

Unclassified

C(2008)191/FINAL

Organisation de Coopération et de Développement Économiques
Organisation for Economic Co-operation and Development

23-Dec-2008

English - Or. English

COUNCIL

Council

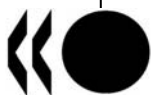
OECD STRATEGIC RESPONSE TO THE FINANCIAL AND ECONOMIC CRISIS:

CONTRIBUTIONS TO THE GLOBAL EFFORT

(Note by the Secretary-General)

JT03257899

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¹ This document is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of the OECD member countries.

OVERVIEW

The world is currently facing the most severe financial and economic crisis in decades. The OECD's latest Economic Outlook shows that the world economy is now in recession. Projections point to a protracted downturn in the OECD, with GDP likely to decline by at least 1/3 of a percent in 2009. In other parts of the world, similar slowdowns are taking place. There remains a large degree of uncertainty about the depth and duration of the financial crisis, which has been the prime driver of the downturn. The spillover to the real economy has already translated into rising unemployment in many countries, hurting families and communities and leading to public uncertainty and anxiety. Reversing this trend has to be a central priority, along with restoring confidence and stability in the financial system.

This crisis has struck at a time of great global interdependence. The response to these unprecedented events cannot be "business as usual". New institutional mechanisms are needed to generate truly global, integrated and multidimensional responses, a point underlined by the G20 leaders at their meeting in November when they called on international organisations to support their work.

The OECD, working hand in hand with emerging economies and other organisations, has a critical role to play in strengthening the global economy. This document presents the OECD's proposed contributions to address the financial and economic crisis. It builds on existing work in areas directly relevant to the current context, as well as reoriented or new work which has been mandated by committees in response to the crisis. We believe that many elements can feed usefully into the G20's Action Plan, and reinforce other multilateral and national efforts to restore growth and stability.

Countries in the OECD's accession (Chile, Estonia, Israel, Russia and Slovenia) and enhanced engagement (Brazil, China, India, Indonesia and South Africa) initiatives will be integral players in the implementation of the response and should consider themselves standing partners. We will strengthen our dialogue and co-operation on these issues, to ensure the relevance and quality of the work and to promote the necessary convergence of policies and actions amongst developed as well as major emerging economies.

Key considerations

While policy action has rightly concentrated on dealing with immediate stability concerns, a comprehensive strategy is also needed to attenuate the impact of the current recession and put the global economy back on a sustained growth trajectory. This must include productivity enhancing reforms to support growth beyond the short term. So far, the fiscal stimulus measures all include investments in infrastructure, offering an exceptional opportunity to deal with other pressing challenges. For example, packages should include incentives for environment-friendly investments, to maximise growth while addressing climate change. Measures to sustain innovation should contribute to a "green" long-term growth, while social and regional policies should also be oriented towards low-carbon recovery. Given the size and importance of these packages, it will be critical for governments to ensure that they are carefully designed and well implemented.

The crisis demands tough decisions now, but it must not turn our attention away from other serious structural challenges. Efforts to address poverty and inequality must be maintained, along with commitments to scale up development aid, keep global flows of trade and investment open, and develop cleaner energy and production processes. Such global challenges provide opportunities for a sustainable and strong growth environment. Thus, the OECD will accelerate its work programme in these areas.

An effective and sustainable global response will require the involvement of all major players, as well as better coordination and greater coherence among the major international organisations, as already mandated in the 2008 Hokkaido G8 communiqué.

The OECD Strategic Response

The OECD Strategic Response, which was developed with the collective inputs of the OECD Council, the Committees and the Secretariat, aims both to address the crisis and to seize the opportunity to build a stronger world economy. For decades, the OECD has advised Member countries and helped coordinate their policies. The Organisation's coverage of a wide range of policy issues directly relevant to the current crisis and its focus on medium-term responses and long-term solutions to policy challenges are unique strengths. Our analysis suggests a focus on two priority areas:

Finance, competition and governance. In the context of regulatory reform in financial markets, the OECD provides an institutional framework for an ongoing dialogue between different policy communities, focusing on areas where it has leadership, such as transparency, corporate governance, competition, tax, pensions, and financial education, as well as the interaction of policy with institutional and market structures and the overall consistency and efficiency of reforms. The OECD will continue to work on strengthening and implementing principles and guidelines in these areas. Deliverables will also include inputs for the review and improvement of national policies as well as better policy coordination at the international level. The focus will be on fostering the conditions for effective and appropriate regulations and identifying areas where there may be regulatory gaps.

Restoring sustainable long-term growth. Building on the OECD's expertise on structural issues and whole-of-government approaches to policy making, and on the OECD's longstanding work on open markets, employment, the environment and innovation, the OECD will monitor developments and identify policy options and recommendations for putting countries back on a path of sustainable growth. Such strategies should ensure that recovery is based on low-carbon paths to growth, on eco-innovation, and on knowledge creation, all within a more equitable society that spreads opportunity and extends protection to the most vulnerable. A key contribution will be forward-looking analysis and guidance to ensure a healthy balance between governments and markets, and to define exit strategies for governments to withdraw their intervention in the private sector, once we reach the post-crisis phase.

