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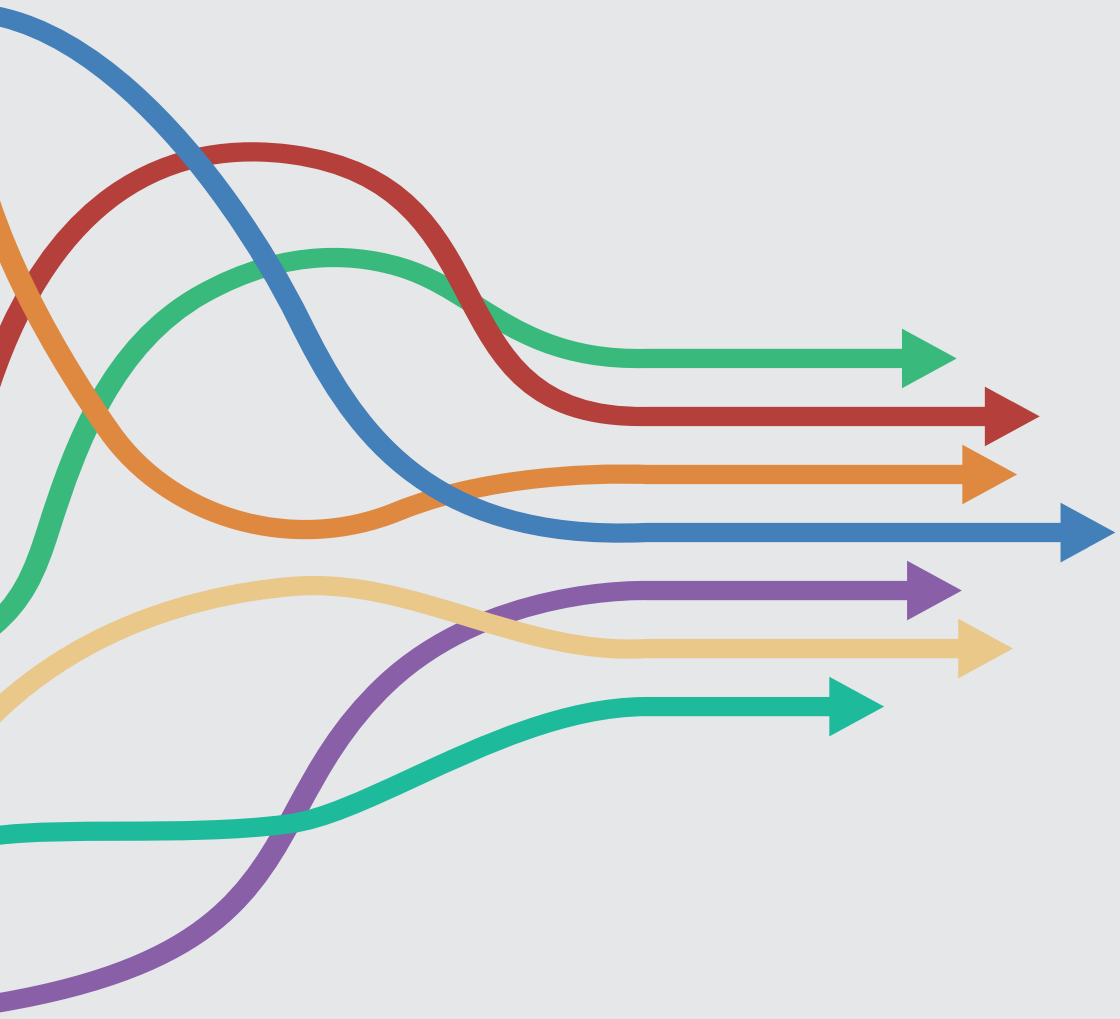

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Editorial

No ordinary recovery

It is with some relief that we can see the economic outlook brightening, but with some discomfort that it is doing so in a very uneven way. Amid renewed virus outbreaks, less frequent but more dispersed throughout the world, global growth continues to recover. We are projecting global output to rise by nearly 6% this year, an impressive surge after the 3½ per cent contraction in 2020. While the recovery will bring most of the world back to pre-pandemic GDP levels by the end of 2022, this is far from enough. The global economy remains below its pre-pandemic growth path and in too many OECD countries living standards by the end of 2022 will not be back to the level expected before the pandemic.

Swift policy actions have paved the way for the health and economic recovery. Sixteen months into the pandemic, many countries are coping better with new outbreaks of the virus. Governments have administered close to 2 billion vaccine doses and the global capacity to test, produce and administer vaccines has improved rapidly. The unprecedented protective policy net that governments deployed has preserved the economic fabric, firms and jobs in most advanced and some emerging-market economies. Never in a crisis has policy support – be it health, with the record speed of vaccine development, monetary, fiscal or financial – been so swift and effective. As a result, the manufacturing sector is growing rapidly, merchandise trade is rebounding strongly as borders gradually reopen and travel is slowly resuming. Moreover, reopening is being accompanied by a surge in consumption and hours worked. This is very encouraging, as it should limit the scars that arise from the crisis.

Yet, too many headwinds persist.

It is very disturbing that not enough vaccines are reaching emerging and low-income economies. This is exposing these economies to a fundamental threat because they have less policy capacity to support activity than advanced economies. A renewed virus-driven weakening of growth would be harder to cushion, resulting in further increases in acute poverty and potentially sovereign funding issues if financial markets were to become concerned. This is all the more troubling because, notwithstanding the impact on lives and livelihoods, the global economic and social cost of maintaining closed borders dwarfs the costs of making vaccines, tests and health supplies more widely available to these countries.

More broadly, as long as the vast majority of the global population is not vaccinated, all of us remain vulnerable to the emergence of new variants. Confidence could be seriously eroded by further lockdowns, and a stop-and-go of economic activities. Firms, so far well protected but often with higher debt than before the pandemic, could go bankrupt. The most vulnerable members of society would risk further suffering from prolonged spells of inactivity or reduced income, exacerbating inequalities, across and within countries, and potentially destabilising economies.

A new, much-debated risk is the possibility of higher inflation. Commodity prices have been rising fast. Bottlenecks in some sectors and disruptions to trade are creating price tensions. These disruptions should start to fade towards the end of the year, as production capacity normalises and consumption rebalances from goods towards services. There is still a lot of slack in labour markets, restraining wage growth. Against

this backdrop, as long as inflation expectations remain well anchored and wage growth remains subdued, we are confident that central banks will remain vigilant but look through these temporary price rises. What is of most concern, in our view, is the risk that financial markets fail to look through temporary price increases and relative price adjustments, pushing market interest rates and volatility higher. Vigilance is needed.

When bottlenecks arise in sectors where production is heavily concentrated, like electronic chips, threatening large parts of the supply chain, governments should do their utmost to reduce such tensions, through more co-operation on trade and measures to diversify the sources of supply. One of the key lessons of this crisis is to pay more attention to the resilience of supply chains, as underlined by the price spikes in sectors where production is overly concentrated. More broadly, governments also have a role to play to address inflation threats by pursuing policies that lift potential output growth and strengthen competition and trade.

As countries transition towards better prospects it would be dangerous to believe that governments are already doing enough to propel growth to a higher and better path, especially keeping in mind the objective of decarbonisation. Flexible, state-contingent measures for people and firms are essential to anchor expectations that fiscal support will be maintained and targeted as long as economies are not back to, or close to, full employment. In particular, shoring up the balance sheets of viable small firms through deferred taxes or grants is crucial. Moreover, it is essential that sufficient public investment is made available for the digital and green transitions and that the funds are swiftly and efficiently spent. This would help to also encourage private investment in these areas. Finally, confidence would be bolstered by signalling that a clear, effective and sustainable fiscal framework is to be put in place and medium-term fiscal plans are starting to be developed, based on reviews of public spending to ensure priorities match ambitions and citizens' needs, and reassessments of taxation to ensure a fair, efficient and progressive tax system.

The world economy is currently navigating towards the recovery, with lots of frictions. The risk that sufficient post-pandemic growth is not achieved or widely shared is elevated. This will very much depend on the adoption of flexible and sustainable policy frameworks, and on the quality of international cooperation.

31 May 2021

Laurence Boone

OECD Chief Economist

1. General Assessment of the Macroeconomic Situation

Introduction

Prospects for the global economy have improved considerably, but to a different extent across economies. In the advanced economies, the progressive rollout of an effective vaccine has begun to allow more contact-intensive activities − held back by measures to contain infections − to reopen gradually. At the same time, additional fiscal stimulus this year is helping to boost demand, reduce spare capacity and lower the risks of sizeable long-term scarring from the pandemic. Some moderation of fiscal support appears likely in 2022 on current plans, but improved confidence and fewer public health restrictions should encourage households to spend. However, in many emerging-market economies, slow vaccination deployment, further infection outbreaks, and associated containment measures, will continue to hold down growth for some time, especially where scope for policy support is limited.

Global GDP is projected to rise by 5¾ per cent in 2021 and close to 4½ per cent in 2022 (Table 1.1). The world economy has now returned to pre-pandemic activity levels, but will remain short of what was expected prior to the crisis by end-2022. Growth in the OECD area could rise to 5¼ per cent in 2021, led by a strong upturn in the United States, and then ease to 3¾ per cent in 2022, with strong private spending helping to ensure that the GDP level returns close to the path expected before the pandemic in most countries. Output in China has already caught up with this path and is set to stay on this trajectory in 2021 and 2022. Some other emerging-market economies, including India, may continue to have large shortfalls in GDP relative to pre-pandemic expectations and are projected to grow at robust rates only once the impact of the virus fades.

Signs of higher input cost pressures have appeared in recent months, but sizeable spare capacity throughout the world should prevent a significant and sustained pick-up in underlying inflation. The recent upturn in headline inflation rates reflects the recovery of oil and other commodity prices, a surge in shipping costs, the normalisation of prices in hard-hit sectors as restraints are eased, and one-off factors such as tax changes, and should ease in the near term. With unemployment and employment rates unlikely to attain their pre-pandemic levels until after end-2022 in many countries, there should be only modest pressures on resources over the coming 18 months.

This benign outlook is subject to significant upside and downside risks related to developments of the virus, household saving and conditions in emerging-market economies and developing countries:

- Substantial uncertainty remains about the evolution of the virus. There is a possibility of new more contagious and lethal variants that are more resistant to existing vaccines, unless effective vaccinations are quickly and fully deployed everywhere. This would necessitate the reimposition of strict containment measures, with associated economic costs related to lower confidence and spending. On the upside, faster-than-assumed inoculation and effective efforts to supress the virus before vaccinations are complete would strengthen the recovery in all economies.
- Household saving developments are an upside risk, independently of the evolution of the virus, especially in the advanced economies. The financial assets acquired due to higher household saving last year could be used to finance pent-up demand instead of being retained, as assumed in the projections, or used to pay back debt. Given the amounts involved, the spending of only a fraction of accumulated “excess” saving would raise GDP growth significantly, with ensuing price pressures as spare capacity is used up. Households could also normalise their saving rates in 2021 and 2022 faster than assumed.

Table 1.1. A significant but uneven global recovery

OECD area, unless noted otherwise

	Average 2013-2019	2019	2020	2021	2022	2020 Q4	2021 Q4	2022 Q4
				Per cent				
Real GDP growth[1]								
World[2]	3.3	2.7	-3.5	5.8	4.4	-0.9	4.4	3.4
G20[2]	3.5	2.8	-3.1	6.3	4.7	-0.4	5.0	3.4
OECD[2]	2.2	1.6	-4.8	5.3	3.8	-2.9	5.1	2.5
United States	2.5	2.2	-3.5	6.9	3.6	-2.4	7.4	1.5
Euro area	1.8	1.3	-6.7	4.3	4.4	-4.7	4.6	2.9
Japan	0.8	0.0	-4.7	2.6	2.0	-1.0	1.4	1.2
Non-OECD[2]	4.3	3.7	-2.3	6.2	4.9	0.9	3.8	4.2
China	6.8	6.0	2.3	8.5	5.8	5.7	5.9	5.2
India[3]	6.8	4.0	-7.7	9.9	8.2			
Brazil	-0.3	1.4	-4.1	3.7	2.5			
Unemployment rate[4]	6.5	5.4	7.1	6.6	6.0	6.9	6.5	5.7
Inflation[1,5]	1.7	1.9	1.5	2.7	2.4	1.4	3.1	2.4
Fiscal balance[6]	-3.2	-3.1	-10.8	-10.1	-6.0			
World real trade growth[1]	3.4	1.3	-8.5	8.2	5.8	-4.7	6.4	4.8

1. Percentage changes; last three columns show the change over a year earlier.
2. Moving nominal GDP weights, using purchasing power parities.
3. Fiscal year.
4. Per cent of labour force.
5. Private consumption deflator.
6. Per cent of GDP.

StatLink https://stat.link/9hx0m5

- The materialisation of this upside risk for advanced economies could add to inflation and in turn put vulnerable emerging-market economies and developing countries under financial pressure. Capital outflows and significant repricing of assets, including currencies, could require policy tightening to regain investor confidence. The increased indebtedness of some emerging-market economies and developing countries during the COVID-19 crisis has arguably made these economies more vulnerable to external financial shocks of this kind. At the same time, the emerging-market economies would benefit from stronger demand from the advanced economies, offering some offset to tighter financial conditions.

In this uncertain and unprecedented environment, policy makers will have to continue to be flexible and policies should be contingent on economic developments.

- An absolute policy priority is to ensure that all resources necessary are used to deploy vaccinations as quickly as possible throughout the world to save lives, preserve incomes and limit the adverse impact of containment measures. Stronger international efforts are needed to provide low-income countries with the resources needed to vaccinate their populations for their own and global benefits. The sharing of knowledge, medical and financial resources, and avoidance of harmful bans to trade, especially in healthcare products, are all essential to address the challenges brought by the pandemic.

- The current very accommodative monetary policy stance should be maintained in the advanced economies, and temporary overshooting of headline inflation should be allowed provided underlying price pressures are contained. Macroprudential policies should be deployed where necessary to ensure financial stability in a prolonged environment of low interest rates and high liquidity.
- Continued income support for households and companies is warranted until vaccination allows a significant easing of restraints on high-contact activities. Such measures should be focused on helping people and supporting companies, particularly in sectors still affected by public health restrictions, through grants and equity rather than debt. Even after restraints on activities have been eased, the legacy of the crisis, including over-indebted companies and displaced workers, will require targeted support to avoid excessive insolvencies and scarring. Stronger public investment in health, digital and energy infrastructure will also be needed to enhance resilience and improve the prospects for sustainable growth.
- Fiscal policy support should be contingent on the state of the economy. Given the extent of spare capacity at present, the strong fiscal policy stimulus being implemented this year is appropriate. Some moderation in support appears likely in 2022, but in part this reflects the planned end of crisis-related support schemes as the economy reopens, and is warranted provided the recovery evolves as projected. If upside risks were to materialise, with unexpectedly strong improvements in the labour market, fiscal support should be eased, and the opposite should occur if downside risks were to materialise. Ensuring debt sustainability will be a priority only once the recovery is well advanced, but planning for management of the public finances that leaves space for public investment should start now.
- Macroeconomic policy support needs to be accompanied by structural reforms that strengthen resilience and economic dynamism, and mitigate climate change. Together, these can help to foster the reallocation of labour and capital resources towards sectors and activities with sustainable growth potential, raising living standards for everyone.

Many emerging-market economies and developing countries have been hit particularly hard by the pandemic. In some cases, extensive borrowing abroad to cushion the blow has added to existing challenges from high sovereign or corporate debt prior to the crisis. While official creditors in the G20 economies have suspended debt service for the poorer countries temporarily, debt restructuring for some of the emerging-market economies and developing countries is likely in the coming years in the absence of debt relief. This process would be facilitated by increased transparency about the full extent of indebtedness, including contingent liabilities and opaque bilateral loans. Stronger international co-operation remains necessary to build on the G20 efforts to address debt problems of emerging market-economies and developing countries.

Recent developments

Prospects for a lasting global recovery continue to improve, helped by the gradual deployment of effective vaccines, continued macroeconomic policy support and signs that economies are now coping better with measures to supress the virus. In many countries, the scale of the economic disruption from the pandemic has been exceptionally large, and the recovery is likely to be prolonged. Global GDP declined by around 3½ per cent in 2020, and OECD GDP by around 4¾ per cent, substantially larger falls than in the global financial crisis. Output in some European countries and emerging-market economies declined particularly sharply, reflecting the challenges in controlling the pandemic and the importance of travel and tourism in many economies (OECD, 2021a). Other countries, including many in the Asia-Pacific region, saw only mild output declines in 2020, helped by strong and effective public health measures to supress or eliminate the virus spread, and the regional uplift provided by the rapid recovery in China. In all countries, the burden of the crisis fell disproportionately on the poorest and most vulnerable.

The economic upturn since mid-2020 has been uneven and remains far from complete (Figure 1.1). For the world as a whole, GDP in the fourth quarter of 2020 was still 4% lower than expected a year earlier prior to the pandemic, representing a real income shortfall of close to USD 5 trillion (in PPP terms). Differences in statistical procedures have contributed to the cross-country variation in GDP outcomes, but their effects generally appear to be modest (Box 1.1). The pace of the global recovery moderated in the first quarter of 2021, with increasing signs of divergence across and within countries, reflecting different progress in vaccination deployment and renewed virus waves in some economies.

- Global GDP growth is estimated to have eased to around 0.5% in the first quarter of 2021 (quarter-on-quarter, non-annualised) (Figure 1.1, Panel A). Momentum strengthened in the United States, helped by policy stimulus and rapid progress with vaccinations, but renewed output declines occurred in a number of economies, including the euro area and Japan. Growth also moderated in China, with gradual policy normalisation now beginning. In aggregate, amongst the countries with monthly economy-wide estimates of economic activity, output in March 2021 remained around 1½ per cent below the pre-pandemic level (Figure 1.1, Panel B)

- Global mobility, measured using the Google location-based measures of retail and recreation mobility, improved in both February and March but stalled in April (Figure 1.1, Panel C). Mobility rose in the advanced economies, particularly those where containment measures are being eased such as the United States, Israel and, from April, the United Kingdom. In contrast, renewed declines in mobility have occurred in parts of Europe until recently, as well as Latin America and India, reflecting more stringent containment measures to address renewed virus surges.

- Public health measures to reduce the spread of the virus, and the associated declines in mobility, are now having a smaller adverse impact on activity than in the early stages of the pandemic (OECD, 2021b). Containment policies are more carefully targeted, and businesses and consumers have adapted to changes in working arrangements and sanitary restrictions.

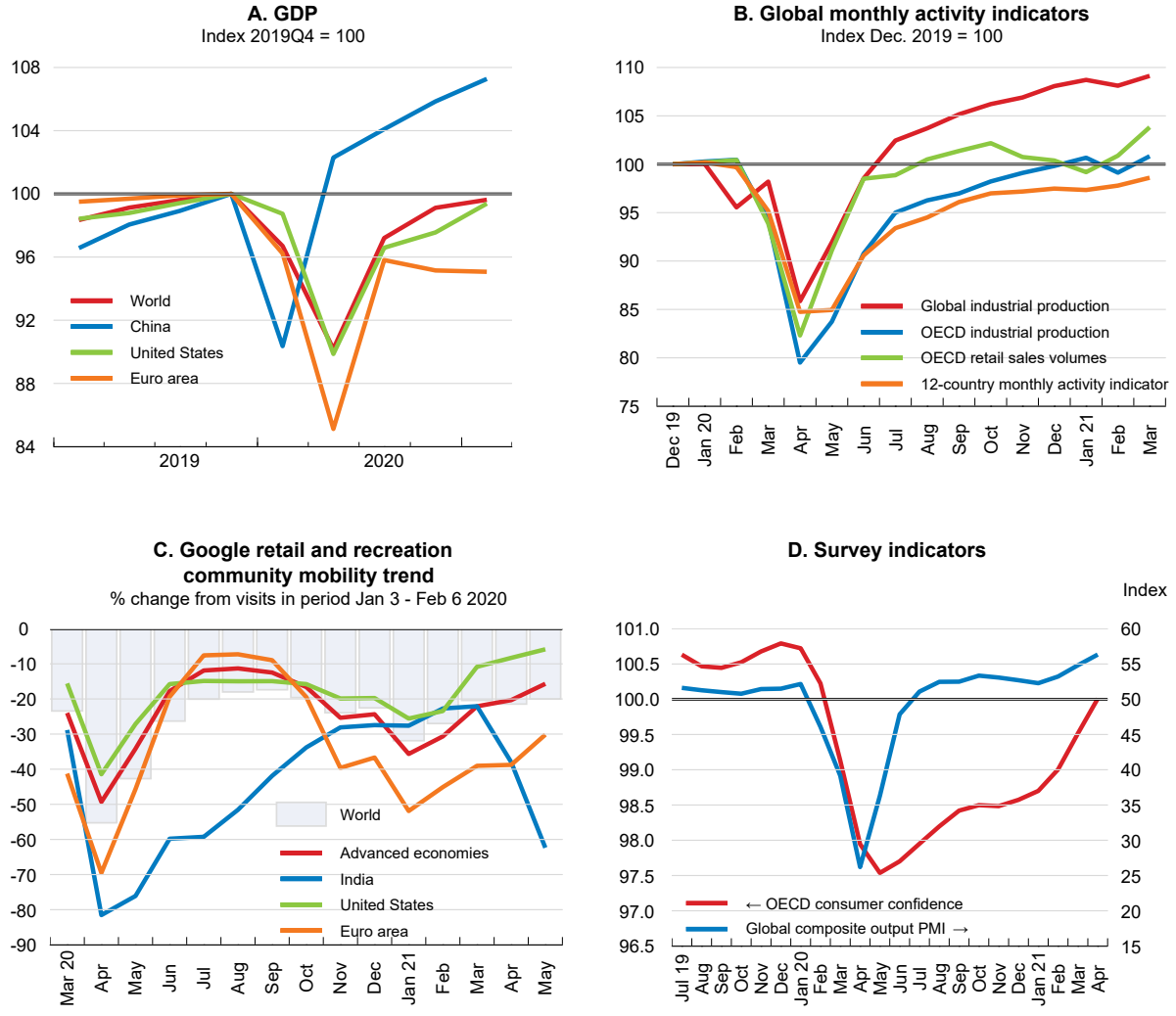
- Global industrial production has continued to strengthen this year. Global trade in goods has surpassed pre-pandemic levels (see below), supported by the strong demand for IT equipment and medical supplies (Figure 1.1, Panel B). However, supply shortages in the semiconductor sector due to the exceptionally strong demand for IT equipment during the pandemic, and temporary disruptions to the output of some major producers, are now beginning to constrain output in some industries, particularly car production.[1]

- Global retail sales volumes have now picked up again, after remaining unchanged for several months (Figure 1.1, Panel B). Many service sector activities are still affected by health-related restrictions, and cross-border services trade remains extremely weak, but the gradual reopening of economies and support from fiscal policy have strengthened demand. Household saving rates remain above pre-pandemic levels (see below), providing scope for future spending, but consumer confidence is recovering (Figure 1.1, Panel D).

- Business confidence has continued to improve (Figure 1.1, Panel D). In April, the global composite output PMI rose to its highest level since mid-2010. Manufacturing and, to a lesser extent, services indicators both strengthened, although not in all major economies.

[1] Car production in Germany in the first quarter of 2021 was around 15% weaker than in the fourth quarter of 2020, with declines of 10% and 7% in the United States and Japan respectively.

Figure 1.1. The pace of the recovery has moderated in some countries and sectors



Note: Data in Panel B and Panel C are PPP-weighted aggregates. The retail sales measure uses monthly household consumption for the United States and the monthly synthetic consumption indicator for Japan. The 12-country activity indicator uses GDP or economy-wide output data for Argentina, Brazil, Canada, Chile, Colombia, Finland, Japan, Korea, Mexico, Norway, Sweden and the United Kingdom. Data in Panel C based on information up to May 15, 2021. OECD consumer confidence in Panel D is a standardised measure.

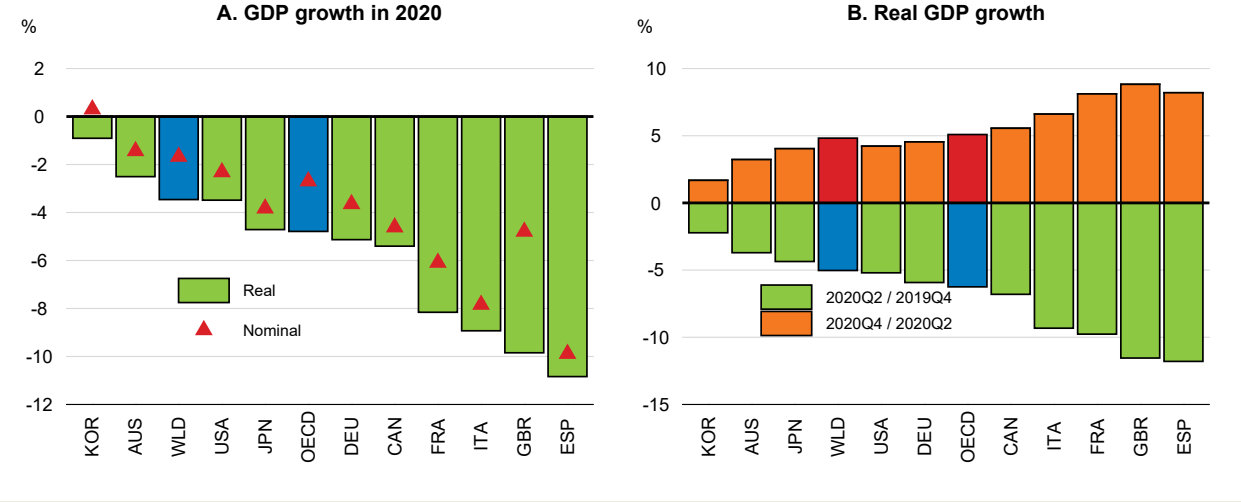
Source OECD Economic Outlook 109 database; Google LLC, *Google COVID-19 Community Mobility Reports*, https://www.google.com/covid19/mobility; OECD Main Economic Indicators database; Refinitiv; and OECD calculations.

StatLink https://stat.link/ictb50

Box 1.1. The impact of the pandemic on the measurement of GDP

The pandemic affected all countries' GDP in 2020 but with some noticeable disparities (Figure 1.2, Panel A), including sizeable differences across countries in the relative declines of nominal and real GDP, and implicitly in the GDP deflator. Cross-country variation in observed GDP outcomes arises from many different sources, including the timing and severity of the pandemic and the associated policy responses, the different sectoral mix of economic activities in each country, and differences in statistical procedures. This box explores the extent to which one particular statistical difference – the treatment of non-market services – accounts for some of the variation in real GDP growth across countries during 2020. While marked differences can be seen in the contributions from non-market services across countries, these are generally small relative to the overall changes in GDP and make little difference to the relative GDP declines across countries. These issues will remain pertinent in 2021, given the renewed shutdowns and subsequent reopenings that are occurring.

Figure 1.2. The pandemic had a diverse impact on GDP across countries



Note: Countries are ranked according to real GDP growth in Panel A and to real GDP growth between 2020Q2 and 2019Q4 in Panel B. In Panel B, the data correspond to the average quarterly growth rate over the two quarters.
Source: OECD Economic Outlook 109 database; and OECD calculations.

StatLink https://stat.link/2uy06d

Estimating the volume of output in the health and education sectors is challenging as output is often supplied without charge or at prices that are not economically significant. Different conventions exist across national statistical institutes (NSIs) to compute the volume of non-market services: using deflated measures of input values, or direct volume measures of either inputs (such as the number of employees or hours worked) or outputs (such as the number of students or number of patients treated) (OECD, 2020a).

The COVID-19 pandemic has added to these longstanding issues, with both sectors heavily affected by restrictions. For instance, workers may be paid as before during shutdowns but provide a reduced volume of services. This results in differences between approaches that deflate input costs (such as the wage bill, which did not change) or measure the volume of activities via inputs (such as the number of teachers, which did not change) or outputs (such as the number of students coming to school, which did change). Services may also be delivered in different ways, such as the partial replacement of school-provided education, which is included in GDP, with unpaid home schooling, which is not. Adjustments may also be needed to capture new activities, such as the introduction and rapid expansion of test, track and trace services, and more recently vaccinations, with associated technical issues of whether the weights given to these new activities are appropriate. The pandemic also temporarily revamped many health services from traditional to COVID-19-related care. All these factors may have reduced the comparability of economic outcomes across countries.

The UK Office for National Statistics is one of the few major NSIs to follow the volume indicator approach for most health and education outputs (ONS, 2021), which is recommended by the European System of National Accounts (Eurostat, 2020a). Other statistical agencies, including the US Bureau of Economic Analysis, have made ad-hoc adjustments to their standard approaches to try to capture particular aspects of changes due to the pandemic (BEA, 2020). Although different statistical methods may have led to some divergence in reported output declines during the pandemic, the return to normal should reverse such divergence, with larger output gains from reopenings in those countries that use specific output-based measures of the volume of services. Countries that experienced the largest GDP contractions during the first half of 2020 typically had a stronger rebound in the latter half of the year (Figure 1.2, Panel B).

The extent to which these statistical factors can help to account for observed cross-country differences in real GDP growth during the pandemic can be assessed by looking at the contribution to real GDP growth either from government consumption (expenditure approach) or from the output of non-market services (output approach). These two approaches are related, but distinct, given that there are differences across countries in the mix of publicly and privately provided non-market services (with private consumption the main expenditure counterpart to the latter). A comparison using annual growth rates for 2020,[1] instead of specific quarters or semesters, reduces the risk of bias from distinct outbreak timings (including for the different waves). Looking across countries:

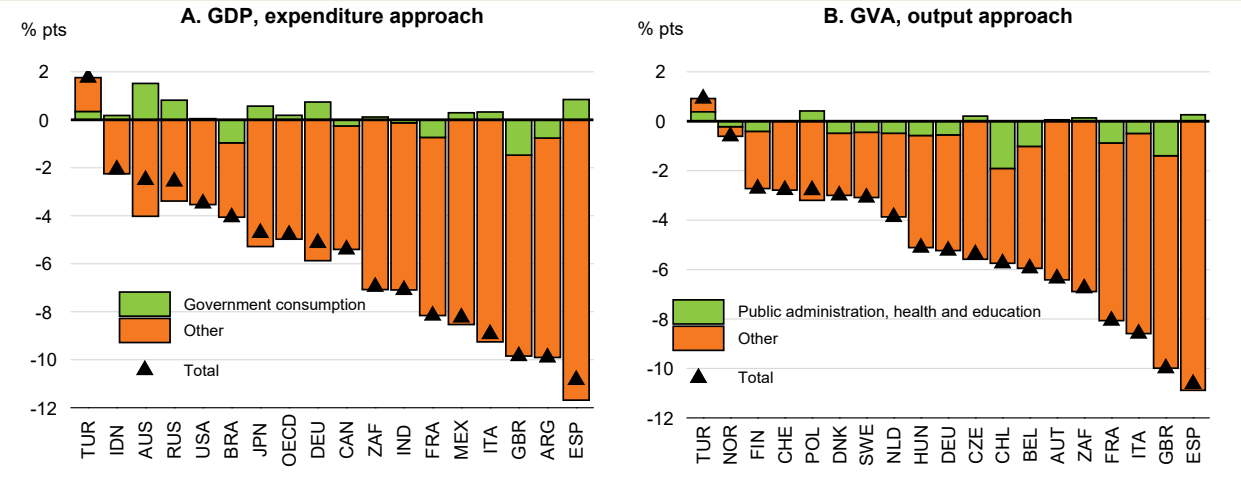
- Using the expenditure approach, the contribution from government consumption is the most negative for the United Kingdom (about 1.5 percentage points) and the most positive for Australia (about 1.5 percentage points) (Figure 1.3, Panel A). Nonetheless, the countries with the largest GDP declines typically also had the largest negative contributions from expenditure excluding government consumption.
- The gross value added breakdown shows the relatively large negative contribution from non-market services for Chile (1.9 percentage points) and the United Kingdom, but a positive contribution in a few countries (Figure 1.3, Panel B). However, as with the expenditure approach, the countries with the largest declines in total real value-added output typically had the largest negative contributions from output excluding health, education and public administration.

Overall, differences in government consumption and non-market output account for only a small part of the cross-country variation in annual GDP growth in 2020.

1. An alternative exercise using the growth rate over 2019Q4-2020Q4 reaches a similar conclusion.

Figure 1.3. Differences in government consumption and non-market output account for only a small part of cross-country variation in GDP growth

Contribution to real output growth in 2020, in percentage points



Note: Countries are ranked according to real GDP growth in 2020 in Panel A and to real gross value added (GVA) growth in 2020 in Panel B. Public administration, health and education corresponds to the ISIC rev4 item aggregating: public administration; compulsory social security; education; and human health.

Source: OECD Economic Outlook 109 database; OECD, Annual National Accounts database; and OECD calculations.

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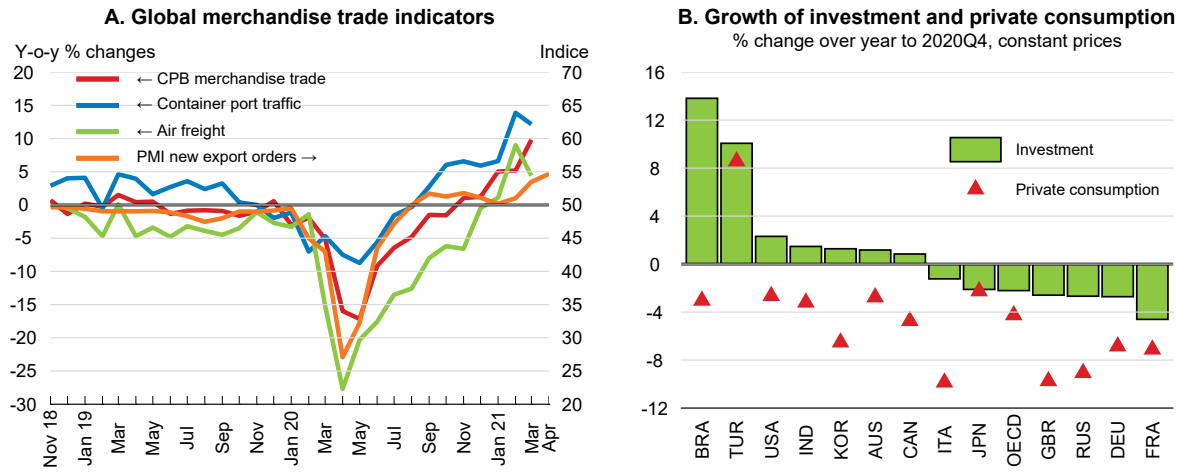
Global merchandise trade indicators continue to rebound (Figure 1.4, Panel A), helped by stronger global demand for personal protective equipment and IT goods, and the gradual release of pent-up demand for durable goods in some advanced economies. Container port traffic and total merchandise trade volumes are now above 2019 levels, helped by the strong trade rebound in Asia. In contrast, services trade remains soft, particularly air traffic, with total commercial flights in April around 32% lower than on average in 2019, and international air passenger traffic revenue in March still 88% lower than two years earlier.

Despite continued uncertainty, investment has rebounded in many economies since mid-2020, helping to underpin the trade upturn (Figure 1.4, Panel B). In the fourth quarter of 2020, aggregate investment in the G7 economies was unchanged from a year earlier, whereas private consumption remained almost 4½ per cent lower than prior to the pandemic, and investment surpassed the pre-crisis level in several large economies, including the United States, Turkey and Brazil. Business equipment investment has been spurred by new investments in the equipment and systems needed for remote working and, in some emerging-market economies, low real interest rates and quasi-fiscal credit supply. Housing investment has also picked up, especially in North America, helped by favourable financing conditions and only limited restrictions on construction activities. Substantial government support has also enabled many firms to stay in business and helped to ensure the continued availability of external finance (see below).

Figure 1.4. Merchandise trade is above pre-pandemic levels, helped by a recovery in investment



Source: OECD Economic Outlook 109 database; CPB Netherlands Bureau for Economic Policy Analysis; RWI/ISL Container Throughput Index; International Air Transport Association (IATA); IHS Markit; and OECD calculations.

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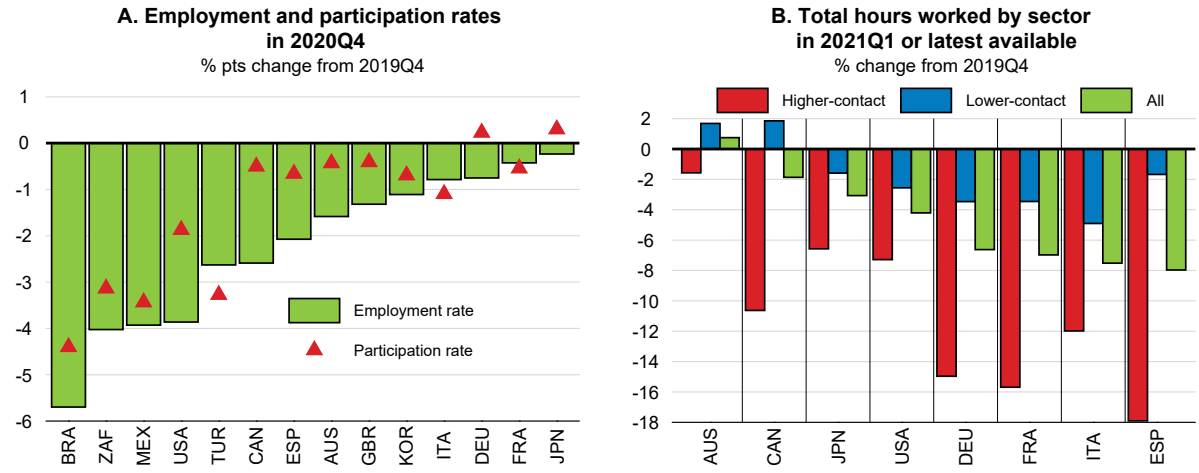
Across the OECD economies, around 7½ million more people than prior to the crisis remained unemployed in March, inactivity rates have risen and aggregate employment rates have declined. Women, youth and low-income workers have been particularly exposed to the risk of job losses during the pandemic. In the fourth quarter of 2020, the labour force participation rate and the employment rate in the median OECD economy were 0.3 and 1 percentage point lower respectively than a year earlier (Figure 1.5, Panel A). Relatively large declines occurred in the United States and many emerging-market economies, but job retention measures, such as short-time work schemes and wage subsidies, continued to help preserve employment in Europe and Japan. In developing countries, substantial job losses have increased poverty and deprivation for millions of people.

Many jobs remain precarious. In most major economies, even those in which employment has been preserved, total hours worked in customer-facing service sectors remain well below the pre-pandemic level (Figure 1.5, Panel B). Aggregate hours worked in these sectors account for between 25-30% of total economy-wide hours worked in most economies, and over 35% in Italy and Spain. In Australia, Canada and the United States, where aggregate labour market conditions and hours worked continued to improve in the first quarter of 2021, shortfalls in hours worked still remained in the most affected sectors.

However, new job opportunities have begun to appear in most countries, despite continued containment measures. This is reflected in rising online job postings (Figure 1.6), though the gains remain uneven. Job growth is largely concentrated in healthcare and the production sector, with job postings in several service sectors remaining below the immediate pre-pandemic level. Survey evidence in the United States also shows signs of skills shortages for small businesses, possibly reflecting lower labour force participation and the separation of some employer-employee job matches during the early months of the pandemic.

Figure 1.5. Labour market conditions remain weaker than prior to the pandemic



Note: Panel A: employment and participation rates are calculated as a share of the population aged 15-74. Panel B: data for 2020Q4 in France and Italy and 2021Q1 in all other countries. Economy-wide data for hours worked in all economies apart from the United States, where the data refer 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. Higher-contact sectors are ones with high social interactions between consumers and producers. These include retail and wholesale trade, accommodation and food services, transportation and storage, arts and entertainment, and other personal services. Lower-contact sectors are all remaining sectors.
Source: OECD Economic Outlook 109 database; Bureau of Economic Analysis; Statistics Canada; Australian Bureau of Statistics; Statistics Bureau, Japan; Eurostat; Office for National Statistics; and OECD calculations.

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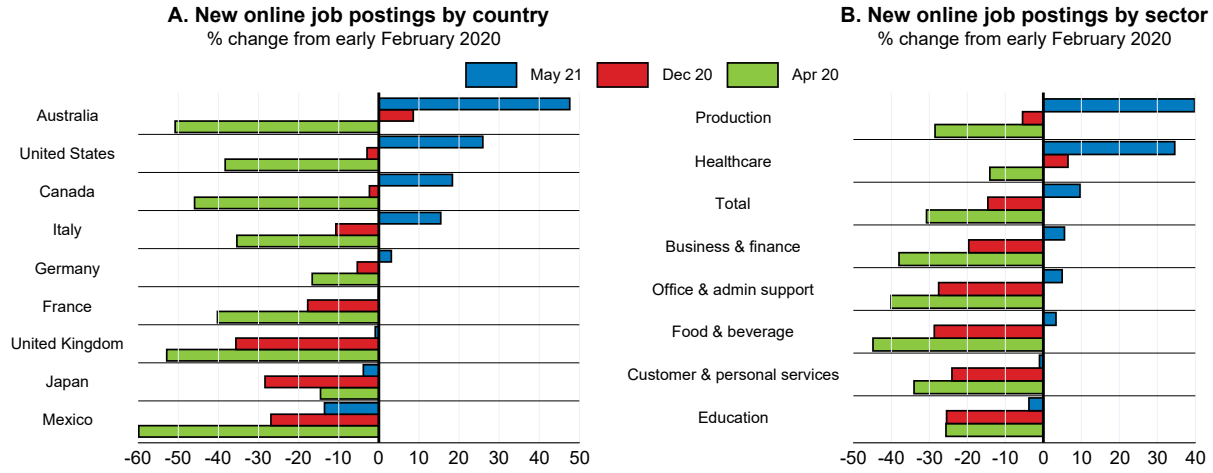
Figure 1.6. Online job postings are now above pre-pandemic levels in some countries and sectors



Note: Seasonally-adjusted online job postings by type of occupation, aggregated over 20 OECD countries.
Source: Indeed; and OECD calculations.

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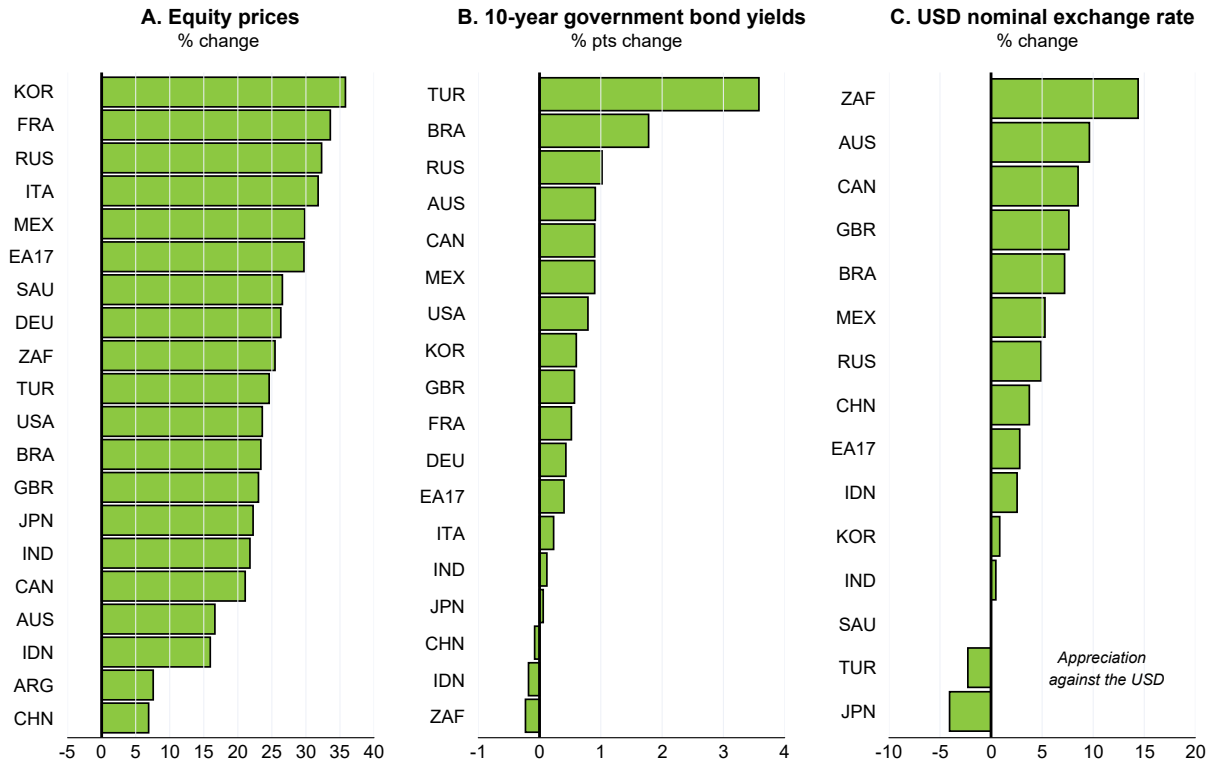
Figure 1.7. Equity prices and some currencies have strengthened since late-2020 in contrast to some bond prices



Note: Change since early November 2020, based on a 10-day average of daily observations.
Source: Refinitiv; and OECD calculations.

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Financial conditions have evolved differently among asset classes and large economies since late last year (Figure 1.7). Equity prices have increased strongly in most large advanced and emerging-market economies, driven by anticipation of a faster recovery due to vaccinations and increased government support in a number of countries. A better economic outlook and expectations of higher inflation, particularly in the United States, have boosted 10-year government bond yields in advanced economies. This bond yield increase has been smaller in the euro area. In several large emerging-market economies the decline in government bond prices (which move inversely to yields) also reflected a reversal in global risk appetite and domestic policy and economic challenges, though many currencies have recently appreciated against the US dollar (see below).

The outlook is for a significant but uneven recovery

The global recovery is projected to strengthen as vaccination deployment becomes widespread

The emergence of effective vaccines has improved prospects for a durable economic recovery provided such vaccines can be deployed rapidly throughout the world and supportive fiscal and monetary policies continue to underpin demand. However, considerable uncertainty remains about near-term developments, with high levels of infections still occurring in some countries, and the pace at which the most heavily affected economies and sectors can recover. It will take some time before production can be raised sufficiently and vaccines distributed to all in need, and risks remain from potential mutations of the virus

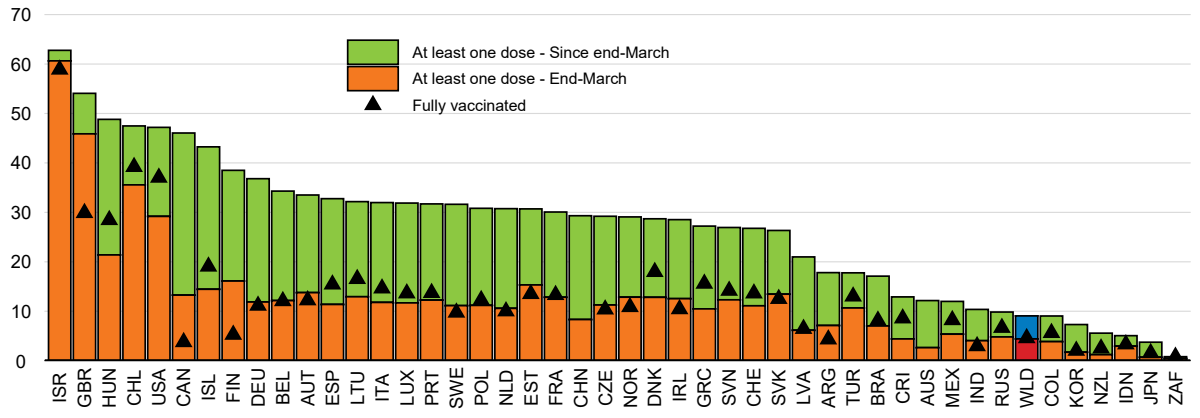
resistant to current vaccines. Vaccination campaigns are proceeding at different rates around the world (Figure 1.8), often starting more slowly than initially planned, and the scale of policy support and sectoral specialisation differ considerably across economies. Some targeted restrictions on mobility and activity may still need to be maintained for some time, particularly on cross-border travel. This will affect the prospects for a full recovery in all countries, even ones in which vaccinations are proceeding quickly or in which the incidence of the virus is very low.

Many countries have announced new fiscal measures or prolonged emergency support schemes in recent months. As a result, there is more fiscal support this year than had seemed likely late last year, reducing the risk of lasting costs from a prolonged recovery.[2] The impact of stronger fiscal support will depend in part on the measures undertaken. Stronger government consumption and investment will feed through to final demand directly, but additional household income support may be saved or used for debt repayments by some households, especially while containment measures are in place (see below).

The large fiscal stimulus in the United States this year will help to strengthen the global recovery. In particular, the American Rescue Plan of USD 1.9 trillion could raise US output by between 3-4% in the first full year following implementation (the four quarters to 2021Q1), and global output by around 1% (OECD, 2021b). All economies benefit from stronger demand from the United States, with output rising by between ½-1 percentage point in Canada and Mexico, both close trading partners, and between ¼-½ percentage point in the euro area, Japan and China.

Figure 1.8. The pace of COVID-19 vaccinations differs substantially across countries

Vaccinations per hundred people, May 17 2021 or closest available



Note: For Australia and China, total vaccinations are used for people who have received at least one dose.
Source: Our World in Data vaccination database, accessed May 19 2021.

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[2] For the OECD as a whole, fiscal easing of around 2¼ per cent of potential GDP is now projected in 2021 based on changes in the underlying primary government balance, a conventional though uncertain measure of the fiscal stance. In contrast, the December 2020 *OECD Economic Outlook* projected a fiscal tightening of just under 1½ per cent of potential GDP this year.

The balance between the key factors shaping the projections differs across economies:

- In the advanced economies, the progressive rollout of an effective vaccine is assumed to be completed by the autumn of 2021, and much earlier in some countries, allowing restrictions on contact-intensive activities to be rolled back. New fiscal measures will also support demand in the near term in several countries, with the impact of income support for households on spending gaining traction as economies reopen. Improvements in confidence and labour market conditions and a decline in household saving ratios are also expected to help maintain spending growth in 2022, offsetting a moderation in fiscal support.
- Prospects for early completion of vaccinations are limited in many emerging-market economies, with Chile a notable exception. Current and further virus outbreaks in some countries are assumed to require tighter public health measures to be maintained in the near term. Scope to provide additional macroeconomic policy support is also limited in many countries. Commodity exporters should benefit from high commodity prices and the revival of global merchandise trade, but tourism-dependent economies face a slow recovery, and household real incomes will be adversely affected by higher energy and food costs.

Based on the assumptions set out above, the global recovery is projected to strengthen gradually, particularly in the latter half of this year, with global GDP projected to pick up by 5¾ per cent in 2021, and close to 4½ per cent in 2022 (Table 1.1; Figure 1.9). OECD GDP is projected to rise by around 5¼ per cent in 2021 and 3¾ per cent in 2022. Output in some countries, notably China, has already surpassed the pre-pandemic level, and by mid-2021 global GDP and US output should do so as well. Other countries are recovering more slowly, including many in Europe (Figure 1.9, Panel C). Considerable heterogeneity in near-term developments is likely to persist, both between advanced and emerging-market economies and between wider regions. The risk of lasting costs from the pandemic also remains high, with global output projected to remain weaker at the end of 2022 than expected prior to the pandemic (Figure 1.9, Panel D). This is particularly the case in many emerging-market economies, with the output shortfall in the median economy at the end of 2022 projected to be around 3½ per cent, more than twice that in the median advanced economy.

Near-term developments and prospects differ substantially between economies over the next 18 months.

- In the United States, GDP growth is projected to be close to 7% in 2021, before easing to around 3½ per cent in 2022. Fiscal support is providing a considerable boost for growth and confidence and labour market indicators are improving, helped by the gradual reopening of the economy and the relatively advanced pace of vaccinations. Accommodative monetary policy should continue to support investment, particularly in the housing market, and a gradual return of the household saving rate towards pre-pandemic norms should support private consumption as the impact of fiscal support wanes next year. The American Jobs Plan and American Families Plan are not incorporated in the projections, but if implemented would boost growth in 2022.

- The recovery in Japan has slowed, with GDP declining in the first quarter of 2021. Strong external demand is helping to support manufacturing activity, but public health measures are checking private consumption and service sector output. Economy-wide activity should gradually pick up through 2021-22 as the vaccine rollout gains pace, with GDP projected to rise by 2½ per cent this year and 2% in 2022. The fiscal stance is set to tighten this year and in 2022, but strong public investment and external demand will help to underpin activity, along with reductions in the household saving rate.

- Euro area output declined in the first quarter of 2021, with private consumption and service sector activity held back by stringent containment measures. However, strong external demand is boosting manufacturing activity and short-time work schemes have preserved employment. Activity is expected to strengthen through 2021 as vaccination deployment gains momentum and restrictions are lifted progressively, with GDP rising by just over 4¼ per cent this year, and close to 4½ per cent in 2022. Fiscal policy is expansionary this year and mildly restrictive in 2022, with Next Generation EU funds assumed to help support investment during the projection period and some crisis-related measures being phased out as the recovery strengthens. Accommodative monetary policy should help business investment recover gradually, and private consumption should be boosted by pent-up demand and a decline in household saving rates.

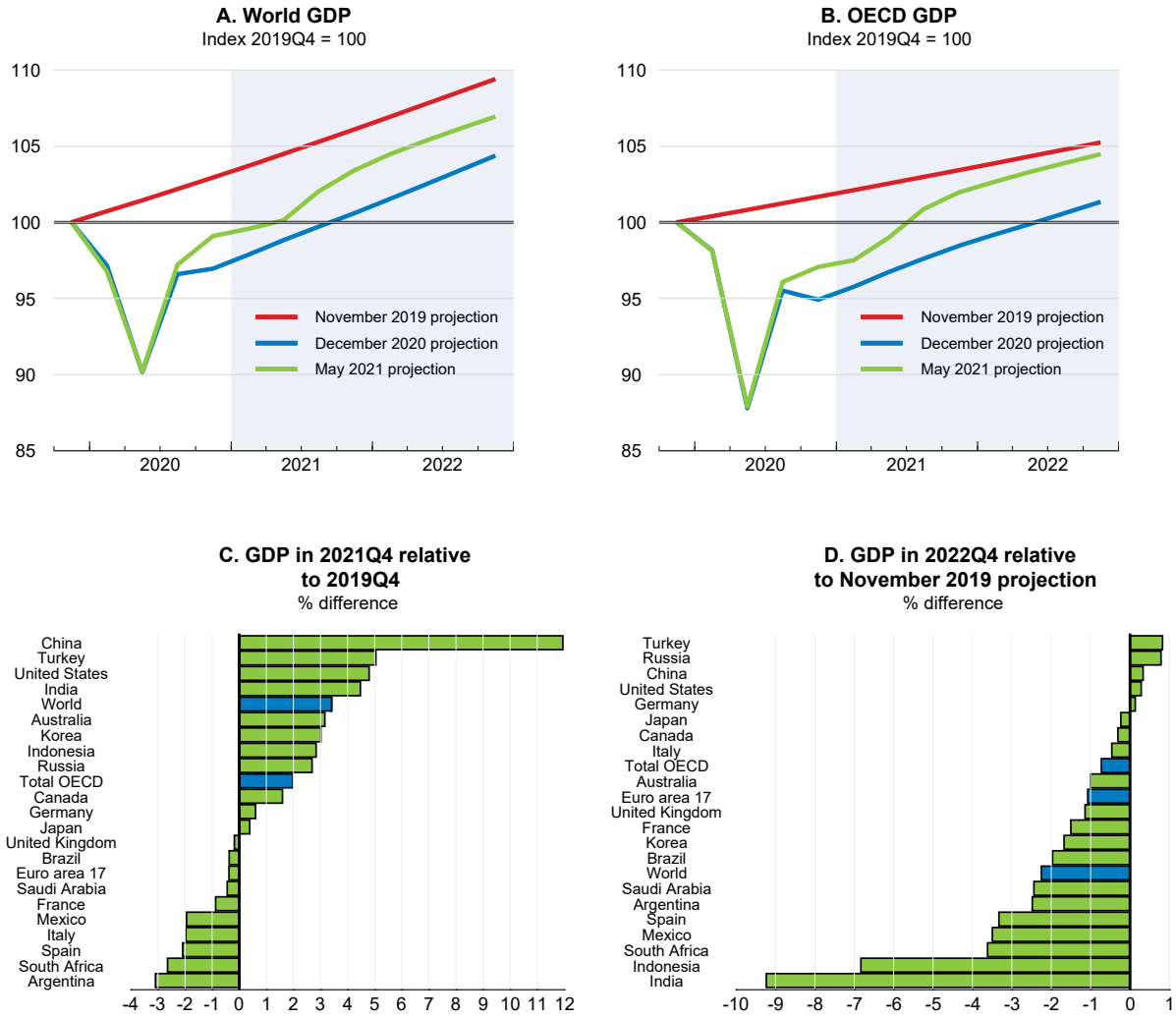
- Robust growth is expected to continue in China, with GDP rising by around 8½ per cent this year and 5¾ per cent in 2022. Export growth is buoyant, pushing up the current account surplus, and monetary policy remains accommodative, but some fiscal policy support is being withdrawn this year and credit growth is moderating gradually. Progress in rebalancing the economy from industrial production and investment to services and private consumption has been interrupted by the pandemic, but should resume as the vaccination rollout gains pace and confidence improves. Significant financial risks remain, particularly from elevated corporate sector debt.

- In India, the rapid rebound in activity since mid-2020 has paused, with the resurgence of the pandemic and renewed localised containment measures raising uncertainty and hitting mobility. Higher commodity prices have also pushed up inflation, reducing household real incomes. Monetary policy remains accommodative, with plans for gradual normalisation being put on hold, but scope for additional fiscal support is limited. Provided the pandemic can be contained quickly, GDP growth could still be around 10% in FY 2021-22 and 8¼ per cent in FY 2022-23, with pent-up consumer demand, easy financial conditions and strong external market growth helping the recovery to gain momentum.

- In Brazil, the resurgence of the virus, renewed local mobility restrictions and the slow vaccination rollout have checked the momentum of the recovery and hit confidence. Policy interest rates have begun to rise, due to higher inflation, although real interest rates are still low. Fiscal space is limited, but some support for incomes is provided by the new temporary programme of emergency benefits. Provided the pandemic can be controlled, and the pace of vaccinations improved, GDP is projected to rise by around 3¾ per cent in 2021 and 2½ per cent in 2022. Strong external demand is helping to maintain export growth, and domestic demand – particularly household consumption – should pick up gradually from the latter half of 2021.

Labour market conditions are projected to improve gradually. The unemployment rate in the OECD economies is expected to fall by around 1 percentage point over the projection period, from just under 6¾ per cent in the first quarter of 2021 (Figure 1.10, Panel A). This will still leave unemployment above pre-crisis rates in many countries, with continued labour market slack containing wage growth in 2021-22. Employment growth is projected to recover steadily, rising by around 1¾ per cent per annum in 2021-22 in the OECD economies. In the United States, strong job creation is projected this year, helped by the impetus provided by the American Rescue Plan, with employment rising by over 3½ per cent and the unemployment rate declining by 1½ percentage points over the year to the first quarter of 2022. Smaller improvements are projected in the euro area and Japan, reflecting the successful preservation of jobs through policy support. Companies in many countries have considerable scope to meet improved demand by expanding hours worked per employee, rather than the overall size of their workforce.

Figure 1.9. Global economic prospects are improving, but continued divergence is expected across countries



Note: The November 2019 OECD Economic Outlook projections are extended into 2022 using the November 2019 estimates of the potential output growth rate for each economy in 2021.
Source: OECD Economic Outlook 109 database; and OECD calculations.

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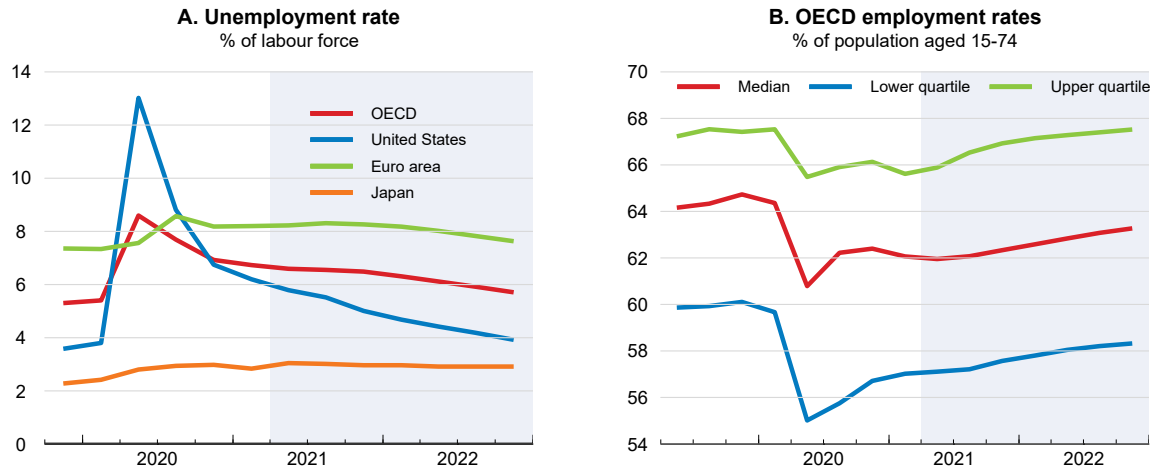
By the end of the projection period, the employment rate in the median OECD economy is projected to still be below that at the end of 2019 (Figure 1.10, Panel B), with diverse outcomes across countries. The employment rate is projected to recover fully, on average, in those countries with relatively high employment rates prior to the crisis. In contrast, the employment rate is projected to remain well short of pre-pandemic levels in some countries with comparatively low pre-pandemic employment rates. Participation rates also remain below the pre-pandemic level in many countries at the end of 2022, including in the United States. In part, these gaps may reflect the sectoral mix of activities, but they also point to the need for enhanced reforms to improve activation and job creation in many countries.

Although the projected pace of the recovery has improved from what appeared likely a few months ago, with business investment growth in the OECD economies now projected to average 4¾ per cent per annum in 2021-22, the risks of permanent costs from the pandemic remain high in many countries. Weaker capital accumulation, lower employment rates, reduced participation rates, and some reductions in skills and business efficiencies have all contributed to downward revisions to conventional but uncertain potential output growth estimates since the start of the pandemic. A similar pattern is apparent in downward revisions to consensus expectations for the level of output in the medium term (Box 1.2).

Figure 1.10. Labour market conditions are set to improve gradually



Note: Panel B shows the median, lower quartile and upper quartile of employment rates amongst the OECD member states.
Source: OECD Economic Outlook 109 database; and OECD calculations.

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Box 1.2. Possible loss of potential output following the COVID-19 crisis

GDP plummeted in 2020 in most countries, following the COVID-19 outbreak, and restoring pre-crisis GDP levels will take time in many of them. A key issue is the extent to which shortfalls may persist into the medium term through reductions in supply potential. As past crises have shown, such reductions can be substantial (Ollivaud and Turner, 2014). This box sets out the differences between the current OECD potential output growth estimates for 2019-22 and the estimates made prior to the onset of the pandemic. Although inherently uncertain at this stage of the recovery, the revisions suggest some scarring from the pandemic in almost all economies.

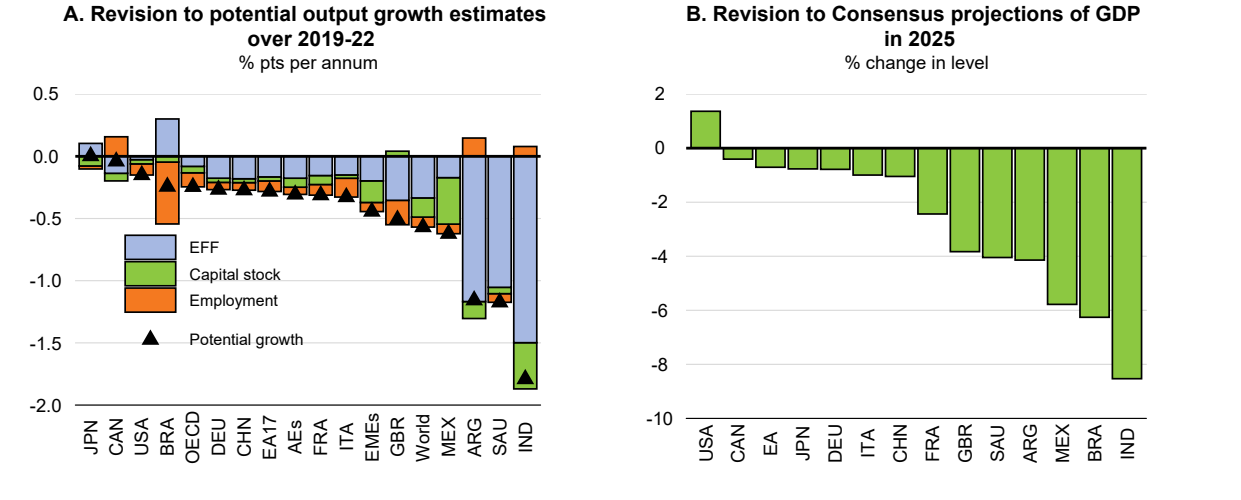
The OECD estimates of potential output – a measure of what the economy can produce abstracting from temporary cyclical fluctuations – are derived using an aggregate Cobb-Douglas production function with three key factors, potential employment, the productive capital stock and trend labour efficiency (EFF) (Chalaux and Guillemette, 2019). Evaluating potential output during the pandemic requires some difficult judgements. The enforced closure of businesses due to containment measures can be viewed as a reduction in supply that is reversed subsequently once they are permitted to reopen. A related approach, reflected in the OECD estimates, is that the pandemic involves a large adverse shock to demand, with government support programmes for jobs and incomes helping to preserve much of potential output while containment measures are in force. This second approach reduces the cyclicality in potential output estimates, but still allows for possible reductions in supply from factors such as lower capital accumulation, longer spells of unemployment, skills loss, supply-chain adjustments, business failures and changes in competitive pressures.

Though highly uncertain and subject to future revision, current estimates suggest that average annual global potential output growth from 2019 to 2022 could now be over 0.5 percentage point weaker than estimated prior to the pandemic (Figure 1.11, Panel A).[1] If this lasts, and there are no offsetting policies, global real output will be 3% lower than projected prior to the pandemic after five years, and about 5½ per cent lower after a decade. These differences are distributed unevenly across countries, with small losses in most advanced economies and some emerging-market economies, but sizeable losses in a number of large emerging-market economies. The approach also reflects some changes to potential output estimates that are not directly related to COVID-19, but these are generally small for most countries.[2]

- Annual potential growth over 2019-22 in the median advanced and emerging-market economy could have declined by 0.3 and 0.4 percentage point, respectively, implying an output loss of about 1.6% and 2.2% respectively after five years. Larger OECD countries appear more resilient in that regard, with emerging-market economies tending to have the largest estimated negative impacts.
- Amongst the major advanced economies, losses are estimated to be relatively small in Japan, Canada and the United States. Declines in potential output growth in major euro area members could be 0.3 percentage point per annum on average over 2019-22. The United Kingdom could suffer the biggest reduction amongst G7 countries (a decline of 0.5 percentage point per annum), in part reflecting the additional adverse supply-side effects from 2021 following Brexit (Kierzenkowski et al., 2016; OECD, 2020b).
- For the major emerging-market economies, the estimated reduction in potential output growth is smaller for Brazil (0.2 percentage point per annum) and China. Most other countries appear to face larger losses, especially India, Saudi Arabia and Argentina.

A cross-check on the possible medium-term implications of the pandemic can be obtained by looking at how longer-term consensus forecasts have evolved since the pandemic began. Annual GDP growth forecasts can be cumulated to obtain an implicit GDP level over time. Revisions to long-term growth projections from Consensus Economics between January 2020 and April 2021 for selected countries also imply that the GDP level in 2025 is now expected to be lower than prior to the pandemic in most major countries, with the exception of the United States (Figure 1.11, Panel B). Again, G7 countries usually lose less than large G20 emerging-market economies.

Figure 1.11. The medium-term output loss from COVID-19 is estimated to vary significantly across countries



Note: In Panel A, the revision is the difference in potential output growth per annum over 2019-22 between the current potential output estimates and those made in November 2019. The world is computed from countries for which a potential output estimate is made, representing about 85% of global output. EMEs corresponds to the median amongst 16 emerging-market economies. AEs denotes the median advanced OECD country. In Panel B, the revision corresponds to the difference in the GDP level implied by consensus expectations for GDP growth out to 2025 in April 2021 and January 2020.
Source: OECD Economic Outlook 106 database; OECD Economic Outlook 109 database; Consensus Economics; and OECD calculations.

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Looking in detail at the sources of the changes in OECD potential output growth estimates shows the following:

- Weaker capital stock growth accounts for about one-third (0.1 percentage point) of the revision to the median advanced OECD country potential output growth estimates. The investment gap is usually more pronounced for emerging-market economies, notably for Mexico and India.
- The contribution from weaker sustainable employment growth is 0.1 percentage point for the median advanced OECD country, and larger for Brazil (0.5), Italy (0.2) and the United Kingdom (0.2). For Brazil and other emerging-market economies, this comes from weaker trend labour force participation rates.
- The decline in EFF growth accounts for the remaining part (0.1 percentage point) for the median advanced OECD country. It is the main factor when the revision is large, notably for Argentina, India and Saudi Arabia. The concentration of revisions to EFF growth in some countries reflects the difficulty of projecting underlying EFF growth when observed output falls sharply relative to observed factor inputs, as in 2020. Changes in hours worked per employee and the technologies used, organisational efficiencies, the sectoral mix of activities, and competitive pressures at home and abroad are all incorporated in this factor.

1. Revisions to potential output growth in 2019 are included in the calculation as the filter-based estimates of the underlying trends for employment and labour efficiency that year are partly affected by the inclusion of the data for 2020.
2. An alternative computation, looking at the difference between the pre-pandemic estimate of the change in average annual potential output between 2015-18 and 2019-22 and the current estimate of this change, yielded broadly similar results.

Inflation is expected to increase temporarily but the longer-term outlook remains uncertain, with upside risks

In most advanced and emerging-market economies, inflation has picked up since the last year in line with the rise in oil and other commodity prices (Figure 1.12, Panel A), though it remains below pre-pandemic levels. Temporary supply shortages in specific sectors, including semiconductors and shipping, and signs of skills shortages for some small businesses, are also contributing to the higher input cost pressures apparent in business surveys (Figure 1.12, Panel B; Box 1.3).[3] In emerging-market economies, the past depreciation of currencies and increases in indirect taxes and regulated electricity prices have also added to price pressures. The improved prospects for a sustained global recovery have also pushed up expectations of future inflation, particularly in financial markets.

Prices (especially of energy and food) have been volatile due to specific crisis-related factors and measurement issues, making the identification of underlying price pressures difficult. Uncertainty about underlying inflation has been high in all economies as collecting data on the prices of some services has been complicated by containment measures, necessitating their extrapolation by statistical offices. In 2020, in some cases, this led to an upward bias in inflation (Bureau of Labor Statistics, 2020; Eurostat, 2020b; O'Brien et al., 2021). In contrast, significant temporary changes to consumption patterns, which were not reflected in weights used to calculate the consumer price index, resulted in an underestimation of inflation. This may be reversed in 2021 and 2022, as activity reopens where it is currently restrained.[4] Moreover, the altered timing of seasonal sales and temporary VAT changes (for instance in Germany and several other euro area countries) added to inflation volatility.[5]

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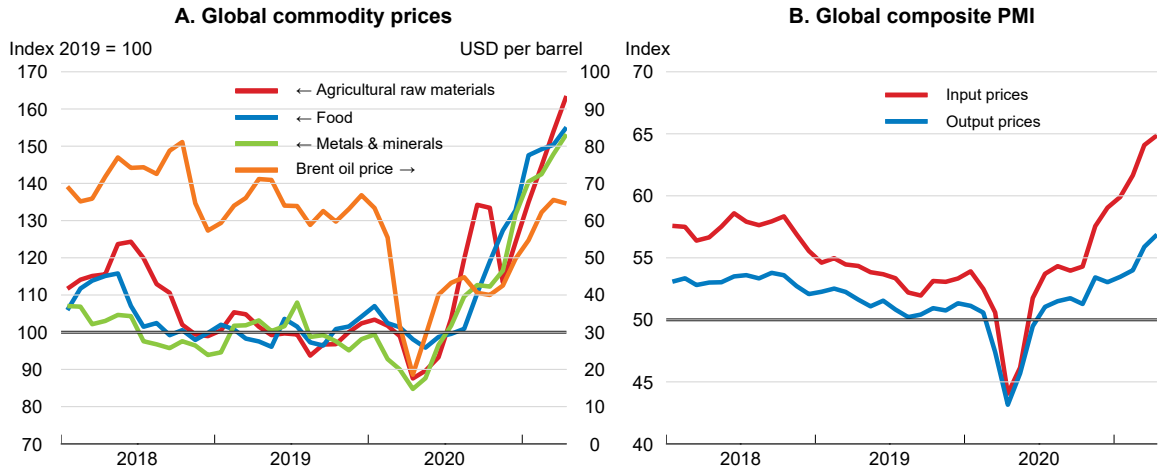
[3] Global supply shortages in the semiconductor industry have resulted from the surge in demand for electronic equipment, prompted by remote studying and working arrangements related to the COVID-19 pandemic and increased mining of cryptocurrencies due to their high prices, and for cars. With little additional chip-making capacity expected in the short term and sustained strong demand, supply constraints will persist for some time, possibly raising prices of final consumer goods. For instance, in the United States, potential supply shortages in the semiconductor industry are estimated in one study to boost year-on-year core inflation in 2021 by 0.1-0.4 percentage point (Goldman Sachs, 2021).

[4] For instance, in France, the 12-month price increase in April 2020 would have been 1.1 percentage point higher if the CPI weights had reflected the change in the structure of consumption (for instance, the 70%-90% decline in transport, accommodation/catering and fuel consumption) rather than keeping the pre-COVID-19 consumption basket (INSEE, 2020; Gautier et al., 2020). Such an upward bias is estimated at 0.2 percentage point for the whole euro area (Kouvavas et al., 2020), 0.4 percentage point in the United Kingdom (NIESR, 2020), and 0.7 percentage point in the United States (Cavallo, 2020).

[5] For instance, in Italy, due to the delay of summer sales by one month, 12-month inflation temporarily increased by 1.2 percentage points in July 2020. Similar patterns were observed in January and February 2021. The temporary reductions of VAT in the euro area, primarily in Germany, are estimated to have lowered HICP inflation in July 2020 by around 0.7 percentage point (Koester et al., 2020), and the reversal of tax changes added a similar amount to euro area inflation in January 2021.

