OECD Economic Outlook

December 2021

OECD

OECD ECONOMIC OUTLOOK

110

DECEMBER 2021

OECD

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Please cite this publication as:
OECD (2021), *OECD Economic Outlook, Volume 2021 Issue 2*, No. 110, OECD Publishing, Paris, *https://doi.org/10.1787/66c5ac2c-en*.

ISBN 978-92-64-66238-4 (print)
ISBN 978-92-64-65571-3 (pdf)

OECD Economic Outlook
ISSN 0474-5574 (print)
ISSN 1609-7408 (online)

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Table of contents

Editorial A balancing act 9

1 General assessment of the macroeconomic situation 11
Introduction 12
The recovery remains uneven 14
A continued recovery is likely 30
Key risks and vulnerabilities 36
Policy requirements 52
References 65
Annex 1.A. Policy and other assumptions underlying the projections 68

2 Developments in individual OECD and selected non-member economies 69
Argentina 70
Australia 73
Austria 76
Belgium 79
Brazil 82
Bulgaria 86
Canada 89
Chile 93
China 96
Colombia 100
Costa Rica 103
Czech Republic 106
Denmark 109
Estonia 112
Euro area 115
Finland 119
France 122
Germany 126
Greece 130
Hungary 133
Iceland 136
India 139
Indonesia 143
Ireland 147
Israel 150
Italy 153
Japan 157

Korea 161
Latvia 164
Lithuania 167
Luxembourg 170
Mexico 173
Netherlands 176
New Zealand 179
Norway 182
Poland 185
Portugal 188
Romania 191
Slovak Republic 194
Slovenia 197
South Africa 200
Spain 203
Sweden 206
Switzerland 209
Turkey 212
United Kingdom 215
United States 219

FIGURES

Figure 1.1. The global recovery has outstripped expectations but is not complete 15
Figure 1.2. The labour market recovery is only partial in most countries 15
Figure 1.3. The momentum of the recovery has eased 16
Figure 1.4. Car production and sales are both contracting 17
Figure 1.5. Regional value chains are important in the motor vehicle sector 18
Figure 1.6. Supply-side constraints are depressing car production in 2021 and weighing on GDP 19
Figure 1.7. Supply chain disruptions are affecting many firms and are expected to persist 21
Figure 1.8. Supply constraints have pushed up delivery times and slowed global trade 21
Figure 1.9. Labour shortages have emerged at an early stage of the recovery 22
Figure 1.10. Aggregate wage pressures remain moderate despite large rises in some sectors 22
Figure 1.11. Inflation expectations have moved up, but expected wage growth is little changed 23
Figure 1.12. Fossil fuel prices have surged, pushing up electricity generation costs 24
Figure 1.13. Headline inflation has increased but is mainly concentrated in goods 26
Figure 1.14. Financial market conditions generally remain favourable 27
Figure 1.15. Differences between annual inflation rates computed with counterfactual and official weights 29
Figure 1.16. Vaccination rates are high in most advanced economies, but still low in many other countries 31
Figure 1.17. The recovery will continue to diverge 31
Figure 1.18. Household saving ratios are projected to return to normal, but the accumulated stock of “excess” savings is not expected to be run down 32
Figure 1.19. World trade is rebounding quickly, helped by strong growth in Asian trade 34
Figure 1.20. Labour market conditions are projected to improve further 36
Figure 1.21. Inflation is projected to peak by early 2022 in most countries but remain above pre-pandemic levels 37
Figure 1.22. Trimmed-mean estimates of inflation pressures are now rising 41
Figure 1.23. The pandemic triggered a shift in consumption from services to goods, especially in the United States 42
Figure 1.24. Food, transport and housing account for a larger share of the budgets of lower-income households 43
Figure 1.25. A further short-term rise in energy prices would hit growth and add to inflation 44
Figure 1.26. Debt levels have swollen, especially for companies 45
Figure 1.27. Housing valuations are stretched in many countries 45
Figure 1.28. Corporate bankruptcies are still subdued 46

