



**Foundation for Fiscal Studies**  
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**OECD Economic Outlook**  
**2011-12**  
**On the Road to Durable Recovery?**

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# A Durable Recovery in the OECD?



# Key features of OECD projections for 2011-12

- Global recovery becoming self sustained.
- Advanced countries have less speed than emerging ones.
- Unemployment to remain high across most of OECD
- Headline inflation has risen but is expected to ease in advanced countries.
- In non-OECD economies, inflationary pressures prompting policy restraint that could slow the recovery.

## Positive forces prevail over negative forces, but there are downside risks

- Negative forces: rising oil and commodity prices; disruptions caused by earthquake in Japan and its aftermath; housing markets; vital fiscal consolidation.
- Positive forces: strong rebound in emerging countries; fast growth of world trade; easier financial conditions; supportive monetary policy; low long-term interest rates.
- Downside risks: political instability in Middle East and North Africa; market concerns about public debt sustainability in some OECD countries; stability of banking system.

# Macroeconomic policies in advanced OECD countries

- In most advanced economies, fiscal consolidation is desirable to arrest the increase in public debt and put it on a downward trend.
- Monetary policy will eventually have to return gradually to a more neutral configuration.
- Structural reforms have a role to play to boost growth, e.g. with labour-market activation, global rebalancing, support to innovation and product-market competition.

# Macroeconomic policies in emerging countries

- In emerging economies, monetary policy should tighten more to curb inflation, but this option risks being constrained by inducing stronger capital inflows.
- Structural reforms could make growth more sustainable and inclusive, while contributing to global rebalancing.

# Key projections

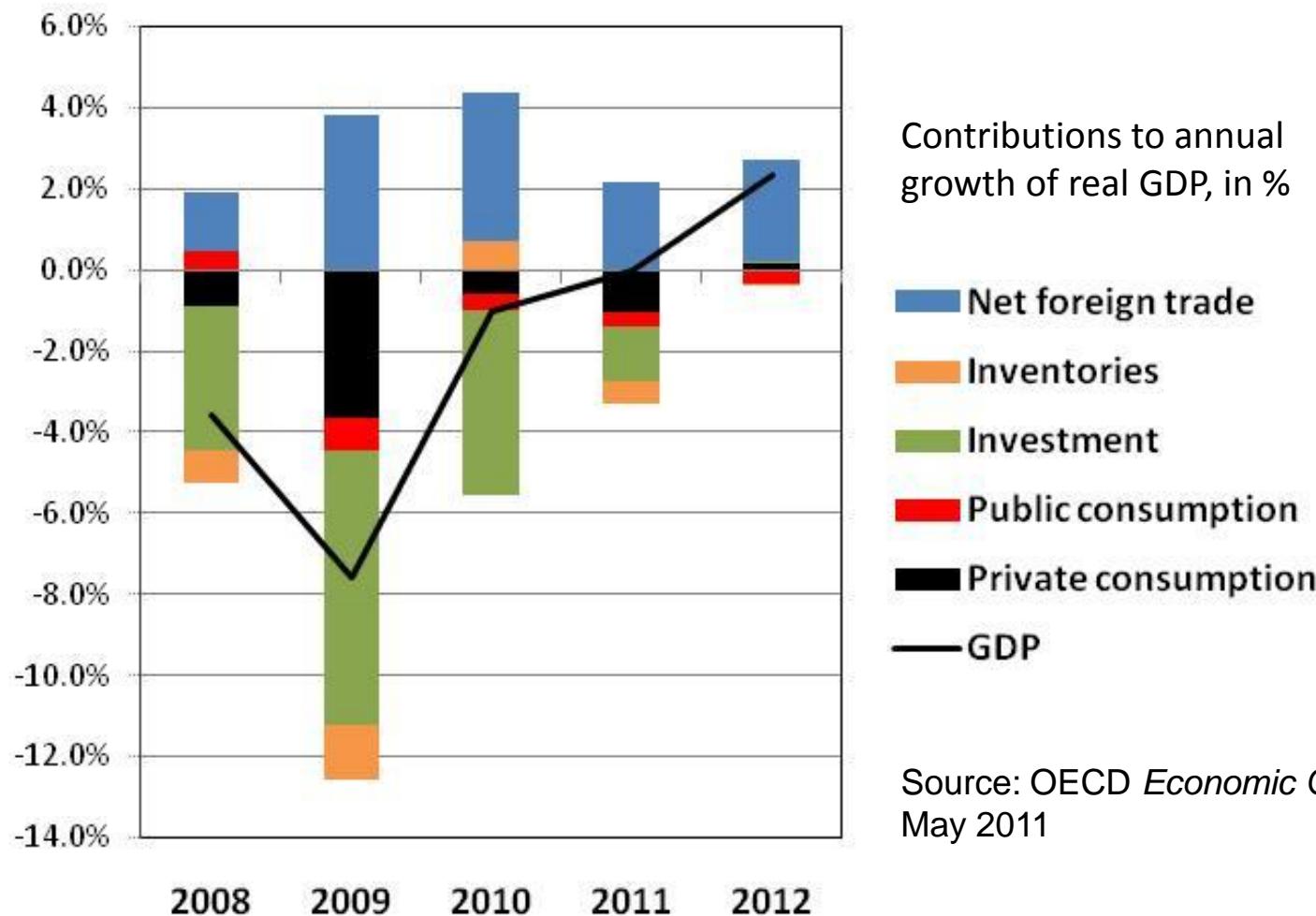
	2010	2011	2012
Real GDP growth			
USA	2.9	2.6	3.1
Euro area	1.7	2.0	2.0
Japan	4.0	-0.9	2.0
Total OECD	2.9	2.3	2.8
World GDP	4.9	4.2	4.6
Inflation			
USA	1.7	1.9	1.3
Euro area	1.6	2.6	1.6
Japan	-0.7	0.3	-0.2
Total OECD	1.8	2.3	1.7
World trade growth	12.5	8.1	8.4