Figure 1.12. Cost pressures are rising



Source: Refinitiv; and Markit.

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Box 1.3. Rising container shipping costs could push up near-term inflation in OECD countries

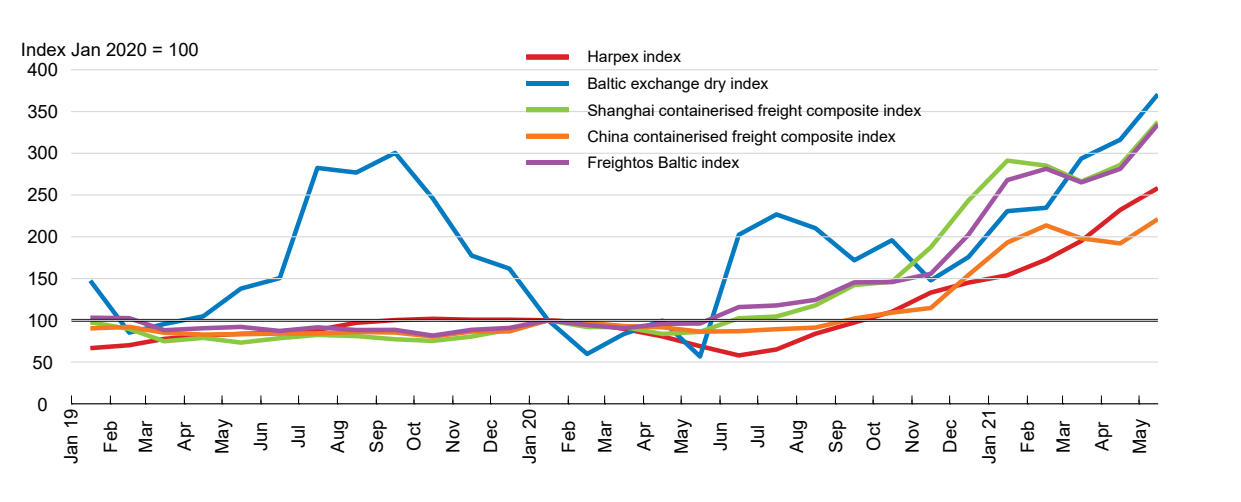
Shipping cost rates have soared in recent months due to the conjunction of booming demand for consumer durables from Asia and supply-side bottlenecks created by sanitary restrictions in ports and terminals. These have slowed loading and unloading operations and crew changes. Prices of containerised freight started to rise in the second half of 2020 and rose further in the first quarter of 2021, when the average quarterly increase across the main indices of global shipping costs ranged between 30% and 65% (Figure 1.13).

On the demand side, the pandemic led to a global demand drop at the start of 2020, followed by a faster-than-expected recovery at the end of 2020. Pent-up demand caused by lockdowns in the first half of 2020, shifts in consumption patterns towards durable goods, and government income support all strengthened demand for goods when transportation services were still limited.

On the supply side, multiple factors are compounding shipping delays. Vessels are currently used at full capacity with a rather low idle rate of 1.5%, but containers remain scarce. Congestion at ports and lower productivity at terminals and inland depots have also led to bottlenecks. Distancing rules and reinforced hygiene standards have increased delays between crew shifts. These have prolonged processing times at ports, hampered the return of containers to Asia and generated delays along the entire shipping chain. The March blockage in the Suez Canal also added to shipping disruption and delays.

This atypical situation is expected to persist for a few more months. Port congestion continues to be a big bottleneck in the United States, where all loading/unloading slots for cargoes from/to Asia are fully booked throughout the second quarter of 2021. The reopening of European economies is also impacting supply and demand. In this context, industry experts do not foresee any normalisation of prices before the end of 2021.

Figure 1.13. Monthly indices of containerised freight costs



Source: Refinitiv.

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Rising shipping costs will boost consumer price inflation temporarily

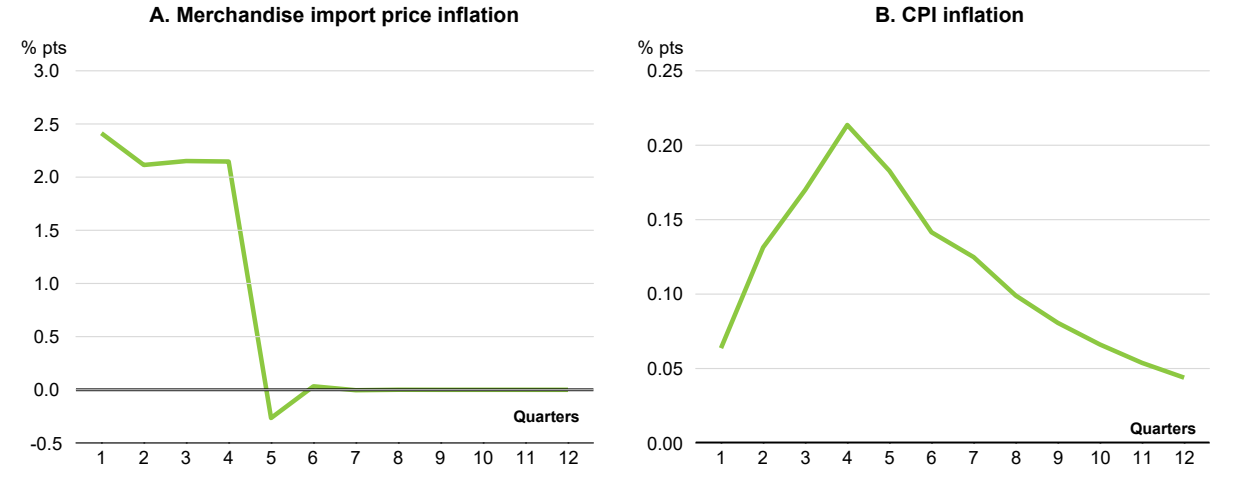
The overall effect of the recent rise in shipping costs on consumer price inflation in OECD countries depends on the impact of a change in shipping costs on merchandise import price inflation[1] and the pass-through from merchandise import price inflation to consumer price inflation.[2] Empirical OECD estimates of these two relationships can be used to assess the implication for inflation of the average 50% rise in container prices observed in the first quarter of 2021.

Assuming that shipping costs stabilise at their current level for the rest of 2021, the key results are:

- In the short run, the rise of 50% in shipping costs observed in the first quarter of 2021 is estimated to raise quarter-on-quarter import price inflation by 2.5 percentage points. After one year, merchandise import price inflation is estimated to rise by 2 percentage points (Figure 1.14, Panel A).
- The estimated short-run pass-through of import price inflation to consumer price inflation is modest: assuming an increase in goods import price inflation of 10 percentage points, the quarter-on-quarter consumer price inflation rate would rise by only 0.26 percentage point.
- The estimated initial increase in import price inflation would lead to an overall rise in year-on-year consumer price inflation by about 0.2 percentage point after a year (Figure 1.14, Panel B). It would recede gradually thereafter, reflecting long dynamics in the relationship.

In an alternative scenario in which shipping costs gradually decline to a price level slightly higher than prior to the pandemic starting from the second half of 2021, merchandise import price inflation would be raised by 0.6 percentage point after one year, while consumer price inflation would increase by 0.2 percentage point. The order of magnitude is very similar to the original estimate because the impact is mostly driven by the rise in import prices in the first quarter following the initial shock. The long-lasting, but very small, impact on consumer price inflation in the following quarters stems from the lagged effect of past inflation.

Figure 1.14. The effects of a change in shipping costs on OECD merchandise import price inflation and consumer price inflation



Note: The charts show the percentage point change in year-on-year inflation resulting from the shipping costs shock.
Source: OECD calculations.

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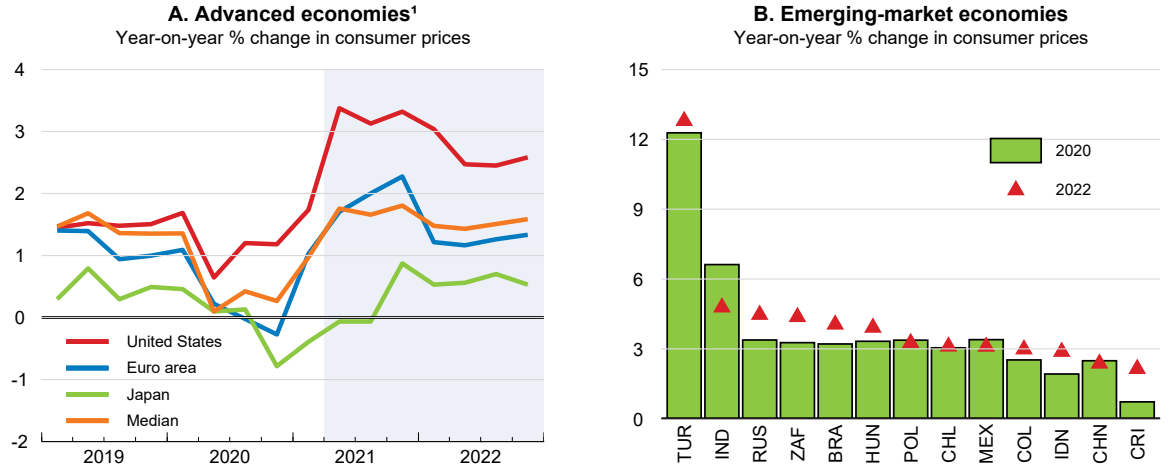
1. Besides changes in shipping costs, the estimated quarterly regression accounts for changes in the competitive pressure from domestically produced goods and services (proxied by the domestic demand deflator) and costs abroad (proxied by the trade-weighted sum of export prices in trading partners). Exchange rate effects are already included in price indices expressed in US dollars. Notwithstanding the fact that each shipping cost index, evaluated singularly, has a positive and statistically significant impact on merchandise import price inflation, the Harpex index is used for the analysis due to its better predictive performance.
2. The quarterly Phillips curve specification includes the output gap, real merchandise import price inflation (measured as the difference between import price growth and GDP deflator growth) and a dummy variable to correct for changes in standard VAT rates in specific quarters. The same panel equation has been estimated without the VAT dummy in order to include the United States in the sample, as no standard VAT rate exists for the country as a whole.

In the short term, the 12-month inflation rate is projected to increase significantly due to the past rise in commodity prices, in particular oil, and some one-off effects related to the crisis (Figure 1.15). For instance, inflation is likely to go up temporarily as prices in hard-hit activities reverse their decline last year with the easing of restraints.[6] However, there are several upside risks. A combination of possible negative supply-side effects (for instance related to higher operating costs due to virus containment regulations, shortages of key components, such as semiconductors, due to disruptions to global value chains, a desire to make up for past losses in revenues, or muted competition as a result of increased bankruptcies) could push up

[6] For example, in the United States, in the 12 months to February 2021, the components of the consumer price index (CPI) “other lodging away from home, including hotels and motels”, “airline fares”, and “admissions” fell by 14.9%, 25.6% and 5.2%, respectively. With the weights applied in the February CPI release, the contribution to the 12-month core CPI inflation rate was -0.4 percentage point. In April 2021, the 12-month price changes in the same three components were +7.4%,+9.6% and -0.5%, respectively, and their total contribution to the core inflation rate was 0.1 percentage point. Of the 1.7 percentage point increase in the core annual inflation rate from February to April, these three components accounted for just under one-third.

Figure 1.15. Inflation is projected to increase but to remain moderate



Note: Panels show the overall harmonised consumer price index for the euro area and the United-Kingdom; the overall consumer price deflator for the United States; and the overall consumer price index for the remaining countries.
1. Advanced economies include OECD countries except Chile, Colombia, Hungary, Mexico, Poland and Turkey.
Source: OECD Economic Outlook 109 database; and OECD calculations.

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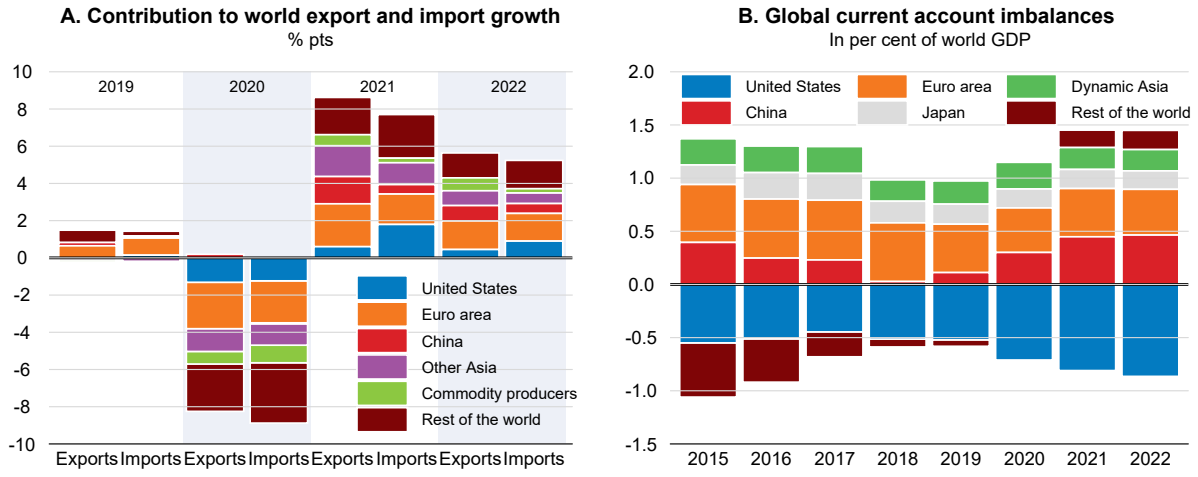
inflation by more than projected. Similarly, if private consumption increases more quickly than expected in many economies (for instance due to consumption out of accumulated saving – see below, or large fiscal stimulus, particularly in the United States), the resulting demand pressures, including on commodity prices that are assumed to remain unchanged in the projections (Annex 1.A.), could push inflation significantly higher than projected. In emerging-market economies, upside risks to inflation include further exchange rate depreciations and food and energy price increases that could de-anchor inflation expectations, especially in countries where central bank credibility has already been weakened.

In the longer term, inflation developments will depend on monetary policy actions and the structural factors that prevailed prior to the crisis. Prolonged high or rising inflation is unlikely if central banks take necessary measures to keep inflation expectations anchored at target and if structural changes that limited pressures on aggregate inflation in the advanced economies during the past three decades continue. These changes relate to the production and distribution of goods and services, firms' business models and demand structure (OECD, 2020c). There is large uncertainty about their future evolution. In the absence of protectionist policies or a large-scale reshoring of manufacturing production motivated by strategic considerations, globalisation forces are likely to continue limiting upward pressures on prices in the advanced economies. However, the COVID-19 experience may encourage some reshoring.

Trade prospects are improving, but imbalances may widen

World trade is projected to strengthen in 2021 despite persistently weak services trade. As long as the pandemic still requires sanitary restrictions and undermines travellers' confidence, trade in services will remain subdued. However, merchandise trade should recover steadily. Overall, world trade volumes are projected to increase by close to 8¼ per cent in 2021, after falling by 8½ per cent in 2020, and by just under 6% in 2022 (Figure 1.16, Panel A). The booming demand for durable goods, combined with supply-side bottlenecks in international transportation, has pushed shipping costs up since June 2020

Figure 1.16. Trade growth is set to strengthen and global imbalances are projected to increase



Note: Dynamic Asian Economies include Hong-Kong (China), Malaysia, the Philippines, Singapore, Chinese Taipei, Thailand and Vietnam. Commodity producers include Argentina, Brazil, Chile, Colombia, Russia, Saudi Arabia, South Africa and other non-OECD oil exporting economies.
Source: OECD Economic Outlook 109 database; and OECD calculations.

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(Box 1.3). These cost pressures are expected to wane towards the end of 2021 as both demand and supply factors normalise due to the widespread rollout of vaccines. The demand for durable goods is likely to moderate once mobility restrictions will be eased and consumption patterns revert towards services. Bottlenecks in ports and terminals should also be relieved as sanitary restrictions are lifted. Global current account balances are projected to widen slightly over the projection period, but to remain moderate by historical standards (Figure 1.16, Panel B). The strong boost to domestic demand in the United States this year is expected to push up the current account deficit, from just over 3% of GDP in 2020 to around 4% of GDP in 2022. Higher commodity prices could also improve the external positions of many commodity producers, particularly if higher export revenues are only spent on imports slowly. National saving is projected to remain high in many countries in Europe and Asia with a long-standing external surplus, with the current account surplus in China rising to 2¾ per cent of GDP in 2022 from 2% of GDP in 2020.

The outlook is subject to upside and downside risks

There are significant upside and downside risks to the projections outlined above. Key uncertainties include: the epidemiological outlook and the pace of vaccine deployment; the extent to which household saving rates are normalised and accumulated “excess” savings in 2020 are spent; the health of companies once government support is scaled down; and the vulnerabilities that persist in many emerging-market economies and developing countries. In addition to these risks, which are discussed below, there are other long-standing issues that could affect the outlook. These include the potential implications of excessive risk-taking and private debt accumulation if adverse shocks occur, and the extent to which British and EU companies successfully adapt to the changes brought about by the free trade agreement between the European Union and the United Kingdom concluded in end-2020.

Significant uncertainty remains about the pace of vaccine deployment and the evolution of the virus

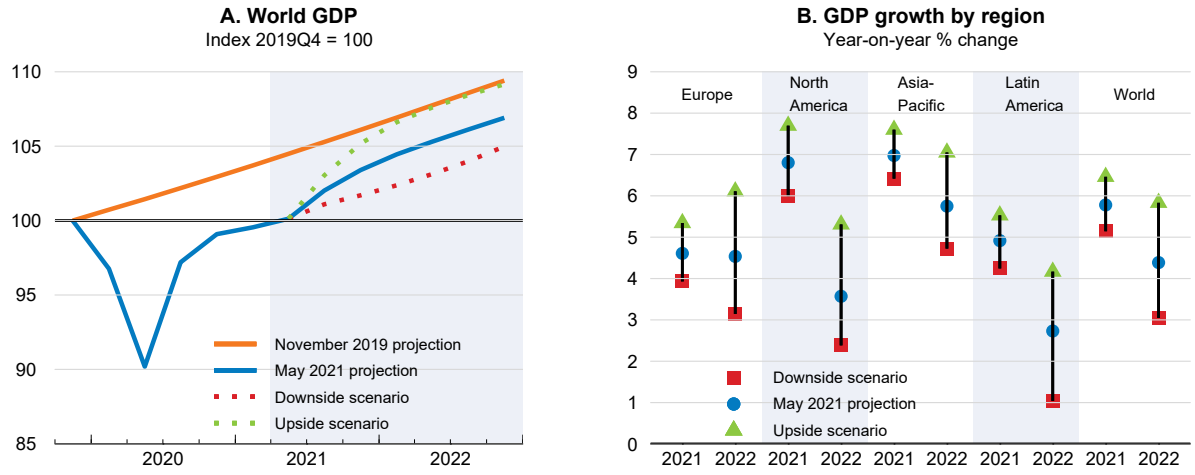
The baseline projections are conditional on the evolution of the pandemic, the pace at which vaccines are deployed throughout the world, and the economic impact of a gradual reopening of economies over time. The distribution of risks around these projections has become better balanced in recent months following the successful development and ongoing rollout of vaccines, but significant uncertainty remains.

- On the upside, faster progress in deploying effective vaccines around the world and more effective efforts to suppress the virus before vaccinations are completed would enhance the pace at which containment measures can be relaxed and provide a stronger boost to the confidence and spending of consumers and companies. In a scenario of this kind, starting from the latter half of 2021, with household saving rates reduced by over 2 percentage points in the typical advanced economy, global output could be brought close to the path expected prior to the pandemic (Figure 1.17, Panel A). Global GDP growth would be raised substantially, to around 6½ per cent and between 5¾-6 per cent in 2021 and 2022 respectively.
- On the downside, the key risk is that the speed of vaccine production and deployment will not be fast enough to stop the transmission of the virus or prevent the emergence of more contagious variants of concern that require new or modified vaccines. In such circumstances, confidence and private sector spending would be weaker than in the baseline, with some capital being scrapped. Stricter containment measures could need to be used again during the latter half of 2021, and substantial repricing could occur in global financial markets due to higher risk aversion (OECD, 2020d), pushing down equity and commodity prices and raising risk premia for emerging-market economies. In such a scenario, output would remain weaker than the pre-crisis path for an extended period, raising the chances of long-lasting costs from the pandemic (Figure 1.17, Panel A). World GDP growth could be lowered by close to ¾ percentage point in 2021 and 1½ percentage points in 2022, taking it to 5% and 3% respectively.
- By the end of 2022, global real income in the downside scenario would be around USD 5 trillion lower than in the upside scenario, highlighting the substantial cost of failing to ensure rapid and complete vaccination around the world.

There are potential differences across countries and regions in the effects of these shocks (Figure 1.17, Panel B). In particular, the direct impact on domestic demand could be smaller in Asia-Pacific countries that have kept domestic COVID-19 cases at very low levels and maintained strict control of international borders, including Australia, China, New Zealand and some other small Asian economies. However, these countries remain exposed to fluctuations in world demand and financial market sentiment, and will benefit if borders can be reopened earlier for international travel.[7] A second potential cross-country difference is between advanced and emerging-market economies. On the upside, the scope to spend from accumulated household saving is relatively high in many advanced economies, particularly the United States (see below). On the downside, the effects of a slower-than-expected vaccine rollout and risk repricing in financial markets are particular concerns in those emerging-market and developing economies in which vaccination deployment is not well advanced, including many in Latin America.

[7] In the upside scenario, these factors are incorporated by assuming that the simulated decline in household saving rates is one-half of that in the other major economies.

Figure 1.17. Substantial uncertainty remains about the projections



Note: See text for description of the scenarios. Regional estimates in Panel B are PPP-weighted aggregates.
Source: OECD Economic Outlook 109 database; and OECD calculations using the NiGEM macroeconomic model.

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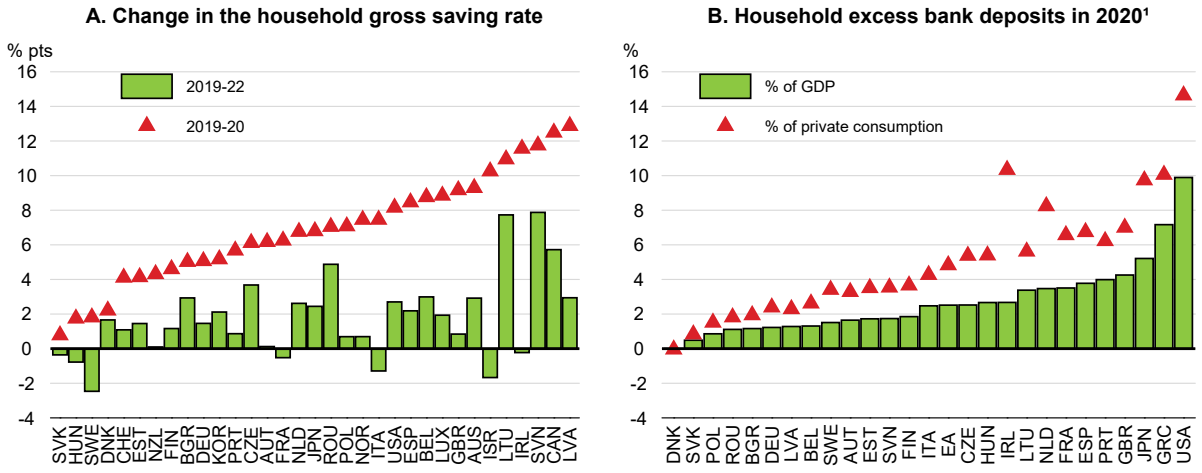
Policy settings also affect the impact of the shocks in the two scenarios. The upside scenario is conditional on the assumption that policy interest rates remain at their baseline levels and that there is no additional removal of discretionary fiscal support beyond that assumed in the baseline, although the automatic fiscal stabilisers are allowed to operate fully in all countries. Stronger growth helps to ease government debt burdens, with the government debt-to-GDP ratio declining by around 5 percentage points in the median advanced economy by the end of 2022. The downside shocks are cushioned by macroeconomic policies. The automatic fiscal stabilisers are allowed to operate fully in all countries, and policy interest rates are allowed to decline in many countries, although there is assumed to be a binding zero lower bound with policy rates remaining unchanged where they are already negative, and no additional unconventional policy measures are assumed. This affects the cross-country impact of the shocks, with real long-term interest rates declining in many emerging-market economies (despite higher risk premia), but rising in many advanced economies due to unchanged nominal interest rates and declining inflation.

Excess saving poses upside risks to household consumption

The projected sizeable increase in private consumption in 2021, partly reflecting pent-up demand from the last year, and sustained consumption growth in 2022 are predicated on projections of robust disposable income growth and, in many countries, on the gradual normalisation of saving rates towards pre-crisis levels (Figure 1.18, Panel A). In the OECD countries as a whole, private consumption is projected to rise by around 5½ per cent this year and 4¾ per cent in 2022. The near-term projected increase in consumption is consistent with survey evidence of rising household spending intentions (Figure 1.19) and improving consumer confidence. In Canada, spending growth is expected to outstrip income growth over the next 12 months by all income groups, with the gap between spending and income wider than typically seen prior to the pandemic. In the euro area, plans to make major purchases have risen in recent months, but – with the exception of the highest income quartile – the plans remain below pre-pandemic levels; plans to save over the next 12 months by all income quartiles also remain higher than prior to the crisis.

Figure 1.18. Households increased saving and bank deposits in 2020



1. Excess deposits are calculated as a difference between the December 2020 level and a hypothetical level assuming that deposits increased during 2020 at their average pace in the five preceding years.
Source: OECD Economic Outlook 109 database; Bank of Japan; ECB; US Federal Reserve; and OECD calculations.

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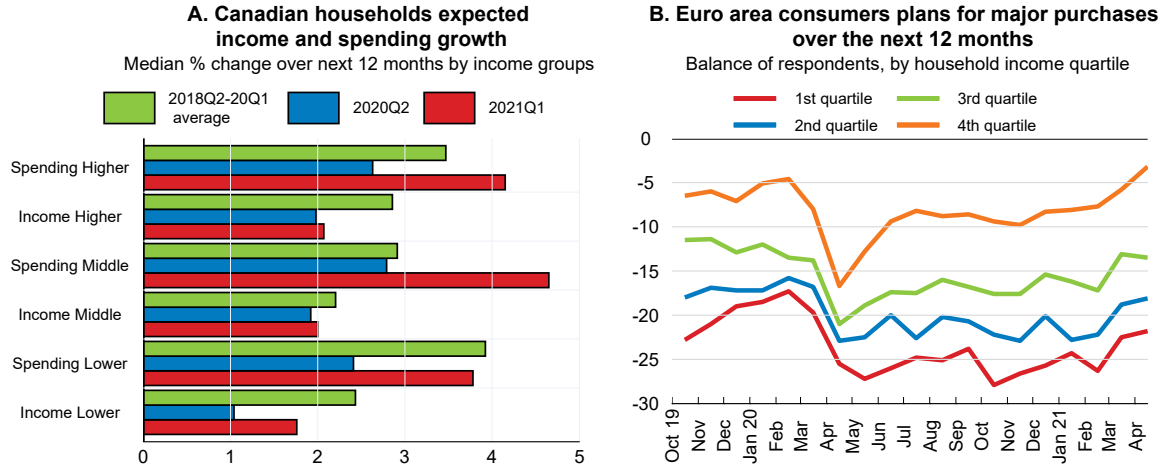
Figure 1.19. Survey evidence points to rising spending intentions



Note: Panel A: the suffixes Higher, Middle and Lower denote spending and income growth expectations by higher-income, middle-income and lower-income households. Panel B: balance of answers to the question "compared to the past 12 months, do you expect to spend more or less money on major purchases over the next 12 months?".
Source: Canadian Survey of Consumer Expectations; European Commission; and OECD calculations.

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The accumulation of excess savings in 2020 poses an upside risk to global growth. In 2020, household disposable income declined by less than GDP, and even increased in some countries due to extraordinary government support, while consumption of many services was restricted.[8] Consequently, household saving rates increased to record highs in most OECD countries (Figure 1.18, Panel A) and households accumulated large sums of bank deposits well above past deposit accumulation trends (Figure 1.18, Panel B).[9] Even using only a tenth of these "excess" savings to fund additional private consumption in 2021 could boost GDP growth in this year by between ⅓-¾ percentage point in the G7 economies and the euro area as a whole.

However, there are several reasons why the accumulation of household financial assets last year may have only a limited impact on private consumption (as assumed in the projections discussed above). The overall propensity to consume out of wealth, which includes bank deposits, is not very high. It tends to be even lower for wealthy and high-income people (Armpudia et al., 2020; Fisher et al., 2020), who have largely driven excessive savings in 2020. In the United States, the largest increase in bank deposits was among high-income, wealthy and older individuals, even though people from the middle and lower parts of income and wealth distributions also increased their bank deposits (Figure 1.20).[10] Similar patterns are observed in the large European economies.[11] High-income and wealthy households are more likely to use accumulated deposits to invest in bonds, equities or real estate rather than to spend on consumer goods and services, especially if the increase in deposits resulted from the sale of assets during the pandemic. If this were to be the case on a large scale, asset prices would be more likely to increase further than consumption. In the case of many services, including travel, bars and restaurants, tourism and entertainment, possibilities to make up foregone consumption in a given period are limited, even though households can buy higher-quality services. Thus, it is unlikely that strong growth in demand would be sustained for a prolonged time. Also, high-income households, whose consumption declined the most in 2020, could sustain consumption of such services out of their future income. Finally, some households could chose to pay back debt from accumulated assets rather than to increase consumption.

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[8] Survey evidence from the United States suggests that stimulus cheques were used in roughly equal proportions on consumption, debt payments and saving. The exact numbers vary among studies and over time, but the amount of extra income to be spent on consumption was no higher than 25%-40% (Baker et al., 2020; Coibion et al., 2020; Armantier et al., 2021). In the euro area, forced saving (reflecting lower consumption due to containment measures and the fear of infection) rather than precautionary motives appears to account for the increase in household saving in the first nine months of 2020 (Deutsche Bundesbank, 2020; Banca d'Italia, 2021; Cuenca et al., 2021).

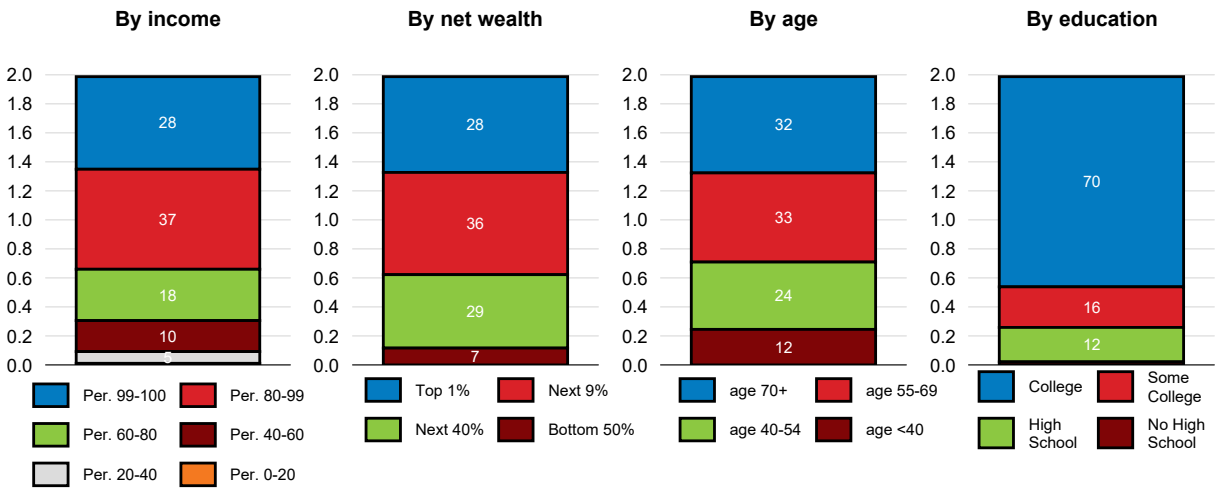
[9] In the system of national accounts, household saving is the part of disposable income which is not spent on consumption. Saving can be used to purchase property (residential investment) or financial assets (including depositing money in banks), or to pay back debt. So, changes in bank deposits and in national account saving do not need to be correlated. Some of the changes in bank deposits may stem from transactions in financial and non-financial assets and be unrelated to the flow of saving in a given period. For instance, household bank deposits can increase when the household sector as a whole sells (on net) its holdings of bonds or equities.

[10] In the United States, placing proceeds from the sale of equities and bonds in banks could have contributed to the very big increase in bank deposits of wealthy and high-income individuals, who own large stocks of such financial assets.

[11] Survey evidence in the United Kingdom indicates that in 2020 a significantly higher proportion of high-income and older households increased saving than reduced it, while the opposite was true for the unemployed (Tenreyro, 2021). In France, data from one bank group show that, in value terms, wealthy households dominated the increase in bank savings, though the highest percentage increase was among households with little financial wealth (Bonnet et al., 2021; Fiz et al., 2021).

Figure 1.20. The increase in US bank deposits was mostly driven by high-income, wealthy, older and well-educated households

Change in checkable deposits and currency between 2019Q4 and 2020Q4 in the United States, trillion USD



Note: Numbers in the bars indicate the percentage share of a specific category in the total change.
Source: US Federal Reserve, distributional financial account; and OECD calculations.

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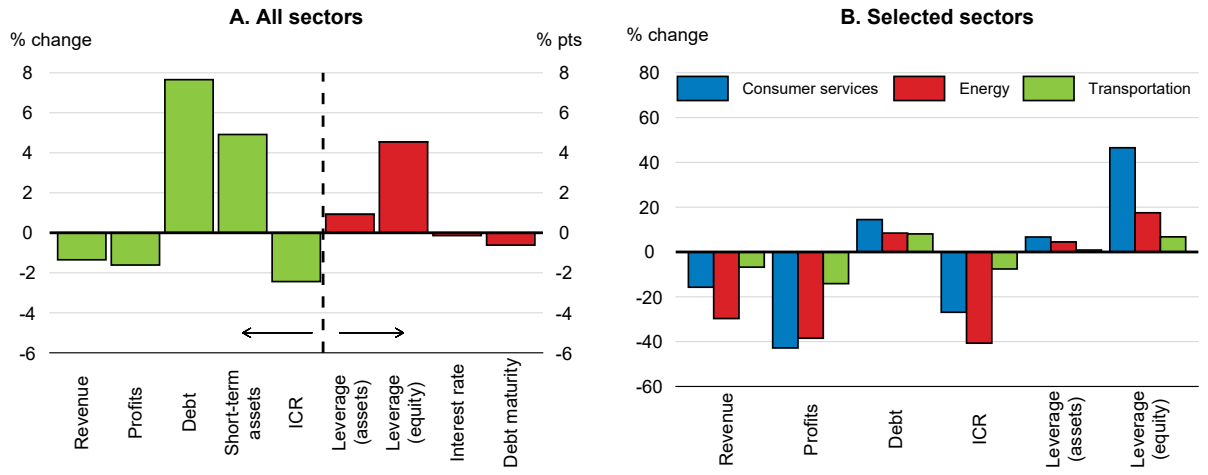
Companies have resisted well, but performance has varied across sectors and company sizes

The COVID-19 shock has had a negative impact on corporate profitability and leverage. A preliminary analysis based on a large sample of non-financial companies in OECD and major non-OECD emerging-market economies suggests that revenues and profits dropped by 2% for the median firm, debt and leverage ratios increased, and the interest coverage ratio (ICR), a key solvency metric, declined by roughly 2% (Figure 1.21, Panel A).[12] However, the (effective) interest rates paid on debt by companies decreased and debt maturity increased slightly, suggesting that monetary and prudential policy support was effective in keeping debt servicing costs low and stable for relatively large corporations. There was also a sharp increase in short-term assets, of a magnitude close to the observed growth in debt. This suggests that a sizeable portion of the funds raised by firms currently sits on corporate balance sheets as liquid, short-term investments (cash or equivalent).

[12] The analysis is based on firm-level data provided by S&P Capital IQ. The sample covers 55 000 public and private non-financial companies operating in OECD countries and major (non-OECD) emerging-market economies, and for which FY 2020 accounts are now available. The firms covered are relatively large and collectively represent USD 25 trillion of corporate debt. The median firm in the sample had USD 30 million in revenues in 2019 and USD 35 million in assets. Ten per cent of firms are located in emerging-market economies.

Figure 1.21. Evolution of key performance indicators between FY2019 and FY2020



Note: Profits are measured using earnings before interest, taxes, depreciation and amortisation (EBITDA). Debt includes both bonds and loans. Leverage is measured alternatively using assets and equity in the denominator (i.e. debt/asset and debt/equity). The interest coverage ratio (ICR) is computed using EBITDA (lease adjusted) over interest expenses. The interest rate is the effective interest rate paid on debt, measured using interest expenses over debt. The share of outstanding debt maturing within three years is used to proxy for changes in debt maturity. Changes in leverage ratios, interest rate and debt maturity – highlighted in red in Panel A – are all expressed in percentage points. Changes in other metrics (revenue, profits, debt, ICR and short-term assets) are reported in per cent. All statistics are reported for the median firm for each indicator and weighted by the firm's asset size in 2019.
Source: S&P Capital IQ; and OECD calculations.

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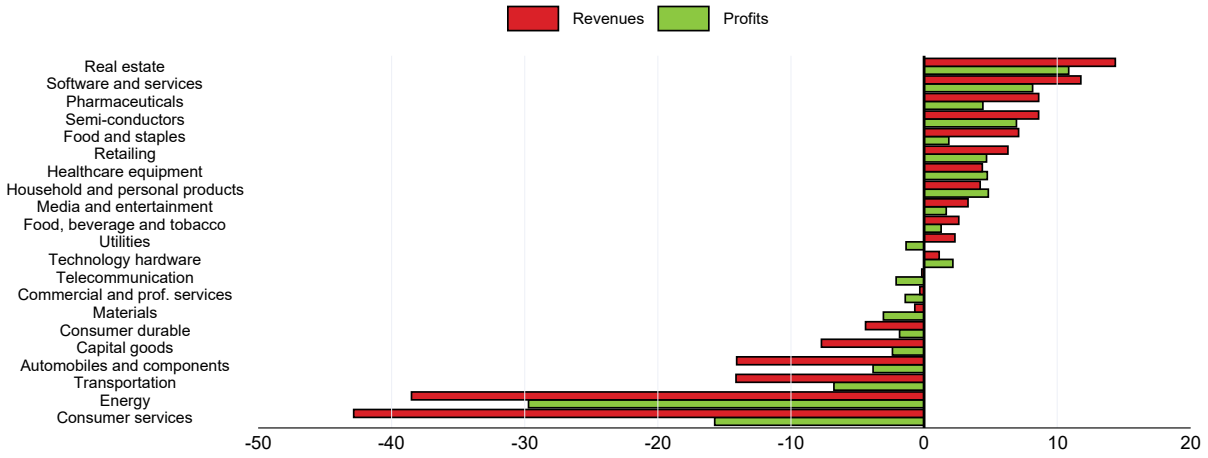
This general picture conceals significant heterogeneity across different sectors and types of firms. Revenues and profits dropped sharply for firms operating in the energy sector, reflecting depressed oil prices during most of 2020, and in contact-intensive consumer services, such as hotel and restaurant chains, casinos and gaming, and cruise lines (Figure 1.22).[13] In those industries, the median firm lost up to 30% in revenues and 50% in earnings before interest, taxes, depreciation and amortisation (EBITDA) compared with fiscal year (FY) 2019. The income shock was also sizeable in the transportation and automobile sectors. As a result, the evolution of profits, leverage and solvencies for firms in those sectors was much more dramatic than for the median firm in the economy (Figure 1.21, Panel B). In contrast, firms operating in software services, pharmaceuticals, healthcare or retailing expanded substantially in FY 2020, in terms of both revenues and profits. The performance of firms also varied with the size of firms, with preliminary evidence suggesting that smaller firms suffered more than larger ones (see below).

Financial stress has been contained, for now. The sectoral asymmetry of the shock, along with the ability of firms to raise cash quickly, has limited the level of financial stress in the corporate sector. In spite of the strength of the COVID-19 shock, the number of firms "in distress" – measured by the share of firms with either negative equity or an ICR below 1 in the sample – has been stable.[14] This finding is in line with the general slowdown in bankruptcies among both large and small firms observed in OECD countries, helped

[13] The energy sector mainly covers firms operating in the oil sector at various stages of the production process (drilling, exploration, refining, storage, etc.). Companies involved in power generation, such as gas and electricity, are classified as "Utilities" and suffered much less from the COVID-19 shock.

[14] Five per cent of firms report negative equity, and less than 2% an ICR below 1, in FY2020. These numbers are almost unchanged compared to FY2019. Findings are similar when using the amount of debt in these firms (rather than the raw count).

Figure 1.22. Changes in revenues and profits between FY2019 and FY2020, by sector



Note: Profits are measured using earnings before interest, taxes, depreciation and amortisation (EBITDA). Results are reported for the median firm for each indicator and weighted by the firm's asset size in 2019.
Source: S&P Capital IQ; and OECD calculations.

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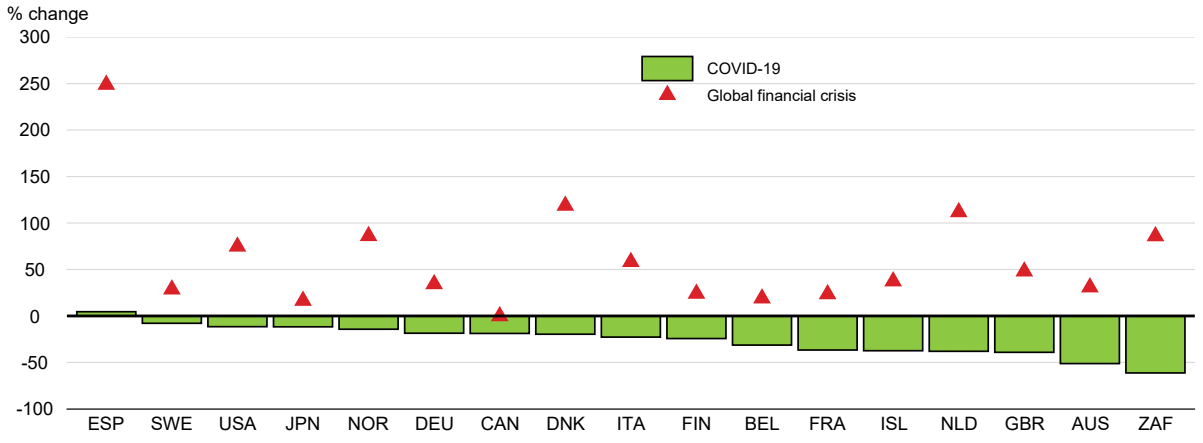
by public sector support through loans, credit guarantees and tax deferrals, and temporary changes to insolvency regimes (Djankov and Zhang, 2021).[15] So far, the number of bankruptcies has remained lower than in the global financial crisis (Figure 1.23), and, in some advanced economies, it was even lower than in the years preceding the COVID-19 crisis.

Figure 1.23. Corporate bankruptcies have declined so far in contrast to the previous crisis

Percentage change in the number of bankruptcies



Note: This figure shows the percentage change in the quarterly number of corporate bankruptcies during the COVID-19 pandemic (from 2019Q4 to the latest available) and during the global financial crisis (from 2008Q1 to the peak between 2008Q2 and 2009Q4). The latest available data refer to 2020Q4 in most countries (2020Q2 for South Africa). The number includes bankruptcies of sole proprietorships in Canada, Denmark, Iceland, Italy and Spain.
Source: OECD Timely Indicators of Entrepreneurship; and OECD calculations.

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[15] The reasons behind the slowdown in bankruptcy may differ across firm sizes. Large firms are more able to survive "on their own", at least in some sectors, while small firms might be more dependent on policy support and/or temporary suspensions in bankruptcy procedures.

It is too early to tell whether this relatively benign picture will persist. The sample of firms for which up-to-date financial information is available currently tilts towards medium-sized and large firms, with sizeable buffers and a stable access to credit.16 A complete picture will be available only once more firms, in particular smaller and more fragile firms, report their financial statements. Other important challenges, related to debt sustainability, debt overhang and corporate "zombification", could also arise in the longer term (Box 1.4). Still, this "hibernation" already contrasts sharply with previous crisis episodes, and hints at the effectiveness of policy support when it comes to avoiding excessive corporate stress in the short run (Cros et al., 2021). Although the channels through which policy intervention ultimately supported the non-financial corporate sector remain to be clarified, there seems to be a negative correlation between estimates of fiscal policy support and the increase in the number of firms in distress at the country level.17

Considerable uncertainty surrounds the situation of small and medium-sized enterprises (SMEs), which account for the bulk of the employment in OECD countries and are over-represented in contact-intensive industries. Preliminary evidence suggests that SMEs have been more affected by the effects of COVID-19 than other firms (Chetty et al., 2020), and that policy support has been crucial in keeping them afloat (OECD, 2020e; Gourinchas et al., 2020). Nevertheless, little is known about their actual financial position. Most of the analysis on SMEs currently relies on simulations and points to larger liquidity and solvency issues for small firms than for large ones, and to a potentially large number of near-term insolvencies (Diez et al., 2021).

Box 1.4. Key challenges for the non-financial corporation sector

The COVID-19 pandemic raises three medium-term challenges for the corporate sector: (i) the debt overhang problem, and its consequence for corporate investment; (ii) the financial stability implications of the rapid debt build-up; and (iii) the emergence of so-called "zombies" in the corporate sector. This box discusses them briefly.

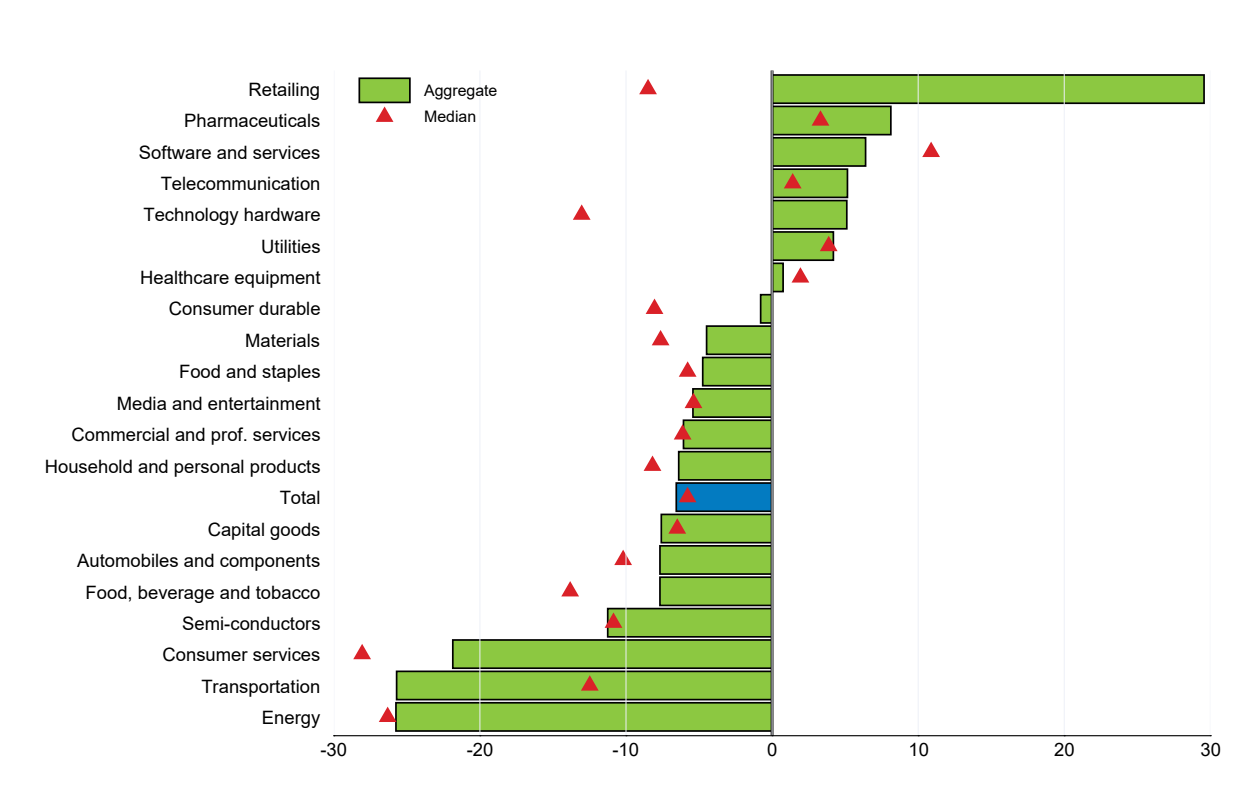
Debt overhang and investment

The debt overhang is a key source of concern as high corporate debt tends to reduce investment in the aftermath of economic crises, with negative implications for the recovery (Kalemli-Özcan et al., 2019; Barbiero et al., 2020; Demmou et al., 2021). In the sample of mostly medium-sized and large firms used for the analysis (see the main text), the aggregate level of capital expenditures decreased by almost 7% in fiscal year (FY) 2020 compared to FY 2019, in line with the aggregate business (non-residential) investment slowdown observed in advanced and emerging-market economies (Figure 1.24). Investment in sectors that were hit hard (energy, consumer services and transportation) contracted drastically. In contrast, firms operating in healthcare equipment, utilities, software services, telecommunications and pharmaceuticals expanded capital expenditures.[1] On average, a percentage point increase in the equity (asset) leverage ratio between 2019 and 2020 was associated with a 2% (5%) drop in capital expenditures, suggesting that the persistence of a debt build-up strategy will ultimately weigh on investment in the medium term.

[16] Even for large firms, some accounting conventions may also understate the damage done to firms' balance sheets, since FY 2020 accounts capture sometimes the impact of the pandemic only partially. For instance, FY 2020 accounts closed in June 2020 only reflect the first wave of lockdowns and are buoyed by the pre-pandemic period. However, this is relatively rare in the sample used.

[17] Based on IMF (2021) estimates of fiscal support, accounting for additional spending (and forgone revenue), equity injections, and loans and credit guarantees deployed in response to the COVID-19 pandemic. The change in the share of firms in distress between FY 2019 and FY 2020 is an average of two indicators in the sample of firms covered by the S&P Capital IQ database: the number of firms with negative equity and the number of firms with an interest coverage ratio below 1.

Figure 1.24. Change in capital expenditures by industry



Note: Bars show the change in aggregate capital expenditures for each industry. Results reported for the median firm within each industry are weighted by the firm asset size in 2019. The sample of firms is the same as in the main text.
Source: S&P Capital IQ; and OECD calculations.

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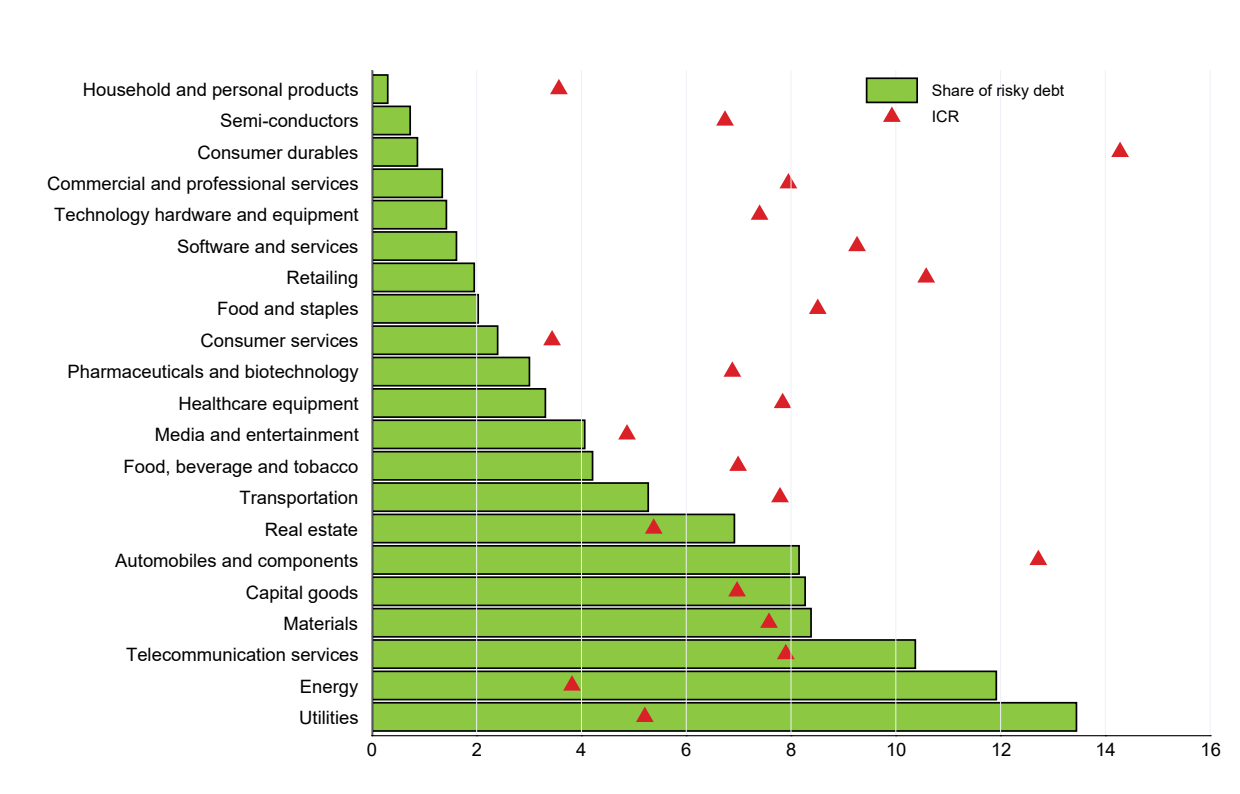
Level and quality of corporate credit

Rising and lower quality corporate credit in many advanced and emerging-market economies was already a cause for concern before the COVID-19 crisis (OECD, 2020f). Although swift and strong policy support has allowed firms to borrow extensively, it has also amplified debt concerns. Around 30% of the non-financial corporate debt stock currently rated by S&P sits in entities rated as "speculative", and 40% in entities with only a BBB rating, the lowest rating in the investment grade category (around USD 5 and 8 trillion, respectively; Figure 1.25).[2] Mirroring the resilience observed in the broader sample of firms, the share of distressed firms in the analysed sample of rated firms has also remained low and stable. In particular, the COVID-19 shock has had a limited impact on the sectors that have contracted most of the risky debt at the global level, such as utilities and telecommunications (Figure 1.25).[3] The consumer services sector, which has taken the hardest hit and reported the lowest median interest coverage ratio (ICR) in FY 2020 among all industries, also represents only a small portion of the lower quality debt stock. Still, solvency challenges remain in several industries, especially with much corporate debt due to mature in 2024, at a time when policy interest rates may be higher than when some of the outstanding debt was issued.

"Zombification" in the corporate sector

The efficiency and size of public support to firms in the COVID-19 crisis has also reignited fears of "zombification". By being too generous, policy support might actually keep some unviable firms alive – the so-called "zombies", and valuable resources away from viable ones. Ultimately, this tendency could hinder

Figure 1.25. "Risky" debt and the median interest coverage ratio by industry



Note: Risky debt refers to the total amount of debt (both loans and bonds) in firms rated BBB or speculative, as of FY 2019. The median interest coverage ratio (ICR) reports the median FY 2020 ICR of firms with a BBB or speculative rating operating in each industry, using 2020 firms' debt size as weights. This measure is preliminary since the 2020 ICR is still missing for 25% of the firms.
Source: S&P Capital IQ; and OECD calculations.

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the Schumpeterian creative destruction process and depress innovation, investment and growth. Preliminary evidence for France suggests that this concern has not yet materialised, and that the normal pattern of firm failures was unchanged in 2020 in spite of the support from policy (Cros et al., 2021).[4] The peculiar nature of the COVID-19 crisis also implies that many firms could temporarily be classified as zombies, when they are in fact viable (Laeven et al., 2020). In the sample of mostly larger firms, the number of firms with an ICR below one – a standard criteria in the literature – is still relatively low.[5] This backward looking analysis, however, does not preclude the future rise of new zombies, especially if consumer demand shifts permanently away from some goods and services but governments are reluctant to let some companies fail.

1. The investment increase in the retail industry is almost entirely due to the "internet and direct marketing retail" sector, and Amazon in particular.
2. The analysis here restricts attention to the 2 800 public and private non-financial companies operating in OECD countries and major (non-OECD) emerging-market economies with an active S&P issuer rating. The sample consists mainly of large publicly listed firms incorporated in advanced economies, but also includes private firms (30%) and/or firms in emerging-market economies (13%). Collectively, these firms represent USD 20 trillion of non-financial corporate debt. US firms account for 40% and firms in emerging-market economies for 20% of the USD 13 trillion of non-financial corporate debt currently rated either as speculative or BBB.
3. A notable exception to this pattern is the energy (i.e. oil) sector, which has suffered heavy losses and which accounts for most of the rating downgrades and debt restructuring deals over the past year (OECD, 2020f).
4. Using data on French firm failures in 2020, Cros et al. (2021) find that the same factors that predicted firm failures in 2019 – primarily low productivity and debt – were at work in 2020.
5. The inability to make interest payments from operating income – or an ICR below one – is a standard proxy used to identify zombies (Adalet McGowan et al., 2018; Acharya et al., 2019). Less than 2% of firms in the sample currently fall in this category (i.e. around 800 firms), and only 20% of those actually entered the pandemic as "zombies" (i.e. with an ICR that was already below one both in 2018 and 2019). In addition, the number of potential zombie firms, as well as the size of debt currently sitting in those entities, is limited.

Pandemic-related risks are still high in some emerging-market economies

A pick-up in COVID-19 infections, the slow and uneven pace of vaccination, and the ensuing prolongation or strengthening of confinement measures have all weighed on economic activity in many emerging-market economies and aggravated existing vulnerabilities. While financial market stress is lower than a year ago in the majority of emerging-market economies and capital flows have largely reverted to pre-crisis levels, a number of internal and external risks remain.

Government deficits and debt increased sharply in many emerging-market economies in 2020, primarily due to reduced tax revenues. Despite this fiscal deterioration, major emerging-market economies managed to issue more than USD 3.4 trillion debt in 2020 and sovereign ratings have been stable with a few exceptions (OECD, 2021c).[18] Emerging-market economies in Asia, in particular China, India and Indonesia, accounted for about half of total emerging-market economy sovereign debt issuance in 2020, helped by their recovery and stronger fundamentals. However, low and lower-middle-income countries have continued to experience financing stress, leading to the extension until the end of 2021 of the Debt Service Suspension Initiative, the G20 effort to address debt problems in vulnerable economies. In several emerging-market economies, corporate debt has also increased substantially, in particular in China where it reached more than 160% of GDP in 2020.

The deterioration of the fiscal situation exposes emerging-market economies to the risk of a surge in borrowing costs, the associated tightening of credit conditions, and exchange rate depreciations. Such risks differ, however, among emerging-market economies. In Brazil, the continuing need to provide support to hard-hit sectors despite limited fiscal space may increase financial market volatility. The increased exposure of the domestic banking system to government debt in South Africa may reduce credit supply for businesses and households, with ensuing negative implications for private investment. Negative effects for credit conditions and financial stability could be amplified by rising non-performing loans, following the end of the temporary easing of prudential regulations (for instance, in India and Mexico). In Argentina and Turkey, further weakening of the macroeconomic and institutional frameworks could elevate financial market stress.[19]

Emerging-market economies remain exposed to global shocks. Expectations of rising growth and inflation if upside risks materialise in the United States could push US bond yields higher, triggering capital outflows from emerging-market economies and increasing currency volatility, as seen in past episodes such as the "taper tantrum" in 2013. Rapidly increasing sovereign debt in Brazil and South Africa, and the large foreign ownership of corporate and public debt in Indonesia, make some sectors of these economies vulnerable to such capital flow reversals. However, a generally increasing share of local-currency bonds in total sovereign debt over the past decade reduces the exchange rate exposures of many emerging-market economies.[20] Still, the large presence of foreign investors in these bond markets makes emerging-market economies sensitive to swings in global risk sentiment, as was observed at the peak of the COVID-19 crisis (Figure 1.26, Panel A; Borri, 2018; Bertaut et al., 2021). In countries such as India, where current account deficits as a share of GDP declined, external debt is low and international reserves are high, future capital outflows should have less negative effects than during the "taper tantrum" (Figure 1.26, Panel B).[21]

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[18] In February 2021, Moody's downgraded the long-term sovereign bond rating of Tunisia, moving it to a lower rating within the non-investment grade category. S&P reduced Chile's long-term issuance rating in March 2021 but maintained its investment-grade rating, and cut Colombia's sovereign rating to below the investment grade in May 2021.

[19] Monetary financing of government budget deficits continues to place pressure on the currency and inflation dynamics in Argentina. In Turkey, concerns about macroeconomic policies after the unexpected termination of the tenure of the central bank governor in late March 2021 resulted in a renewed large currency depreciation.

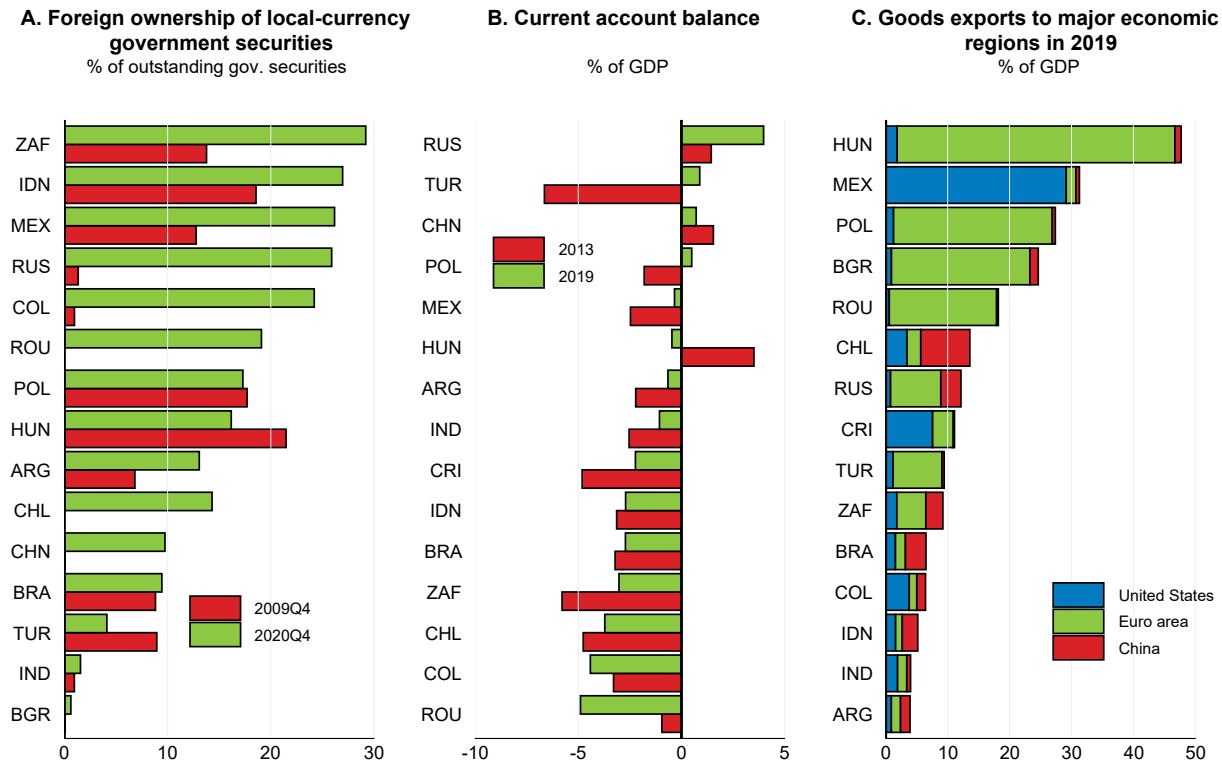
[20] This trend has been reversing in Turkey since the "taper tantrum". In 2020, Turkey even increased its foreign-currency denominated domestic public debt issuance to 37% from 25% in 2019 (MoTF, 2021).

[21] In Turkey, the return of the current account balance to surplus in 2019 from a deficit (2.1% of GDP) in 2018 was associated with a sharp decline in total domestic demand in that year.

Sound monetary policy frameworks, flexible exchange rate regimes and access to liquidity buffers provided by international financial institutions also continue to reduce the vulnerability of emerging-market economies to external financial shocks.[22] In this context, the proposed Special Drawing Rights allocation of USD 650 billion by the IMF would buttress the global safety net and help countries with high external financing needs.

If an eventual rise in US interest rates is accompanied by stronger economic growth in the United States and other large economies, any negative financial market spillovers could be offset, at least partially, by stronger global trade demand. Mexico and other Latin American economies would benefit in particular from growing import demand from the United States given their strong trade links (Figure 1.26, Panel C). In addition, Colombia, Costa Rica, Turkey and other emerging-market economies relying heavily on tourism and services exports would benefit from an earlier-than-expected reopening of borders enabled by improved vaccination coverage. An increase in commodity prices associated with stronger global growth, particularly led by China, would put pressure on the external balances of net commodity importers such as India and Turkey, with opposite effects on net commodity exporters, including Brazil, Chile, Russia and South Africa.

Figure 1.26. Indicators of exposures to external shocks in emerging-market economies



Source: OECD Economic Outlook 109 database; IMF Sovereign Debt Investor Base for Emerging Markets database; IMF Direction of Trade statistics; and OECD calculations.

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[22] For example, the IMF flexible credit line agreements with Mexico and Colombia provide insurance against shortages of foreign-currency liquidity. In Costa Rica, the approval of the Extended Fund Facility by the IMF should boost the economic recovery and help maintain support to vulnerable households while preserving public debt sustainability.

Policy requirements

The top policy priority is to ensure that all resources necessary are used to produce and fully deploy vaccinations as quickly as possible throughout the world to save lives, preserve incomes and limit the adverse impact of containment measures on well-being. International policy co-ordination is essential to increase the gains from national policy actions to tackle the pandemic, enhance resilience and ensure a strong and inclusive recovery.

Fiscal and monetary policy support should be maintained while there is still labour market slack and limited signs of sustained price pressures. The premature and abrupt withdrawal of support should be avoided whilst economies are still fragile and growth remains hindered by containment measures and the pace of vaccinations. Such a policy mix will maximise the joint effectiveness of each policy and minimise the risks of long-lasting scars, thereby supporting government debt sustainability. In economies allowing some overshooting of the inflation target, it is easier to maintain accommodative monetary policy for longer, with beneficial effects for fiscal policy. Government support to individuals and businesses should be maintained but should be increasingly targeted on sectors still affected by containment measures. Recovery plans should also prioritise new measures, regulatory and fiscal, that support demand, improve the prospects for digitalisation of the economy and help tackle climate change.

Enhanced structural reforms are required in all countries to raise opportunities, improve economic dynamism, and foster a strong, sustainable and inclusive recovery. The policies implemented to support the recovery from COVID-19 are an opportunity to address old and new challenges if economic stimulus measures and recovery plans focus on restoring growth, building resilience and sustainability and supporting people (OECD, 2021d).

The pace of vaccine production and deployment needs to be accelerated

The key priority, both on epidemiological and economic grounds, is to ensure vaccines are produced and deployed as quickly as possible throughout the world. Everything necessary should be done to enhance the capacity for a faster pace of vaccination and to ensure that supplies are used fully as they become available. Failure to ensure the global suppression of the virus raises the risk that new, more threatening mutations appear, with some restrictions on mobility having to remain in place. Significant, though uneven, progress has been made in vaccinating the population in advanced economies, but broad immunity appears likely to be achieved by the latter part of the year in these countries.

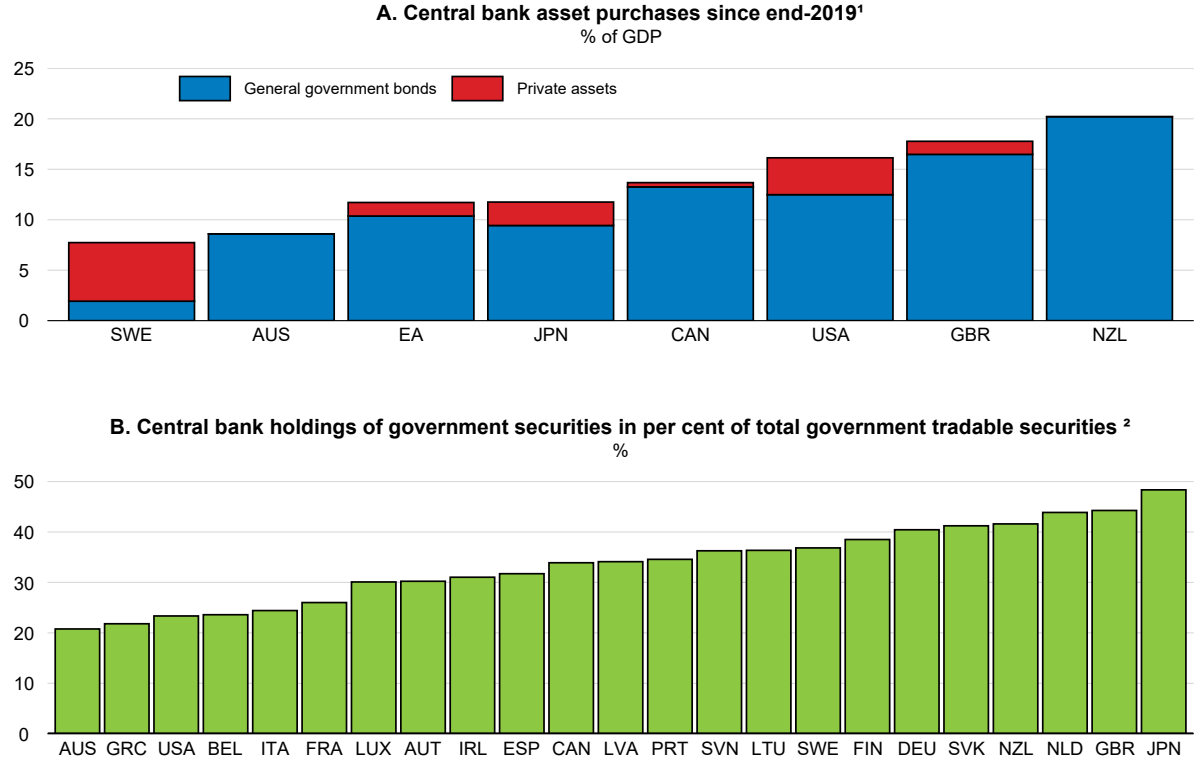
National policy efforts need to be accompanied by greater global co-operation and funding to ensure adequate and timely availability of affordable vaccines throughout the world. The resources required to provide vaccines and associated health equipment to lower-income countries are small compared with the gains from a stronger and faster global economic recovery. At present, the supplies of vaccines for the poorest countries, and the funds committed to the COVAX initiative, remain well below what is required if vaccinations are to be provided to all in need. The announcement by many high-income countries that surplus vaccines will be distributed to lower-income economies is welcome, but the pace at which this will occur is uncertain. Closure of borders to limit exports of finished vaccines and the raw materials used for their production should be avoided, and would be self-defeating given the strong interdependencies along vaccine supply chains (OECD, 2021e).

Governments also need to maintain sufficient resources to allow test, track, trace and isolate programmes to operate effectively and limit further sharp rises in infection numbers, as has been achieved in several Asia-Pacific and Nordic countries. Such steps would allow timely and targeted localised measures to be used to deal with any new outbreaks before vaccination campaigns are complete, limiting the overall economic and social costs.

Monetary policy

Monetary policy remains very accommodative in the advanced economies. Policy interest rates have been unchanged, and forward guidance has stressed that they would remain at their current low levels for a considerable time. However, market expectations now indicate a first increase in US policy rates earlier than was expected at the end of 2020 and longer-term bond yields have gone up since late-2020 (Figure 1.7, Panel B). Central banks have continued to purchase assets. The ECB increased the envelope of its pandemic emergency purchases programme in December 2020. Central banks have bought mainly sovereign bonds but they have also increased holdings of private assets, including corporate and covered bonds, and equities (Figure 1.27, Panel A). Following the recent and pre-crisis government bond purchases, several central banks now own between 30% and 50% of total outstanding government securities (Figure 1.27, Panel B).

Figure 1.27. Central banks have purchased large amounts of assets and become key holders of government bonds



Note: Data are from April 2021 or latest available.
1. Private assets include corporate bonds, commercial paper, assets-backed securities and exchange traded funds. General government bonds are treasury bills and municipal, state and central government bonds.
2. For Australia, Canada, Japan and the United States, treasury bills are excluded.
Source: OECD Economic Outlook 109 database; Australian Office of Financial Management; Bank of Canada; Bank of England; Bank of Japan; Board of Governors of the Federal Reserve System; Bureau of Fiscal Services; European Central Bank; Ministry of Finance Japan; New Zealand Government, the Treasury; Reserve Bank of Australia; Reserve Bank of New Zealand; Swedish central government debt statistics; Sveriges Riksbank; UK Debt Management Office; US Department of the Treasury; and OECD calculations.

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Special COVID-19 emergency liquidity and lending facilities have been adjusted in line with changing market conditions, which have varied across the main economies.

- In the United States, most of those facilities have been terminated as their use waned with improved market conditions. The US Federal Reserve has also largely normalised its repurchase operations in light of the sustained smooth functioning of short-term US funding markets. The use of central bank international liquidity swaps at the Federal Reserve has also dropped significantly, although loans are still not back to pre-crisis levels.
- In contrast, in the euro area and Japan, some emergency facilities have been extended and enhanced. In December 2020, the ECB made the conditions of targeted longer-term refinancing operations III more favourable, extended the advantageous collateral policy and offered four additional pandemic emergency longer-term refinancing operations (PELTROs) in 2021. Similarly, the Bank of Japan has extended the duration of its special funds-supplying operations until the end of September 2021 to facilitate financing in response to the COVID-19 crisis.

