OECD Economic Outlook

Coronavirus: Turning hope into reality

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1st December, 2020
Why are we hopeful and what still needs to be done?

• **The outlook is looking brighter** with vaccines in sight and strong and continuous policy support. Global growth is expected to average 4% over 2021-22

• **Considerable uncertainty remains.** On the upside, demand could recover much faster; on the downside, we are concerned about a *more prolonged weakness* in the economy

• **Policymakers need to maintain targeted support** to vulnerable children, people and firms to reduce the risk of the crisis leaving scars
Editorial

TURNING HOPE INTO REALITY

For the first time since the pandemic began, there is now hope for a brighter future. Progress with vaccines and treatment have lifted expectations and uncertainty has receded. Thanks to unprecedented government and central bank action, global activity has rapidly recovered in many sectors, though some service activities remain impaired by physical distancing. The collapse in employment has partially reversed, but large numbers of people remain underemployed. Most firms have survived, albeit financially weakened in many cases. Without massive policy support, the economic and social situation would have been calamitous. The worst has been avoided, most of the economic fabric has been preserved and could revive quickly, but the situation remains precarious for many vulnerable people, firms and countries.

The road ahead is brighter but challenging. At the time of writing, the global death toll has risen to 1½ million, subsequent waves have hit many countries and the first one continues unabated in others. While waiting for effective vaccinations to be widely distributed or some breakthrough in treatment, hopefully in the course of 2021 for most, managing the pandemic will still impose strains on the economy. Economic activity will continue with fewer face-to-face interactions and partly-closed borders for a few more quarters. Some sectors will regain strength, others will be on standstill. Developing or emerging-market economies, where tourism is important, will continue to see their situation deteriorate and will require more international aid. Policies will have to continue to sustain economic activity forcefully, all the more so with the end of the health crisis in sight.

The global economy will gain momentum over the coming two years, with global GDP at pre-pandemic levels by the end of 2021. After a sharp decline this year, global GDP is projected to rise by around 4% per cent in 2021 and a further 3¼ per cent in 2022. Scientific progress, pharmaceutical advances, more effective tracing and isolation, and adjustments in the behaviour of people and firms will help keep the virus in check, allowing restrictions on mobility to be lifted progressively. Importantly, policies to support jobs and firms, in place since the beginning of the pandemic, will enable a faster rebound when restrictions are lifted. Together with reduced uncertainty, these improvements should encourage the use of accumulated savings to fuel consumption and investment. The exceptional fiscal relief provided throughout 2020 - and needed beyond - will pay off handsomely. The rebound will be stronger and faster as more and more activities re-open, limiting the aggregate income loss from the crisis.

We project the recovery will be uneven across countries, potentially leading to lasting changes in the world economy. The countries and regions with effective test, track and isolate systems, where vaccination will be deployed rapidly, are likely to perform relatively well, though the overall weakness of global demand will hold them back. China, which started recovering earlier, is projected to grow strongly, accounting for over one-third of world economic growth in 2021. OECD economies will rebound, growing at 3.3% in 2021, but recovering only partially from the deep 2020 recession. The contribution of Europe and North America to global growth will remain smaller than their weight in the world economy.

The outlook continues to be exceptionally uncertain, with both upside and downside risks. On the upside, efficient vaccination campaigns and better co-operation between countries could accelerate the distribution of the vaccine worldwide. Conversely, the current resurgence of the virus in many places reminds us that governments may be forced again to tighten restrictions on economic activity, especially if the distribution of effective vaccines progresses slowly. And confidence would take a hit if vaccine distribution or secondary effects proved disappointing. The toll on the economy could be severe, in turn raising the risk of financial turmoil from fragile sovereigns and corporates, with global spillovers.

