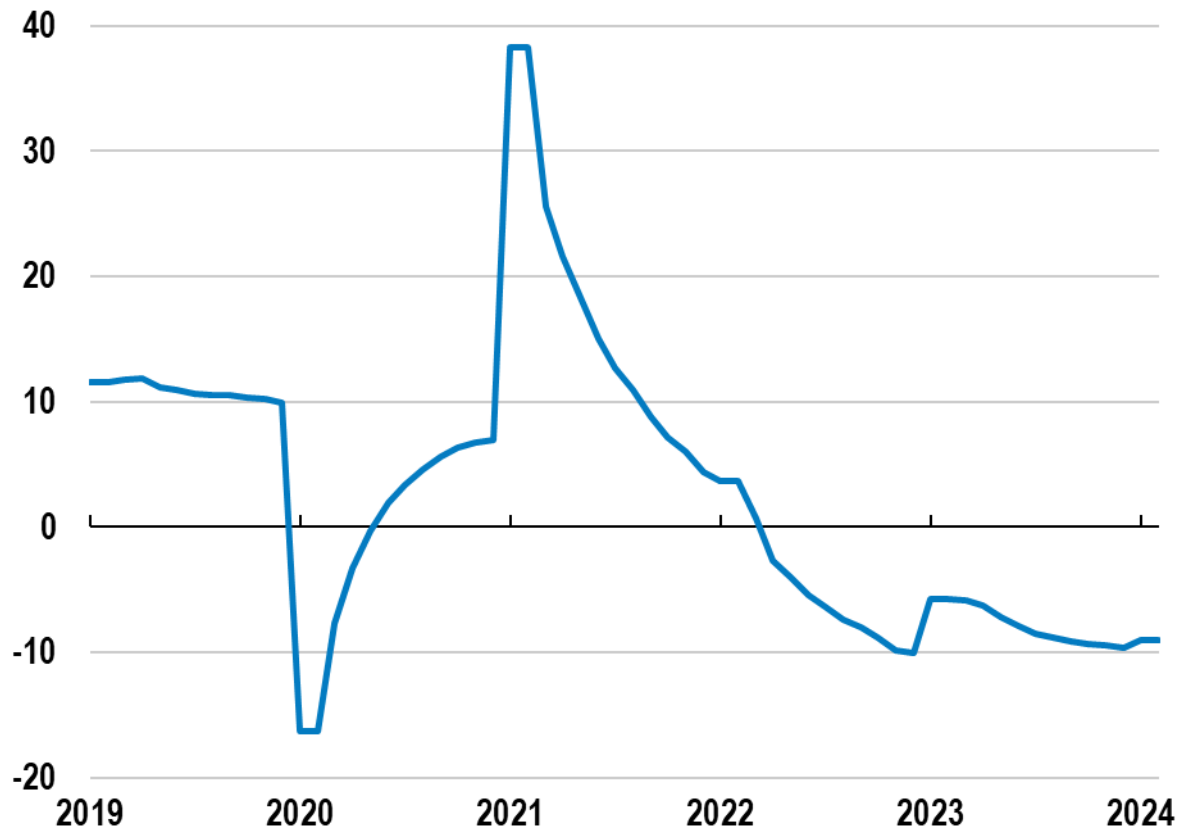
Note: The chart refers to the national consumer price index
Source: OECD Short Term Indicators database; and OECD calculations.

Source: OECD Economic Outlook 115 database.