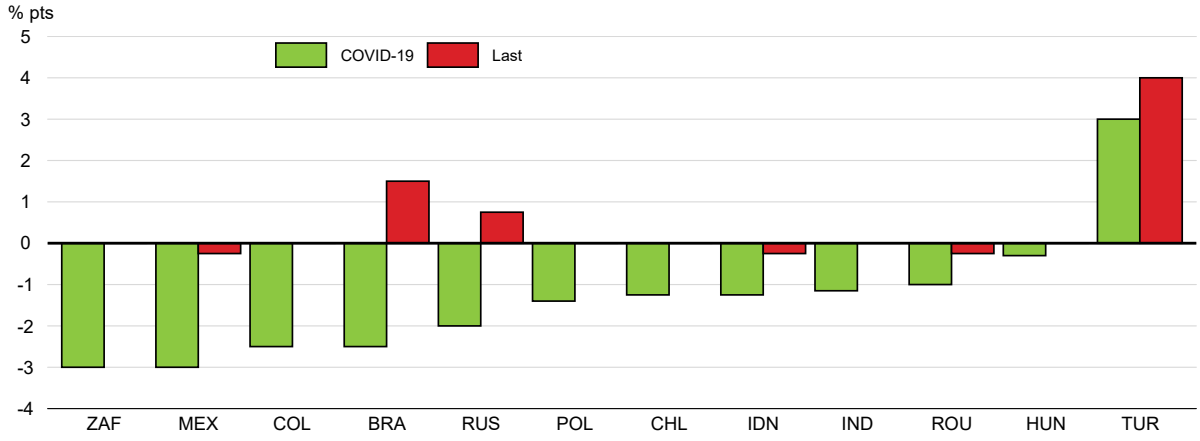
Accommodative monetary policies need to be maintained in the major advanced economies, as currently planned, to help preserve favourable financing conditions, in particular low long-term interest rates. Monetary authorities should look through temporary relative price shocks. Normalisation of monetary policy should be state-dependent and guided by sustained improvements in labour markets, signs of durable inflation pressures and changes in the fiscal policy stance. Maintaining accommodative monetary policy for longer will be easier for central banks that have already announced that they would seek some overshooting of the inflation target, like the Bank of Japan and the US Federal Reserve. If markets consider such announcements to be credible, a smaller increase in longer-term bond yields should be expected with an improving outlook for the economy and inflation. However, controlling longer-term bond yields and thus overall financial conditions may be challenging in countries without a credible yield curve control framework, especially with divergent policy stances and government debt positions.

Once the recovery advances, banks' capital and liquidity buffers will also need to be rebuilt gradually and the effective prudential regulation easing at the onset of the crisis will have to be reversed gradually. As clearly demonstrated in the COVID-19 crisis, a sound financial system is key for effective monetary policy transmission and economic resilience during downturns. The crisis should not be used as an excuse to roll back regulatory reforms and compromise common international standards and an international level playing field (FSB, 2020). High non-performing loans may still pose challenges for banks and regulators when state guarantees expire and if the recovery is slower than expected. This will require strict prudential supervision to help identify and properly recognise non-performing loans, effective and fast insolvency procedures and possibly a development of distressed-debt markets and bad banks (Kasinger et al., 2021).

Monetary policy stances have started to diverge among large emerging-market economies, demonstrating difficult choices for the future in some jurisdictions. In countries with well-anchored inflation expectations and strong macroeconomic policy frameworks, accommodative monetary policy has been maintained and in some countries eased further (Figure 1.28). In these economies, scope exists to further reduce interest rates, especially where fiscal support is limited, provided the effects of higher commodity prices on inflation can be contained and exchange rates remain stable. In contrast, given surges in underlying inflation stemming from currency depreciations in Brazil and Turkey, among others, monetary policy has been tightened, and further policy rate increases may be required (Figure 1.28). Given the positive experience in Chile, Colombia, Indonesia and Poland from last year, credible central banks could mitigate negative spillovers from changes in global risk appetite to domestic financial conditions by purchasing local-currency sovereign bonds. Such purchases helped ease domestic financial conditions and guided price discovery during risk-off episodes in the first half of 2020, without undermining domestic currencies (Hartley and Rebucci, 2020; IMF, 2020; Mimir and Sunel, 2021).

Figure 1.28. Some emerging-market economies have already tightened monetary policy

Change in the main policy interest rate



Note: COVID-19 refers to the change between December 2019 and November 2020. "Last" refers to the change between November 2020 and the last available data.
Source: Bank for International Settlements; central banks; and OECD calculations.

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Fiscal policy

Most advanced economies have appropriately maintained or increased fiscal stimulus to deal with the continued COVID-19 pandemic and confinement measures.

- In the United States, the American Rescue Plan includes extra stimulus of USD 1.9 trillion (8½ per cent of GDP), primarily on direct payments to households and supplementary unemployment benefits that are expected to be largely disbursed in 2021. This offsets by a large margin the tightening that would have otherwise occurred. In addition, the US administration has proposed extra spending of USD 1.8 trillion (8½ per cent of GDP) to abate carbon emissions and raise infrastructure and R&D over the next ten years, to be mostly funded by taxes (the American Jobs Plan), and a new programme predominantly focused on improving opportunities for low-income families (the American Families Plan), amounting to USD 1 trillion of spending and USD 800 billion of tax cuts over ten years. These proposals are not included in the projections and imply upside risks to the US economic outlook.
- In the euro area as a whole, fiscal stimulus in 2021 has also been expanded, but to a smaller extent. Many euro area economies have prolonged emergency measures, including more generous job retention schemes and grants to businesses. In addition, in the EU countries, disbursements of the Recovery and Resilience Facility funds, which are part of the Next Generation EU plan, will boost government investment and increase public financial support for private investment in 2021-22.[23] These are included in the projections (Annex 1.A.).

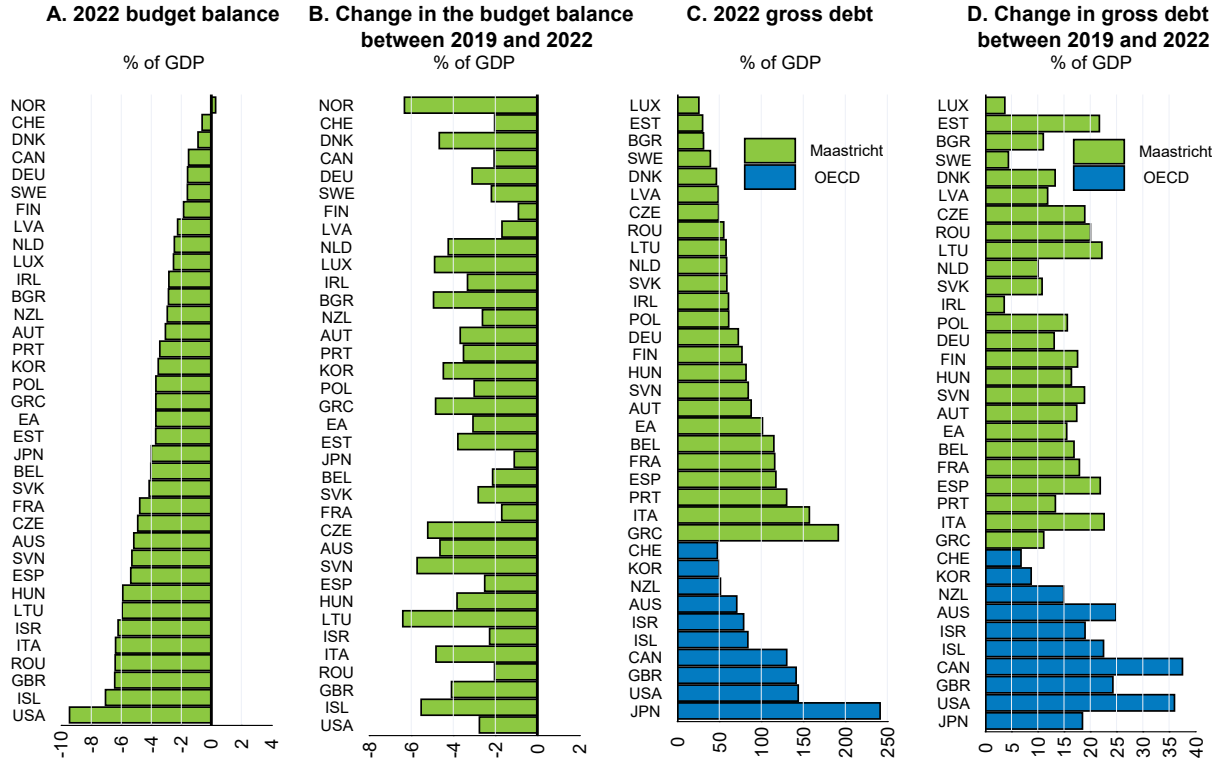
[23] The disbursements are conditional on the ratification of the Own Resources Decision by all EU countries and the EC assessment of the associated national plans and their approval by the Council.

- In Japan, recent measures have raised budgeted government spending on vaccination, grants to local governments and government investment (1.2% of GDP) in 2021. Moreover, the Japanese authorities have included a contingency reserve fund for the COVID-19 crisis (0.9% of GDP) in the FY 2021 initial budget that could be used in case of worse-than-expected epidemiological and economic outcomes.

Conditional on the announced government measures and OECD projections (Annex 1.A.), a large part of the extraordinary support is expected to be withdrawn as the recovery becomes more firmly based. Robust economic growth and the phasing out of emergency support measures, resulting in some discretionary fiscal tightening as measured by the change in the underlying primary balance (see below), will help to reduce budget deficits in 2021 and 2022. Even so, by 2022 deficits will still be higher than in 2019 (Figure 1.29, Panel B). In some cases, in particular in the United States, the budget deficit will be very high by historical standards, especially given the expected stage of the business cycle (Figure 1.29, Panel A). Moreover, in 2021-22, gross government debt in relation to GDP is projected to continue to increase in the OECD area, though by less than in 2020, reaching by the end of 2022 the highest levels seen over the past few decades (Figure 1.29, Panels C and D).

The flexible approach to extending support, already announced by many governments, should continue. Adequate spending on healthcare and vaccinations needs to be prioritised as long as needed. Ending special crisis-related support measures should be contingent on removing confinement measures that limit doing business in high-contact sectors. The emergency measures should become targeted towards sectors hardest hit by the COVID-19 shock. Even after restraints on activities have been eased, the legacy of the crisis, including over-indebted companies and displaced workers, will require targeted support to avoid excessive insolvencies and scarring.

Figure 1.29. Fiscal projections



Source: OECD Economic Outlook 109 database; and OECD calculations.

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Changes in the overall fiscal stance should be guided by the improvement in the general macroeconomic situation, in particular labour market indicators, and too abrupt a removal of fiscal stimulus should be avoided. By the end of 2022, the output gap is expected to remain negative in the majority of OECD countries and labour market indicators are expected to remain generally weaker than in 2019. Thus, governments should not consolidate public finances too abruptly. Such an outcome is assumed in the current projections. In several OECD countries, the measured discretionary fiscal policy stance is projected to be tightened in 2022, and to a smaller extent in 2021, but the underlying primary balance as a ratio of potential GDP will remain below pre-crisis levels and government consumption and investment are expected to make a significant positive contribution to real GDP growth in 2021-22 in many countries (Figure 1.30, Panels A and B).[24]

In the European Union, the fiscal stance will be affected by EU fiscal rules. The general escape clause which suspended the rules at the onset of the COVID-19 crisis is likely to be extended to 2022. However, were the pre-pandemic rules to be restored, countries with high debt levels would not be able to meet them without a large and long-lasting fiscal consolidation.[25] Thus, an urgent overhaul of rigid, complex and pro-cyclical fiscal rules is needed. Reforms of the framework should aim to ensure debt sustainability, sufficient cyclical stabilisation and greater national ownership. Possible solutions involve replacing the current multiplicity of numerical rules with an expenditure rule anchored to a country-specific medium-term debt-ratio target, or to give countries more degrees of freedom to reform their fiscal frameworks while ensuring consistency with qualitative guidelines at the EU level (Claeys et al., 2016; Darvas et al., 2018; Blanchard et al., 2021; Martin et al., 2021; OECD, 2021f).

Notwithstanding the increase in public debt in most economies, ensuring debt sustainability should be a priority only once the recovery is well advanced. Current low interest rates make debt servicing more manageable. In many advanced economies, yields on government debt are well below both historical and expected future rates of trend nominal GDP growth. This allows sustained fiscal support, including investment linked to healthcare, digitalisation and climate change, to ensure a durable and full recovery. As discussed above, monetary policy needs to remain accommodative to help preserve favourable financing conditions. This should continue to keep public debt servicing costs low and help avoid premature budget consolidation.

Once the recovery is well on track, in addition to putting public debt on a sustainable path, there is a need to address past weaknesses in the management of public finances in stabilising economic cycles, preserving investment, and addressing demographic challenges. This suggests the need for a thorough review of public finances.

- Reviewing all government expenditure will be necessary to ensure adequate spending on priority areas and people with the highest needs, and to enhance growth while ensuring debt sustainability. Establishing budget processes that strengthen incentives for prudent long-term planning and provide comprehensive information about the public finances, possibly involving independent fiscal institutions, would help shape budget decisions and debt sustainability. Governments should also strengthen their fiscal risk frameworks to better monitor and actively manage guarantees and equity holdings in bailed-out companies, and identify emerging risks for the public finances.

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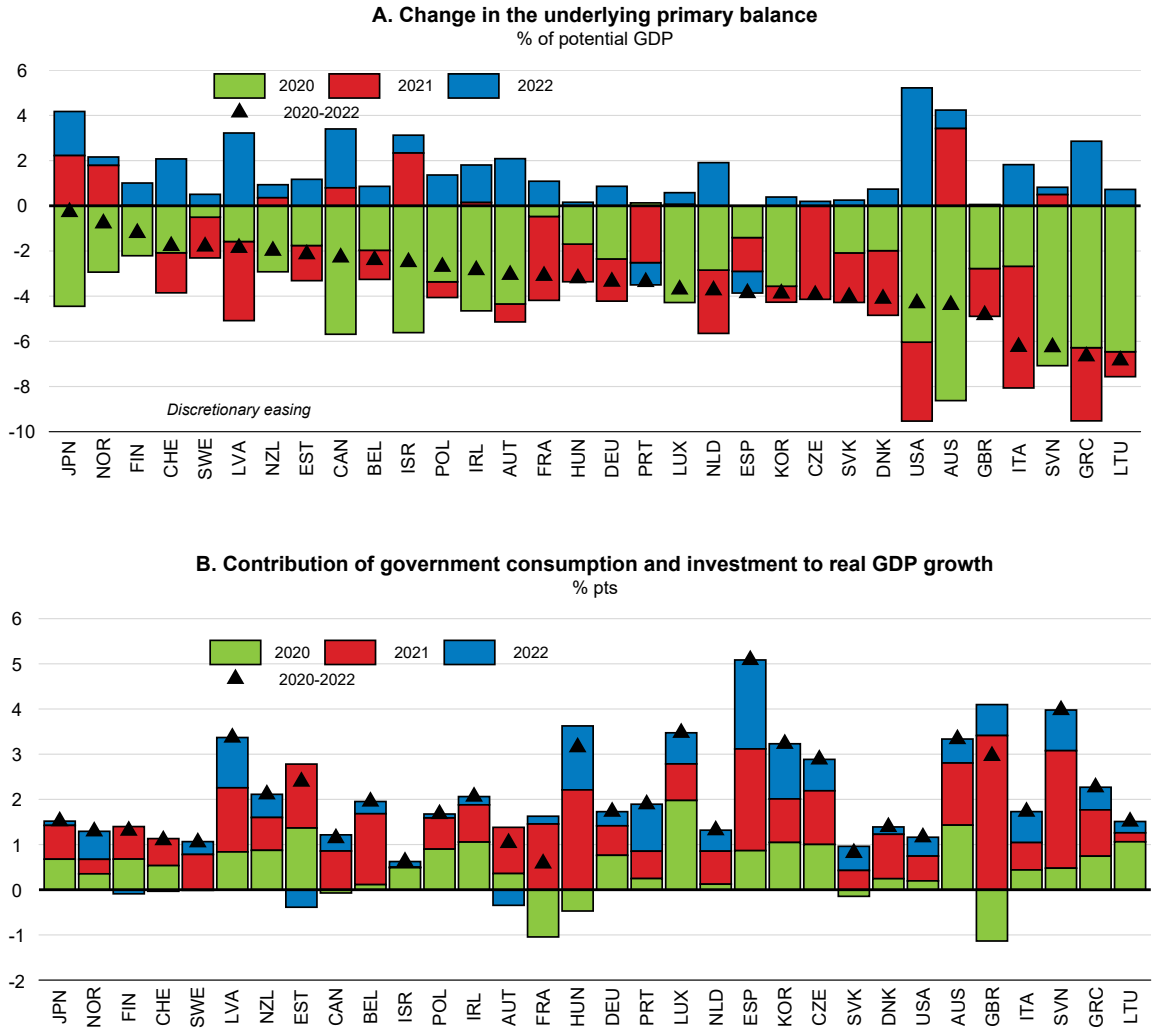
[24] This measure indicates discretionary easing or tightening in the fiscal stance, i.e. changes in budget balances that do not stem from cyclical fluctuations in government spending and revenues and one-offs. Thus, by definition, it ignores fiscal effects stemming from the so-called automatic stabilisers and is not easily translated into effects on GDP growth. Moreover, during large recessions with important changes to policies, as in the COVID-19 pandemic, measurement error is likely to be higher, reflecting changes in elasticities, challenges in identifying one-offs and uncertainty about output gap estimates.

[25] In 2022, six OECD EU countries are expected to have government debt-to-GDP ratios at least or nearly twice as large as the Maastricht 60% reference value.

Figure 1.30. The discretionary fiscal stance is projected to be tightened in 2022 in many OECD countries



Note: The change in the underlying primary balance is calculated compared with the previous year. The contribution of real government investment to real GDP growth is an estimate based on the total investment deflator and government investment values from the appropriation accounts where government investment volume data are not available.
Source: OECD Economic Outlook 109 database; and OECD calculations.

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- Modernising government tax systems may be also required. This calls for a comprehensive review of countries' tax structure, taking into account growth considerations, as well as inclusiveness and environmental sustainability, which should have a greater weight in fiscal policy-making after the crisis. Revisiting the taxation of capital (capital income, capital gains and property taxation), labour, consumption and wealth should be considered in the light of growth and equity objectives, making the system more progressive where necessary. Whilst care should be taken over the distributional effects, the use of carbon taxes may have to be increased and fossil fuel subsidies phased out progressively in the future (see below). Addressing the tax challenges from the digitalisation of the economy and ensuring that multinational enterprises pay a minimum tax would strengthen revenue-raising capacity and could be seen as contributing to fair burden sharing. Policy co-ordination in this area will make reforms more effective, including by fighting tax avoidance and ensuring that tax disputes do not turn into trade wars, which would harm the recovery (OECD, 2020g).

The fiscal situation varies considerably among emerging-market economies and developing countries, but many face difficult trade-offs between supporting inclusive economic growth after the COVID-19 shock and ensuring debt sustainability. In many countries, the automatic fiscal stabilisers are relatively weak and governments' ability to implement discretionary fiscal stimulus is much lower than in the advanced economies. For instance, the necessary extension of social transfers in Brazil and the increase in employment relief payments and loan guarantees in South Africa may require reductions in other spending to reduce budget deficits. The socio-economic situation in many developing countries has worsened and could become untenable in some given rapidly rising debt burdens. The cross-country measures taken to aid debt sustainability are currently insufficient as private creditors have not engaged and some countries have opted out of these programmes for fear of seeing their credit ratings downgraded.[26] In order to provide debt relief to developing countries and ensure that a new deal for development emerges from the crisis, the international community will have to persuade both public and private creditors to reduce debt burdens and mobilise resources to finance the recovery. At the same time, emerging-market economies and developing countries will have to improve the transparency of their public finances, including by the reporting of opaque bilateral borrowing, contingent liabilities and quasi-fiscal measures that lead to the build-up of financial risks.

Structural reforms are needed to improve resilience, facilitate reallocation and strengthen growth prospects

Enhanced structural reform efforts are required in all countries to mitigate the adverse impact of the crisis, improve resilience against future shocks, and strengthen the prospects for sustainable and inclusive growth (OECD, 2021d). The crisis is likely to require some labour and capital reallocation, although the extent remains uncertain. Some sectors most affected by physical distancing requirements and associated changes in consumer preferences may be permanently smaller after the crisis. A lasting shift towards remote working, reduced business travel and the increasing digital delivery of services, including e-commerce could further change the mix of jobs available and their locations. Such potential shifts accentuate long-standing pre-pandemic issues from an extended period of weak productivity growth, widening inequalities in opportunities and outcomes, and the need to adjust to the long-term challenges of digitalisation and climate change. The policies put in place to foster the recovery from COVID-19 are an opportunity to address these old and new challenges.

The sequencing of reforms will be particularly important to help the economic recovery gain traction (OECD, 2021d). Measures with a fiscal dimension, such as planned public infrastructure investments in digital networks, transportation and energy, can help support demand, improve productivity and be an important source of new jobs for displaced workers. Strong income support for poorer households helps to make the recovery more inclusive and sustain demand, given their higher marginal propensity to spend. Enhancing activation and skill acquisition, and strengthening economic dynamism by tackling barriers to market entry, will also improve labour market opportunities for all and help to foster productivity-enhancing reallocation.

[26] The measures include: the Debt Service Suspension Initiative (DSSI), launched by the G20, which allowed 73 low-income countries to suspend debt service payments on bilateral government loans between May and December 2020, with a subsequent extension to end-2021; the IMF's Catastrophe Containment and Relief Trust for debt relief in 29 low-income countries, supported by the EU funds; the Common Framework for Debt Treatment beyond the DSSI, allowing governments with unsustainable debt to enter a restructuring process involving official bilateral creditors, and comparable treatment for private creditors under an IMF programme.

Continued income support for households and companies remains warranted, but needs to be carefully targeted to facilitate the necessary reallocation of labour and capital across sectors and firms.

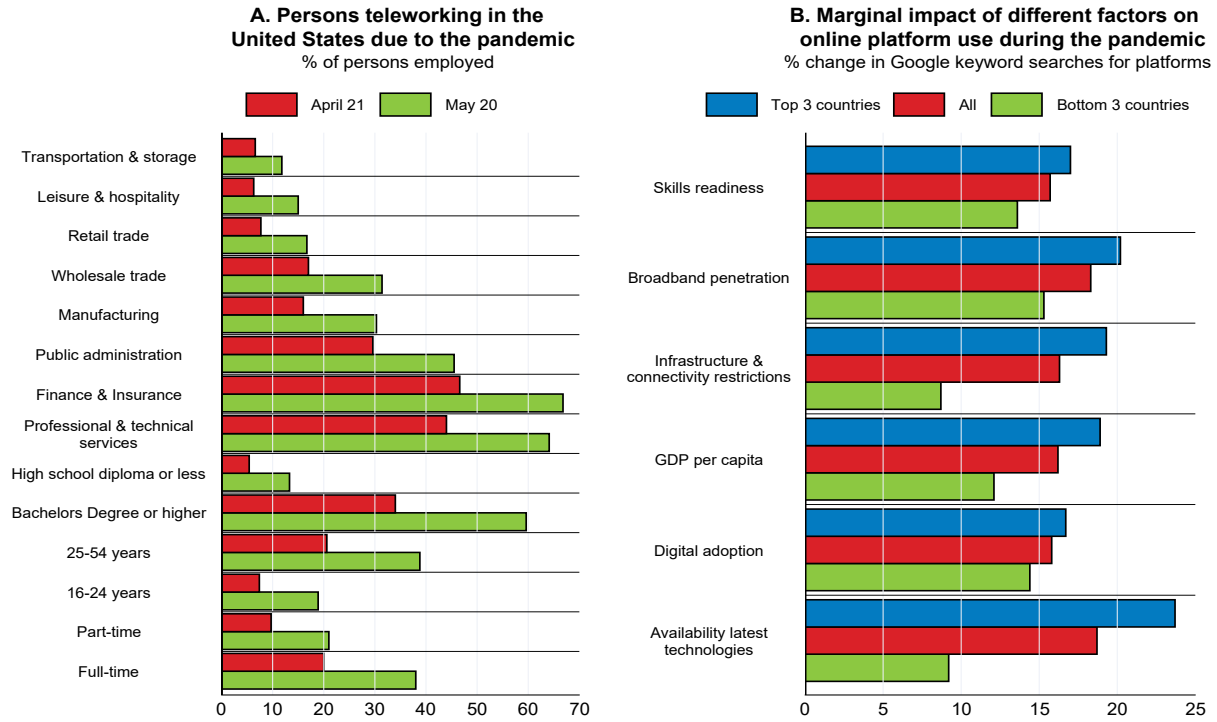
- A key challenge is to provide sufficient support for viable jobs while helping displaced workers find new jobs in other sectors or locations. Firms in sectors not subject to mandatory restrictions could be asked to contribute an increasing part of the costs of short-time work schemes to help signal jobs that are more likely to remain viable, with support remaining unconditional in other sectors (OECD, 2020h; 2021g). This needs to be accompanied by structural measures to enhance training and aid job search and placement via public employment services. Setting clear state-contingent criteria for this support, such as linking the resources used to changes in labour market conditions, could help to increase the effectiveness of reforms.
- Equally, governments need to try to balance support for firms who can switch back to private capital markets as the recovery progresses, with steps to phase out support for other businesses. Debt financing and credit guarantees have helped to ease immediate financial constraints, but equity-type financing would be beneficial for many businesses, including SMEs (OECD, 2021h). Possible approaches could include converting some pandemic-related public loans into grants, with repayment conditional on performance and regular assessments of viability, or strengthening incentives for private sector equity financing and co-participation in public support schemes.

The shift towards the use of online platforms and teleworking during the pandemic has underlined the opportunities provided by digital technologies. As was already the case prior to the pandemic, access to such opportunities has varied substantially within and across countries (Eurofound, 2020). In the United States, as in other countries, better-educated, older and full-time workers in business services have been more easily able to telework than younger, less-educated and part-time workers (Figure 1.31, Panel A). Use of online platforms has risen everywhere, but typically the most in countries with higher levels of economic and technological development, fewer restrictions on infrastructure access and connectivity, and better digital skills (Figure 1.31, Panel B; OECD, 2021i). School closures have also highlighted gaps that remain in the access, quality and use of digital resources for learning and teaching by children and students (OECD, 2021j). Effective and well-targeted policies are required to accelerate the digital transformation of public and private sector activities and ensure that poorer households, small firms, remote regions and lower-income countries are not left behind. Improving broadband connectivity, helping firms develop online business models, enhancing acquisition of digital skills, and ensuring secure online payments and data privacy, are all reforms that would help to foster the digital transformation.

The digital transition can also boost welfare and living standards by raising productivity and the range and quality of products available to consumers. However, the impact of past investments in digital technologies remains difficult to see in aggregate productivity developments, in part because adoption has varied substantially across different types of firms. Large firms and more productive firms are more likely to have invested in digital technologies, contributing to the widening productivity gap with less-digitalised and less-productive firms (Sorbe et al., 2019). In Europe, survey evidence suggests that over one-third of firms have yet to invest in advanced digital technologies, compared to just over one-quarter in the United States (EIB, 2021), with the largest gaps in services and construction sectors where markets remain segmented in Europe. Policies have a key role to play if the gaps in the adoption of digital technologies between firms, industries and countries are to be closed. Resilient and high-speed broadband networks, reduced barriers to market entry and digital trade, improved financing for young firms, and investment in complementary intangible assets such as technical and managerial skills are all important factors that could strengthen the productivity gains from digitalisation (Andrews et al., 2018; Sorbe et al., 2019).

Government efforts to support the recovery need to take advantage of the opportunity to accelerate the transition towards a low-carbon economy and limit the long-term threat from climate change. In the absence of action, greenhouse gas emissions are set to rise again, after falling in 2020 during the

Figure 1.31. Use of digital technologies during the pandemic has been uneven



Note: Data in Panel A refer to employed people who teleworked or worked at home for pay at some point in the month shown because of the coronavirus pandemic. The measure does not include those whose telework was unrelated to the pandemic. Data in Panel B are the estimated marginal impact of each factor on the extent to which national containment measures affected the use of online platforms in the early months of the pandemic.

Source: Bureau of Labor Statistics; OECD (2021i), "The Role of Online Platforms in Weathering the COVID-19 Shock", *OECD Policy Responses to Coronavirus (COVID-19)*, OECD Publishing, Paris; and OECD calculations.

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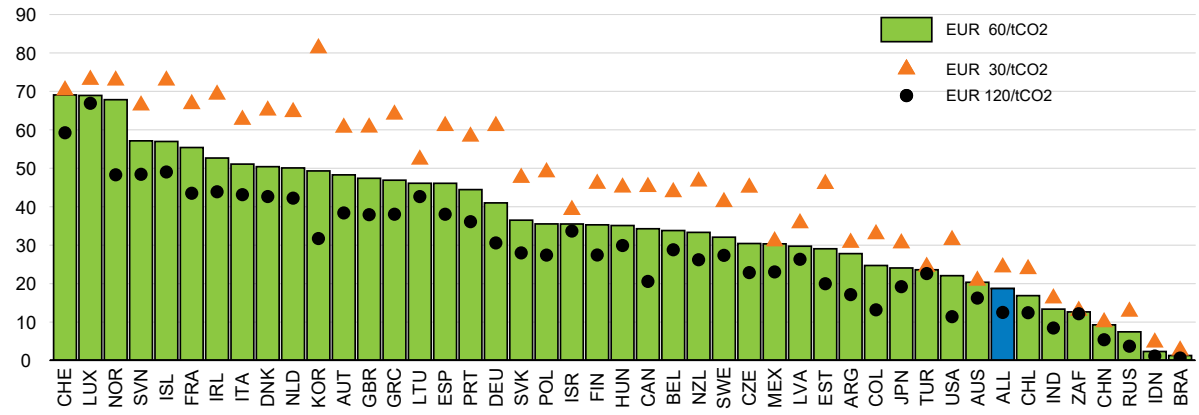
pandemic. Many countries, including a majority of OECD member states, have made commitments under the Paris Agreement to reduce greenhouse gas emissions and achieve long-term carbon neutrality. However, specific actions on policies, regulations and standards are either lacking or well below what is required to reduce emissions sustainably (IEA, 2021). Currently, most carbon emissions are either priced too low or not priced at all, fossil-fuel subsidies continue to be widely used, and new investments to expand fossil fuel supply are still being undertaken. In the 44 OECD and G20 countries responsible for 80% of global emissions, 81% of emissions were priced below the benchmark price of EUR 60/tCO2 (as of 2018; Figure 1.32) and 55% of CO2-emissions remained completely unpriced (OECD, 2021k).[27] Fossil fuel subsidies also continue to distort price signals and weigh on public budgets. New investments in fossil fuel supply will also need to be avoided if a sustainable pathway toward net zero global carbon dioxide emissions by 2050 is to be achieved (IEA, 2021). Some governments have included "green" measures in their fiscal stimulus and investment programmes in response to the pandemic, but these are typically only a modest share of the overall support provided, and new green measures are largely offset, up to now, by measures with a mixed or negative environmental impact (OECD, 2021l).[28]

[27] They are not subject to a carbon tax or fuel excise tax, and they are not part of an emissions trading system.

[28] As of March 2021, the spending allocated to green measures is estimated to represent around 17% of recovery spending (or 2% of total COVID-19-related spending) announced by 43 countries, including all OECD member states, and the European Union (OECD, 2021l).

Figure 1.32. Most countries under-price their carbon emissions

Carbon pricing score, 2018



Note: The carbon pricing score measures the extent to which countries have attained the goal of pricing all energy related carbon emissions at certain benchmark values for carbon costs. EUR 30 per tonne of CO2 is a historic low-end price benchmark of carbon costs in the early and mid-2010s; EUR 60 per tonne of CO2 is a low-end 2030 and mid-range 2020 benchmark according to the High-Level Commission on Carbon Pricing; and EUR 120 per tonne of CO2 is a central estimate of the carbon price needed in 2030 to decarbonise by the mid-century under the assumption that carbon pricing plays a major role in the overall decarbonisation effort. ALL denotes the aggregate score for all 44 countries included.
Source: OECD Effective Carbon Rates 2021 database.

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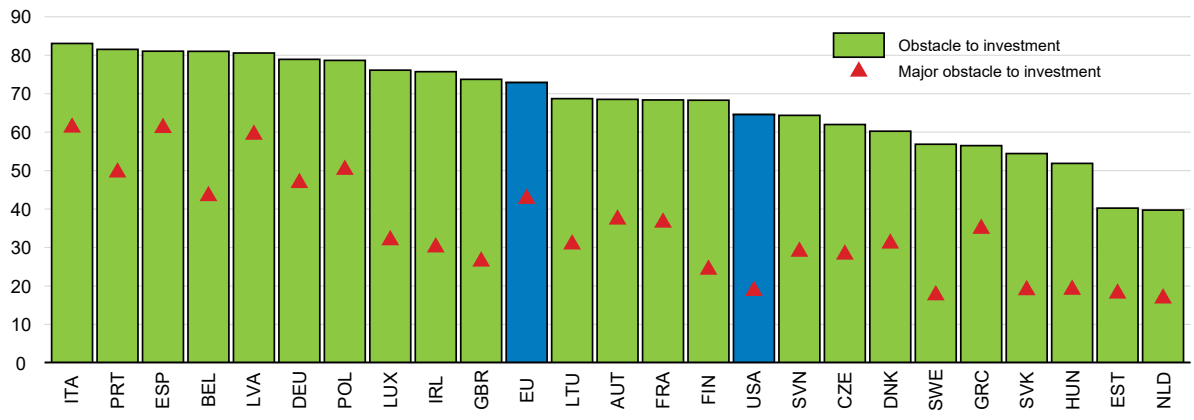
OECD research suggests that past environmental policy changes have had significant benefits for environmental outcomes, but relatively small aggregate impacts on different aspects of corporate activity, including employment and investment (OECD, 2021m). However, there are marked differences across firms and sectors, with more productive firms coping relatively well, whereas less productive firms and pollution intensive industries face significantly higher costs. Lower-income households are also disproportionately affected by higher relative prices for electricity and heating. Addressing climate change and achieving net zero emissions thus requires actions across a wide range of policy areas to strengthen incentives and market-based mechanisms for adjustment towards a greener economy, with accompanying policy packages to offset adverse distributional impacts on household incomes and facilitate resource reallocation and skill acquisition.

A clear roadmap for the alignment of long-term price signals with environmental and climate policy objectives, including through carbon pricing and lower fossil fuel subsidies, would reduce environmental policy uncertainty and thereby lower a significant obstacle to investments in clean technologies (Figure 1.33). Other budgetary instruments should also play an important role. This includes making corporate support conditional on environmental goals, incentives to encourage energy-efficient buildings and appliances, and new infrastructure investment projects, including expanded and modernised electricity grids and spending on renewables. Regulatory, innovation and financial policies are also essential to facilitate the environmental transformation, through the design of standards, the development of new financial instruments for long-term low-carbon projects, and support for the development and diffusion of new technologies. All such steps would need to be accompanied by a package of compensating measures to mitigate the adverse impact on poorer households, affected regions and small businesses, and to help displaced workers acquire new skills and take advantage of new employment opportunities.

Figure 1.33. Uncertainty about regulations and taxes is an obstacle to climate-mitigating investment

Per cent of firms



Note: Share of firms citing uncertainty about the regulatory environment and taxation as an obstacle to investing in activities to tackle the impacts of weather events and emissions reduction.
Source: EIB Investment Survey 2020, European Investment Bank.

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Annex 1.A. Policy and other assumptions underlying the projections

Fiscal policy settings for 2021-22 are based as closely as possible on legislated tax and spending provisions and are consistent with the growth, inflation and wage projections. Where government plans have been announced but not legislated, they are incorporated if it is deemed clear that they will be implemented in a shape close to that announced. Where there is insufficient information to determine budget outcomes, underlying primary balances are kept unchanged in relation to potential GDP, implying no discretionary change in the fiscal stance.

Projections for the EU countries account for spending financed by the EU Recovery and Resilience Facility (RRF) grants and loans, based on expert judgments about the distribution across years and different expenditure categories and informed by officially announced plans where available. RRF grants are assumed to be budget neutral, i.e. they increase both capital tax and transfers receipts and government expenditure. In addition, positive net one-offs are added in order to reflect the discretionary stimulus associated with the RRF grants, as measured by changes in underlying primary balances.

Regarding monetary policy, the assumed path of policy interest rates and unconventional measures represents the most likely outcome, conditional upon the OECD projections of activity and inflation, which may differ from the stated path of the monetary authorities.

The projections assume unchanged exchange rates from those prevailing on 5 May 2021: one US dollar equals JPY 108.9, EUR 0.83 (or equivalently one euro equals USD 1.20) and 6.48 renminbi.

The price of a barrel of Brent crude oil is assumed to remain constant at USD 65 throughout the projection period. Non-oil commodity prices are assumed to be constant over the projection period at their average levels in April 2021.

The cut-off date for information used in the projections is 21 May 2021.

OECD quarterly projections are on a seasonal and working-day-adjusted basis for selected key variables. This implies that differences between adjusted and unadjusted annual data may occur, though these in general are quite small. In some countries, official forecasts of annual figures do not include working-day adjustments. Even when official forecasts do adjust for working days, the size of the adjustment may, in some cases, differ from that used by the OECD.

2. Developments in individual OECD and selected non-member economies

Argentina

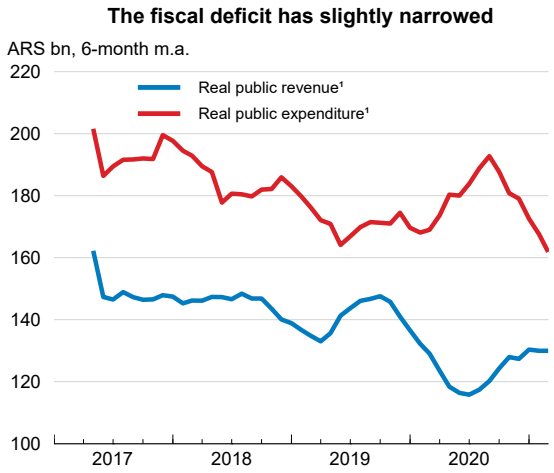
The economy is projected to expand by 6.1% in 2021 and 1.8% in 2022, when it will still be below pre-pandemic activity levels. Persistent macroeconomic imbalances and new mobility restrictions will weigh on domestic demand and limit the recovery. Continued monetisation of the fiscal deficit will keep inflation high. Job creation will slowly recover, but high informality remains a concern.

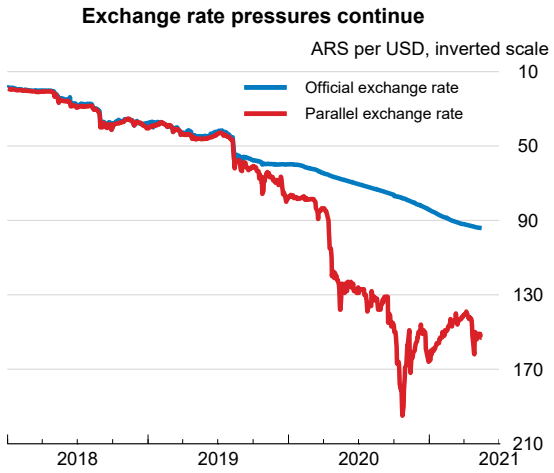
Stronger revenues, partly related to high commodity prices, have slightly improved fiscal outcomes, while pandemic-related spending will be withdrawn gradually once the recovery firms. This will reduce the need for monetary financing in the short run. Outlining a medium-term path towards fiscal sustainability would help to shore up confidence and bolster investment. Improvements in public spending efficiency, and a review of exemptions in the tax system, present ample scope for fiscal savings. Expanding conditional cash transfers can help reduce poverty, affecting 42% of the population, and support incomes, including for informal workers.

Renewed virus outbreaks have led to the retightening of containment measures

Argentina is facing a strong second wave of COVID-19, driven by community transmissions of the most contagious variants. Vaccination is proceeding slowly, with slightly more than 18% of the population vaccinated with at least a first dose. Rising case numbers in several Argentinian provinces, especially in the metropolitan region of Buenos Aires, triggered a tightening of mobility restrictions in April, and a return to the highest level of restrictions in May.

Argentina





1. Nominal value deflated by the consumer price index.
Source: CEIC; Refinitiv; and Ámbito.com.

StatLink https://stat.link/xdpvzg

Argentina: Demand, output and prices

Argentina	2017	2018	2019	2020	2021	2022
	Current prices ARS billion	Percentage changes, volume (2004 prices)				
GDP at market prices	10 660.2	-2.6	-2.1	-9.9	6.1	1.8
Private consumption	7 114.6	-2.2	-6.6	-13.1	2.2	1.0
Government consumption	1 886.5	-1.7	-1.0	-4.7	0.8	-1.1
Gross fixed capital formation	1 616.3	-6.0	-16.0	-13.0	18.2	0.8
Final domestic demand	10 617.4	-2.8	-7.1	-11.9	4.0	0.6
Stockbuilding[1]	325.2	-0.9	-2.0	1.5	4.0	0.0
Total domestic demand	10 942.6	-3.7	-8.7	-10.1	7.7	0.3
Exports of goods and services	1 206.8	0.5	9.0	-17.7	6.8	11.3
Imports of goods and services	1 489.2	-4.5	-19.0	-18.1	14.2	3.8
Net exports[1]	- 282.4	0.7	4.5	-0.3	-0.8	1.3
Memorandum items						
GDP deflator	_	40.0	50.6	39.8	42.4	40.4
Current account balance (% of GDP)	_	-4.8	-0.7	0.6	2.6	3.0

1. Contributions to changes in real GDP, actual amount in the first column.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/vtwp9h

Economic activity is recovering slowly

Economic activity fell by 9.9% in 2020. The second half of 2020 and first months of 2021 saw a gradual pick-up in growth amid a reopening of activities, but new mobility restrictions imposed as of April are slowing the recovery. Employment decreased sharply during 2020 in line with economic activity. Informal workers and those working in services were the hardest hit. Tight currency restrictions presently limit imports, while higher commodity prices and a strong recovery in China are buoying exports. Annual inflation is hovering around 40%, despite weak domestic demand and strict price controls. High inflation and significant labour market slack are weighing on household incomes, holding back private consumption. The delay in the agreement with the IMF and uncertainties surrounding upcoming debt repayment obligations have created pressures on the value of public securities, some of which were restructured in September 2020.

Policies have supported household incomes and firms

Bold and timely measures have been taken to contain the pandemic and support households. Cash transfers and reinforced unemployment benefits have supported the poor and vulnerable. Wage subsidies and lower payroll tax liabilities have helped some firms, partially compensating for the costs of a generalised ban on dismissals. The COVID-19 response included additional spending in social programmes of 2.2% of GDP. Higher commodity prices and the associated export tax revenues are limiting immediate pressures on the parallel exchange rate and the need for monetary financing in the short term.

Growing macroeconomic imbalances limit the recovery

GDP is projected to grow slightly above 6% in 2021 and below 2% in 2022. Rising macroeconomic imbalances will weigh on domestic demand and limit the recovery. The reopening of domestic activities and vaccination will proceed slowly, with herd immunity expected to be achieved in 2022. High unemployment, stagnant wages and rising informality erode Argentines' purchasing power, especially for low-income households. Tight capital controls, a policy mix of price controls and import restrictions and higher corporate taxes will weigh on investment and imports. Risks to the outlook are tilted to the downside and include a disorderly unwinding of macroeconomic imbalances. Ongoing negotiations with external creditors aim to restructure debt repayments falling due in 2021. Low international reserves provide little scope for support in the case of renewed pressures on the currency, and a sudden devaluation would further fuel already high inflation. The current wave of COVID-19 infections and the possible appearance of new variants, together with the slow vaccination process could lead to prolonged lockdowns. On the upside, a swifter domestic and international vaccination campaign, a faster recovery in neighbouring Brazil, as well as a more competitive exchange rate could further support exports.

Reducing imbalances and facilitating structural change are key for the recovery

Accelerating the vaccination process would help to limit setbacks in the fight against COVID-19. Reducing macroeconomic imbalances will be key to rekindle confidence, and this will require prudent fiscal policies, less monetary financing of the deficit, strengthening the credibility and independence of the central bank, and eventually a removal of foreign exchange controls. A credible medium-term fiscal strategy centred on improvements in public spending efficiency and reducing tax exemptions and subsidies would improve the fiscal position and pave the way for reducing macroeconomic imbalances. Broadening the personal income tax base while enhancing tax progressivity would further support this. A stronger and more inclusive recovery will require fostering formal job creation and strengthening social protection, building on existing cash transfer schemes, while simultaneously reducing the cost of creating formal jobs, especially in the hardest hit sectors.

Australia

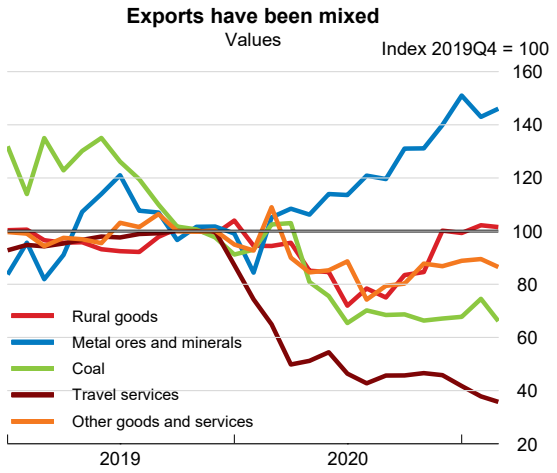
GDP is projected to grow by 5.1% in 2021 and 3.4% in 2022, driven by domestic demand. Confidence is high and labour demand is strong. Rising incomes and a declining saving rate will support consumption. The unemployment rate will fall further. Nonetheless, restrictions continue to constrain some parts of the economy and insolvencies will rise from their current low levels. Until widespread vaccination is achieved, outbreaks may necessitate further restrictions.

The extraordinary fiscal stimulus of 2020 has begun to unwind but fiscal policy is still supportive. Monetary policy will remain accommodative. Policymakers should act early to provide more support if downside risks show signs of materialising. Facilitating the geographical mobility of workers across states would help the necessary reallocation of resources. Co-ordination across governments will also be important to limit the rebound of greenhouse gas emissions and to progress towards the decarbonisation objectives of the Paris Accord.

Virus outbreaks were successfully contained

The number of active COVID-19 cases has been negligible thanks to strict quarantine measures and responsive testing and tracing systems. Small outbreaks have led to short localised lockdowns and some state border closures. These have caused disruption but with relatively low economic cost. Many restrictions curtailing capacity have been lifted but international borders remain closed. Vaccinations began in February, with widespread vaccination expected by end-2021.

Australia



1. Confidence is normalised over the period since 1997.
Source: Refinitiv.

StatLink https://stat.link/67r48h

Australia: Demand, output and prices

Australia	2017	2018	2019	2020	2021	2022
	Current prices AUD billion	Percentage changes, volume (2018/2019 prices)				
GDP at market prices	1 806.8	2.9	1.9	-2.5	5.1	3.4
Private consumption	1 020.3	2.5	1.2	-5.8	7.0	4.5
Government consumption	336.1	4.3	5.7	7.1	4.4	1.4
Gross fixed capital formation	437.2	2.3	-2.6	-3.0	9.7	4.4
Final domestic demand	1 793.6	2.8	1.1	-2.5	7.1	3.8
Stockbuilding[1]	4.1	0.1	-0.3	-0.2	-0.4	0.0
Total domestic demand	1 797.7	2.9	0.8	-2.8	6.7	3.8
Exports of goods and services	387.0	5.1	3.1	-10.2	1.4	4.6
Imports of goods and services	377.9	4.2	-1.3	-13.1	9.5	6.8
Net exports[1]	9.1	0.2	1.0	0.3	-1.4	-0.2
Memorandum items						
GDP deflator	_	2.3	3.2	1.1	3.1	1.6
Consumer price index	_	1.9	1.6	0.9	2.0	1.7
Core inflation index[2]	_	1.7	1.6	1.3	1.9	1.6
Unemployment rate (% of labour force)	_	5.3	5.2	6.5	5.5	5.0
Household saving ratio, net (% of disposable income)	_	4.2	4.9	15.6	10.8	8.2
General government financial balance (% of GDP)	_	-0.1	-0.5	-12.3	-6.6	-5.2
General government gross debt (% of GDP)	_	43.5	45.9	65.4	67.7	70.8
Current account balance (% of GDP)	_	-2.1	0.6	2.5	2.6	1.9

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/on19dp

Activity has rebounded, but the recovery remains uneven

Low case numbers and rising economic activity have driven consumer and business confidence higher. Insolvencies have remained low due to policy support and the rebound in overall activity. Total hours worked have returned to pre-pandemic levels and the unemployment rate has eased to 5½ per cent. Job vacancies surged in early 2021, including in the hospitality sector, which has not yet recovered. Housing market activity picked up further, with growth in housing credit and building approvals. Reliance on the JobKeeper wage subsidy and the unemployment benefit supplement – key planks of government support – had receded by March when the measures ended; they benefited an estimated 9% of the population on average in the first three months of 2021. International border closures continue to depress tourism and education exports, while some other exports, such as coal, have been dented by trade tensions with China and the exchange rate appreciation. Nonetheless, iron ore exports are booming in nominal terms. Rising commodity prices together with the exchange rate appreciation have boosted the terms of trade.

Fiscal policy support is unwinding

Targeted support was provided following the end of the wage subsidy and benefit supplement, including support for aviation and tourism. The unemployment benefit rate was also modestly increased. In May, the federal budget introduced further measures to buttress the recovery and improve inclusiveness, such as tax relief extensions for low and middle-income individuals and businesses, further support for job seekers and increased spending on health, aged care, the national disability insurance scheme, childcare and infrastructure. The central bank has maintained its interest rate targets at 0.1%. In February, it announced

that it would expand its bond-buying programme by A$100 billion. Its balance sheet is still comparatively small, at around 20% of GDP.

Domestic demand will drive growth

GDP growth is projected to rebound, with growth of 5.1% in 2021 and 3.4% in 2022. Household consumption growth will remain high, supported by the strong labour market, substantial liquidity buffers, wealth effects from higher housing prices and declining saving rates, offsetting the end of the wage subsidy and benefit supplement. In 2021, investment growth is being driven by public investment and higher private investment induced by government incentives as well as lower borrowing rates. However, some of these effects will fade. The exchange rate appreciation, trade tensions and travel restrictions will continue to weigh on exports. Inflation will initially decline in year-ended terms as transitory factors pass, notably the effects of earlier policy measures and recent fuel price increases, but will increase thereafter as spare capacity is eroded. A downside risk is that the unwinding of government support is more disruptive than anticipated, denting confidence and private demand. The vaccine rollout represents a risk in both directions. On the downside, without widespread vaccination, the economy is vulnerable to a sizeable outbreak and accompanying restrictions, and delays to skilled immigration could crimp growth. A resolution of trade tensions would boost exports.

Policies should remain supportive and focus on enabling reallocation

Monetary policy should remain accommodative given projections for inflation to remain below the 2-3% target band. Further fiscal support and bond purchases may be needed if the recovery falters or inflation undershoots. Additional targeted support may also be needed where international border closures and remaining physical distancing restrictions have the largest impact. Tackling barriers to labour reallocation would strengthen the recovery. Legislating automatic mutual recognition of occupational licenses across jurisdictions would boost labour mobility between states. More states and territories should replace taxes and fees on property transactions with a recurrent land tax to promote mobility and more efficient property use. Policymakers should also limit the rebound of greenhouse gas emissions accompanying the recovery. Further increasing renewable energy, boosting take-up of electric vehicles, and improving co-ordination of climate policies across governments – including better interconnection of electricity grids – would help progress towards the Paris Accord decarbonisation objectives.

Austria

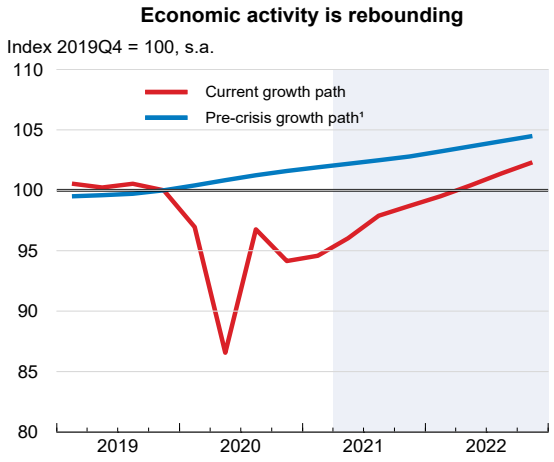
The recovery of the Austrian economy will gain pace with output expanding by 3.4% in 2021 and 4.2% in 2022. A rebound in global trade and generous government support underpin strong investment growth. Consumption will improve as households reduce their saving. Worldwide progress with the deployment of vaccines will allow the easing of travel restrictions and thus foster activity in hospitality sectors and employment in the second half of 2021. The increase in commodity prices will result in a moderate and temporary uptick in consumer price inflation. The fiscal deficit is planned to decline in 2021 and 2022.

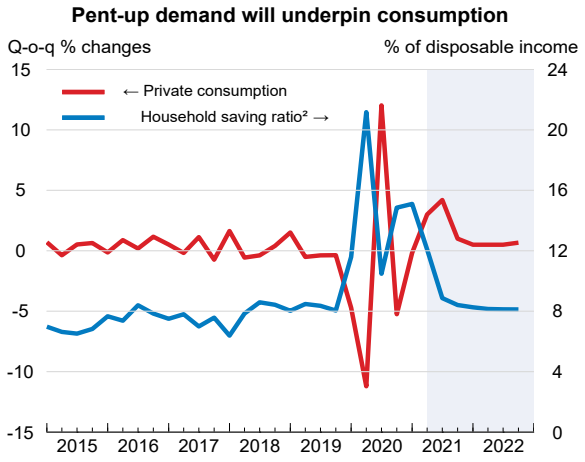
Fiscal policy should remain supportive until the recovery is fully underway. The generous incentives for investment targeted at climate protection and digitalisation will ease the transition towards a greener economy and also boost potential growth. To ensure a smooth recovery across all sectors and regions, the authorities need to address the elevated leverage of small enterprises in the heavily hit hospitality industry. To promote non-debt creating financing options for businesses, the government could consider tax incentives for corporate equity and retained profit.

A localised confinement was imposed to curb the propagation of the virus

The number of new cases gradually rose after the third strict national lockdown was lifted at the beginning of February. The evolution was uneven across the country. In Vienna and provinces in the east of the country, a rapid surge in hospitalised patients put the capacity of intensive care units at risk of being overwhelmed and led authorities to impose a new localised confinement. The propagation of the virus has slowed down since the end of March. Supported by a steadily proceeding vaccination campaign and high testing capacities, the government has eased restrictions and reopened the country throughout May.

Austria





1. The pre-crisis growth path is based on the November 2019 OECD Economic Outlook projection, with linear extrapolation for 2022 based on trend growth in 2021.
2. Projection from the first quarter of 2021.
Source: OECD Economic Outlook 106 and 109 databases.

StatLink https://stat.link/lb9jvr

Austria: Demand, output and prices

Austria	2017	2018	2019	2020	2021	2022
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices*	369.5	2.5	1.4	-6.7	3.4	4.2
Private consumption	193.9	1.1	0.8	-9.4	3.0	4.9
Government consumption	72.0	1.2	1.4	1.7	1.3	1.1
Gross fixed capital formation	87.1	4.0	3.9	-4.8	4.6	4.1
Final domestic demand	353.0	1.8	1.7	-6.0	3.0	3.8
Stockbuilding[1]	4.1	0.4	-0.7	-0.4	0.7	0.0
Total domestic demand	357.0	2.2	0.9	-6.3	3.8	3.8
Exports of goods and services	201.2	4.9	2.9	-10.9	7.2	7.8
Imports of goods and services	188.7	4.6	2.5	-10.0	7.9	7.3
Net exports[1]	12.5	0.3	0.3	-0.9	-0.1	0.5
Memorandum items						
GDP deflator	_	1.7	1.7	1.1	1.1	1.5
Harmonised index of consumer prices	_	2.1	1.5	1.4	2.0	1.9
Harmonised index of core inflation[2]	_	1.8	1.7	2.0	1.8	1.8
Unemployment rate (% of labour force)	_	4.8	4.5	5.4	5.1	4.8
Household saving ratio, net (% of disposable income)	_	7.8	8.2	14.5	11.1	8.2
General government financial balance (% of GDP)	_	0.2	0.6	-8.9	-7.3	-3.1
General government gross debt (% of GDP)	_	95.5	93.4	114.6	119.1	118.5
General government debt, Maastricht definition (% of GDP)	_	74.1	70.5	84.1	88.6	88.0
Current account balance (% of GDP)	_	1.3	2.8	2.5	1.6	2.3

* Based on seasonal and working-day adjusted quarterly data; may differ from official non-working-day adjusted annual data.
1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/euhysr

Travel restrictions have severely impeded tourism

Economic activity in manufacturing sectors has benefited from the worldwide recovery in industrial production and a subsequent rebound in global trade. Business confidence has returned to the level observed at the onset of the crisis. With the exception of hospitality sectors and other contact-intensive service sectors, the situation on labour markets improved over the winter. Employment increased by roughly 2.4% over the period from December 2020 to March 2021. Moreover, registered vacancies increased by 45% over the same period. Due to a strict lockdown and international travel restrictions, hospitality sectors had to forego most of the winter tourist season. Overnight stays in January and February dropped by more than 90% compared to the previous year. Even so, real GDP edged up in the first quarter of 2021.

Massive fiscal stimulus is supporting jobs and businesses

The authorities have taken measures amounting to around EUR 50 billion (13% of GDP), including credit guarantees, since the onset of the pandemic. Available support includes subsidies for firms' fixed costs, short-time work schemes, temporary generalised and sector-specific tax reliefs and additional funds for small businesses and sole proprietorships. A planned reduction of income taxes was brought forward. Expenditure measures comprise public investment in climate protection, digital teaching and medical

equipment. A priority has been the retention of existing jobs. The short-time work scheme was extended for the fourth time in March and is currently expected to be phased out by the end of June. The support scheme also encompasses incentives to business investment in climate protection and digitalisation in the form of accelerated depreciation rules and direct subsidies. These incentives allow firms to get reimbursed for up to 14% of the amount invested. The envelope reserved for the investment incentives amounts to EUR 6½ billion.

Progress with vaccinations will boost the recovery

A broad-based recovery is projected to gain pace in the second half of 2021. The easing of lockdown measures and international travel restrictions combined with progress with the vaccination campaign should allow hospitality sectors to resume activity over the summer period. The strong rebound in key partners underpins exports and business investment. The unemployment rate is projected to fall gradually but not return to pre-crisis levels by end-2022. The labour market improvement is driven by an increase in private consumption. GDP will reach its pre-crisis level at the end of 2022. With the gradual phasing out of government support measures, the fiscal deficit could decline to below 4% of GDP at the end of the projection horizon. Government debt is set to decrease moderately in 2022 but remains well above pre-crisis levels. The downside risks to the projection remain elevated. Activity in hospitality sectors, which account for 7-8% of total value added and around 10% of total employment, crucially depends on the virus retreating. Continued travel restrictions would jeopardise the upcoming summer and winter tourist season, put many tourism businesses severely at risk and adversely affect regional cohesion. A slower unwinding of household excess saving would weigh on private consumption.

The government should increase public spending on infrastructure and skills

The authorities should be ready to deploy additional stimulus if downside risks materialise. Maintaining a structurally neutral fiscal position, for example through well-targeted increases in public spending on digital infrastructure and climate protection, would help boost sustainable long-term growth. Additional public spending could boost skills, by improving the digital teaching equipment at schools and universities and by increasing the number of teachers across all layers of education. This would benefit social cohesion and promote reallocation towards new jobs and the most productive firms. A more targeted investment incentive scheme would support firms with viable projects but impaired balance sheets.

Belgium

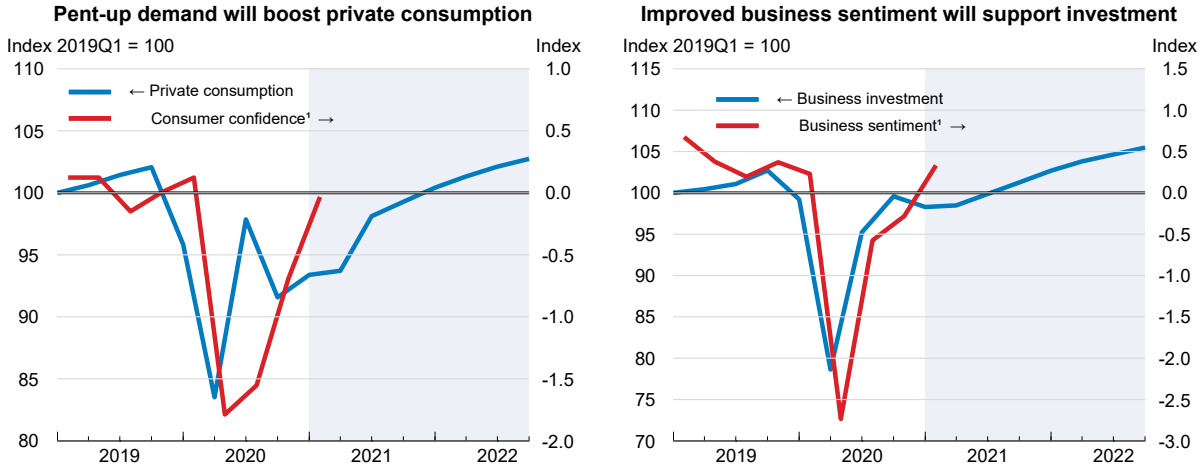
After the severe contraction in 2020, GDP is projected to expand by 4.7% in 2021 and 3.5% in 2022. As the vaccination campaign accelerates, uncertainties about the epidemic situation are expected to recede. Along with improved global economic prospects, business investment is set to be unleashed and pent-up demand is expected to boost household consumption. The recovery should gather pace, with GDP surpassing the pre-crisis level towards mid-2022.

Fiscal policy is expected to remain supportive over the projection period. While temporary measures can be phased out once the recovery is on a solid path, the remaining supportive policies should strictly target viable businesses and jobs until they are finally wound down. The authorities should facilitate the reallocation of resources to those sectors where growth prospects are higher, while fully deploying the recovery plan with its focus on the green and digital transition of the economy.

The epidemic has surged sporadically

Between the peak in autumn 2020 and mid-May 2021, the number of COVID-19 cases declined by more than 80%. Nonetheless, the healthcare system remains under pressure, with a high number of patients in intensive care units. The vaccination campaign is progressing. More than 90% of people over 65 and above had received a first vaccination by mid-May and almost all elderly people are expected to be vaccinated fully by June. Over the past 6 months, temporary and limited containment measures were introduced. While most restrictive measures have already been removed, some restrictions remain, for example those on restaurants and bars as well as mass events, which were relaxed only partially in May.

Belgium



1. The series is normalised using its long-term average and standard deviation. Quarterly average.
Source: OECD Economic Outlook 109 database; and National Bank of Belgium.

StatLink https://stat.link/dgck54

Belgium: Demand, output and prices

Belgium	2017	2018	2019	2020	2021	2022
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	445.1	1.8	1.8	-6.3	4.7	3.5
Private consumption	229.1	1.9	1.5	-8.7	4.3	5.7
Government consumption	102.5	1.3	1.6	0.6	5.0	0.6
Gross fixed capital formation	103.6	3.4	3.5	-6.9	7.5	4.4
Final domestic demand	435.2	2.1	2.0	-6.1	5.2	4.1
Stockbuilding[1,2]	5.2	0.3	-0.4	0.0	0.1	0.0
Total domestic demand	440.4	2.4	1.6	-6.0	5.3	4.0
Exports of goods and services	370.2	0.6	1.0	-4.6	7.0	4.8
Imports of goods and services	365.6	1.3	0.8	-4.3	7.7	5.4
Net exports[1]	4.6	-0.5	0.2	-0.3	-0.5	-0.6
Memorandum items						
GDP deflator	_	1.6	1.7	1.1	1.1	0.9
Harmonised index of consumer prices	_	2.3	1.2	0.4	1.5	1.2
Harmonised index of core inflation[3]	_	1.3	1.5	1.4	0.5	0.9
Unemployment rate (% of labour force)	_	6.0	5.4	5.6	6.4	6.3
Household saving ratio, net (% of disposable income)	_	4.7	6.1	15.5	12.1	8.4
General government financial balance (% of GDP)	_	-0.8	-1.9	-9.4	-7.2	-4.0
General government gross debt (% of GDP)	_	118.3	121.0	143.4	144.6	144.2
General government debt, Maastricht definition (% of GDP)	_	99.8	98.1	114.1	115.3	115.0
Current account balance (% of GDP)	_	-0.8	0.3	-0.2	-0.9	-1.4

1. Contributions to changes in real GDP, actual amount in the first column.
2. Including statistical discrepancy. Statistical discrepancy contributes to 5.3% in 2019 percentage changes.
3. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/5bwfzy

Uncertainty continues to hamper private spending

While growth has picked up over the past 6 months, with the economy expanding by ½ per cent in the first quarter of 2021, the recovery has been uneven across sectors. Production in the manufacturing sector has already surpassed its pre-crisis level, but remains 6% below in the services sector. Business sentiment has improved, mainly driven by a rise in demand expectations, but uncertainty is still holding back a proportionate increase in business investment. Some services sectors remain particularly hard hit because of mandatory closures, such as the accommodation and food, and the arts and entertainment sectors, with reported turnover 67% and 80% below normal, respectively in mid-April. Employment losses have been limited thanks to the temporary layoff scheme, utilised essentially by those in the most affected sectors.

Policy remains supportive

The main direct fiscal support introduced in 2020, such as the temporary layoff scheme (1% of GDP) and the replacement income for the self-employed (0.7% of GDP), will remain in place until the end of June 2021. The deferral of tax and social contribution payments, the public guarantee scheme for new loans, and the moratorium on loan payments have also been extended, helping to overcome temporary liquidity shortages in some firms. The number of insolvencies has been limited so far, most likely thanks to policy support and the moratorium on filings for insolvency that was in place until early 2021. The government plans to reform the judicial reorganisation procedure, which aims at streamlining judicial proceedings and promoting out-of-court settlements and should help in case of a spike in insolvency procedures.

The recovery will be buoyant

The economy is projected to rebound strongly, as the remaining restrictive measures are removed and the population is increasingly vaccinated. Private consumption will gain momentum, boosted by the removal of restrictions and pent-up demand. However, accumulated savings will remain in excess of pre-pandemic levels, while turnover in the labour market is expected to rise due to the winding down of most policy measures. With improved global economic prospects, business investment will gain ground once uncertainties about the epidemic are reduced, which can be stronger than projected. In contrast, the number of bankruptcies might increase by more than assumed, as a high number of firms, in particular those in the hardest hit sectors, anticipate the possibility of filing for insolvency in the near term, which could weigh on activity and employment.

Policies should support resource reallocation

Policy support should be removed carefully, in line with the evolution of the pandemic and the recovery. While some reallocation of activities and jobs may be inevitable, due to changes in people's preferences and behaviour, policy support should be strictly targeted to viable jobs and firms. In addition, the planned insolvency reform should be implemented as scheduled to reduce the obstacles hampering the successful restructuring of viable firms and the smooth exit of non-viable ones. While significant job losses are expected in certain sectors, other sectors, including the information and communications sector, are creating new jobs. These can be facilitated, for instance, by making up-skilling and re-skilling programmes mandatory for those on temporary layoff schemes. Finally, the authorities should use the Next Generation EU funds swiftly and effectively to address potential growth, which is otherwise projected to slow markedly.

Brazil

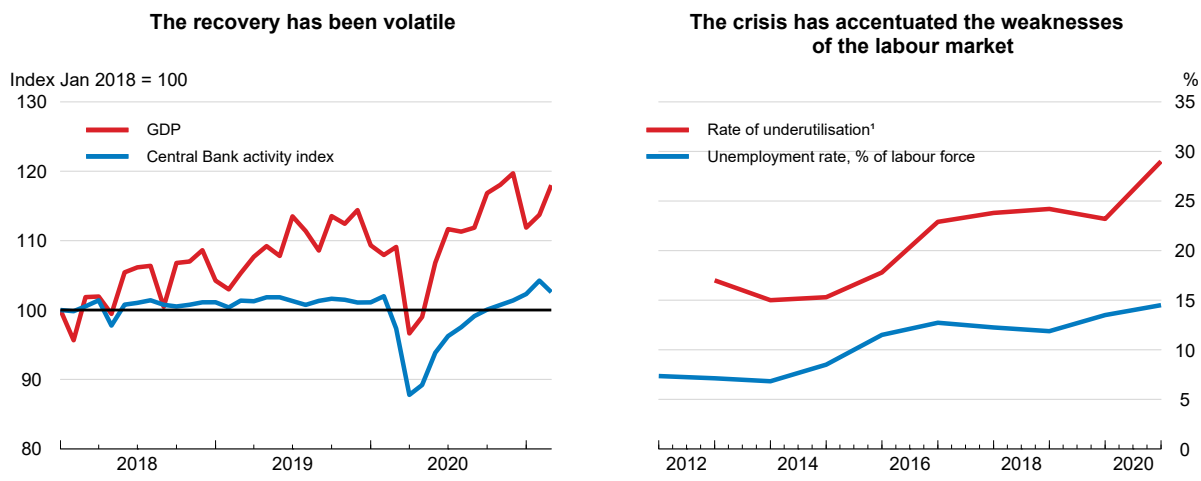
Despite a high number of infections and fatalities, the economy recovered strongly at the end of 2020. GDP growth is expected to reach 3.7% in 2021 and 2.5% in 2022, driven by a progressive increase in household consumption and investment. Inflation has picked up recently and is projected to be above target over the projection period.

Increasing inflation is making the fiscal and monetary policy mix more complicated. While still set to remain accommodative, the expected further tightening of monetary policy will reduce support to the economy. At the same time, the government has limited space for further fiscal support as public debt approaches 90% of GDP. In this context, measures to rapidly control the epidemic are key, notably an acceleration of the vaccination campaign and better contact tracing. Reforming fiscal policy would increase the government's capacity to support the economy to face new crises and increase public investment to lift potential growth. This should be accompanied by structural reforms to enhance domestic and external competition and improve the business climate.

The sanitary situation is worrisome

The propagation of the virus accelerated in early 2021. The wide spread of the virus and uncoordinated restriction measures at state levels have worsened the sanitary situation. The vaccination rollout is slow, despite local vaccine production capacity. Supply issues related to the availability of some vaccines are holding back inoculation. Brazil recently secured additional vaccine doses, which should help speed up the campaign.

Brazil 1



1. In per cent of active population.
Source: Central Bank of Brazil; and IBGE.

StatLink https://stat.link/tsb7mg

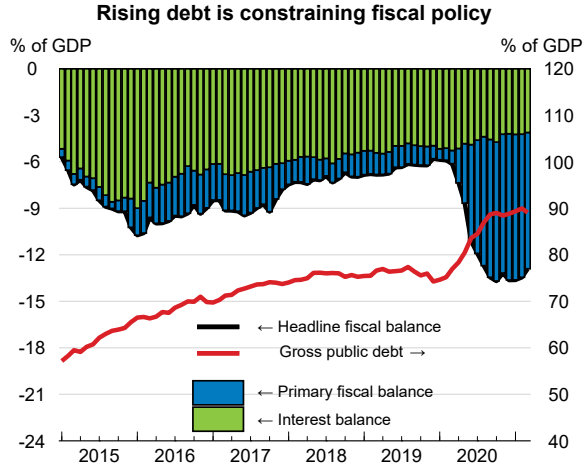
Brazil: Demand, output and prices

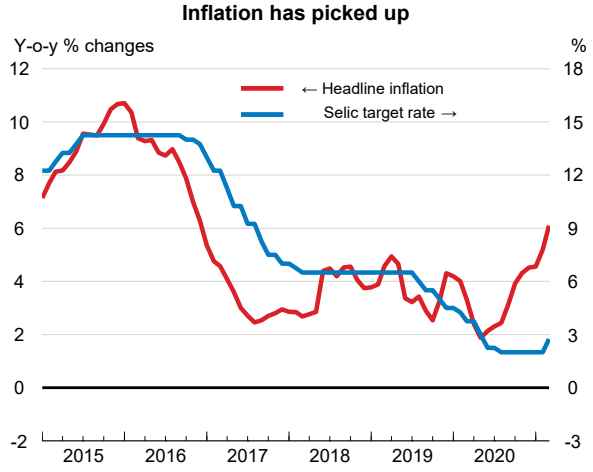
Brazil	2017	2018	2019	2020	2021	2022
	Current prices BRL billion	Percentage changes, volume (2000 prices)				
GDP at market prices	6 583.8	1.8	1.4	-4.1	3.7	2.5
Private consumption	4 243.7	2.4	2.2	-5.5	2.7	2.3
Government consumption	1 329.1	0.8	-0.4	-4.7	0.7	0.8
Gross fixed capital formation	958.4	5.2	3.4	-0.6	8.6	3.4
Final domestic demand	6 531.2	2.5	1.9	-4.6	3.2	2.2
Stockbuilding[1]	4.5	-0.4	0.0	-0.7	0.2	0.0
Total domestic demand	6 535.7	2.2	1.9	-5.2	3.8	2.2
Exports of goods and services	825.7	3.3	-2.3	-2.2	2.0	6.6
Imports of goods and services	777.6	7.0	1.1	-10.2	2.0	5.4
Net exports[1]	48.1	-0.4	-0.5	1.2	0.0	0.3
Memorandum items						
GDP deflator	_	4.5	4.3	4.8	4.9	4.0
Consumer price index	_	3.7	3.7	3.2	6.2	4.0
Private consumption deflator	_	4.1	3.7	3.0	6.0	4.0
General government financial balance (% of GDP)	_	-7.0	-5.7	-14.9	-7.4	-6.4
Current account balance (% of GDP)	_	-2.2	-2.7	-0.7	0.9	0.5

1. Contributions to changes in real GDP, actual amount in the first column.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/pxfdyj

Brazil 2





Source: Central Bank of Brazil.

StatLink https://stat.link/s6wr1n

The recovery has been shaky

Economic activity rebounded strongly in the fourth quarter of 2020. The main monthly activity indicators point to sustained activity in January and February, with some variation across sectors. However, in March a net decline in economic activity was registered due to the degradation of the sanitary situation. More recent data point to a weaker effect of the pandemic on economic activity compared to a year ago. Business confidence has fallen since January. The unemployment rate declined to 13.9% at the end of 2020, from 14.6% in the third quarter.

Policy support is being reduced

The fiscal package to protect vulnerable people, including informal workers, amounted to 11.4% of GDP in 2020. Initially, a temporary emergency benefit (USD 120 per month) was paid to over 67 million informal, self-employed or unemployed workers from April to September. The aid was prolonged until December, but halved. This year, Congress has approved an extension of the benefits for another four months, but further reduced the amount to around $45 on average, for a total of around $7.9 billion. Given the deteriorating sanitary situation, the fiscal support will be insufficient to maintain private consumption. Thanks to social emergency transfers and the expansion of the Bolsa Familia programme, the poverty rate fell to 21% in 2020, from 29% in 2019. However, if social transfers are not prolonged while economic activity continues to be affected by the virus outbreak, poverty rates will likely rise again this year.