Source: OECD *Economic Outlook*, May 2011

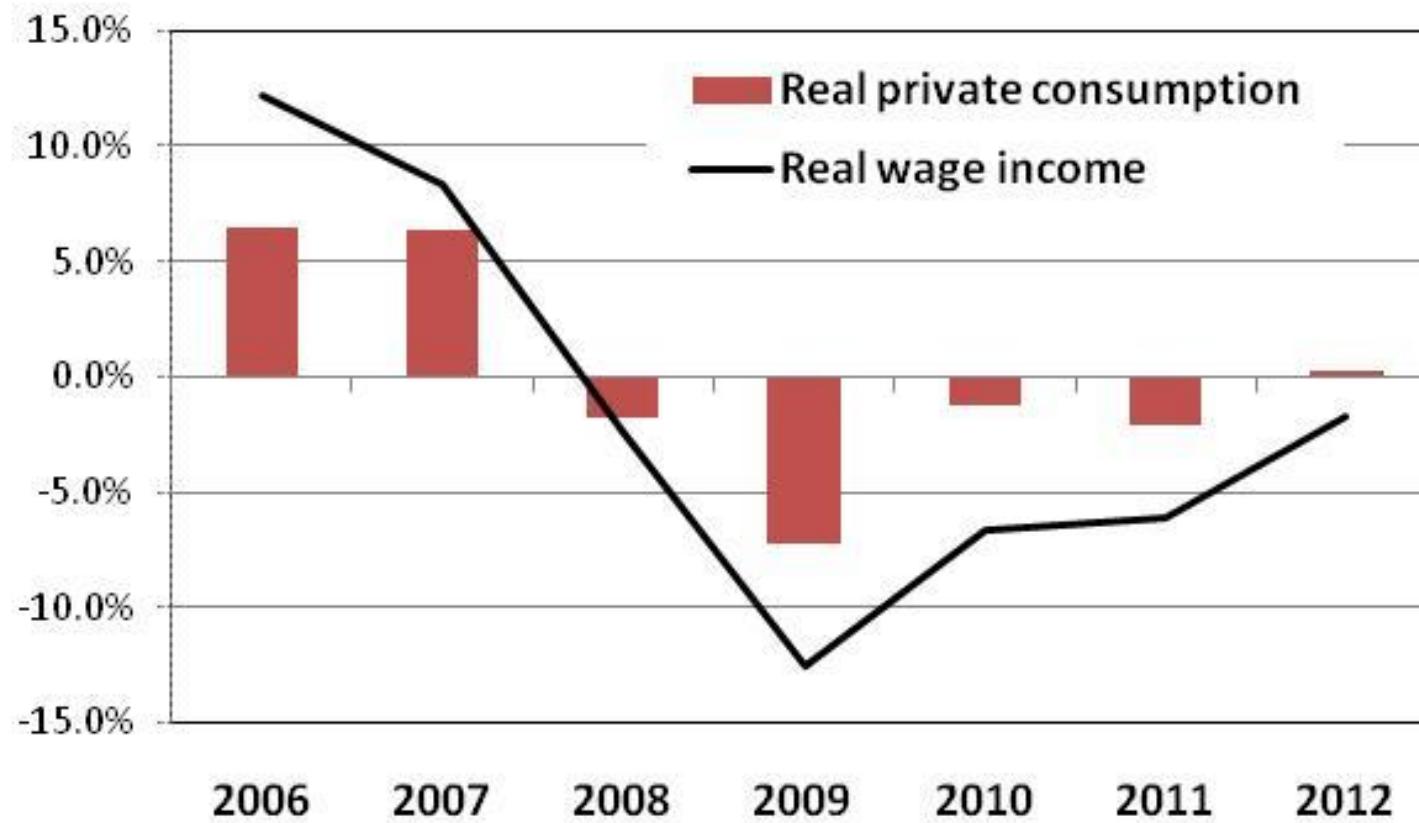


# Ireland: Gradual Exit from the Crisis

# Ireland's prospects 2011-12: export-led recovery



# Weak real wage income weighs down on private consumption

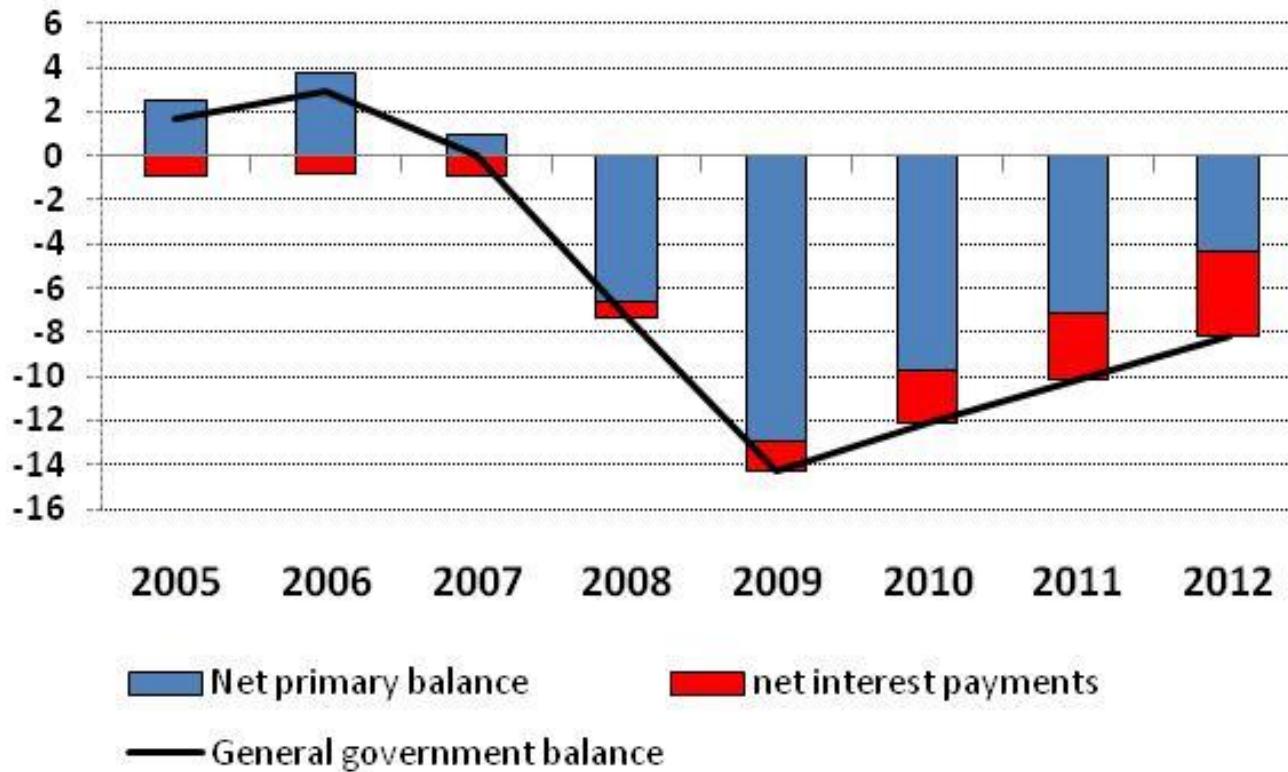


Annual percentage change of private consumption  
and real wage income (real wage \* employment)