Figure 1.29. Share of larger firms “at risk” 47
Figure 1.30. Debt has increased substantially in many emerging-market economies 48
Figure 1.31. Indicators of fiscal and external vulnerabilities in emerging-market economies 49
Figure 1.32. Bond yields indicate a significant rise in currency risk in emerging-market economies 50
Figure 1.33. A sharp slowdown in China would hit growth and trade around the world 51
Figure 1.34. Changes in asset holdings by major central banks since December 2019 54
Figure 1.35. Many emerging-market economy central banks have tightened monetary policy 56
Figure 1.36. The fiscal stance is normalising as crisis-related support is withdrawn 58
Figure 1.37. General government gross financial liabilities 59
Figure 1.38. The fiscal spending and revenue mixes are evolving 61
Figure 1.39. Projected public investment increases are welcome but often too modest 62
Figure 1.40. CO2 emissions in World Energy Outlook scenarios over time, 2000-2050 64

TABLES

Table 1.1. The global recovery is continuing, but remains imbalanced 13
Table 1.2. Assumptions on the base years for weights 28

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Acknowledgements

This edition of the *OECD Economic Outlook* was prepared by the Economics Department under the general supervision of Laurence Boone, Luiz De Mello, Álvaro Pereira, Isabell Koske and Alain de Serres and managed by Nigel Pain.

Chapter 1 on the *General assessment of the macroeconomic situation* was prepared in the Macroeconomic Policy Division, with Geoff Barnard and Alvaro Pina as principal authors; and Sophie Guilloux-Nefussi, Hermes Morgavi, Patrice Ollivaud, Damien Puy, Elena Rusticelli, Kimiaki Shinozaki and Enes Sunel providing substantive contributions.

Chapter 2 on Developments in individual OECD and selected non-member economies was prepared by the Country Studies Branch, with contributions from Muge Adalet McGowan, Jens Arnold, Andrew Barker, Jinwoan Beom, Hansjörg Blöchliger, Martin Borowiecki, Tim Bulman, David Carey, Steven Cassimon, Ben Conigrave, Dennis Dlugosch, Falilou Fall, Priscilla Fialho, Paula Garda, Claude Giorno, Daniela Glocker, Andrea Goldstein, Rauf Gonenç, Nicolas Gonne, Antoine Goujard, Robert Grundke, Philip Hemmings, Jens Høj, Hyunjeong Hwang, Peter Jarrett, Yosuke Jin, Caroline Klein, Vassiliki Koutsogeorgopoulou, Ze'ev Krill, Alvaro Leandro, Timo Leidecker, Catherine MacLeod, Alessandro Maravalle, Margit Molnar, Kei Oguro, Alberto González Pandiella, Jon Pareliussen, Axel Purwin, Oliver Röhn, Nicolas Ruiz, Véronique Salins, Patrizio Sicari, Urban Sila, Douglas Sutherland, Kosuke Suzuki, Srdan Tatomir, Shahin Vallée, Ben Westmore and Naomitsu Yashiro. The preparation of the country notes was supervised by Pierre Beynet, Aida Caldera Sánchez, Mame Fatou Diagne, Isabelle Joumard, Vincent Koen and Patrick Lenain.

Overall coordination and key editorial and statistical support was provided by Isabelle Fakih and Jérôme Brézillon.

Statistical support was given by Paula Adamczyk, Damien Azzopardi, Corinne Chanteloup, Ane Kathrine Christensen, Véronique Gindrey, Federico Giovannelli, Béatrice Guérard, Tony Huang, Eun Jung Kim, Mauricio Hitschfeld, Anne Legendre, Isabelle Luong and Natia Mosiashvili. Editorial support for the country notes was provided by Julie Arnal, Jean-Rémi Bertrand, Emily Derry, Karimatou Diallo, Alexandra Guerrero, Ilona Janus, Gemma Martinez, Sisse Nielsen and Heloise Wickramanayake.