Inflation remained subdued during most of 2020, but rebounded sharply at the end of the year and reached a quarter-on-quarter annualised rate of 9.7% in the first quarter of 2021. Given inflation expectations, the central bank has increased the Selic rate by 0.75 percentage point to 3.5% since March. The central bank also decided to start the partial normalisation of monetary policy and announced that this policy will continue over 2021. Moreover, the macroprudential authorities decided that the countercyclical capital buffer for credit exposures in Brazil will be 0% until at least the end of 2021. They also recommended that banks should be conservative in the allocation of profits and announced the start of the replenishment of the capital conservation buffer in April.

The recovery will depend on the evolution of the pandemic

Despite solid growth in the first two months of the year, driven by retail and other services sectors, activity in the first semester will be subdued, constrained by the high level of propagation of the virus and mobility restrictions. A strong economic rebound in the second half of the year is projected, led by household consumption and exports on the back of a more effective vaccination rollout and improvements in controlling the spread of the virus. Although higher unemployment will weigh on household income, higher saving in 2020 is projected to recede, helping to sustain consumption levels. Exports will continue to benefit from recovering global demand for food and minerals. Import demand will pick up progressively in line with domestic demand. Unemployment will decline slowly amid a return of previously discouraged workers to the labour market. Overall, the activity rate will remain significantly below pre-crisis levels, keeping millions of workers outside the labour market.

Policy uncertainty around the fiscal strategy has become a major risk. Gross public debt will reach 90% of GDP by end-2022, limiting fiscal space. The chosen strategy of excluding additional spending related to the COVID-19 from the spending cap risks breaking the fiscal rule. While understandable in the current exceptional context, it should be exercised with caution as it may add to the volatility of financial markets and policy uncertainty. The government should therefore clearly make it time-limited and ensure that only spending related to the COVID-19 crisis is excluded. The credibility of public policies will be important to keep attracting foreign investment and limit the depreciation of the exchange rate. On the other hand, the social situation is fragile as many families struggle to make their living with the deterioration of the sanitary situation. On the upside, a quick implementation of the infrastructure and fiscal stimulus package in the United States will boost exports and accelerate the recovery.

Creating fiscal space will allow financing policies that lift potential growth

Striking the right balance between protecting the poor and ensuring sustainable public finances will be a key policy challenge in 2021. The social emergency benefits should be prolonged until economic activity resumes and the pandemic is under control. There is scope to finance the extension of social spending by redirecting current expenditures, such as subsidies to credit and payroll exemptions for specific sectors, and by better managing public payroll expenses. Furthermore, changes in mandatory spending items and indexation rules (93% of spending) are necessary to create fiscal space to finance policies that strengthen long-term growth. Improving domestic regulation and fostering a further integration into global value chains could boost competition and reduce the cost of intermediate and capital goods. Expanding access to early-childhood education, improving the quality of schooling and increasing resources for professional training courses would improve labour market performance. Regarding support to firms, bank credit has been increasing on the back of low interest rate levels and emergency measures that mitigated the effects of the COVID-19 crisis. Some credit segments, such as real estate credit, are particularly boosted by record-low interest rates. Overall, household and firm indebtedness remains moderate and banks' capitalisation, buffers and provisions for losses seem adequate. However, given the likely protracted crisis, it may be necessary to prolong financial support measures for firms and increase or maintain the softening of prudential measures to allow financial institutions to exit progressively from the crisis.

Bulgaria

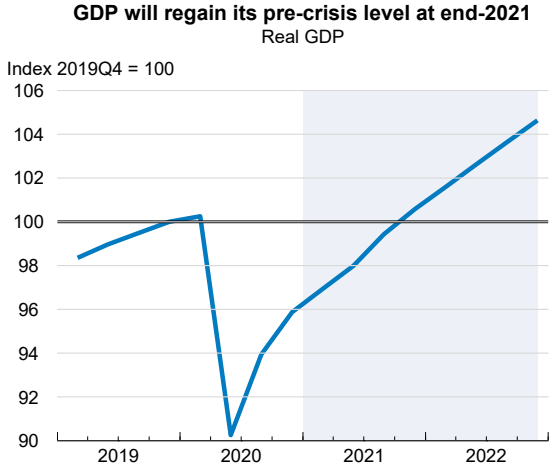
After contracting by 4.2% in 2020, GDP is projected to rebound by 3.8% in 2021 and 4.4% in 2022. GDP will return to its pre-pandemic level at the end of 2021. The reopening of the economy will create renewed strength in household demand and business investment, which will replace government spending as the main engine of growth. The economic recovery will be reflected in gradual improvements in the labour market.

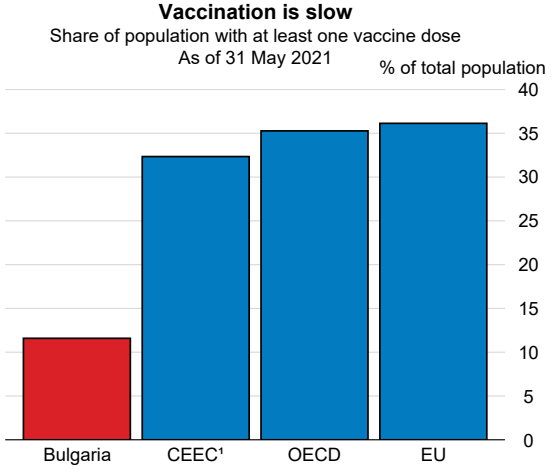
The immediate policy priority is to speed up vaccination, the slowest among EU countries. This will allow restrictions to be reduced and is a prerequisite for the economy to operate at normal levels again. Strong fiscal support should continue in 2021 and then be eased gradually in the following years. Bulgaria expects to receive large EU funds, which, if planned and implemented effectively, would accelerate the recovery and promote investment and productivity.

COVID-19 continues to weigh on the economy

Like many other European countries, Bulgaria experienced two strong pandemic waves in autumn 2020 and spring 2021, in addition to a milder initial wave. The pandemic threatened the functioning of the health system and pushed COVID-19 mortality to high levels. In response, containment measures were implemented, including limits on group gatherings and the closure of schools and restaurants. Following the peak of the third wave at the end of March, many restrictions were lifted and students returned to school under a phased schedule. Vaccination is being rolled out slowly.

Bulgaria





1. Central and Eastern European countries (CEEC) include Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia.
Source: OECD Economic Outlook 109 database; and Our World in Data.

StatLink https://stat.link/mtdqb9

Bulgaria: Demand, output and prices

Bulgaria	2017	2018	2019	2020	2021	2022
	Current prices BGN billion	Percentage changes, volume (2015 prices)				
GDP at market prices	102.3	3.1	3.7	-4.2	3.8	4.4
Private consumption	61.6	4.4	5.5	0.2	2.0	4.2
Government consumption	16.0	5.3	2.0	7.5	6.0	1.7
Gross fixed capital formation	18.8	5.4	4.5	-5.1	5.2	6.0
Final domestic demand	96.4	4.8	4.6	0.4	3.4	4.0
Stockbuilding[1]	1.6	1.1	0.0	-1.4	0.7	0.0
Total domestic demand	97.9	5.8	4.6	-1.2	3.8	3.9
Exports of goods and services	68.9	1.7	3.9	-11.3	7.5	6.7
Imports of goods and services	64.4	5.7	5.2	-6.6	9.8	5.8
Net exports[1]	4.4	-2.5	-0.7	-3.2	-1.1	0.5
Memorandum items						
GDP deflator	_	4.0	5.3	3.3	3.6	3.3
Consumer price index	_	2.8	3.1	1.7	1.4	1.9
Core consumer price index[2]	_	2.1	1.8	1.2	1.2	1.8
Unemployment rate (% of labour force)	_	5.2	4.2	5.1	4.9	4.5
Household saving ratio, net (% of disposable income)	_	-3.3	-2.0	3.1	2.8	1.1
General government financial balance (% of GDP)	_	2.0	2.1	-3.5	-4.2	-2.9
General government gross debt (% of GDP)	_	31.8	29.9	33.4	37.4	39.7
General government debt, Maastricht definition (% of GDP)	_	22.3	20.2	25.0	29.0	31.3
Current account balance (% of GDP)	_	0.9	1.8	-0.7	-0.1	0.9

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/g78eqf

The economy has proven resilient in the face of the second and third waves

The economy withstood the second and third waves in autumn and spring better than the milder initial wave. GDP rose in the final quarter of 2020 and also in the first quarter of 2021. Business climate indicators underwent a soft patch over the winter months, particularly in sectors that were more affected by containment measures (retail and other services). Recent data indicate that confidence among consumers and businesses is returning. Similarly, people's movements near recreation and retail locations, and internet searches for consumption services, have been increasing since the trough of the third wave.

Prudent fiscal policy before COVID-19 has permitted a strong fiscal response

The fiscal response to the COVID-19 crisis has been strong, and the fiscal balance turned from a surplus of 2.1% of GDP in 2019 to an estimated deficit of 3.5% in 2020. In its 2021 budget, the government announced continued fiscal support that extends the wage subsidy scheme and temporary VAT cuts for hard-hit goods and services and increases financing for healthcare. Nevertheless, public debt is lower than in most OECD countries thanks to prudent fiscal policy, and will remain below 30% of GDP in 2021 (based on the Maastricht definition). Support from EU funds will lift investment and trend output. Grants by the Recovery and Resilience Facility, neutral with respect to the fiscal balance, are expected to total 10% of pre-crisis annual GDP and be used over the next several years.

The economic recovery is set to continue

GDP is projected to rise by 3.8% in 2021 and 4.4% in 2022. By the fourth quarter of 2021, GDP will be back where it was two years earlier, although it will not return by end-2022 to the path projected before the crisis. The COVID-19 crisis will thus have inflicted significant damage, although less than in some other emerging-market economies. The reduction of pandemic-related restrictions is expected to make private demand the main engine of growth again. The labour market will improve more gradually, with unemployment in 2022 exceeding its pre-crisis rate. Uncertainty is high: the projection assumes that Bulgaria will encounter no further significant setbacks in bringing the pandemic under control, but mutations of the virus remain possible and confidence could be slow to return.

Right policy choices would improve the economic outlook

The immediate policy priority is to speed up vaccination, so that the economy can operate again at normal levels. However, even in the event of another adverse development, Bulgaria has ample fiscal space that can be used to support households, firms and activity. Investment will be a strong driver of growth into 2022, in part thanks to large EU funds. Effective planning and implementation of projects will be critical to accelerate the recovery and promote productivity. Political co-operation will be important in light of April's general election and a more fragmented parliament, so that the reform drive to increase competition, reduce the cost of red tape for businesses and fight corruption continues.

Canada

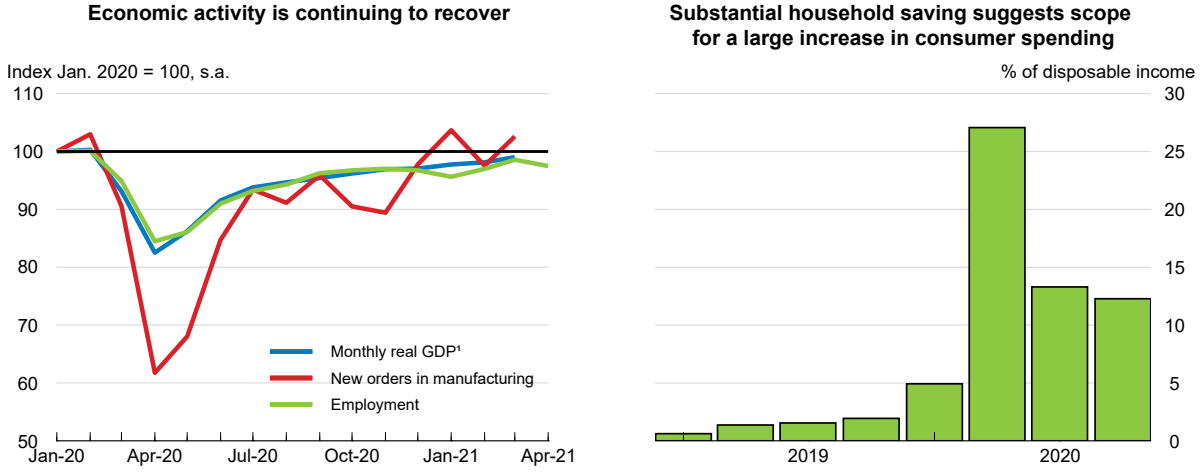
The Canadian economy will rebound strongly and grow by 6.1% in 2021 and 3.8% in 2022, thanks to reduced COVID-19 restrictions in the second half of this year and buoyant external demand. These developments will be echoed in a recovery in the labour market. Nevertheless, output levels will remain below trend and underlying inflationary pressures will be contained. After increasing again in 2021, the public debt burden will stabilise in 2022.

Government schemes supporting businesses and households experiencing revenue and income losses need to remain available until economic recovery is well underway. Monetary policy should remain accommodative, accompanied by a close watch on housing and corporate debt, with further tapering of quantitative easing contingent on signs of strengthening conditions. Reforms proposed in the National Budget 2021 suggest positive advances in social and environmental policy and for the business environment. The reduction in the fiscal deficit in 2022 is appropriate. However, once the economy is on a firm footing, a medium-term fiscal strategy to reduce public debt should be considered.

Canada is hit by a third wave of the pandemic, but vaccination is accelerating

A third wave of COVD-19 cases began in March and peaked mid-April. Containment measures have included a province-wide stay-at-home order in Ontario, localised lockdowns in Quebec and tighter restrictions in British Colombia and Alberta. Despite the latest surge, Canada remains less severely hit by the pandemic than the most affected countries. In addition, following a slow start, the rate of vaccination has increased substantially; as of mid-May, over 45% of the population had received at least one dose of a COVID-19 vaccine.

Canada 1



1. First estimate for March 2021.
Source: Statistics Canada; and OECD Economic Outlook 109 database.

StatLink https://stat.link/71jwmi

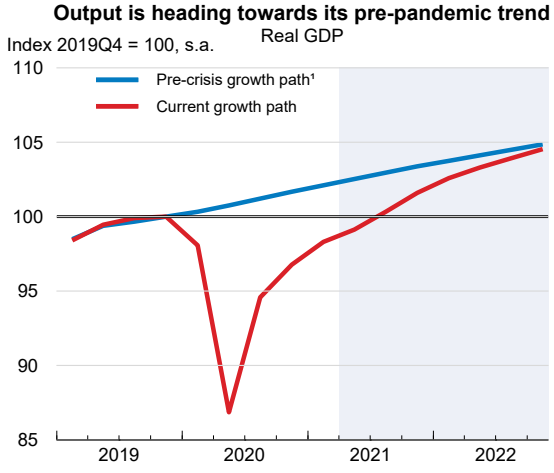
Canada: Demand, output and prices

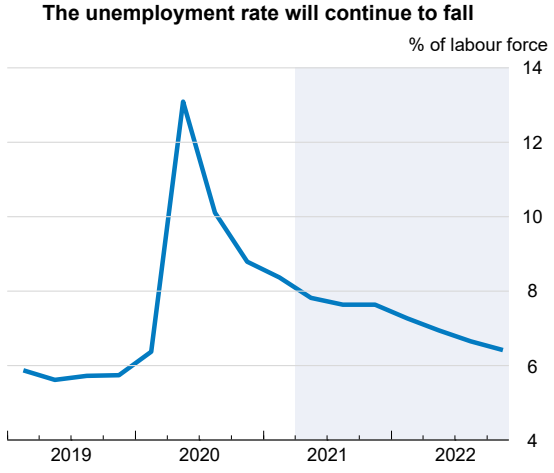
Canada	2017	2018	2019	2020	2021	2022
	Current prices CAD billion	Percentage changes, volume (2012 prices)				
GDP at market prices	2 140.6	2.4	1.9	-5.4	6.1	3.8
Private consumption	1 241.1	2.5	1.7	-6.1	5.0	4.6
Government consumption	443.2	2.9	2.0	-1.1	2.8	1.3
Gross fixed capital formation	485.8	1.8	0.3	-3.6	6.1	3.2
Final domestic demand	2 170.1	2.5	1.4	-4.5	4.7	3.6
Stockbuilding[1]	17.5	-0.2	0.2	-1.6	0.8	0.0
Total domestic demand	2 187.6	2.3	1.6	-6.1	5.5	3.6
Exports of goods and services	673.3	3.7	1.3	-9.8	11.7	4.2
Imports of goods and services	720.3	3.4	0.4	-11.3	9.9	3.6
Net exports[1]	- 46.9	0.0	0.3	0.6	0.3	0.2
Memorandum items						
GDP deflator	_	1.8	1.7	0.8	3.6	1.5
Consumer price index	_	2.2	2.0	0.7	2.0	1.4
Core consumer price index[2]	_	1.9	2.1	1.1	1.1	1.3
Unemployment rate (% of labour force)	_	5.9	5.7	9.5	7.9	6.8
Household saving ratio, net (% of disposable income)	_	0.8	1.4	14.7	11.4	6.5
General government financial balance (% of GDP)	_	0.3	0.5	-10.7	-6.0	-1.5
General government gross debt (% of GDP)	_	92.8	92.7	127.4	130.5	130.3
Current account balance (% of GDP)	_	-2.3	-2.1	-1.9	0.4	0.6

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/ip3mqw

Canada 2





1. The pre-crisis growth path is based on the November 2019 OECD Economic Outlook projection, with linear extrapolation for 2022 based on trend growth in 2021.
Source: OECD Economic Outlook 106 and 109 databases.

StatLink https://stat.link/vr6i4s

Economic activity has been more resilient than expected

Output growth has been holding up well given the renewed virus outbreaks. Real GDP increased by 0.4% and 0.9% (month-on-month) in February and March, respectively. The faster pace of vaccination, significant fiscal stimulus, higher prices for oil and other commodity exports and the prospects of increased demand arising from the US fiscal package in March are boosting the recovery. The household saving rate is declining from the high level reached in the early months of the crisis, when middle and high-income households in particular accumulated saving well in excess of levels implied by pre-crisis behaviour. The saving rate decline is consistent with gathering confidence and adaptation to restrictions. Business sentiment has also become more positive according to the Bank of Canada's Business Outlook Survey. The energy price recovery has driven increases in headline consumer price inflation in recent months. Headline inflation increased by 3.4% in April (year-on-year), while excluding energy, the consumer price index increased by 1.6%. House price growth continues apace; the Teranet-National Bank National Composite house-price index for March was up 10.8% year-on-year.

The federal government has committed to further support for households and businesses

Monetary and fiscal policy support remains substantial. The monetary policy stance remains accommodative notwithstanding the reduction in the scale of the quantitative easing programme announced in April. The Bank of Canada's policy rate remains at 0.25%. Similar to elsewhere, bond yields on long-term government securities have increased in recent months. The federal government's National Budget for 2021, published in April, commits to keep support for households and businesses on tap. There are prolongations to a number of support schemes, including the Canada Emergency Wage Subsidy and the Canada Recovery Benefit. New supports include an additional wage-bill subsidy, the Canada Recovery Hiring Program. The Budget estimates the federal fiscal deficit at 6.4% of GDP for the fiscal year 2021-22, a level consistent with keeping pandemic support on tap. With only modest reductions in the public-debt burden projected over the four years to 2025-26, a medium-term fiscal strategy should aim to restore fiscal headroom after the pandemic subsides.

Economic growth will accelerate in the second half of this year

The projections envisage a slowing of growth in the second quarter of this year. This will be followed by a pick-up as vaccination progresses and containment measures are lifted when the latest wave of the pandemic subsides. Consumer spending will increase further as restrictions are lifted and labour market conditions continue to improve. Exports will be boosted by additional demand arising from the US fiscal package. Headline consumer price inflation is expected to diminish in the near term as the impact of energy-price increases wears off. It will then rise gradually as the economy grows and spare capacity diminishes. Echoing the federal government's budget, the general government fiscal deficit will decline substantially in 2021 and 2022 as tax revenues recover and need for household and business support declines. A rise in the monetary policy interest rate is assumed in the final quarter of 2022.

Despite the improving economic outlook, risks remain elevated. As elsewhere, the emergence of highly contagious virus variants requiring renewed restrictions is a risk factor for the pace of economic recovery. On the other hand, faster reduction of case numbers, and brighter labour market prospects, could bring stronger-than-expected growth in household consumption and more rapid reduction in the saving rate. While the US fiscal package will undoubtedly boost demand for Canadian exports, the scale of the effect is uncertain. Vulnerabilities in the corporate bond market remain a concern. Recent housing price growth will make homeownership still less attainable for many households, while increased mortgage borrowing could compound financial market vulnerabilities in the event of future shocks.

Policy needs to nurture business recovery and strengthen well-being

The federal government's budget indicates a welcome commitment to keep some of the pandemic support measures for households and businesses on tap for the duration of the crisis. It also aims to make progress on longer-term socio-economic issues that have been flagged in *OECD Economic Surveys*. Areas of policy requiring particular improvement include access to childcare, programmes for indigenous peoples and access to prescription drugs. In environmental policy, it remains important to follow through with the plan to accelerate the increases in carbon pricing and taxation through to 2030. The budget makes welcome commitments to improve the environment for business, including efforts to further lower Canada's domestic trade barriers. In addition, there is scope to improve insolvency processes; attention to this could help business sector recovery.

Chile

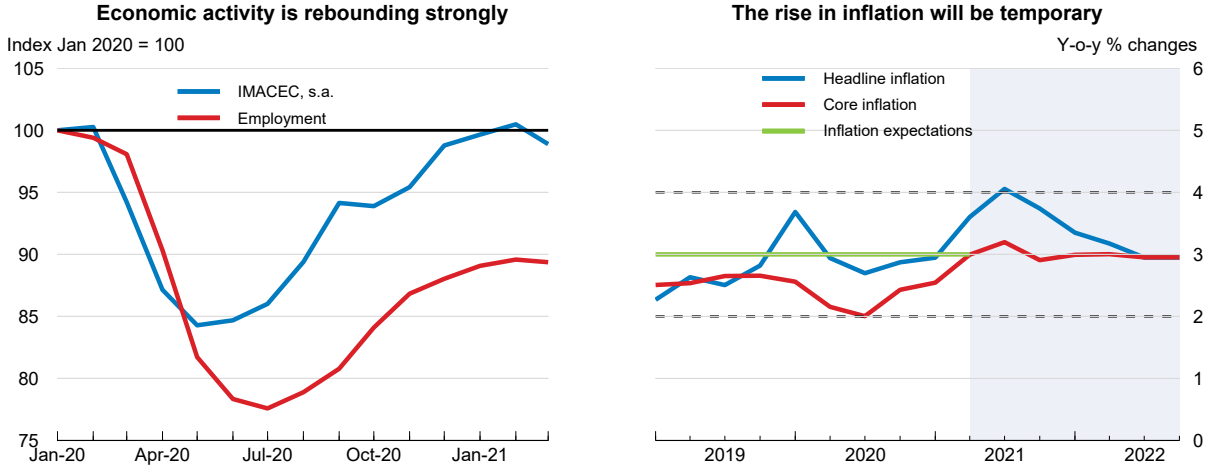
A rapid vaccine rollout and better global prospects are fuelling a strong recovery. Growth is projected to rebound to 6.7% in 2021 and 3.5% next year. Private consumption will be the main driver, sustained by policy measures to support households. Investment will slowly regain momentum on the back of higher copper prices, public investment, and supportive financing conditions. Inflation will pick up temporarily, driven by energy prices and supply constraints, and converge to the target of 3% later this year. Formal job creation will pick up gradually, supported by hiring subsidies.

Monetary and fiscal policy are providing ample support, made possible by prudent fiscal management in previous years. Planned reforms to bolster pension benefits and savings and female labour participation will promote inclusiveness. Strengthening the lifelong learning system and active labour market policies would foster the employment recovery and allow for a more rapid reallocation of resources. In addition, fostering investment in high-quality education, digital and transport infrastructure would help boosting growth.

The vaccination rollout has been rapid

Chile is advancing rapidly with its vaccination programme, with more than 45% of the population fully vaccinated, and around 50% with at least one dose. This will probably allow for a full reopening of domestic activity during the second half of the year. Despite the rapid vaccination campaign, the country is facing a second wave of COVID-19 infections. Local restrictions were tightened in mid-March, putting 90% of the population into strict lockdown. Lockdowns are nonetheless having a smaller impact on activity than last year, given that households and firms have adapted and extensive policy support is now in place.

Chile



Source: CEIC; OECD Economic Outlook 109 database; Chile Central Bank; and INE.

StatLink https://stat.link/lrboja

Chile: Demand, output and prices

Chile	2017	2018	2019	2020	2021	2022
	Current prices CLP billion	Percentage changes, volume (2013 prices)				
GDP at market prices*	179 849.6	3.8	0.9	-6.0	6.7	3.5
Private consumption	113 983.7	3.8	1.1	-7.8	10.8	4.4
Government consumption	25 363.3	3.3	0.0	-3.7	4.4	0.8
Gross fixed capital formation	37 768.6	5.0	4.5	-11.8	9.3	3.1
Final domestic demand	177 115.7	4.0	1.7	-8.1	9.4	3.5
Stockbuilding[1]	650.2	0.5	-0.7	-1.6	3.6	0.0
Total domestic demand	177 765.9	4.4	0.9	-9.8	13.1	3.5
Exports of goods and services	51 006.4	5.4	-2.5	-0.7	-1.4	3.9
Imports of goods and services	48 922.7	8.1	-2.4	-13.6	21.9	3.7
Net exports[1]	2 083.7	-0.7	0.0	3.7	-6.2	0.1
Memorandum items						
GDP deflator	_	2.4	1.9	8.3	5.7	3.2
Consumer price index	_	2.4	2.6	3.0	3.6	3.1
Private consumption deflator	_	2.8	1.0	3.3	3.7	3.1
Unemployment rate (% of labour force)	_	7.4	7.2	10.7	9.8	8.2
Central government financial balance (% of GDP)	_	-1.7	-2.9	-7.2	-4.2	-3.5
Current account balance (% of GDP)	_	-3.9	-3.7	1.7	-1.5	-1.2

* Based on seasonal and working-day adjusted quarterly data; may differ from official non-working-day adjusted annual data.
1. Contributions to changes in real GDP, actual amount in the first column.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/145x3r

The recovery is gathering pace

The recovery has gradually gained momentum since the third quarter of 2020. Strong retail trade has been supported by fiscal measures and exceptional withdrawals of pension funds. Other activities, such as accommodation, food services and recreation, continue to lag behind. Investment remains weak due to high uncertainty about the evolution of the pandemic. Employment has started to recover, but lags behind economic activity. Business and consumer sentiment have improved driven by the rapid vaccination process and higher copper prices.

A solid policy response is cushioning the negative COVID-19 effects

The authorities responded to the crisis with unprecedented fiscal, monetary and financial measures. The multi-year fiscal response amounts to 13% of GDP during 2020 and 2021, supporting health, workers, households and firms. The government has recently strengthened pandemic relief measures, such as cash transfers for vulnerable households, the job retention scheme, hiring subsidies and public guarantee measures to help SMEs. Higher copper prices are improving the fiscal accounts and pandemic-related fiscal stimulus is expected to be withdrawn gradually as the recovery firms. Further fiscal support than currently planned for jobs and viable firms, particularly in the most affected sectors, might be needed. The monetary policy stance has been highly expansionary, with record low policy rates and a broad range of unconventional measures ensuring both financial stability and credit expansion. These policies should be maintained, as planned, until the recovery is firmly underway.

GDP will bounce back to its pre-pandemic level by early 2022

The economic recovery will gain traction in the second part of 2021. Economic growth this year will be driven by buoyant private consumption, and strong global demand. Higher copper prices and measures to streamline private investment projects will boost fixed investment. The labour market will recover gradually, supported by hiring subsidies, but high informality remains a concern. The main risk to the outlook is the pandemic, though mitigated by fast vaccination. The outcome of the constitutional process and the presidential elections at end-2021 also remain sources of uncertainty. Sudden changes in global financial markets could weaken the currency and push up inflation. However, a strong macroeconomic and institutional framework, large foreign-exchange reserves and the still low level of public debt by international standards, make the economy resilient. Upside risks to growth are a faster-than-expected vaccine deployment, particularly in Latin America, excess savings and pent-up demand, and sustained higher copper prices.

Policies to support employment and productivity are needed

Continuing the reform agenda is important to prevent a rise of inequality and to strengthen economic resilience and growth. Streamlining complex regulatory procedures and ensuring that firms are more exposed to competition, innovation and digital tools would support a swift recovery and boost productivity. Strengthening public employment services, unemployment benefits and the training system would help to face the challenges of digitalisation and ensure that all workers, particularly the most vulnerable, have adequate opportunities for finding good-quality jobs. A third wave of extraordinary withdrawals from pension funds has been approved, decreasing and, in many cases, depleting individual retirement savings, reducing already low old-age pensions and potentially reducing financial market depth and worsening future fiscal accounts. Moreover, the short-term demand boost will be smaller than with previous withdrawals given that more than 60% from the previous ones have been used to increase other types of savings rather than spending. If needed, extending the existing targeted support to vulnerable households would be more suitable to support demand in a more inclusive way.

China

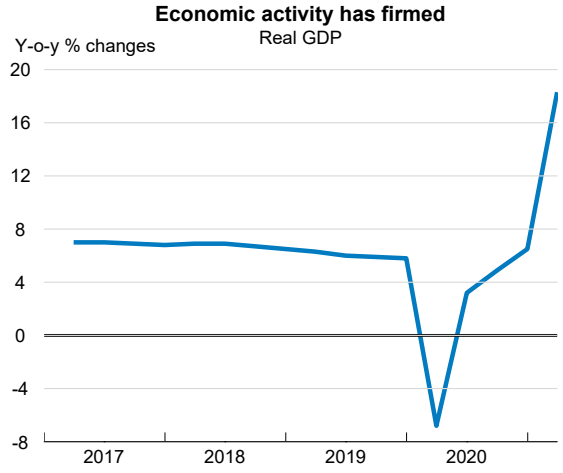
The recovery of economic activity has been swift and growth will reach 8.5% this year and 5.8% in 2022, assuming that the sanitary situation remains under control. Investment will remain a key engine of growth, while consumption will recover only gradually. Robust export demand will keep industry capacity utilisation high. The low import content of consumption means that the surge of imported raw material prices will only have a limited impact on consumer price inflation.

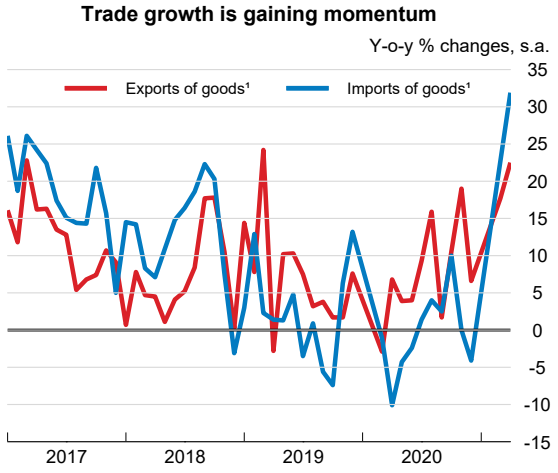
After having provided strong stimulus to credit extension in 2020, monetary policy is assumed to turn more neutral as the recovery firms. Fiscal policy will provide less support than in 2020 as the recovery is solid in most sectors. However, some support measures will remain in place. Corporate deleveraging and, in particular, addressing local-level debt with potential contingent liabilities for local governments are priorities. Social protection should be strengthened to boost consumption in a sustainable way, and restart the rebalancing process from investment to consumption. Infrastructure investment should prioritise projects contributing to decarbonisation, such as investment in renewable energy.

Vaccination rollout is relatively slow

China has implemented strict measures to keep the outbreak under control, but for a full recovery extensive vaccination is needed. The inoculation process has not been rapid as the very low chance to become infected discourages people from getting vaccinated even though some local governments provide free pick-up services and other gifts. Even with the target inoculation rate of 40% of the population to be reached by early summer, there is still a long way to go to reach the critical mass of around 70%, to help avoid the sporadic emergence of clusters, such as in Hebei and Yunnan earlier this year or Liaoning and Anhui more recently, as well as allow the reopening of borders and the return of passenger traffic.

China 1





1. In nominal terms.
Source: CEIC.

StatLink https://stat.link/rm91wu

China: Demand, output and prices

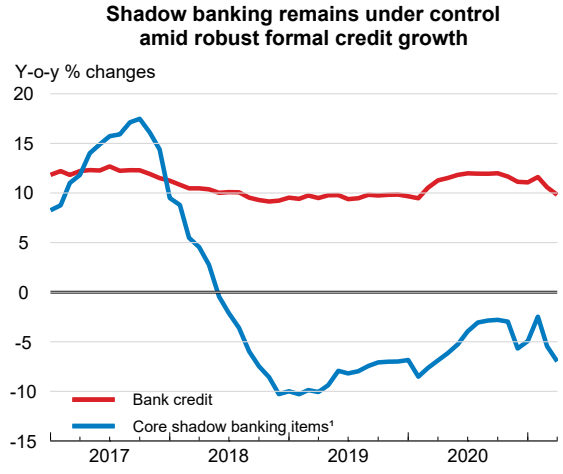
China	2017	2018	2019	2020	2021	2022
	Current prices CNY trillion	Percentage changes, volume (2015 prices)				
GDP at market prices	83.2	6.7	6.0	2.3	8.5	5.8
Total domestic demand	81.7	7.3	5.9	1.9	7.0	5.6
Exports of goods and services	16.4	3.7	1.5	1.6	11.3	6.2
Imports of goods and services	15.0	6.3	0.5	-0.9	3.1	4.9
Net exports[1]	1.5	-0.4	0.2	0.5	1.7	0.5
Memorandum items						
GDP deflator	_	3.5	1.2	0.7	3.2	2.1
Consumer price index	_	1.9	2.9	2.5	1.5	2.4
General government financial balance[2] (% of GDP)	_	-3.0	-3.7	-6.9	-6.5	-6.0
Headline government financial balance[3] (% of GDP)	_	-2.6	-2.8	-3.7	-3.1	-2.9
Current account balance (% of GDP)	_	0.2	0.7	1.9	2.6	2.7

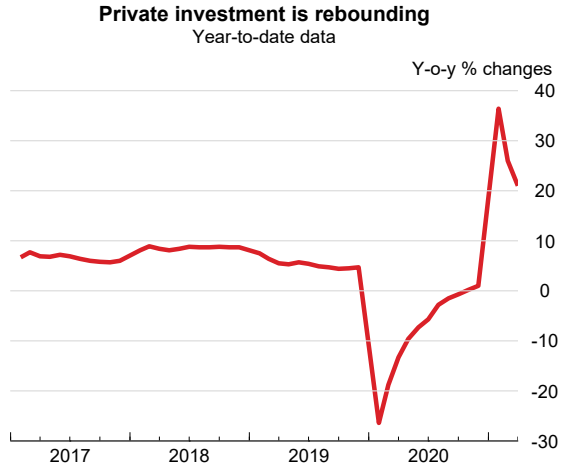
1. Contributions to changes in real GDP, actual amount in the first column.
2. Encompasses the balances of all four budget accounts (general account, government managed funds, social security funds and the state-owned capital management account).
3. The headline fiscal balance is the official balance defined as the difference between revenues and outlays. Revenues include: general budget revenue, revenue from the central stabilisation fund and sub-national budget adjustment. Outlays include: general budget spending, replenishment of the central stabilisation fund and repayment of principal on sub-national debt.

Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/klgq8n

China 2





1. Core shadow banking items include entrusted loans, trusted loans and undiscounted bankers' acceptance.
Source: CEIC.

StatLink https://stat.link/x8b0t1

The recovery is gaining momentum

Growth in the first quarter declined to 2.4% (quarter-on-quarter seasonally adjusted annualised rate) following double-digit rates in the preceding three quarters. The hardest hit industries, such as accommodation, catering and transportation, rebounded fast. Hubei Province, the epicentre of the pandemic, registered the highest growth, but even less affected provinces grew at double digit rates (in year-on-year terms). The recovery continues to be driven by investment: infrastructure investment is lifting the output of a number of midstream manufacturing industries and imports of raw materials such as iron or copper. Construction activity, which has been robust over the past year or so, is picking up further with the arrival of the peak season and the start of infrastructure projects. The recovery of consumption has been more gradual, but recent strong growth in online sales indicates that consumption is gradually rebounding. The pass-through of the surge of imported energy and raw material prices to consumer price inflation is limited due to the structure of consumption, with a large share of food and limited import content.

Monetary policy will turn more neutral and fiscal support will moderate

Monetary policy is assumed to turn more neutral as the recovery firms. The benchmark interest rate has remained unchanged for roughly a year and other rates are also relatively stable. Tightening measures were introduced in the property market to avoid inflating bubbles, which were already emerging. Bond defaults are rising and the share of defaulting local-government-owned enterprises is increasing sharply. This will help to sharpen risk pricing and gradually remove implicit guarantees. Deficiencies in the credit-rating market, including inflated ratings and weak warning systems hinder the healthy development of the bond market. The People's Bank of China issued on 28 March 2021 a draft decision promoting high-quality and healthy development of credit ratings in the bond market, and proposed holding credit rating agencies accountable as independent third parties. Corporate debt has stabilised, but at a very high level. Deleveraging should thus continue. In late April, the securities exchanges published regulations seeking to restrict access of high-risk issuers to the corporate bond market. Local government investment vehicles, in particular those with low credit ratings, will find it difficult to issue corporate bonds other than to service existing debt.

Fiscal policy will provide less support than in 2020 as the recovery is solid in most sectors. Still, some support measures will remain in place. For instance, debt moratoria are being extended on a case-by-case basis and firms hit by the crisis can continue to carry over losses for 8 years altogether. Lower-than-statutory social security contribution rates (for unemployment and work injury insurance) can be applied until end-April 2022 considering the slower recovery of some firms in hard-hit sectors and regions. As in the case of debt moratoria, the extension of reduced contribution rates is not automatic and is subject to an application process. With the coming extension of the retirement age, more funds need to be allocated to childcare facility support and to continuous learning.

Growth is to return to its gradually slowing pre-pandemic path

Growth in 2021 will be strong and return to the gradually slowing pre-pandemic path thereafter. Investment and exports will remain robust as infrastructure projects restart and foreign demand recovers. The current account surplus is projected to rise further as a result and as the recovery of tourism imports is delayed. Further acceleration of corporate defaults will improve risk pricing, but may adversely affect banks and trust companies, as well as other private and institutional investors. More limited access for local government investment vehicles to the corporate bond market will reduce contingent liabilities at the local government level and help contain corporate debt (as debt by local government investment vehicles is classified as corporate debt). However, it may imply the foregoing of some needed infrastructure projects

mainly at the district or county levels, such as toll roads, railways or sewage systems. Better regulation of credit rating agencies will result in a greater dispersion of ratings and provide improved guidance for investors. Improved consumer confidence related to increasing inoculation rates will boost consumption, but for a sustainable pick-up in consumption, the social protection net needs to be strengthened.

The sanitary situation remains a downside risk in the absence of mass inoculation, which prevents the reopening of borders as well as mutual recognition of vaccination certificates. A vaccine-resistant strain could also jeopardise the recovery. On the other hand, consumer confidence could rebound more sharply than projected if China succeeds at implementing an inoculation plan aiming at herd immunity in a shorter period of time than currently planned; this would lead to stronger consumption growth. While trade tensions continue to weigh on exports, stronger-than-expected foreign demand would cancel out that impact.

Turning crisis into an opportunity to initiate key reforms

The COVID-19 crisis should be used as an opportunity to initiate fundamental reforms, in particular to strengthen social protection and therefore reduce precautionary savings and encourage consumer spending, which is picking up gradually. Accelerating the reform of the household registration system to grant access to public services to all would also work in that direction and could reverse the decline of migrant workers. The share of people planning to save more is decreasing, but it is still close to half of urban households. Once the recovery is fully established, new social spending could be financed with a more progressive income tax and a recurring tax on the ownership of real estate. In addition, a larger share of state-owned enterprise profits could be remitted to the government budget. The current growth target acknowledges that reforms may have a short-term negative impact on growth and this opportunity should be seized for a swift implementation of some needed measures, including the raising of the retirement age. This should be done simultaneously with providing affordable childcare services for all who need it. The rebalancing from investment to consumption will continue only if these structural reforms are implemented.

Colombia

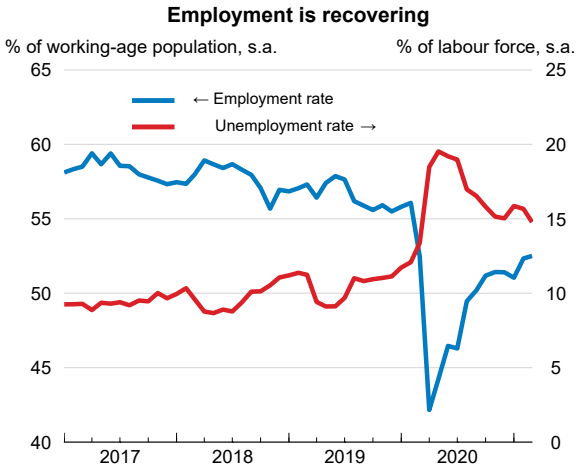
The economy has rebounded strongly since the second half of 2020, but social unrest and renewed mobility restrictions in April and May 2021 will push a more durable recovery into the second half of 2021. GDP is projected to grow by 7.6% in 2021 and then ease to 3.5% in 2022, boosted by private consumption and investment. A vaccine rollout is slowly making progress. Possible further restrictions, and also uncertainty about fiscal prospects, could weaken the recovery.

A significant fiscal response will appropriately continue to support the economy in 2021. The public finances could be strengthened in a progressive way once the recovery strengthens. Social protection and labour market policies need ambitious reforms to strengthen formal job creation for a more inclusive recovery and would benefit from additional resources. Ample monetary policy support will rightly continue during 2021 and 2022.

A second wave of COVID-19 infections hit Colombia in early 2021

COVID-19 infections rose visibly in January, and then again in April. Localised mobility restrictions and curfews have so far been successful in containing new infections and this is likely to continue going forward. Intensive care capacity has been expanded, but there are still severe strains in several regions. Progress in vaccinations has been steady, but its pace is lagging significantly behind other countries in the region.

Colombia



Source: Refinitiv; OECD Main Economic Indicators database; DANE (Colombia); and Fedesarrollo and Banco de la República (Colombia).

StatLink https://stat.link/flabqz

Colombia: Demand, output and prices

Colombia	2017	2018	2019	2020	2021	2022
	Current prices COP trillion	Percentage changes, volume (2015 prices)				
GDP at market prices	920.5	2.6	3.3	-6.8	7.6	3.5
Private consumption	630.6	3.2	3.9	-5.6	7.3	2.9
Government consumption	137.0	7.4	5.3	3.7	3.9	0.7
Gross fixed capital formation	200.0	1.0	3.1	-20.6	20.6	7.4
Final domestic demand	967.6	3.4	4.0	-7.1	9.2	3.4
Stockbuilding[1]	- 1.1	0.1	0.2	0.0	0.0	0.0
Total domestic demand	966.4	3.5	4.1	-7.2	7.1	3.5
Exports of goods and services	139.4	0.6	3.1	-18.3	13.8	9.0
Imports of goods and services	185.4	5.8	7.3	-17.3	14.8	6.7
Net exports[1]	- 46.0	-1.1	-1.0	0.8	-1.1	0.0
Memorandum items						
GDP deflator	_	4.6	4.0	1.4	3.4	3.2
Consumer price index	_	3.2	3.5	2.5	2.1	3.0
Core inflation index[2]	_	3.9	3.3	2.0	1.8	3.0
Unemployment rate (% of labour force)	_	9.7	10.5	15.9	13.9	12.2
Current account balance (% of GDP)	_	-4.1	-4.4	-3.3	-3.5	-3.3

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding primary food, utilities and fuels.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/841ob3

Economic activity has slowed following a tightening of mobility restrictions

GDP has recovered strongly since the second half of 2020, driven by a solid rebound in private consumption. Despite renewed mobility restrictions, GDP continued its solid expansion in the first quarter of 2021. Since then, consumer confidence has dropped sharply against the background of widespread social protests, road blocks and disruptions to supply chains. Exports have strengthened after an initially weak recovery and inflation remains below target.

Policy support remains significant with a strong focus on the most vulnerable

A significant fiscal response is helping to contain long-term scars from the pandemic. The fiscal rule has been suspended for both 2020 and 2021, but current plans to return to the fiscal rule in 2022 would result in a sharp fiscal tightening. A more gradual tightening would help protect the ongoing recovery. Turning emergency support for informal workers into a permanent, means-tested new social benefit would be a welcome expansion of social protection. Monetary policy support continues to be strong with low rates and substantial extra liquidity in domestic and foreign currencies.

The recovery will gain traction in the second half of 2021

Widespread social unrest, but also new localised lockdowns are denting the recovery and pushing a more durable recovery of private consumption and investment into the second half of 2021. Continuous fiscal support to households will underpin further improvements in consumption, while significant infrastructure investment and strong demand in the housing construction sector will support investment. Stronger commodity prices and improving prospects in main trading partners will buoy external demand and strengthen the recovery of exports. Inflation is expected to remain below target, although a recent uptick in prices may point to rising inflation risks. The most relevant downside risks are further lockdowns, which are conceivable given the recent trajectory of infections and the moderate pace of vaccinations. A failure to create a consensus for strengthening public finances could raise financing costs. A flexible credit line with the IMF is adding to Colombia's available external buffers. Upside risks include a more rapid vaccine rollout than expected.

Tax and benefit reforms could make the recovery more inclusive

A tax and benefit reform bill was submitted to congress in April, but was later withdrawn after triggering a general strike and social unrest, reflecting widespread opposition to tax rises at the current juncture. A new reform package will need to strengthen fiscal sustainability, create new fiscal space for expanding social protection and address structural shortcomings in the tax system, including low progressivity and fairness. Reaching a consensus to legislate an increase in comparatively low public revenues now − while implementing it gradually over time − would boost confidence without harming the incipient recovery, which will still need fiscal policy support in 2022. The current monetary policy stimulus can likely be maintained during 2021 and 2022. A significant overhaul of the fragmented pension system could increase low pension coverage and reduce old-age poverty. Shifting some of its financing burden from labour contributions to general taxation could reduce widespread labour market informality and boost formal job creation. In combination with lower trade barriers and stronger competition, this could facilitate necessary reallocation processes, supporting productivity and equity.

Costa Rica

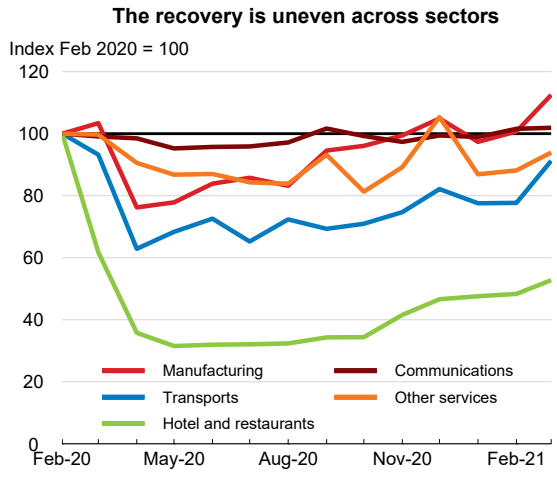
GDP growth will recover gradually to 2.5% in 2021 and 3.4% in 2022, supported by strong external demand from Costa Rica's main trade partners. Domestic demand will strengthen in the second half of 2021, as economic restrictions are gradually lifted and the vaccine campaign progresses. Inflation will slowly increase, but remain below the 3% target rate as spare capacity remains large. An extended fund facility agreement has been negotiated with the IMF with the aim of putting public debt on a declining and sustainable path.

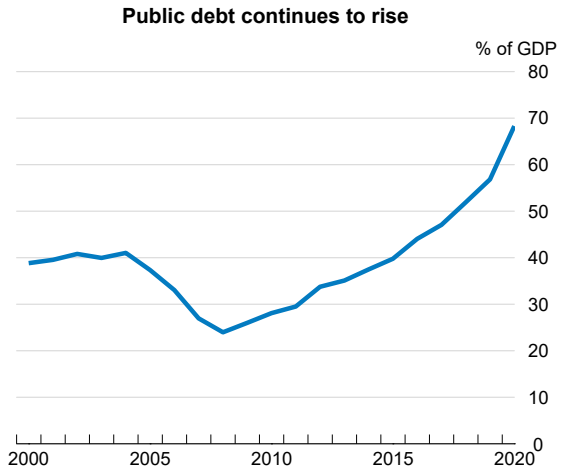
Implementing the public employment reform, reducing regressive tax exemptions and continuing to reallocate spending towards social protection would help to ensure debt sustainability, improve public spending efficiency and foster inclusiveness. Lowering administrative burdens and costs for starting and formalising businesses would help raise investment and formal job creation. Finalising the new insolvency law would streamline bankruptcy procedures and accelerate resource reallocation during the recovery.

Vaccination is progressing gradually

Daily infections have been rapidly increasing since March and the reopening of the economy has slowed. Some restrictions on movement have been reinstated, schools have closed, and limited capacity requirements in indoor public spaces (shops, restaurants) remain in place. Costa Rica has secured 9 million doses to vaccinate the whole population above 15 years old. The vaccine campaign started in late December 2020 and should continue throughout 2021. To speed up the vaccine campaign, the government has reduced the stock of vaccines to be kept as a reserve, started negotiations for more vaccines, and involved the private sector in the import and administration of the vaccine.

Costa Rica





Source: Banco Central de Costa Rica; and Ministerio de Hacienda.

StatLink https://stat.link/ixrh53

Costa Rica: Demand, output and prices

Costa Rica	2017	2018	2019	2020	2021	2022
	Current prices CRC trillion	Percentage changes, volume (2017 prices)				
GDP at market prices	34.3	2.1	2.2	-4.5	2.5	3.4
Private consumption	22.4	1.6	1.6	-4.3	3.2	3.2
Government consumption	5.6	0.5	5.3	0.4	0.8	0.0
Gross fixed capital formation	6.2	0.8	-5.4	-4.1	0.6	5.0
Final domestic demand	34.2	1.3	1.0	-3.5	2.3	2.9
Stockbuilding[1]	0.0	-0.7	0.1	-0.5	-0.6	0.0
Total domestic demand	34.2	0.6	1.0	-4.0	2.2	3.1
Exports of goods and services	11.3	4.7	3.0	-10.7	8.3	10.9
Imports of goods and services	11.1	0.2	-0.5	-9.5	7.8	10.5
Net exports[1]	0.2	1.5	1.2	-0.7	0.3	0.4
Memorandum items						
GDP deflator	_	2.6	2.2	0.4	1.2	2.1
Consumer price index	_	2.2	2.1	0.7	1.4	2.1
Core inflation index[2]	_	2.1	2.4	1.1	1.2	2.1
Unemployment rate (% of labour force)	_	10.3	11.8	19.5	17.9	15.2
Current account balance (% of GDP)	_	-3.0	-2.2	-2.5	-2.2	-2.2

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/xq8gl5

Activity in the free trade zone remains robust

Manufacturing and business services sectors operating in the free trade zone (such as medical equipment, financial and accounting services) recovered fast and are already above pre-pandemic levels. Growth in labour intensive services sectors outside the free trade zone (such as hotels and restaurants, transport and retail) remains muted. A partial relaxation of economic restrictions in the second half of 2020 helped bring down the unemployment rate but it is still significantly above the pre-pandemic level. The negative impact of the pandemic further deteriorated the already fragile public finances, increasing uncertainty about debt sustainability. Financial tensions eased as Costa Rica concluded an agreement with the IMF on an Extended Fund Facility. The government's proposed fiscal plan seeks to stabilise debt by improving the primary balance by 4.7 percentage points of GDP by 2025. The plan would also contribute to a more inclusive recovery through the public employment reform and higher taxes on high-value properties.

Social transfers helped mitigate the social impact of the recession

Given the limited fiscal space, and with the debt-to-GDP ratio reaching around 70% of GDP in 2020, fiscal support during 2020 was moderate and funded mainly by reorienting public spending towards health and social programmes. The principal measures were a 3-month subsidy (Bono Proteger) to support vulnerable households, covering both formal and informal workers (total cost of around 0.7% of 2020 GDP), a 3-month moratorium on several tax payments (VAT, profit tax, excise tax, custom duties), an adjustment of social security contributions to match effective hours worked, and a one-off relief on the car registration tax. Bono Proteger has mitigated the social impact of the pandemic (in its absence the poverty rate would have been 3.4 percentage points higher).

The recovery will progress gradually

The recovery will progress gradually in 2021, dragged down by persisting economic restrictions during the first half of 2021, and accelerate in 2022, as the tourism sector will gradually add to strong external demand for manufacturing and business services. With the vaccination campaign continuing, the pandemic will be gradually brought under control and economic restrictions lifted. This will help the labour-intensive services sectors to recover progressively, strengthening domestic demand and improving labour market conditions. Fiscal adjustment may weigh on domestic demand in the short term, but will boost private investment by decreasing uncertainty and strengthen potential growth. Monetary policy should remain supportive as inflation slowly approaches 2.2% by end 2022, within the lower bound of the band around the central bank's target of 3%, as disinflationary pressures persist. Downside risks relate to the evolution of the sanitary situation or to political gridlock leading to a failure to implement the new fiscal plan. The high degree of dollarisation of Costa Rica's economy exposes the country to external funding and exchange rate risks, notably vis-à-vis the US dollar. Upside risks include a stronger-than-expected recovery in tourism and higher external demand if the recovery in the United States is more vigorous than anticipated.

Structural reforms should continue

Costa Rica should continue implementing the structural reforms already initiated during the OECD accession process. These include finalising the public employment reform, which would yield a more efficient and effective public sector, improve the targeting of social policies, strengthen the governance of state-owned enterprises, promote formalisation in the labour market and support female labour force participation. During the recovery, liquidity measures (payment deferral, state guaranteed loans) and structural measures (grants, training, reskilling) should target viable firms, especially SMEs, operating in severely hit sectors, thus supporting the reallocation of human and capital resources across economic sectors. The finalisation of the new insolvency law should streamline bankruptcy procedures, increase the protection of creditors' rights and ensure continuation of viable business activities.

Czech Republic

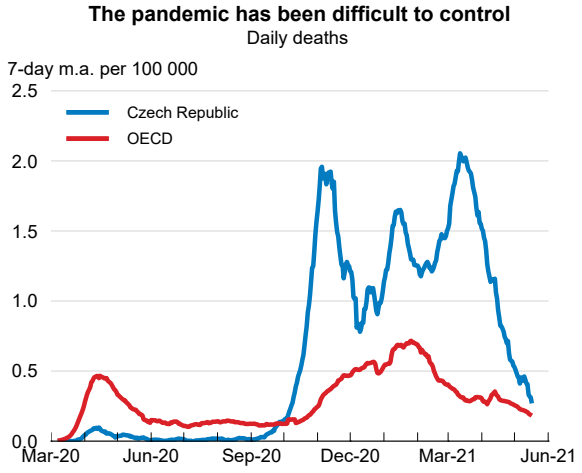
After contracting sharply in 2020, GDP is projected to recover by 3.3% and 4.9% in 2021 and 2022, respectively. The Czech Republic has experienced one of the highest infection and death rates in the OECD area and progress in vaccinations has been relatively slow, delaying the relaxation of containment measures. The recovery will nevertheless gather pace in the second half of 2021, once the population is more extensively vaccinated, triggering a rebound in services and boosting private consumption and investment. Inflation has picked up due to rising food and fuel prices. It is expected to remain between 2 and 3% in the latter half of 2021 and in 2022. Unemployment will start to decline.

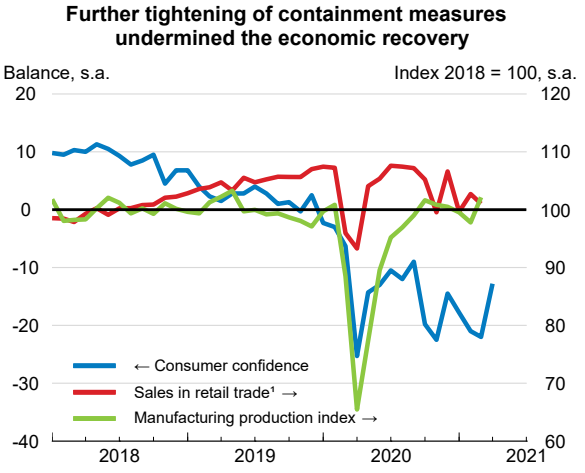
Policy appropriately remains very accommodative. The government deficit will rise further in 2021, due to recent changes in taxation and the extension of emergency measures to support incomes, employment and hard-hit sectors. A gradual fiscal consolidation is planned thereafter. The fiscal measures should shift to facilitating job transitions and targeting poverty and deprivation. For now, the Czech National Bank should maintain an accommodative stance. A gradual rise in interest rates is projected to begin towards the end of 2021.

The pandemic has been difficult to control

The Czech Republic has grappled with a severe public health crisis as the pandemic unfolded. By end-April 2021, it had recorded 273 COVID-19 related deaths per 100 000 inhabitants in cumulative terms, more than double the EU average. To control the ravaging pandemic, strict containment measures were put in place, including the closure of schools and much of the retail sector and services. In spring 2021, the vaccination campaign gathered pace, albeit more slowly than in peer countries. A gradual relaxation of containment measures started from mid-April onwards.

Czech Republic





1. Sales in retail trade, except of motor vehicles and motorcycles, constant prices.
Source: OECD calculations based on Our World in Data; and Czech Statistical Office.

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Czech Republic: Demand, output and prices

Czech Republic	2017	2018	2019	2020	2021	2022
	Current prices CZK billion	Percentage changes, volume (2015 prices)				
GDP at market prices	5 117.4	3.2	2.2	-5.6	3.3	4.9
Private consumption	2 422.0	3.5	3.0	-5.2	1.1	5.6
Government consumption	958.7	3.8	2.2	3.5	3.8	0.5
Gross fixed capital formation	1 275.7	10.0	2.2	-8.1	-2.4	7.8
Final domestic demand	4 656.4	5.3	2.6	-4.2	0.8	4.9
Stockbuilding[1]	73.1	-0.5	-0.2	-1.4	-0.8	0.0
Total domestic demand	4 729.5	4.7	2.4	-5.6	-0.1	5.0
Exports of goods and services	4 048.4	3.7	1.2	-6.0	13.3	6.1
Imports of goods and services	3 660.5	5.8	1.3	-6.1	9.5	6.5
Net exports[1]	387.9	-1.2	0.0	-0.3	3.4	0.4
Memorandum items						
GDP deflator	_	2.6	3.9	4.2	3.1	2.4
Consumer price index	_	2.1	2.8	3.2	2.4	2.3
Core inflation index[2]	_	2.4	2.5	3.6	2.9	1.9
Unemployment rate (% of labour force)	_	2.2	2.0	2.5	3.5	3.5
Household saving ratio, net (% of disposable income)	_	7.5	7.8	14.2	13.3	10.2
General government financial balance (% of GDP)	_	0.9	0.3	-6.2	-8.7	-4.9
General government gross debt (% of GDP)	_	39.7	37.7	47.0	54.8	58.1
General government debt, Maastricht definition (% of GDP)	_	32.0	30.3	38.1	45.9	49.2
Current account balance (% of GDP)	_	0.4	0.3	3.6	5.2	3.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/83vf2l

A further tightening of containment measures undermined the economic recovery

In early 2021, the Czech economy was still strongly affected by the ongoing pandemic, halting the pick-up in activity that had started in the third quarter of 2020. Services continued to be severely restricted. Manufacturing, which had fully recovered by the end of 2020, also faced headwinds due to slower growth in trading partners and supply-side constraints. Business sentiment and consumer confidence remained below pre-crisis levels. The unemployment rate rose but remained very low at 3.3%, reflecting pre-crisis labour market tightness as well as government support measures. After falling for roughly half a year, inflation edged up in spring 2021, due to rising oil prices. In April, it rose to 3.1% − beyond the upper bound of the 1-3% target range.

Policy remains very accommodative

In 2020, the government introduced a generous package of emergency support measures, including job retention schemes, income support to the self-employed and parents that had to stay at home, as well as loan and guarantee programmes to boost firm liquidity. Many of these measures have been extended into 2021, and fiscal policy continues to be highly expansionary. Additional schemes have been introduced to target the most affected firms and sectors, including in tourism, restaurants, sports and culture. Loans and guarantees have been provided to support investment. In January 2021, a tax stimulus package took effect, aimed at boosting consumption and investment growth. The measures cut personal income taxes and

introduced an accelerated amortisation of fixed assets acquired in 2020 and 2021. Monetary and financial policies remained accommodative, with the policy interest rate at 0.25% and the countercyclical capital buffer at 0.5%.

Sustained economic recovery should start in mid-2021

The economy is projected to start recovering in the summer of 2021, once vaccination has advanced and containment measures are relaxed. Household consumption and investment will bounce back as uncertainty recedes and sentiment improves. Meanwhile, stronger foreign demand will boost exports. Unemployment will decline only gradually due to the removal of policy accommodation and an expected rise in bankruptcies. Inflation will hover between 2 and 3%, pushed up by higher fuel and food prices. Uncertainty nevertheless remains high. The manufacturing sector could be further affected by distortions to global supply chains in the event of new pandemic waves. On the upside, the current substantial government support could have a stronger positive impact and households may reduce their currently high saving more quickly than assumed.

Policy should facilitate job transition and boost a green recovery

Monetary policy has been appropriately accommodative. However, once the recovery is well underway, a gradual normalisation of interest rates should be considered. Macroprudential tools and the normal counter-cyclical capital buffer should be reinstated to counter risks in the housing market and help restore adequate buffers. On the fiscal side, a 0.5 percentage point of GDP consolidation (in structural terms annually) is planned from 2022 onwards, which is appropriate if there are no further setbacks. Active labour market policies and reskilling programmes should be boosted and insolvency procedures accelerated to facilitate resource reallocation. Bringing inactive people to work, including mothers with young children, could also help growth. Investment support to strengthen the recovery is an opportunity to green the economy and boost R&D and innovation activity, as reflected in the National Reform Programme.

Denmark

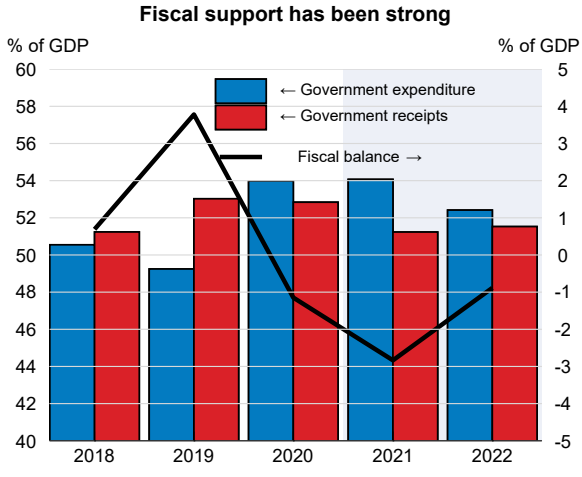
The Danish economy is projected to grow by 2.8% per year in 2021 and by 2.9% in 2022. With a severe wave of infections at the turn of the year, containment measures were reintroduced, hampering economic performance in the first half of 2021. The gradual reopening of the economy from March 2021 will allow an acceleration of demand and GDP. However, unemployment will only reach pre-pandemic levels in 2022.

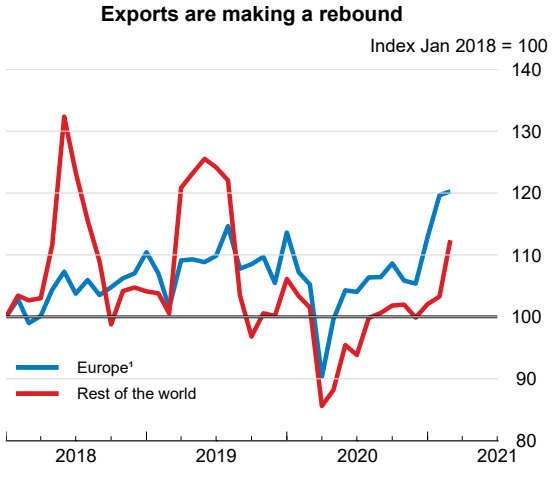
Stimulus measures, targeted support and the job retention scheme have kept the unemployment rate relatively low and incomes stable. Considerable fiscal stimulus in 2021 will also support the recovery and should remain until the recovery is well underway. The implementation of structural measures and investment to meet ambitious climate goals will be an important component of public spending in the coming years.

Denmark has been relaxing its containment measures

After the first wave of COVID-19 hit Denmark less strongly than most European countries, cases soared late in 2020. Containment measures successfully reversed the trend of new cases, allowing the lifting of restrictions from March, including the partial reopening of shops and restaurants. The rollout of vaccines, despite ruling out two of the available vaccines, also holds the prospects of a recovery of social life and most economic activities and traveling abroad in the second half of 2021.

Denmark





1. Europe includes the EU27, Norway and the United Kingdom.
Source: OECD Economic Outlook 109 database; and Statistics Denmark.

StatLink https://stat.link/l58k6p

Denmark: Demand, output and prices

Denmark	2017	2018	2019	2020	2021	2022
	Current prices DKK billion	Percentage changes, volume (2010 prices)				
GDP at market prices	2 193.0	2.2	2.8	-2.7	2.8	2.9
Private consumption	1 016.6	2.7	1.4	-1.9	1.5	2.6
Government consumption	535.3	0.3	1.2	-0.1	2.5	0.4
Gross fixed capital formation	465.5	4.8	2.8	2.1	2.5	2.6
Final domestic demand	2 017.5	2.6	1.7	-0.5	2.0	2.0
Stockbuilding[1]	18.1	0.3	-0.3	-0.2	-0.4	0.0
Total domestic demand	2 035.6	2.9	1.4	-0.7	1.5	2.0
Exports of goods and services	1 207.8	3.2	5.0	-7.7	7.8	3.8
Imports of goods and services	1 050.5	4.8	2.4	-4.8	7.6	2.3
Net exports[1]	157.4	-0.5	1.6	-2.1	0.6	1.0
Memorandum items						
GDP deflator	_	0.6	0.7	2.3	0.7	1.3
Consumer price index	_	0.8	0.8	0.4	1.2	1.4
Core inflation index[2]	_	0.6	0.8	0.9	1.0	1.3
Unemployment rate (% of labour force)	_	5.1	5.0	5.6	5.9	5.2
Household saving ratio, net (% of disposable income)	_	6.2	3.7	5.9	3.9	3.3
General government financial balance (% of GDP)	_	0.7	3.8	-1.1	-2.8	-0.9
General government gross debt (% of GDP)	_	47.2	47.9	58.6	61.8	63.0
General government debt, Maastricht definition (% of GDP)	_	34.0	33.3	42.2	45.4	46.6
Current account balance (% of GDP)	_	7.0	8.9	7.8	8.2	8.6

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 109 database.

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The virus and containment measures interrupted the recovery

The second wave of infections in late 2020, and the associated containment measures, restricted consumption and hampered growth in early 2021, with GDP contracting by 1½ per cent in the first quarter. However, the impact of restrictions was milder and more heterogeneous than in March 2020. Some sectors were particularly hard hit, notably culture, accommodation and food services, while, in contrast, employment in construction and the public administration continued to grow. The rebound of global trade supported external demand in early 2021. The easing of containment measures, an increase in business confidence and the maintenance of policy support measures pave the way for a quick rebound of domestic demand later in 2021.

Fiscal stimulus in 2021 is largely focused on green measures

Fiscal stimulus, together with strong automatic stabilisers, mitigated the impact of COVID-19 on the economy. In order to buffer the effects of the second wave, the government recently agreed on a green recovery package for 2021-22, partly funded by the EU, amounting to 2.6% of GDP, adding to measures for green housing initiated in 2020 (0.4% of GDP). Specific measures include a second disbursement of holiday payments from the mandatory pension scheme, support for firms affected by restrictions and subsidies for investments to reduce greenhouse gas emissions in energy, buildings, transport and agriculture. Substantial further support (about 0.7% of GDP) was allocated to compensate the mink industry, which had to cull its stock in late 2020 following infection with a mutated strain of COVID-19.

A rebound is projected in the second half of 2021

GDP is forecasted to grow by 2.8% in 2021 and at a similar rate in 2022. Growth will be supported by the increase in global trade, the fall in infections and an effective vaccine rollout. The country will benefit from dynamic global growth and its specialisation in cutting-edge technologies for green energy and pharmaceutical goods. Household consumption is set to rebound, with a gradual decline in the saving ratio in 2022. The upsurge of new virus variants globally remains a risk. Exports of services, such as tourism, are also at risk while the evolution of global mobility is still precarious. Uncertainty about the economic situation may restrain consumption and skill development, as unemployment is still higher than in 2019. However, Denmark showed resilience during the COVID-19 crisis, implementing effective measures to protect people's health and incomes. A quicker normalisation of consumption and faster spending of the excess saving of past months might also accelerate the recovery.

Targeted and structural measures can underpin future growth

Strong fiscal discipline prior to the pandemic provides fiscal space for further action, if necessary. Past experience shows that support should not be removed too quickly, to avoid the risk of undermining the recovery. However, the government should avoid further general stimulus unless growth disappoints, as spare capacity is expected to be exhausted in 2022 and is already limited in key sectors such as construction. Rather, measures should be demand-driven, targeted at supporting badly affected households and enhancing long-term growth. Structural measures to ease rigidities, particularly in the housing market, would facilitate workers' mobility. Investing in a cost-effective climate strategy would also support growth while contributing to achievement of environmental goals. This would require a substantial domestic or EU-wide price on greenhouse gas emissions, strong public and private investments, innovation and measures to compensate vulnerable households.

Estonia

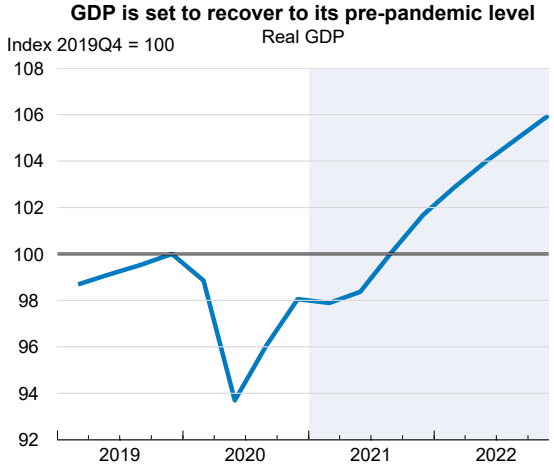
Estonia weathered the pandemic shock better than its peers in 2020, with a contraction of GDP of 2.7%. However, the recent and acute resurgence in virus cases entailed new lockdown measures that have damped economic activity. GDP is projected to grow by 2.9% in 2021 and 5% in 2022, driven mainly by private consumption and a gradual resumption of private investment. Unemployment is expected to decrease gradually, but will remain above its pre-crisis level, while poverty is expected to increase from an already high level. Downside risks arise from the pandemic path, notably virus mutations, but the vaccination programme will make all adults eligible for vaccination by the summer.

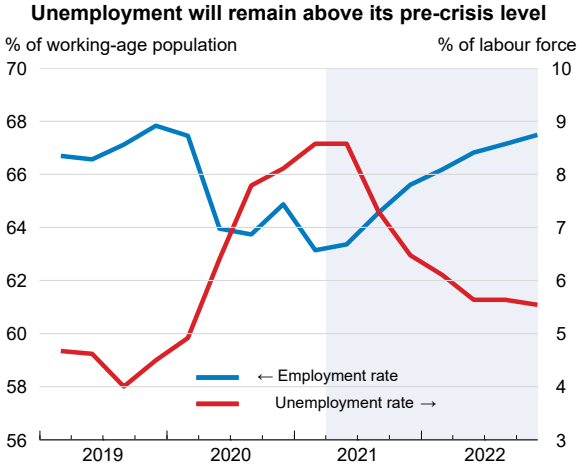
The various employment support measures put in place during the first wave of the pandemic have been reinstated and will cushion the hit to the labour market from the second wave. Estonia entered the crisis with a large fiscal space. As such, fiscal policy should play a more active role to strengthen social safety nets and support those left behind by the pandemic. Increasing public investment should contribute to the decarbonisation of Estonia.

New measures have been taken to tame the second wave

With a particularly acute second wave of the pandemic at the beginning of the year, mild lockdown measures were put in place in March and April, but started to be relaxed in May. Those efforts brought infections back to a low level while the vaccination programme is gaining momentum. Given the expected delivery schedule and logistical improvements, all adults will be able to receive a first injection before the end of spring, and two injections by the end of the summer.

Estonia





Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/o3jwf2

Estonia: Demand, output and prices

Estonia	2017	2018	2019	2020	2021	2022
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	23.8	4.3	4.7	-2.7	2.9	5.0
Private consumption	12.0	4.6	3.2	-2.2	2.7	7.0
Government consumption	4.7	0.6	3.0	3.5	2.9	1.0
Gross fixed capital formation	6.0	3.2	11.3	15.7	1.7	4.3
Final domestic demand	22.7	3.7	5.4	4.0	3.2	4.9
Stockbuilding[1]	0.2	0.4	-0.3	-2.0	-1.2	0.0
Total domestic demand	22.9	3.9	4.8	1.3	0.8	4.8
Exports of goods and services	18.1	4.0	6.2	-5.4	8.0	4.3
Imports of goods and services	17.1	5.6	3.8	0.5	7.6	4.1
Net exports[1]	1.0	-1.0	1.9	-4.3	0.3	0.2
Memorandum items						
GDP deflator	_	4.2	3.5	-0.6	1.3	1.8
Harmonised index of consumer prices	_	3.4	2.3	-0.6	1.9	2.4
Harmonised index of core inflation[2]	_	1.7	2.4	0.0	1.6	1.6
Unemployment rate (% of labour force)	_	5.4	4.4	6.8	7.7	5.7
Household saving ratio, net (% of disposable income)	_	6.2	9.6	14.9	14.4	12.5
General government financial balance (% of GDP)	_	-0.6	0.1	-4.9	-6.7	-3.7
General government gross debt (% of GDP)	_	13.0	13.4	24.4	32.0	36.3
General government debt, Maastricht definition (% of GDP)	_	8.2	8.4	18.2	25.8	30.2
Current account balance (% of GDP)	_	0.8	1.9	-0.6	-0.5	-0.7

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/xwz3l1

The resurgence of the pandemic has damped the recovery

After one of the mildest GDP declines in Europe in 2020, the escalation of the second wave started to hit the economy at the end of last year. However, despite restrictions on mobility and economic activity during the first and the beginning of the second quarter of 2021, general economic sentiment remains strong after a record low a year earlier. With a very flexible labour market, employment has continued to drop, and unemployment has risen, offsetting the gains achieved before the pandemic. Wage growth has eased but not stalled, with most of the slowdown in the higher and lower salary ranges. High-frequency indicators signal robust growth in households' demand deposits, suggesting there is large pent-up demand to be released.