Source: OECD *Economic Outlook*, May 2011

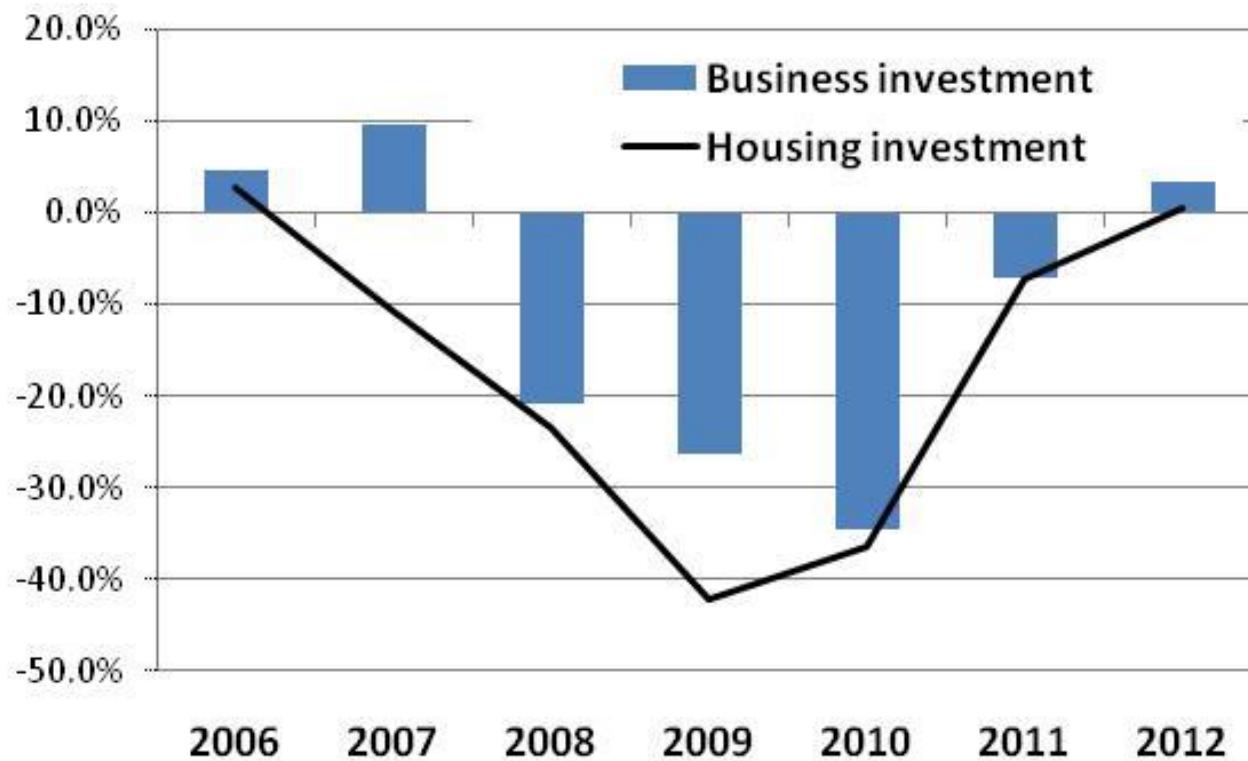
# Fiscal consolidation exerts a drag on aggregate demand

General government balance, excluding bank recapitalization, in % of GDP



Source: OECD *Economic Outlook*, May 2011

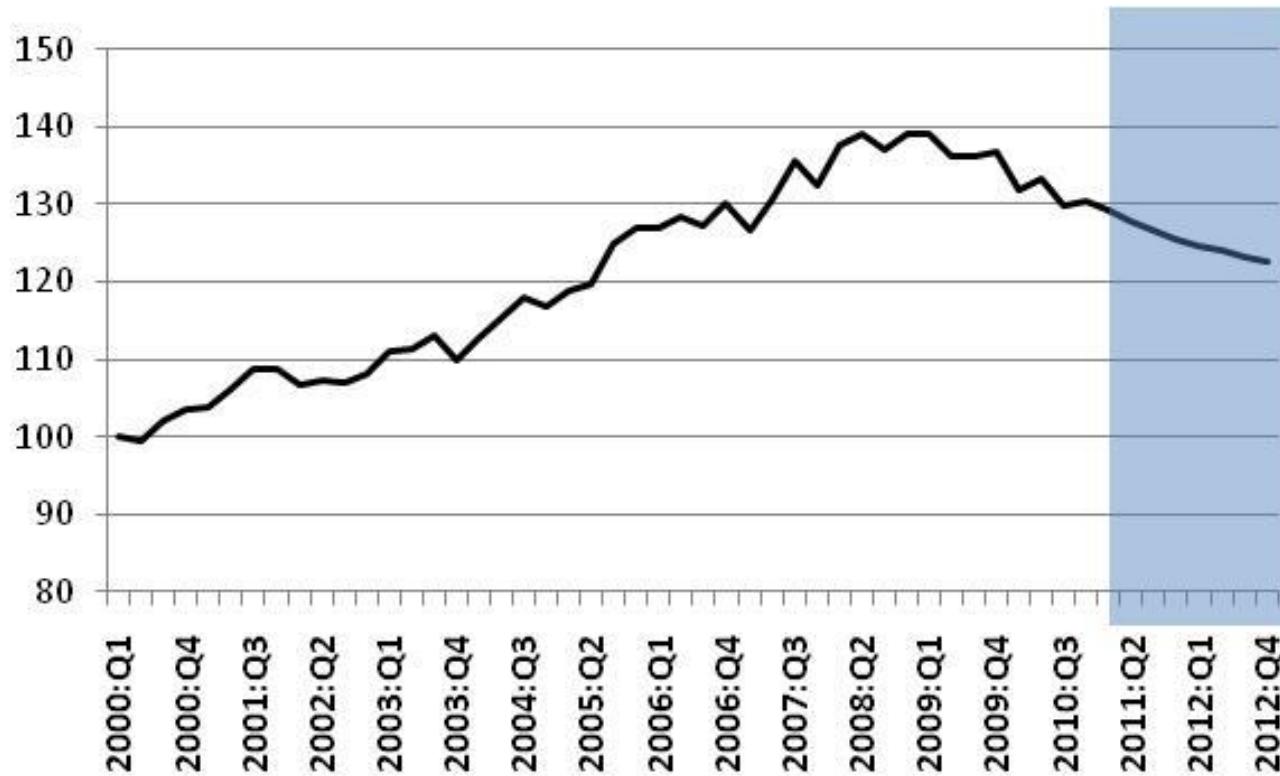
# The contractionary effect of investment will fade out



Annual percentage change at constant prices

Source: OECD *Economic Outlook*, May 2011

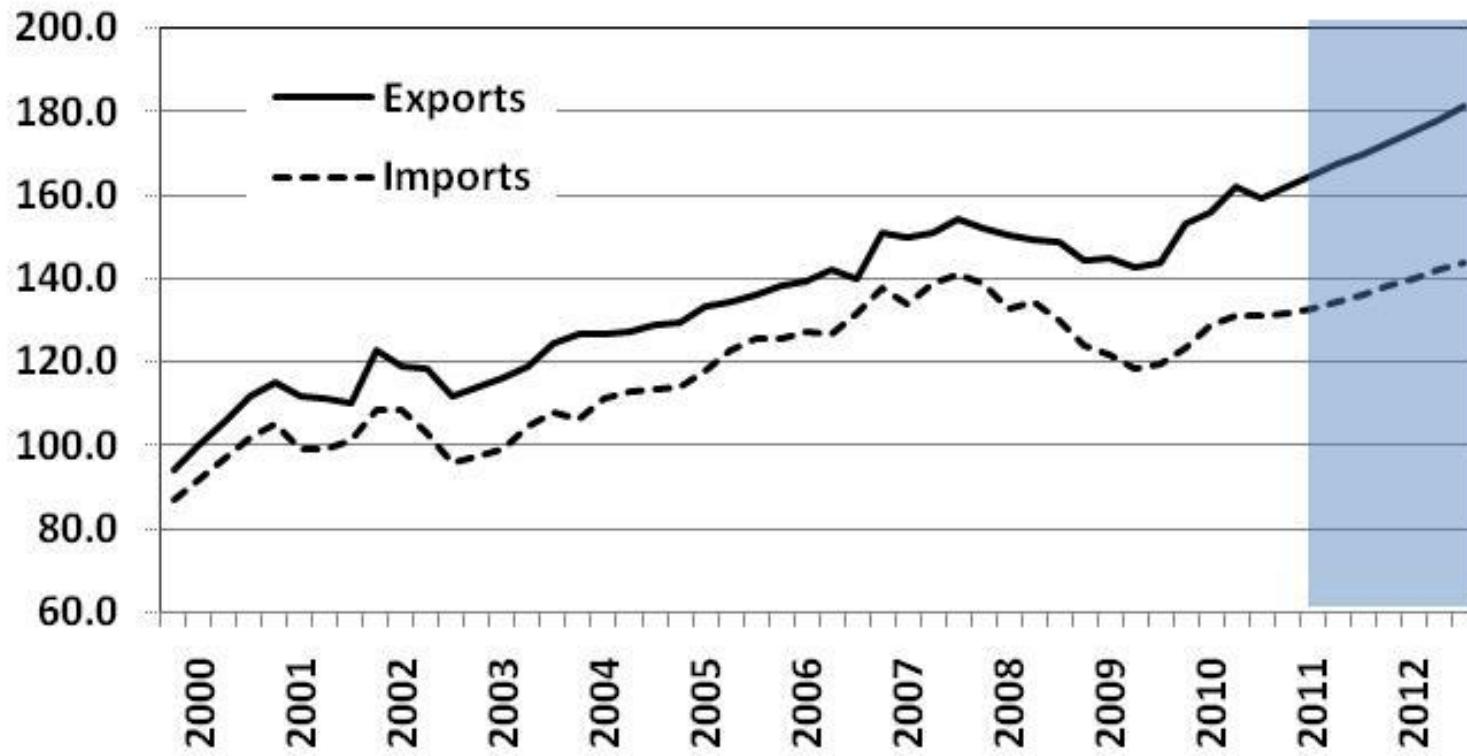
# Wage restraint and higher productivity raise competitiveness