Despite the huge policy band-aid, and even in an upside scenario, the pandemic will have damaged the socio-economic fabric of countries worldwide. Output is projected to remain around 5% below pre-crisis expectations in many countries in 2022, raising the sceptre of substantial permanent costs from the pandemic. The most vulnerable will continue to suffer disproportionately. Smaller firms and entrepreneurs are more likely to go out of business. Many low wage earners have lost their jobs and are only covered by unemployment insurance, at best, with poor prospects of finding new jobs soon. People living in poverty and usually less well covered by social safety nets have seen their situation

Renewed outbreaks and restrictions are impeding the recovery
deteriorate even further. Children and youth from less well-off backgrounds, and less qualified adult workers have struggled to learn and work from home, with potentially long lasting damage.

Governments will have to continue using their policy instruments actively, with better targeting to help those hardest hit by the pandemic. The fact that vaccines are in sight suggests that this is not the time to reduce support, as was done too early in the aftermath of the Global Financial Crisis. Rather it confirms health and economic policies must work hand in hand. Public health measures have to double down to limit the impact of renewed virus outbreaks and the associated restrictions. It is also crucial that policymakers ensure continuous fiscal support to keep sectors, firms and the associated jobs alive. The lessons from the past nine months are that such policy action was and remains appropriate. Monetary and fiscal policies will need to continue working vigorously in the same direction, at least as long as the health crisis threatens otherwise viable economic activities and employment.

Heightened policy activism need not be a concern if deployed to deliver higher and fairer growth. Extensive fiscal support is pushing public debt levels to record highs, but the cost of debt is at record lows. A striking feature of the outlook is the absence of correlation between the extent of fiscal support and the resulting economic performance, suggesting not all measures have been used wisely. Unprecedented monetary and fiscal support cannot be wasted, it must be funnelled into stronger and better economic growth. There are at least three priorities for policymakers. First, investing in essential goods and services such as education, health, physical and digital infrastructure. Second, decisive actions to reverse durably the rise in poverty and income inequality. Third, international cooperation: the world cannot solve a global crisis through single-country and inward-looking actions.

Redirecting public spending towards essential goods and services would signal that governments have learnt lessons from the crisis. The need for enhanced resilience should drive public and private investment in health, education and infrastructure. Better health resilience is not just about vaccine distribution and beds in intensive care units, it is also about prevention and affordable access to healthcare for all. Enhanced resilience is also about investing in skills, ensuring better education and labour market outcomes, and ultimately higher trend growth and wellbeing. This starts with more and better-targeted resources for the early years of education, better paid and trained education staff, as well as better lifelong training support, especially for vulnerable groups including parents in difficulties. Too often previous crises have resulted in lower investment and lasting infrastructure gaps, including in digital and decarbonised energy. This needs to change.

Support for the most vulnerable, especially children, youth and the less-skilled, who have not been fully sheltered from the crisis, will have to intensify. Education systems can improve in many countries, leveraging on lessons drawn from the crisis. Governments must invest to ensure all households, teachers and pupils can access good quality broadband and are equipped for digital education, especially for those in deprived environments. The crisis has shown the urgency of improving digital skills. It has also revealed shortfalls in social support systems. Fiscal policy should be better directed to vulnerable groups outside the usual welfare system who have not been eligible for the additional help provided so far, for their own benefit and the benefit of society as a whole.

Finally, international cooperation has faltered in recent years, just when it was needed more than ever. The “Global” Financial Crisis was mostly a crisis of a few advanced economies, but triggered an unprecedented cooperative response. The pandemic is the first fully global crisis since World War II: it has been answered by massive national responses, but closed borders and little cooperation. Protectionism and shutting frontiers are not the answer: they prevent the distribution of essential goods throughout the world and penalise economies that rely on their participation in global value chains to catch up. This must be reversed. Wide, rapid and generous production and distribution of effective medical treatments and vaccines must be organised for all countries. Multilateral fora must enhance action on debt transparency and a moratorium where needed, while supervisors need to pay high attention to the indebtedness of firms. The world must avoid the health and economic crisis also becoming a financial one.

When asked what the post-COVID-19 world will look like, let’s hope the answer will be: “perhaps mostly the same, but a little bit better”.