Effective economic support has been reinstated

A new pandemic-related fiscal stimulus was passed in March 2021, amounting to around 2.6% of 2020 GDP, to support the economy throughout the first half of the year. The new measures consist mainly of a salary top-up scheme, similar to the effective support put in place last year, help for businesses demonstrably heavily hit by the second round of restrictions, compensation for the temporary suspension of state contributions to the second pillar of the Estonian pension scheme, and healthcare expenses. Given the improved sanitary situation and the momentum of the vaccination programme, there is no plan for further action at the moment.

A strong recovery is down the road

Thanks to the rollout of the vaccination programme and the full lifting of COVID-19 restrictions by the end of spring, GDP is projected to grow by 2.9% in 2021, with growth expected to strengthen in the second half of the year. This momentum should then propel growth to 5% in 2022. In both years, private consumption, driven by the normalisation of saving after the increase in 2020, and investment will be the main drivers of growth. The expected pick-up in EU fund absorption, as the current financing cycle approaches its end in 2023, and future spending related to the EU Recovery and Resilience Facility, will also underpin growth in 2022. After having turned negative in 2020, inflation is expected to remain subdued in 2021 before rising above 2% in 2022, once the situation on the labour market improves and excise taxes on diesel are re-established to their previous rates. Apart from a resurgence of the pandemic with virus strains that current vaccines may not be able to address, lower consumption due to persistently high unemployment remains the key risk to growth.

Policies need to address looming poverty and climate challenges

The crisis could unwind the social benefits of past reforms, offsetting the strong gains in labour force participation and employment for the low-skilled before the pandemic and aggravating an already high level of relative poverty. Moreover, the recent changes to the second pillar of the pension system, which allow savers to withdraw accumulated pension assets before pension age, could amplify old-age poverty. The relative weight of the elderly among the poor has already increased over the past decade as pensions have failed to keep pace with wages. With still ample fiscal room, and to meet the government´s goal of reducing relative poverty to 15% by 2023, the social safety net needs to be strengthened, notably passive support to the unemployed. Vulnerable groups should also be encouraged to obtain basic health insurance, for instance at the level of the social tax paid by minimum wage earners for health insurance. While protecting low-income households from rising energy bills, especially for heating their homes, further efforts to decarbonise should be encouraged. Public investment should target the interconnection of the electricity network with the European grid.

Euro area

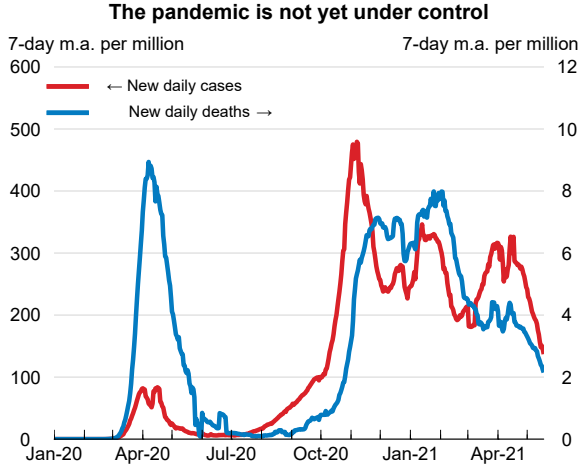
As confinement measures are gradually lifted, economic growth is projected to rebound strongly in the second half of this year. The euro area is projected to grow by 4.3% in 2021 and 4.4% in 2022, boosted by private consumption, considerable fiscal support and vigorous external demand, notably from the United States. Unemployment is projected to decline to close to pre-crisis levels through 2022. A swift and effective implementation of the EU recovery plan would further bolster the recovery.

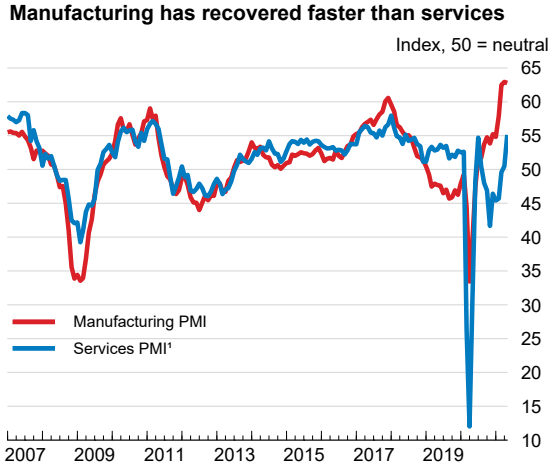
With inflation set to remain below the ECB objective by end-2022, monetary policy should remain accommodative. Likewise, national fiscal policies should remain supportive until the recovery has gained momentum and increasingly shift towards fostering resource reallocation in favour of decarbonisation and digitalisation. Boosting public investment is key. For the post-crisis period, the euro area also needs a new monetary policy strategy, with an equally strong policy reaction when inflation is above and below the ECB objective, more effective fiscal frameworks, notably through stronger national ownership, and permanent common fiscal tools. Speeding up the disposal of non-performing loans is essential for credit reallocation towards efficient firms.

The epidemiological situation remains difficult

Since late 2020, COVID-19 infections and deaths have remained at high levels across the euro area. While the vaccination rollout, which started in December 2020, has gradually gathered pace, pressures on health systems have remained substantial, which has forced many countries to maintain or reimpose containment measures to reduce mobility and personal interactions. While varying across countries and over time, restrictions have fallen most heavily on hospitality, recreation and international travel, and have often included temporary school closures. Following some alleviation in recent weeks, containment measures are expected to be gradually lifted over the rest of this year on the back of expanded vaccination and improved testing and tracing, and to no longer pose a significant constraint to activity in 2022.

Euro area 1





1. Private service sector firms.
Source: OECD Calculations based on Our Word in Data database and Eurostat Population Statistics; and IHS Markit.

StatLink https://stat.link/pk0rq9

Euro area: Demand, output and prices

Euro area	2017	2018	2019	2020	2021	2022
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	11 191.4	1.9	1.3	-6.7	4.3	4.4
Private consumption	6 025.0	1.5	1.3	-8.0	2.5	6.0
Government consumption	2 296.8	1.2	1.7	1.2	2.9	0.9
Gross fixed capital formation	2 305.2	3.2	5.7	-8.5	5.7	5.6
Final domestic demand	10 627.0	1.8	2.5	-6.1	3.3	4.7
Stockbuilding[1]	79.3	0.1	-0.5	-0.3	0.0	0.0
Total domestic demand	10 706.3	1.8	1.9	-6.4	3.4	4.7
Net exports[1]	485.1	0.1	-0.5	-0.5	1.0	-0.1
Memorandum items						
GDP deflator	_	1.4	1.7	1.6	0.9	1.3
Harmonised index of consumer prices	_	1.8	1.2	0.3	1.8	1.3
Harmonised index of core inflation[2]	_	1.0	1.0	0.7	1.2	1.1
Unemployment rate (% of labour force)	_	8.2	7.5	7.9	8.2	7.9
Household saving ratio, net (% of disposable income)	_	6.5	6.8	13.7	11.9	7.5
General government financial balance (% of GDP)	_	-0.5	-0.6	-7.2	-7.2	-3.7
General government gross debt (% of GDP)	_	102.4	103.5	121.9	124.6	123.2
General government debt, Maastricht definition (% of GDP)	_	87.7	85.9	100.2	102.8	101.4
Current account balance (% of GDP)	_	3.5	3.1	2.9	3.3	3.2

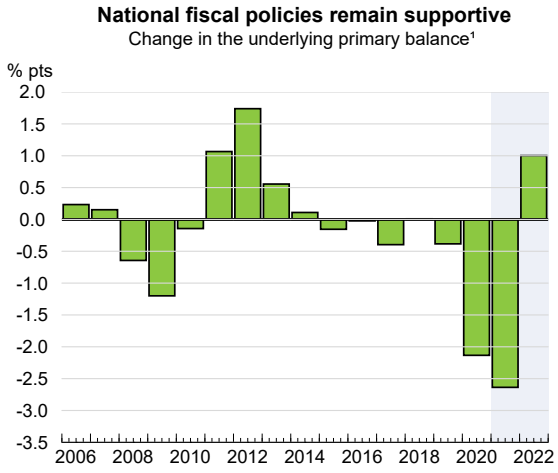
Note: Aggregation based on euro area countries that are members of the OECD, and on seasonally-adjusted and calendar-days-adjusted basis.

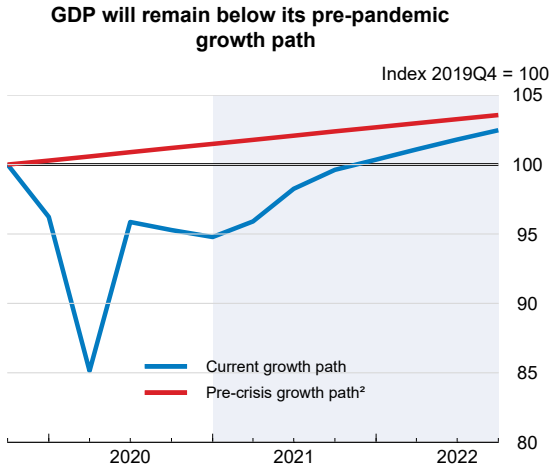
1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/j8iwr1

Euro area 2





1. Measured in percent of potential GDP.
2. The pre-crisis growth path is based on the November 2019 OECD Economic Outlook projection, with linear extrapolation for 2022 based on trend growth in 2021.

Source: OECD Economic Outlook 106 and 109 databases.

StatLink https://stat.link/m5bgsi

Activity has remained subdued, held back by services

After contracting in the final quarter of 2020 and in the first quarter of 2021, activity has displayed signs of an uptick more recently. Private consumption has been a key driver of GDP dynamics. In early 2021, retail sales fell to levels well below those recorded before the pandemic started, with a subsequent recovery in February and March. More directly affected by lockdowns, consumption of services has likely been weaker. A rise in core inflation in early 2021 was mostly transient, due to the updating of consumer price index weights and temporary effects associated with tax changes and the postponement of winter sales. The corresponding increase in headline inflation has lasted longer, due to higher energy prices. Amidst continued widespread resort to short-time work schemes, unemployment remained broadly stable in the initial months of this year. After a sustained recovery throughout the second half of 2020, activity in manufacturing and construction was mostly flat in early 2021. Nonetheless, export-oriented industrial segments have tended to fare better, benefitting from greater external demand dynamism. Reflecting these different developments, confidence indicators in manufacturing have remained stronger than in services, where nonetheless a recovery has been observed in recent months.

Policies remain supportive at European and national levels

The ECB has taken further action to preserve very favourable financing conditions for public and private borrowers. In December 2020, it announced additional targeted and non-targeted longer-term refinancing operations and expanded its pandemic emergency purchase programme (PEPP) by another EUR 500 billion, with net purchases to run until at least March 2022 (extended from June 2021). In March 2021, the ECB decided to significantly accelerate PEPP purchases in the following months. These measures have helped to mitigate the increase in long-term interest rates in the euro area, in a global context of yield curve steepening, and prevent a widening of government bond spreads within the euro area. Given that inflation is projected to remain at levels well below 2 per cent, ECB policy rates are assumed to remain unchanged in 2021 and 2022, amidst broadly stable sovereign debt spreads.

National fiscal policies are expected to provide substantial support to activity, especially in 2021. On top of the operation of automatic stabilisers, governments provided discretionary stimulus estimated at around 2 percentage points of euro area GDP in 2020, which suggests that not all announced measures were fully implemented last year. A discretionary fiscal expansion of slightly larger magnitude is projected for 2021, followed by some contraction in 2022, as some crisis-related measures, such as those pertaining to short-time working, will likely be much less needed. This welcome fiscal support partly relies on the substantial implementation of national recovery and resilience plans, which benefit from EU grants. The projections thus assume that the outstanding procedural steps for making the EU recovery plan operational, not least ratification by all member states to enable common debt issuance, are completed by this summer. The fiscal support is also backed by the likely prolongation of the suspension of Stability and Growth Pact constraints until end-2022, which would have otherwise triggered a stronger fiscal consolidation in some countries in 2022, and possibly a more prudent stance even this year. Before the Stability and Growth Pact is reactivated, the European fiscal framework needs substantial revision, aiming to ensure debt sustainability, sufficient cyclical stabilisation and greater national ownership.

Growth will rebound strongly, but scars will remain

After a strong acceleration in the second half of this year, GDP growth is projected to moderate, but remain robust. In the remainder of 2021, private consumption is set to benefit from the lifting of containment measures and a concomitant fall in household saving, which finances sizeable pent-up demand. Activity will be further supported by considerable fiscal stimulus and vigorous export growth. In 2022, growth will continue to be spurred by exports and capital formation, the latter relying on a significant contribution from public investment. Nonetheless, household saving, albeit declining, is projected to remain higher than before the crisis, and the recovery of private investment will be only moderate. At the end of 2022, unemployment is projected to return to close to pre-pandemic levels, and inflation will remain subdued.

Maastricht public debt will peak in 2021 at 103% of euro area GDP. Output developments are projected to remain asymmetric across the euro area, with southern countries worst hit, even though the prospects of greater divergence are now less severe than in earlier stages of the crisis.

The expected lifting of confinement measures and the associated rebound in activity could come under threat if vaccination proved ineffective against new virus variants. Besides greater short-run output losses, higher unemployment and insolvencies would compound medium-term reallocation challenges. Slow or inefficient implementation of the EU recovery plan, possibly accompanied by the reinstatement of essentially unreformed European fiscal rules in 2023, would slow the recovery, risk reigniting sovereign debt tensions and, more generally, weaken the cohesion and further integration prospects of the euro area. Conversely, prompt and efficient deployment of national recovery and resilience plans, with an emphasis on structural reforms to crowd in private investment and promote skills and activation, would bolster confidence, durably enhance growth and help Europe succeed in the green and digital transitions.

Fiscal and financial policies should support resource reallocation

As lockdown measures are gradually lifted, fiscal policy should promote resource reallocation from activities that may face long-lasting subdued demand towards those likely to expand. Towards this end, enhanced activation policies and public capital formation, including in research and innovation, are essential policy levers. On this count, it is encouraging that the moderate fiscal consolidation projected for 2022 is accompanied by a strong increase in public investment, and it is essential that this increase corresponds to carefully selected productivity-enhancing projects. In the future, creating a permanent common fiscal stabilisation capacity in the euro area would reduce risks of cyclical divergence, which has tended to permanently damage potential output. The likely surge in non-performing loans in the near future may hamper credit supply and its reallocation towards more productive firms. Speeding up the disposal of such loans calls for reforming foreclosing procedures and supporting the development of secondary markets for distressed debt. Setting up asset management companies, at national or European levels, could also be considered.

Finland

With the third COVID-19 wave and the associated containment measures receding, economic growth is projected to increase to 2.6% in 2021 and 2.7% in 2022, led by consumption and exports. Business investment should strengthen in 2022 as uncertainty abates. Output will regain the pre-pandemic level by late 2021 and employment by mid-2022. The main risk to the outlook is that further virus waves could delay the recovery.

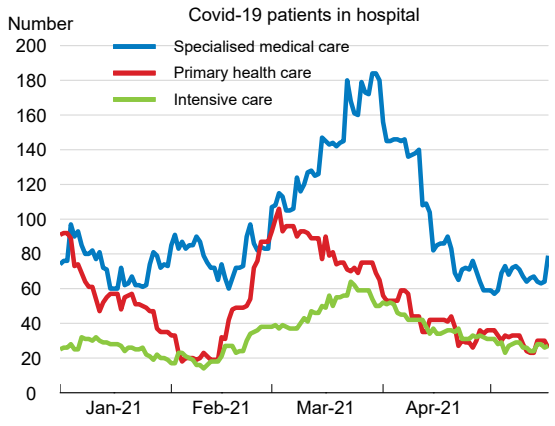
If there is a relapse in sanitary conditions, temporary support to reduce business costs should be extended. To encourage employers to limit use of the temporary layoff scheme to viable jobs, employers should contribute to the benefit costs of their furloughed employees. Once the recovery is firmly established and the pandemic has subsided, a medium-term fiscal strategy will be required to stabilise the debt-to-GDP ratio.

Containment measures are being progressively relaxed

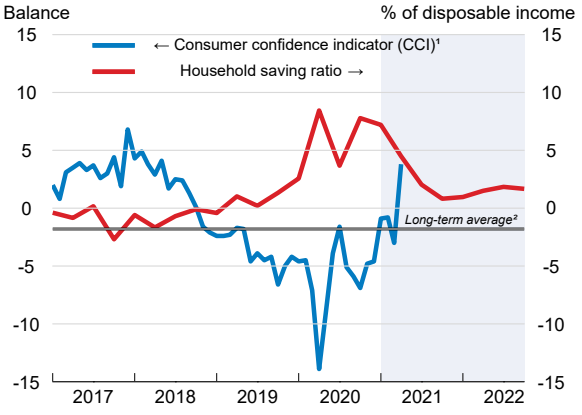
The third COVID-19 wave in Finland peaked in March. Since then, new cases and admissions to intensive care have fallen by more than half, to low levels by international comparison. By mid-May, 44% of the adult population had received a first vaccine dose, the highest proportion amongst EU/EEA countries but considerably lower than by global leaders, although only 5% had received the second dose. Sanitary conditions permitting, the strict border controls introduced in mid-March will be progressively eased from May, when commuter traffic within the European Union will resume, and June, when internal border controls will end. Food and beverage outlets were closed in early March in areas where the pandemic was accelerating and reopened in late April with tougher restrictions on capacity and opening hours than in less affected areas. These restrictions were eased in most parts of the country in mid-May and will be relaxed further as the sanitary situation improves.

Finland

The third COVID-19 wave is abating



Confidence and projected lower saving will fuel consumption



1. Actual data until April 2021.
2. The long-term average of the consumer confidence indicator is -1.8.
Source: OECD Economic Outlook 109 database; and Finnish Institute for Health and Welfare; Statistics Finland.

StatLink https://stat.link/d9wlep

Finland: Demand, output and prices

Finland	2017	2018	2019	2020	2021	2022
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	226.3	1.3	1.3	-2.8	2.6	2.7
Private consumption	120.3	1.8	0.7	-4.9	3.5	3.1
Government consumption	51.6	1.8	2.0	2.3	2.3	0.0
Gross fixed capital formation	52.8	3.5	-0.9	-3.1	-0.4	3.0
Final domestic demand	224.7	2.2	0.6	-2.8	2.3	2.3
Stockbuilding[1,2]	1.5	0.5	-0.8	0.1	0.0	0.0
Total domestic demand	226.2	2.8	-0.1	-2.5	2.2	2.3
Exports of goods and services	85.0	1.4	6.7	-6.6	5.4	5.7
Imports of goods and services	84.9	5.6	2.2	-6.6	4.5	4.7
Net exports[1]	0.1	-1.6	1.7	0.0	0.3	0.4
Memorandum items						
GDP deflator	_	1.9	1.5	1.7	1.4	1.4
Harmonised index of consumer prices	_	1.2	1.1	0.4	1.8	1.5
Harmonised index of core inflation[3]	_	0.3	0.7	0.5	1.1	1.4
Unemployment rate (% of labour force)	_	7.4	6.7	7.8	7.7	7.0
Household saving ratio, net (% of disposable income)	_	-0.8	0.5	5.6	3.6	1.5
General government financial balance (% of GDP)	_	-0.9	-0.9	-5.4	-4.2	-1.8
General government gross debt (% of GDP)	_	72.8	72.9	85.3	91.9	96.1
General government debt, Maastricht definition (% of GDP)	_	59.7	59.5	69.2	73.5	77.0
Current account balance (% of GDP)	_	-1.8	-0.3	0.3	0.6	1.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Including statistical discrepancy.
3. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/rd4n7s

The third COVID-19 wave has temporarily slowed the recovery

The economy ended 2020 on a strong note, with fourth quarter GDP only 2% below the pre-pandemic level. However, the resurgence of the pandemic and the measures to contain it subdued growth in economic activity and employment in early 2021. Nevertheless, the unemployment rate fell to 7.8% in the first quarter of 2021, still well above the 6.9% pre-pandemic rate. Most of the increase in unemployment in the past year reflects a rise in long-term unemployment. The number of persons furloughed also increased, but remains far below the levels during the first virus wave. Consumer confidence has rebounded to the highest level since mid-2018. Industrial production expectations improved at the turn of the year, and order books are recovering.

Temporary support measures will expire by end-2021

The bulk of temporary support expenditures in response to COVID-19 were for businesses. The government subsidised business costs and development expenditures and directly supported the food and beverage service sector; it also provided loan guarantees and temporary loans for research, development and innovation. These support measures will expire by the end of 2021. Most other temporary support measures expired at the end of 2020, including exceptional conditions for accessing the temporary layoff scheme, temporary measures increasing the generosity of earnings-related unemployment benefits and the temporary reduction in employer pension contributions. However, the increased amounts of earnings

allowed before deductions to unemployment benefits are made was extended until 30 June as was benefit eligibility for the self-employed. Special bankruptcy relief ended in February 2021.

Consumption and exports will lead the recovery

Economic growth is projected to accelerate to 2.7% in 2022 as containment measures unwind and progress in vaccination proceeds. The substantial fiscal stimulus in 2020 will continue to support growth this year as will grants from the EU Recovery and Resilience Facility; these are assumed to total EUR 270 million in 2021 and EUR 550 million in 2022 and, including trading partner feedback effects, to boost growth by 0.3 percentage point in both years. Households will reduce saving as uncertainty diminishes, supporting the recovery. Exports will also strengthen this year as recovery takes hold in export markets, with business investment boosting growth in 2022 as uncertainty about the economic outlook recedes. Employment growth will strengthen through 2022, reducing the unemployment rate to the pre-pandemic level by end 2022. Inflation will jump to 1.8% this year, boosted by commodity price increases, supply shortages and excise tax increases before easing to 1.5% in 2022 as these temporary factors pass. The main downside risk to these projections is a deterioration in business conditions due to further waves of the virus. Upside risks include more favourable sanitary conditions.

Extending temporary support for business costs if sanitary conditions deteriorate would help to sustain the recovery

Should sanitary conditions deteriorate markedly, the government should extend temporary support for reducing small business costs as such support in 2020 was found to be most effective in limiting declines in profitability and increasing wages and salaries paid. To encourage employers to limit temporary layoffs to jobs they believe can be restarted, employers should be required to contribute to the unemployment benefit costs of their furloughed employees.

France

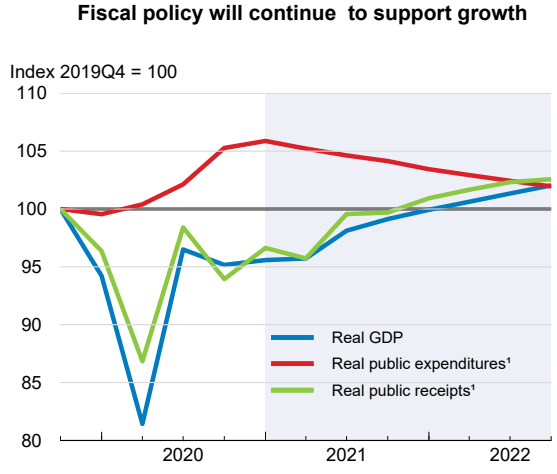
Economic activity is projected to rebound by 5.8% in 2021 and 4.0% in 2022. After a weak first half of 2021, activity will strengthen as the vaccine rollout accelerates and sanitary restrictions are lifted. In addition, the drawing down of the high level of saving due to the sanitary restrictions will boost consumption as pent-up demand is satisfied. Faster global growth will raise export prospects. Improving global demand, accommodative financing conditions and government capital spending in line with the recovery plan will support investment. Still, employment will recover slowly, as the participation in the job retention schemes will decline.

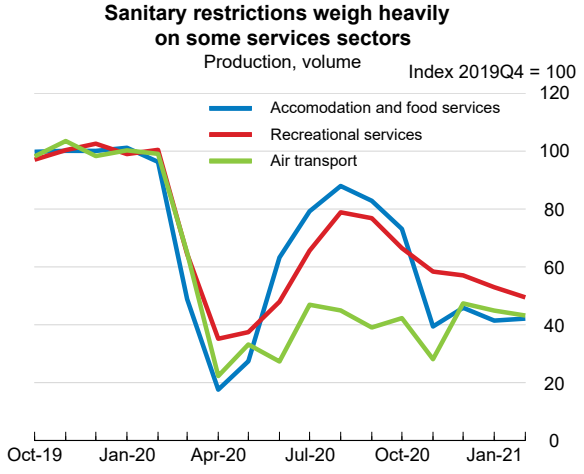
Temporary emergency measures and the medium-term recovery plan provide strong fiscal support for workers and firms. The gradual phasing-out of short-time work schemes and loan programmes for firms will encourage the reallocation of resources across firms. Some emergency support measures should remain in place, targeted towards firms directly impacted by containment measures. To ensure a gradual recovery, the vaccination campaign should continue to be accelerated. A rapid implementation of the recovery plan, notably green and digital investments, is also key.

The vaccination campaign is easing some sanitary pressures

Despite long-lasting containment measures such as curfews, the closure of restaurants and bars and a ban on large events, there was a new increase in infections and the number of persons in intensive care through March 2021. The renewed virus outbreak put the healthcare system under significant strain. The authorities imposed further local restrictions, shop closures and mobility restrictions in April, and brought forward school holidays and closed schools for a week. Primary and pre-primary schools reopened on-site in late April and the authorities lifted national mobility restrictions in early May, and announced a progressive easing of other containment measures. The vaccination campaign has been progressing slowly, but, with some recent pick-up, it is expected that all aged 18 and over who want to be vaccinated will have received their shots by the end of summer 2021.

France 1





1. General government, deflated by the GDP deflator.
Source: OECD Economic Outlook 109 database; and INSEE.

StatLink https://stat.link/ysj07d

France: Demand, output and prices

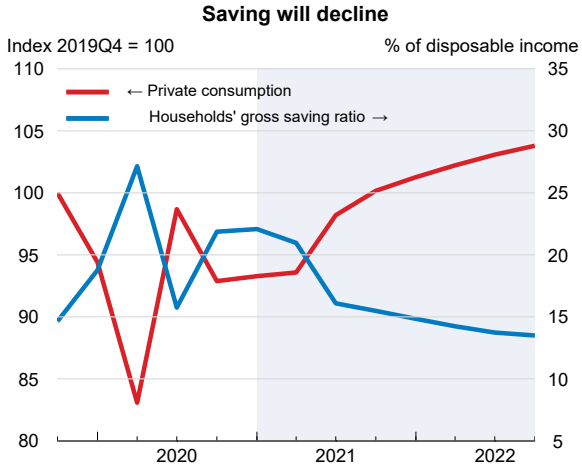
France	2017	2018	2019	2020	2021	2022
	Current prices EUR billion	Percentage changes, volume (2014 prices)				
GDP at market prices	2 298.6	1.8	1.5	-8.2	5.8	4.0
Private consumption	1 241.0	0.8	1.5	-7.3	4.4	6.5
Government consumption	543.4	0.9	1.7	-3.0	4.4	0.3
Gross fixed capital formation	517.3	3.2	4.3	-10.4	9.8	2.0
Final domestic demand	2 301.7	1.4	2.2	-7.1	5.6	4.0
Stockbuilding[1]	21.6	0.0	-0.4	0.2	-0.3	0.0
Total domestic demand	2 323.4	1.4	1.8	-6.8	5.3	4.0
Exports of goods and services	711.6	4.6	1.8	-16.6	9.4	8.2
Imports of goods and services	736.4	3.1	2.6	-12.0	7.6	7.9
Net exports[1]	- 24.8	0.4	-0.3	-1.3	0.3	-0.1
Memorandum items						
GDP deflator	_	1.0	1.2	2.3	-0.6	0.9
Harmonised index of consumer prices	_	2.1	1.3	0.5	1.4	0.8
Harmonised index of core inflation[2]	_	0.9	0.6	0.6	1.1	0.8
Unemployment rate[3] (% of labour force)	_	9.0	8.4	8.0	8.8	8.7
Household saving ratio, gross (% of disposable income)	_	14.1	14.6	20.8	18.7	14.1
General government financial balance (% of GDP)	_	-2.3	-3.1	-9.3	-8.4	-4.8
General government gross debt (% of GDP)	_	121.4	124.3	147.9	149.3	147.6
General government debt, Maastricht definition (% of GDP)	_	98.0	98.0	116.3	117.6	116.0
Current account balance (% of GDP)	_	-0.6	-0.7	-2.3	-2.4	-2.2

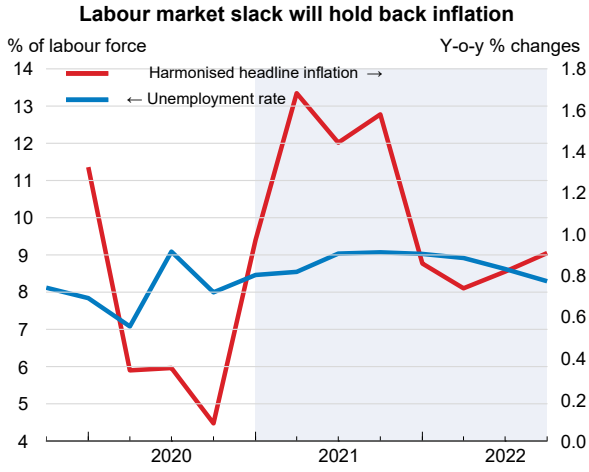
1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. National unemployment rate, includes overseas departments.

Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/7rscy1

France 2





Source: OECD Economic Outlook 109 database.

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The economic impact of restrictions has eased but remains concentrated in services

After a weak start into 2021, the easing of some sanitary restrictions and stronger confidence indicators point to a significant but unequal recovery in manufacturing and services. Activity has been resilient to new restrictions, supported by the development of alternative work arrangements, significant fiscal and liquidity measures and an increase in online shopping. The estimated number of workers on short-time work schemes was close to 12% of private dependent employment in March and dependent private employment increased in all sectors in the first quarter. While supply-chain constraints weakened the industrial momentum in early 2021, industrial production is set to strengthen further. Yet, activity in restaurants, bars, personal and air travel services (around 14% of production in the non-financial market-services sectors in 2015) remained more than 50% below its end-2019 level in early May, before sanitary restrictions started to be eased.

Policy responses are extensive

The authorities have taken comprehensive measures to support the ongoing recovery. The extension of the strengthened short-time work scheme and support for the smallest firms and the self-employed cushioned the impact of the end-2020 and early-2021 restrictions. The implementation of the EUR 100 billion medium-term recovery plan (*France Relance*) is set to lead to discretionary fiscal spending worth 1.7% of GDP in 2021 and 1.8% of GDP in 2022. This will provide broad support for the recovery. Higher public investment in infrastructure and digitalisation, as well as additional financing for training programmes, will improve productivity and resource reallocation. The EUR 10.5 billion business tax cut and hiring subsidies will support firms and jobs. Car and investment subsidies for households are targeted to green alternatives and to kick-start durable goods consumption and housing investment. The already planned housing and corporate income tax cuts, as well as higher funding for the health sector, will also partly damp the negative impact of the crisis on household income and business profit margins.

The European Central Bank's accommodative monetary policy continues to support aggregate demand. The Next Generation EU plan will help finance fiscal measures in France (France is set to receive EUR 40 billion of European grants to be used over two years) and in its main trading partners, thereby boosting domestic and external demand. The French authorities have also prolonged to 2021 emergency measures for hard-hit sectors and firms to alleviate corporate costs, notably through tax holidays and high public subsidisation of wages under short-time work agreements, and to support firm financing (via public guarantees of loans and quasi-equity long-term loans). At the same time, in most sectors, the increased cost sharing of the short-time work schemes and additional funding for training will encourage resource reallocation.

The recovery path remains uncertain

Economic activity is projected to reach its pre-crisis level around the spring of 2022. Some sectors, such as transport and hospitality, which represent around 9% of pre-crisis GDP, will be durably affected by the pandemic. After a weak first half of 2021, the slow improvements of sanitary conditions and the rollout of the vaccination campaign will support consumption, with households reducing their high saving, notably among low and middle-wealth groups. Yet, targeted restrictions in services sectors requiring close physical interaction are set to remain until the autumn of 2021. The temporary rise of unemployment will keep affecting poorer and more precarious households negatively, and delay the housing market recovery. As demand in trading partners rebounds rapidly, exports will catch up gradually from their current historically low levels. Business investment, which has been resilient, will slowly strengthen, as improving economic

prospects, accommodative financing conditions and the support from the recovery plan will compensate reduced profit margins, high gross debt and persistent uncertainty. The budget deficit and public debt are projected to remain at high levels relative to GDP, with debt (Maastricht definition) reaching 116% of GDP in 2022.

Passenger transport, tourism and cultural services, as well as the aeronautical industry are likely to bear enduring scars. Demand for such services and goods has decreased and, in addition, its future recovery remains highly dependent on the evolution of the sanitary situation and the associated measures. Furthermore, businesses have built up sizeable debt, notably through government loan guarantees. As a result, some may face liquidity and solvency problems, which could precipitate large-scale firm bankruptcies and dent economic prospects. A slower recovery of the main trading partners in the euro area would also delay the recovery in France. On the upside, stronger pent-up domestic demand and spending of large accumulated savings, a swift use of European recovery funds and a faster-than-projected recovery in the international tourism sector would raise growth.

Policies will help strengthen the recovery

The French recovery plan is set to provide well-balanced fiscal support and the current flexible approach of adapting policies to the evolution of the pandemic should be maintained. The priority is to accelerate the vaccination campaign further, notably for the most exposed workers and precarious population groups, which have had lower take-up rates so far, and to continue to increase high-speed testing capacities for adults and younger children to ensure that the strategy of mass testing, tracking and isolation is successful. Specific emergency measures should also continue to target viable firms affected by renewed local restrictions or temporarily depressed demand. Allowing an efficient reallocation of workers in the aftermath of the crisis is another key challenge, as gross corporate debt has soared and unemployment and bankruptcies are set to rise. The increased targeting of the short-time work schemes is welcome, but ensuring broad access to lifelong learning for low-skilled and long-term unemployed people, as well as an efficient implementation of quality standards for these programmes, is needed. Reviewing collective restructuring procedures and speeding up court processes, by encouraging some early debt restructuring, such as the planned fast-track restructuring procedures for small firms, and expanding court capacity, would ease the required adjustments. Strengthening innovation and management training initiatives for small firms, and providing them with extended hiring support programmes, would raise economic activity by facilitating the adoption of new technologies and removing barriers to growth of businesses.

Germany

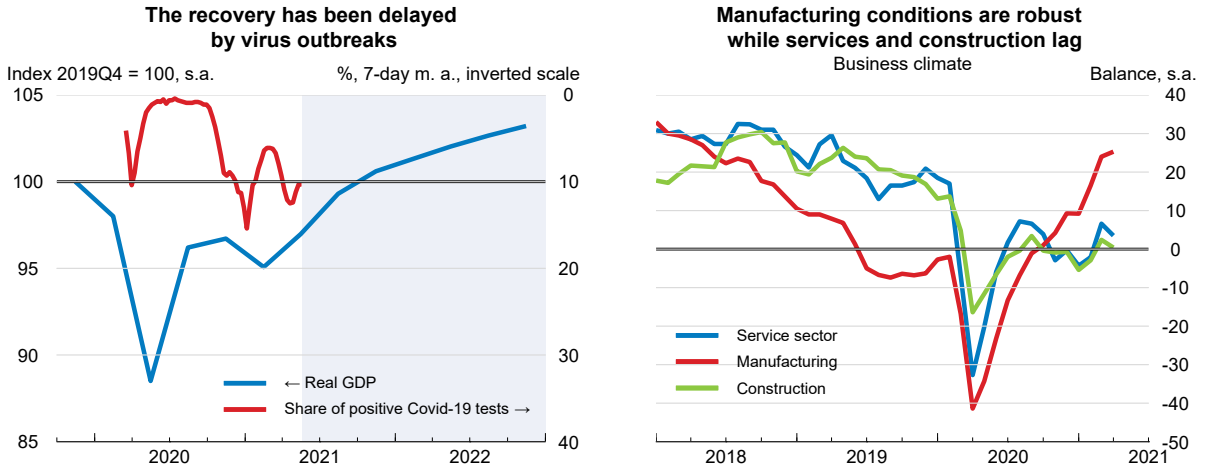
Economic growth is projected to reach 3.3% in 2021 and pick up further to 4.4% in 2022. Virus outbreaks and associated containment measures have delayed the recovery in services, while the export-focused manufacturing industry is growing strongly despite some supply-chain disruptions. Vaccination will enable a progressive reopening of the domestic economy.

Expansionary fiscal and monetary policies are supporting growth in 2021, but a swifter implementation of government investment plans is needed to maximise the benefits. The rollout of vaccines should continue to be accelerated through coordination between federal and state authorities. Expanded short-time work moderated the increase in unemployment during the crisis, but reabsorption of those on short-time work will slow the decline in unemployment. Training will become increasingly critical as the economy recovers and structural challenges from the energy transition, digitalisation and an ageing population become more pressing.

COVID-19 outbreaks have delayed the reopening of the economy

Virus containment measures were extended over the winter due to the emergence of more contagious variants. Easing of restrictions began in some regions from mid-February, including the reopening of some schools and non-essential retail outlets, with considerable variation across states. Reopening was paused as new case numbers increased during March and April. In April, the federal government was given more power to enforce containment measures in regions where the incidence of new infections exceeds nationally determined thresholds. Progress in vaccination had lagged the European Union as a whole, but stepped up in April. Targeted vaccinations – for example for primary teachers and day-care workers – will support reopening of some critical sectors.

Germany 1



Source: OECD Economic Outlook 109 database; ifo business surveys; and Refinitiv.

StatLink https://stat.link/xbtvfn

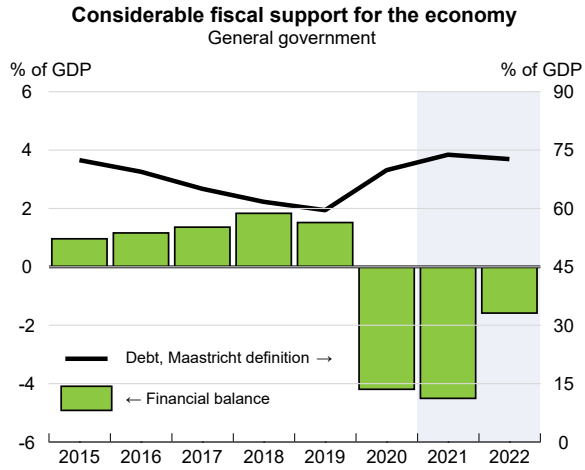
Germany: Demand, output and prices

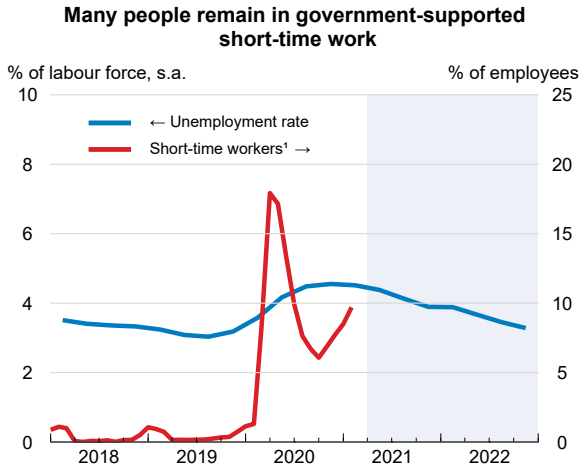
Germany	2017	2018	2019	2020	2021	2022
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	3 263.3	1.3	0.6	-5.1	3.3	4.4
Private consumption	1 705.5	1.5	1.6	-6.3	-0.3	6.9
Government consumption	648.2	1.2	2.7	3.3	2.6	0.9
Gross fixed capital formation	667.5	3.6	2.6	-3.9	3.5	4.8
Final domestic demand	3 021.2	1.9	2.1	-3.7	1.3	5.0
Stockbuilding[1]	13.1	-0.1	-0.7	-0.7	0.1	0.0
Total domestic demand	3 034.2	1.8	1.3	-4.4	1.5	5.0
Exports of goods and services	1 541.6	2.5	1.0	-10.2	11.9	5.2
Imports of goods and services	1 312.5	3.8	2.6	-9.0	9.2	6.8
Net exports[1]	229.1	-0.4	-0.6	-1.0	1.7	-0.3
Memorandum items						
GDP without working day adjustments	3260.0	1.3	0.6	-4.8	3.3	4.3
GDP deflator	_	1.7	2.2	1.6	1.3	1.5
Harmonised index of consumer prices	_	1.9	1.4	0.4	2.6	1.6
Harmonised index of core inflation[2]	_	1.3	1.3	0.7	1.9	1.5
Unemployment rate (% of labour force)	_	3.4	3.1	4.2	4.2	3.6
Household saving ratio, net (% of disposable income)	_	10.9	10.9	16.2	16.6	12.0
General government financial balance (% of GDP)	_	1.8	1.5	-4.2	-4.5	-1.6
General government gross debt (% of GDP)	_	69.5	68.1	79.8	83.8	82.7
General government debt, Maastricht definition (% of GDP)	_	61.7	59.6	69.9	73.8	72.7
Current account balance (% of GDP)	_	7.5	7.2	7.0	7.5	6.9

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/jv9ri1

Germany 2





1. Share of employees working reduced hours under the government-supported short-time work ('Kurzarbeit') scheme.
Source: OECD Economic Outlook 109 database; and Federal Employment Agency.

StatLink https://stat.link/fb51lt

Manufacturing is booming while services and construction lag

The export-focused manufacturing industry has benefited from strong global demand, with export orders exceeding pre-crisis levels and industry expectations at their highest level in over a decade. Business survey data show manufacturing output increasing strongly in the first half of 2021 despite some supply-chain disruptions, notably semiconductor chip shortages affecting the automotive industry and shortages of shipping containers. The service sector is being held back by further circulation of the virus and containment measures, with quarterly average mobility reaching a new low during the first quarter of 2021 and recovering only slowly thereafter. Retail sales in January and February 2021 were even lower than in March and April 2020, but recovered by 7.7% in March. Construction activity has been held back by unfavourable weather and the expiry of the temporary VAT rate cut in early 2021, but underlying demand and capacity utilisation remain strong.

The labour market has been resilient, with unemployment basically flat over the winter. The number of people in government-supported short-time work increased to 3.27 million in February 2021, still well below the peak of 6 million in spring 2020. Just over half of short-time work notifications over the winter were in services heavily affected by containment measures: wholesale and retail trade, accommodation and food, culture, entertainment, recreation and other personal services. Wage pressures are muted across the whole economy, with negotiated wage increases falling to 1.5% on average in early 2021 after ranging between 2% and 3% over the prior decade. Consumer prices increased sharply in the first quarter of 2021 due to a number of temporary factors: supply-chain disruptions, increased commodity prices, statistical effects of changing consumption weights during the crisis, and the end of the temporary VAT rate cut.

Expansionary fiscal policy is supporting growth

Budgetary support was much smaller than planned in 2020, due to resilient revenue and less expenditure. Further stimulus is planned for 2021 through support for firms affected by containment measures, bonus payments for families, expanded short-time work until the end of 2021, a cap on social security contributions and investment in digitalisation, education, health and green infrastructure. Financing has been ensured through the approval of EUR 240 billion (6.9% of GDP) in new federal borrowing in 2021 and suspension of the debt brake rule again in 2022, with EUR 80 billion (2.3% of GDP) of new borrowing approved for that year. Much new borrowing in 2021 is unallocated and tax revenue has begun to recover, so a smaller-than-planned budget deficit is again likely. EU Recovery and Resilience grants will be used to tackle climate change, enhance digitalisation, strengthen healthcare and reduce barriers to investment. Highly accommodative monetary policy by the European Central Bank is also supporting aggregate demand.

The authorities have taken steps to sustain credit and avoid bank deleveraging through a reduction of the countercyclical capital buffer and other supervisory measures. Survey data suggest that there has nonetheless been some tightening of banks' lending policies for SMEs. The expected increase in corporate insolvencies after policy support subsides is likely to increase pressures on Germany's banks, which are relatively unprofitable and have medium to high leverage, though the central bank has assessed this as manageable in part due to capital buffers increasing after the global financial crisis. The German government is developing an action plan to strengthen financial regulation in the wake of two high profile insolvencies.red

A strong recovery is on its way

The key driver of economic growth will shift from external to domestic demand in the second half of 2021 as vaccination becomes widespread and the economy reopens. The combination of strong manufacturing activity and resurgent services and construction is projected to result in a strong rebound in GDP growth in the third and fourth quarters. Consumption will be supported by a reduction in currently high saving, though normalisation is expected to be gradual as additional savings have been concentrated among high-income groups with a low marginal propensity to consume. Quarterly consumer price inflation is set to ease as temporary factors dissipate, before reduction in spare capacity sees a more gradual and durable upturn during 2022. Reabsorption of short-time workers will slow the fall in unemployment, particularly in early 2022 when expanded government-supported short-time work comes to an end.

The biggest risk to the outlook is new virus variants or slow progress with vaccination, which would delay the reopening of the economy, particularly for services requiring in-person contact. Enduring supply constraints affecting manufacturing could threaten the synchronised upturn foreseen in the second half of 2021. A sharp rise in corporate insolvencies and stress in real estate and financial markets could result in banks restricting lending, delaying the economic recovery. Conversely, a more rapid normalisation of saving or full use of approved government borrowing would see faster growth.

Delivery of vaccinations and fiscal plans would support well-being

Continuing to accelerate the vaccination rollout is critical to protect against the virus and allow a return to normality. Strong coordination between federal and state authorities is needed to deliver vaccines efficiently as supply increases. Delivery of fiscal stimulus plans is important to support a sustainable recovery, particularly investment needed for digitalisation and the energy transition. Steps should be taken to ensure spending is implemented so that fiscal support is received when it is needed. For infrastructure investment, this means further steps to resolve local planning and construction industry constraints through more funding to municipalities, streamlining planning processes and cooperation between government agencies. Increasing the generosity of research and development tax relief and venture capital funding would help support the growth of innovative firms. To improve inclusion and address gender imbalances in digital environments, computational thinking should be introduced earlier and training for teachers increased to ensure effective use of digital technologies in schools.

Greece

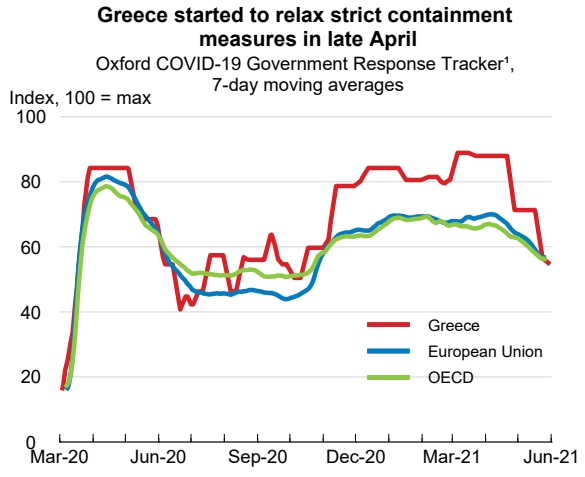
Greece's economy is projected to grow by 3.8% in 2021 and 5.0% in 2022. The easing of travel restrictions is expected to support services activity and exports. The importance of tourism makes Greece's outlook especially reliant on successful vaccination campaigns globally. Rising disbursements of Greece's substantial EU-funded Recovery and Resilience Plan will support investment in 2021 and 2022, if recent reforms succeed in encouraging swifter and higher-quality public capital spending and if businesses productively make use of the Plan's financing facilities.

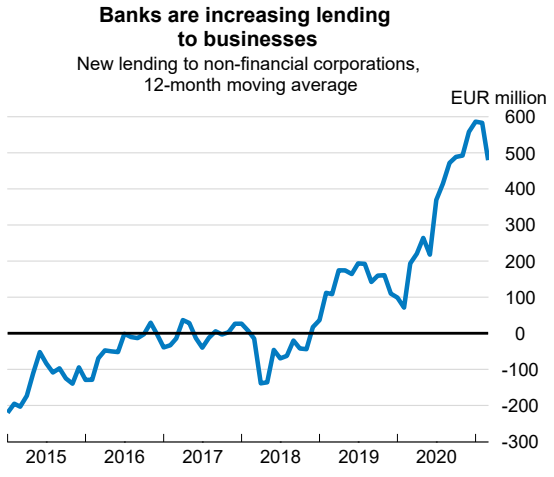
As containment measures are lifted and activity gradually recovers, income support can be refocused to encourage receivers to enrol in quality vocational and reskilling programmes. Support policies have encouraged banks to restart lending to businesses, but bankruptcies and non-performing loans are likely to rise as support is withdrawn, underscoring the urgency to raise banks' asset quality. Raising the public administration's effectiveness would help improve the investment climate and the implementation of recent reforms.

Greece extended strict containment measures to control a third wave of infections

More contagious COVID-19 variants brought Greece a third wave of infections. From November, many education institutions and consumer service sectors were closed, telework was encouraged and population mobility was limited. Nonetheless, by early April, recorded infection rates and the number of patients in intensive care had risen above the peaks of earlier waves. As case numbers stabilised and much of the vulnerable population was vaccinated, Greece started progressively reopening from late-April, first educational and then many service and tourism facilities. Greece's overall vaccination rate is near the EU average, and it has provided at least 85% of all its vaccine doses to the priority groups of healthcare workers and those aged over 60.

Greece





1. The Oxford COVID-19 Government Response Tracker index is a composite measure based on nine response indicators including school closures, workplace closures, and travel bans, and is scaled from 0 (no restrictions) to 100 (highest category of restrictions).
Source: Oxford University via Our World in Data; and Bank of Greece.

StatLink https://stat.link/vd526t

Greece: Demand, output and prices

Greece	2017	2018	2019	2020	2021	2022
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	177.2	1.6	1.9	-8.2	3.8	5.0
Private consumption	121.7	2.3	1.9	-5.2	1.6	3.0
Government consumption	36.2	-4.2	1.2	2.7	2.1	-1.4
Gross fixed capital formation	20.8	-6.6	-4.6	-0.6	11.5	20.0
Final domestic demand	178.6	-0.3	1.0	-3.1	2.8	4.1
Stockbuilding[1,2]	1.2	1.4	0.1	0.7	0.0	0.0
Total domestic demand	179.8	1.3	0.9	-2.8	3.2	3.9
Exports of goods and services	62.0	9.1	4.8	-21.7	4.9	13.3
Imports of goods and services	64.6	8.0	3.0	-6.8	1.5	9.1
Net exports[1]	- 2.7	0.3	0.7	-5.8	0.9	0.7
Memorandum items						
GDP deflator	_	-0.1	0.2	-1.5	0.0	1.2
Harmonised index of consumer prices	_	0.8	0.5	-1.3	0.2	1.2
Harmonised index of core inflation[3]	_	0.3	0.8	-1.2	-0.7	1.0
Unemployment rate (% of labour force)	_	19.3	17.3	16.3	15.9	15.6
General government financial balance[4] (% of GDP)	_	0.9	1.1	-9.7	-10.1	-3.7
General government gross debt (% of GDP)	_	201.3	204.8	241.9	237.4	227.9
General government debt, Maastricht definition (% of GDP)	_	186.2	180.5	205.6	201.1	191.6
Current account balance[5] (% of GDP)	_	-2.9	-1.5	-6.7	-6.5	-5.2

1. Contributions to changes in real GDP, actual amount in the first column.
2. Including statistical discrepancy.
3. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
4. National Accounts basis. Data also include Eurosystem profits on Greek government bonds remitted back to Greece, and the estimated government support to financial institutions and privatisation proceeds.
5. On settlement basis.

Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/0o1kf2

Containment measures have reduced activity, but by less than in 2020

Containment restrictions introduced in November brought tourism to a near halt, and significantly reduced business in many other consumer services. However, the losses have been less than during the earlier lockdown. Turnover in February 2021 was about 50% lower than a year earlier in the sectors required to close. Manufacturing, including of medical and pharmaceuticals products, was more robust in late 2020 and the first months of 2021. Banks have increased new lending to businesses, supported by the government's loan guarantees and interest subsidies. Households continued to increase their savings through the latest lockdown – excess bank deposits rose by over 7% of GDP in 2020. Housing construction has grown strongly. Overall, firms hired workers in the first months of 2021, even as they suspended contracts of 260 thousand workers.

The government has prolonged support and announced a substantial recovery plan

The government has doubled its planned 2021 support to the economy, to EUR 14.3 billion (8.3% of 2021 GDP). The latest support measures extend existing programmes, such as income support for the self-employed, furloughed workers and the unemployed, and reduced tax and social insurance contributions for businesses. The government also introduced a new guarantee scheme and loan subsidy programme directed towards smaller enterprises. Moratoria apply to the servicing of 12% of all outstanding

business and household loans, one-third of which are assessed to be in a high-credit-risk category. The government will provide grants and low-cost loans to help businesses rebuild their stocks and working capital. Greece's Recovery and Resilience Plan provides for EUR 4 billion (2.3% of GDP) of grants and loans in 2021, and EUR 5.3 billion each year from 2022, to support digital and green investments, strengthen skills and employment, boost private investment, and transform economic and public institutions.

A pick-up in tourism and the recovery plan will drive the recovery

The economy's recovery is projected to accelerate into 2022 as services and travel activity resume and disbursements of Greece's Recovery and Resilience Plan support investment. Exports are projected to recover gradually from the second quarter of 2021, led by tourists arriving from countries with high vaccination rates. Tourism receipts in 2021 are projected to recover almost half of the decline of 2020. The strength in global merchandise trade is projected to support Greece's shipping services and goods exports. These developments will boost employment and households' incomes, which, along with a modest drawdown in savings accumulated over the crisis, will support a recovery in consumption. Economic slack will damp price pressures, while reforms underway are likely to add flexibility to the labour market. The recovery would be set back by more than in most countries, if vaccination campaigns are less effective than expected at enabling travel and tourism to resume. If recent reforms contribute less than expected to improving Greece's public investment spending, the strengthening in domestic activity, employment and long-term prospects would be smaller than projected.

Upgrading skills and improving the investment climate would strengthen the recovery

As the recovery in employment-intensive services is likely to be gradual, refocusing income support measures on active labour market programmes and training would help prevent poverty or longer-term unemployment from rising. The likely harm to public finances and banks' asset quality from rising bankruptcies accentuates the urgency of further measures to address non-performing loans and banks' deferred tax credits. This will require actions in addition to the recent extension of the "Hercules" asset protection scheme. Greece's Recovery and Resilience Plan includes many measures that can boost productivity and environmental sustainability in the longer term, and will require swift and sustained implementation. The Plan's measures to improve the effectiveness of public administration can do much to improve the business environment.

Hungary

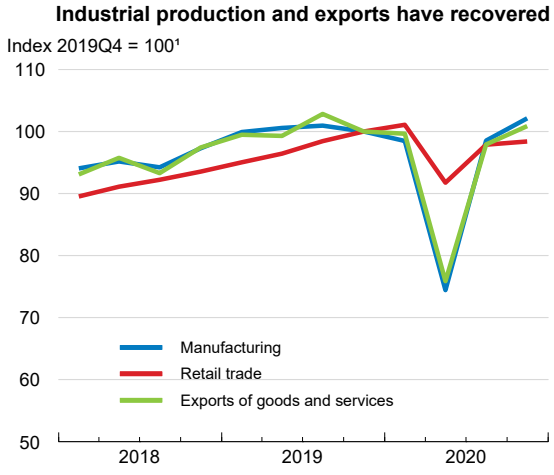
The economy is projected to grow by about 5% per annum in 2021 and 2022. Economic activity is expected to rebound from mid-2021 onwards, as a swift vaccination rollout supports the recovery of private consumption. External demand will strengthen with the recovery in major European trading partners. The labour market will continue to improve, while high wage growth and a recent currency depreciation will further add to inflationary pressures.

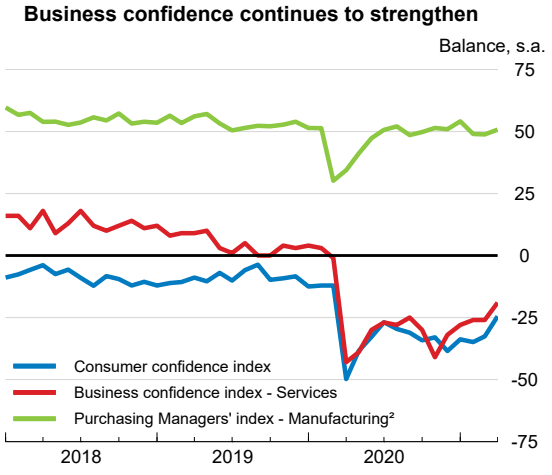
Fiscal policy will remain supportive as long as COVID-19-related restrictions are in place. The central bank has limited room for further easing given the elevated inflation rate. As the recovery gathers pace, the phasing out of temporary measures to preserve jobs and businesses is needed to enable an effective reallocation of resources. In the medium term, changing the tax mix is key: labour taxes should continue to be lowered to raise labour force participation and environmental taxes increased to promote more environmentally sustainable growth.

The vaccine rollout is progressing swiftly

In early 2021, the country experienced a severe third wave of the pandemic, with high infection and mortality rates. The government extended measures taken during the second wave, including restrictions on hospitality facilities. Since then, one of the fastest vaccine rollouts in Europe has helped to improve the health situation, allowing the authorities to start gradually lifting restrictions in April 2021.

Hungary





1. Manufacturing refers to the production index s.a., retail trade refers to sales in real terms s.a., and exports of goods and services are expressed in real terms.
2. The headline PMI is a number from 0 to 100. A PMI above 50 represents an expansion when compared with the previous month. A PMI reading under 50 represents a contraction, and a reading at 50 indicates no change.
Source: OECD Economic Outlook 109 database; OECD Main Economic Indicators database; GKI; and Refinitiv.

StatLink https://stat.link/uhj70m

Hungary: Demand, output and prices

Hungary	2017	2018	2019	2020	2021	2022
	Current prices HUF billion	Percentage changes, volume (2015 prices)				
GDP at market prices	39 233.4	5.4	4.6	-5.1	4.6	5.0
Private consumption	19 696.0	5.1	5.1	-2.3	-0.1	5.7
Government consumption	7 912.9	1.7	4.0	-1.0	1.6	2.5
Gross fixed capital formation	8 698.6	16.4	12.8	-7.3	8.3	5.7
Final domestic demand	36 307.5	7.1	6.9	-3.5	2.6	5.0
Stockbuilding[1]	248.3	0.1	-0.2	0.4	0.0	0.0
Total domestic demand	36 555.8	7.1	6.6	-2.9	2.8	4.9
Exports of goods and services	33 744.7	5.0	5.8	-6.8	9.9	5.7
Imports of goods and services	31 067.0	7.0	8.2	-4.4	7.5	5.7
Net exports[1]	2 677.7	-1.2	-1.7	-2.1	2.1	0.2
Memorandum items						
GDP deflator	_	4.8	4.8	5.9	5.6	3.8
Consumer price index	_	2.9	3.3	3.3	3.9	3.9
Core inflation index[2]	_	2.1	3.2	3.0	3.4	3.9
Unemployment rate (% of labour force)	_	3.7	3.4	4.2	4.0	3.4
Household saving ratio, net (% of disposable income)	_	8.1	6.3	8.7	8.8	6.6
General government financial balance (% of GDP)	_	-2.1	-2.1	-8.1	-7.5	-5.9
General government gross debt (% of GDP)	_	86.6	83.5	97.6	99.4	99.4
General government debt, Maastricht definition (% of GDP)	_	69.1	65.5	80.4	81.9	81.9
Current account balance (% of GDP)	_	0.3	-0.5	0.1	0.8	0.8

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/5twy4e

Industry continues to recover while service activity remains subdued

Industrial production and exports rebounded strongly in late 2020, and are now exceeding their pre-pandemic levels. Business confidence has continued to strengthen. Service sectors are held back by containment measures. The labour market improved, as reflected in a fall in the unemployment rate by 0.4 percentage point in early 2021, while the employment rate rose by 0.7 percentage point. Gross earnings of full-time employees in the private sector continued to register strong growth, at around 8.9% in early 2021, as the tripartite wage agreement raised minimum wages by 8% in 2020 and 4% in 2021. Partly reflecting the continued weakening of the currency, headline inflation has been above the central bank's target of 3% since February 2021.

Policy continues to provide relief

A comprehensive fiscal stimulus package, including wage support and home-building subsidies, is supporting economic activity. In 2021-27, additional investment of 3.4% of GDP will be financed by EU funds. The central bank's accommodative monetary policy is further supporting aggregate demand and liquidity. Furthermore, to help bridge the temporary payment difficulties of borrowers, the government extended the loan repayment moratorium until mid-2021, and the central bank raised the amount of its SME financing programme "Funding for Growth Scheme Go!" to 6% of GDP. A major factor in avoiding a stronger rise in unemployment was the extension of the short-time work scheme in heavily-affected sectors for the duration of the pandemic. These measures amount to about 5% of GDP in discretionary one-offs and will contribute to an expected budget deficit of 7.5% of GDP in 2021.

The recovery is set to strengthen

Economic activity is projected to recover strongly in the second half of 2021, reflecting the lifting of restrictions as vaccine programmes are rolled out. Private consumption will be driven by the release of pent-up demand and the normalisation of saving after the increase in 2020. External demand will strengthen with the recovery in major European trading partners. Investment is expected to rebound on the back of stronger inflows of foreign direct investment and EU Recovery and Resilience Facility funds. The ongoing labour market recovery will allow unemployment to reach pre-pandemic levels in 2022. Nonetheless, wage growth is projected to remain high, and inflation will stay elevated. Downside risks include prolonged supply-chain problems, which could disrupt the production of export goods. Faster-than-expected wage growth and a further currency depreciation would increase cost pressures on firms and fuel inflation expectations, which could require an abrupt tightening of monetary policy. On the upside, a faster recovery of major European trading partners would benefit growth, given the economy's dependence on exports.

Maintaining policy support should depend on the strength of the recovery

Fiscal policy should remain supportive until the recovery is firmly underway. Once restrictions are lifted, the recovery will have ample support from the release of pent-up demand, suggesting that additional fiscal stimulus may not be needed to support demand. The withdrawal of state-backed emergency loans would help the efficient reallocation of resources to expanding sectors. Nonetheless, the government should maintain supportive fiscal policies in 2022 if supply-chain disruptions continue to restrain production or the recovery remains weak for other reasons. High labour taxes could be reduced further, financed by broadening the base for consumption taxes, further reducing tax evasion and raising environmental taxes. A strategy to decarbonise the economy is needed to secure environmental objectives. To boost growth potential and maintain fiscal sustainability, structural reforms to raise labour force participation and improve productivity should be accelerated.

Iceland

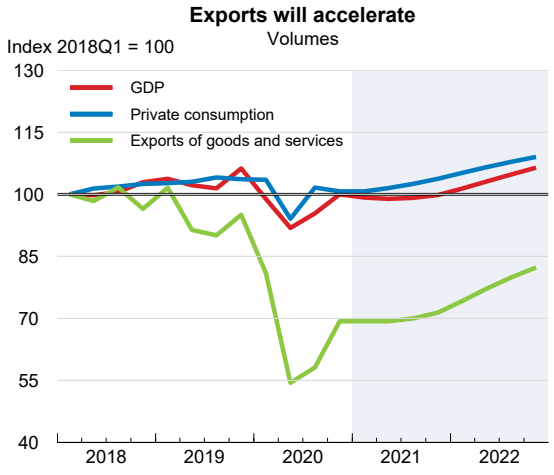
GDP is projected to grow by 2.8% in 2021 and 4.7% in 2022, driven by a rebound of foreign tourism and strong fisheries and services exports. Household consumption will rise as precautionary savings are reduced and confidence strengthens. Business investment will grow supported by improved financial conditions and the realisation of pent-up demand for infrastructure.

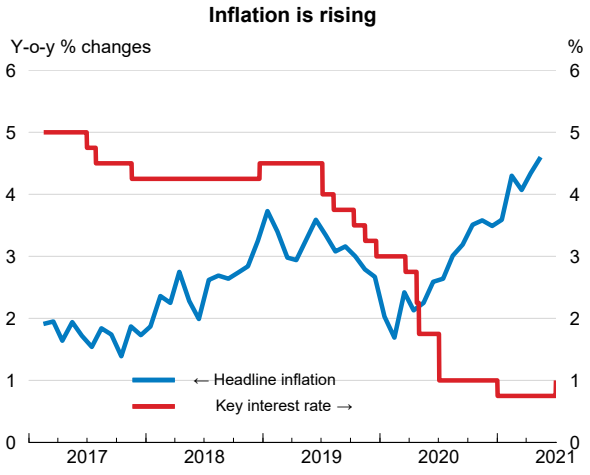
Monetary policy remains accommodative notwithstanding the mid-May increase in the policy interest rate. Short-term inflation expectations have risen above the central bank's inflation target, despite a gradual appreciation of the krona since late 2020. Fiscal policy should focus on vulnerable households, and the government should implement the planned investment and recovery programme. Strengthening competition and skills would help underpin a sound recovery.

The health situation is improving

Iceland's COVID-19 situation is improving thanks to an effective testing, tracing and tracking strategy, a well-functioning health system and targeted containment measures. The number of new infections has steadily declined since the end of last year except for a few weeks in spring 2021. Containment measures, which were less restrictive than in most countries, are being relaxed further. Vaccination is progressing well. Schools and universities have operated almost without interruption. After a temporary tightening in end-March, border restrictions are gradually being lifted.

Iceland





Source: OECD Economic Outlook 109 database; Statistics Iceland; and Central Bank of Iceland.

StatLink https://stat.link/bqcpga

Iceland: Demand, output and prices

Iceland	2017	2018	2019	2020	2021	2022
	Current prices ISK billion	Percentage changes, volume (2015 prices)				
GDP at market prices	2 642.0	4.7	2.6	-6.6	2.8	4.7
Private consumption	1 323.5	4.8	1.9	-3.3	2.1	4.9
Government consumption	625.5	4.7	3.9	3.1	2.2	0.9
Gross fixed capital formation	575.2	1.2	-3.7	-6.8	8.0	3.4
Final domestic demand	2 524.3	3.9	1.1	-2.5	3.4	3.5
Stockbuilding[1]	- 0.8	0.2	-0.5	1.2	0.0	0.0
Total domestic demand	2 523.5	4.2	0.3	-1.3	3.4	3.5
Exports of goods and services	1 208.2	1.7	-4.6	-30.5	6.5	12.0
Imports of goods and services	1 089.7	0.5	-9.3	-22.0	8.2	8.2
Net exports[1]	118.5	0.6	1.9	-4.9	-0.6	1.2
Memorandum items						
GDP deflator	_	2.7	4.5	3.4	2.3	2.7
Consumer price index	_	2.7	3.0	2.8	4.1	2.5
Core inflation index[2]	_	2.5	2.9	2.9	3.7	2.4
Unemployment rate (% of labour force)	_	3.1	3.9	6.4	8.0	7.6
General government financial balance (% of GDP)	_	0.9	-1.5	-7.3	-10.3	-7.1
General government gross debt[3]	_	60.4	61.5	69.1	78.7	84.0
Current account balance (% of GDP)	_	3.8	6.4	1.0	-1.0	0.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
3. Includes unfunded liabilities of government employee pension plans.

Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/ia3kcz

The economy is recovering

After the sharp contraction in output in the first half of 2020 and a modest recovery since then, economic momentum is returning. Tourism is recovering after the easing of external border checks. Fisheries' exports remain strong, especially of higher-value fresh seafood and aquaculture. Some sectors, like pharmaceuticals and data storage and processing, continue to grow fast. Household consumption remains robust, based on rising wages and policy support measures. The unemployment rate hovered at around 8% of the labour force since late 2020 but has begun to recede. Immigration has declined sharply, while emigration also slowed as the employment outlook is not better abroad.

Policy remains accommodative

Policy remains accommodative. In mid-May, the central bank raised the policy interest rate by 0.25 percentage point to 1%. The króna has appreciated by around 5% over the past few months, yet inflation has risen to 4¼ per cent on the back of considerable wage growth and an increase in commodity prices. Short-term inflation expectations exceed the central bank's target. Fiscal policy remains expansionary. Most government support has been extended until end-2021, and households may continue to draw on third-pillar retirement savings. The government should focus direct support on households in need. Public investment, especially in green transport infrastructure, digitalisation and research and innovation, should expand as planned by the government.

The recovery is set to accelerate

GDP is projected to grow by 2.8% in 2021 and 4.7% in 2022. Tourism will rebound in the second half of 2021 following vaccination and the easing of containment measures worldwide. Fisheries and service exports are set to remain strong. Business investment will recover as pent-up demand for accommodation infrastructure will be realised. Household consumption will rise thanks to regained confidence and reduced saving. Public investment, as planned by the government, will add to momentum. As the government-supported short-term work scheme ends, the unemployment rate will average 8% in 2021 but will edge down in 2022. The budget deficit will reach around 10% of GDP in 2021 and then decline to 7% of GDP in 2022, which is appropriate. Gross public debt will climb to nearly 85% of GDP in 2022. The projections are subject to substantial uncertainty and risks. The recovery of tourism relies strongly on foreign arrivals and hence on economic and health conditions overseas. The disappearance of specific fishing stock would dent exports.

Strengthening competition and upgrading skills would underpin the recovery

Structural reforms could help accelerate the reallocation of labour and foster an inclusive recovery. Strengthening competition, in particular in the construction and tourism sectors, and opening the network industries to foreign firms could help create new businesses, facilitate technology transfer, and diversify the economy. Strengthening skills, by better aligning tertiary education with labour market needs, improving collaboration between universities and firms, and upgrading vocational education and training could reduce labour market mismatch and help workers venture into new sectors and activities.

India

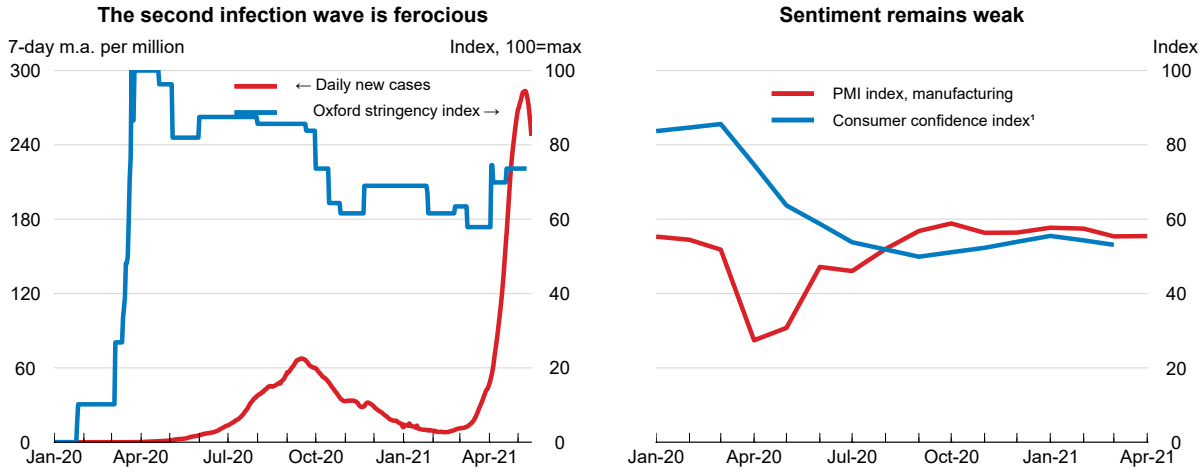
After the 2020 huge GDP contraction, economic growth is projected to bounce back in 2021, driven by pent-up demand for consumer and investment goods, before declining in 2022. The dramatic infections upsurge since February has weakened the nascent recovery and may compound financial woes of corporates and banks. As public anxiety over the virus spreads and lockdowns multiply, high-frequency indicators suggest that a marked slowdown may have taken place in the April-June quarter, although the overall annual impact is likely to be muted. Wholesale and retail inflation rates remain elevated, but within the target range of the central bank.

The damage that COVID-19 continues to inflict on the poor makes it necessary to prioritise policies that reduce scarring effects, in particular for children that have been out of school for months, and increase investment and employment opportunities. The banking sector remains fragile, although the proposal to create an asset recovery company and the planned privatisation of two public banks testify to the authorities' commitment to reforms. The healthy foreign exchange reserves position should provide sufficient buffers to deal with any potential external shock-driven capital-stop or outflows in the period ahead.

The second wave of the virus hit hard

India's new confirmed COVID-19 virus infections have risen very rapidly, from a daily minimum of 13 000 cases in late January to more than 400 000 in early May. Although about 20% of the population is estimated to have antibodies, a rapidly transmissible strain doing the rounds, laxity in the application of social distancing and chronic underinvestment in public health make the situation calamitous. Localised containment measures have been reinstated and are impacting mobility, but a

India 1



1. Based on every two-month current situation index (CSI). The missing monthly data are proxied by the average of neighbouring monthly data.
Source: CEIC; Oxford COVID-19 Government Response Tracker, Blavatnik School of Government; Markit; and OECD calculations.