China faces headwinds to growth

Real estate investment

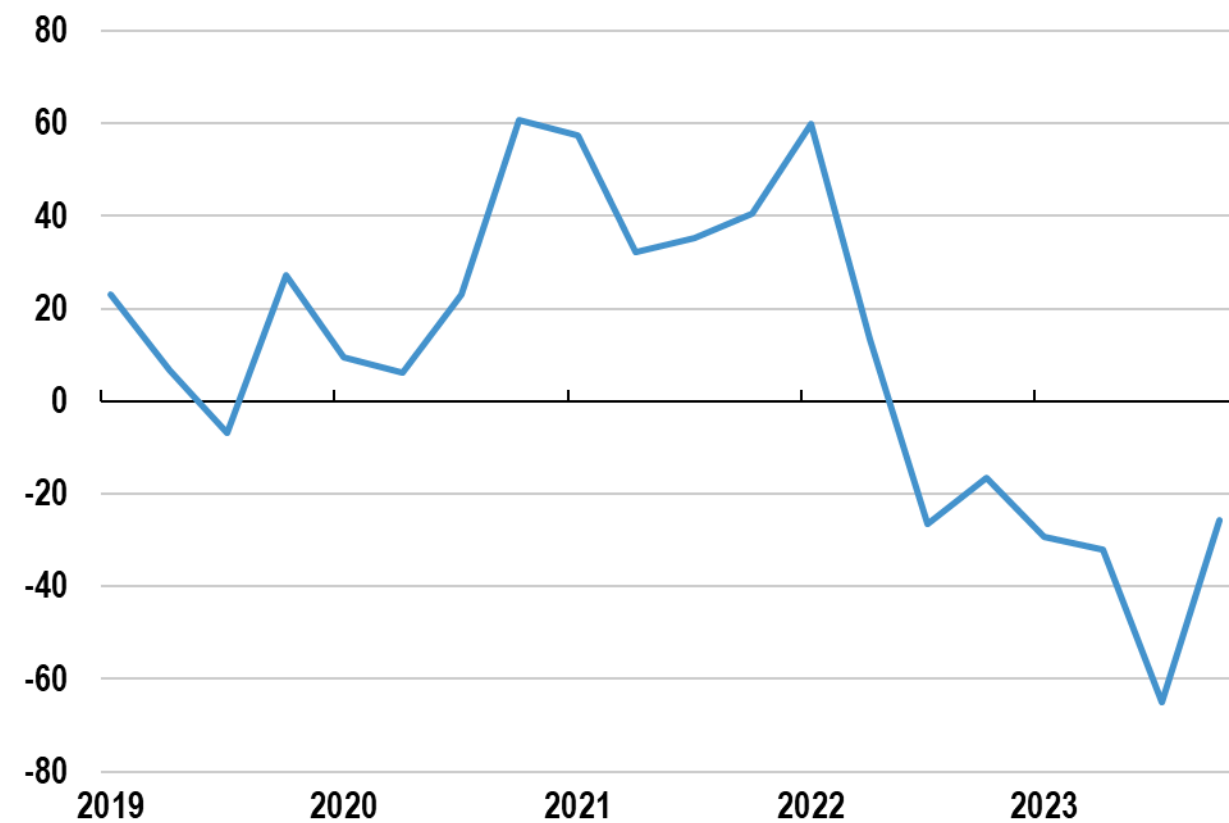
%, year-on-year, China



Source: CEIC.

Inward foreign direct investment

Billion USD, China



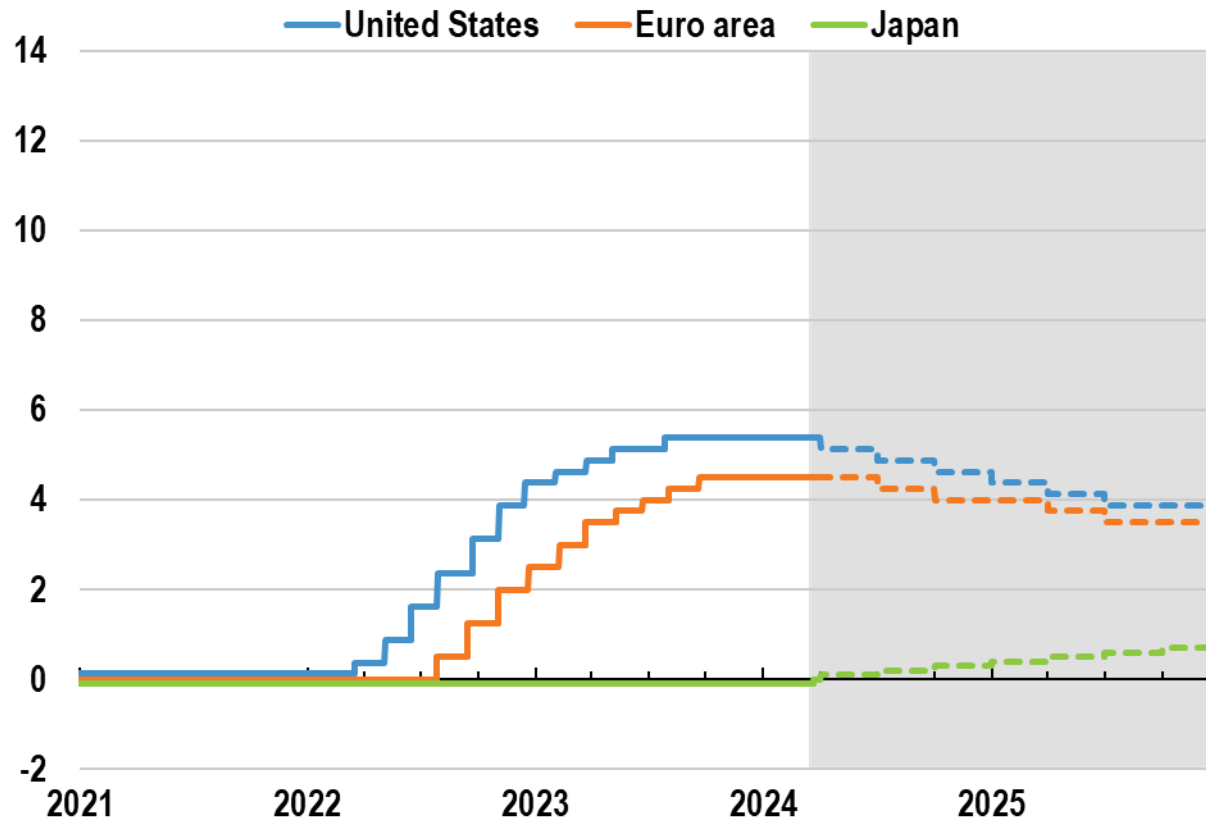
Source: CEIC.