Unit labour costs, 2000Q1=100

Source: OECD *Economic Outlook*, May 2011

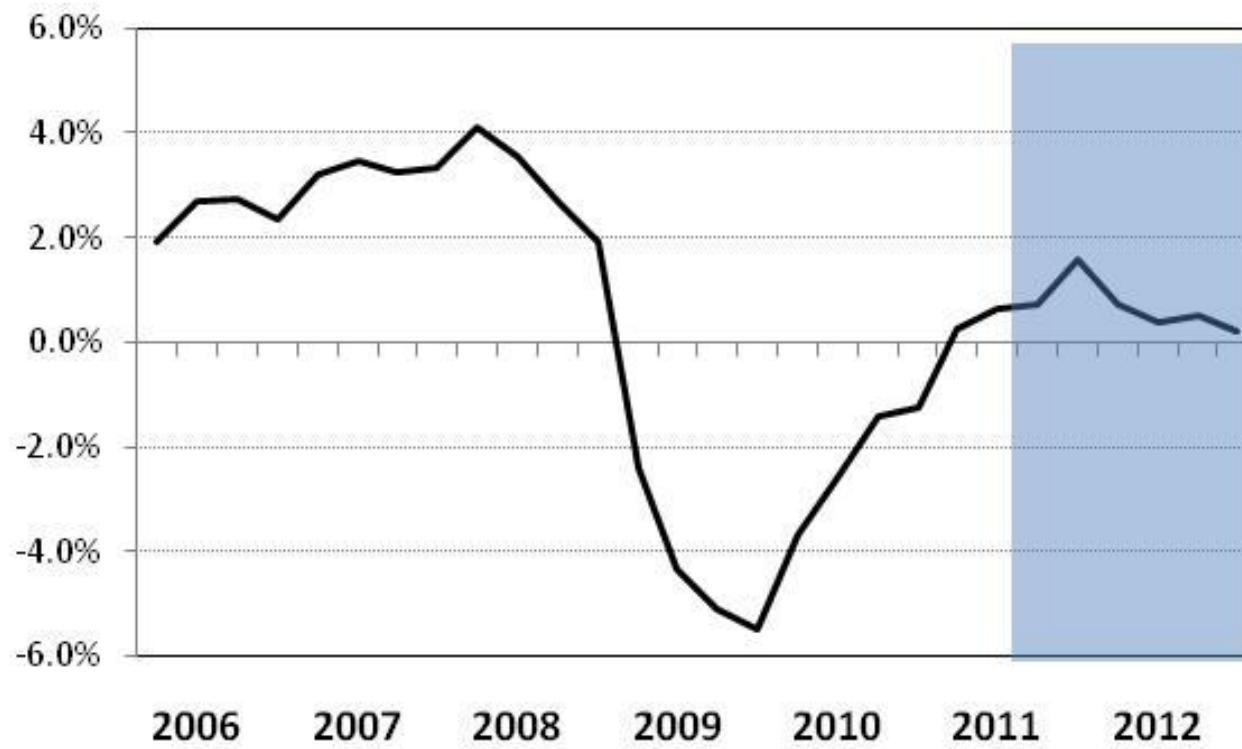
# Exports are recovering



Exports and imports of goods and services in billions of euros,  
2008 prices, annualised and seasonally adjusted.

Source: OECD *Economic Outlook*, May 2011

# Inflation expected to stay in mildly positive territory



Annual change of private consumption deflator

Source: OECD *Economic Outlook*, May 2011

# Summary of OECD projections for Ireland

	2010	2011	2012
<b>GDP (OECD)</b>	-1.0	0.0	2.3
<b>GDP (consensus forecast May 2011)*</b>	-1.0	0.0	1.6
<b>Private consumption</b>	-1.2	-2.1	0.3
<b>Total investment</b>	-27.7	-11.0	0.8
<b>Exports</b>	9.4	5.3	6.6
<b>Imports</b>	6.5	4.0	5.3
<b>Consumer prices</b>	-2.2	0.8	0.5
<b>General government balance**</b>	-32.4	-10.1	-8.2
<b>Employment</b>	-3.8	-2.4	-0.6
<b>Unemployment rate***</b>	13.5	14.7	14.6

\* Mean of 11 private-sector forecasts collected by Consensus Economics.