StatLink https://stat.link/n7l5i9

India: Demand, output and prices

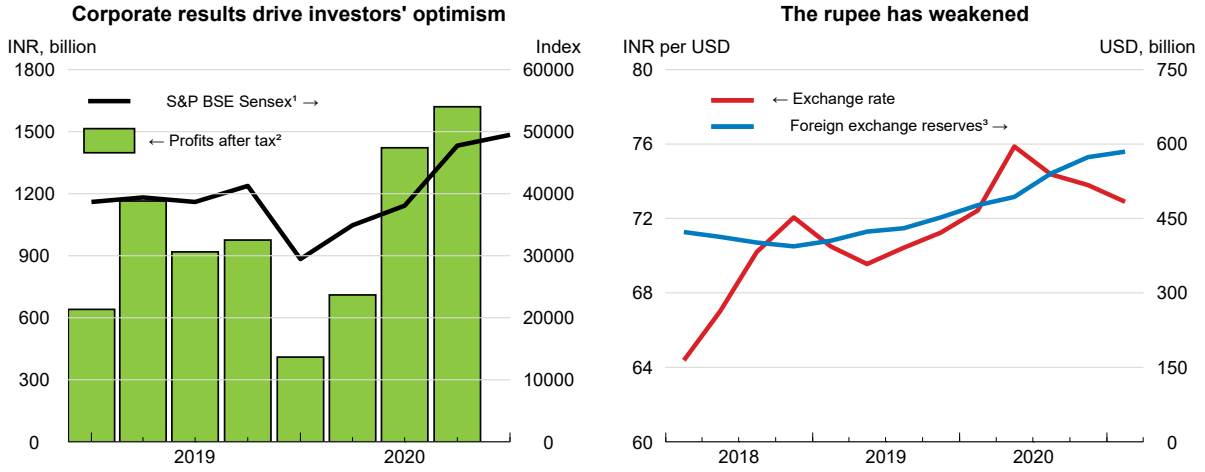
India	2017	2018	2019	2020	2021	2022
	Current prices INR trillion	Percentage changes, volume (2011/2012 prices)				
GDP at market prices	170.9	6.5	4.0	-7.7	9.9	8.2
Private consumption	100.4	7.6	5.5	-10.5	9.3	7.0
Government consumption	18.4	6.3	7.9	-1.9	9.8	3.9
Gross fixed capital formation	48.2	9.9	5.4	-14.0	16.3	16.4
Final domestic demand	166.9	8.1	5.8	-10.7	11.2	9.3
Stockbuilding[1,2]	9.4	0.4	-0.7	-1.1	0.0	0.0
Total domestic demand	176.3	5.9	4.4	-9.8	12.2	9.6
Exports of goods and services	32.1	12.3	-3.3	-6.9	14.9	6.5
Imports of goods and services	37.5	8.6	-0.8	-16.5	25.7	13.0
Net exports[1]	- 5.4	0.4	-0.5	2.4	-2.4	-1.7
Memorandum items						
GDP deflator	_	3.7	3.6	3.6	3.9	5.2
Consumer price index	_	3.4	4.8	6.5	5.4	4.8
Wholesale price index[3]	_	4.3	1.7	0.6	4.0	3.7
General government financial balance[4] (% of GDP)	_	-5.5	-6.5	-10.0	-9.6	-7.0
Current account balance (% of GDP)	_	-2.1	-0.9	1.4	-0.4	-1.4

Note: Data refer to fiscal years starting in April.
1. Contributions to changes in real GDP, actual amount in the first column.
2. Actual amount in first column includes statistical discrepancies and valuables.
3. WPI, all commodities index.
4. Gross fiscal balance for central and state governments.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/cuhrq3

new nation-wide lockdown is unlikely. The inoculation rollout is slow, with domestic take-up far below the pace needed to meet the goal of vaccinating 300 million people by August. The National COVID-19 Vaccination Programme that has come into effect in May 2021 could help close that gap, notably by increasing vaccine supply and opening access to anybody beyond the age of 18.

India 2



1. Data refer to the value at the end of each quarter. The latest data point refers to 17 May 2021.
2. Net of prior period and extra-ordinary transactions.
3. Estimate for the first quarter of 2021 based on monthly and weekly data.
Source: OECD Economic Outlook 109 database; Reserve Bank of India; Refinitiv and Centre for Monitoring Indian Economy (CMIE).

StatLink https://stat.link/rniq83

The resurgence in infections is delaying the recovery

Domestic demand has been on the mend since mid-2020 and near-term prospects were improving until recently. The Purchasing Managers' Index points to a recovery of the economy, with recent readings stable at levels above the medium-term average. Merchandise exports and imports surged to record levels in March. Financial markets have attracted considerable foreign portfolio flows, reflecting global trends and sound results, at least for large corporates. Foreign exchange reserves remain close to the all-time record level registered in January, reflecting the central bank's strategy to build a buffer to tide over any possible impact of the unwinding of the anti-pandemic measures taken in advanced economies.

Even before the new COVID-19 flare up, some weaknesses were emerging, especially in services where demand remains well below normal. Recent mobility data, including freight rail traffic, as well as non-mobility indicators such as electricity consumption and e-way bills generation, indicate weakening recovery momentum. The unemployment rate was volatile in the six months to March 2021, before rising in April, and city lockdowns are spurring waves of return migration to rural areas. Inflation fears are mounting, stoked by prices of vegetables growing fast due to supply-chain disruptions and the firming of fuel price.

The policy mix is evolving

In 2020, monetary easing, supportive financial regulation and fiscal support were deployed to counter the recessionary effects of the lockdown. Policy fine-tuning is now underway in each area. According to the 2021 Union Budget, the central government deficit is expected to fall to 6.8% of GDP, from 9.5% in FY 2020-21, with conservative assumptions of nominal GDP growth and revenue. Most of the improvement is cyclical. Following the steep increase in FY 2020-21, the overall public debt-to-GDP ratio is set to fall marginally to 93% in FY 2021-22. So far this year, the RBI Monetary Policy Committee has kept the repo rate unchanged at 4%, while signalling its intention of maintaining an accommodative stance as long as necessary. Given risks surrounding the pace of the recovery, the central bank is projected to delay any rate increase to mid-2022. The cash reserve ratio was increased to 4%, while significant sovereign bond purchases have been announced.

Some structural reforms are envisaged. An asset reconstruction company and an asset management company will be set up to take over existing stressed debt and manage and dispose impaired assets. The privatisation programme is to be accelerated – including two public sector banks and one general insurance company – although the difficulties in concluding the long-delayed sale of Air India suggest that the goal of obtaining USD 24 billion (0.8% of GDP) this year is ambitious. The reform of agriculture markets, aimed at supporting synergies between farmers and agribusiness, has been halted as negotiations between government and farmers' organisations remain suspended. The proposal to allow industrial conglomerates to own banks and participate in privatisation, on the other hand, should be considered with great caution.

There are various downside risks on the horizon

India is projected to be the fastest-growing G20 economy in 2021 – but also the one which is the furthest away from its pre-crisis GDP trend. Pent-up demand for consumer durables and exports of manufacturing goods and services will act favourably, but other components will be far less supportive. Notwithstanding the pressing need to upgrade physical and human infrastructure, as well as increased allocations for capital expenditure and the expansion of production-linked incentives scheme to sectors other than large-scale electronics manufacturing, weak investment is set to persist. Profit margins in the banking sector are likely to decline, in particular for state banks that may see both impaired loans and credit costs soaring, following the lifting of moratorium relief to borrowers. Input-cost pressures may push inflation outside of the policy target band.

Serious scarring risks for individuals and firms call for appropriate policy actions

In 2020, poverty and informality increased and the ranks of the middle class plummeted, in both cases undoing several years of progress. Other negative consequences of the pandemic have been the surge in the number of school dropouts, heightened child malnutrition due to the suspension of the cooked meal programme, and of the mid-day school meal scheme in particular, and more than 150 thousand estimated additional child and maternal deaths. Better targeting of energy and fertiliser subsidies, as well as an overhaul of tax expenditures, would free resources for pro-poor fiscal policies. Several states have either recently adopted or are contemplating polices to reserve private sector jobs for local residents, but absorbing more than 10 million young Indians who join the labour market each year requires first and foremost a pick-up in job-generating investments. Improving the business climate will be crucial. With the share of banking assets that are non-performing expected to shoot up well above 10%, it will be especially important to apply the 2016 bankruptcy code in a consistent, transparent and fast way.

Indonesia

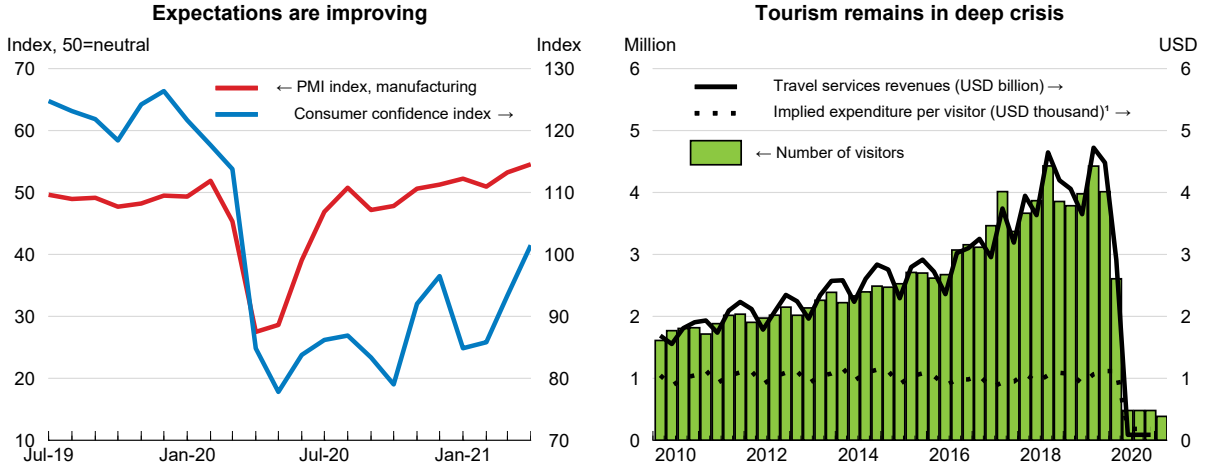
GDP growth is projected to resume at around 5% annually in 2021 and 2022. The economy has been slowly recovering since mid-2020 thanks to policy support, gradual reopening and favourable global conditions. The second wave of the virus and the slow pace of inoculation are preventing a faster normalisation of activity. Lingering concerns about the pandemic weigh on consumer and business confidence and prevent domestic demand to return to trend levels. External demand for commodities such as coal, palm oil and rubber supports growth, with positive prospects thanks to the signing of RCEP (Regional Comprehensive Economic Partnership) and other trade agreements.

The impact of the recession is bound to persist for a long time, especially for youth who have suffered from a year-long school disruption and confront difficult labour market conditions. Containment measures have slowed but not halted the pandemic. The policy priority is to protect citizens, most of whom work in the informal sector and face difficulties in accessing social services, from sudden further shocks. Fiscal and monetary policies should continue to seek synergies to support the recovery, although a credible normalisation path should be announced. In the longer run, improving well-being and growth requires to boost human capital formation.

COVID-19 is still not under control

Since January, the weekly number of new confirmed cases has remained above the peak reached in the first wave, leading to the introduction of targeted measures to restrict inter-personal contacts (so-called "micro-scale public activity restrictions") with a lesser economic impact than outright lockdowns. By mid-April, daily cases have eased considerably, although testing remains insufficient. The vaccination campaign began in January, but the number of inoculated citizens is still low on account of shipment delays, production bottlenecks, logistical issues and cultural resistance. The vaccination of the elderly lags far behind that of the working-age population.

Indonesia 1



1. Implied expenditure per visitor is computed by dividing the travel services revenues with the number of visitors in the same time interval.
Source: CEIC; and Markit.

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Indonesia: Demand, output and prices

Indonesia	2017	2018	2019	2020	2021	2022
	Current prices IDR trillion	Percentage changes, volume (2010 prices)				
GDP at market prices	13 589.8	5.2	5.0	-2.1	4.7	5.1
Private consumption	7 783.7	5.1	5.2	-2.7	3.5	6.1
Government consumption	1 239.5	4.8	3.3	1.9	4.5	0.1
Gross fixed capital formation	4 370.6	6.7	4.5	-4.9	8.4	5.9
Final domestic demand	13 393.7	5.6	4.8	-3.1	5.2	5.5
Stockbuilding[1]	60.4	0.8	-0.9	-0.3	-1.7	0.0
Total domestic demand	13 454.0	6.3	3.7	-3.3	3.4	5.5
Exports of goods and services	2 742.1	6.5	-0.9	-7.7	12.5	6.2
Imports of goods and services	2 606.3	12.1	-7.4	-14.7	5.7	7.3
Net exports[1]	135.8	-1.0	1.4	1.1	1.5	0.1
Memorandum items						
GDP deflator	_	3.8	1.6	-0.5	3.4	3.0
Consumer price index	_	3.2	3.0	1.9	2.4	2.9
Private consumption deflator	_	3.3	3.2	1.9	1.6	2.5
General government financial balance (% of GDP)	_	-1.6	-2.2	-6.5	-5.7	-4.1
Current account balance (% of GDP)	_	-3.0	-2.7	-0.4	-1.3	-1.6

1. Contributions to changes in real GDP, actual amount in the first column.
Source: OECD Economic Outlook 109 database.

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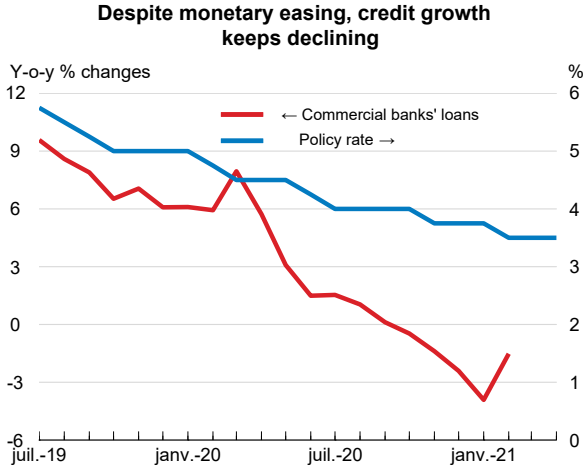
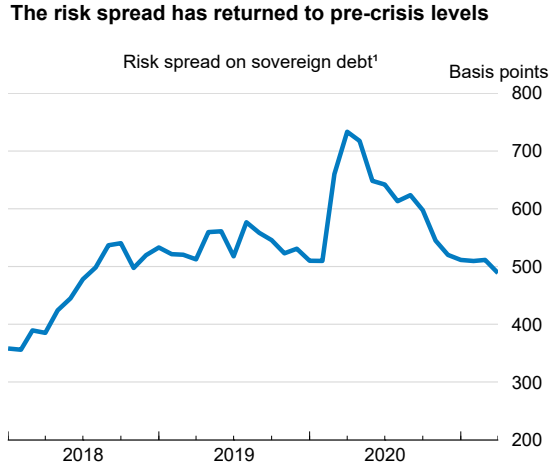
Indonesia 2





1. Spread of 10-year government USD-denominated bond yields vis-à-vis the US Treasury bonds.
Source: Bank Indonesia; CEIC; OECD Main Economic Indicators database; and OECD calculations.

StatLink https://stat.link/0oqxwb

The recovery path is proving bumpy

While the 2020 recession was relatively mild compared to neighbouring countries, with GDP shrinking by 2.1%, the unemployment rate rose and progress in poverty reduction was halted if not reversed. The return of restrictions since the fourth quarter of 2020 has slowed the economic pick-up and both the manufacturing PMI and consumer surveys have been volatile. A slowing momentum of retail sales is reflected in the decline in credit growth, especially consumer credit. The current account deficit in 2020 shrank and the size of the trade surplus in 2020 was the largest since 2011. The trade balance remained positive in the first quarter of 2021, with support from higher international prices of commodities such as coal, palm oil and rubber. On the other hand, tourism shows no sign of a recovery after the precipitous decline last year, with January-March arrivals 85% lower than in the same period in 2020. Consumer price inflation has moderated since 2020 to 1.4% in April 2021 (year-on-year).

Economic support measures are set to remain in place as long as uncertainty prevails

Within a few months, the pandemic reversed some hard-won advances in well-being, with poverty, malnutrition, and even hunger rising fast. Fiscal policy has mitigated the damage, with planned capital expenditures partly diverted to relief measures and the deficit exceeding 6% of GDP, although actual spending was 14% below target. Efforts are now underway to speed up disbursement (although only 11% of the budget had been spent by mid-March). The fiscal deficit is projected to narrow only marginally in 2021, before fiscal consolidation intensifies to respect the temporarily-suspended 3%-of-GDP deficit ceiling by 2023. The phasing out of relief measures and spending rationalisation will underpin the changing fiscal stance, whereas tax revenues relative to GDP are set to remain the lowest among G20 countries and insufficient to meet public investment needs. The recently approved Omnibus Bill for Job Creation encourages hiring in the formal economy, eases foreign investment, provides new opportunities for small and medium-sized enterprises and introduces a risk-based system for authorising environment-sensitive projects.

In 2020, Bank Indonesia resumed monetary financing of the deficit after more than two decades of not funding revenue shortfalls. The “burden sharing” arrangement proved useful in reducing the government’s interest costs and freeing up resources for relief measures. The Bank has announced that in 2021 it will only be ready to purchase bonds in the primary market as the buyer of last resort, with a maximum share per auction of 25% for conventional domestic bonds and 30% for shariah bonds. The principal policy rate was trimmed by 25 basis points in February, to 3.5%, and is projected to remain unchanged through 2021, as an improved current account position should help offset pressures from higher US yields.

Prospects are uncertain and risks are mostly on the downside

In 2021-22, if the outbreak is held in check, an effective and safe vaccine is available to a large part of the population and remaining restrictions are lifted, growth is projected to pick up to around 5%, driven by consumption as pent-up demand is met. Investment, including inventory restocking, and exports are also expected to be supportive. Output is projected to recover to its pre-pandemic level by mid-2021, although it will remain far below its pre-pandemic trend. Jobs in contact-intensive, often informal, services will be the slowest to come back and social distress will remain high. Inflation is set to edge up to close to 3%, the mid-range of the target band, by 2022. The fiscal deficit is expected to shrink, but will still exceed 3% of GDP in 2022.

There are multiple risks, and most of them are on the downside. Failure to accelerate the vaccination campaign may slow the loosening of mobility restrictions. Insufficient mobilisation of domestic resources would accentuate dependence on foreign financing of the debt (40% of government debt is denominated in foreign currencies and non-residents hold 25% of local-currency government debt). This increases the vulnerability to shifts in investor confidence towards emerging-market economies, such as a further rise in global bond yields. The loss of growth momentum that was already manifested before the pandemic may hold back investment, leaving open existing gaps, notably in infrastructure. The recent bombing in Makassar has highlighted the persistence of the security threat. On the upside, an acceleration of the vaccine campaign, in Indonesia as well as globally, would bring back international tourists sooner than anticipated. The investment and employment boost of the Omnibus Bill might also beat expectations, especially after the signing of the Regional Comprehensive Economic Partnership.

Policy measures need to be taken to exit the crisis with the right skills

Indonesia has enjoyed a “demographic dividend” over the past few decades, supporting economic growth. The share of the working-age population is expected to peak in 2021, remain broadly stable for ten years, and then gradually decline. Against this background, more efforts are required to meet the goal of making Indonesia a developed country by 2045 – the centenary of independence. Educational attainment has improved considerably, but COVID-19 has increased absenteeism and school drop-out. Improved public spending efficiency and starting school earlier could raise educational attainment and learning performance. The importance of securing adequate skills will increase as the economy becomes more knowledge-based and greater ICT investment would help reap the benefits of digitalisation. Vocational education and lifelong training should be further promoted to upskill and reskill the workforce, and also in support of the technical competences required for the green transition. More resources should be devoted to assistance programmes for those most at risk, in particular informal workers with improved targeting. Implementing the measures in the Omnibus Bill for Job Creation will be crucial to achieve desired outcomes and should be elaborated in consultation with relevant stakeholders.

Ireland

After avoiding a decline in output in 2020 thanks to buoyant exports of Ireland-based multinationals, real GDP is projected to grow by 4.2% in 2021, despite stringent sanitary measures introduced early in the year. As vaccinations are rolled out and restrictions are gradually eased, domestic demand will strengthen, even though uncertainty will continue to weigh on firms' investment decisions. Pent-up consumer spending, as households unwind pandemic-induced excess saving, is projected to lift growth to 5.1% in 2022.

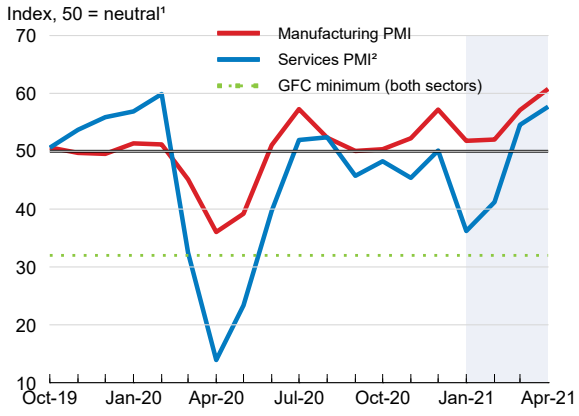
Public support for employees and businesses, which cushioned the impact of the crisis and masked the surge in unemployment, will be progressively pared back as the economy reopens. However, in light of persisting health and Brexit-related risks, policy needs to remain supportive. Increased targeting of fiscal measures on workers most at risk of long-term unemployment, as well as a simpler examinership scheme for debt-saddled SMEs, would facilitate the reallocation of resources and limit potential scarring effects from the pandemic.

Bringing infections under control has proven to be difficult

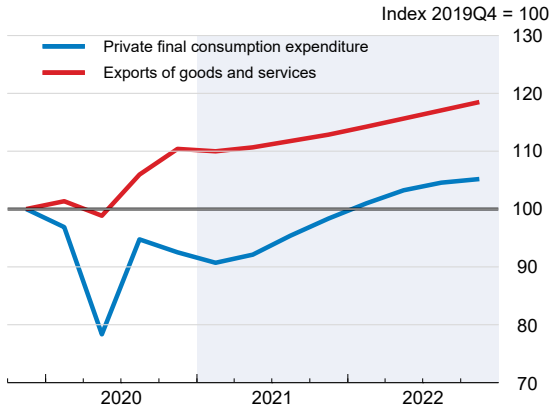
The strict lockdown introduced late December has helped reduce hospitalisation and infection rates. However, as the decline in new cases has slowed in recent weeks, plans to ease restrictions remained cautious. Schools resumed in-person teaching in April, when mobility and social limitations were partially eased. However, full reopening of non-essential shops, personal services, construction and cultural venues was announced only recently, as about 28% of the population had received a first dose of COVID-19 vaccination as of mid-May. The reopening of gyms, indoor sport centres, restaurants and bars, which is expected in coming weeks, remains conditional on health outcomes.

Ireland

The latest strict lockdown measures have been less damaging for business than the earlier ones



Consumption and exports are projected to increase



1. The shaded area refers to the latest period of Level 5 restrictions.
2. Private service sector firms.
Source: IHS Markit - AIB; and OECD Economic Outlook 109 database.

StatLink https://stat.link/j2tik4

Ireland: Demand, output and prices

Ireland	2017	2018	2019	2020	2021	2022
	Current prices EUR billion	Percentage changes, volume (2018 prices)				
GDP at market prices	298.9	8.9	5.9	2.5	4.2	5.1
Private consumption	94.0	2.6	3.2	-9.1	3.9	9.9
Government consumption	36.6	5.7	5.8	6.5	4.4	0.4
Gross fixed capital formation	96.9	-5.5	75.0	-32.4	-13.5	8.8
Final domestic demand	227.6	-0.2	35.7	-18.0	-3.5	7.5
Stockbuilding[1]	5.4	-0.9	0.5	0.8	0.7	0.0
Total domestic demand	233.0	0.1	36.8	-17.0	-3.0	7.4
Exports of goods and services[2]	359.1	11.2	10.6	6.2	6.9	4.5
Imports of goods and services	293.2	3.5	32.0	-10.0	3.3	5.8
Net exports[1]	65.9	10.1	-16.8	19.0	5.5	0.4
Memorandum items						
GVA[3], excluding sectors dominated by foreign-owned multinational enterprises	_	4.7	4.5	-9.4	2.8	7.2
GDP deflator	_	0.5	2.6	0.6	1.9	1.0
Harmonised index of consumer prices	_	0.7	0.9	-0.5	0.8	1.6
Harmonised index of core inflation[4]	_	0.3	0.9	-0.1	0.8	1.5
Unemployment rate (% of labour force)	_	5.7	4.9	5.6	7.7	8.1
Household saving ratio, net (% of disposable income)	_	6.9	7.5	19.8	16.7	7.1
General government financial balance[5] (% of GDP)	_	0.1	0.5	-5.0	-4.8	-2.8
General government gross debt (% of GDP)	_	75.0	69.4	72.5	75.1	74.1
General government debt, Maastricht definition (% of GDP)	_	62.9	57.4	59.5	62.1	61.0
Current account balance (% of GDP)	_	6.0	-11.4	4.6	12.5	12.2

1. Contributions to changes in real GDP, actual amount in the first column.
2. So called "contract manufacturing" (exports of goods produced abroad under contract from an Irish-based entity) by multinational enterprises is assumed to remain at the 2020 level in 2021 and 2022.
3. Gross value added. Data for 2018-2022 are OECD 's estimates.
4. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
5. Includes the one-off impact of recapitalisations in the banking sector.

Source: OECD Economic Outlook 109 database.

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A new confinement had less impact on activity

The reintroduction of highest-level restrictions weighed mainly on construction and contact-intensive services, which had begun to recover after December's short-lived reopening. However, retail sales and business confidence indicators suggest businesses have held up significantly better than in previous lockdowns, even in some service sectors. Investment has increased steadily (even if on an annual basis it is affected by significant quarterly volatility before the pandemic). Enterprises and consumers, indeed, made an increasingly effective use of technology and innovation to adapt to the new circumstances. As for the external sector, multinational-dominated exports of pharmaceuticals, medical goods and ICT goods and services have continued to enjoy solid growth like in 2020. The agreement between the European Union and the United Kingdom on trading relations avoided a no-deal outcome, but there are increased frictions to trade, and working out all implementation modalities will take time. Trade flows with the United Kingdom dropped dramatically in early 2021, although this partly reflected precautionary stock building leading up to the agreement.

Policy support has remained substantial

The government has extended its support for households and firms with the new lockdown, such as the Pandemic Unemployment Payments and the Employment Wage Subsidy Scheme. By some measures, over 20% of the labour force are out of work and receiving benefits of some sort from the government even if the official unemployment rate remains close to 6%. Additional funding has also been provided to the health service for its COVID-19 response. On the revenue side, income tax receipts have held up rather well, reflecting that job losses are concentrated amongst the low paid who pay very low income taxes. The projections assume that exceptional support programmes will continue for much of 2021 and be scaled back gradually as the economy reopens.

The economy is poised for a strong recovery

As shops reopen and vaccination progresses, rising consumer sentiment is expected to pave the way for a marked rebound of spending, driven by the unwinding of the elevated level of largely involuntary household saving in 2020. The easing of Brexit-related uncertainties has improved the business investment outlook, but short-term frictions in the agreement's implementation could still damp momentum. Similarly, upward-trending house prices, against the backdrop of rigid supply and pandemic-driven increase in demand, should support residential investment. Though recovering over the projection horizon, as uncertainties gradually subside, total investment is set to remain below its historically high levels in 2019.

Bankruptcy risks, which have been quiescent until now, might crystallise with the removal of policy support, which may eventually push up unemployment. Similarly, significant concentration of increased saving among higher-income households, whose marginal propensity to consume is lower, could slow down the projected consumption recovery. The recent moves in negotiations on international taxation may have implications for the Irish economy and the location of multinationals. On the upside, faster progress in bringing infections under control and opening of European economies and spillovers from the US fiscal boost could benefit exporters even more than currently projected.

Policy support should be withdrawn gradually

As containment measures and vaccination bring infections under control, the economy can be reopened further. Exceptional support for households and firms can begin to be withdrawn when the recovery is underway, avoiding abrupt ending of support programmes that could induce a macroeconomic shock and derail the recovery. Support to firms should be tapered to prevent an abrupt large-scale liquidation of (predominantly small) firms while payments to households should become better targeted to support the vulnerable groups facing greater difficulties re-entering employment.

Israel

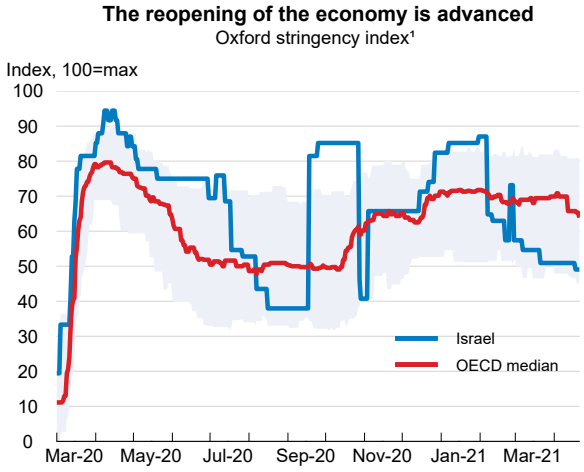
Thanks to a very high rate of inoculation and the reopening of the economy since mid-February, GDP is projected to grow robustly by 5% in 2021 and 4.5% in 2022. The removal of supply restrictions, pent-up demand, the withdrawal of some excess savings accumulated in 2020 and a gradually improving labour market all support strong consumption growth. Investment and external demand are set to strengthen as uncertainty fades and vaccinations progress globally, while high-tech services exports will continue to grow robustly.

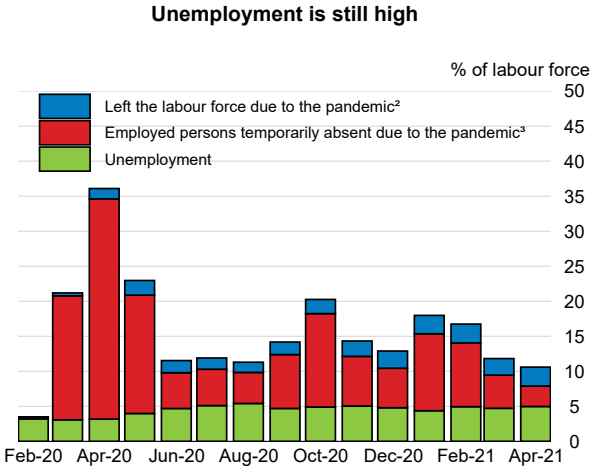
Monetary and fiscal policy should remain supportive until the labour market situation improves significantly, while adapting to facilitate the reallocation of workers and capital. Stepping up retraining and job-search assistance can help the unemployed transition to new jobs. A fiscal strategy should be prepared and include policies to strengthen the recovery and make growth more inclusive and environmentally sustainable. Measures should include investments in the educational system, skills, public transport and climate-friendly infrastructure.

The economy has largely reopened

Thanks to one of the fastest vaccination campaigns in the world, around 60% of the Israeli population, and 85% of the adult population, is already fully vaccinated. New and serious COVID-19 cases have plummeted. After a third national lockdown in January, containment measures have been eased since mid-February and the economy and educational system have largely reopened. In May, the government lifted some restrictions on foreign tourists entering the country.

Israel





1. This is a composite measure based on nine response indicators including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100 (100 = strictest). The shaded area represents the OECD 10th-90th percentile range.
2. Series includes persons not in the labour force who stopped working due to dismissal or closure of the workplace since March 2020. Data not available before March 2020.
3. This includes employees on unpaid leave, employees who were absent during the week due to reduced workload, work stoppage or other reasons related to the pandemic and excludes quarantined persons.
Source: Oxford Coronavirus government response tracker; Israel Central Bureau of Statistics; and OECD calculations.

StatLink https://stat.link/uopmq1

Israel: Demand, output and prices

Israel	2017	2018	2019	2020	2021	2022
	Current prices NIS billion	Percentage changes, volume (2015 prices)				
GDP at market prices	1 269.4	3.6	3.4	-2.5	5.0	4.5
Private consumption	694.6	3.6	3.8	-9.5	9.7	6.5
Government consumption	286.5	3.9	2.8	2.7	-0.6	0.0
Gross fixed capital formation	262.9	5.3	2.4	-4.7	6.1	3.8
Final domestic demand	1 244.1	4.0	3.3	-5.6	6.3	4.4
Stockbuilding[1]	10.2	-0.6	0.2	0.7	0.1	0.0
Total domestic demand	1 254.2	3.4	3.5	-4.9	6.5	4.2
Exports of goods and services	366.1	6.6	4.0	0.1	7.6	5.9
Imports of goods and services	350.9	6.3	4.1	-8.0	12.8	4.9
Net exports[1]	15.2	0.1	0.0	2.2	-0.9	0.5
Memorandum items						
GDP deflator	_	1.2	2.3	1.1	1.3	1.2
Consumer price index	_	0.8	0.8	-0.6	1.0	1.0
Core inflation index[2]	_	0.6	0.7	-0.1	0.8	0.9
Unemployment rate (% of labour force)	_	4.0	3.8	4.3	5.5	5.0
General government financial balance (% of GDP)	_	-3.6	-3.9	-12.1	-8.2	-6.2
General government gross debt (% of GDP)	_	60.9	60.0	72.9	76.9	79.0
Current account balance (% of GDP)	_	2.7	3.1	4.9	4.1	4.3

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 109 database.

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Economic activity is rebounding

The economic contraction in 2020 was shallower than in most OECD countries, partly thanks to the strength of high-tech service exports. After a sharp drop in 2020, high-frequency revenue indicators and credit card purchase data suggest a strong rebound in private consumption in spring 2021. Business and consumer confidence are improving. Unemployment, broadly defined to include temporarily laid-off workers and people who left the labour force due to the pandemic, is still high, in particular in sectors such as arts and entertainment, and accommodation. However, labour demand has strengthened, with the job vacancy rate surpassing pre-crisis levels in March. Consumer price inflation has turned positive but remains below the central bank's target range (1%-3%).

Monetary and fiscal policy continue to support households and firms

As part of its asset purchase programme, the central bank had purchased around NIS 62 billion (4.3% of GDP) in government bonds and NIS 3.5 billion (0.2% of GDP) in corporate bonds by end-April. Reduced capital requirements for banks have been extended until September 2021 and the central bank announced in January foreign exchange purchases of USD 30 billion in 2021 to mitigate shekel appreciation. The fiscal policy response has been substantial, largely focused on transfers to households and firms, and additional health expenditures. In addition, the government provided liquidity support and accelerated some investment in infrastructure and digitalisation. The public debt-to-GDP ratio increased from 60% in 2019 to around 73% in 2020. A budget for 2021 has not yet been submitted, but in July 2020 several fiscal support measures, such as grants to hard-hit businesses and eligibility to unemployment benefits for workers on unpaid leave, were extended until June 2021, contingent on the economic situation.

The economy is projected to recover robustly

With a large share of the population already fully vaccinated and the economy reopened, GDP is set to recover robustly by 5% in 2021 and 4.5% in 2022. Pent-up demand, lower involuntary and precautionary saving and withdrawal of some accumulated excess savings will support consumption in the near term. Investment is to set to strengthen as uncertainty fades. Foreign demand will recover as vaccinations progress globally and high-tech services exports will continue to grow robustly. Unemployment will start to fall in 2021 but will remain above pre-crisis levels at the end of 2022. The fiscal projections include the announced extension of several measures for this year, but assume declining fiscal support over the projection period compared to 2020 as other emergency measures are phased out. The recovery could be slower if the health situation deteriorates again due to the diffusion of new variants of the virus. Growth could also be weaker due to prolonged internal political uncertainty and heightened geopolitical risks. The recovery could be stronger if the government approves more substantial fiscal support than assumed.

Policy support should become more targeted

Fiscal and monetary policy support should be maintained until the labour market situation improves significantly, but should be adapted to help the unemployed transition to new jobs and directed to improving productivity, reducing socioeconomic gaps and fostering a greener recovery. Approving a budget for 2021 as well as a medium-term fiscal strategy as soon as possible would reduce uncertainty and improve fiscal transparency. As unemployment benefits are set to expire for many furloughed workers by mid-year, it will be crucial to step up retraining and job-search support. Strengthening the existing earned-income tax credit would improve work incentives for low-skilled workers. More investment is needed to improve public transport infrastructure, pre-school education, digital skills, renewable energy transmission networks and energy-efficient buildings.

Italy

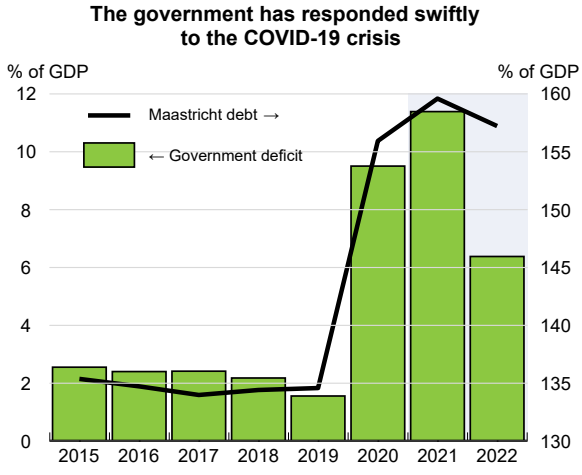
Growth will rise to 4.5% in 2021 as the vaccine rollout accelerates, and remain strong at 4.4% in 2022. Additional fiscal policy support will boost growth in the second half of 2021 and preserve productive capacity, but will also raise public debt levels. Faster global growth will support the rebound in manufacturing, exports and investment, the latter also benefitting from higher public investment. Consumption will recover as mobility restrictions are lifted and employment growth resumes. High current levels of saving will come down gradually. New jobs, especially for the low-skilled, women and youth, return only in 2022.

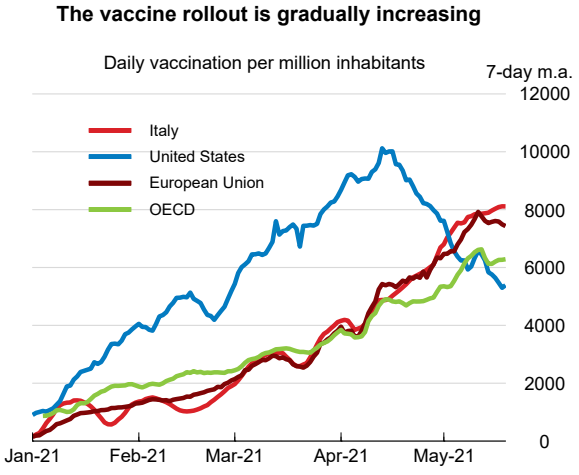
The government's budget seeks to promote greener, digitised and more inclusive growth, using Next Generation EU funds together with generous incentives for hiring and investment. Growth-enhancing structural reforms are set to accompany these efforts. Effective implementation of the national plan for recovery and resilience requires realising the announced ambition for a goal-oriented, digitised and agile public sector. Priorities are to implement public investment and civil justice reforms, reduce red tape and tax complexity, support competition, and increase the efficiency of training and job placement policies.

The vaccination rollout is accelerating, facilitating the easing of restrictions

The pandemic has been brought under control thanks to containment measures. The government has consequently relaxed restrictions, allowing restaurants, museums and high schools to reopen, and updated the timetable for further easing of restrictions in June and July for the two lowest risk alert levels. The regionally based colour coded alert levels remain in place, with hospital occupancy rates now also used alongside the incidence of infections to determine alert levels. The government aims to vaccinate 80% of the population (41.5 million people) by September 2021, after targeting first older people and healthcare workers. The vaccination campaign is accelerating after a slow start, primarily hampered by EU-wide supply and distribution challenges and uncertainty about side effects. The OECD projection assumes that many restrictions will have eased by summer 2021.

Italy 1





Source: OECD Economic Outlook 109 database; and Our World in Data.

StatLink https://stat.link/3ziag4

Italy: Demand, output and prices

Italy	2017	2018	2019	2020	2021	2022
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	1 738.5	0.8	0.3	-8.9	4.5	4.4
Private consumption	1 046.0	1.0	0.3	-10.7	3.1	5.2
Government consumption	327.0	0.1	-0.8	1.6	1.8	1.1
Gross fixed capital formation	304.2	2.9	1.1	-9.2	10.0	8.3
Final domestic demand	1 677.2	1.2	0.2	-8.1	4.1	4.9
Stockbuilding[1]	11.6	0.0	-0.7	-0.3	-0.1	0.1
Total domestic demand	1 688.8	1.1	-0.5	-8.3	4.0	5.0
Exports of goods and services	536.2	1.6	1.9	-14.5	11.4	7.3
Imports of goods and services	486.4	2.8	-0.5	-13.1	10.7	9.7
Net exports[1]	49.8	-0.3	0.7	-0.9	0.6	-0.4
Memorandum items						
GDP deflator	_	1.1	0.8	1.2	0.8	1.1
Harmonised index of consumer prices	_	1.2	0.6	-0.1	1.3	1.0
Harmonised index of core inflation[2]	_	0.6	0.5	0.5	1.2	0.8
Unemployment rate (% of labour force)	_	10.6	9.9	9.1	9.8	9.7
Household saving ratio, net (% of disposable income)	_	2.5	2.5	10.3	5.4	0.6
General government financial balance (% of GDP)	_	-2.2	-1.6	-9.5	-11.4	-6.4
General government gross debt (% of GDP)	_	148.0	156.1	186.1	189.7	187.4
General government debt, Maastricht definition (% of GDP)	_	134.4	134.6	155.9	159.6	157.2
Current account balance (% of GDP)	_	2.6	3.3	3.7	3.2	3.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 109 database.

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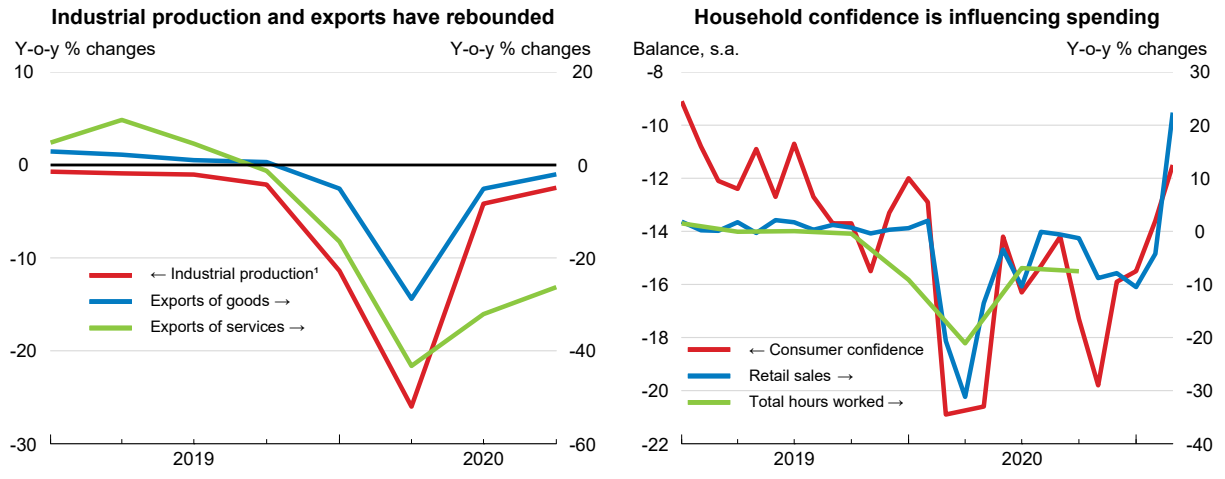
Italy 2



1. Excluding construction.
Source: OECD Economic Outlook 109 database; and OECD Main Economic Indicators database.

StatLink https://stat.link/pgjr15

Strong manufacturing production contrasts with weak activity in contact-intensive services sectors

The contraction in activity in the first quarter of 2021 primarily reflected a slowdown in contact-intensive services sectors. Retail sales declined by 0.3% in the first quarter compared to the previous three months, whilst industrial production rose by 0.9%. Growth in the manufacturing sector has been supported by export demand, primarily from European partner countries and for intermediate goods. Business confidence in manufacturing and construction is now above 2019 levels. Confidence has also risen in business services, but by less, remaining below 2019 levels. Tourism, which in 2019 accounted for 6.4% of GDP, continued to contract, in particular with regards to air flights and overnight stays. Household spending has been heavily influenced by confidence and activity restrictions. Household saving remain elevated, even though employment numbers have stabilised. Surveys suggest that as restrictions ease and employment recovers, saving rates will fall, but at a gradual pace, reflecting high uncertainty and the share of savings held by wealthier households.

Comprehensive fiscal support will continue well into 2021

In April, ongoing confinement measures prompted the government to announce additional fiscal support, bringing the total in 2021 to EUR 72 billion (4.1% of GDP). Income support for households has been expanded, including cash allowances for seasonal workers, emergency income support for working parents, access to unemployment benefits and support for first-time home buyers. Support to firms included an extension of selected tax credits, tax exemptions, payment deferrals and grants based on the size of revenue losses, as well as some sector-specific assistance. The firing ban for large companies will be in effect until 30 June. However, large companies as well as small and medium sized firms can apply for access to part-time work programmes at no cost if they do not lay off workers by the end of the year. For small companies using the wage guarantee funds, the firing ban will be in effect until 31 October. Incentives to encourage hiring include the introduction of a new type of contract that waives social security contributions. Fixed-term contracts can be renewed, waiving the usual requirements until the end of 2021. The moratorium on debt and applications for new loan guarantees for small and medium-sized businesses have been extended to the end of the year. Supportive monetary policy in the euro area, high deposits, counter-cyclical financial regulations and government guarantees should continue to ensure positive credit growth to firms. Guarantees and debt moratoria cover EUR 168 billion and EUR 146 billion in new and existing loans, respectively.

The government intends to keep policy supportive for some time, with the budget deficit rising from 2020 to 2021, before gradually falling to below 3% of GDP in 2025. The government has budgeted an increase in investment spending to complement the Next Generation EU funds. Generous incentives to encourage hiring and investment by the private sector have also been budgeted. The OECD projects a rise in public investment to 3.1% of GDP in 2022 and in the debt-to-GDP ratio to nearly 160% in 2021. To reduce public debt levels over the medium term, the government will primarily rely on higher growth, in part thanks to the rapid deployment of Next Generation EU funds. Effective implementation is critical to realise the government's recovery plan.

Supporting an emergence from the crisis

The large government stimulus, increased vaccination rates and the easing of restrictions will drive the economic recovery. The manufacturing sector and exports will lead the recovery, as global growth rebounds, supporting private sector investment. Higher public investments, including those based on the Next Generation EU funds, will further help to crowd in private investment. The services sector will recover as restrictions ease and the most-at-risk population is vaccinated. Bankruptcies will rise in 2022 as debt moratoria unwind with the normalisation of activity. The support provided by the government should help to mitigate the loss of productive capacity. Unemployment will rise modestly as more people actively look for a job. Employment growth will be subdued, given high levels of job preservation. Consumption is expected to recover as mobility restrictions are lifted, jobs return and lower uncertainty encourages households to reduce precautionary saving and use part of their accumulated savings to finance current spending. GDP is expected to reach its 2019 levels in the second half of 2022.

The largest upside risk to the projection is the speed at which the Next Generation EU funds are spent, particularly in 2022. Faster and deeper structural reform implementation represents a further upside risk. Inflation risks are low. Whilst financial market tensions could have a substantial impact on the cost of borrowing, this has been mitigated by supportive EU fiscal and ECB monetary policies to date. A sharp spike in non-performing loans could delay already lengthy procedures and increase deadweight losses associated with bankruptcy.

Reforms to the public administration are needed to sustain higher growth

Policy support should be gradually reduced as the recovery becomes more durable. In the near term, the early warning system for bankruptcy and civil court case administration will need additional resources and to automate some processes to handle the rise in caseloads that will follow the removal of support measures. Implementing reforms for a more effective, digitised public service and civil justice system will increase growth and help reduce the regional divide. Improving investment planning, maintenance and spending would raise the Next Generation EU funds' impact. A simpler, streamlined regulatory environment that supports competition, particularly in the services sectors, would encourage higher employment and investment. Over the medium term, growth-enhancing public spending must rise and tax complexity fall. A more coordinated approach to taxes and the use of these funds could support an accelerated transition to a low-carbon economy. Improving the content and quality of training for workers and the unemployed would reduce unemployment and facilitate a move to higher paying jobs over time, especially for the vulnerable – women and youth in particular.

Japan

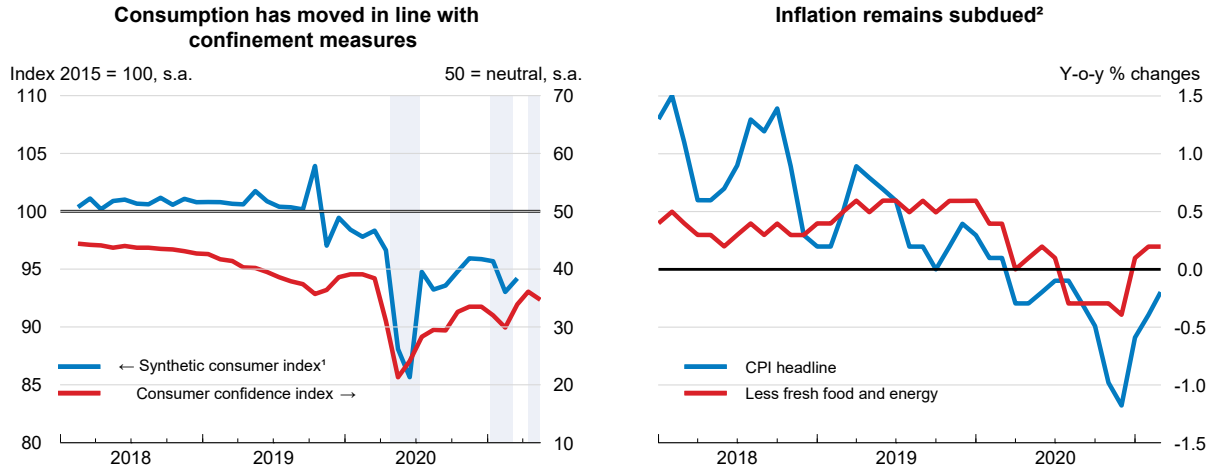
After a strong recovery at the end of 2020, the reintroduction of sanitary measures in early 2021 has dented near-term economic prospects. Even so, GDP is projected to expand by 2.6% in 2021 and 2% in 2022, supported by the strong recovery of the global economy and government spending. The new sanitary measures were more targeted than previously, with a smaller negative effect on consumption. As restrictions are lifted, and with government support, consumption is expected to recover. Still, subdued wage and employment growth will limit the pick-up in consumption, but stronger external demand will boost exports and support stronger investment.

Given the persistence of the pandemic, a third supplementary budget worth 3.5% of annual GDP was introduced in end-2020. The near-term priority is to enhance the medical system and to accelerate vaccinations while preparing counter-measures to prevent further shocks. The pandemic shock has highlighted the importance of structural reforms to improve working conditions and labour market flexibility and promote vocational training. In the longer term, actions to support greater digitalisation and green growth will help foster a resilient and sustainable recovery.

Sanitary conditions vary across the country and vaccination has been slow

The Japanese government declared state emergencies in January and April 2021 in the prefectures experiencing rising infection rates. In April, quasi-emergency measures were introduced to allow governors to order restaurants and bars to shorten their opening hours (with penalties and compensation) in affected cities. However, these measures appear to have been insufficient to stop the spread of new variants. Hospital capacity to deal with COVID-19 infections is limited – especially in Tokyo and Osaka currently – implying that stronger measures are required to bring infections under control. The vaccination campaign only started in mid-February and has made slow progress compared with other OECD countries. Vaccine supply will be enhanced soon as more vaccines are authorised for use, and vaccination will likely accelerate.

Japan 1



1. The synthetic consumer index is calculated by the Cabinet Office to show monthly macro-level private consumption trends by using both demand and supply side statistics. The consumer confidence index is the average of four sub indicators for overall livelihood, income growth, employment, and willingness to buy durable goods, on a scale of 1-100. Shaded areas show the terms of state of emergencies.
2. Consumer price indices exclude the effect of consumption tax hike.
Source: Cabinet Office; and Ministry of Internal Affairs and Communications.

StatLink https://stat.link/m7a9cw

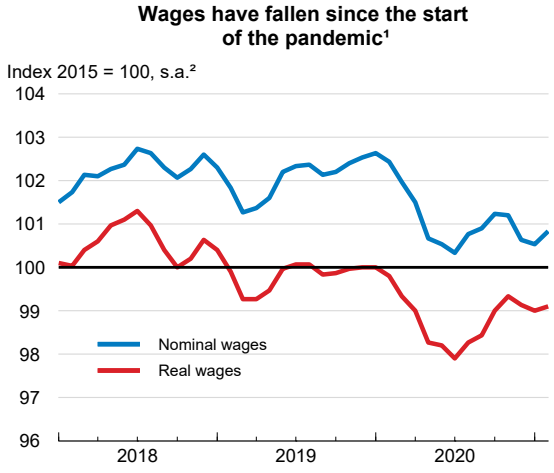
Japan: Demand, output and prices

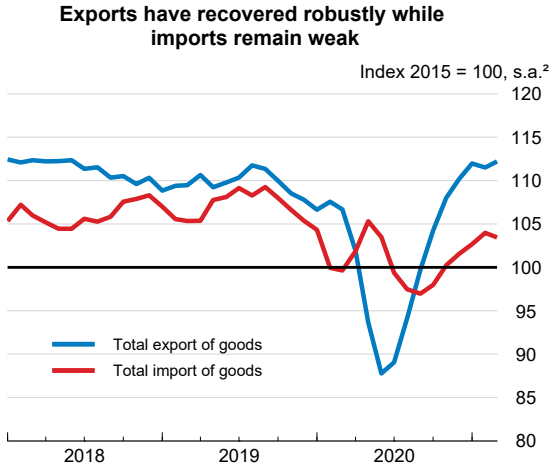
Japan	2017	2018	2019	2020	2021	2022
	Current prices YEN trillion	Percentage changes, volume (2015 prices)				
GDP at market prices	553.1	0.6	0.0	-4.7	2.6	2.0
Private consumption	302.1	0.3	-0.3	-6.0	1.6	2.2
Government consumption	107.4	1.0	1.9	2.7	2.8	0.1
Gross fixed capital formation	138.3	0.2	0.9	-4.2	1.5	3.1
Final domestic demand	547.7	0.4	0.4	-3.8	1.9	2.0
Stockbuilding[1]	1.1	0.1	0.0	-0.1	-0.2	0.0
Total domestic demand	548.9	0.5	0.5	-3.9	1.7	2.0
Exports of goods and services	97.3	3.8	-1.5	-11.8	11.5	4.4
Imports of goods and services	93.1	3.8	1.0	-7.3	5.1	2.9
Net exports[1]	4.2	0.0	-0.4	-0.8	1.0	0.3
Memorandum items						
GDP deflator	_	0.0	0.6	0.9	-0.1	0.7
Consumer price index[2]	_	1.0	0.5	0.0	0.1	0.6
Core consumer price index[3]	_	0.2	0.5	0.1	0.6	0.6
Unemployment rate (% of labour force)	_	2.4	2.3	2.8	3.0	2.9
Household saving ratio, net (% of disposable income)	_	1.7	2.7	10.6	6.8	5.2
General government financial balance (% of GDP)	_	-2.5	-2.9	-10.1	-6.7	-4.0
General government gross debt (% of GDP)	_	220.8	222.9	238.0	241.2	241.4
Current account balance (% of GDP)	_	3.5	3.4	3.2	3.6	3.7

1. Contributions to changes in real GDP, actual amount in the first column.
2. Calculated as the sum of the seasonally adjusted quarterly indices for each year.
3. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/4a1mur

Japan 2





1. Nominal wage indices are for total cash earnings per employee. Real wage indices are deflated nominal wage indices by the consumer price indices of all items less imputed rent.
2. Three-month moving average.
Source: Ministry of Health, Labour and Welfare; and Bank of Japan.

StatLi https://stat.link/6x3yz0

Confinement measures have weighed on domestic demand while external demand has remained robust

While consumption recovered strongly in the latter half of 2020, new confinement measures reduced it in early 2021. In contrast with earlier measures, the new restrictions were geographical rather than sectoral, and had a small effect on consumption. Consumption growth was also held back by sluggish wage growth and a large decline in "winter bonus" payments. If the sanitary shock is prolonged this may also depress "summer bonus" payments. While the strong rebound of automobile-related demand has moderated recently, exports continue strengthen as trading partners recover. Accordingly, industrial production recovered and investment picked up, with survey evidence suggesting further strengthening.

Fiscal policy has reacted to the deterioration in sanitary conditions

Policy has reacted swiftly to the sanitary shocks. The third supplementary budget for fiscal year 2020 includes spending on vaccination and grants to local governments for COVID-19 counter-measures, help for the service sector (such as the "Go To campaign"), and support for structural reforms, notably investment in local government digital infrastructure and upgrading of disaster management. It also includes support for SME investment, especially for digitalisation, and the creation of new funds to enhance green R&D and investment in the private sector, as part of the government's commitment to carbon neutrality by 2050. The supplementary budget can be used in 2021 and also in 2022. In addition, the initial fiscal year 2021 budget includes a 5 trillion yen (0.9% of GDP) contingency reserve fund for COVID-19. In case of emergency, the government can use these funds directly to support the medical system, households or SMEs. Government support in counteracting the pandemic has pushed up public debt to unprecedented levels, now exceeding 240% of GDP.

Reflecting weak domestic demand pressures, headline inflation has remained depressed, notwithstanding rising energy prices. In this context, monetary policy remains accommodative. The Bank of Japan has maintained its policy stance, albeit with a few modifications in March for further effective and sustainable monetary easing. These include clarification of the range of fluctuations for long-term interest rates and the introduction of fixed-rate purchases operations to cap interest rates when needed. In addition, it has introduced a new Interest Scheme to Promote Lending, which pays interest on the outstanding amount of fund-provisioning measures including COVID-19-related operations to enable the Bank of Japan to offset adverse impacts on financial intermediation.

A steady recovery is expected, but uncertainty abounds

Current containment measures are likely to be maintained until the summer, but, as the restrictions are lifted and vaccination accelerates, economic activity will strengthen. Subsidies to support the service sector (for travel and restaurant costs), which were suspended in December last year, are assumed to be restarted and boost consumption in the second half of the year. While the household saving rate is projected to decline from the level reached in 2020, albeit without fully reverting to pre-pandemic levels, sluggish wages will limit the uptick in consumption growth. Exports are set to pick up thanks to the ongoing recovery of large trading partners, including the United States, China and other Asian countries. Relatedly, investment will gain speed, helped also by government subsidies promoting digitalisation and decarbonisation. Inflation is expected to rise only gradually as domestic demand recovers, and cuts in mobile phone fees as well as the resumption of service sector subsidies will push down the headline consumer price index.

The evolution of infections is a major risk to the outlook. Success in reducing transmission and progress in vaccination may allow a stronger recovery, whereas continued infections would hold back any recovery and may disrupt the Olympic and Paralympic games, causing further damage to the economy. Commodity price spikes and supply-chain disruptions present threats from the external sector, while progress in vaccination and fiscal packages in other countries could boost exports further.

Reducing virus transmission, while stepping up structural reform, will be key

Fiscal policy should continue to support the economy in the near term. Once the recovery is secure, fiscal consolidation efforts should resume in order to ensure long-run sustainability. Monetary policy should remain accommodative while prudential policy should monitor financial soundness to limit risks associated with rising debt burdens. The government has started to lay out plans for a post-COVID-19 economy. In the meantime, sanitary risks need to be addressed to limit the spread of new variants and further stop-and-go confinement measures. This will require stepping up support to the health sector and the pace of vaccination. The measures and support for those affected should be better targeted, and the effectiveness of measures evaluated. While the labour market has generally been improving, many workers have lost their jobs and new entrants to the labour force, such as recent graduates, are facing difficulties in finding employment. To prevent scarring and protect workers from the pandemic, efforts are needed to push ahead with “work-style reforms”, supply vocational training and provide opportunities for education and employment to maintain attachment or enhance skills. In addition, the planned subsidies to support reallocation and the structural reforms prioritising digitalisation and green growth will help both in the short run and beyond, to sustain the recovery once the immediate health threat abates.

Korea

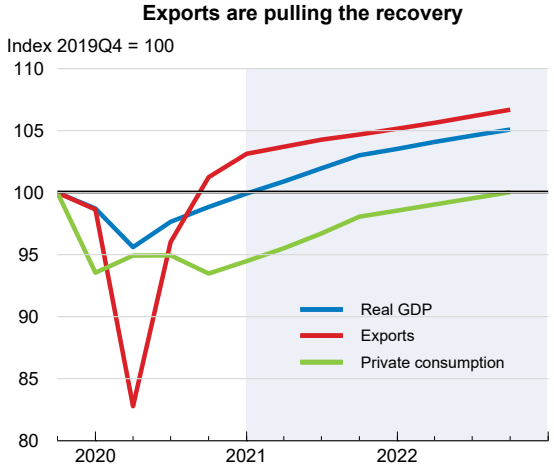
Real GDP is projected to increase by 3.8% and 2.8% in 2021 and 2022, respectively. Strong export growth, rising investment and expansionary macroeconomic policy are boosting the economy. Distancing measures have contained the COVID-19 virus spread, but weigh on large parts of the service sector, which keeps unemployment and the household saving ratio relatively high. When those restrictions can be lifted, the economy will gather momentum.

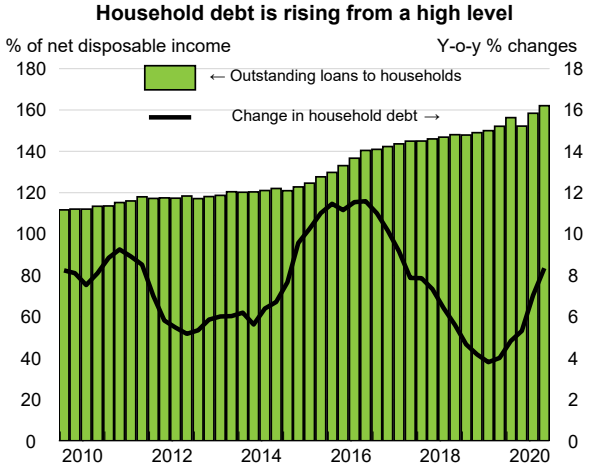
Policy support should continue to be targeted to vulnerable households and businesses until the economy is on a firmer recovery path, and vaccination should be accelerated. Korean New Deal investments are instrumental in the environmental and digital transitions. Relatively low public debt provides fiscal space, although rapid population ageing creates long-term challenges. Continued accommodative monetary policy is warranted, but prudential policy needs to contain risk-taking and the build-up of household debt.

The spread of the virus is contained thanks to continued distancing

The number of new daily COVID-19 cases has hovered around 500 since February and nationwide distancing measures remain in place. The country now aims to inoculate about a quarter of the total population by June, and achieve herd immunity by November. However, vaccinations are still proceeding slowly compared with many other countries, due to a vaccine shortage. As of 21 May, only 7.3% of the total population had received at least one vaccine dose. This slow vaccination pace tends to postpone the lifting of distancing restrictions and the recovery in private consumption and employment.

Korea





Source: OECD Economic Outlook 109 database; and Bank of Korea.

StatLink https://stat.link/va2k7b

Korea: Demand, output and prices

Korea	2017	2018	2019	2020	2021	2022
	Current prices KRW trillion	Percentage changes, volume (2015 prices)				
GDP at market prices	1 835.7	2.9	2.0	-0.9	3.8	2.8
Private consumption	872.8	3.2	1.7	-4.9	2.1	3.2
Government consumption	283.0	5.3	6.6	4.9	3.6	4.5
Gross fixed capital formation	578.5	-2.2	-2.8	2.8	3.6	4.0
Final domestic demand	1 734.3	1.7	1.1	-0.7	2.9	3.7
Stockbuilding[1]	14.3	0.3	0.1	-0.7	-0.4	0.0
Total domestic demand	1 748.5	2.0	1.1	-1.4	2.5	3.7
Exports of goods and services	751.4	4.0	1.7	-2.4	9.8	1.9
Imports of goods and services	664.3	1.7	-0.6	-3.8	5.8	2.2
Net exports[1]	87.1	1.0	1.0	0.5	1.7	0.0
Memorandum items						
GDP deflator	_	0.5	-0.9	1.2	1.8	1.7
Consumer price index	_	1.5	0.4	0.5	1.8	1.4
Core inflation index[2]	_	1.2	0.7	0.4	1.0	1.5
Unemployment rate (% of labour force)	_	3.9	3.8	4.0	4.0	3.5
Household saving ratio, net (% of disposable income)	_	7.2	7.1	12.0	9.7	7.8
General government financial balance (% of GDP)	_	3.0	0.9	-4.0	-4.1	-3.5
General government gross debt (% of GDP)	_	41.9	40.9	43.8	47.2	49.7
Current account balance (% of GDP)	_	4.5	3.6	4.5	7.2	7.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/4rzwho

Exports are surging, but services lag behind

Strong overseas demand for IT products, which account for about a fifth of total exports, and automobiles is lifting exports. Private consumption is recovering gradually, with retail sales up 11% in March (year-on-year) – and online shopping up 26% (year-on-year). A gradual easing of distancing measures and government relief packages have helped vulnerable households and firms, thereby supporting consumption and jobs. Even though employment is gradually recovering, restrictions on activity in large parts of the service sector are keeping unemployment relatively high.

Fiscal policy should remain expansionary until recovery is underway

The government has introduced massive support programmes, such as relief cash distribution to households, job retention schemes and financial assistance to businesses, to mitigate the pandemic's impact. The latest supplementary budget of KRW 15 trillion (0.8% of GDP), passed by the national assembly on 25 March, is better targeted at vulnerable households and small businesses than previous relief packages, which will enhance its impact on the economy. Altogether, the underlying fiscal deficit is projected to increase by a further 0.7% of GDP in 2021, following a rise of 3.4% of GDP in 2020. The country's expansionary fiscal stance is appropriate, as the service sector still struggles and government debt remains relatively low.

Monetary policy is also accommodative. The Bank of Korea has kept its policy rate at 0.5% since May 2020 and has provided abundant liquidity. Headline CPI inflation rose to 2.3% in April (year-on-year), but this mainly reflected a low base effect in 2020 and soaring agricultural and oil prices. Core inflation rose to 1.1%. With inflation projected to be below the 2% target in 2022, monetary policy needs to remain accommodative.

Robust and stable economic growth is expected through 2022

Real GDP is expected to grow by 3.8% and 2.8% in 2021 and 2022, respectively. Expansionary macroeconomic policy, a gradual lifting of distancing restrictions and pent-up demand, notably from higher-income groups, will prop up private consumption and revive the service sector. Robust business and government investment, notably in the context of the Korean New Deal, will boost growth. As Korea's major trading partners are growing faster and the digital transition continues at a fast pace, the demand for Korean products is expected to rise further.

However, slow vaccination and global trade tensions could hamper the recovery. Volatility in house prices and high household debt, which amounts to more than 160% of net household disposable income, could threaten financial and macroeconomic stability. In April, the financial regulator decided to tighten lending rules and strengthen risk management of financial institutions to slow household debt growth to 6% in 2021 and 4% in 2022. Recent government measures to increase housing supply are also welcome, but likely will take time to affect prices, due to construction lags.

Targeted public support and productivity-enhancing investments are needed

Given differences in the pandemic's impact and persistence across sectors, the government needs to continue providing targeted support to the most affected households and businesses until the economy is back on a solid growth track. Targeted support is more effective than universal assistance in holding up growth and helps preserve fiscal resources, even as ageing increasingly puts pressure on public finances. Korea needs to take advantage of the acceleration of the digital and green transitions, and the large Korea New Deal investments, to enhance the diffusion of digital tools and boost productivity and competition throughout the economy.

Latvia

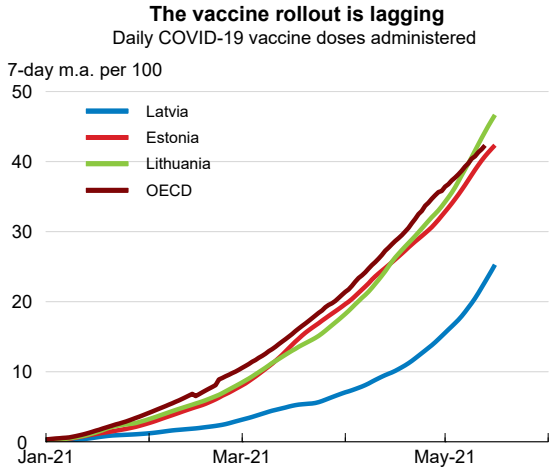
Output in the Latvian economy is projected to increase by 3.2% in 2021 and 5.6% in 2022. Private consumption will rebound starting from the second half of 2021, fuelled by pent-up demand and by rising consumer confidence. Exports have been resilient and will remain strong. Investment will rise due to improving economic sentiment and sizeable EU funds. Inflation may increase temporarily as a result of higher food and energy prices and the increase in minimum wages. Still, core inflation should remain subdued, gradually increasing towards 2%. The lagging vaccine rollout risks delaying the recovery.

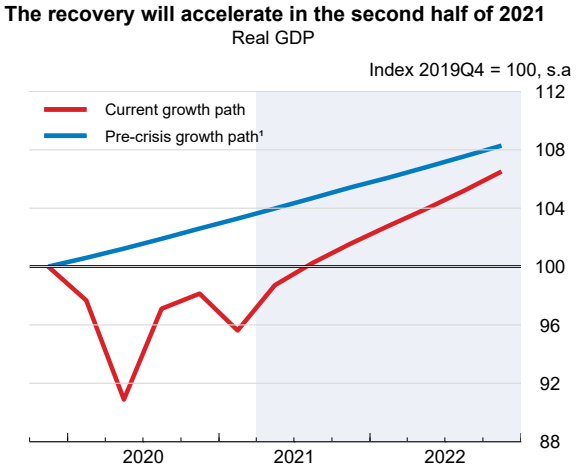
Fiscal support has helped to avoid a more severe downturn and should remain in place, although with more targeting towards the most vulnerable and affected households and firms, until the recovery is well underway. More spending on adult training, particularly in terms of digital skills, could help to lower joblessness faster by reducing skills mismatches and boost potential growth.

The vaccine rollout is lagging

The number of confirmed COVID-19 cases decreased gradually from mid-January 2021 but remained high and started to rise again in April. The stringency of policy responses has changed little since November 2020. Public recreation facilities are closed; restaurants can only provide takeaway services and anybody arriving from abroad must self-isolate for ten days. While all kindergartens remain open, elementary schools in municipalities with high infection rates are closed. Only 20% of the population had received at least one vaccine dose by mid-May.

Latvia





1. The pre-crisis growth path is based on the November 2019 OECD Economic Outlook projection, with linear extrapolation for 2022 based on trend growth in 2021.
Source: OECD Economic Outlook 106 and 109 databases; and OECD calculations based on Our World in Data.

StatLink https://stat.link/yg3aou

Latvia: Demand, output and prices

Latvia	2017	2018	2019	2020	2021	2022
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	27.0	4.0	2.0	-3.6	3.2	5.6
Private consumption	16.3	2.6	2.2	-10.0	1.3	8.6
Government consumption	4.9	1.6	2.6	2.6	3.7	2.2
Gross fixed capital formation	5.6	11.8	2.1	0.2	3.6	6.2
Final domestic demand	26.7	4.3	2.2	-5.4	2.3	6.8
Stockbuilding[1]	0.4	1.6	0.6	1.6	0.7	0.0
Total domestic demand	27.1	5.5	2.6	-3.9	3.0	6.8
Exports of goods and services	16.6	4.3	2.1	-2.7	6.5	3.8
Imports of goods and services	16.8	6.4	3.0	-3.3	6.2	5.6
Net exports[1]	- 0.2	-1.4	-0.5	0.4	0.3	-1.0
Memorandum items						
GDP deflator	_	3.9	2.3	0.1	1.6	2.2
Harmonised index of consumer prices	_	2.6	2.7	0.1	1.2	1.7
Harmonised index of core inflation[2]	_	1.9	2.2	0.9	1.3	1.7
Unemployment rate (% of labour force)	_	7.4	6.3	8.1	8.4	7.1
Household saving ratio, net (% of disposable income)	_	-1.3	-3.0	11.5	10.7	-1.1
General government financial balance (% of GDP)	_	-0.8	-0.6	-4.5	-7.0	-2.2
General government gross debt (% of GDP)	_	46.3	47.8	55.6	60.4	60.9
General government debt, Maastricht definition (% of GDP)	_	37.1	37.0	43.5	48.3	48.9
Current account balance (% of GDP)	_	-0.3	-0.7	3.0	2.4	1.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/sqd1y6

Exports of goods have been resilient

Latvia's GDP contracted by 2.6% in the first quarter of 2021 compared with the previous quarter. Restrictions on activity caused a steep fall in credit card spending and cash withdrawals at the beginning of 2021, but spending returned to summer 2020 levels by April. Google data indicate that mobility to places like restaurants and shopping centres was about 16% below pre-pandemic levels in mid-May, while midweek traffic congestion in Riga was about 14% lower than in 2019. Meanwhile, goods exports have been resilient and, in March 2021, were 21% higher than a year ago. Despite the jump in unemployment, wages continue to grow, driven by high-skill sectors such as ICT, professional services, and science and technical activities. The newly unemployed are mainly young adults from Riga. In 2020, firms operating in restricted sectors – such as hotels, restaurants and transportation – experienced average losses (negative after-tax earnings) relative to turnover of about 4 percentage points.

Fiscal policy is mitigating the economic impacts of the pandemic

Since the beginning of the second wave, the government has expanded support to firms' cash flow, the health system and the unemployed. One-off allowances were paid in March and April 2021 to pensioners, disabled people and parents, amounting to 0.9% of GDP. Support measures should amount to 4¼ per cent of GDP in 2021, compared with about 3% of GDP in 2020. However, most of the income support schemes, including the furlough scheme, are scheduled to end in the second half of 2021. The debt repayment moratorium and most bank support measures expired at the end of 2020. The minimum wage was increased by about 16% in January 2021, and the salaries of medical professionals and teachers in

the public sector were increased as well. In 2022, public investment is projected to increase by about 1½ per cent of GDP thanks to EU-funded projects. Accommodative ECB monetary policy continues to mitigate the recession through low borrowing costs.

A strong recovery should get underway in the second half of 2021

Private consumption will rebound sharply once restrictions are gradually lifted in the second half of 2021, supported by earlier government transfers to households, rapid wage increases and lower household saving out of current disposable income. GDP should recover to its pre-crisis level during the latter half of 2021. Strong public investment in 2022 will sustain the economic recovery. Exports of goods will remain robust, while exports of services will recover as economic activity increases in Europe. Unemployment will ease gradually but remain above its pre-crisis level as the labour market adjusts to changes in demand. Nevertheless, uncertainty remains high. Further delays in the vaccine rollout would constrain private consumption and investment. Inflation could rise due to supply-chain disruptions and a rapid increase in demand for skilled employees, especially in the buoyant construction sector. On the upside, a swifter use of EU funds could lead to a stronger rebound.

Adult training would support post-crisis reallocation and future productivity growth

To build a strong recovery, policy should focus on upskilling to address skills mismatches. Stepping up job-search support would help the unemployed transition to new jobs. Training, particularly in terms of digital skills, would facilitate the adoption of new productivity-boosting technologies. To ensure an inclusive recovery and bolster the social safety net while encouraging more environmentally sustainable growth, spending on healthcare and minimum income schemes could be further increased, financed by higher property and environmental taxes.