Monetary policy should remain prudent, but there will be scope for interest rate decreases

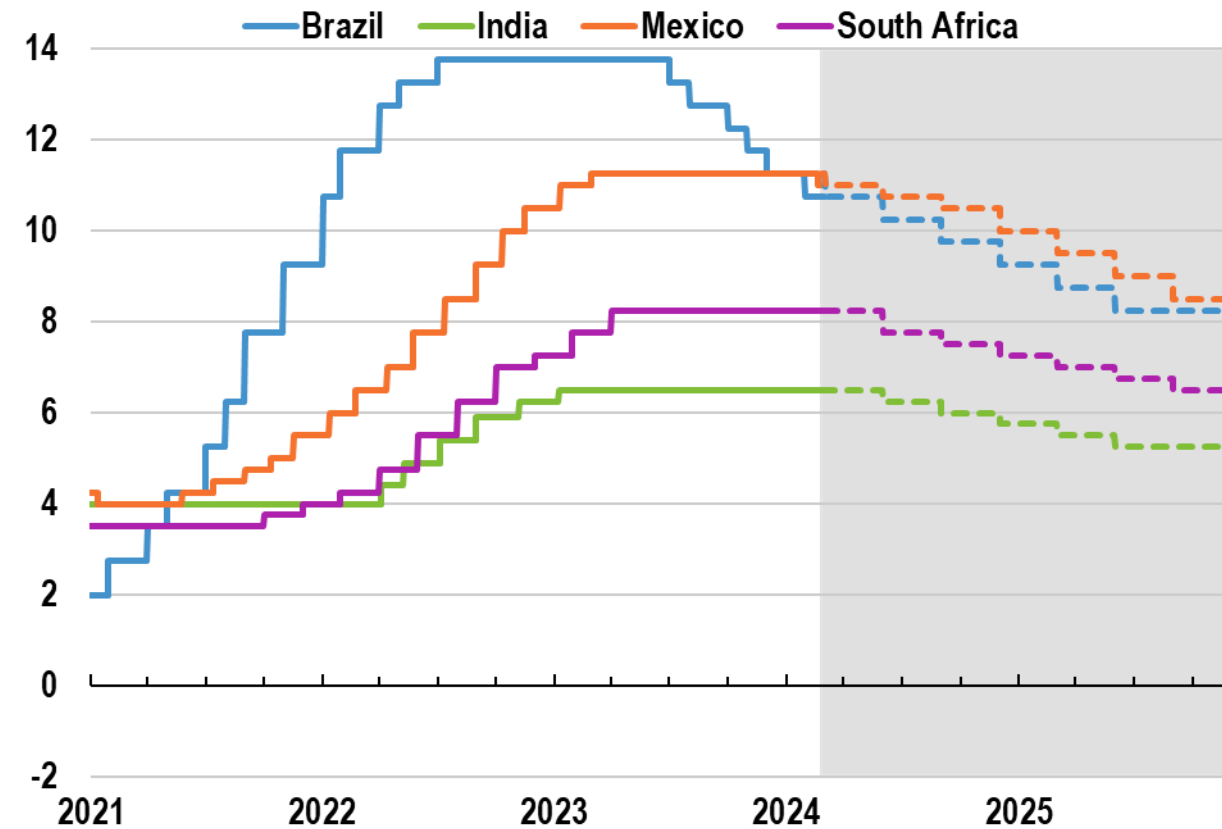
Advanced economies

Policy rates, %



Emerging economies

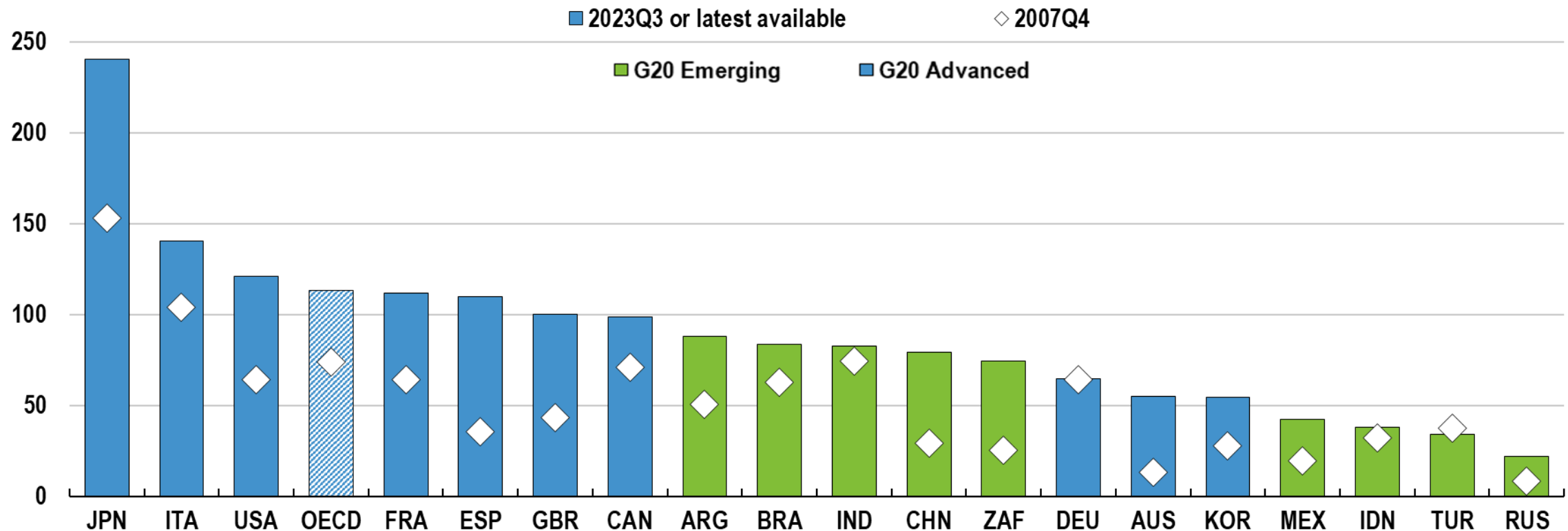
Policy rates, %



Note: For the United States, the policy rate refers to the midpoint of the federal funds rate range. The main refinancing operations rate is used as the policy rate indicator for the euro area. Shaded area refers to OECD projections. Source: OECD Interim Economic Outlook 115 database.

Public debt has increased significantly in the last two decades