Table 1. Overview of OECD Strategic Response Deliverables

	Actions (pledges, instruments, etc.)	Policy recommendations	Monitoring/surveillance
Finance, competition and governance			
Incentives	X	X	X
Corporate governance		X	X
Taxation	X	X	
Business environment & competition policy		X	X
Consumer protection and education		X	
Regulatory management quality	X	X	
Sustainable long-term growth			
Keeping markets open	X	X	X
Macro, fiscal & labour market policies for stability & resilience		X	X
"Green" and innovation-led recovery		X	X
Development	X	X	X
Balancing markets and policies and fostering exit from public ownership		X	X

DELIVERING ON THE STRATEGIC RESPONSE

1. The OECD's Strategic Response is based on a cross-cutting and holistic view of the different policy areas and government actions involved in making markets work effectively. It will mobilise the OECD's vast global network of experts and national policy makers to generate relevant analyses and recommendations. Implementation and monitoring of the Strategic Response will lie with the respective committees, who will approve and provide guidance in the regular committee process. Work will be carried out with close co-operation – and under joint projects – between committees and directorates. Emerging and developing economies will be welcome as standing partners in the efforts to define collective solutions.

2. Deliverables will be of three types - actions (A) by Members and non-members (such as pledges or instruments), policy recommendations (R), and surveillance (S). Many will be rolled out in the coming weeks and months, so that they can feed into the process launched by the G20. Work will proceed in collaboration with other organisations involved in the process. An overview is provided in Table 1, and a list of deliverables in an Annex.

3. A communications and dissemination strategy will be put in place for the OECD's Response, to increase its effectiveness and usefulness for member countries, partners and stakeholders throughout the world. Substantive deliverables will be connected to key events, publications and other world-wide initiatives to maximise timing and impact. This could include contacts with major actors dealing with the crisis in member and non-member countries (especially major emerging markets); participation in public events; and tailor-made presentations to relevant groups. Initiatives with civil society, including universities, labour and the private sector, could be organized to discuss results.

I. Finance, competition and governance

4. While thriving markets are critical for growth and prosperity, recent events demonstrate the importance of a strong and effective regulatory framework and proper supervision. Indeed, the crisis is the result of both market failures and policy failures. The task ahead is to build a sound governance and regulatory framework that will align incentives, while maintaining a healthy balance between markets on the one hand, and policy interventions on the other. To do so, governments may need to strengthen their relevant institutions. As the financial crisis demonstrated, there are strong interrelationships between regulations on capital, deposit insurance, tax provisions, corporate governance, competition policy, accounting rules and executive compensation, which produce the overall environment in which risk-taking occurs. The OECD will consider these issues in a holistic manner in order to be effective.

A. Incentives

5. Present capital rules have left banks with too little capital, and with pro-cyclical capital variation over the cycle. Interacting with tax and governance factors, the features that contributed most to excessive risk taking are: a) coverage (e.g. on and off-balance sheet operations); b) incentives that encourage excessive risk taking in certain products and off-shore locations; and c) uneven treatment of financial institutions, depending on their degree of sophistication, the sector in which they operate, or the jurisdiction in which they reside. These features interacted with corporate objectives for business strategy and earnings growth, including location, business structure, choice of products and tax minimisation.

6. Mergers and acquisitions have been a part of crisis management, with stronger firms taking over weaker or failed high-risk and previously under-regulated investment banks. The effect of capital regulations on intra-firm capital allocation processes remains to be seen. After de-leveraging, consideration

should be given to the desirable size of the volatile investment bank segment, and to updating and strengthening the governance and regulation of these institutions, including possible stronger capital requirements.

7. In the area of pension funds, recent losses have created much disquiet and given rise to calls for a major rethink of pension provisions which would rely less on volatile financial markets. Regulation of pension funds and the appropriate diversification strategy between public and private provision of retirement income must also be considered. Public pension schemes, too, must cope with reduced employment which will lower contributions to PAYG schemes and eventual pension entitlements. Pressures to suspend automatic sustainability adjustments will be high in those countries which have such systems.

8. More generally, regulatory management principles have not been extended to cover some financial services. In a number of OECD countries, authorities in charge of the financial sector, including central banks, some independent regulatory authorities or ministries of finance, have been exempted from regulatory quality policies. Use of the 2005 OECD Guiding Principles for Regulatory Quality and Performance could help control the risk of over-reaction through ill-conceived and overly costly regulation.

B. Corporate governance

9. International co-operation, including among private sector bodies, should be improved to ensure better coordination and implementation of agreed international corporate governance standards, especially the OECD Principles of Corporate Governance. Remuneration and incentive systems are supposed to align the interests of corporate officials with the long-term interest of the company and the shareholders. Distortions in these structures may lead to a short-term bias towards additional risk-taking, a tendency reinforced by tax provisions in many countries. Improvements and analysis are needed in the following areas: board oversight of risk management; board practices; governance of the remuneration process; and the exercise of shareholder rights.