1st December 2020

Laurence Boone
OECD Chief Economist
Renewed outbreaks and restrictions are impeding the recovery

Containment measures
OECD and G20 countries
0=no restrictions, 1=4 weeks of restrictions for each country

Google mobility trends for retail and recreation places
% change from Jan 3 – Feb 6 2020

Note: LHS: Restrictions refer to general (rather than targeted) restrictions. School closures refer to countries implementing general school closures of some or all levels; stay-at-home requirements refer to countries implementing general requirements to stay at home, in some cases with exceptions (e.g., for daily exercise, grocery shopping, and ‘essential’ trips). For each month, a value of 0 corresponds to no restrictions in place in each country while a value of 0.75 corresponds to 3 weeks of restrictions in place, summed for a total of 45 countries. November average calculated using data up to November 28, 2020 or the latest available date for each country. RHS: The figure shows the 14-day moving average of google retail and recreation mobility (which includes mobility trends for places like restaurants, cafes, shopping centres, theme parks, museums, libraries, and movie theatres). Data are PPP-weighted averages. Data for China are not available.

Source: Oxford COVID-19 Government Response Tracker, Blavatnik School of Government; Google LLC, Google COVID-19 Community Mobility Reports; and OECD calculations.

A gradual walk towards recovery

World GDP
2019Q4 = 100

Note: The downside scenario assumes that i) consumer confidence declines as prospects for an early deployment of the vaccine recede, reducing household spending; ii) heightened uncertainty and a longer period of weak demand result in the further closure of businesses and the scrapping of capital through 2021; and iii) higher uncertainty and shortfalls in output developments relative to expectations result in weaker risk appetite and repricing in financial markets. All shocks are assumed to fade gradually through 2022. The upside scenario considers the impact of a stronger boost to the confidence of consumers and companies, raising the prospects of a stronger rebound in spending and output. Income losses expressed in 2015 prices and PPPs.

Source: OECD Economic Outlook 106 database; OECD Economic Outlook 108 database; and OECD calculations using the NiGEM macroeconomic model.
OECD Economic Outlook Projections

Real GDP Growth
% year-on-year

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Note: *Fiscal years starting in April.
Source: OECD Economic Outlook 108 database.

Economic performance will vary significantly

GDP
% change between 2019Q4 and 2021Q4, constant prices

Source: OECD Economic Outlook 108 database; and OECD calculations
Demand could come back stronger

Households’ deposits have jumped
% change in between Dec-Sept

Private consumption rebounded sharply
% difference between outturn and Jun 2020 projections, 2020Q3 level of consumption

Labour markets remain under pressure

Total hours worked
% change from 2019Q4

Job postings
% change from January 2020

Note: LHS: Households’ deposits refers to deposits by domestic residents in monetary financial institutions. 2020 refers to the percent change between December 2019 and September 2020. RHS: Jun 2020 projections refer to the double-hit scenario.

Source: ECB; US Federal Reserve; Bank of Japan; OECD Economic Outlook 107 database; OECD Economic Outlook 108 database; and OECD calculations.

Note: LHS: Latest available month corresponds to August for Italy and the United Kingdom, September for Japan and October for Australia, Canada and the United States. Economy-wide data for hours worked in all economies apart from the United States, which refers to total hours worked by private non-farm employees. For Japan, estimates are based on total employment and average monthly hours worked by employed persons. August estimates for Italy based on firms with more than 500 employees in industry and services. RHS: Based on online job postings in Australia, Canada, New Zealand, Singapore, the United Kingdom and the United States. The occupational group professional and support services includes professional, scientific and administrative support services.

Source: Bureau of Economic Analysis; Statistics Canada; Australian Bureau of Statistics; Statistics Bureau, Japan; Eurostat; Office for National Statistics; Burning Glass Technologies; and OECD calculations.
SMEs are particularly vulnerable

More smaller and younger firms could become distressed

Note: The figures show the percentage of distressed firms in a downside scenario for the whole economy. Firms are defined as distressed if their book value of equity is predicted to be negative one year after the implementation of confinement measures. The sample is restricted ex ante to firms having both positive profits and book value of equity in the 2018 reference year. The downside scenario, is a scenario which models a slower recovery due to more widespread further outbreaks of the virus accompanied by stricter mobility restrictions.