Background analysis and key database management was provided by the Macroeconomic Analysis Division, with contributions from Yvan Guillemette and Jeroen Meyer, under the supervision of David Turner.

An initial draft of the report was discussed by the OECD Economic Policy Committee. This report is published under the responsibility of the Secretary-General of the OECD.

Editorial

A balancing act

The global economy continues to recover, along with trade, employment and incomes. But the revival is unbalanced, with countries, businesses and people facing very different economic realities. Recent improvements also conceal structural changes, which mean that some sectors, jobs, technologies and behaviours will not return to their pre-pandemic trends. The situation is extraordinary yet our economic outlook is cautiously optimistic. It focusses on the policies needed to balance such uncertain circumstances with the unusual appearance of rising inflation pressures at an early stage of the recovery. Health, supply constraints, inflation and potential policy missteps are all key concerns.

Our central scenario is that the global recovery continues, with the world coping better with the pandemic and monetary and fiscal policies remaining generally supportive throughout 2022. After a rebound of 5.6% in 2021, global growth would move along at a brisk pace of 4.5% in 2022, moderating to 3.2% in 2023.

Striking imbalances have emerged. First, there are marked differences in the recovery across countries, reflecting national health conditions, the policy mix and sector composition. Second, acute labour shortages are appearing in some sectors, even though employment and hours worked have yet to fully recover. Third, a persistent gulf between supply and demand for some goods, together with higher food and energy costs, has led to higher and more enduring price increases than expected.

These imbalances create uncertainty and more downside than upside risks. Our primary concern is the global polarity in caseloads, hospital capacity and vaccination rates around the world. The harshest scenario is that pockets of low vaccination end up as breeding grounds for deadlier strains of the virus, which go on to damage lives and livelihoods. Even in more benign scenarios, on-going coronavirus outbreaks may continue to restrict mobility in some regions and across borders, with potential long-lasting consequences for labour markets and production capacity, as well as prices.

Inflation is on everybody's minds and there is a lot of uncertainty about central banks' reactions. Our analysis suggests that as the health situation improves, demand stabilises and people return to the labour force supply bottlenecks should fade. Inflation is now expected to peak at the turn of 2021-22 before receding gradually to around 3% in the OECD as a whole by 2023. In current circumstances, the best thing central banks can do is to wait for supply tensions to diminish and signal they will act if necessary. Should supply constraints persist, while GDP and employment continue to grow briskly and fuel broader price increases, higher inflation pressure could last longer, destabilising people's expectations. That would call for action.

The next big concern is the risk that policy makers fail to act on lessons from the crisis. Policy makers implemented unprecedented measures to support their economies at the onset of the crisis. Without these timely actions, the situation today would be far worse than it is. But now that the recovery is underway they face a tough balancing act.

The recovery presents an opportunity to revamp public finances — failing to grasp it would be a mistake with long-lasting consequences. We are worried at the lack of discussion about this crucial topic. We are more concerned by the use made of debt than its level: the increase in debt during the pandemic was needed to underpin economies during the most intense period of the crisis. Now it is time to refocus fiscal support on productive investment that will boost growth, including investment in education and physical infrastructure. Detailed medium-term plans for public finances are missing and work on these should start now. A clear, strong and responsible fiscal framework would strengthen confidence that growth will rise, and diminish imbalances and risks.

Next, there is too much talk and not enough action when it comes to climate change — this is alarming. Countries need to set out now the steps they will take to keep their climate change pledges. Policy uncertainty about the journey towards net-zero carbon emissions is hindering investment in clean energy and infrastructure. The longer governments wait, the greater the risks of an abrupt transition in which energy prices are higher and more volatile. Inaction therefore increases the risks to people's living standards and may undermine public support for the energy transition.