C. Taxation

10. Taxation impacts on and is influenced by developments in financial markets. A number of governments and private sector participants are already examining how tax may have influenced the current financial crisis and what changes in the rules are required to avoid a re-occurrence of recent events. Tax provisions may have encouraged excessive risk taking and reliance on debt by market players; a tendency for top management of financial institutions to focus on the short rather than the medium to long term; and to move to less transparent jurisdictions offshore to evade tax and regulatory provisions. Governments could benefit from examining whether tax systems are providing the right signals and incentives to market operators, and whether these incentives are consistent with the rest of the regulatory framework.

11. The removal of tax barriers which hamper the effective functioning of financial markets, particularly at the international level, can help countries exit from the crisis. This would include tax provisions which distort investor choices as to whether to invest directly or by means of collective investment vehicles, and tax provisions which act as a barrier to the use of different financial products which reduce the cost of capital. Governments should also consider the broader tax implications of the government bailout packages for financial institutions and how they may influence the future attitudes of these institutions to risk taking.

D. *Business environment and competition policy*

12. In a more consolidated financial system, competition may be weaker, leading to higher costs of credit and other financial services to consumers and businesses. If this is the case, countervailing policies will be needed to restore or improve competitive conditions. Restructuring may integrate within a single institution potentially independent operations, such as consumer banking, SME lending and investment banking, leading to questions about the resulting efficiencies and competition risks. Another question to be addressed is whether deposit insurance increases the risk of moral hazard in portfolio decisions and reduces competition between banks.

13. Competition policy considerations should play an important role not only in financial sector bailouts and restructuring but also in the subsequent recovery. In the wake of the financial crisis, governments have been under pressure to support national industries and “champions” through subsidies and protection. Furthermore, in coordination with financial regulators, they have taken emergency and ad hoc measures to shore up financial institutions, in response to severe liquidity shortages and breakdown in lending markets and trust. These measures have included investments and guarantees, asset purchases and time-sensitive mergers.

14. Competition watchdogs may in turn be under pressure to loosen enforcement standards in order to favour economic recovery. In responding to these pressures, competition policy makers must show that competition is part of the solution for benefiting consumers and fostering innovation, competitiveness and productivity. The usual tools of competition analysis and enforcement assume stable market conditions. In a context of crisis, authorities must consider how to safeguard competition principles without hampering policy measures to avoid a slump or the erosion of trust in the financial sector.

15. In the crisis, businesses, and SMEs in particular, are vulnerable due to their heavy dependence on bank credit and limited recourse to financial markets. It is thus necessary to assess the differentiated impact on sectors and firms and improve the effectiveness of new, innovative and alternative mechanisms to finance local development.. Questions to be addressed include: will the economic crisis undermine innovative behaviour, and how can governments sustain or rebuild confidence while encouraging such innovative behaviour?

E. *Consumer protection and education*

16. There is a need for better regulatory standards and international codes of conduct on marketing financial services. Information disclosure on basic issues, such as the true cost of credit, is essential. Current mortgages failed to convey key costs and terms to many consumers. Effective financial education and awareness campaigns will help individuals understand financial risks and products and thus take decisions better adapted to their personal circumstances. This also helps prudential supervision, as it is more difficult to mislead well educated citizens. The OECD will build on its work on financial education and consumer protection to address new issues which have emerged during the crisis.

II. *Sustainable long-term growth*

17. In the current context, an optimal policy strategy to restore sustainable long-term growth should include the following key components:

- keeping markets open;
- sound macroeconomic, fiscal and labour market policies for stability and resilience;
- fostering a “green” and innovation-led recovery;
- advancing development; and
- balancing markets and policies and fostering exit from public ownership.

18. The OECD's work will provide guidance on the policy responses to the crisis, seeking to find the right balance between short-term measures and long-term sustainability. It will strengthen OECD surveillance on macroeconomic and structural performance and further develop horizontal work linking structural and macroeconomic issues.

A. *Keeping markets open for trade and investment*

19. Open markets for trade and investment are a key driver of economic growth and development. Keeping markets open will therefore be an essential condition for recovery and long-term growth. Yet, just as the need to maintain open markets is greatest, concerns about the consequences of liberalisation and the perception that liberalisation may have even contributed to the current crisis have been growing. If these concerns result in a wavering commitment to multilateralism and in rising protectionism, the crisis will become even worse and recovery will be delayed.

20. These threats are real and the system is showing signs of strain. With respect to trade, the Doha Round of WTO trade negotiations, a priority for OECD and G20 Members, has yet to reach a successful conclusion. Furthermore, the essential financing required for the smooth functioning of the global trading system has all but dried up, highlighting the need for increased official export financing. Investment protectionism is also on the rise in both OECD and non-OECD countries. Such protectionist pressures could increase as companies restructure in response to the crisis and as new categories of investors, including state-owned enterprises and SWFs from non-OECD emerging economies, become more active.

