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**OECD Council at Ministerial Level, Paris, 23-24 May 2006**

**Chair's Summary**

**Delivering Prosperity**

Greece was honoured to chair the 2006 OECD Ministerial Council Meeting, which centred on the theme "Delivering Prosperity". Against the backdrop of a broadening global expansion, Ministers identified and discussed two sets of key policy challenges.

First they underscored how crucial it is to ensure that momentum be sustained where the upswing is already strong, and that those economies that are lagging in the cycle catch up. They also emphasised the importance of addressing underlying tensions and risks, notably in relation to international and domestic imbalances, which threaten the continuing global expansion. International co-operation and policy co-ordination were considered to be necessary in order to achieve an orderly unwinding of imbalances. The OECD and other multilateral organisations could play a very important role in this.

Second, taking a longer-term view, Ministers stressed that the pace of structural reform needed to be stepped up in those OECD countries that over the years have tended to fall behind the best performers, and discussed reform priorities and modalities. Learning from best practices and continuous exchange of information on how to broaden the ownership of the reform agenda and how to extend the discussion on short-term costs versus long-term benefits would be essential in implementing reforms.

Ministers stressed the importance of open markets and the compelling need for a swift conclusion of the Doha trade round. They agreed that open and transparent investment regimes – in both OECD and non-OECD economies – are essential to sustained growth and prosperity. Lower barriers to trade and foreign direct investment, as well as more growth-friendly product market and financial sector regulation, would stimulate firm entry, investment and growth.

Ministers from non-OECD economies participated in most of the discussions, and the dialogue was mutually enriching. Ministers also benefited from an exchange of views with the Business and Industry and the Trade Union Advisory Committees to the OECD, as well as with civil society more broadly in the context of the OECD Forum. Ministers agreed that listening to the opinions from social partners and having an opportunity to explain their aims and strategy was always extremely useful in order to achieve a broader understanding and widen public ownership of the reform agenda.

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## **The Economic Outlook**

Ministers expected the buoyant pace of world growth witnessed over the past few years to be sustained in the near future. Against the backdrop of continuing rapid growth in the emerging economies, notably in Asia, the expansion in the OECD area would proceed apace, with activity broadly at potential in the United States and Japan and catching up gradually in Europe. Ministers considered that inflation was likely to remain under control, despite shrinking spare capacity and higher commodity prices, because heightened international competition would help contain prices. They saw unemployment staying low in North America and Japan, and declining in a number of European countries, albeit slowly.

Turning to risks, Ministers welcomed the fact that rising energy prices had not thrown the global expansion off course, but expressed concern about the likely impact of any further increases. They recognised the importance of enhancing energy security through improvement of energy efficiency and further investment across the supply chain. Ministers noted that benign financial conditions had supported demand so far but that this might not last: interest rates were now rising, in a context where valuations in some asset markets seemed stretched. The third risk Ministers highlighted related to widening current account gaps, partly reflecting domestic imbalances. Ministers underlined that timely policy action— both macroeconomic and structural – was required to reverse this trend and to facilitate a smooth unwinding of the imbalances.

Ministers further agreed on the paramount importance of prudent fiscal policies. The current cyclical upturn presents an opportunity to step up fiscal adjustment. Moreover, the sustainability of public finances is a challenge faced by most OECD countries in view of present budget positions and of the mounting pressures stemming from population ageing. Ministers welcomed the fiscal consolidation efforts under way in some OECD countries and called for others to follow suit.

## **Ensuring Economic Stability and Improving Economic Performance**

Ministers then turned to the longer-term challenges facing the OECD economies. They identified the most important of these as being the large and persistent divergences in growth rates of GDP per capita among Member countries, which signalled a failure on the part of some OECD countries to converge or keep up with best policy practice.

Ministers took heart, however, from the fact that at the same time as some OECD countries fell further behind, potential growth and resilience to economic shocks had improved in others, including in some that were performing poorly in the 1980s or early 1990s.

Ministers concluded that this showed that better structural policies in a range of areas – notably labour utilisation, productivity, innovation and financial markets – were an essential part of the solution. Ample scope for labour market reform remained, particularly in continental Europe. Product markets also needed to be opened up further, including by reducing hurdles to foreign direct investment and improving the business environment. Innovation was a key ingredient of long-run growth and it was important to improve incentives and policies in this regard. Financial market reform and greater competition in retail banking also played a role in smoothing the business cycle and supporting trend growth. In addition, emphasis was put on achieving sustainable growth, in terms of respecting environmental priorities on a global scale.

## **Implementing Economic Reforms for Growth and Employment**

Ministers exchanged views on how best to implement economic reforms. Even with strong political leadership, one difficulty concerned trade-offs between policy goals, particularly when social objectives were seen to conflict with economic priorities. Another was that the short-run costs of reform frequently and conspicuously affect well-identified groups, whereas the benefits, though larger, typically come later and are more diffuse.

Ministers emphasised the need to explain to the public in clear language why reforms are necessary. They noted the need to be realistic, and not underestimate the costs and overestimate the benefits of reforms. Ministers noted that it was important to identify the advantages of reform for taxpayers and consumers. Some

Ministers stressed that the cost of future – off-balance sheet – government liabilities should be elaborated. Several Ministers emphasised the need for comprehensive reform strategies, and that once reforms are announced it is important to implement them and not change course halfway through the implementation phase. Several Ministers underlined the importance of building domestic coalitions for reform and of using peer pressure and international organisations to inform the public about the need for and benefits of reform, particularly in the case of politically difficult issues. This is where organisations like the OECD can be helpful; the OECD should be invited to study the success stories and failures in reforms undertaken by countries.