Gross public debt *% of GDP*



Note: The chart shows general government financial liabilities for AUS, CAN, JPN, KOR and USA, and general government gross debt in % of GDP (Maastricht definition for euro area countries). Latest data point for ARG, BRA, CHN, IDN, IND, MEX, RUS, TUR and ZAF is 2023Q2; AUS, JPN, KOR and OECD is 2022Q4. For KOR the earliest available data refers to 2008Q4. Spain is a permanent invitee to the G20.

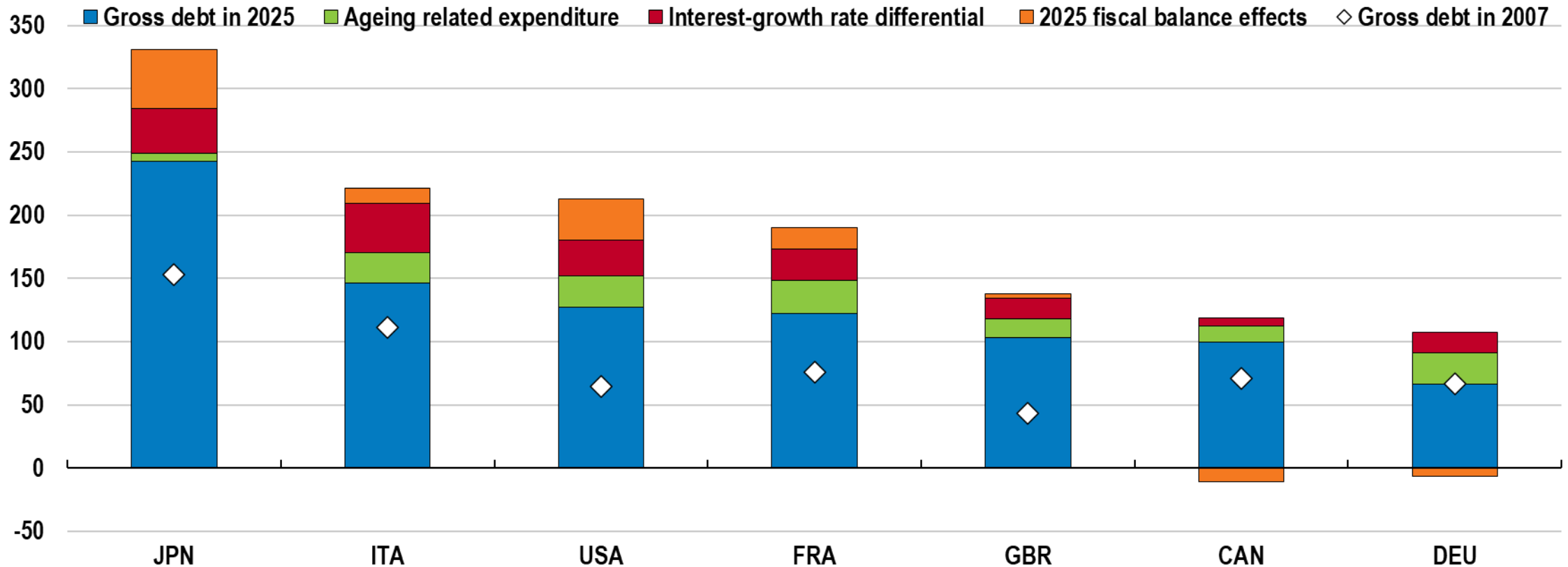
Source: Eurostat; IMF Sovereign Debt Investor Base database; OECD Economic Outlook 114 database; Office for National Statistics (UK); and OECD calculations.