21. Against this background, and following the G20 communiqué, the OECD is ideally placed to communicate effectively the benefits of open markets for trade and investment, as well as the costs of protectionism. In addition, with its investment instruments, the OECD provides the only multilateral forum for countering investment protectionism. Strong peer monitoring under the OECD's "Freedom of Investment" project and the commitments under the OECD investment instruments will be vital to combating protectionism.

B. *Sound macroeconomic, fiscal and labour market policies for growth and resilience*

22. The recession will narrow the space for fiscal policy and will put government budgets under pressure, due to the simultaneous fall in revenue and rising expenditure demands, not least for social protection, as employment prospects deteriorate further in most OECD countries over the coming months.

23. In such an environment, structural policies, including those highlighted in the *Reassessed Jobs Strategy* and *Going for Growth*, will continue to play a key role in strengthening the resilience to economic shocks. Resilience is particularly important in the current situation, because it influences how broad-based and deep the economic downturn will turn out to be. The OECD's work will incorporate the analysis of the impact of financial markets and financial regulation on long term growth and resilience. This will strengthen OECD surveillance capability both at the general and country-specific levels.

24. Longer-term structural policies take time to bear fruit. An obvious threat is that the recession, if not addressed properly, could weaken support for reforms, especially if those most adversely affected perceive reforms as detrimental to their well-being. Thus, priorities like health care, education and innovation must be maintained and public budgets secured for these items. It will also be critical to strike a balance between short and long-term responses. How to manage reforms and achieve needed changes will be an important challenge for governments, and the OECD will assist with this process as we move forward.

25. Policy makers will have to be very attentive to medium-term inflation trends and unsustainable accumulations of government debt. Correction of the extraordinary monetary easing implemented almost

everywhere will have to be swift as recovery gets underway. At the same time, with high and rising public debt in many OECD economies, it will be equally important that a credible fiscal framework is in place to ensure long-run public finance sustainability, especially in the face of spending pressures associated with population ageing. Short-term responses should be timely, targeted and temporary. Efforts will be needed to ensure that fiscal policies remain supportive of long-term growth through innovation, environment support and infrastructure.

26. Another key medium-term challenge is to shift more forcefully from macroeconomic policy pro-cyclicality to strong, explicit counter-cyclicality, in order to reduce the likelihood of future bust and booms. This is particularly important for fiscal policy, where adoption of explicit counter-cyclical policy rules is encouraged, especially in those countries where automatic stabilizers are weak and political-economy factors contribute to pro-cyclical discretionary fiscal policy. This will also involve a better targeting of public investment, including better coordination of investment strategies at sub-national level, where much of the capital investment is made.

C. *Fostering “green” and innovation-led growth*

27. The post-crisis slowdown should not preclude or weaken policy efforts to achieve long-term, low-carbon economic growth. Delaying action might result in very large costs to our economies and societies. The crisis provides an opportunity and an incentive to improve efficiency in the use of energy and materials by getting the prices right (with due attention to compensatory social policies). This is also an opportunity to remove subsidies to fossil fuel production and consumption, which would benefit both the environment and public budgets.

28. In many cases, stimulus measures will include investment in infrastructure, which will remain for the long term. Thus it is important that these packages do not lock-in traditional, polluting energy production, but instead promote cleaner, climate-friendly alternatives. Policies should encourage adaptation to climate change in an efficient manner. Also, investment in new eco-friendly technologies can represent an important new source of growth and “win-win” opportunities for both the environment and the economy. Putting a price on carbon emissions is essential as an incentive for the development and diffusion of greener technologies, but a mix of instruments is needed. New low-carbon technologies are also key to reducing the future costs of climate change mitigation. Work will build on the OECD’s longstanding work on the environment and on the economics of climate change.

29. Innovation is a key instrument to boost productivity and sustainable growth. Strong innovation performance is more important than ever in the current context. Stimulus packages should be designed in a way that supports innovation, including through: investment in broadband infrastructure; R&D in green technologies; and innovation of education and training systems. The OECD Innovation Strategy, currently under development, will provide recommendations to sustain and strengthen innovation under current conditions, including issues related to the culture of risk taking that influence individuals and firms.

D. *Development*

30. The impact of the crisis on developing countries will affect economic recovery in the OECD area and is raising questions about global governance. Developing countries risk being hit hard as the crisis spreads, with risks for their development prospects. In particular, the economic crisis could have implications for agricultural markets and prices and for the affordability of food in poorer developing countries. Following the principles of aid effectiveness, as most recently reaffirmed in the Accra Agenda for Action, and the DAC Principles for Engagement in Fragile States and Situations, will enable development efforts to produce higher-impact results.