Ministers further recognised the role of supportive macroeconomic conditions, although they noted that in good times the need for reforms was less obvious. They underscored that sound public finances provided the confidence and room for manoeuvre to facilitate the introduction of some structural reforms. Last but not least, Ministers stressed that transparency was desirable: the various stakeholders needed to have a clear understanding of the benefits and costs of reform, but also of the costs of failure to reform.

### **OECD Initiative on Investment for Development**

Ministers welcomed the Policy Framework for Investment (PFI) and the Policy Guidance for Donors for Using ODA to Promote Private Investment, which together constitute the OECD Initiative on Investment for Development launched after the 2003 OECD Ministerial Council Meeting. They particularly recognised the importance of the PFI as a policy tool that will help governments improve investment climates, and thereby support growth and sustainable development. Ministers called on the OECD to continue to work with non-Member governments and other inter-governmental organisations to promote the active use of the PFI.

### **Intellectual Assets and Value Creation**

Ministers noted the growing importance of intellectual assets for sustained economic growth and the necessity of their comprehensive measurement for better policy-making. Ministers welcomed the OECD study on Intellectual Assets and Value Creation as well as the follow-up study proposed to deepen understanding of the importance of intellectual assets as a driving force for innovation and value creation, including in corporate organisation and regional clusters.

### **Emerging Economies**

OECD Ministers discussed the growing impact that major emerging economies have, through a variety of channels, on OECD countries and the global economy, and the implications for future OECD work. They acknowledged the positive contribution made by these emerging economies to global growth and raising levels of productivity. On balance, emerging market dynamism has served worldwide prosperity well, reflecting the workings of global comparative advantage. Ministers underlined that these developments, and increased structural pressures in OECD economies more generally, call for the rapid implementation by OECD countries of their structural reform agenda.

Ministers noted that there is increasingly a shared interest in a more global level playing field; this would require more intense OECD co-operation with major non-Members. Ministers encouraged the major emerging economies to participate more actively in OECD's work and to move closer to OECD standards and disciplines, especially in such areas as export credits, investment, anti-bribery, intellectual assets, development assistance and the environment. They called on the Organisation to support this process and to strengthen its capacity to deal with global issues and the impact of important new players in a comprehensive, systematic and forward-looking manner, in order to help its Members fully reap the benefits and respond to the challenges of globalisation.

Ministers noted with concern indications of pronounced growth of counterfeiting and piracy worldwide. They viewed this as a growing menace to society, having negative effects not only on the health and safety of consumers, but also the sales and profits of affected firms. During the discussions, Japan proposed further studies on preventing proliferation of counterfeits and pirated goods.

## **Trade**

Mr. Pascal Lamy, Director-General of the WTO, reported on the status of WTO negotiations on the Doha Development Agenda (DDA). Ministers emphasised that successful conclusion of the negotiations would provide a major boost for the world economy, and for developing countries in particular, and that this would enhance the credibility of the multilateral system. Time is running out and deadlines must not be postponed further. They therefore pledged to seek in the coming weeks the solutions which would address, in a balanced way, all negotiation issues including agriculture, NAMA and services. This should lead to a decisive step towards trade liberalisation and a strengthening of the multilateral rules.

Ministers recognised that this task would have to be pursued beyond the conclusion of the Doha Agenda, in particular with regard to sectors and countries that would still present wide scope for liberalisation. Ministers agreed that, as stated in the OECD Convention, they should continue to pursue an ambitious programme to strengthen and modernise the multilateral system.

In addition, Ministers applauded the OECD's work in supporting the DDA, including its contributions to the WTO's deliberations on "aid-for-trade", which should enable the needs of developing countries in this area to be taken more fully into account. Ministers also called for the OECD to undertake work on the results of the Doha Round, and their linkages to domestic reforms, as well as on post-DDA issues.

## **OECD Governance and Enlargement**

Ministers welcomed the Council resolution on a new governance structure for the Organisation which will enter into force on 1 June 2006, and requested the Secretary-General to take necessary actions for the full implementation of the resolution. Ministers agreed that it is essential to expand the OECD's global reach and policy impact through an enlarged membership and enhanced engagement with important non-OECD economies, they welcomed the Council decision to establish by July 2006 a mechanism to identify countries for potential accession and countries for enhanced engagement with the OECD and invited the Secretary-General to report on progress at the next MCM.

Ministers invited the Secretary-General to develop new ideas and be proactive in approaching non-Member economies with a view to making the OECD a permanent hub for dialogue on global economic issues for member and non-Member economies and to report on progress in this area at the next Ministerial meeting in 2007.

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Ministers expressed gratitude and strong appreciation to the Secretary-General, Mr. Donald J. Johnston, for his strong leadership and outstanding dedication to the Organisation over the past ten years. They applauded Mr. Johnston's transformation and modernisation of the OECD, and noted that he is leaving an Organisation that is well prepared to take on the major challenges ahead. Ministers wished him well for the future. They welcomed Mr. Angel Gurría as his successor, with effect from 1 June 2006.