No policy action would put public debt on a worrisome path

Government gross debt in 2040 if policy is unchanged

% of GDP



Note: Gross debt in 2007 refers to general government gross financial liabilities in 2007Q4. The projections are mechanical simulations based on the OECD's Long-Term Baseline projections and existing tax and spending policies. Government primary spending is assumed to remain constant as a ratio to GDP from 2025, other than changes in ageing-related expenditure that are calculated using a number of assumptions about future policies. This presentation of the simulation exercise excludes "other factors" which are included in the publication. See Box 1.2 in the report for an explanation of the components and further details. These projections may differ from national or other forecasts due to the use of different assumptions.

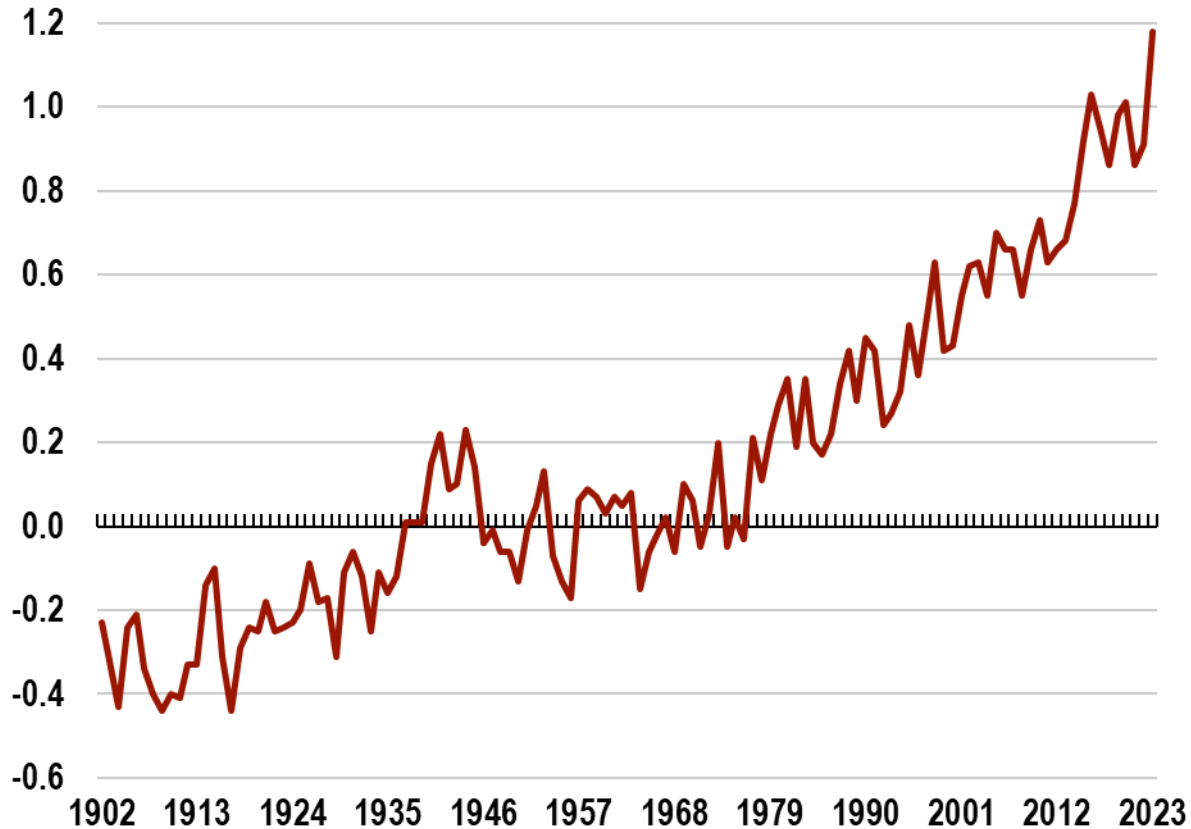
Source: OECD Economic Outlook 114 database; and OECD calculations based on Guillemette and Turner (2021).