E. Balancing markets and policies and fostering exit from public ownership

31. Coordinated fiscal stimulus has been an important part of the short-term actions to address the crisis. The immediate response has seen a major injection of public resources into the private sector, either directly, through liquidity support or outright public capitalisation of banks and financial institutions, or indirectly, through increased use of public subsidies and guarantees. However, it must be kept in mind that such massive intervention could produce very undesirable consequences in the medium run by distorting the incentive structure for households, firms, and financial intermediaries; and by threatening to detonate protectionist and/or anti-competitive reflexes that could harm businesses and incite retaliation. It could also distort the structure and size of government budgets and debt, endangering fiscal sustainability and reducing resources for long-term growth, as social protection costs rise and incoming revenue weakens due to the downturn. These risks will need to be countered effectively, balancing short-term and long-term objectives.

32. It is for these reasons that the OECD has recommended that interventions be timely, targeted and temporary, with a plan for restoring the balance between markets and policies as more normal conditions return. This requires a horizontal approach to ensure that various measures do not offset each other in a damaging way, and because these issues are closely inter-related. Building on its comparative advantage in promoting whole-of-government approaches, the OECD will set up a process to monitor policy developments and assess the impacts and implications of short-term measures on long-term sustainability. It will also develop guidance for governments on designing and implementing an exit strategy for withdrawing from the private sector, once the acute phase of the crisis is behind us. Other international organisations have already expressed interest in collaborating with the OECD on this new area of study.

ANNEX: DELIVERABLES

Short-term deliverables (before the G20 spring meeting)

I. Finance, competition and governance

A. Incentives

- Integrated review of incentive structures needed to underpin a well-functioning and sustainable financial system (financial markets, insurance and pension regulation, competition and taxation policy, corporate governance policy and financial education and consumer protection policy). (March 2009) R
- General Guidance and checklist for Effective and Efficient Financial Regulation and policy PHASE I (already available). R
- A report on financial safety net interactions, with special emphasis on deposit insurance (already available). R
- Part I of a special report on the financial crisis and private pensions and insurance policies, R. A special chapter in the Private Pensions Outlook in Issue 5 of the Pension Markets in Focus, S. Revised Guidelines on governance of pension funds. R
- A report on resolution of weak institutions (already available). R
- Taking a cross-sectoral regulatory governance perspective, a report on lessons from experience on how regulatory quality management tools contribute to financial sector regulation (Q2, 2009). R

B. Corporate governance

- Overview of the international “regulatory” framework in corporate governance; main actors and the use of the OECD Principles. Report highlighting main weaknesses and how to improve monitoring and implementation. February 2009. S
- Global Consultation and co-operation with other international organisations, non-member countries, business and stakeholders to discuss key weaknesses in corporate governance practices and joint efforts to improve monitoring and implementation of the OECD Principles. March 2009. S
- Progress report to the FSF meeting in Singapore. March 2009; and Report to the G20 meeting on “immediate actions”, including the results of the global consultation (April 2009). S

C. Taxation

- Reports on Collective Investment Vehicles setting forth recommendations for work to address the legal and procedural issues (February 2009). R

- Contributions to MCM Report on interaction between the tax and regulatory environment (March 2009). R

D. Business environment and competition policy

- Report on the impact of the crisis on SME financing and government measures taken to address the problem, to be discussed at the OECD High-Level Round Table on SME and Entrepreneurship Financing and the Global Financial Crisis (March 2009). S, R
- *Impact analysis*. A report on the nature of the current crisis exploring whether it is a temporary dislocation in long- term structural change or a more fundamental shift. The report would look at the differential impact of the crisis, by region, sector, company, to better inform policy making. S

E. Consumer protection and education

- Good Practices for Financial Education and Awareness on credit. R
- Multi-country survey (50+ countries) on the potential impacts of the financial crisis on financial education and awareness, and on initiatives and measures that have been developed in response to the crisis. Assessment of the potential role of financial education and consumer protection as possible safeguards against similar market disruptions in the future. S
- Report on issues that consumer protection agencies should consider when developing policies to help position consumers to make more informed, well reasoned decisions on financial products, taking behavioural biases, information deficiencies and financial market complexities into account. R

II. Sustainable long-term growth

A. Keeping markets open for trade and investment

- Trade pledge by OECD members endorsing the Washington Summit commitments on open markets and a successful conclusion to the Doha round (November 2008). A
- A statement on export credits by Members (and some non-members) that highlights the role export credits can play in the efforts to overcome the current lack of trade finance, without undermining the level playing field across exporting countries (November 2008). A
- A Policy Brief on the crucial role that open markets for trade and investment can play in bringing the economic crisis to an end and in the process of recovery and economic reconstruction (March 2009). R
- The Council's Decision updating all Members' positions under the OECD Codes to ensure they live up to their legal commitments, including in respect to standstill and elimination of reciprocity (spring 2009). A
- A report on *Globalisation and Emerging Economies*, assessing the trade performance of Brazil, Russia, India, Indonesia, China and South Africa and highlighting priority areas where further liberalisation has the potential to deliver improved economic results (January 2009). S