Lithuania

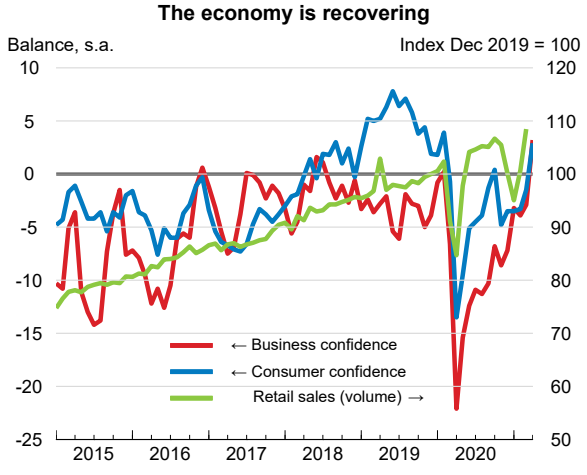
The Lithuanian economy has proved relatively resilient to the pandemic shock. GDP is projected to grow by close to 4% per annum in 2021 and 2022. Pent-up demand and strengthening investment will support the recovery, as confidence improves with the rollout of vaccines. Nevertheless, unemployment will remain above the pre-pandemic level. Higher oil prices and firmer domestic demand will push up inflation.

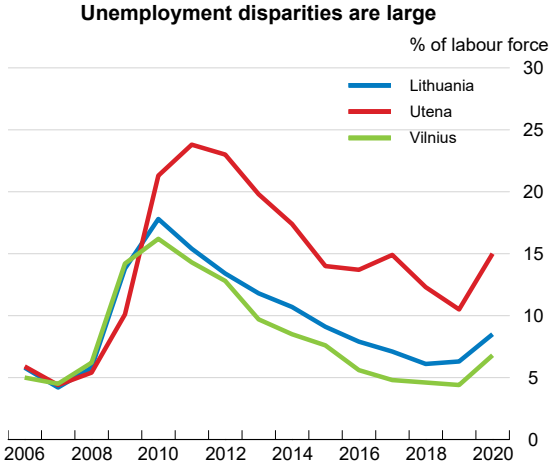
Fiscal policy continues to support the recovery, even though less comprehensively than in the early stages of the pandemic. Increasingly targeted measures are appropriate to underpin the recovery. Reducing poverty should remain a policy priority. The work support scheme and higher social benefits are protecting the most vulnerable groups. Effective job assistance and training and re-training programmes are vital for the reallocation of workers and sustainable growth.

Vaccination has yet to gain momentum

A gradual easing of the partial lockdown introduced in November 2020 to contain the second wave of the pandemic commenced in mid-April. Non-essential shops and gyms reopened, albeit subject to restrictions regarding closing times and distancing. Cultural activities and events also reopened at restricted capacity. Education continues to be provided remotely, except for secondary education where a hybrid mode applies. By late May 2021, over one-third of the adult population had received at least one vaccine dose. The vaccination process is scheduled to accelerate.

Lithuania





Source: OECD Main Economic Indicators database; and Statistics Lithuania.

StatLink https://stat.link/ij9z27

Lithuania: Demand, output and prices

Lithuania	2017	2018	2019	2020	2021	2022
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	42.3	3.9	4.3	-0.9	3.7	4.0
Private consumption	26.3	3.7	3.4	-2.0	3.4	3.6
Government consumption	6.9	0.2	0.1	0.6	0.5	0.3
Gross fixed capital formation	8.5	10.0	6.2	-0.2	5.5	5.8
Final domestic demand	41.7	4.4	3.4	-1.1	3.4	3.4
Stockbuilding[1]	- 0.4	-1.1	-1.5	-3.5	-1.7	0.0
Total domestic demand	41.3	3.3	2.0	-4.8	1.6	3.9
Exports of goods and services	31.1	6.8	9.5	0.0	8.9	5.2
Imports of goods and services	30.1	6.0	6.3	-5.3	6.9	5.3
Net exports[1]	1.0	0.7	2.5	3.8	2.1	0.5
Memorandum items						
GDP deflator	_	3.5	2.8	1.1	1.8	1.9
Harmonised index of consumer prices	_	2.5	2.2	1.1	1.8	1.8
Harmonised index of core inflation[2]	_	1.9	2.3	2.6	1.6	1.8
Unemployment rate (% of labour force)	_	6.1	6.3	8.5	8.2	7.6
Household saving ratio, net (% of disposable income)	_	-3.6	0.6	9.5	7.4	5.8
General government financial balance (% of GDP)	_	0.6	0.5	-7.4	-7.8	-5.9
General government gross debt (% of GDP)	_	40.7	44.4	56.0	62.7	67.0
General government debt, Maastricht definition (% of GDP)	_	33.7	35.9	47.1	53.8	58.1
Current account balance (% of GDP)	_	0.2	3.4	8.4	8.6	8.9

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/ihrjo2

The economy has weathered well the resurgence of the pandemic

GDP has recovered after contracting slightly in the last quarter of 2020, following the strong rebound in the third quarter and also reflecting the second lockdown in response to the resurgence of the virus. Consumer and business expectations, as well as retail sales, have picked up. Buoyant wage growth, albeit slower than before the crisis, measures to help the most vulnerable and increased public investment have been supporting domestic demand. Residential investment has also recovered, financed partly by increased household saving since the onset of the crisis. The unemployment rate peaked in the third quarter of 2020, but is still high compared to its pre-crisis level, with large regional disparities. Joblessness would have been higher without the short-time work scheme. Moreover, the economy still faces headwinds from the remaining restrictions arising from the containment measures and associated uncertainty.

Fiscal policy remains supportive

The 2021 draft budget continues to support the recovery, albeit less comprehensively than in 2020. The budget allocates the equivalent of around 1.1% of GDP for subsidies to companies and, in particular, for the extension of the short-time work scheme. Other COVID-19-related measures, such as the temporary jobseeker allowance, are also extended to 2021. The budget also provides for increases in social security benefits, including for old-age pensions, and raises the tax-exempt threshold of the personal income tax to help the most vulnerable. Funds are also provided for the implementation of the government multi-annual investment programme covering a wide range of areas.

Growth will strengthen

Economic growth is projected to reach 4% in 2022, as confidence strengthens with the expected pick-up in vaccination and as policies remain supportive. Lower saving out of disposable income will boost consumption. Investment will also increase, driven by faster implementation of EU-funded projects and of the government multi-annual public investment programme, allocating around 4% of GDP in new investment projects in education, innovation, climate change and other key areas. Reduced uncertainty is also expected to stimulate business investment. Unemployment will decline but remain above its pre-pandemic level. Inflation will rise in the near term on the back of recent increases of oil prices, and the pick-up in activity, which reduces slack. Further waves of COVID-19, with adverse effects on domestic demand, as well as weaker-than-expected growth in Lithuania's trading partners, would slow the recovery. Upside risks include a faster rollout of effective vaccines and a swifter-than-expected use of EU recovery funds.

Policies need to address poverty and skill-related challenges

The crisis heightened the need for an effective social safety net to protect the most vulnerable groups from adverse shocks. Further increases in social benefits and better tailoring of social support to individuals' needs are necessary to reduce poverty. Helping displaced workers to find new, good jobs through appropriate job placement assistance is also essential. A swift recovery further hinges upon effective re-skilling and up-skilling of the labour force. This would facilitate the reallocation of workers to sectors with more favourable prospects. The participation of under-represented groups in lifelong training programmes should be encouraged, including through well-designed financial incentives. Further progress on skills requires that the education system responds to rapidly changing labour demand and technologies by equipping students with relevant and transferable skills.

Luxembourg

After a relatively mild contraction in 2020, the economy is projected to expand by 4.8% in 2021 and by 2.8% in 2022. The recovery of domestic demand will gather pace on the back of the gradual strengthening of private consumption and investment. The unemployment rate is expected to peak in the third quarter of 2021 at around 6.6%, as short-time work schemes are terminated, and to decline to 6.1% at the end of 2022. Downside risks to the projection include worse-than-expected epidemiological developments that may delay the full phase-out of containment measures, and a persistent labour market weakness. On the upside, an earlier completion of the vaccination campaign could ensure faster control of the pandemic, leading to a stronger rebound in private consumption and investment.

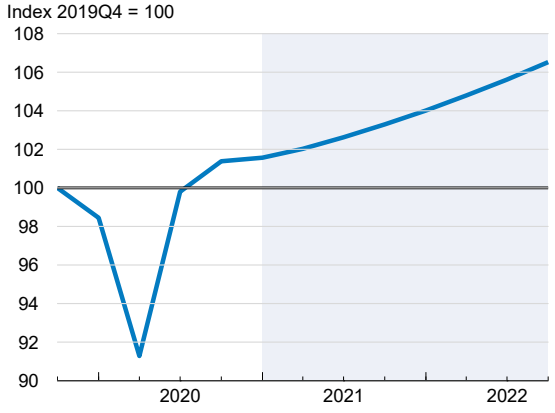
The ongoing vaccination campaign should proceed as fast as possible, as vaccine supply constraints are easing. A strengthening of labour activation policies should be envisaged in the light of the expected termination of job retention schemes in June 2021. A prolongation of targeted support measures beyond 2021 should be considered to help businesses and workers in sectors and activities suffering possible longer-term demand weakness, but which are still expected to recover in the future (such as transport and tourism). The implementation of the recovery and resilience plan should be prompt and complete, focusing on increasing growth potential.

COVID-19 infections have stabilised

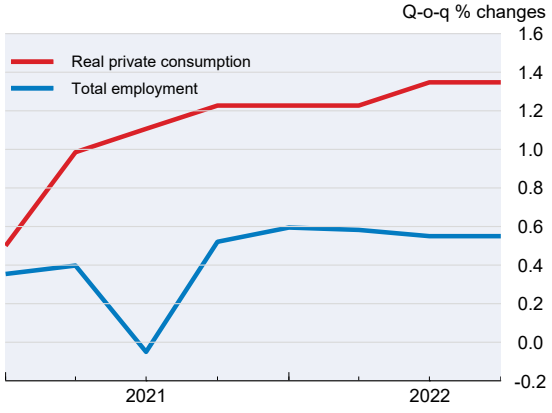
After the authorities introduced new containment measures at the end of 2020, new COVID-19 infections have remained moderate and stable. A widespread COVID-19 testing strategy has allowed a relatively accurate and timely tracking of the pandemic and helped to contain infections. The authorities allowed catering establishments to reopen their indoor and outdoor areas, but a further relaxation of containment measures will depend on the evolution of sanitary conditions. The projection assumes that virus infections will gradually abate on the back of progress in vaccination, thereby allowing a removal of all containment measures by the third quarter of 2021.

Luxembourg

GDP has already surpassed its prepandemic level



Private consumption will be supported by a relatively stable employment growth



Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/ayht1c

Luxembourg: Demand, output and prices

Luxembourg	2017	2018	2019	2020	2021	2022
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	56.8	3.1	2.3	-1.3	4.8	2.8
Private consumption	16.9	3.3	2.8	-6.9	6.4	5.0
Government consumption	9.4	4.0	4.9	6.0	2.9	2.3
Gross fixed capital formation	10.7	-6.1	3.9	-8.2	6.1	5.0
Final domestic demand	37.0	0.8	3.7	-3.7	5.3	4.2
Stockbuilding[1]	- 0.1	1.0	-0.2	-0.5	-0.3	0.0
Total domestic demand	36.8	2.3	3.3	-4.3	4.7	4.3
Exports of goods and services	123.6	0.4	0.8	2.4	7.6	4.2
Imports of goods and services	103.6	-0.3	0.9	2.1	7.2	5.0
Net exports[1]	20.0	1.6	0.2	1.4	3.6	0.2
Memorandum items						
GDP deflator	_	2.5	3.4	2.3	2.2	1.3
Harmonised index of consumer prices	_	2.0	1.6	0.0	2.2	1.3
Harmonised index of core inflation[2]	_	0.9	1.8	1.2	1.2	1.3
Unemployment rate (% of labour force)	_	5.4	5.4	6.3	6.4	6.2
Household saving ratio, net (% of disposable income)	_	16.0	18.1	27.4	22.1	19.2
General government financial balance (% of GDP)	_	3.0	2.4	-4.1	-3.6	-2.5
General government gross debt (% of GDP)	_	28.9	30.0	33.0	33.4	33.9
General government debt, Maastricht definition (% of GDP)	_	21.0	22.0	24.9	25.2	25.8
Current account balance (% of GDP)	_	4.8	4.6	4.3	5.1	5.3

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/gjt1ar

The recovery has lost some momentum

The economy experienced a limited contraction in 2020, thanks to a strong performance in the second half of the year. In recent quarters, the industry purchasing managers' index (PMI) has improved, but remains below pre-crisis levels. Retail sales have flattened since the fourth quarter of 2020, but the labour market has gradually improved in 2021, with the unemployment rate falling since January.

The fiscal stance will be broadly neutral in 2021

Large tax, expenditure and financial measures were put in place in 2020 to mitigate the impact of the pandemic on the economy. Tax and social contributions deferrals were introduced to alleviate the liquidity situation of businesses and the self-employed during the lockdown. Eligible companies benefited from repayable advances, which aimed to support SMEs affected by the COVID-19 outbreak. Job retention schemes were extended in duration and modified to maximise their take-up. Additional funds have been budgeted for 2021 to support firms and the most affected activities, such as hotels, restaurants and bars, for a total of about EUR 100 million. However, the overall fiscal stance in 2021 will be roughly neutral, on account of the progressive reduction of social benefits linked to the planned termination of some support measures, such as those linked to the strengthening and time extension of job retention schemes. In 2022, the fiscal stance will become slightly contractionary, on the back of the termination of current business support programmes.

The recovery will be underpinned by growth in domestic demand

GDP is projected to grow by 4.8% in 2021, and then slow to 2.8% in 2022. Domestic demand will gradually strengthen through 2021 and 2022. Private consumption will be underpinned by a gradual improvement in the labour market, and by the gradual normalisation of saving after an increase in the saving rate in the wake of the crisis. Private investment will rebound on the back of the expansion in domestic consumption and stable external demand. Public investments linked to the implementation of the recovery and resilience plan will be deployed from the second half of 2021. The unemployment rate started to decline in the second half of 2020, but is expected to increase again, albeit temporarily, in the third quarter of 2021, on the back of the planned termination of short-time work schemes.

Downside risks to the projection include worse-than-expected epidemiological developments that may delay the full phase-out of containment measures currently in place. A slower-than-expected recovery in the labour market could weaken the rebound in private consumption. On the upside, an earlier completion of the vaccination campaign could lead to faster control of the pandemic and induce a stronger rebound in private consumption and investment.

Targeted policy support should continue

The expected termination of job retention schemes in June calls for a strengthening of activation policies to speed up job re-allocation. Maintaining a high speed of vaccination is crucial for a stable improvement of the sanitary situation. A prolongation of targeted support measures beyond 2021 should be considered in support of businesses and workers in sectors and activities suffering possible longer-term demand weakness, but which are still expected to recover in the future (such as transport and tourism). The policy focus should be on the prompt implementation of the EU recovery and resilience plan, as to restore growth and create jobs by achieving environmental goals. To this end, infrastructure investment should be boosted to facilitate connectivity and improving environmental outcomes, for example by ameliorating sustainability in transport infrastructure and construction.

Mexico

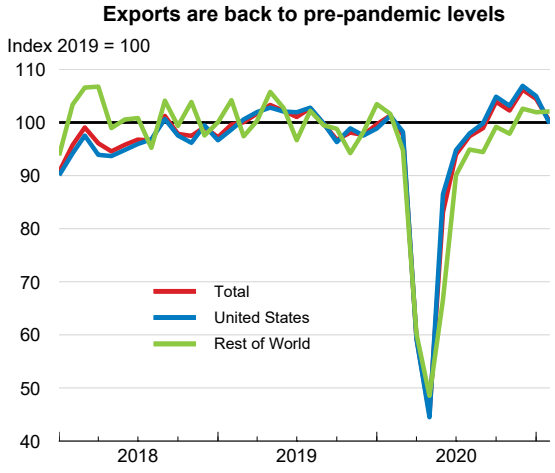
The Mexican economy is projected to expand by 5% in 2021 and 3.2% in 2022. Manufacturing exports will support growth benefiting from the strong recovery and policy support in the United States. Private consumption will strengthen gradually, aided by remittances and the rollout of vaccines. Inflation increased in the first half of 2021 due to a low-base effect and higher energy prices, but it is expected to edge down amid large spare capacity. Poverty, inequalities and gender gaps have widened again due to the pandemic.

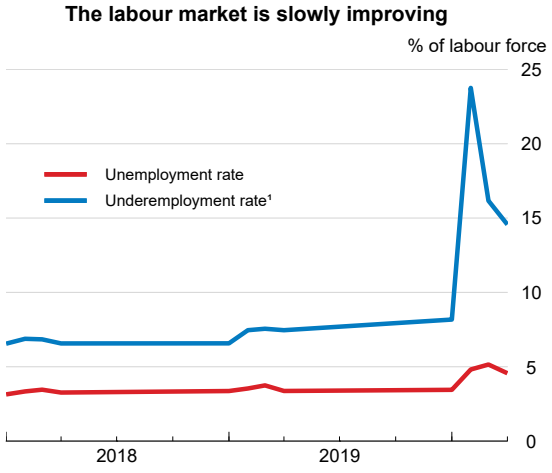
Accelerating the vaccination campaign is crucial to reinvigorate the recovery. Greater income and training support would help the hardest-hit workers, both in the informal and formal sectors. Expanding access to childcare would facilitate female labour force participation. Bolstering private investment will be key for a stronger recovery, in particular by reducing regulatory burdens and uncertainty concerning private sector's involvement in some key sectors. With inflation expectations well anchored, monetary policy easing would be appropriate if inflation edges down in the second half of 2021.

A gradual vaccination effort is in progress

The number of new COVID-19 cases has been on a decreasing trend since mid-February and mobility restrictions have been gradually relaxed in several states. Vaccination started at the end of 2020 and is proceeding gradually. The authorities expect it to be completed in the first quarter of 2022. The proportion of the population currently vaccinated is smaller than in other OECD countries.

Mexico





1. The underemployment rate refers to the share of economically-active individuals aged 15 and over who have the ability and desire to work more than their current occupation permits.
Source: Bank of Mexico; and INEGI.

StatLink https://stat.link/zjdtgu

Mexico: Demand, output and prices

Mexico	2017	2018	2019	2020	2021	2022
	Current prices MXN billion	Percentage changes, volume (2013 prices)				
GDP at market prices	21 934.2	2.2	-0.1	-8.2	5.0	3.2
Private consumption	14 305.3	2.5	0.6	-10.4	4.6	3.2
Government consumption	2 548.0	2.9	-1.3	2.3	2.2	1.8
Gross fixed capital formation	4 845.7	0.9	-4.6	-18.2	3.5	2.5
Final domestic demand	21 699.0	2.2	-0.8	-10.5	4.1	2.9
Stockbuilding[1]	632.7	-0.1	-0.3	0.0	0.0	0.0
Total domestic demand	22 331.7	2.0	-1.2	-10.6	4.3	2.9
Exports of goods and services	8 258.6	6.0	1.5	-7.3	12.2	6.6
Imports of goods and services	8 656.1	6.4	-0.7	-14.8	10.1	6.2
Net exports[1]	- 397.6	-0.2	0.8	2.8	1.1	0.4
Memorandum items						
GDP deflator	_	4.9	4.0	3.1	3.8	3.1
Consumer price index	_	4.9	3.6	3.4	4.1	3.1
Core inflation index[2]	_	3.8	3.7	3.8	3.8	3.1
Unemployment rate[3] (% of labour force)	_	3.3	3.5	4.4	4.1	3.9
Current account balance (% of GDP)	_	-2.1	-0.3	2.5	-0.3	-0.7

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding volatile items: agricultural, energy and tariffs approved by various levels of government.
3. Based on National Employment Survey.

Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/zan3jq

A two-speed recovery is underway

The recovery has so far been mainly driven by external demand, with manufacturing exports above their pre-pandemic levels as they benefit from the strong rebound in the United States. Consumption remains 6% below its pre-pandemic level despite robust remittances. Investment is 13% below its pre-pandemic level and has been on a decreasing trend since 2018. Activity decelerated at the beginning of the year as mobility restrictions were reinstated in some states due to the intensification of the pandemic, supply disruptions of specific inputs and weather effects. As from mid-February, restrictions have been gradually relaxed, supporting more dynamic activity. Inflation has picked up, driven by energy prices and a low base effect. The labour market is improving, albeit very gradually, with underemployment remaining well above its pre-pandemic level. Nearly 550 thousand formal jobs have been lost since the start of the pandemic. Gender gaps in the labour market have increased as women were disproportionally affected by the crisis.

Monetary and financial policies are supporting the recovery

The central bank resumed its easing cycle in February and has reduced policy rates by 325 basis points since February 2020. The financial sector is supported by large liquidity and credit facilities and a regulatory forbearance programme. Boosting access to finance is a key priority for the government, which has the potential to foster inclusive growth and private investment. The increase in public spending was moderate and revenues were resilient, supported by an enhanced administration and tax settlements with several large companies, resulting in a limited increase in the budget deficit to 3.9% of GDP in 2020. The official measure of public debt increased to 52% of GDP at end-2020 due to the budget deficit, the depreciation of the peso and the fall in GDP. The announced budget for 2021 foresees a reduction of the deficit to 3.3% of GDP and a stabilisation of the public debt-to-GDP ratio.

The recovery will become broader

The economy is projected to expand by 5% in 2021. In the first half of the year, growth is estimated to have been mainly driven by exports. In the second half of 2021 and in 2022, with a larger share of the population vaccinated and the gradual improvement in the labour market, domestic consumption will also strengthen and become a key driver of growth. Investment will also pick up, partly thanks to planned infrastructure projects.

Uncertainty remains very high. In case of a significant increase in infections, the restoration of containment measures would be needed, hampering economic activity. Disruptions in the vaccination rollout would slow the recovery of private consumption. Inflation may be higher than anticipated, eroding purchasing power, particularly of vulnerable households. Financial volatility in other emerging-market economies may trigger greater global risk aversion, reduce net financial inflows and increase Mexico's financing costs. The flexible exchange rate is helping the economy to absorb external shocks, with further backstops provided by ample international reserves, USD swap lines and precautionary credit lines. On the upside, if the recovery in trading partners is stronger than anticipated, exports and job creation could be more robust. Supply-chain integration could deepen further thanks to the updated trade agreement with the United States and Canada, which entered into force in July 2020.

Fiscal policy could provide more support

Containing new COVID-19 outbreaks and accelerating vaccination as much as possible are the key short-term priorities. Fiscal prudence over the past years and rigorous public debt management provide Mexico with some space for additional temporary fiscal support, which could be targeted at individuals and firms hardest hit by the pandemic. Phasing out regressive tax exemptions could strengthen revenues in an inclusive way, creating additional fiscal space that would allow the government to strengthen social policies and public investment to facilitate the transition towards a greener and more digital economy.

Netherlands

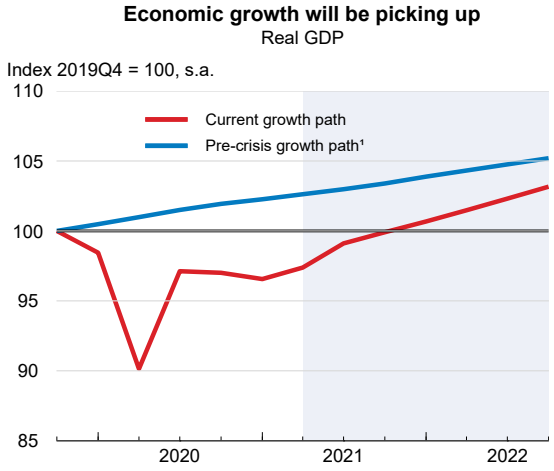
The Dutch economy is projected to grow by 2.7% in 2021 and 3.7% in 2022, reaching pre-crisis levels at the beginning of 2022. Consumption will drive the recovery as households normalise their saving after the sharp increase in 2020. Private investment will improve, but continue to be held back by lingering uncertainty. Bankruptcies are expected to rise and unemployment is set to peak in the second half of 2021 following the phasing out of support measures.

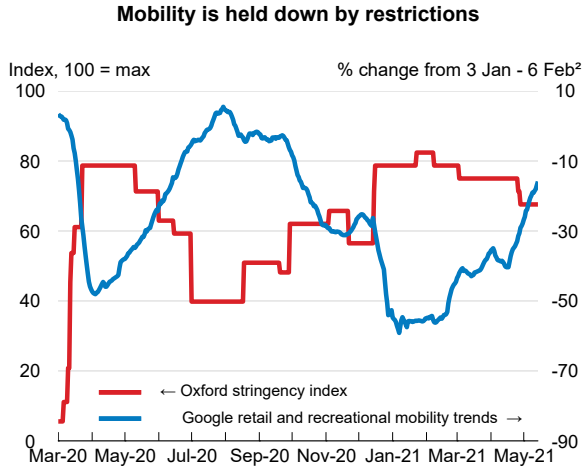
Fiscal policy should remain supportive until the recovery is well established, focussing on retraining and career counselling services to facilitate economic restructuring and ease job transitions. Public investment, supported by Next Generation EU recovery funds, should focus on accelerating the green transition to reach the country's ambitious emission reduction goals and foster digitalisation. For the medium term, the government should carefully evaluate structural spending increases and design in advance a multi-year fiscal plan to be implemented once the recovery is self-sustained to address emerging fiscal pressures from population ageing and related healthcare expenditures.

The Netherlands is still in the second wave of the pandemic

The Dutch health situation remains challenging, but is slowly improving. Despite months-long restrictions, including a nightly curfew and the closure of most non-essential businesses, the number of daily cases per million population has not fallen below 200 since autumn 2020. However, on the back of plateauing hospitalisation numbers, the government decided to lift the curfew, allowing non-essential businesses to open under certain conditions and allowing outdoor seating areas at restaurants and cafés to reopen partially by the end of April. Conditional on improving hospitalisation numbers, restrictions are set to ease gradually. By mid-May, around 30% of the population had received at least the first vaccination dose, and it is expected that everyone aged 18 or older who wants to be vaccinated will have received their first shot by July 2021.

Netherlands





1. The pre-crisis growth path is based on the November 2019 OECD Economic Outlook projection, with linear extrapolation for 2022 based on trend growth in 2021.
2. Fourteen-day moving average.
Source: OECD Economic Outlook 106 and 109 databases; Oxford COVID-19 Government Response Tracker (Hale et al., 2020); and Google LLC, Google COVID-19 Community Mobility Report.

StatLink https://stat.link/to7ral

Netherlands: Demand, output and prices

Netherlands	2017	2018	2019	2020	2021	2022
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	738.8	2.3	1.6	-3.7	2.7	3.7
Private consumption	327.3	2.1	1.5	-6.4	-0.4	6.1
Government consumption	179.6	1.7	1.6	0.6	2.1	1.4
Gross fixed capital formation	148.8	3.5	4.5	-3.6	6.3	3.8
Final domestic demand	655.6	2.3	2.2	-3.8	1.9	4.1
Stockbuilding[1]	3.7	0.1	-0.2	0.1	0.0	0.0
Total domestic demand	659.3	2.4	1.9	-3.7	1.9	4.1
Exports of goods and services	616.3	4.2	2.6	-4.3	4.7	3.8
Imports of goods and services	536.8	4.6	3.1	-4.3	4.0	4.2
Net exports[1]	79.5	0.2	-0.1	-0.4	1.0	0.1
Memorandum items						
GDP deflator	_	2.4	2.9	2.4	2.3	1.6
Harmonised index of consumer prices	_	1.6	2.7	1.1	1.8	1.5
Harmonised index of core inflation[2]	_	1.0	1.9	1.9	1.9	1.5
Unemployment rate (% of labour force)	_	3.8	3.4	3.8	4.1	4.7
Household saving ratio, net[3] (% of disposable income)	_	9.1	10.0	17.2	17.7	12.2
General government financial balance (% of GDP)	_	1.4	1.8	-4.3	-6.1	-2.5
General government gross debt (% of GDP)	_	66.0	62.5	69.9	73.9	74.2
General government debt, Maastricht definition (% of GDP)	_	52.4	48.7	54.5	58.5	58.8
Current account balance (% of GDP)	_	10.8	9.9	7.8	8.8	8.9

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. Including savings in life insurance and pension schemes.

Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/9ut8nc

The economic impact of restrictions has been less severe during the second wave

Economic output contracted by 3.7% in 2020, less severe than expected partially owing to a high degree of digitalisation and teleworking already before the pandemic. The economic downturn in the fourth quarter of 2020 was less pronounced than during the first wave, even though containment measures were stricter. Businesses and workers were able to adapt swiftly by relying more on teleworking, click-and-collect and home delivery. The negative economic impact during the second wave has been limited to consumption and the services sector, as reflected in low mobility near retail and recreation locations since the beginning of 2021. By contrast, industrial production and goods exports have been increasing and producer confidence has recovered. Policy support measures have helped to prevent a wave of bankruptcies and cushioned the increase in unemployment in particular for workers on permanent contracts.

Support measures to businesses and workers have been appropriate

The government extended and put in place additional measures after imposing tighter restrictions during the second wave. Most importantly, the wage subsidy scheme was extended, the coverage of fixed costs for all sectors was increased and the planned means test for self-employed income and loan scheme was suspended. In addition, the self-employed were able to benefit from temporary support for necessary costs if these could no longer be paid due to a decline in their income. Support measures were also adjusted, putting a focus on facilitating restructuring and job relocation of workers. Employers benefitting from the wage subsidy scheme have to incentivise employees to retrain or reskill and support workers facing dismissal to find new work. Amongst other measures, the government therefore launched a temporary subsidy scheme for learning. Within the self-employed support scheme, municipalities provide training or retraining and reorientation to the self-employed. The government plans to gradually phase out these support measures in the second half of 2021, while maintaining an appropriately supportive fiscal stance. Business taxes accrued in 2020 are deferred by up to two years, and interest on overdue taxes will remain at almost zero until December 2021.

The economy is set to recover contingent on improvements of the health situation

Output growth is projected to recover to 3.7% by 2022. Following high household saving in 2020 for higher income groups and the working population, pent-up demand will drive the initial pick-up. However, increased pension premiums and rising unemployment, as support measures are phased out, will hold back private consumption growth. Private investment will recover somewhat as financing costs are low and earnings expectations improve, but the increase will be moderate due to continued uncertainty and considerable spare capacity. Public investment will grow strongly over the course of 2021 and 2022 reflecting planned spending increases on infrastructure, climate and housing. Public debt will continue to rise from 54.5% of GDP in 2020 to 58.8% of GDP in 2022. While a faster-than-expected vaccination is a clear upside risk, there remain several downside risks. Increased leverage of businesses during the crisis could damp productive investment, hampering the recovery. Rising house prices could add to already high household debt, increasing macroeconomic vulnerabilities. The economy is also sensitive to global trade developments.

Fiscal policy should remain supportive to aid the recovery

Fiscal policy should remain supportive until the economic recovery is well underway. The crisis has exacerbated pre-existing inequalities. Students from disadvantaged backgrounds fell further behind during school closures and workers on flexible contracts have been disproportionally affected by job termination. A substantial additional spending on schools aimed at reducing learning gaps within the newly established National Education Programme is a first step. Aligning tax rates and social security contributions between contract types for workers doing similar jobs could lead to greater equity on the labour market. Going forward, workers should be prepared for the restructuring of the economy through retraining and reskilling opportunities, including the implementation of personal learning and development budgets (STAP) from 2022, open to the entire working-age population. The Dutch government recently launched the National Growth Fund, making available EUR 20 billion as grant over the next 5 years for investments that contribute to economic growth, such as knowledge development, infrastructure, research and innovation. Public investments should further focus on addressing long-term challenges, notably facilitating the green transition and digitalisation, including expanding renewable energy generation capacity and reducing nitrogen emissions from agriculture.

New Zealand

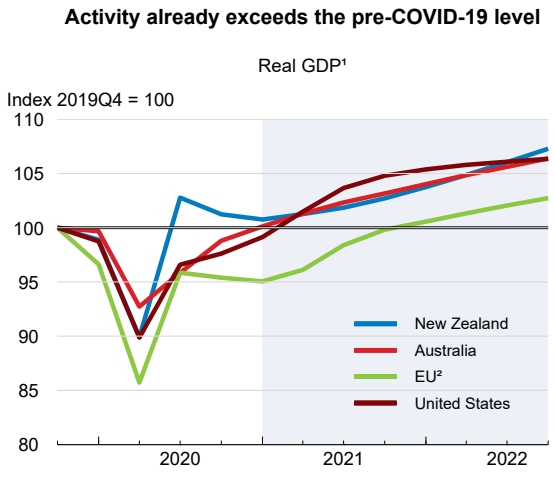
Economic growth is projected to pick up gradually from the second half of 2021, boosted by the progressive reopening of the border, reaching 3.5% in 2021 and 3.8% in 2022. Private consumption will remain robust, supported by the recent minimum wage increase and the wealth effect from rising house prices. Investment will expand on the back of strong house prices, record high issuance of building permits and large public infrastructure projects gaining momentum. Inflation pressure will strengthen as economic slack disappears by end-2022.

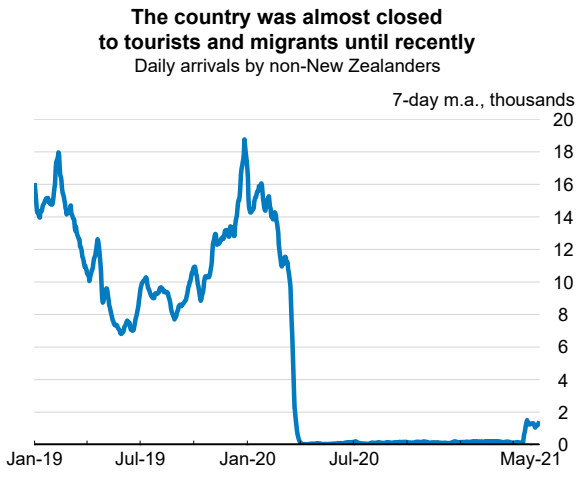
The pace of vaccination needs to accelerate to reduce the risk of new outbreaks and pave the way for full border reopening in 2022. While the Wage Subsidy and other support schemes helped to preserve jobs, the government should now strengthen income support and training during job transitions to enhance reallocation of workers toward high-growth sectors. Housing supply must increase swiftly to curb excessive house price inflation and growth in household indebtedness.

New Zealand is starting to reopen its border

New Zealand remains almost free of COVID-19 thanks to strict border, isolation and quarantine arrangements, extensive testing, tracing and isolation procedures and pre-emptive restrictions on activities whenever cases of community transmission are found, as occurred in Auckland in February. On 19 April, the government removed quarantine requirements for Australian and New Zealand residents arriving from Australia and for other travellers who have stayed in Australia for at least 14 days, thereby reinstating quarantine-free travel between the two countries. The government is implementing a single-provider vaccination programme and has ordered enough doses to vaccinate the whole population aged 16 and over. As of 11 May, only 5% of the population had received a first dose and 2% a second dose.

New Zealand





1. Expenditure-based.
2. EU countries that are members of the OECD.
Source: OECD Economic Outlook 109 database; and Statistics New Zealand.

StatLink https://stat.link/oaz5x6

New Zealand: Demand, output and prices

New Zealand	2017	2018	2019	2020	2021	2022
	Current prices NZD billion	Percentage changes, volume (2009/2010 prices)				
GDP at market prices	286.8	4.3	3.0	-1.1	3.5	3.8
Private consumption	165.5	4.4	3.6	-1.7	5.7	3.1
Government consumption	51.4	3.4	5.4	5.8	2.5	1.6
Gross fixed capital formation	65.4	7.4	3.2	-7.4	8.0	6.0
Final domestic demand	282.3	4.9	3.8	-1.7	5.6	3.5
Stockbuilding[1]	1.8	0.4	-0.8	-0.7	0.0	0.0
Total domestic demand	284.2	5.3	3.0	-2.3	5.7	3.5
Exports of goods and services	78.1	2.9	2.4	-12.0	-1.4	6.5
Imports of goods and services	75.4	6.3	2.2	-16.5	7.4	5.3
Net exports[1]	2.6	-0.9	0.0	1.3	-2.0	0.2
Memorandum items						
GDP deflator	_	1.2	2.2	2.2	1.8	1.9
Consumer price index	_	1.6	1.6	1.7	2.1	1.8
Core inflation index[2]	_	1.2	1.8	2.3	2.2	1.8
Unemployment rate (% of labour force)	_	4.3	4.1	4.6	4.5	4.3
Household saving ratio, net (% of disposable income)	_	0.5	0.4	4.9	2.0	0.4
General government financial balance (% of GDP)	_	0.7	-0.3	-5.3	-4.2	-2.9
General government gross debt (% of GDP)	_	33.4	36.5	45.3	49.1	51.4
Current account balance (% of GDP)	_	-4.2	-3.3	-1.0	-3.5	-3.3

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/zx9f86

Economic growth is stabilising while inflation is picking up

Following the huge bounce back in the third quarter that lifted economic activity to above the pre-pandemic level, economic growth has moderated to more sustainable rates. Exports have been weak mainly owing to the near absence of foreign tourists until recently. In contrast, private consumption has remained robust. The median house price increased by 24% between March 2020 and 2021, generating a strong wealth effect. Wage growth has been modest, reflecting residual labour market slack, but the 5.8% increase in the minimum wage in April 2021 is likely to increase the incomes of low-wage workers (earning less than 120% of the minimum wage), who constitute one-quarter of all workers. Very high food commodity prices and strong demand for New Zealand's export goods by China have also supported household incomes. Electronic card spending slowed somewhat recently, partly owing to the short Auckland lockdown in February 2021. Core inflation edged up to almost 2% in the first quarter of 2021 on the back of strong demand, a surge in housing costs and supply-chain disruptions.

Expansionary macroeconomic policies are supporting the recovery

While fiscal spending related to the COVID-19 response package will be mostly phased out by mid-2021, "shovel-ready" infrastructure investment amounting to NZD 2.6 billion (1% of GDP) will be rolled out in 2021 and 2022. Other multi-year infrastructure projects are also in the pipeline, funded by the NZD 12 billion New Zealand Upgrade Programme. Expansionary monetary policy, with the official cash rate unchanged at 0.25% and abundant liquidity supplied through quantitative easing, has kept firms' funding costs low (the average interest rate on outstanding business loans has declined by about 75 basis points since early 2020), but also boosted mortgage lending and house prices. In order to slow growth in lending for rental property purchases, which had been particularly high, the Reserve Bank of New Zealand

announced in February 2021 that the loan-to-value ratio for property investors would be cut to 60% in May. To improve affordability for first-home buyers and damp investor demand for the existing housing stock, the government announced in March that interest tax deductibility for residential rental properties purchased after 27 March 2021 would be removed from 1 October 2021, while deductibility for properties purchased earlier would be phased out by 2025. Furthermore, the holding period during which all capital gains on rental properties are taxable would increase from five years currently to 10 years on property purchased after 27 March 2021. In February 2021, changes were made to the Reserve Bank Monetary Policy Committee's remit, requiring it to take into account government policy relating to more sustainable house prices while working towards its objectives.

Economic growth will pick up as the border reopens

Economic growth will pick up, driven by robust domestic demand and a gradual recovery of tourism exports, which accounted for one-fifth of New Zealand's exports before the pandemic. The border is assumed to open fully by early 2022. This will improve the business outlook in sectors like transport, stimulating hiring and investment. The unemployment rate is projected to edge down from 4.7% in early 2021 to 4.3% by end-2022. The main downside risk is that the full opening of the border is pushed back, for instance due to a significant delay in vaccination of the adult domestic population or the emergence of new COVID-19 variants that diminishes vaccination effectiveness. Another downside risk is that an unanticipated increase in interest rates and/or unemployment could have a large negative effect on private consumption owing to the high level of household debt (equivalent to 166% of household income at end-2020). However, stronger-than-foreseen global demand for New Zealand's agricultural products may boost export growth more than projected.

Labour reallocation is needed to ensure an inclusive recovery

Absent an unexpected deterioration in the economic outlook, no further fiscal stimulus is required, although more generous income support for low-income households and larger spending on active labour market policy may be needed to achieve key well-being objectives, like child poverty reduction. While monetary policy should remain expansionary to support a broad-based recovery, some sectors may recover only slowly even after border reopening. Promoting the reallocation of workers in these sectors toward sectors experiencing high growth and labour shortages, such as construction, would make for a more inclusive recovery. This requires adequate income support during job transitions and abundant provision of re-training opportunities in partnership with companies. Housing supply needs to be boosted by removing construction bottlenecks, including the inability of local governments to finance the associated infrastructure investments. Increasing the supply of affordable housing is crucial for improving well-being, both by reducing housing costs and facilitating worker mobility to regions where high-growth sectors are located. Increasing support for investment in low-carbon technologies, the diffusion of electric vehicles and housing insulation together with investments to improve public transport, as planned, would help build back a better economy.

Norway

Mainland real GDP is projected to increase by 3.4% in 2021 and 3.7% in 2022, with the gradual lifting of restrictions as the vaccine rollout progresses unleashing demand. Mainland activity connected with the petroleum sector is expected to rise in light of the revival in oil prices. Labour market recovery will continue. Inflation will ease in the near term, as the effects of energy price increases taper off, and pick up only gradually thereafter.

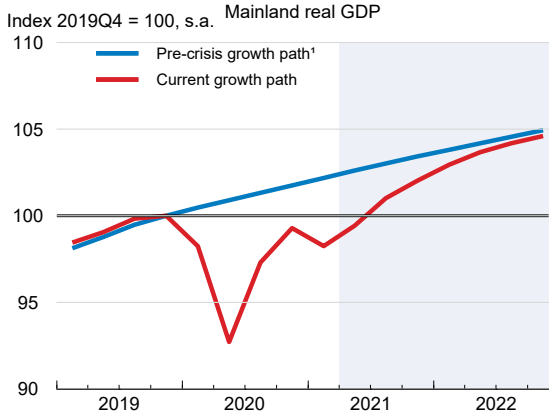
The additional government support made available to households and businesses should remain in place until economic recovery is well established and risks of further disruption have dwindled. The central bank should push back the start of rate rises if economic recovery looks weaker than projected. Government policy should now turn to structural improvements that help business sector productivity and competitiveness and to making further advances in environmental policy, including cost-effective investment in the green transition.

The latest surge in COVID-19 cases has passed its peak

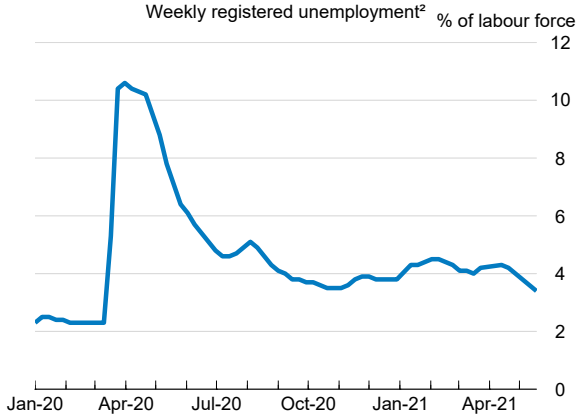
Despite a surge of infections that peaked in the second half of March, the number of COVID-19 cases and fatalities since the start of the pandemic has remained comparatively low. The latest surge prompted renewed containment measures, including the introduction of a three-tiered system of localised restrictions. Oslo introduced strict local measures including the closure of most shops and a combination of remote and classroom learning in schools. Containment measures are being unwound gradually as the health situation improves. Norway's vaccination rollout is advancing; as of end-May around a third of the population had received at least one dose of a COVID-19 vaccine.

Norway

The recovery in mainland output will pick up in the second half of 2021



The registered unemployment rate remains above its pre-crisis levels



1. The pre-crisis growth path is based on the November 2019 OECD Economic Outlook projection, with linear extrapolation for 2022 based on trend growth in 2021.
2. The registered unemployment data includes temporary layoffs.
Source: OECD Economic Outlook 106 and 109 databases; and Norwegian Labour and Welfare Administration (NAV).

StatLink https://stat.link/rh2exy

Norway: Demand, output and prices

Norway	2017	2018	2019	2020	2021	2022
	Current prices NOK billion	Percentage changes, volume (2018 prices)				
Mainland GDP at market prices[1]	2 792.0	2.2	2.3	-2.5	3.4	3.7
Total GDP at market prices	3 295.4	1.1	0.9	-0.8	3.4	3.7
Private consumption	1 471.7	1.6	1.4	-6.9	1.0	5.6
Government consumption	791.1	0.5	1.9	1.7	1.9	1.8
Gross fixed capital formation	809.4	2.2	4.8	-3.8	1.7	4.9
Final domestic demand	3 072.1	1.5	2.4	-3.9	1.4	4.4
Stockbuilding[2]	107.9	0.7	0.0	-1.0	1.0	0.0
Total domestic demand	3 180.0	2.1	2.3	-4.8	2.4	4.2
Exports of goods and services	1 197.3	-1.2	0.5	-0.5	2.3	4.2
Imports of goods and services	1 081.9	1.4	4.7	-11.9	-0.8	6.0
Net exports[2]	115.4	-0.9	-1.3	4.0	1.0	-0.2
Memorandum items						
GDP deflator	_	6.7	-0.4	-3.6	8.7	1.9
Consumer price index	_	2.7	2.2	1.3	2.9	1.9
Core inflation index[3]	_	1.2	2.6	3.1	1.6	2.0
Unemployment rate (% of labour force)	_	3.8	3.7	4.4	4.7	4.0
Household saving ratio, net (% of disposable income)	_	5.9	7.6	15.5	12.1	7.9
General government financial balance (% of GDP)	_	7.9	6.6	-3.4	-1.1	0.3
General government gross debt (% of GDP)	_	45.6	46.8	53.9	..	..
Current account balance (% of GDP)	_	8.0	2.8	1.9	8.1	7.6

1. GDP excluding oil and shipping.
2. Contributions to changes in real GDP, actual amount in the first column.
3. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/kfv3yb

Economic output has edged down

Renewed restrictions in response to the latest surges in COVID-19 cases brought a decline of 1% in mainland real GDP in the first quarter of 2021. In addition, the rate of registered unemployment has increased since the end of 2020. Recovery in the global oil price has led to an appreciation of the Norwegian krone and has brightened prospects for investment in the resource sector, which has also benefited from changes to the petroleum tax regime that were decided when oil prices plummeted in spring 2020. Meanwhile, the housing market has remained buoyant, bolstered by lower interest rates and higher savings. Price increases have been particularly large in Oslo; by February, prices had increased by 15% year-on-year. Headline consumer price inflation has been pushed up recently by increases in the cost of fuel and electricity; it increased by 2.9% in the first quarter of this year (year-on-year). The krone value of Norway's main sovereign wealth fund at the end of 2020 was 8% greater than at the end of 2019, driven mainly by an increase in investment returns.

Substantial macroeconomic support continues

Norges Bank is signalling a start to increases in its policy rate, which has been held at zero per cent since spring 2020. The Bank's model-based interest rate paths indicate rate increases commencing in the second half of this year. Norway's fiscal support to businesses and households over the crisis continues to comprise supplements to existing transfer programmes plus a range of additional measures. The latter include guarantees for businesses' bank loans, compensation for fixed costs for companies experiencing large falls in revenue, grants for bringing temporarily dismissed workers back to work, as well as measures targeted towards supporting hard-hit sectors such as the travel and tourism industry. The structural non-oil deficit expanded by 3.9 percentage points of GDP between 2019 and 2020.

Economic activity will pick up in the second half of 2021

Containment measures are expected to continue easing as the latest wave of cases subsides and vaccination progresses. Economic activity is projected to pick up markedly in the second half of the year, with output growth of 3.4% for the year as a whole and an increase of 3.7% in 2022. The fiscal balance will have largely recovered by the end of 2022. Consumer price inflation will ease to below Norges Bank's 2% target and then increase gradually as economic recovery progresses further. Norway's success in keeping COVID-19 caseloads and fatalities to much smaller levels than many countries suggests that the risk of a new destabilising outbreak is limited. The path of the global oil price and the prospects for non-oil trading partners will remain key uncertainties. Concerns about macro-financial stability linked to high levels of household debt remain.

Policy can now begin to look beyond emergency measures

The extra financial support for businesses and households should remain available until the economy is on an even keel and the threat of renewed outbreaks and containment measures is small. Meanwhile, attention should also turn to structural reforms that help the business sector recover from the downturn and become more productive and competitive in the longer term, including through improvements to insolvency processes. Further efforts should be made to improve policies affecting employment, including pension reforms that reduce incentives to retire early. Norway should also continue to make advances in measures to achieve greenhouse-gas reduction, including through the proposed schedule of increases to the carbon dioxide tax and through supporting research into carbon capture and storage technologies. Policy should aim to strengthen the cost efficiency of the suite of greenhouse-gas reduction measures, alongside the goal of reaching emission-reduction targets.

Poland

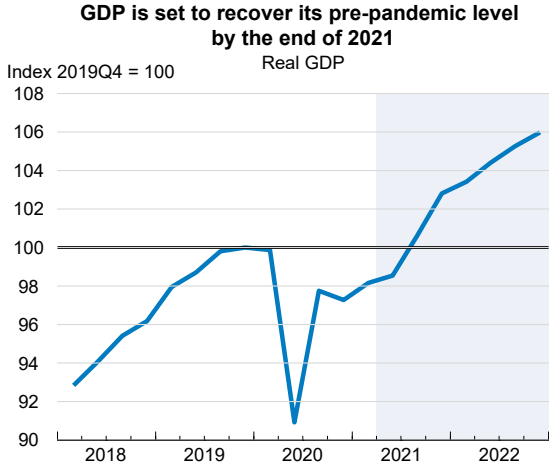
Following a decline of 2.7% in 2020, GDP is projected to recover by 3.7% in 2021 and to grow by 4.7% in 2022. The resurgence of new infections since the beginning of the year will continue to weigh on economic activity. Nonetheless, widespread vaccination and easing of containment measures by the second half of the year should support a strong rebound in consumption and, to a lesser extent, investment. Inflation is set to ease due to continued, though diminishing, spare capacity. The outlook, however, remains uncertain amid epidemiological risks and logistical hurdles for vaccination deployment.

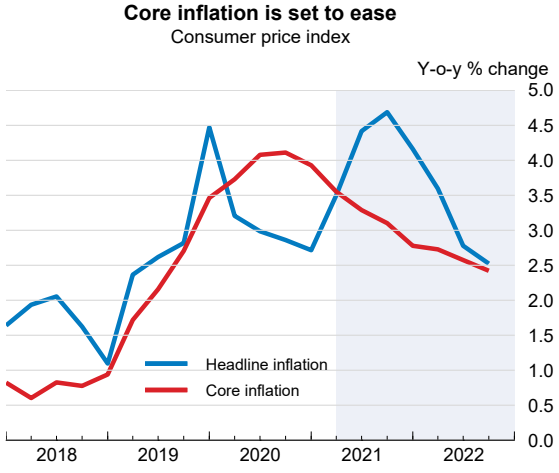
Policy continues to be supportive. Fiscal support has been continued, albeit in a more targeted way, and monetary policy has remained accommodative. This stance should continue until the recovery is well established. Structural policies that support investment in better infrastructure and sustainable energy, as well as improving workers' skills, should help strengthen the recovery and medium-term growth and facilitate the transition to a greener economy.

A sharp rise in infections led to new tightening measures

The pandemic has intensified as new infections and deaths have risen sharply since the beginning of the year. Strict containment measures have been introduced. Consequently, new infections fell and the authorities cautiously began to ease restrictions in April. At the same time, the pace of vaccination has been gaining momentum. The authorities have offered all adults a chance to register for a vaccine from early May and intend to vaccinate all willing adults by the end of August. This should allow further removal of restrictions in the second half of the year.

Poland





Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/p8dq0f

Poland: Demand, output and prices

Poland	2017	2018	2019	2020	2021	2022
	Current prices PLN billion	Percentage changes, volume (2015 prices)				
GDP at market prices	1 989.8	5.4	4.7	-2.7	3.7	4.7
Private consumption	1 166.8	4.5	3.9	-3.1	4.3	8.4
Government consumption	351.9	3.5	6.5	4.4	3.6	1.2
Gross fixed capital formation	348.7	9.4	6.1	-9.6	-3.3	4.6
Final domestic demand	1 867.4	5.2	4.8	-2.9	2.8	6.3
Stockbuilding[1]	47.5	0.4	-1.0	-0.8	0.5	0.0
Total domestic demand	1 914.9	5.6	3.6	-3.7	3.3	6.3
Exports of goods and services	1 077.7	6.9	5.2	-0.2	5.6	3.4
Imports of goods and services	1 002.7	7.4	3.0	-1.9	4.3	6.1
Net exports[1]	75.0	0.0	1.3	0.8	1.0	-1.1
Memorandum items						
GDP deflator	_	1.2	3.2	4.1	2.6	3.6
Consumer price index	_	1.8	2.2	3.4	3.8	3.3
Core inflation index[2]	_	0.8	1.9	3.8	3.5	2.6
Unemployment rate (% of labour force)	_	3.9	3.3	3.2	3.4	3.4
Household saving ratio, net (% of disposable income)	_	-0.7	1.4	8.7	7.9	2.1
General government financial balance (% of GDP)	_	-0.2	-0.7	-7.0	-6.7	-3.7
General government debt, Maastricht definition (% of GDP)	_	48.8	45.6	57.5	61.4	61.2
Current account balance (% of GDP)	_	-1.3	0.5	3.5	4.2	2.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/94x3os

The resurgence of infections has delayed the recovery

The wave of infections in the autumn of 2020 and the accompanying tightening of restrictions led to a decrease in output at the end of last year, although to a lesser extent than during the first half of 2020. While the economy was more resilient in early 2021, with GDP expanding in the first quarter, the resurgence of infections since March and continued restrictions are likely to have weighed on economic activity. Mobility indicators have been subdued since the end of 2020 although they picked up recently. Similarly, despite recent increases, consumer and business confidence remain below levels seen before the pandemic.

Policy has continued to support the economy

In response to the rising infections, the authorities extended the initial support measures, with some foreseen to last until mid-2021. However, these measures are more targeted as they focus on firms and sectors most impacted by the pandemic. The continued fiscal support entails a higher debt level, but the fiscal stance remains sustainable as Poland entered the pandemic with fiscal space. Monetary policy remains accommodative as interest rates have stayed low and financial conditions are favourable.

The economy is set for a rebound in 2021

GDP is projected to grow by 3.7% in 2021, rebounding in the second half of the year and returning to its pre-pandemic level by year-end. Widespread vaccination is assumed to allow for a gradual removal of containment measures. This will facilitate the rebound in private consumption, supported by a decline in high household saving rates which are currently well above their pre-pandemic levels. Investment should also bounce back but to a smaller extent amid high uncertainty and spare capacity. The labour market is expected to remain robust. Continued growth in consumption and investment, with the help of the EU's Recovery and Resilience Facility funds, should boost growth to 4.7% in 2022. Inflation was elevated in 2020, partly due to administered and temporary price rises. Past increases in commodity prices should further push up annual headline inflation this year but inflation is set to ease in 2022 as spare capacity exerts downward pressure.

The outlook remains uncertain. On the downside, despite steady vaccination progress, renewed outbreaks could result in a slower lifting of containment measures. On the upside, a faster recovery in confidence could lead to a strong rebound in activity and a tighter labour market.

Policies should foster a green recovery

The prospects for a sustainable recovery would be enhanced by a focus on decarbonisation, productivity-friendly investments, and labour market reforms. Public investment should concentrate on improving the country's infrastructure, especially in transport, energy and digital technologies, in order to help smaller firms better access foreign markets. Within energy, investment should be targeted towards renewable sources, which would support the necessary move toward a greener economy. Also, many adults, notably older ones, have weak basic skills and lifelong training opportunities are limited for the unemployed and the low-skilled. Despite a still robust labour market, and in order to facilitate job transition, it will be important to strengthen the training and skills of these groups, help displaced workers with job placement measures, and facilitate the reallocation of resources toward growing industries.

Portugal

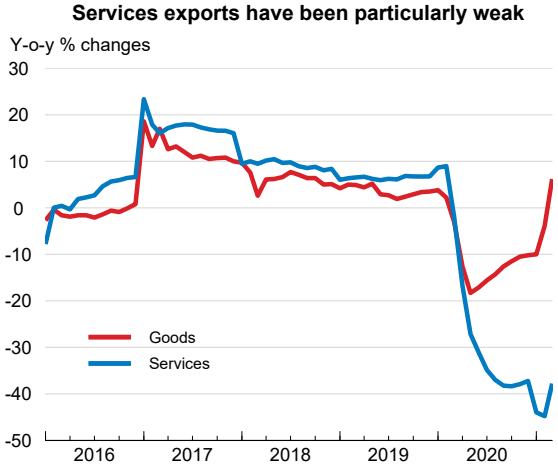
After falling sharply in 2020, GDP is projected to increase by 3.7% in 2021 and 4.9% in 2022. Consumption will strengthen, with a gradual reduction in saving, as the sanitary situation improves and containment measures are phased out. Strong activity in the manufacturing sector and the absorption of EU funds will support investment and exports. Tourism and contact-intensive services will recover only gradually, until the pandemic is fully under control.

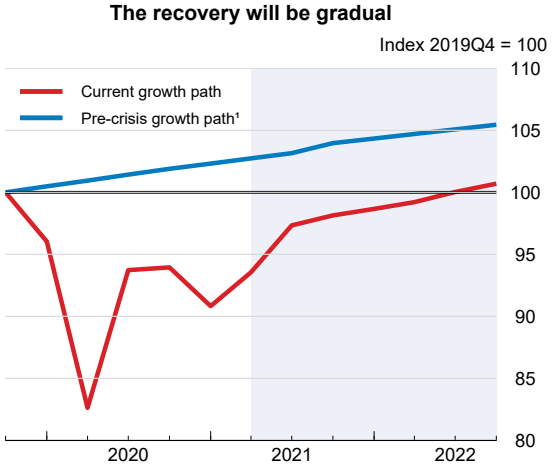
Fiscal policy should remain supportive until the recovery is firmly underway, but financial support should target distressed firms that have still viable prospects. Unemployment has increased, especially for low-skilled and young workers, calling for reinforcing the capacity of public employment services to provide job search support and training. Accelerating the implementation of the Recovery and Resilience Plan, while promoting competition-friendly regulation, efficiency gains in public services and green investment, will be key for a strong and sustainable recovery.

The third wave of the virus hit Portugal hard

Portugal faced one of the world's worst surges in COVID-19 infections in early 2021. Hospitals almost reached full capacity, putting pressure on the healthcare system. A second national lockdown was imposed in mid-January for two months. Since March, containment measures have been progressively lifted as the sanitary situation improved. The rollout of vaccination has been constrained by the slow supply of vaccines as in other European countries. About 70% of the population should be vaccinated by August, according to the national vaccination plan.

Portugal





1. The pre-crisis growth path is based on the November 2019 OECD Economic Outlook projection, with linear extrapolation for 2022 based on trend growth in 2021.
Source: National Bank of Portugal; and OECD Economic Outlook 109 database.

StatLink https://stat.link/jzmo2f

Portugal: Demand, output and prices

Portugal	2017	2018	2019	2020	2021	2022
	Current prices EUR billion	Percentage changes, volume (2016 prices)				
GDP at market prices	195.9	2.8	2.5	-7.6	3.7	4.9
Private consumption	126.5	2.6	2.6	-5.9	3.6	4.0
Government consumption	33.7	0.6	0.7	0.4	2.1	1.3
Gross fixed capital formation	32.9	6.2	5.4	-1.9	3.7	6.9
Final domestic demand	193.1	2.9	2.8	-4.1	3.3	4.1
Stockbuilding[1]	0.9	0.3	0.1	-0.6	0.0	0.0
Total domestic demand	194.0	3.2	2.8	-4.6	3.3	4.1
Exports of goods and services	83.7	4.1	3.9	-18.6	10.4	9.4
Imports of goods and services	81.7	5.0	4.7	-12.0	9.1	7.1
Net exports[1]	2.0	-0.3	-0.3	-2.9	0.3	0.8
Memorandum items						
GDP deflator	_	1.8	1.7	2.4	1.0	1.3
Harmonised index of consumer prices	_	1.2	0.3	-0.1	0.9	1.0
Harmonised index of core inflation[2]	_	0.8	0.4	-0.2	0.8	1.0
Unemployment rate (% of labour force)	_	7.0	6.5	6.8	7.4	7.0
Household saving ratio, net (% of disposable income)	_	-2.5	-2.1	4.1	1.5	-1.0
General government financial balance[3] (% of GDP)	_	-0.3	0.1	-5.7	-4.8	-3.4
General government gross debt (% of GDP)	_	137.7	136.4	155.5	155.3	152.1
General government debt, Maastricht definition (% of GDP)	_	121.5	116.8	133.6	133.4	130.2
Current account balance (% of GDP)	_	0.6	0.4	-1.2	-1.1	-0.4

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. Based on national accounts definition.

Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/mswo84

The virus outbreak stopped the recovery

After a sharp rebound in the third quarter of 2020, GDP growth lost momentum. The impact of the second lockdown on activity has not been as strong as the first one, but contact-intensive services have been hit hard again and GDP contracted in the first quarter of 2021. Activity in tourism, which accounts for around 8% of GDP, has been anaemic, with a further contraction of revenues in early 2021. The household saving ratio increased on account of low consumer confidence and mobility restrictions. The labour market has been resilient. Employment declined moderately in the first quarter of 2021. In February 2021, during the lockdown, the number of workers covered by the simplified layoff scheme was about a third of its level in April 2020. However, hours worked and employment among young and temporary workers have dropped significantly compared to pre-pandemic levels.

Policy support should remain strong

Fiscal policy is expected to remain supportive in 2021 until the recovery is firmly underway. A package of support measures was announced in March 2021, including tax deferrals, grants to firms in the most affected sectors, new credit lines with state guarantees and the extension of the short-time work schemes until September 2021. The implementation of the Recovery and Resilience Plan that includes EUR 13.9 billion of grants for the 2021-2026 period will gain momentum at the end of 2021, pushing public investment to 3% of GDP in 2022 (from around 2% in 2020). At the same time, policy support to the economy, including the public moratorium on bank loans, will be phased out in the second half of 2021, thereby increasing debt servicing costs and affecting the investment capacity of firms and households.

Growth will accelerate if the pandemic is contained

Activity is set to pick up with the progressive lifting of containment measures and the recovery of tourism, especially from European countries, during the 2021 summer season. As vaccination accelerates and the EU support starts being implemented, GDP growth is projected to reach 4.9% in 2022. Despite the higher debt and the low level of capitalisation in small firms, private investment will gradually recover, sustained by low interest rates, improving confidence and the absorption of EU funds. The recovery and the phase-out of the COVID-19-related measures will help to reduce the fiscal deficit, but public debt is expected to remain above 130% of GDP (Maastricht definition). The recovery hinges on the capacity to contain the pandemic domestically and in main trading partners, because of Portugal's high reliance on tourism. A surge of business bankruptcies, notably when the public moratorium will end, could weigh on investment and credit supply by increasing non-performing loans, which are already high by international standards. The increase of contingent liabilities due to the extensive use of state guarantees poses a risk to future fiscal developments. By contrast, a faster and well-targeted absorption of EU funds could expand economic potential by more than projected by fostering growth-enhancing spending.

The effective use of EU funds is key for a strong and sustainable recovery

The high public debt calls for renewed fiscal prudence once the recovery is firmly underway. At the same time, Portugal should seize the opportunity of the Recovery and Resilience Plan to implement structural reforms for stronger, greener, and inclusive growth. A mix of financing instruments, including quasi-equity, participative loans, and non-refundable grants, should be put in place to support credit-constrained but viable firms, especially after the end of the public moratorium. Red tape costs and regulatory barriers to competition should be reduced, in particular in transportation where significant public investments are planned and innovation can help to reduce the sector's carbon footprint. Support to young people detached from the education system and the labour market needs to be strengthened, notably by reinforcing reach-out mechanisms and training measures. The recovery would be boosted if reforms for the modernisation of the public administration are implemented, including measures to foster digital government, to improve the efficiency of the justice system and to strengthen the institutional framework to enhance integrity.

Romania

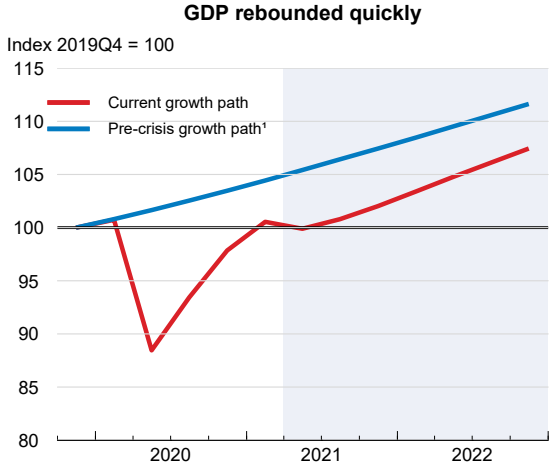
Output in the Romanian economy is projected to increase by 6% in 2021 and 4.6% in 2022. Investment and pent-up demand will be the main growth drivers. Consumption will pick up as the vaccination rollout progresses and restrictions on activities are eased, leading to a decline in saving. Imports will increase faster than exports due to strong domestic demand. The unemployment rate will decrease gradually as the recovery gains momentum, returning to its pre-crisis level in 2022.

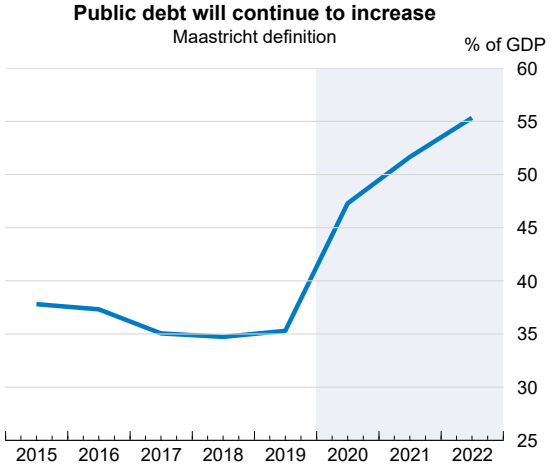
Fiscal policy should remain accommodative until the recovery is firmly underway. Efforts to increase revenues, mainly through improvements in tax collection, should be strengthened. Romania is set to receive significant amounts of EU funds, which, if swiftly and effectively absorbed, will be crucial for boosting investment and supporting vulnerable firms and individuals, given the limited fiscal space. Greening the energy mix, developing digital infrastructure and reducing regulatory barriers to competition are essential to achieve a sustainable recovery.

The third wave of COVID-19 infections put pressure on the healthcare system

Although there were less infections than during the second wave in the autumn, the number of patients in intensive care units reached record high levels at the end of April, putting hospitals under huge pressure. The authorities introduced a nationwide curfew as well as specific restrictions on schools and business operations that vary across counties, depending on the rate of infections and testing. As of 15 May, a gradual easing of restrictions has started with the end of the curfew and masks no longer obligatory in outdoor public places. The relaxation of measures is expected to continue until the summer. The vaccination campaign has started slowly, as in most other European countries, but is expected to accelerate with the receipt of more vaccine doses and the opening of new mobile vaccination centres; the official aim is to vaccinate half of the population by the end of September.

Romania





1. The pre-crisis growth path is based on the November 2019 OECD Economic Outlook projection, with linear extrapolation for 2022 based on trend growth in 2021.
Source: OECD Economic Outlook 106 and 109 databases.

StatLink https://stat.link/p2ywut

Romania: Demand, output and prices

Romania	2017	2018	2019	2020	2021	2022
	Current prices RON billion	Percentage changes, volume (2010 prices)				
GDP at market prices	857.9	4.5	4.1	-3.9	6.0	4.6
Private consumption	543.3	7.7	4.1	-5.2	4.8	6.1
Government consumption	134.8	3.3	6.9	2.0	4.5	1.5
Gross fixed capital formation	192.2	-1.1	13.0	6.8	4.6	6.9
Final domestic demand	870.3	5.2	6.4	-1.1	4.8	5.4
Stockbuilding[1]	8.7	0.6	-1.2	-1.2	1.3	-0.2
Total domestic demand	879.1	5.9	5.1	-2.3	6.2	5.0
Exports of goods and services	360.5	5.3	4.6	-9.7	11.2	5.0
Imports of goods and services	381.7	8.6	6.8	-5.1	11.4	6.1
Net exports[1]	- 21.2	-1.6	-1.2	-1.6	-0.6	-0.7
Memorandum items						
GDP deflator	_	6.2	6.8	3.8	5.7	3.1
Consumer price index	_	4.6	3.8	2.6	3.3	2.8
Core consumer price index[2]	_	2.8	3.2	3.7	3.6	2.4
Unemployment rate (% of labour force)	_	4.2	3.9	5.0	4.7	3.9
Household saving ratio, net (% of disposable income)	_	-6.4	-2.8	5.9	3.2	1.1
General government financial balance (% of GDP)	_	-2.9	-4.4	-9.2	-7.9	-6.4
General government gross debt (% of GDP)	_	43.6	44.4	59.2	63.5	67.2
General government debt, Maastricht definition (% of GDP)	_	34.7	35.3	47.3	51.6	55.3
Current account balance (% of GDP)	_	-4.6	-4.9	-5.2	-4.9	-4.7

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/h8yk27

The recovery has been strong

The recovery was faster than expected in the second half of 2020, on the back of a strong rebound of industrial production and retail sales. Transport, hospitality and agriculture were the most affected sectors in 2020, while construction proved to be particularly resilient, growing by 10%. The strong recovery continued in the first quarter of 2021, with GDP reaching its pre-crisis level. Exports were particularly buoyant and business confidence recovered. Inflation picked up strongly on the back of electricity market liberalisation and rising fuel prices. Wage pressures remained but labour market conditions deteriorated, with the unemployment rate reaching 5.5% in March, from 3.9% before the pandemic.

Policy measures continue to support the economy

A range of policy measures to support workers and firms affected by the crisis have been extended in 2021, including the short-time work scheme, loan payment deferrals and tax reliefs. The short-time work scheme is currently planned to remain in place until the summer, while the moratorium on bank loans will be maintained until the end of the year. Fiscal support should continue until the recovery is well underway, supported by significant EU funds. Monetary policy has remained supportive, with another cut of the policy rate to 1.25% in January 2021. The National Bank of Romania is expected to maintain low interest rates as inflation should remain in its target band.

The pace of recovery is uncertain

GDP growth is projected to increase by 6% in 2021 and 4.6% in 2022. Private consumption is expected to accelerate on the back of pent-up demand and lower household saving. The disbursements of EU funds will stimulate investment in 2021 and 2022. Exports will bounce back as global supply chains recover. The public deficit will remain higher than in other Central and Eastern European countries and public debt will increase significantly to 55% of GDP in 2022 (Maastricht definition), 20 percentage points above its pre-crisis level. The outlook is uncertain and hinges on vaccine deployment. A deterioration of investor confidence in emerging-market economies could trigger a downgrading of Romania's credit ratings and an increase in borrowing costs. On the other hand, a more effective absorption of EU funds than assumed would boost investment and help to implement the necessary structural reforms for a sustainable recovery.

Preparing for a more inclusive and green recovery requires additional measures

Policy support should continue until the outbreak is under control together with structural reforms to improve the business environment, including streamlining the license and permit system. In the longer term, improving tax collection will be necessary to put public finances on a sustainable path. At the same time, the tax and benefit system should be made more progressive to reinforce social protection. The effective absorption of the Next Generation EU funds could help Romania to address social and environmental challenges. Given the high levels of air pollution, greening the energy mix and reducing harmful emissions, in particular in the residential sector by replacing inefficient heating sources and improving the insulation of buildings, are priorities. Accelerating the digital transition in the education system, while strengthening support to vulnerable students, could mitigate the negative impact of the pandemic on inequality.

Slovak Republic

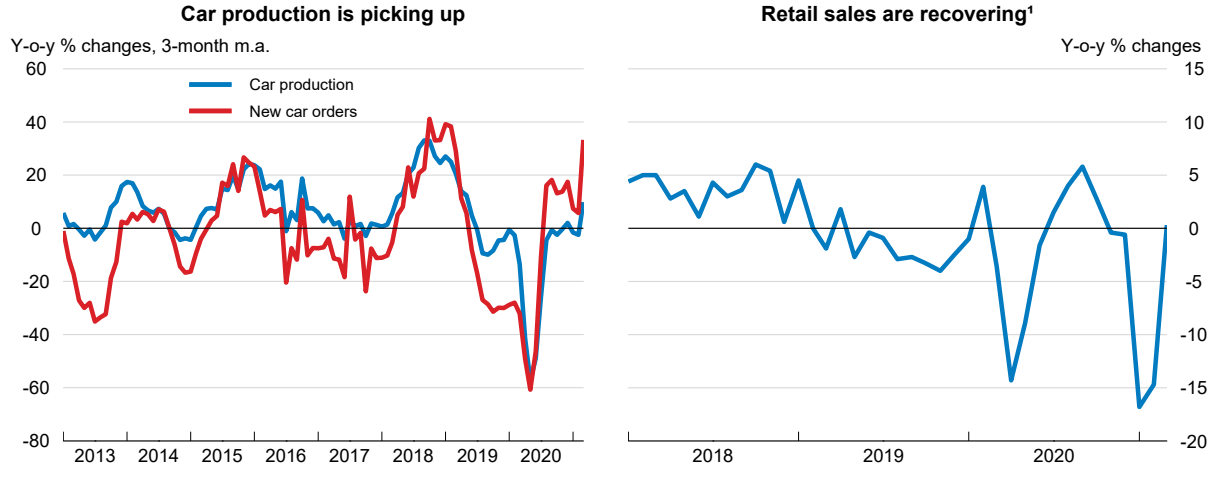
The Slovak economy is projected to grow by 4.2% in 2021 and 5.2% in 2022. After a strict lockdown in early 2021, domestic demand will rebound from the second half of the year as vaccines continue to be rolled out and most containment measures are lifted. Investment will accelerate in 2022, aided by EU structural funds and the new EU Recovery and Resilience Facility. Unemployment will fall gradually, but still remain above pre-crisis levels at the end of 2022.

Fiscal policy should continue to be supportive until the recovery is firmly underway. EU funds provide an opportunity to implement ambitious structural reforms aimed at addressing long-standing key challenges, provided implementation is timely and efficient. Structural reforms are required to improve the uptake of digital technologies, access to early childhood education, and labour force participation by female, disadvantaged and older workers.

Containment measures are being lifted gradually

Containment measures were tightened over the winter, reflecting a significant deterioration of the health situation. The government has begun easing some restrictions since April. Non-essential shops have now been reopened and travel bans between districts lifted. The government launched its vaccination programme in December along with other EU countries, and in February included teachers among high priority groups to accelerate the reopening of schools. By mid-May, around 26% of the population had received at least one COVID-19 vaccine dose, and around 12% were fully vaccinated, close to the EU average.