\*\* % of GDP   \*\*\* % of the labour force

Source: OECD *Economic Outlook*, May 2011

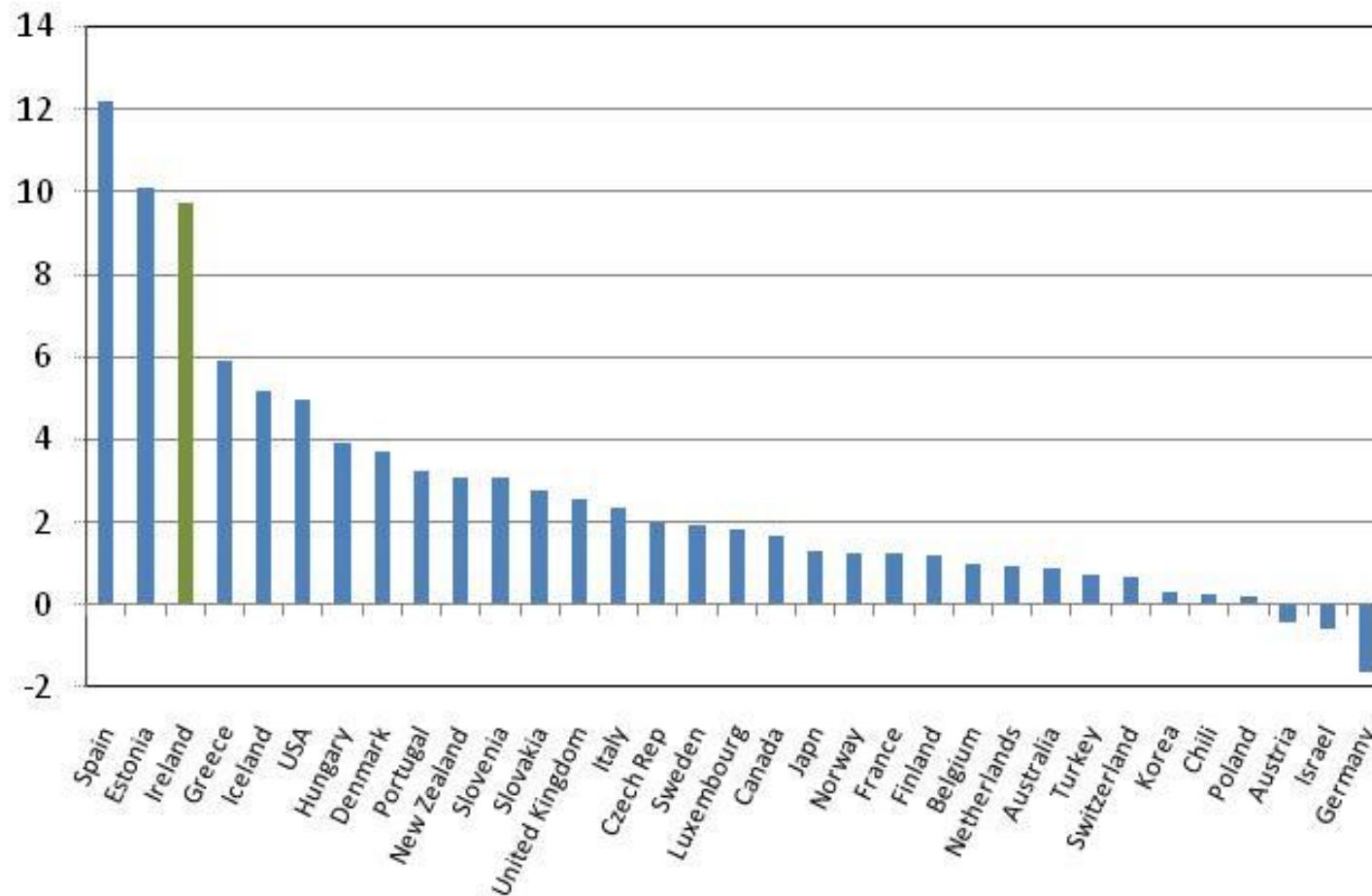


# OECD macroeconomic recommendations for Ireland

- Adhere to economic adjustment programme supported by EU/IMF/ECB.
- In particular, lower the budget deficit to below 3% of GDP by 2015.
- Cover soon the recapitalization needs of banking system revealed by stress tests.
- Further improve competitiveness through wage restraint and structural reforms.

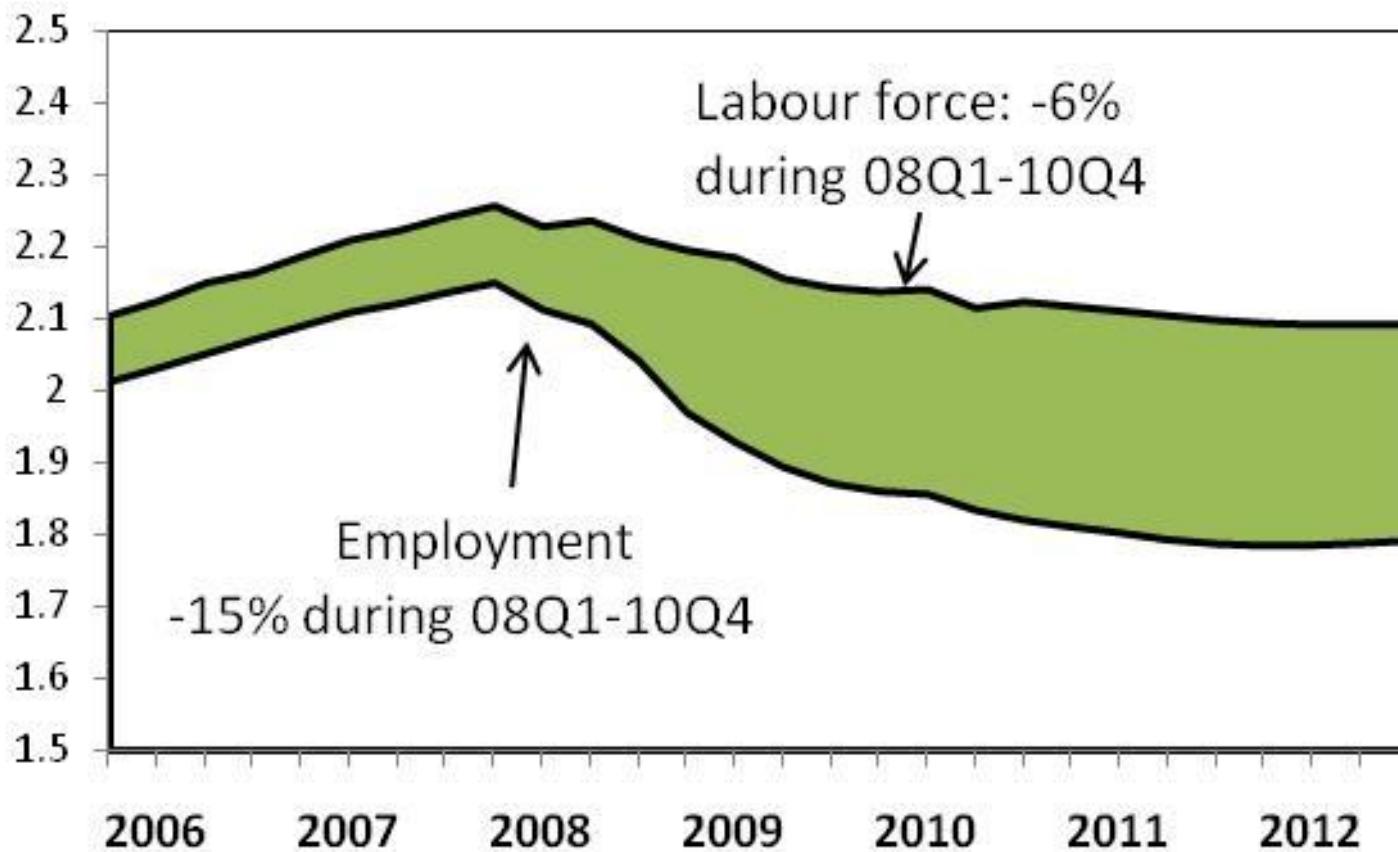
# **High unemployment : What are the risks of persistence? What can be done?**

# Risk of unemployment persistence major concern in many OECD countries



Change of unemployment rate in percentage points during 2007Q3-2010Q4.

# Ireland's employment has fallen more than its labour force



Source: OECD *Economic Outlook*, May 2011  
In millions of persons, seasonally adjusted.