- Launch of a new book entitled *International Trade: Fair, Free and Open?* (OECD Insights series), and communications materials on the benefits of open markets and the pitfalls of protectionism. High profile launches will take place in several capitals (Q1 2009). R
- A report on building trust and confidence in international investment to be presented at the 2009 MCM. First draft December 2008. R

B. Macro, fiscal and labour market policies for growth and resilience

General surveillance

- The November 2008 *OECD Economic Outlook* analyses the sources of the financial crisis, the likely consequences for growth, employment and inflation and the role for macroeconomic policy to minimise the cost of recession and restore growth. It also includes analysis of how the financial crisis will impact each of the OECD member countries, major emerging-market economies and the countries that are in the process of acceding to the OECD. S
- A working paper on the features of the current crisis and how they compare to previous crises (January 2009). S
- An assessment of measures adopted in OECD member countries to contain the crisis and to restore more normal financial conditions (January 2009). S
- A policy paper reviewing the current treatment of corporate debt. (March 2009) R
- A report on gauging financial conditions in the current climate. Since the summer of 2007, financial markets have been hit by a general repricing of risk and some segments of financial and monetary markets have ceased to work properly, pushing spreads in bond and credit markets to very high levels, paralyzing credit and money markets. At the same time, the flight to quality has pushed down government bond yields. These developments will affect GDP, but to what extent? The report will include an index that synthesises how these various factors influence growth in the major OECD economies (January 2009 and June 2009 *Economic Outlook*). S
- Monitoring of financial market developments, their economic consequences and the implications for economic policy (ongoing). S
- Strengthening the countercyclical stance of macroeconomic and macro-prudential policies. A report that investigates how best macroeconomic policies can offset the effects of shocks bearing on the economy. The report will also examine how to structure counter-cyclical macro-prudential financial policies. (March 2009 with Final report in early 2010). S
- The 2009 *Going for Growth* publication will include special chapters on taxation and on infrastructure. The taxation chapter will examine how tax structures could be best designed to promote growth. The infrastructure chapter examines whether infrastructure investment has effects on growth that differ from other categories of investment. Working papers will also take stock of tax reform experiences in OECD countries and provide some indications as to which countries may benefit from augmenting infrastructure in specific sectors (March 2009). S, R
- An issues paper on the relationship between financial market regulation and economic growth (March 2009), followed by a report which quantifies the links, drawing on indicators of financial market regulation and information on prudential regulations from existing sources. The study will

focus on regulations related to competition and investor/creditor protection that have long-term impacts on output and take due account of financial stability concerns. S

- An analysis of the relationships between fair value accounting and the financial crisis (March 2009). S

Country/regional surveillance

- The 2008 OECD Economic Survey of the **United States** includes an in-depth chapter with analysis on the origins of the crisis, the short-term measures to contain disruption and longer term crisis prevention policies, including recommendations on how to reform the supervisory and regulatory structures (December 2008). S
- The 2009 OECD Economic Survey of the **euro area** will include an in-depth chapter on financial integration, innovation and the monetary policy transmission mechanism, including analysis of how closer financial integration influences and changes the speed and the channels of monetary policy transmission in the euro area. It will also review the prudential and regulatory framework in the EU and the issues involved in managing systemic and cross-border risks to ensure financial stability in an integrated financial market. It will examine the scope for further simplifying and harmonizing the instruments and institutions for regulating cross-border financial flows (January 2009). S
- Forthcoming examinations of **Iceland, Italy, the United Kingdom, Switzerland and others**, will include chapters on the financial sector and their financial supervision and regulatory frameworks (April, July, September 2009). S

C. Fostering “green” and innovation-led growth

- Booklet “Climate change mitigation: what do we do?” (November 2008) and conference on the “Economics of Climate Change” in March 2009 will provide policy recommendations to foster green growth. R
- A report on designing stimulus packages which fuel growth and preserve innovation, including eco-friendly investment and innovation. R
- A report on the role of regional innovation policies in economic recovery and restructuring (March 2009). R
- The financing of innovation: implications of the financial crisis and policy responses. This report will look at current mechanisms to finance innovation and key policies to enhance access to capital for innovation. It will also examine and monitor current policy responses. (March 2009) R, S

D. Development

- An aid pledge by DAC Members reaffirming their aid commitments and agreeing to maintain aid flows in line with these commitments (November 2008). A
- Report on the role of bilateral donors to assist poorer developing countries in fiscal and financial distress (February 2009, in conjunction with IMF and World Bank). R

- The Policy Monitoring and Evaluation in Non-Member Economies report will consider the impact of higher costs of borrowing, reduced foreign direct investment, and potentially lower aid flows on agriculture in developing countries (early 2009). S