Decarbonisation is a challenge

2023 was the warmest year on record

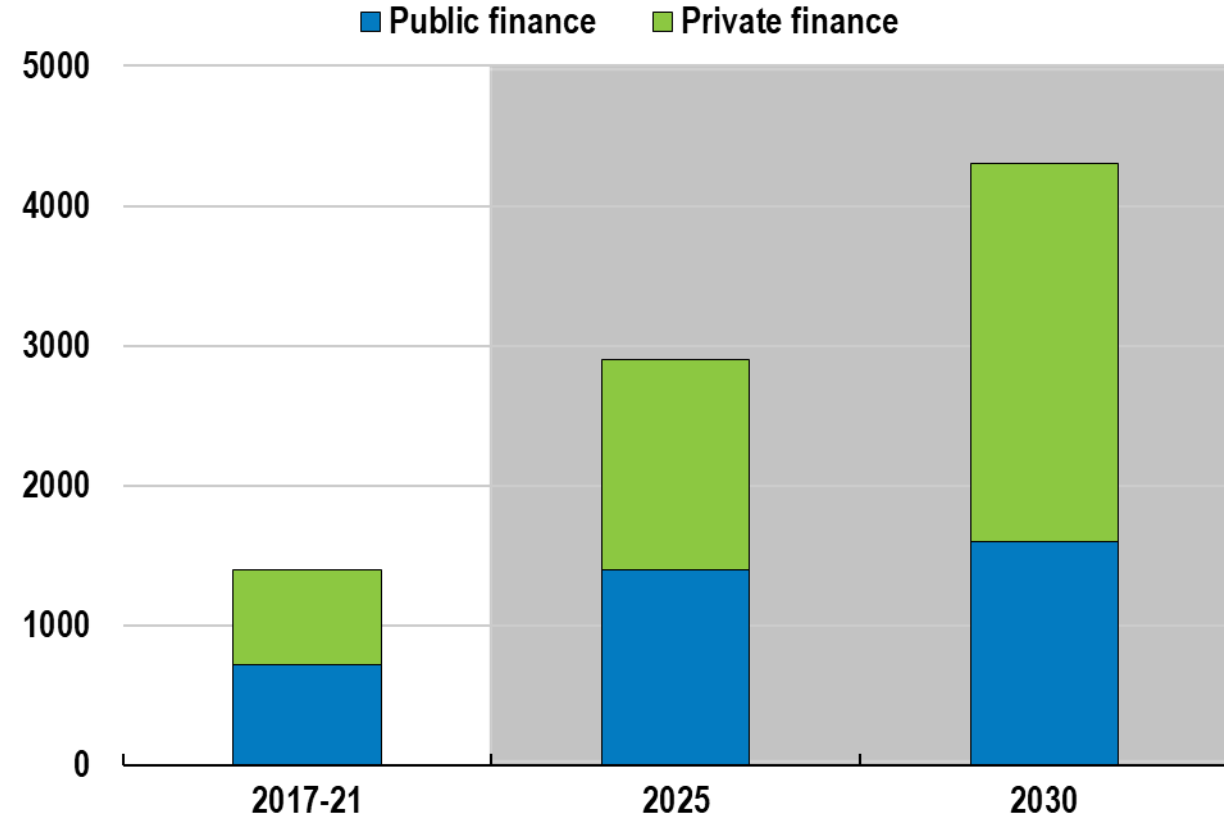
Global Land and Ocean Temperature Anomalies, °C, base period 1901-2000



Source: National Centers for Environmental Information (NCEI).