Corporate debt has increased to worrying levels

Corporate debt is close to levels reached during the global financial crisis

Outstanding corporate debt, % of GDP

Note: Advanced and emerging economies follow the IMF’s country classification.
Source: Bank for International Settlements; IMF; and OECD calculations.
COVID-19 is increasing inequality and will leave scars

1. Strengthen public health policies

Note: LHS: Figure shows the unemployment rate for 15-24 year olds. RHS: Shows the average level of students using the Zearn platform to complete online math coursework relative to January 6-February 21 2020 for schools in the 25% of ZIP codes with the lowest (highest) median income. The sample includes students who were already using the platform pre-pandemic. Zearn series ends on May 3rd, 2020 to coincide with the time when schools began to end for the summer.


Use of contact tracing

% of respondents indicating they are not likely to participate in contact tracing

Note: LHS: Data for India are based on the urban online population. Response to the question, “How likely or not would you be to participate in contact tracing if contacts are traced through an app on your mobile phone”. Comparability across countries is limited due to different survey timing. RHS: Sample: 18,526 online adults aged 16-74 across 15 countries. Online samples in Brazil, China, India, Mexico, and South Africa tend to be more urban, educated, and/or affluent than the general population.


Take-up of a potential Covid-19 vaccine

% of respondents agreeing to get vaccinated if a COVID vaccine were available

Youth unemployment could rise significantly

% labour force

Children from low-income schools are lagging behind in online coursework

United States, % change in completing online math coursework from Jan 2020, by school-area income level

2. Conditions allow governments to maintain support

Debt servicing costs are low

Government debt servicing payments, % of nominal GDP

Note: Value of gross government interest payments as a share of nominal GDP.
Source: OECD Economic Outlook 108 database; and OECD calculations.

3. Step up support to low-income earners

Low-income earners are the hardest hit

United States, % change in the employment rate since Jan 2020
United States, % experiencing financial hardship between Feb-Aug 2020

Note: LHS: Shows a daily series of private non-farm employment (not seasonally adjusted) and indexed to January 4-31 2020. Low wage (below USD 27,000); middle wage (USD 27,000-60,000); high wage (more than USD 60,000). Latest data point is November 5, 2020. From October 1st, the employment rates are forecasted using Kronos data and Paychex data from firms with weekly paycycles. RHS: Survey of US adults conducted between the 3rd to 16th of August 2020. Family income tiers are based on adjusted 2019 earnings. RHS: Survey of US adults conducted between the 3rd to 16th of August 2020. Family income tiers are based on adjusted 2019 earnings.
4. Improve the prospects of disadvantaged children

Students from disadvantaged backgrounds do not perform as well
Mean PISA performance score in reading by quarter of socio-economic status, 2018

Disadvantaged schools tend to have fewer resources than advantaged schools
Difference in the mean index between advantaged and disadvantaged schools, 2018

Note: LHS: United States data did not meet the PISA technical standards but were accepted as largely comparable. RHS: The socio-economic profile is measured by the school’s average PISA index of economic, social and cultural status (ESCS). For this analysis, the sample is restricted to schools with the modal ISCED level for 15-year-old students.
Source: OECD, PISA 2018 Database.
Let’s turn hope into reality

• **Vaccine developments have arrived faster than expected:**
  • now we need to plan and coordinate for widespread distribution
  • monetary and fiscal policies need to continue supporting economic activity to help with a quick and strong rebound

• **Prevent an increase in inequality by targeting support to:**
  • firms, by using more grants and equity, and help SMEs to digitalise
  • people, providing adequate and targeted income support, job search assistance and training
  • children to catch up, with more and better resources for disadvantaged schools
## OECD Economic Outlook projections

Real GDP growth

% year-on-year

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