E. Balancing markets and policies and fostering exit from public ownership

- A report on the labour market and social policy response to the economic downturn will be presented to the Working Party on Employment (March 2009). S
- A Policy Brief on short-run tax policy responses to the crisis that will not harm longer-term growth (February 2009). R
- Building on regular work and enhanced monitoring, the OECD will formulate recommendations for exit strategies in the areas of social policy, competition, macroeconomic and fiscal policy (ongoing). R

Medium-term deliverables

I. Finance, competition and governance

A. Incentives

- General Guidance and checklist for Effective and Efficient Financial Regulation and policy PHASE II. R
- Reports on long-term savings (include life insurance and private pensions) and role of institutional investors, S. A Policy Brief and a special chapter in the next issue of *Pensions at a Glance 2009*, R. Part I of a special report on the financial crisis and private pensions and insurance policies, R. Revised Core Principles on regulation of private pensions, including revisiting regulation of investment, funding, etc., R
- Revised Guidelines on governance of insurance companies. R
- Reports on the regulatory treatment of financial innovation in general and securitization and on the interactions of the various safety net components in times of crisis. S
- An Action Plan for Regulatory Management Quality to strengthen countries' practices when adopting or revising regulations in financial sector regulation, increasing accountability and transparency. It will include guidance on how financial regulators can adopt or improve their use of regulatory quality and risk management tools (Q2, 2009)

B. Corporate governance

- Report to the OECD Ministerial Council Meeting, including a roadmap for medium-term actions to improve corporate governance (June 2009). R
- Report and recommendations on effective implementation of risk management, board practices, governance of the remuneration process and the exercise of shareholder rights (November 2009). R
- Thematic peer reviews on priority issues such as implementation of risk management and the quality of the regulatory framework. First round April 2010. Second round November 2010. S

- Launch of an OECD web-based clearing house for regulatory impact analysis in the area of corporate governance (summer 2010). S

C. Taxation

- Study on the role of banks and financial institutions, structured financial products and tax compliance (May 2009). R
- Interim report on tax haven work to the G8 and the G20 (June 2009). S
- Incorporating recommendations from existing and new projects into the next update to the Model Tax Convention (2010). A

D. Business environment and competition policy

- *Risk taking.* A report will provide recommendations for governments in their efforts to sustain or restore confidence and entrepreneurial and innovative behaviour. R
- Report and action plan on “globalisation, entrepreneurship and SMEs” including analysis of SME financing policies in the aftermath of the crisis (October 2010). S, R
- A report on competition policy, examining four areas: (May 2009) R
 - Principles: financial sector regulation and competition policy. Competitive solutions must take into account fundamentals of financial sector policy and the role competition has played in achieving policy goals in these markets.
 - Crisis: role of competition policy in financial sector rescue and restructuring. Recent emergency and ad hoc measures by governments have included investments and guarantees, asset purchases and time-sensitive mergers. Competition authorities must consider how to safeguard competition principles in these emergency settings without hampering policy measures that may be necessary to avoid the costs of a slump and of erosion of trust on the financial sector.
 - Real economy: challenges and negative spillovers for competition policy in periods of retrenchment. In the wake of financial crisis, governments are under pressure to support distressed industries through subsidies and protections. Competition authorities may in turn be under pressure to loosen enforcement standards in an effort to favour economic recovery.
 - Going forward: adaptation of competition rules, processes and institutions to current financial sector issues. Looking beyond emergency actions to stabilise financial markets, competition authorities will need to take appropriate action about competition issues in these markets in the medium and long term.

E. Consumer protection and education

- Reports on risk transfers to households and their impact in the context of a crisis. S
- Stocktaking and comparative analysis of market conduct regulatory regimes and financial consumer protection provisions (e.g. disclosure, usurious interest rates, consumer complaint and recourse mechanisms, business practices, etc) across OECD countries and identification of good practices. R

- Report on the role of financial institutions and intermediaries in consumer protection and awareness – identification of the main policy issues related to "financial advice, marketing and promotion vs. financial education and mandatory disclosure" (conflict of interest, due diligence obligations, remuneration structure of intermediaries, principal-agent problems, etc) and implications for the protection and awareness of the most vulnerable consumers. Identification of good practices and elaboration of guidelines. R
- Analytical report and good practices on the role of credit reporting and credit counselling in informing and protecting financial consumers. R

II. Sustainable long-term growth

A. Keeping markets open for trade and investment

- Preliminary reports on a Services Trade Restrictiveness Index (STRI). First results of work on the STRI for three pilot sectors, i.e. construction, telecoms and business services in June 2009. S
- Opening the OECD Codes for adherence to interested non-OECD countries to protect all parties against protectionism. A
- Monitoring and assessment of changes to investment policy frameworks against G-20 commitments not to raise new barriers to investment (ongoing). S
- A report on "Keeping markets open to foreign investment in harsh economic times: Lessons from Fifty Years' Experience in the OECD and Past Crises" (2009). R
- A comprehensive evaluation of all OECD investment instruments in light of developments since their adoption and policy challenges emerging from the financial and economic crisis. This could lead to recommendations for improvement or replacement, including a possible update of the OECD Guidelines for Multinational Enterprises – a key instrument for fostering public trust in globalisation. A