Clean energy investment needs to reach net-zero

2021, USD billions

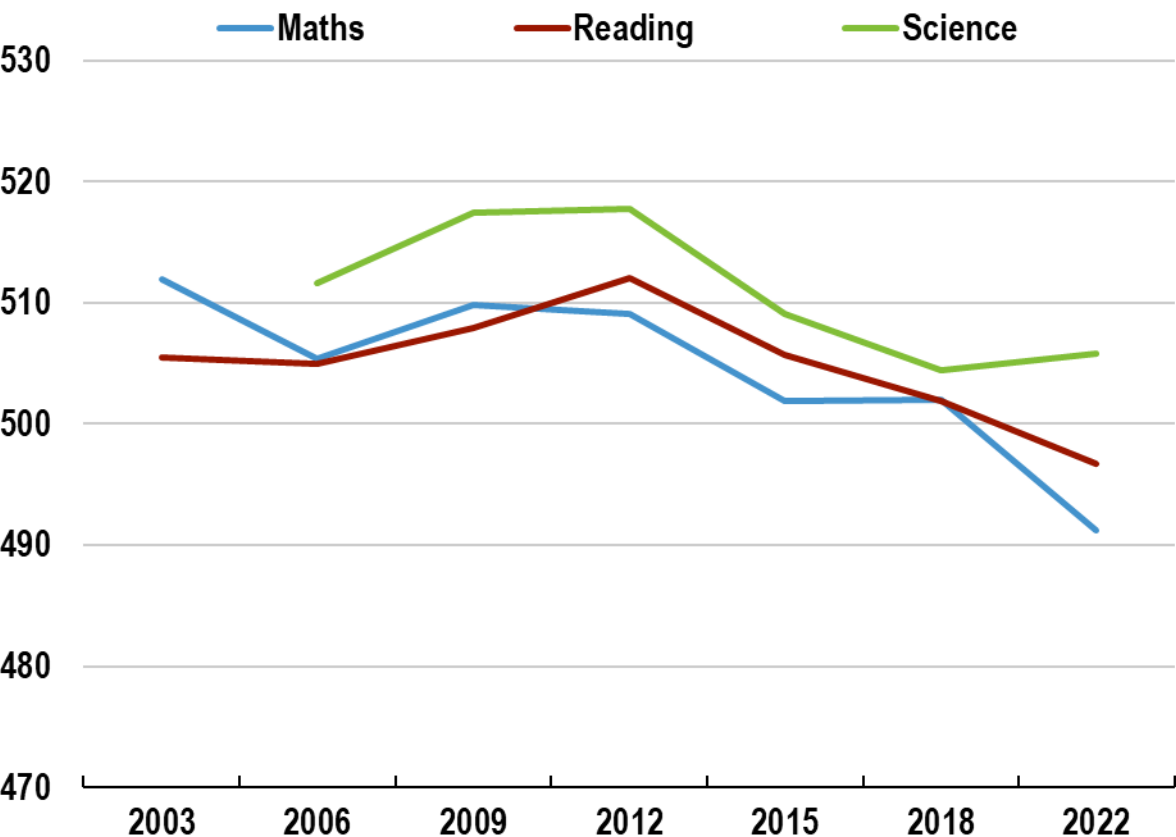


Note: The graph projected cost of clean energy investment in the net-zero by 2050 scenario, by source of finance. Shaded area refers to projections.
Source: IEA World Energy Outlook 2022; and OECD calculations.

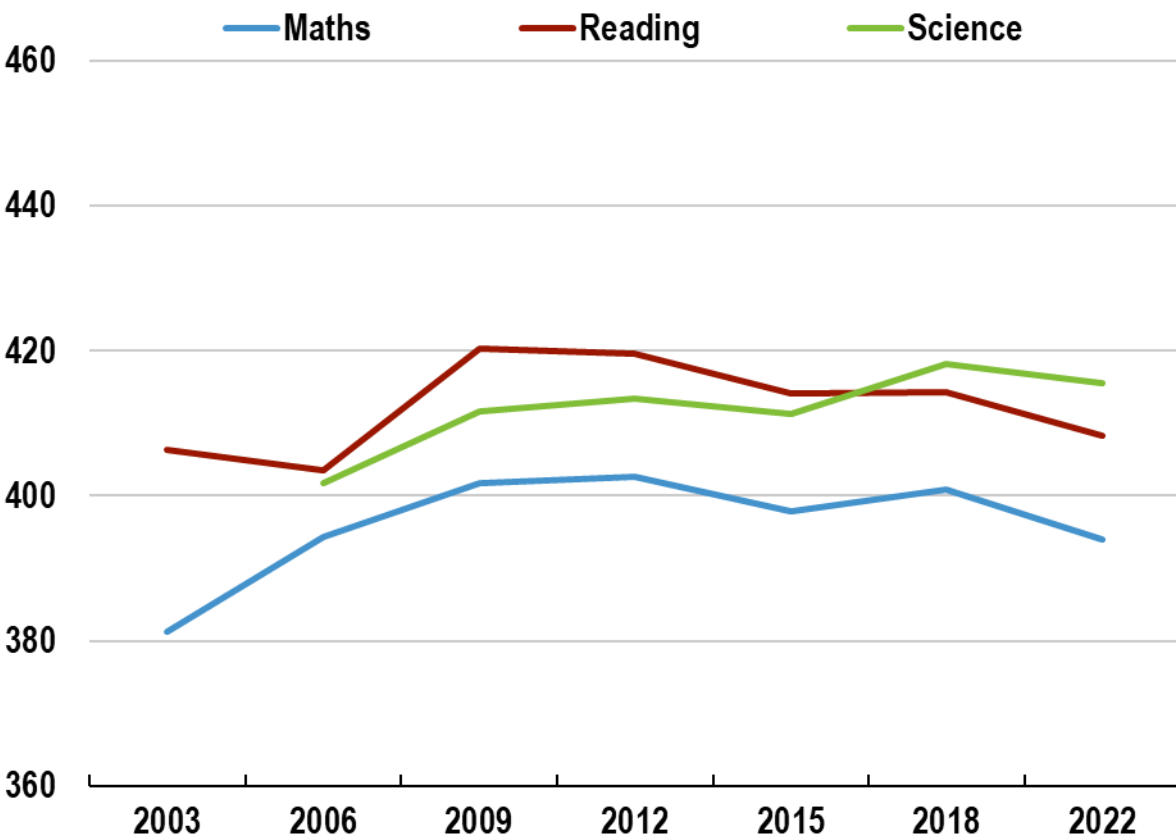
Investment in human capital is needed to revive productivity growth

Programme for International Student Assessment (PISA) performance

G20 Advanced Economies



G20 Emerging Market Economies



Note: Chart shows the average PISA score for G20 advanced economies, referring to AUS, CAN, FRA, DEU, ITA, JPN, KOR, GBR and USA. For the average, data is not available for GBR for maths and reading in 2003, nor for USA for reading in 2006. PISA scores are set in relation to the variation in results observed across all test participants; there is theoretically no minimum or maximum score in PISA; rather, the results are scaled to fit approximately normal distributions, with means around 500 score points and standard deviations around 100 score points.
Source: PISA 2022 database; and OECD calculations.