# Large hit to jobs

## Sectoral employment changes

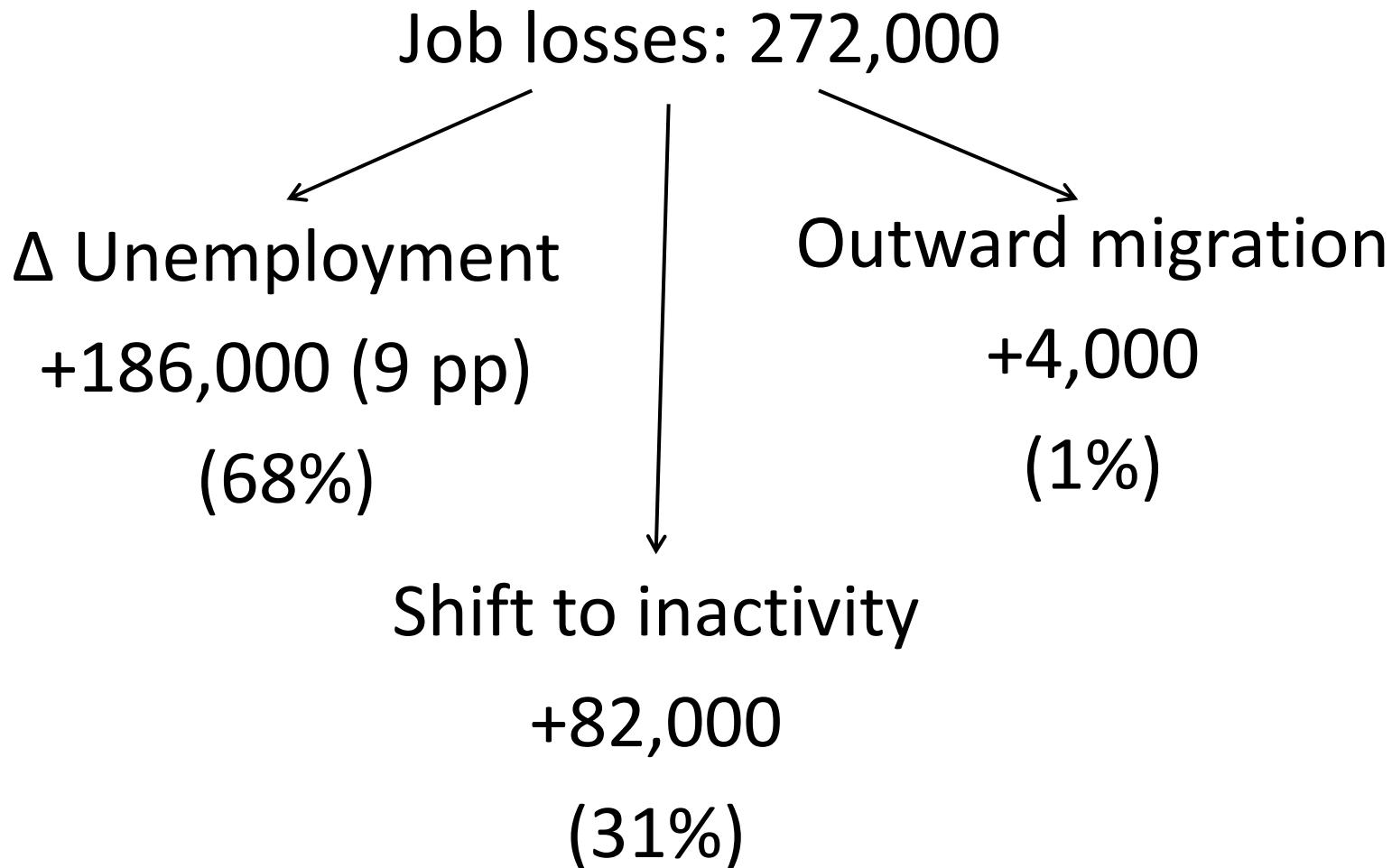
*Employment growth between average in 2008 and 2010Q2*

	Manufacturing	Construction	Wholesale and retail trade	Financial intermediation	Other services <sup>1</sup>	Total
Ireland	-16.8	-47.3	-11.7	0.6	-7.4	-16.9
Spain	-19.4	-30.7	-10.3	-5.7	-5.6	-13.3
Denmark	-12.7	-24.9	-7.9	3.7	0.5	-7.8
Netherlands	-9.6	-11.7	-5.7	-4.1	-6.2	-7.0
Portugal	-5.8	-13.9	-3.2	-11.5	-2.3	-6.0
United States	-10.2	-13.4	-4.2	-8.4	-3.5	-6.0
United Kingdom	-14.2	-16.1	-6.7	-8.5	3.0	-5.6
Greece	-10.4	-16.5	-3.3	-2.7	-3.3	-4.6
Italy	-8.6	-0.6	-4.9	-2.9	0.8	-3.1
Austria	-3.9	-7.3	-4.9	5.6	1.3	-2.4
Germany	-5.4	-1.6	0.2	-0.7	2.7	-1.1
France	-8.4	0.9	1.3	3.6	-0.6	-0.8
Canada	-10.2	3.9	2.4	6.2	3.0	2.3

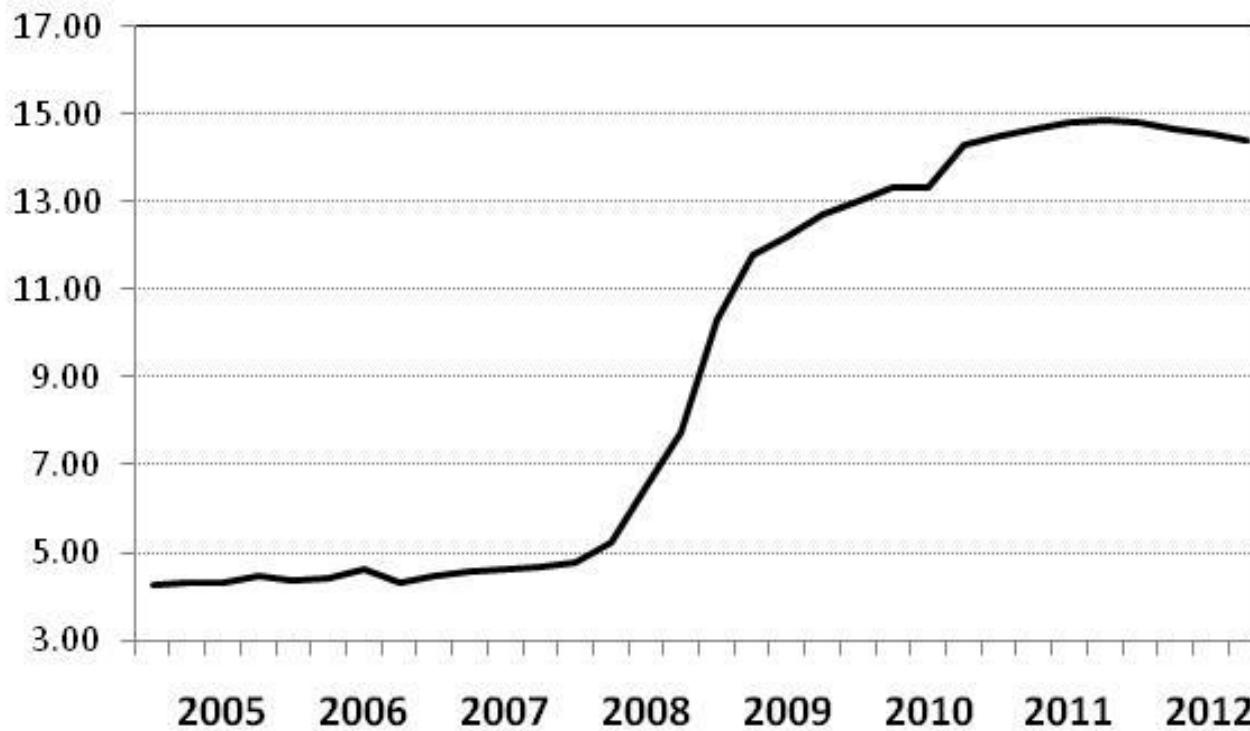
1. Hotels and restaurants, Transport & communication, Real estate and business services.