B. Macro, fiscal and labour market policies for growth and resilience

- A special chapter on how labour market and social policies can help counteract the rise in unemployment and worsening living conditions of low-income families (2009 *Employment Outlook*). It will examine labour market impacts in specific sectors (e.g. construction, financial services, segments of manufacturing) and for those groups (youth, low-skilled, immigrants, older workers) more likely to bear the brunt of the economic downturn. It will also assess how current labour market and social policy settings are geared to tackle growing unemployment and possibly poverty. The paper will also monitor the special labour market programmes put in place to help the unemployed, and assess the likely effectiveness of such measures. S
- Report on effective ways to achieve policy reform. This report will explore the political economy of reform in policy areas key to sustainable growth, such as social services and pensions, fiscal and tax policy, education, health systems, the labour market, public administration reform, product market reform, regulatory reform, competition policy and the environment, and identify the factors that contribute to successful reform. Preliminary findings: July 2009; Final report: end 2009. R
- Housing markets have been at the source of the financial crisis. An issues paper will identify the main channels of housing policies, their fiscal implications, the ways they may interact with other

social policies, and the likely consequences on housing prices, credit to households, savings and construction activity. It will also address the impact of the financial crisis on accessibility to credit and interventions aimed at supporting home ownership and well-functioning rental markets (October 2009). S

- A report on the policy determinants of resilience and the impact of the financial crisis. S
- A report on the long-term growth implications of the financial crisis, the channels through which they operate and the policy settings that will minimize negative impacts on long-term growth. S
- Report on how regulatory reform and management can foster competitiveness and growth. Analysis of regulatory reform as a tool for recovery from crisis, based on the examples of selected countries (e.g. Sweden, Japan, Korea, Mexico) (first results Q2 2009). R
- Extended publication on taxation and growth incorporating recent country experiences (July 2009). R
- Report on the “Role of Innovation Policy Instruments in Countering Cyclical Downturns in Business R&D” (summer 2009). S
- A presentation of strategies to return to long-term fiscal sustainability based on the advantages of spending-based fiscal rules over deficit- or debt-based rules (June 2009). R

C. Fostering “green” and innovation-led growth

- Analyses for Phase 2 of the “economics of climate change” project, focusing on identifying least-cost policy mixes, carbon leakage and competitiveness impacts, financing possibilities and elements for building a world carbon price (mid 2009). R
- Report on “The Economics of Adaptation to Climate Change” in 2010. R
- Selected papers of the OECD/IEA Annex I Expert Group on policies and approaches to address climate change in a post-2012 framework (e.g. incentives to reduce emissions from deforestation, scaled-up use of the Clean Development Mechanism, sectoral approaches, etc.) in 2009-10. R
- Indicators of innovations in eight areas of environmental policies (2009). S
- A synthesis report on eco-innovation (Q4 2010). R
- Country Innovation Policy Reviews (Greece Q1 2009, Mexico Q1 2009, Korea Q1 2009, Turkey Q3 2009, Russia Q4 2009, 2010 reviews tbc); synthesis report of reviews and monitoring of implementation of existing reviews (Chile, China, Norway, Hungary, New Zealand, South Africa, Switzerland, and Luxembourg–2009). Reviews of Regional Innovation Policies (Mexico, Italy Q1 2009; Spain Q4 2009). R, S
- Interim report on the Innovation Strategy with policy recommendations to support innovation-driven growth (May 2009). R
- A report on Demand-Side Policies for Innovation and Global Challenges (end 2009), focusing on the role of public procurement, regulations, standards, and public-private partnerships in “pulling” innovation performance. R

- Report on expansion of high-speed broadband infrastructure as an economic stimulus (June 2009). R

D. Development

- Analysis of the current and future impacts of the financial crisis on agricultural markets will be published in the 2009 *OECD-FAO Medium Term Agricultural Outlook*, (mid 2009). S
- A discussion of the implications of the economic crisis for the global food and agriculture sector, and for related policies, will be included in *Agricultural Policies in OECD Countries: Monitoring and Evaluation 2009* (mid-2009). S
- The *Global Development Outlook*, to be published in 2010, will explore the fallout of the global credit crisis on the developing world. The regional outlooks (Africa, Latin America) will include a macroeconomic outlook chapter that will be devoted to the region-specific fallout of the economic crisis. S

E. Balancing markets and policies and fostering exit from public ownership

- A background document for the G8 Labour Ministerial meeting in mid-May 2009. Based on the planned work for the *Employment Outlook*, as well as the monitoring of policy initiatives that Member countries may undertake. S
- An analysis of measures undertaken in member countries in response to the crisis in the area of industry, innovation and entrepreneurship policy, including best practices. S
- A report on governance of strategic public investment across levels of government (Q4 2009). R
- Recommendations for exit strategies in the areas of financial markets, debt management, insurance and private pensions markets. R