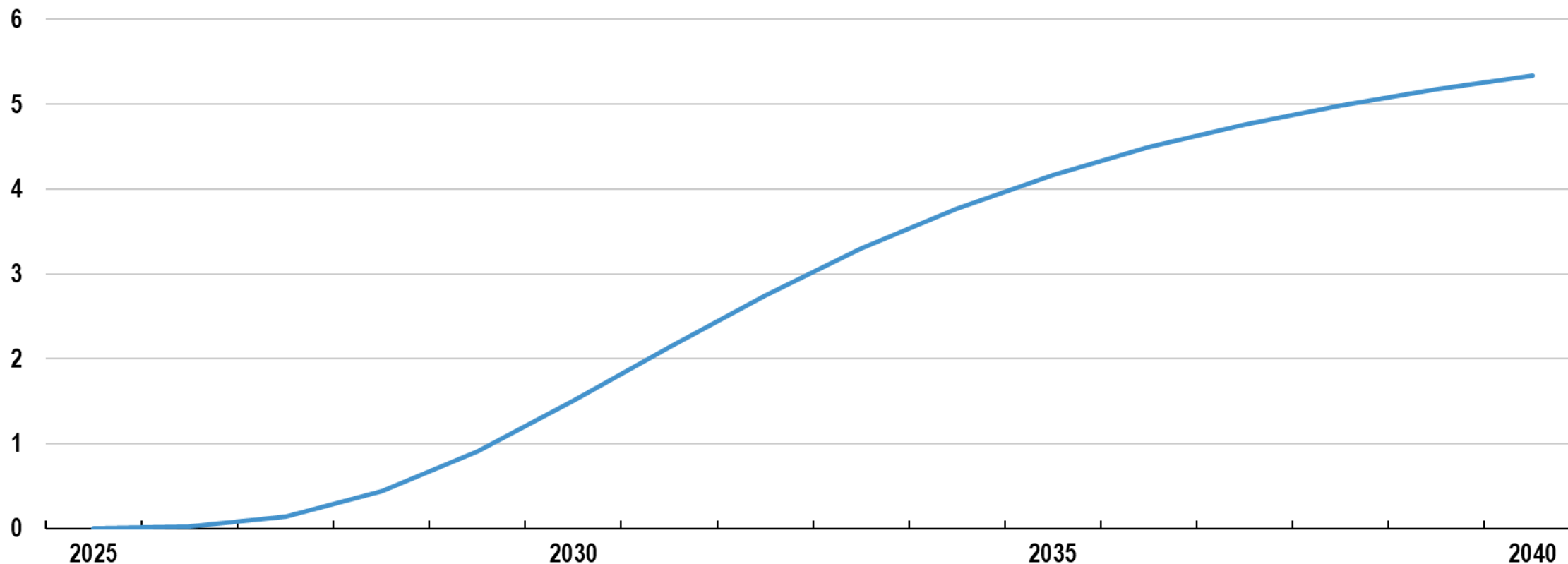
Note: Chart shows the average PISA score for G20 emerging market economies, referring to ARG, BRA, IDN, MEX, and TUR. For the averages, data is not available for ARG for 2003 and 2015. PISA scores are set in relation to the variation in results observed across all test participants; there is theoretically no minimum or maximum score in PISA; rather, the results are scaled to fit approximately normal distributions, with means around 500 score points and standard deviations around 100 score points.
Source: PISA 2022 database; and OECD calculations.



Structural reforms can boost economic growth

Simulated impact of labour market reforms on OECD potential output

%, level of trend real GDP per capita, difference from baseline



Note: The underlying labour market reform scenario is based on Guillemette and Tuner (2021), section 3.2, but using updated indicators and assuming the reforms start in 2026. For median country, the reform package implies the following changes until 2030 period: spending on active labour market policies (ALMP) per unemployed worker rises by 10 percentage points of GDP per capita, public spending on family benefits in kind rises by 0.6 percentage points of GDP, maternity leave increases by 12 weeks, and tax wedges for both single earners and couples decline by about 9 percentage points of labour costs. Specific reform magnitudes depend, for each country and indicator, on gaps relative to best practices according to the latest available data.

Source: Guillemette and Turner (2021). The long game: Fiscal outlooks to 2060 underline need for structural reform. OECD Economic Policy Paper No. 29; OECD Economic Outlook 114 long-term scenarios database; and OECD calculations.



Summing up

- Inflation is expected to continue falling, making room for lowering interest rates (eventually)
- Growth paths are divergent, but overall global GDP growth remains modest
- Public finances face significant pressures: interest burdens, ageing, but also defense, climate change.
- Structural reforms can significantly boost growth and reduce fiscal pressures.



**New, full Economic
Outlook projections on
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