Source: Eurostat, US Bureau of Labour Statistics and Statistics Canada.

# Effects of job losses during 2007-2010



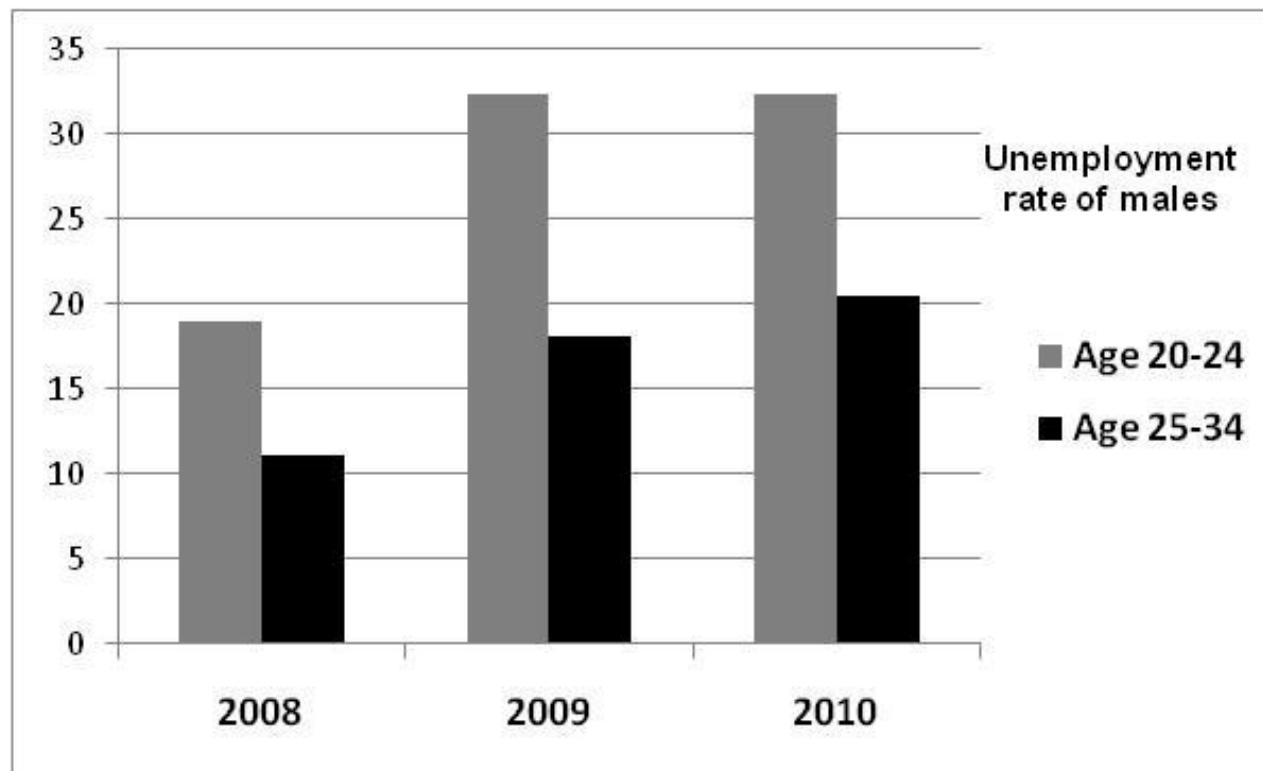
# Unemployment has stabilized, but will stay high



Unemployment in % of the labour force

Source: OECD *Economic Outlook*, May 2011

# Young men are out of work in increasingly large numbers

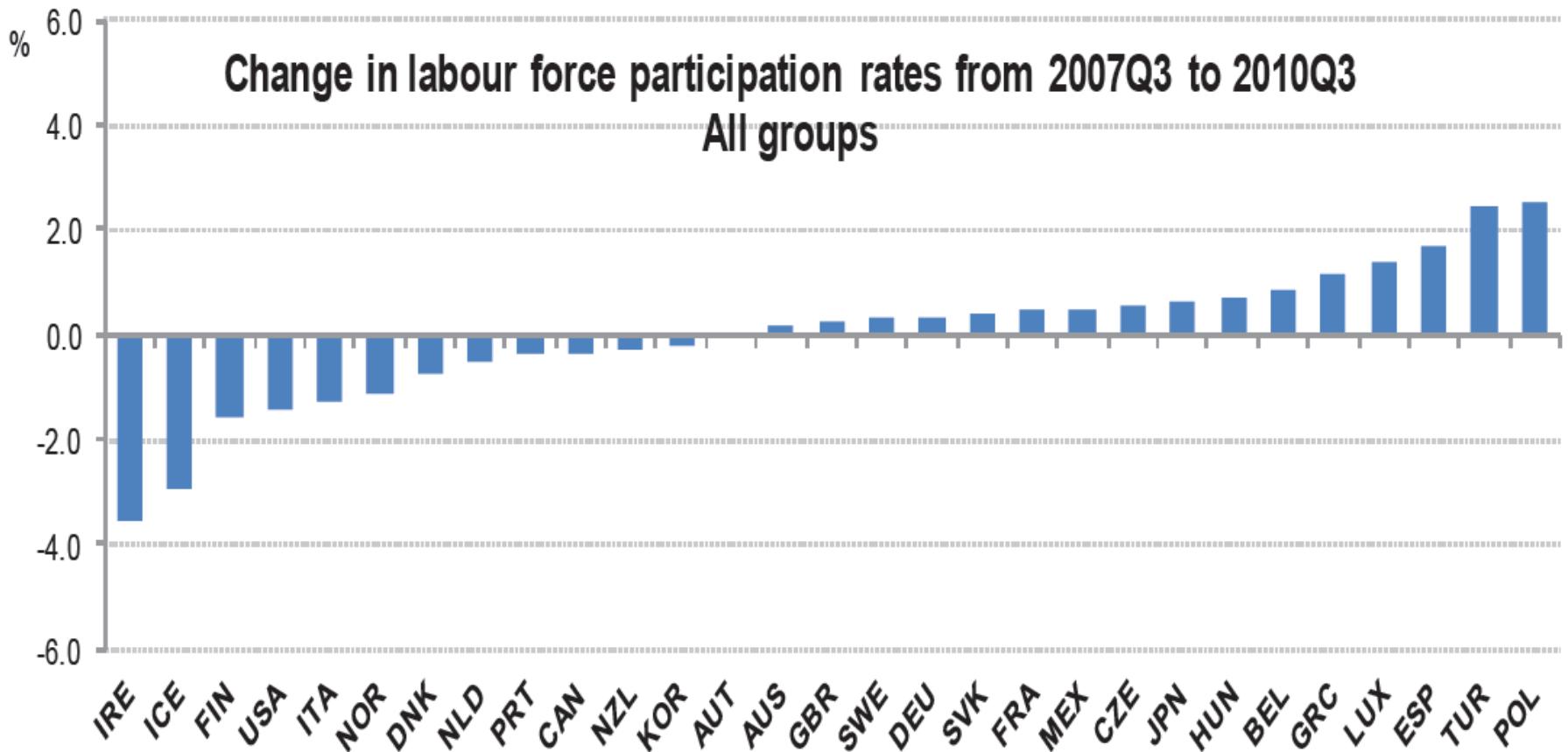


Unemployment rate in % of the labour force in the fourth quarter of the year, Source: CSO.