Slovak Republic



1. Retail trade excludes motor vehicles and motorcycles.
Source: Statistical Office of the Slovak Republic; and OECD calculations.

StatLink https://stat.link/nq4yf6

Slovak Republic: Demand, output and prices

Slovak Republic	2017	2018	2019	2020	2021	2022
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	84.5	3.7	2.5	-4.8	4.2	5.2
Private consumption	47.4	3.9	2.7	-1.2	0.1	4.9
Government consumption	16.0	0.1	4.6	0.3	2.3	0.8
Gross fixed capital formation	17.8	2.7	6.6	-12.0	1.1	13.7
Final domestic demand	81.3	2.9	3.9	-3.3	0.8	5.7
Stockbuilding[1]	1.7	0.4	-0.1	-2.4	2.5	0.1
Total domestic demand	83.0	3.2	3.8	-5.4	3.3	5.7
Exports of goods and services	80.8	4.6	0.8	-7.6	10.2	5.9
Imports of goods and services	79.3	4.0	2.1	-8.5	9.5	6.5
Net exports[1]	1.5	0.6	-1.2	0.8	0.8	-0.4
Memorandum items						
GDP deflator	_	2.0	2.5	2.4	1.5	2.1
Harmonised index of consumer prices	_	2.5	2.8	2.0	1.1	2.2
Harmonised index of core inflation[2]	_	2.0	2.0	2.4	2.2	2.2
Unemployment rate (% of labour force)	_	6.5	5.8	6.7	7.6	7.2
Household saving ratio, net (% of disposable income)	_	4.9	4.4	5.2	6.1	4.3
General government financial balance (% of GDP)	_	-1.0	-1.3	-6.1	-6.8	-4.1
General government gross debt (% of GDP)	_	63.8	63.5	79.5	80.3	78.3
General government debt, Maastricht definition (% of GDP)	_	49.7	48.2	60.3	61.0	59.0
Current account balance (% of GDP)	_	-2.2	-2.7	-0.3	0.3	0.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/t2zqki

Economic activity is starting to recover

Economic activity in early 2021 was affected by stricter containment measures, with GDP declining in the first quarter. Services were particularly hard hit, with retail sales dropping significantly in the first quarter, more than during earlier lockdowns. Data from electronic cash registers suggest that spending on accommodation, restaurants and other services also declined sharply in the first quarter. Registered unemployment started increasing again in December and gradually edged up until March. However, the manufacturing sector was less severely hit. Car production lost momentum over the winter but started picking up in March. New orders continued to grow. The economic sentiment index and new industrial orders recovered in March. Together with mobility data that shows an increase in people's movement since early April, this suggests that a recovery is underway.

Policy remains supportive in the near term

COVID-19 fiscal support measures with a direct budgetary impact amounted to 1.8% of GDP, and liquidity measures and bank guarantees to 1.6% of GDP. The measures focused primarily on supporting employment, household income, and the purchase of medical supplies. Several measures have been extended in 2021. The job retention scheme has been prolonged until June, and benefits and eligibility to the scheme expanded. The deferral of loan payments for households was extended until April 2021. The draft budget for 2021 also foresees additional spending on climate change mitigation, healthcare, education, and transport infrastructure to strengthen the recovery. The budget also includes a reserve of

2.4% of GDP for covering potential needs due to the pandemic, a 1.3 percentage point increase from last year's budget. The medium-term fiscal plan foresees a moderate consolidation in 2022, which will be partially offset by the use of grants from the EU Recovery and Resilience Facility, which amount in total to EUR 6 billion (6% of annual GDP) over a five-year period.

The recovery is set to accelerate

The economy is projected to grow by 4.2% in 2021 and 5.2% in 2022. Domestic demand is set to remain subdued in the near term, as containment measures are only eased gradually. The recovery in consumption and investment will gain strength in the second half of the year as the vaccine rollout progresses and the economy reopens fully. Exports growth is set to pick up as foreign demand strengthens. In 2022, investment growth will be aided by EU funds and some planned investment projects in the automotive industry. The general government budget deficit will narrow as activity picks up and some emergency measures are phased out. A faster-than-expected vaccination process is an upside risk to the projections. Consumption could also be stronger if the saving rate is normalised faster than assumed. A renewed further deterioration of the health situation due to new variants of the virus would delay the recovery. Supply-chain disruptions, notably related to semiconductor shortages in the automotive industry, also pose negative risks to exports and investment.

The EU funds provide an opportunity to implement ambitious structural reforms

Fiscal policy should remain supportive as planned to sustain the recovery in the near term. As the recovery progresses, strengthening active labour market policies, including through re-training measures, is crucial to facilitate workforce reallocation, especially for the young who have been hit hard by the crisis. Particular attention is also needed to female, low-skilled, Roma and older workers, whose labour force participation is low. EU funds provide an opportunity to strengthen the growth potential of the economy and boost productivity and inclusiveness. Planned investments to boost digital technology adoption, pre-school education and school infrastructure, and green growth, notably through building renovations and sustainable transport infrastructure investment, should be implemented without delay.

Slovenia

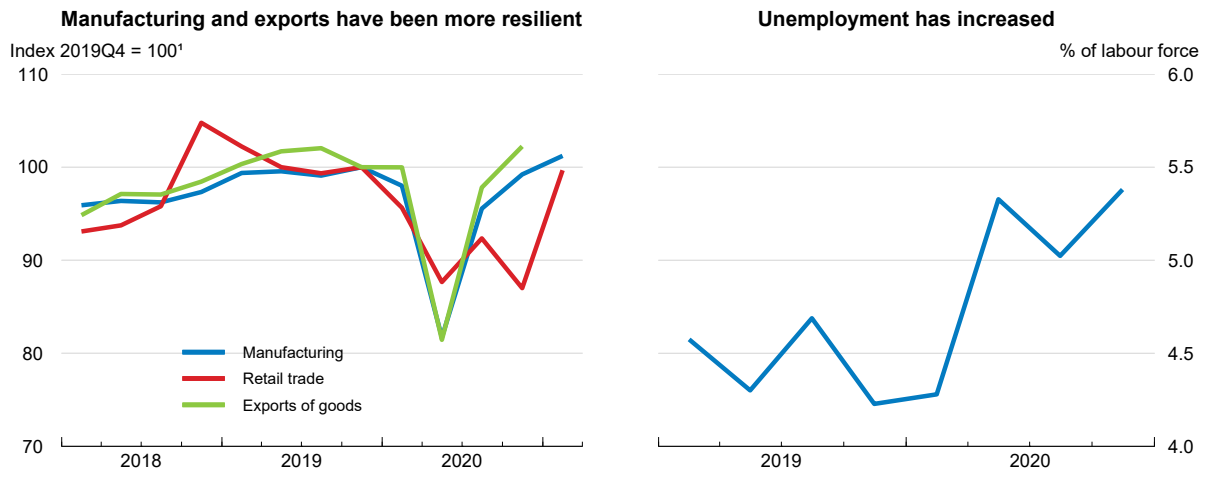
Economic growth is projected to rebound and reach 3.5% in 2021 and 4.6% in 2022. New pandemic-related restrictions in early 2021 have delayed the recovery, but growth will pick up in the second half of 2021 as vaccination progresses. Lower uncertainty and favourable financing conditions will encourage private investment, while EU funds will support public investment. After increasing temporarily in 2020 thanks to crisis-related bonuses, wages and incomes are expected to grow at a slower pace.

Expansionary fiscal and monetary policies are continuing to support growth in 2021. Policy support should be removed only when the recovery is firmly underway. The focus on health and long-term care, environmental and digital infrastructure in the EU-funded recovery plan will help support greener and more inclusive growth. Active labour market policies need to go along with investment plans to avoid leaving hard-to-employ job seekers behind. Accelerating privatisations would facilitate the effective reallocation of resources.

A resurgence of the pandemic prompted a tightening of restrictions

After a severe second wave in late 2020, nationwide restrictions were progressively lifted in early 2021. However, with the quick spread of COVID-19 variants, the number of cases and deaths increased again significantly in March 2021, leading to a third lockdown as of 1 April, which entailed the closure of schools and non-essential business, a ban on public gatherings, movement limitations, and a reduced public passenger transport service. Restrictions were lifted gradually in April-May, as the epidemiological situation improved. Vaccination has progressed at the same pace as the European average.

Slovenia



1. Manufacturing refers to the production index s.a., retail trade to sales in real terms s.a., while exports of goods are expressed in real terms s.a.
Source: OECD Economic Outlook 109 database; OECD Main Economic Indicators database; and Eurostat database.

StatLink https://stat.link/zuvt3r

Slovenia: Demand, output and prices

Slovenia	2017	2018	2019	2020	2021	2022
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	43.0	4.4	3.2	-5.5	3.5	4.6
Private consumption	22.6	3.6	4.8	-9.7	2.5	8.7
Government consumption	7.9	3.0	1.7	1.8	3.6	1.2
Gross fixed capital formation	7.9	9.6	5.8	-4.1	6.9	7.6
Final domestic demand	38.4	4.7	4.4	-6.2	3.7	6.7
Stockbuilding[1]	0.7	0.3	-0.8	-0.4	0.0	0.0
Total domestic demand	39.1	5.0	3.4	-6.5	5.8	6.6
Exports of goods and services	35.8	6.3	4.1	-8.7	7.9	5.7
Imports of goods and services	31.9	7.2	4.4	-10.2	8.7	8.3
Net exports[1]	3.9	-0.1	0.1	0.4	0.2	-1.4
Memorandum items						
GDP deflator	_	2.2	2.3	1.3	1.7	1.9
Harmonised index of consumer prices	_	1.9	1.7	-0.3	0.8	1.1
Harmonised index of core inflation[2]	_	1.0	1.9	0.8	0.5	1.4
Unemployment rate (% of labour force)	_	5.1	4.4	5.0	5.2	4.5
Household saving ratio, net (% of disposable income)	_	6.1	6.0	18.9	18.8	13.5
General government financial balance (% of GDP)	_	0.7	0.4	-8.4	-8.5	-5.3
General government gross debt (% of GDP)	_	84.0	86.2	101.0	102.4	105.1
General government debt, Maastricht definition (% of GDP)	_	70.3	65.6	80.4	81.8	84.5
Current account balance (% of GDP)	_	5.8	5.6	7.3	5.9	4.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/xr6fji

New restrictions have delayed the economic recovery

The impact of sanitary measures was mostly concentrated on services requiring close proximity and interaction. The trade sector was also affected, although less than in spring 2020, as businesses and consumers adapted and increasingly used online shopping and home delivery. Consumer confidence dropped only modestly in April 2021 despite the renewed restrictions and much less than a year ago. Manufacturing, transportation and construction were significantly less affected. Manufacturing output and exports of goods to EU countries have already reached pre-pandemic levels and continue to increase. In March 2021, exports increased 18% year-on-year.

Policy support has prevented further employment and income losses

Fiscal and monetary policies have been appropriate and helped to prevent further job and income losses, bankruptcies and a more significant economic downturn in 2020. Another fiscal policy package was approved in February 2021, amounting to around EUR 320 million (0.7% of GDP in 2019). Many of the support measures, such as the furlough scheme and the short-time work scheme, were extended until at least mid-2021. Additional allowances have been paid to students, the unemployed, pensioners and healthcare workers. The government also decided to support firms employing minimum-wage workers and cover part of the cost associated with the almost 9% minimum wage increase in 2021.

Economic growth is projected to pick up as vaccination progresses

Increased vaccination and containment of the epidemic has allowed restrictions to be progressively lifted over the spring of 2021. As business and consumer confidence increase and uncertainty diminishes, the economic recovery is expected to strengthen at the end of the year and to accelerate throughout 2022, mostly driven by domestic demand. The crisis has exposed the need for greater digitalisation and, together with favourable financing conditions, this should help boost investment in new machinery and equipment. Housing investment is also expected to benefit from accumulated household saving, which increased significantly during the crisis. The government is planning major infrastructure projects in 2021-2022. As the short-time work and furlough schemes are gradually withdrawn, firms will first re-employ workers that were temporarily dismissed and increase hours worked. Unemployment will fall and almost return to pre-pandemic levels at the end of 2022. Real wages and disposable income will grow at a slower pace as government support is withdrawn and crisis bonuses are no longer paid. Inflation will therefore remain moderate as the economy recovers. The main downside risk comes from new virus variants or a slower-than-expected vaccination rollout leading to prolonged restrictions on economic activity and travelling. On the upside, the recovery would be stronger if households' confidence and consumption were to rebound faster than projected.

Policy measures are needed to promote a green and inclusive recovery

Policy support should continue to mitigate the impact of the crisis on the labour market and only be withdrawn gradually. Drawing on the funding available under the Next Generation EU programme and additional national funds, the government has planned substantial infrastructure investments in the health and long-term care sectors, and for a green and digital transformation. As some jobs will be permanently lost and new ones require different skills, active labour market policies, such as adequate job search support, upskilling and reskilling, are needed to prevent low-skilled workers, older workers and hard-to-employ job seekers being excluded from the economic recovery. The high share of state-owned enterprises could be an obstacle to the reallocation of resources towards viable sectors and firms during the recovery. Accelerating privatisations could facilitate the effective reallocation of capital and workers.

South Africa

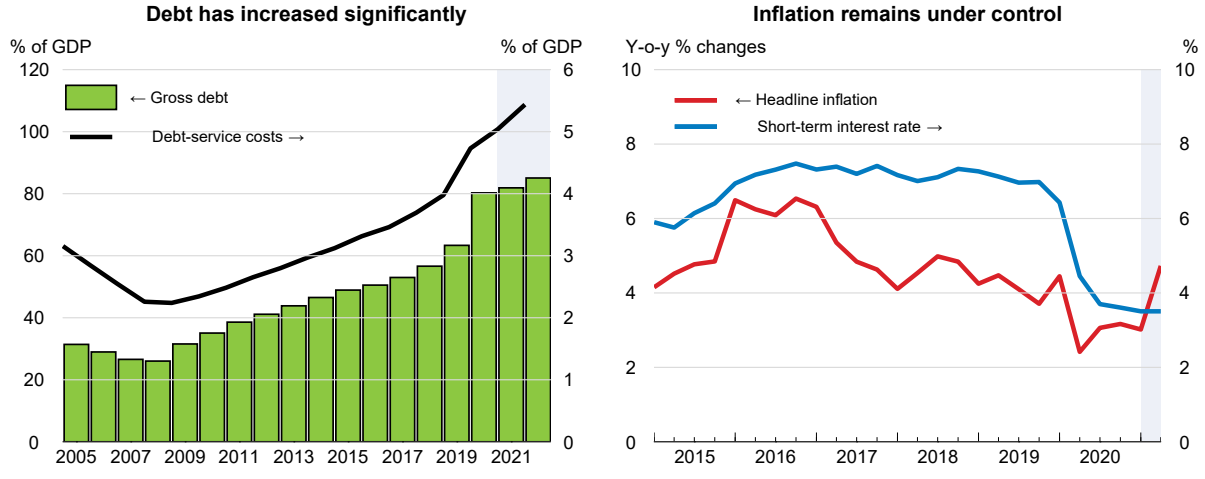
The economy is projected to rebound by 3.8% in 2021 and 2.5% in 2022.The strong rebound at the end of 2020 has slowed in the first half of 2021 due to a protracted second wave of the virus that has held back economic activity. However, growth is projected to pick up in the second half of the year, driven by domestic demand and commodity exports. Household consumption will contribute significantly to growth as the economy opens up and exceptional savings last year are spent at least partially. Private investment will progressively strengthen.

Inflation is increasing, but will remain below the Reserve Bank's target, allowing the monetary policy authorities to maintain current policy interest rates until the end of 2021. Fiscal policy will continue to be constrained to limit debt growth. However, implementing the government's infrastructure investment plan is essential to lift growth potential, requiring better prioritisation of spending. Unlocking electricity production will be key to lifting production bottlenecks and restoring confidence.

The spread of the virus has slowed down

The spread of the virus has slowed significantly since the peak of the third wave in mid-January. In February, the first phase of the vaccination programme started, targeting over 1.5 million healthcare workers. By mid-May, around 400 thousand people, less than one per cent of the population, had been vaccinated. The rollout of the vaccination programme has started slowly, affected by the abandonment of a key vaccine. However, the government has secured around 60 million doses of alternative vaccines, which should allow vaccination of the targeted 14 million adults between mid-May and October. Since 1 March, South Africa has been easing restrictions and returned to the lowest alert level, which establishes an overnight curfew, a closure of restaurants and recreation activities from 11 pm and mandatory face mask wearing in public.

South Africa



Source: National Treasury; and OECD Economic Outlook 109 database.

StatLink https://stat.link/rsl26d

South Africa: Demand, output and prices

South Africa	2017	2018	2019	2020	2021	2022
	Current prices ZAR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	4 659.2	0.8	0.2	-7.0	3.8	2.5
Private consumption	2 756.5	1.8	1.0	-5.4	5.1	3.3
Government consumption	967.9	1.9	1.5	0.5	0.5	0.6
Gross fixed capital formation	873.2	-1.4	-0.9	-17.5	1.6	5.4
Final domestic demand	4 597.7	1.2	0.8	-6.3	3.5	3.0
Stockbuilding[1]	1.9	-0.2	0.0	-2.3	-0.7	0.0
Total domestic demand	4 599.6	1.0	0.7	-8.9	2.8	3.2
Exports of goods and services	1 378.7	2.6	-2.5	-10.3	12.7	6.3
Imports of goods and services	1 319.1	3.3	-0.5	-16.6	9.2	8.8
Net exports[1]	59.6	-0.2	-0.6	2.1	1.0	-0.6
Memorandum items						
GDP deflator	_	3.3	4.2	5.5	4.3	4.0
Consumer price index	_	4.6	4.1	3.3	4.1	4.4
Core inflation index[2]	_	4.2	4.1	3.4	4.0	4.4
General government financial balance (% of GDP)	_	-3.1	-4.6	-10.4	-9.0	-7.6
Current account balance (% of GDP)	_	-3.6	-3.0	2.2	1.7	0.3

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/3vbj0o

The economy is recovering

The recovery is uneven across sectors though economic activity rebounded strongly in the last quarter of 2020. Household consumption increased by 7.5%, with spending mainly rising on restaurants and hotels. Investment also contributed strongly to the rebound, growing by 12%. The agriculture sector has already recovered to pre-crisis levels boosted by favourable rainfall conditions. Mining activity is also high, strongly supported by robust foreign demand and high commodity prices. However, manufacturing and construction remain subdued, affected by low demand, destocking and persistent bottlenecks to production. The service sector is still impacted, held back by the low level of tourism, transport and trade.

Fiscal policy remains supportive despite limited resources

Monetary policy remains accommodative. Despite a slight increase in long-term inflation expectations, the Reserve Bank has maintained the repurchasing rate at 3.5% since March 2020 and is expected by market participants to maintain a supportive position until the end of the year. The government remains committed to support firms and households despite limited fiscal space. The COVID-19 loan guarantee scheme (ZAR 18.1 billion or 0.4% of GDP guaranteed by the end of March) has been extended for three months up to July 2021. The special COVID-19 social relief of distress grants for low-income households and the temporary employment relief scheme have been extended for an additional three months. Spending of the public employment initiative has been increased by ZAR 11 billion (0.2% of GDP) in 2021/22.

Vaccination needs to accelerate for a sustained economic rebound

As the spread of the virus has receded, GDP growth is projected to rebound significantly in the rest of the year. Household consumption will be leading growth thanks to continued government financial support to households and workers, and the use of exceptional savings accumulated last year. Investment driven by foreign demand for exports will pick up over the projection period and become the main engine of growth from the end of 2021 onwards.

The global recovery and high commodity prices are supportive of growth. On the downside, the inability to control public debt increases could trigger a loss of confidence from markets and associated higher premiums, escalating the cost of borrowing in the economy. Domestic banks are exposed to government bonds as they substituted for foreign investors, with their share of bond holdings rising from 16.8% to 22% during 2020. Adopting the freeze of wages of civil servants during ongoing wage negotiations in the public sector is crucial for the credibility of the commitment to limit public spending increases. Moreover, persistent shortages in electricity production would hold back the economy. Finally, a fast rollout of vaccination would lift business confidence and investment but failing to do so would harm the economy.

Implementing structural reforms is key for the recovery

A progressive winding down of policy support to firms and employment is necessary to ensure that solvent firms do not go bankrupt due to liquidity shortages. Keeping the Reserve Bank liquidity support to the banking sector will be necessary until at least next year. Support schemes in hard-hit sectors such as tourism should not be withdrawn too early. Implementing the government's infrastructure plan and reforms to reduce the cost of doing business are key to lift potential growth. In addition, restoring the financial sustainability of state-owned enterprises can contribute to investment and boost confidence. An employment policy incentivising job creation will be needed as the pandemic retreats, to help regain the 1.4 million job losses since the beginning of the COVID-19 that have disproportionally affected low-skilled workers.

Spain

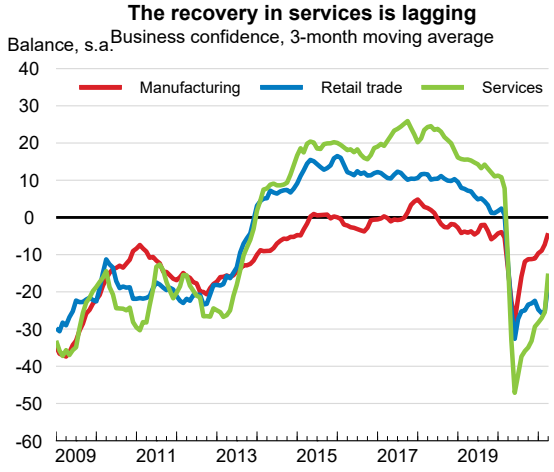
As vaccination advances and restrictions are progressively lifted, economic activity will pick up strongly. GDP is projected to grow by 5.9% in 2021 and 6.3% in 2022, supported by pent-up demand, the national recovery plan and a gradual pick-up of tourism. Reduced uncertainty will lead to a sharp decline in precautionary saving and support private consumption. Investment is expected to pick up significantly from the second half of 2021 as expectations improve and the Next Generation EU funds provide additional support.

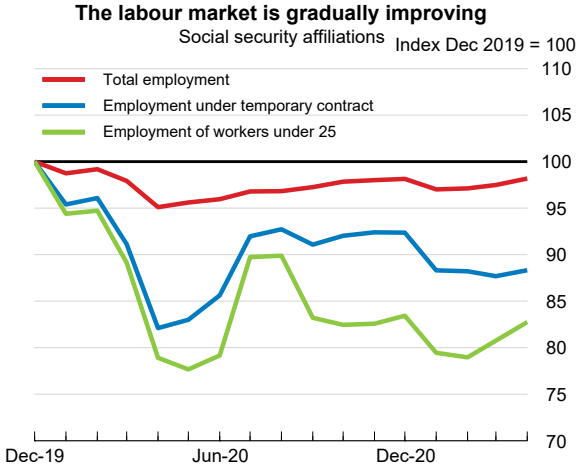
Fiscal policy is set to remain expansionary in 2021, supporting firms and workers in the most affected sectors and regions. The announced direct aid to viable firms should be executed swiftly. Improving the efficiency of active labour market policies and ensuring training opportunities for workers on job retention schemes are important to support workers disproportionately hit by the pandemic. Promoting out-of-court proceedings, especially for SMEs, should be prioritised to prevent court congestion when the insolvency moratorium expires.

The containment measures have been lifted partially

The reduction in infections has led to the partial lifting of containment measures since March, and the state of emergency and the national night-time curfew ended on 9 May. The remaining restrictions, such as capacity constraints and limited opening hours for restaurants, vary across regions. The speed of vaccination picked up recently.

Spain





Source: OECD Monthly Economic Indicators; and Ministry of Inclusion, Social Security and Migration.

StatLink https://stat.link/b3q10t

Spain: Demand, output and prices

Spain	2017	2018	2019	2020	2021	2022
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	1 161.9	2.4	2.0	-10.8	5.9	6.3
Private consumption	678.1	1.8	0.9	-12.1	6.4	5.6
Government consumption	216.3	2.6	2.3	3.8	2.6	1.7
Gross fixed capital formation	216.9	6.1	2.7	-11.4	8.4	12.3
Final domestic demand	1 111.4	2.8	1.5	-8.8	5.9	6.1
Stockbuilding[1]	8.6	0.3	-0.1	-0.3	-0.2	0.0
Total domestic demand	1 120.0	3.1	1.4	-9.1	5.7	6.1
Exports of goods and services	408.4	2.3	2.3	-20.2	9.8	9.5
Imports of goods and services	366.5	4.2	0.7	-15.8	9.6	9.3
Net exports[1]	41.9	-0.5	0.6	-2.0	0.2	0.2
Memorandum items						
GDP deflator	_	1.2	1.4	1.1	0.8	1.3
Harmonised index of consumer prices	_	1.7	0.8	-0.3	1.6	1.1
Harmonised index of core inflation[2]	_	1.0	1.1	0.5	0.4	0.9
Unemployment rate (% of labour force)	_	15.3	14.1	15.5	15.4	14.7
Household saving ratio, net (% of disposable income)	_	1.4	2.0	10.5	7.3	4.4
General government financial balance (% of GDP)	_	-2.5	-2.9	-11.0	-8.6	-5.4
General government gross debt (% of GDP)	_	114.5	117.3	146.8	146.5	144.3
General government debt, Maastricht definition (% of GDP)	_	97.4	95.5	120.0	119.7	117.4
Current account balance (% of GDP)	_	1.9	2.1	0.7	0.6	1.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/ctaf1q

The uneven effects of the pandemic persist

Following the weak start in 2021 due to the third wave, with GDP declining slightly in the first quarter, there are some indications that the economy is rebounding, in line with the improvement of health indicators and the relaxation of containment measures. In April, the number of workers on job retention schemes decreased by 14% to around 600 thousand. Credit card spending increased by 9% in the first week of May, compared to a year ago. The recovery in manufacturing has been faster than in services sectors, but there was a significant pick-up in activity and confidence indicators for services in April. The labour market is improving, although less so for vulnerable workers who tend to be employed in retail and tourism-related sectors with temporary contracts.

Fiscal policy remains supportive

The government has introduced direct fiscal support (6.4% of GDP) and liquidity measures (14.3% of GDP) since March 2020. The extension of the job retention schemes and the aid to the self-employed are under discussion. The moratorium on home evictions and deferral of rent payments for vulnerable groups were extended until August. Direct aid measures to firms (0.9% of GDP), including non-reimbursable grants to viable firms in the most impacted sectors and two funds for recapitalisation and loan restructuring, were recently introduced. The insolvency moratorium remains in effect until the end of the year. The national recovery plan, incorporating the use of EUR 70 billion (5.8% of GDP in 2019) of the Next Generation EU funds over the coming three years, will provide further support.

Growth will be supported by the national recovery plan

GDP is projected to rebound strongly, as the gradual deployment of vaccines enables the release of pent-up demand and a gradual recovery of tourism. Policies will continue to limit job losses and cushion the damage to productive capacity in 2021. Greater dynamism from the second half of 2021 will lead to a strong carryover effect in 2022, in addition to the support provided by the recovery plan. Lower restrictions and uncertainty will lead to a decline in precautionary saving and support private consumption, but accumulated savings in 2020-22 in excess of pre-pandemic levels are assumed to augment net wealth as they are concentrated in higher-income households. Investment will grow robustly, supported by declining uncertainty and EU funds. Inflation will remain subdued as slack remains. A downside risk is an increase in insolvencies once policy support is phased out. A faster-than-projected vaccination rollout and a swifter use of the EU funds than projected would raise growth.

Flexibility in implementing aid and quality training are key to effective reallocation

The swift implementation of the direct aid measures, which could be delayed as some regions might not be equipped with resources to identify viable firms, is crucial. If the crisis persists longer than projected, there might be a need to increase the amount of funding for this type of direct aid. The transposition of the EU Insolvency Directive should be brought forward to ensure the smooth exit of non-viable firms. Maintaining a flexible labour market that allows firms to adapt to potential post-pandemic structural adjustments, including by prioritising firm level agreements, can support the recovery. Increasing the allocation of active labour market spending towards training, raising the quality of training, and developing public job training programmes targeted to low-skilled workers can enable effective re-training and upskilling of workers and facilitate their reallocation to sectors with better prospects.

Sweden

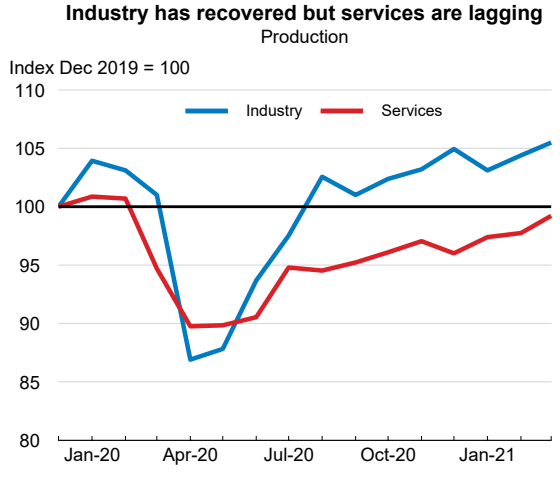
The Swedish economy is rebounding, with projected GDP growth close to 4% in 2021 and 3½ per cent in 2022, on the back of rising exports, which boost manufacturing production and investment, and strong fiscal and monetary support. During the first half of 2021, pandemic-related restrictions and voluntary distancing have held back the recovery in services requiring face-to-face interaction, but growth will broaden during the second half of the year. Unemployment is expected to decline gradually. Inflation is set to remain below the 2% target throughout 2021 and 2022.

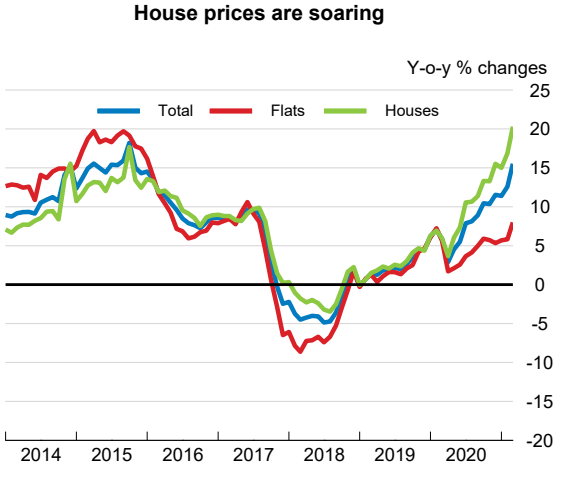
Monetary policy will remain very accommodative, but margins for further expansion are limited. Short-time work and several schemes to help businesses have mitigated the impact of the crisis and further fiscal support is being provided in 2021. Support is to be phased out once the pandemic is brought under control and the recovery is well underway. The return to the budget surplus target should be very gradual. Monetary policy will need to remain accommodative until inflation is durably close to target, with activity expanding at a robust pace.

Sweden is facing a third wave of COVID-19 infections

The number of daily infections is close to the second peak of December 2020 and intensive care units are under pressure. Distancing measures vary across regions. Since January 2021, the Swedish health authorities have imposed tougher measures, including reducing business hours, limiting visitor numbers in shops and other public places, and closing business activities. As of 21 May, 42% of the adult population had received at least one vaccine dose. The objective is to have the entire adult population vaccinated by 15 August.

Sweden





Source: Statistics Sweden; and Valueguard.

StatLink https://stat.link/m4hs38

Sweden: Demand, output and prices

Sweden	2017	2018	2019	2020	2021	2022
	Current prices SEK billion	Percentage changes, volume (2019 prices)				
GDP at market prices	4 624.2	2.1	1.4	-3.0	3.9	3.4
Private consumption	2 114.2	1.9	1.2	-4.7	3.2	4.6
Government consumption	1 203.4	1.1	0.3	-0.9	2.1	0.8
Gross fixed capital formation	1 163.2	1.4	-3.0	0.3	4.8	4.3
Final domestic demand	4 480.8	1.5	-0.1	-2.4	3.3	3.5
Stockbuilding[1]	27.3	0.3	-0.1	-0.8	-0.3	0.0
Total domestic demand	4 508.1	1.8	-0.3	-3.1	3.0	3.5
Exports of goods and services	2 021.9	4.5	4.9	-5.6	10.7	4.6
Imports of goods and services	1 905.8	4.0	1.4	-6.2	9.3	5.0
Net exports[1]	116.1	0.3	1.7	0.0	1.0	0.1
Memorandum items						
GDP deflator	_	2.4	2.7	1.5	1.5	1.0
Consumer price index[2]	_	2.0	1.8	0.5	1.6	1.4
Core inflation index[3]	_	2.1	1.7	0.5	1.7	1.4
Unemployment rate[4] (% of labour force)	_	6.3	6.8	8.3	8.4	7.5
Household saving ratio, net (% of disposable income)	_	13.4	16.1	17.9	15.1	13.3
General government financial balance (% of GDP)	_	0.8	0.6	-3.1	-3.3	-1.6
General government debt, Maastricht definition (% of GDP)	_	38.9	35.0	39.9	39.9	39.4
Current account balance (% of GDP)	_	2.6	5.1	5.2	6.4	6.2

1. Contributions to changes in real GDP, actual amount in the first column.
2. The consumer price index includes mortgage interest costs.
3. Consumer price index with fixed interest rates.
4. Historical data and projections are based on the definition of unemployment which covers 15 to 74 year olds and classifies job-seeking full-time students as unemployed. The break in the time series resulting from the adaptation of the Swedish Labour Force Surveys (LFS) to the new EU framework regulation from 2021 onwards has not been taken into account in the projections.

Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/p2fmlx

Manufacturing is bouncing back, but the pandemic still holds back services

Strong exports are raising industrial production, which has already surpassed its pre-crisis level. Manufacturing confidence is well above its historical average. Meanwhile, pandemic-related restrictions and voluntary distancing are holding back activity in services requiring face-to-face interaction. Google retail and recreation mobility trends remain nearly 20% below normal. Service confidence remains weak, especially for hotels and restaurants.

Fiscal and monetary policy strongly support the economy

Budgeted discretionary measures related to the pandemic amount to SEK 259 billion (5% of GDP) in 2021, up from SEK 161 billion (3.3% of GDP) in 2020. Higher subsidies within the short-time work scheme will be extended until mid-2021 and employers are now eligible for financial support covering 60% of the cost of training for employees on reduced working hours. The government supports businesses having lost a large share of their turnover during the pandemic, notably through compensation for up to 100% of fixed costs, up to a monthly maximum of SEK 75 million (EUR 7.4 million) per business. Healthcare spending has increased markedly, including for testing, vaccination, prevention and elderly care. The number of places in education and training is increasing, along with targeted education and training for vulnerable groups and further measures to improve labour market matching.

Monetary policy remains very expansionary with the policy rate expected to remain at zero until at least end-2023. As of 30 April 2021, the Riksbank had spent the equivalent of about 3.3% of GDP on corporate lending via banks and 9.9% of GDP on extended purchases of securities, including mortgage and corporate bonds.

The recovery is set to gather pace after distancing measures ease

Strong exports will continue to boost growth and will lift business investment. Government consumption and investment will also support the recovery. As distancing measures are eased, private consumption will pick up, reflecting pent-up demand and elevated asset prices. Soaring housing prices are also expected to push up residential investment. Unemployment is projected to decline gradually as economic activity recovers and labour market and training measures facilitate job matching. Inflation is likely to remain below the 2% target, reflecting moderate wage bargaining agreements and persistent slack in parts of the economy.

An appreciation of the krona would pull down inflation further. Rising housing prices and household debt, from already high levels, increase financial and macroeconomic risks. The reinstatement of the mortgage amortisation requirement, which was lifted during the pandemic, from September 2021 is welcome. If housing prices continue to soar, other measures to cool the housing market should be considered, such as tightening limits on mortgage loan-to-value or debt-to-income ratios, raising property taxes or phasing out mortgage interest deductibility, along with measures to streamline land-use planning procedures.

Policy support should remain until the recovery is well established

The government should continue to support households and businesses until distancing restrictions are eased and to buttress demand until the recovery strengthens. Investments in education, training and labour market measures will provide skills for expanding activities, notably digital and green developments, and will help bring down unemployment. Further investments to accelerate the environmental transition could boost growth. If the recovery proves weaker than projected, there is scope for further fiscal expansion to support demand, as margins for monetary policy are limited and government debt remains low.

Switzerland

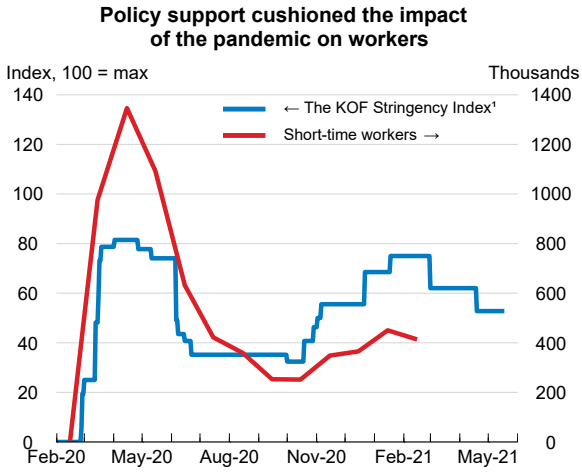
Real GDP is projected to increase by 3.2% in 2021 and 2.9% in 2022, supported by the easing of containment measures and stronger sentiment amid the subsiding pandemic. Improving labour market prospects and the progressive reduction of currently high saving will underpin consumption growth. Investment should rebound on the back of reduced uncertainty. With the recovery progressing, deflation pressures will fade, but inflation should remain well within the target range.

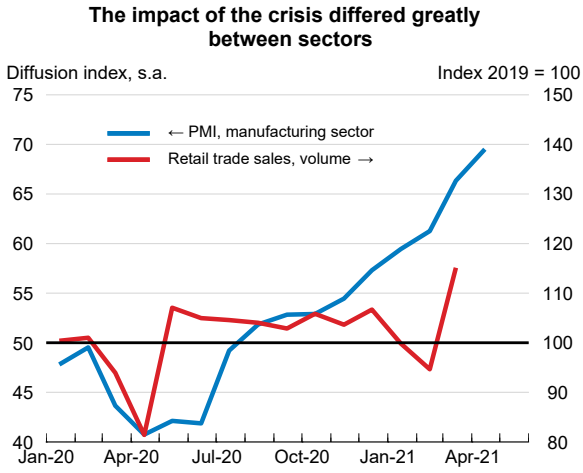
The government moved swiftly to support employment and incomes during the downturn. The fiscal stance is expected to remain adequately supportive in 2021. Fiscal measures should become better targeted to support viable jobs and companies. Structural reforms should be accelerated, including ones to strengthen the business environment and remove internal barriers to competition. With low inflation expectations and still high uncertainty, monetary policy should remain accommodative.

The economy is gradually reopening as the vaccination campaign progresses

Faced with a large rise in infections in autumn 2020, the authorities gradually raised distancing requirements in the fourth quarter of the year and imposed a partial lockdown in January 2021 that significantly lowered the number of daily infections. The easing of restrictions started in March with the reopening of non-essential shops, museums and sports facilities. The increasing circulation of new COVID-19 variants poses risks that the authorities plan to mitigate by accelerating vaccinations, strengthening testing capacities and providing free self-tests to households. While supply bottlenecks delayed the vaccination campaign, the Confederation maintains its objective of inoculating 70% of the population by end-June.

Switzerland





1. The KOF Stringency Index record the stringency of COVID-19 policy measures in Switzerland. The values range from 0 (no measures) to 100 (full lockdown).
Source: Refinitiv; KOF Swiss Economic Institute; and SECO.

StatLink https://stat.link/085piy

Switzerland: Demand, output and prices

Switzerland	2017	2018	2019	2020	2021	2022
	Current prices CHF billion	Percentage changes, volume (2015 prices)				
GDP at market prices	694.0	3.0	1.1	-3.0	3.2	2.9
Private consumption	365.3	0.8	1.4	-4.5	3.6	3.0
Government consumption	78.6	0.9	0.9	2.9	4.0	-0.8
Gross fixed capital formation	180.2	0.8	1.2	-1.7	2.3	2.9
Final domestic demand	624.1	0.8	1.3	-2.7	3.3	2.5
Stockbuilding[1]	- 6.9	0.3	0.1	0.6	-0.8	0.0
Total domestic demand	617.3	1.1	1.4	-2.1	2.4	2.5
Exports of goods and services	452.5	3.4	-0.1	-6.8	4.9	5.8
Imports of goods and services	375.7	0.4	0.0	-6.3	3.7	5.8
Net exports[1]	76.7	2.0	-0.1	-1.1	1.2	0.7
Memorandum items						
GDP deflator	_	0.7	-0.1	-0.6	-0.5	0.7
Consumer price index	_	0.9	0.4	-0.7	0.2	0.4
Core inflation index[2]	_	0.5	0.4	-0.3	0.4	0.5
Unemployment rate (% of labour force)	_	4.7	4.4	4.8	5.4	5.3
Household saving ratio, net (% of disposable income)	_	16.0	16.2	20.9	18.9	17.4
General government financial balance (% of GDP)	_	1.3	1.4	-2.6	-3.5	-0.6
General government gross debt (% of GDP)	_	39.8	41.0	43.0	46.8	47.8
Current account balance (% of GDP)	_	6.7	6.7	3.8	5.2	5.4

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/1upgx0

The second wave of infections halted the recovery

With the reintroduction of containment measures, growth significantly slowed in the fourth quarter of 2020. Up to February 2021, the service sectors continued to be severely restricted and retail trade fell sharply. For the manufacturing sector, on the other hand, survey data indicated a continued and strong recovery. According to the KOF indicator, the improvement of the business situation was more broad-based across sectors in March and April and retail trade rebounded significantly. The rise in the unemployment rate stalled in the first quarter, but the number of workers on short-time working hours increased from about 250 thousand in October 2020 to 450 thousand in January 2021. Headline inflation has edged up due to rising commodity prices and currency depreciation, turning slightly positive in April.

A strong policy response helped cushion employment and incomes

In 2020, the authorities provided generous support to workers and firms through job retention schemes, income compensation for the self-employed and credit guarantees for enterprises. This was complemented by measures targeted to the sport and culture, tourism and airlines industries. Most of these programmes were extended to 2021 and the credit guarantee programme was followed by a broader “hardship clause” programme providing guarantees, loans or grants to companies significantly affected by the pandemic restrictions. Monetary policy remains very accommodative, with a negative policy interest rate and actions taken to counter safe-haven pressures on the Swiss franc and sustain dollar liquidity and bank credit.

The easing of restrictions will foster a rebound in economic activity

The gradual lifting of restrictions along with the rollout of vaccines will trigger a rebound in activity from the second quarter of 2021 onwards. Lower uncertainty and the low cost of capital will foster a recovery in investment. Improvements in labour market conditions and a reduction of households' currently high saving will support consumption. In addition, buoyant external demand should encourage exports. However, the decline in unemployment is projected to be gradual, reflecting the eventual removal of policy support and an expected rise in bankruptcies. Inflation should turn positive but will remain low. Uncertainty is high. A failure to conclude an institutional agreement with the European Union regarding market access would negatively impact trade. Moreover, the continued rise in transaction prices and growing vacancy rates in residential housing raise vulnerabilities related to the real estate market. On the upside, rapid progress in vaccination could further unleash private consumption.

Fostering productivity and an inclusive recovery should be a priority

With large uncertainties and projected low inflation, monetary policy should remain accommodative. Financial risks, including those related to the real estate market, should be closely monitored. Large fiscal support has appropriately buttressed the economy during the downturn and should be maintained until the recovery is well established. Over time, fiscal measures should become more targeted, to support viable jobs and companies, and should aim to facilitate job transitions. Strengthening the business environment, lowering barriers to competition, ensuring greater equity in education and boosting adults' digital skills would foster productivity and help sustain the recovery.

Turkey

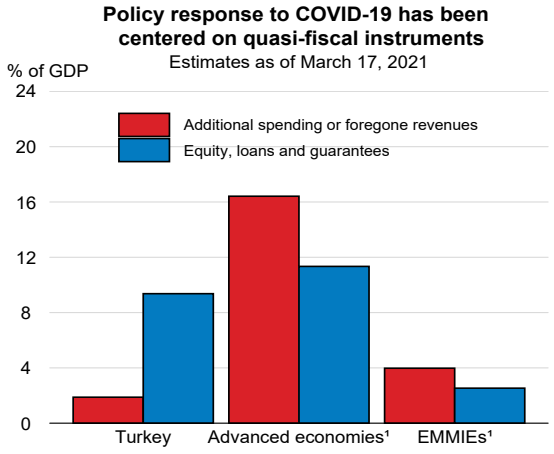
In the absence of further major shocks, GDP growth is projected to be 5.7% in 2021 before easing to 3.4% in 2022. Following significant but unsustainable quasi-fiscal stimulus, changes to more sustainable macroeconomic policies late in 2020 were altered at the end of the first quarter of 2021, disrupting market sentiment and expectations. The surge in infections which appears to have peaked in May, new confinement measures and the gradual phasing out of job retention schemes will affect employment, incomes and private consumption from the second quarter of 2021.

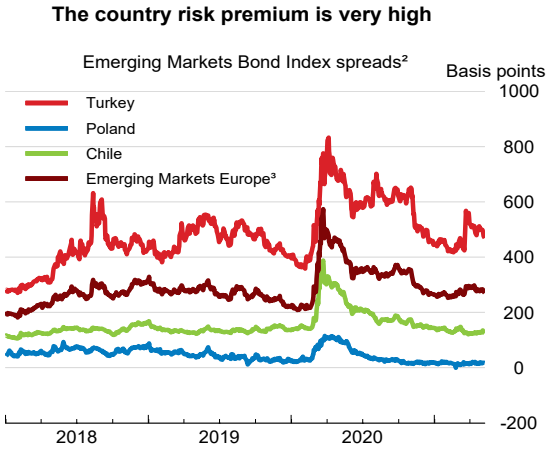
The macroeconomic policy mix should be strengthened considerably. The government should rely more on direct fiscal support to vulnerable households and firms instead of concessional loans. Monetary policy should unambiguously target disinflation. Policy credibility is essential to secure the international funding required to finance the external deficit and to roll over maturing external debt safely. Reducing employment costs and promoting more flexible employment forms would boost job creation. Widening equity capital sources would help reduce high corporate leverage and promote the growth of promising businesses.

The third wave of the pandemic has been particularly severe

Infections have soared since March but may have peaked in May. Fatalities have increased sharply and the relatively large intensive care capacities have come under pressure in large urban areas. Three successive sets of confinement measures were introduced in April, including a full lockdown at the end of the month. The vaccine rollout started fast in February but faced severe procurement difficulties, forcing the authorities to downscale plans and to seek more diversified procurement strategies.

Turkey





1. EMMIEs stands for emerging market & middle-income economies. According to the classification of economies in the IMF Fiscal Monitor.
2. The last data point refers to May 10th, 2021.
3. Including Turkey.
Source: IMF Fiscal Monitor database; and Factset.

StatLink https://stat.link/juc89d

Turkey: Demand, output and prices

Turkey	2017	2018	2019	2020	2021	2022
	Current prices TRY billion	Percentage changes, volume (2009 prices)				
GDP at market prices	3 133.7	3.0	0.9	1.8	5.7	3.4
Private consumption	1 836.6	0.7	1.6	2.9	6.7	3.7
Government consumption	450.6	6.5	4.3	2.2	0.5	1.5
Gross fixed capital formation	935.6	-0.3	-12.4	6.5	5.6	5.9
Final domestic demand	3 222.9	1.2	-2.1	3.7	5.4	4.0
Stockbuilding[1]	26.2	-2.6	0.0	5.5	-2.8	0.0
Total domestic demand	3 249.1	-1.6	-2.1	9.4	2.6	3.8
Exports of goods and services	816.0	9.0	4.9	-15.4	22.0	7.1
Imports of goods and services	931.4	-6.4	-5.3	7.4	11.2	8.1
Net exports[1]	- 115.4	4.2	3.2	-7.3	2.7	-0.5
Memorandum items						
GDP deflator	_	16.5	13.9	14.8	18.1	12.3
Potential GDP, volume	_	5.1	4.4	4.0	3.9	3.7
Consumer price index[2]	_	16.3	15.2	12.3	16.0	12.8
Core inflation index[3]	_	16.5	13.4	11.2	16.3	12.8
Unemployment rate (% of labour force)	_	10.9	13.7	13.1	14.0	14.2
Current account balance (% of GDP)	_	-2.3	0.9	-5.2	-3.6	-3.4

1. Contributions to changes in real GDP, actual amount in the first column.
2. Based on yearly averages.
3. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/jo6prt

The economic recovery faces strong headwinds

Buoyant growth in the second half of 2020, driven by large quasi-fiscal support, increased inflation, widened the current account deficit and created concerns about fiscal sustainability. This was followed by credible monetary restraints and fiscal transparency commitments at the end of the year. Labour markets remained weak, with a persisting low employment rate, reduced labour force participation – notably by women – and the unemployment rate reaching 25% for youth. Ongoing improvements in business and consumer sentiment were hit by unexpected changes in monetary policy leadership at the end of the first quarter. Resulting disruptions in capital flows, risk premia, inflation expectations and long-term interest rates, combined with an exceptional surge of infections in April and new mobility restrictions, created headwinds that will likely last for some time.

The policy mix should be rebalanced

Policy support to mitigate COVID-19 effects is still excessively centred on concessional loans. This is not sustainable for vulnerable firms and households, as income losses from the pandemic linger. While the government pursues official fiscal consolidation targets, these loans involve relatively opaque and potentially considerable contingent liabilities for the public finances. The continuation of the pandemic, low employment rates and household incomes, and increased debt burdens and re-financing costs for both firms and households call for direct support. The relatively low public-debt-to-GDP ratio allows room for such targeted and temporary transfers. The new management of the central bank has reiterated its commitment to the 5% inflation target - against both headline and core inflation above 17% in the first quarter of 2021 and persisting inflationary pressures. However, it no longer mentions further policy

tightening in its forward guidance statements. The monetary policy outlook is blurred and credibility must be re-built in an environment of doubts about central bank independence.

The recovery will be gradual and large uncertainties persist

A gradual recovery is projected after a contraction of activity in the second quarter of 2021. The phasing out of job retention schemes, combined with increased debt burdens and re-financing costs of firms and households, will weigh on domestic demand. Exports are projected to stay strong, except in tourism. The outlook for public and private banks' problem loans at the expiration of forbearances granted during the pandemic remains uncertain. No major disruption is projected to the lending capacity of banks in the short term but credit growth is expected to stay lower than in 2020.

Large downward and upward risks weigh on the projections, depending on developments in the pandemic, the domestic macroeconomic policy mix, and international funding conditions. External financing needs will exceed 30% of GDP in the next 12 months due to pending debt roll-overs. Capital outflows after the weakening of international investor confidence put additional pressure on the balance of payments. Further tensions in the availability and cost of external funding would hinder the recovery and may raise destabilisation risks.

Rebuilding confidence in macroeconomic policy and structural reforms are key

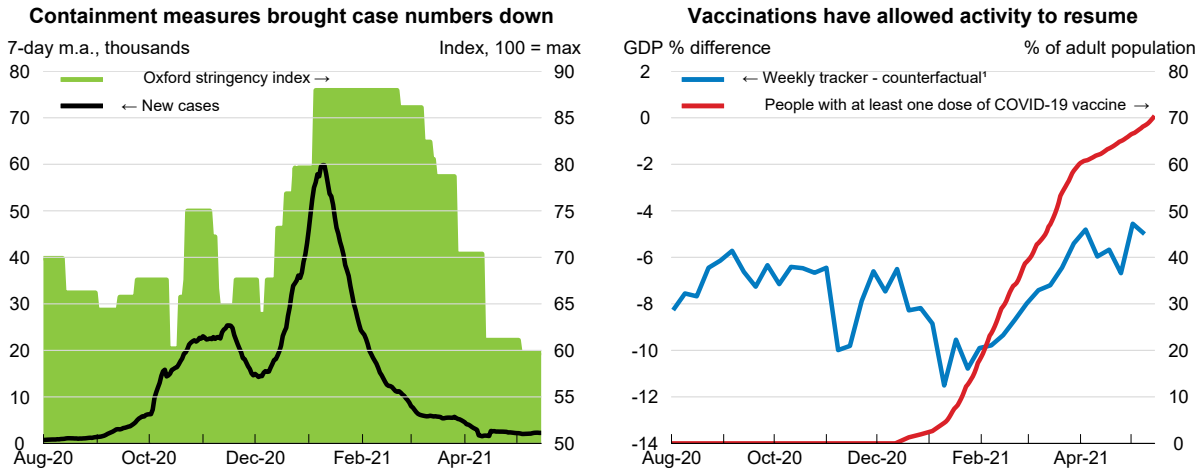
A more balanced recovery requires a transparent and robust macroeconomic policy framework. Temporary fiscal supports need to be combined with a credible monetary policy that actually delivers lower inflation. Labour market reforms that reduce employment costs and promote more flexible employment forms would boost higher quality job creation and improve social cohesion. Improving financial transparency and strengthening equity and venture capital markets would help to re-balance excessively leveraged firm balance sheets and ease the survival and foster faster growth of promising businesses.

United Kingdom

Strong GDP growth of 7.2% in 2021 and 5.5% in 2022 is projected as a large share of the population is vaccinated and restrictions to economic activity are progressively eased. Growth is driven by a rebound of consumption, notably of services. GDP is expected to return to its pre-pandemic level in early 2022. However, increased border costs following the exit from the EU Single Market will continue to weigh on foreign trade. Unemployment is expected to peak at the end of 2021 as the Coronavirus Job Retention Scheme is withdrawn. Inflation is set to increase due to past increases in commodity prices and strong GDP growth, but should remain below the 2% inflation target.

Fiscal and monetary policies should stay supportive until the recovery firmly takes hold, facilitating structural change as support to existing firms and jobs is scaled down. Public investment should address long-term challenges, notably reducing greenhouse gas emissions and boosting digital infrastructure. Extending higher levels of cash support beyond current plans and continuing to boost training programmes can help affected households. Keeping up the pace of vaccinations and responding to emerging virus mutations are key challenges going forward.

United Kingdom 1



1. The OECD Weekly Counterfactual Tracker represents the % difference in GDP level between a week and the same week a year earlier under the assumption that there would not have been a pandemic a year ago, based on the December 2019 OECD Economic Outlook forecasts.
Source: Oxford COVID-19 Government Response Tracker (Hale et al., 2020); Roser et al. (2021) - Coronavirus Pandemic (COVID-19). Published online at OurWorldInData.org; OECD Weekly Tracker (Woloszko, 2020); and ONS.

StatLink https://stat.link/53hfu1

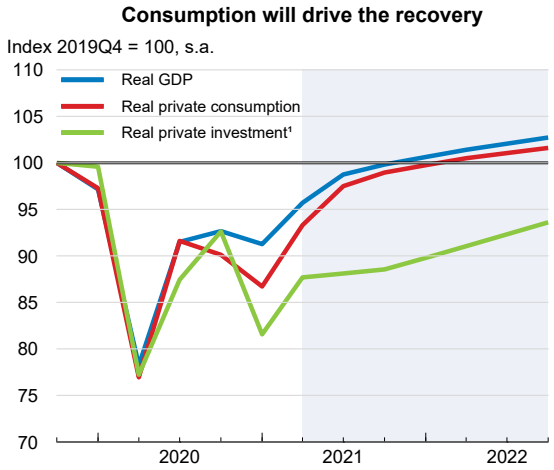
United Kingdom: Demand, output and prices

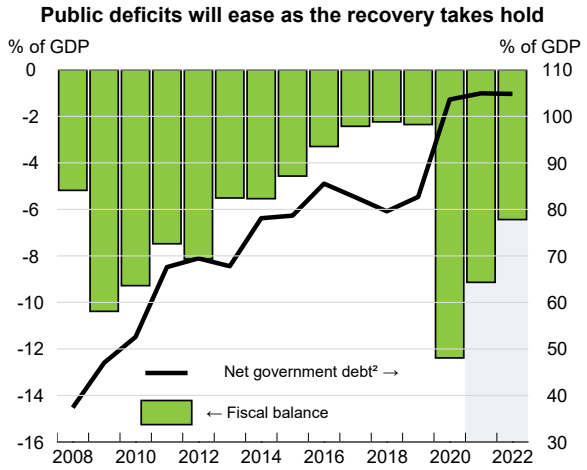
United Kingdom	2017	2018	2019	2020	2021	2022
	Current prices GBP billion	Percentage changes, volume (2018 prices)				
GDP at market prices	2 068.8	1.3	1.4	-9.8	7.2	5.5
Private consumption	1 334.4	1.4	1.1	-11.0	5.8	7.0
Government consumption	387.3	0.6	4.0	-6.5	11.9	2.9
Gross fixed capital formation	372.3	0.4	1.5	-8.8	6.6	4.1
Final domestic demand	2 094.0	1.1	1.7	-9.8	7.2	5.6
Stockbuilding[1]	4.6	0.1	0.0	-0.6	0.2	0.0
Total domestic demand	2 098.6	1.2	1.7	-10.5	7.4	5.6
Exports of goods and services	622.9	3.0	2.7	-15.8	1.2	4.7
Imports of goods and services	652.8	2.7	2.7	-17.8	2.0	5.0
Net exports[1]	- 29.9	0.1	-0.1	0.8	-0.2	-0.1
Memorandum items						
GDP deflator	_	2.2	2.1	5.6	0.9	1.1
Harmonised index of consumer prices	_	2.5	1.8	0.9	1.3	1.7
Harmonised index of core inflation[2]	_	2.1	1.7	1.4	1.0	1.6
Unemployment rate (% of labour force)	_	4.1	3.8	4.5	5.4	5.8
Household saving ratio, gross (% of disposable income)	_	6.1	6.5	15.7	11.7	7.4
General government financial balance (% of GDP)	_	-2.2	-2.4	-12.4	-9.1	-6.4
General government gross debt (% of GDP)	_	113.9	117.2	144.2	145.6	141.5
Current account balance (% of GDP)	_	-3.7	-3.1	-3.5	-3.1	-3.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/ck8bof

United Kingdom 2





1. Residential investment is excluded.
2. General government net financial liabilities.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/rup2z9

A high rate of vaccinations allows a gradual return to normal

National containment measures combined with a successful vaccination campaign have brought confirmed cases of COVID-19, hospitalisations and deaths down to levels last seen during the summer of 2020. Everyone aged 50 or above and people at increased risk had been offered a first dose of vaccine by mid-April. In England, this has allowed the easing of restrictions according to a four-step roadmap that started with the reopening of schools in March, followed by retail and outdoor hospitality services from April, with most businesses allowed to reopen subject to distancing rules from May. Devolved administrations in Northern Ireland, Scotland and Wales are all progressively lifting COVID-19-related restrictions towards the summer.

Services sectors are bracing for take-off

GDP contracted in January 2021 on the back of tightened restrictions, although less than widely anticipated as the economy showed increased resilience to containment measures. High frequency data indicate accelerating growth as restrictions have been lifted progressively, and GDP rose in both February and March. Services sector activity remains considerably below the pre-pandemic level, and is lagging behind the construction and manufacturing sectors. The labour market is also stabilising. Employment is on the rise, while unemployment and the number of furloughed employees have fallen since January. A rising number of vacancies is concentrated in accommodation and food services and wholesale and retail trade, the sectors with the largest cumulative job losses since the start of the pandemic.

Policy will remain accommodative in the short term

Fiscal policy will remain accommodative well beyond the phasing out of most containment measures, with stable cyclically adjusted net lending over the projection period. The Office for Budget Responsibility estimates that discretionary spending to support businesses and households and strengthen healthcare and testing capacity amounted to approximately 17% of GDP in the fiscal year 2020-21. The take-up of support policies is set to fall and tax revenues increase as services sectors gradually reopen. A further strengthening of the budget balance is expected when the Coronavirus Job Retention Scheme (CJRS), the Self Employment Income Support Scheme (SEISS) and the GBP 20 a week increase to the Universal Credit are discontinued after September, along with a number of other crisis supports. In the March budget, the government extended and adjusted the economic support measures put in place early in the crisis and introduced new measures to bring investments forward. The government has signalled tax increases from 2022, when income tax brackets will be frozen, and from 2023, when an increase in corporate income tax is planned. Government-guaranteed loan facilities, which have played an important role in allowing banks to lend to firms without tying up regulatory capital, were replaced by a new facility, the Recovery Loan Scheme, in April. Going out of the crisis, the government's Plan for Jobs will subsidise jobs for young people and tailor support to the unemployed.

Monetary policy remains accommodative, easing financial stress and supporting demand. The Bank of England has maintained the Bank rate at 0.1% and increased its bond purchasing programme over the course of the crisis to reach a total of GBP 895 billion (more than 40% of 2019 GDP). The pace of bond purchases was slowed in May within an unchanged target stock of total purchases.

Reopening services will drive a sharp re-bound

The progressive easing of public health restrictions will allow for a solid rebound. Output is projected to grow by 7.2% in 2021 and 5.5% in 2022. Consumption will bounce back sharply as hard-hit hospitality services and retail trade reopen. Public and housing investments are set to continue to hold up well. Business investment is set to accelerate in 2022 as uncertainty is reduced and spare capacity falls, further boosted by an increased deduction for some types of investments. Household saving is forecasted to return to pre-crisis levels in aggregate, as opportunities to consume return. Some additional spending by wealthier households with secure jobs and excess savings during the crisis is projected to be counterbalanced by households in lower income brackets who saved less during the crisis and are set to be more affected by a weak labour market and the winding-down of COVID-19 supports. Trade contracted in early 2021 as a consequence of leaving the EU Single Market and containment measures, but will recover slowly. The unemployment rate is projected to peak at 6.1% at the end of 2021 as the Coronavirus Job Retention Scheme is phased out. The general government financial deficit will come down to 6.4% of GDP in 2022, and gross public debt is set to peak at 146% of GDP in 2021.

The projection is contingent on the continued success of the vaccination programme in immunising the population, also against emerging virus strains. Supply bottlenecks could hold back consumption and increase inflation beyond what is projected if businesses fail to reopen or cannot attract the necessary staff after the pandemic due to net out-migration. Higher-than-expected consumption if households run down excess savings more than assumed could boost growth considerably, while weaker than forecasted consumption and higher savings could lead to lower growth. A closer trade relationship with the European Union than expected, notably encompassing services, would improve the economic outlook in the medium term.

Policies for a sustainable and inclusive recovery

Monetary policy should not tighten until there are clear signs of price pressures. Fiscal policy should also remain supportive until the recovery is firmly underway, supporting the reallocation of resources towards firms and sectors with better growth prospects. Extending the GBP 20 increase to the Universal Credit, along with upskilling and job placement efforts, would reduce hardship for displaced and low-skilled workers and speed up structural change, but would involve a fiscal cost. Reducing out-of-pocket costs of childcare further would help parents, notably mothers, to increase hours in paid employment and training. Public investment should address long-term challenges, notably reducing greenhouse gas emissions, investing in skills and boosting digital infrastructure.

United States

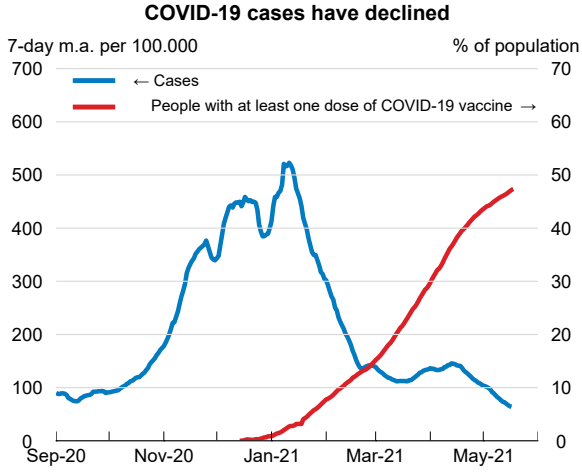
Real GDP is projected to grow by 6.9% in 2021 and 3.6% in 2022. Substantial additional fiscal stimulus and a rapid vaccination campaign have given a boost to the economic recovery. The unemployment rate will continue to fall, even as more discouraged workers are enticed back into the labour market. Rising wages, combined with government transfers and accumulated household savings, will propel consumption. Core price inflation will rise, but should remain under control.

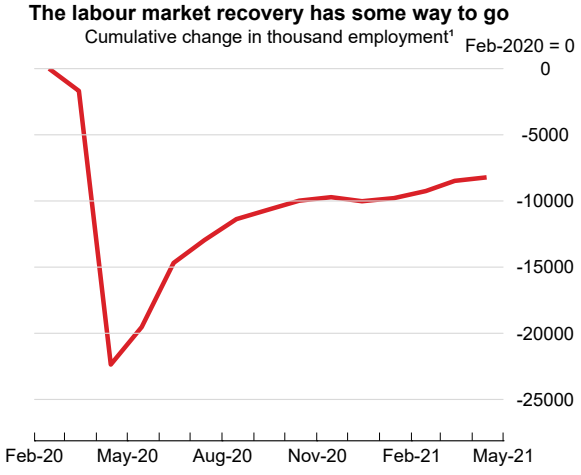
Fiscal policy will exert a strong expansionary influence in 2021 before subtracting from growth in 2022 as time-limited stimulus measures expire. Monetary policy is set to remain highly accommodative, although long-term bond yields will rise as the Federal Reserve begins to taper asset purchases once the employment recovery is firmly entrenched. Structural reforms that sustain output growth should be prioritised once the impact from temporary stimulus has waned. Upgrading access to community colleges, apprenticeship, life-long learning and job placement services would help vulnerable groups. Infrastructure investment plans should seek to reduce high levels of carbon emissions.

The virus outbreak appears under control

The number of COVID-19 cases, hospitalisations and deaths have declined since the start of the year. At the same time, the vaccination campaign has progressed more rapidly than expected. About half of the population has received at least one dose of a COVID-19 vaccine. Greater control of the virus has allowed containment measures to be further relaxed.

United States 1





1. Nonfarm payroll employment.
Source: CDC; and Refinitiv.

StatLink https://stat.link/nswgfa

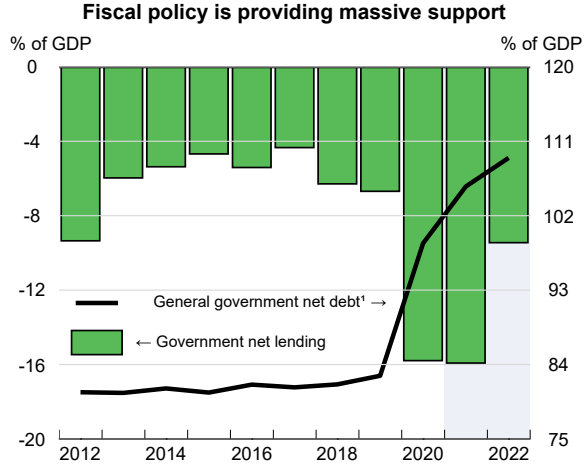
United States: Demand, output and prices

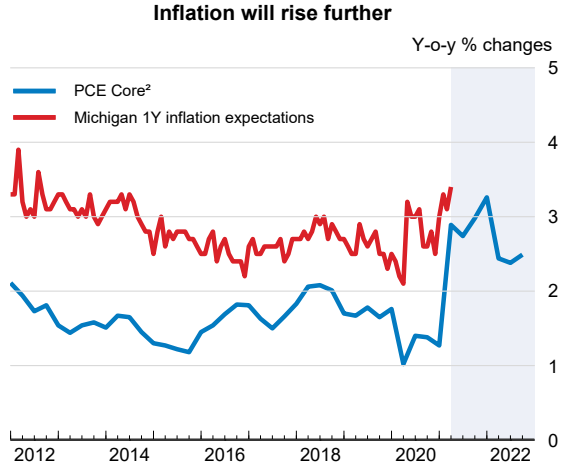
United States	2017	2018	2019	2020	2021	2022
	Current prices USD billion	Percentage changes, volume (2012 prices)				
GDP at market prices	19 543.0	3.0	2.2	-3.5	6.9	3.6
Private consumption	13 340.4	2.7	2.4	-3.9	8.3	4.3
Government consumption	2 742.7	1.5	1.8	0.3	3.4	2.5
Gross fixed capital formation	3 999.1	4.8	2.3	-0.8	8.0	3.7
Final domestic demand	20 082.2	3.0	2.3	-2.7	7.5	3.9
Stockbuilding[1]	16.3	0.2	0.0	-0.6	0.2	0.0
Total domestic demand	20 098.5	3.2	2.3	-3.3	7.7	4.0
Exports of goods and services	2 374.6	3.0	-0.1	-12.9	6.3	4.8
Imports of goods and services	2 930.1	4.1	1.1	-9.3	12.8	7.6
Net exports[1]	- 555.5	-0.3	-0.2	-0.2	-1.1	-0.6
Memorandum items						
GDP deflator	_	2.4	1.8	1.2	3.0	2.4
Personal consumption expenditures deflator	_	2.1	1.5	1.2	2.9	2.6
Core personal consumption expenditures deflator[2]	_	2.0	1.7	1.4	2.5	2.6
Unemployment rate (% of labour force)	_	3.9	3.7	8.1	5.6	4.3
Household saving ratio, net (% of disposable income)	_	7.8	7.5	16.3	16.4	10.2
General government financial balance (% of GDP)	_	-6.3	-6.7	-15.8	-15.9	-9.4
General government gross debt (% of GDP)	_	106.4	107.9	133.6	140.5	144.0
Current account balance (% of GDP)	_	-2.2	-2.2	-3.1	-3.6	-4.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Deflator for private consumption excluding food and energy.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/p7gh5u

United States 2





1. General government shows the consolidated (i.e. with intra-government amounts netted out) accounts for all levels of government (central plus State/local) based on OECD national accounts. This measure differs from the federal debt held by the public, which was 100.1% of GDP for the 2020 fiscal year.
2. Personal Consumption Expenditures excluding food and energy price index.
Source: OECD Economic Outlook 109 database.

StatLink https://stat.link/ydr6g8

The recovery has picked up speed

The economic recovery has picked up speed. Indicators of consumption activity have risen, with strong household income growth and a gradual relaxation of containment measures boosting spending. Household saving rates remain elevated compared to pre-pandemic levels. Labour market conditions continue to improve, with jobs growth recently strong in virus-sensitive sectors like leisure and hospitality. The unemployment rate was around 6% in April 2021, though only around two-thirds of the jobs lost at the onset of the pandemic have been added back so far (in net terms). Job losses have been especially severe for low-wage workers in the services sector and for African Americans and Hispanics. Core inflation has picked up, with strong growth in some tourism-related services prices. Manufacturing activity is now back around pre-pandemic levels and housing construction remains robust despite some increases in market interest rates.

Macroeconomic policy is heavily supporting activity

Fiscal policy has strongly boosted activity. The American Rescue Plan passed Congress in mid-March, with spending measures worth about 8½ per cent of GDP that are largely concentrated in this year. The package was very broad in scope. Supplementary unemployment benefits have been extended until September 2021 and eligible families received a fresh round of stimulus payments from mid-March. Financial assistance is being provided to support subnational governments and schools as they endeavour to reopen. In addition, temporary provisions to expand health insurance coverage and provide support to low-income households, such as the Child Tax Credit and the Earned Income Tax Credit, were included. In 2022, fiscal policy will begin to exert a contractionary influence on economic growth as support measures expire. The administration has proposed additional spending that may temper this effect, with the "American Jobs Plan" and the "American Families Plan" focusing on a broad array of priority areas. These plans include fiscal support for decarbonisation, infrastructure, research and development, elderly and disabled care, job training, childcare, tax credits, paid leave and universal pre-school. If legislated as proposed, these packages would be worth an additional 19 per cent of GDP combined over the next ten years, partly funded through higher taxation.

Monetary and financial market policy also continue to provide substantial support to the economy. The Federal Reserve expects to keep the federal funds rate in the 0-¼ per cent target range until the labour market has returned to maximum employment and inflation is above 2% and on track to moderately exceed it for some time. Concomitantly, the Federal Reserve has continued to expand its balance sheet. Ongoing monthly purchases of USD 80 billion in Treasury Securities and USD 40 billion in mortgage-backed securities will continue until clear further progress towards achieving the employment and price-stability goals has been made.

The strong output recovery will increase labour demand

Real GDP growth is expected to pick up strongly in 2021, with fiscal support pushing household consumption growth sharply higher. At the same time, the reopening of the economy due to widespread vaccination of the population will enable activity in more sectors to return to normal. Export activity will also recover as the virus is better controlled in major trading partner economies. Stronger demand for labour will translate into a lower unemployment rate, even as more discouraged workers are enticed back into the labour market. Wage growth and price inflation are picking up as slack diminishes. Looking through a transitory spike, inflation is unlikely to substantially overshoot the Federal Reserve's symmetrical price target of 2% in the medium term. Nevertheless, asset purchases should begin tapering in 2022 in response to a tight labour market that induces stronger inflation, pushing long-term interest rates higher.

An upside risk to the projections is that fiscal policy turns out to have a more expansionary impact on economic growth in 2022 than currently assumed. The proposed new spending packages are not currently factored into the baseline projections. It could be that the spending measures are legislated in their current form and the increase in taxation is more modest than currently proposed by the administration. In addition, the very high household saving rate could decline more rapidly than expected, leading to stronger consumption growth. A downside risk to activity is that underlying inflation picks up more sharply, causing the Federal Reserve to raise the Federal Funds Rate within the forecast period. A rise in firm insolvencies, as supportive measures are wound back, is also a risk, given that non-financial corporate leverage in many virus-exposed sectors remains high.

Structural reforms should now be prioritised

Policy settings that promote sustained output growth once the impact from temporary stimulus has waned should now be the priority. Spending on environmental, transportation and social infrastructure is needed, but could be partially funded by charges levied on those that use it most intensively. Infrastructure investment that reduces carbon emissions should be coupled with further progress in pricing carbon content. The effective pricing of energy-related carbon emissions in the United States is currently among the lowest in the OECD. Reducing and eventually removing fossil fuel subsidies and lowering the taxation of renewable energy are important priorities. As the economy further recovers, labour reallocation processes and the prospects of the most vulnerable will benefit from upgrading access to community colleges, apprenticeship, life-long learning and job placement services.

OECD Economic Outlook

The COVID-19 pandemic continues to cast a long shadow over the world's economies. The *OECD Economic Outlook, Volume 2021 Issue 1*, highlights the improved prospects for the global economy due to vaccinations and stronger policy support, but also points to uneven progress across countries and key risks and challenges in maintaining and strengthening the recovery.

This issue includes a general assessment of the macroeconomic situation, and a chapter summarising developments and providing projections for each individual country. Coverage is provided for all OECD members as well as for selected partner economies.

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