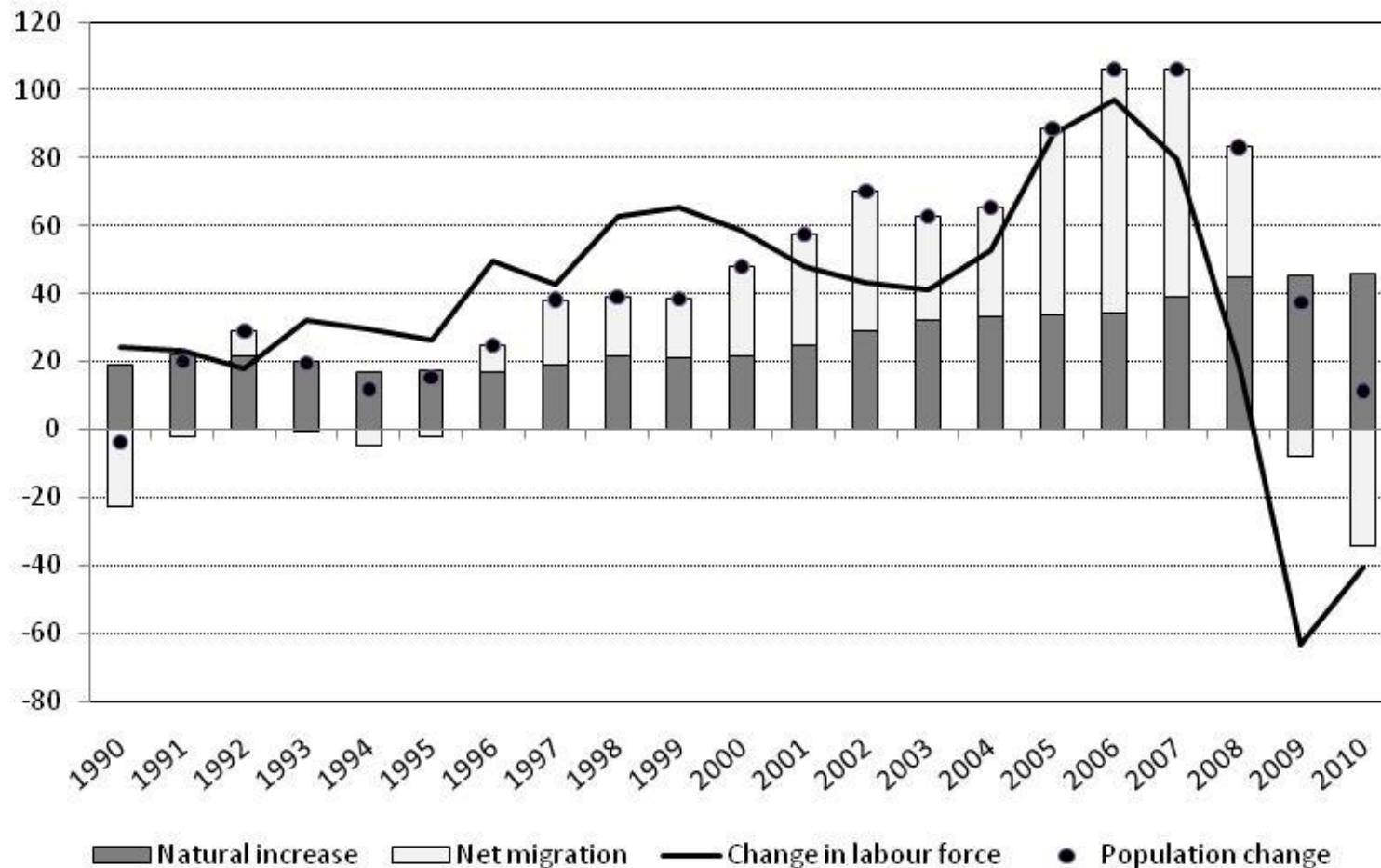
# Increase of unemployment by age 07Q4-10Q4

<b>Total increase</b>	<b>198</b>		
<b>Male</b>	<b>138</b>	<b>70%</b>	
15 - 19 years	5	2%	
20 - 24 years	16	8%	
25 - 34 years	46	23%	
35 - 44 years	35	17%	
45 - 54 years	23	11%	
55 - 59 years	8	4%	
60 - 64 years	7	3%	
<b>Female</b>	<b>59</b>	<b>30%</b>	
15 - 19 years	4	2%	Source:
20 - 24 years	11	5%	CSO
25 - 34 years	19	10%	household
35 - 44 years	14	7%	Survey,
45 - 54 years	8	4%	thousands
55 - 59 years	3	2%	of persons.
60 - 64 years		0%	

# Large increase in inactivity relative to other countries



# Outward migration is increasing



Source: CSO. Preliminary figures for 2007 to 2010. In thousand persons.



# What are the risks associated with high unemployment?

- Jobseekers remaining unemployed for long periods lose their human and social capital, become discouraged and withdraw from the labour market.
- Discouraged jobseekers tend to move into long-term welfare schemes.

# Unemployment benefits

In December 2010:

- 299,000 unemployed (14.1% of LF) (QNHS)
- 440,000 on live register (20.6% of LF)

Ratio of 1.56 of claimants to unemployed.



# Policies to avoid persistent unemployment

## Support income and promote return to work

- Promote private-sector job creation.
- Support income of the unemployed, without reducing work incentives.
- Focus limited training resources on activation.
- Improve matching of jobs and jobseekers.

## Promote job creation

- Restraint in compensation supports competitiveness gains and promote exports.
- In addition, measures to reduce labour costs through **targeted labour tax cuts** can be effective.
- Measures targeted at new recruits are the most cost-effective, especially if they avoid “gaming”.
- Halving of PSRI on jobs below wage ceiling goes in the right direction.
- In general, **move tax away from labour** towards residential properties and pollution sources.

## Unemployment benefits (UB): support income without reducing work incentives

- UB (JA and JB) prevent jobseekers from falling into poverty.
- But their design implies high replacement rates and work disincentives for low-skilled workers, especially when combined with secondary benefits.
- **In due time, review UB level to reduce risk of unemployment persistence and reduce fiscal cost.**
- Best practices: allow benefits to decline with duration; increase monetary incentives to take up work offers.
- **Return to work is best protection against poverty.**

## Target limited training resources on activation

- Limited training resources should be focused on the young and low-skilled jobseekers, e.g. with **vocational training**.
- Target resources on areas where activation is likely to be successful: **stop subsidizing apprenticeship in the construction sector**.
- Redeploy training resources **where skill shortages are emerging** e.g. online sales and marketing, energy efficiency, life science, export-oriented manufacturing.

# Matching jobs and jobseekers

- **Ireland's activation measures have been ineffective** (Grubb et al 2009, McGuiness et al 2011).
- Evidence of low level interaction between FÁS and jobseekers. Also evidence of **ineffective interaction**.
- Elsewhere in Europe, payment of UB is **conditional** to participation in activation plans.
- Approach of **mutual obligation**.



Go raibh maith  
agaibh!

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