Finally, we are concerned that governments may fail to address the vulnerabilities the pandemic has revealed and amplified. A primary flaw revealed by the pandemic is health care. Preventive and curative health care systems need reform, pandemic preparedness needs improvement and the distribution of medical equipment and drugs needs better co-ordination. Failure to take these steps would be inexcusable. Second, school closures have harmed the education of young people and made their integration into labour markets difficult. So far, too little has been done to assess and tackle these scars. The longer we wait, the worse the damage will be.

The recovery is real, but the task for policy makers is a tough one. They must balance prudence, patience, and persistence while developing new and improved plans to transform economies in ways that will build much better resilience to the risk of rising imbalances.

1 December 2021

Laurence Boone

OECD Chief Economist

1 General assessment of the macroeconomic situation

Introduction

The global recovery continues to progress, but has lost momentum and is becoming increasingly imbalanced. Parts of the global economy are rebounding quickly but others are at risk of being left behind, particularly lower-income countries where vaccination rates are low, and firms and employees in contact-intensive sectors where demand has yet to recover fully. Momentum from the strong rebound after reopening is now easing in many countries amidst persisting supply bottlenecks, rising input costs and the continued effects of the pandemic. Stronger and longer-lasting inflation pressures have emerged in all economies at an unusually early stage of the cycle, and labour shortages are appearing even though employment and hours worked are still yet to recover fully. Food and energy costs have risen sharply, with the strongest impacts on low-income households, as well as prices in durable goods sectors where supply bottlenecks are most concentrated. These factors make the outlook more uncertain and raise considerable policy challenges.

As demand patterns normalise, production capacity expands and more people return to the labour force, supply-side constraints and shortages should wane gradually through 2022-23. The global recovery is projected to continue but with global GDP growth moderating over time, from 5.6% in 2021 to 4½ per cent in 2022 and 3¼ per cent in 2023 (Table 1.1). Enhanced global vaccination efforts, which are assumed to allow a full withdrawal of restrictions on cross-border activities by the end of 2022, supportive macroeconomic policies, accommodative financial conditions, and lower household saving should all enhance demand and offset headwinds from the gradual unwinding of pandemic-related fiscal measures. Nonetheless, the recovery is expected to remain uneven. Most advanced economies are projected to return to their pre-pandemic output path by 2023, but with greater debt and still-subdued underlying growth potential. Inflation is also projected to be higher than it was prior to the pandemic in many countries, although generally remaining in line with central bank objectives. A full recovery is likely in a handful of emerging-market economies, but in most output seems likely to fall short of pre-pandemic expectations, particularly in lower-income countries, leaving sizeable long-term income scars from the crisis.

Consumer price inflation is projected to peak by the end of 2021, and then moderate towards levels consistent with underlying pressures from slowly rising labour costs and declining spare capacity around the world. In the OECD economies as a whole, annual consumer price inflation is projected to fall to around 3½ per cent by the end of 2022, from close to 5% at the end of 2021, and ease to 3% in 2023. Employment and participation rates are projected to pick up gradually through 2022-23, though to a different extent across countries, with OECD-wide unemployment falling to just over 5%, below the pre-pandemic rate.

Significant risks remain around these projections. New, more transmissible COVID-19 variants of concern may continue to appear, especially if the speed of vaccine deployment and the effectiveness of existing vaccines wane, hitting growth prospects. Outcomes in China could also disappoint if the problems in the real estate sector and with power supply persist or intensify, with adverse effects on other economies, especially commodity exporters and in Asia. Inflation could continue to surprise on the upside, due to more persistent supply pressures than anticipated or a stronger and sustained surge in energy costs, triggering financial market repricing in anticipation of future monetary policy moves. Such repricing could expose vulnerabilities that persist from high debt, stretched asset valuations in some markets, and the fragile recovery in many emerging-market and lower-income economies. On the upside, faster vaccine deployment or a more substantial unwinding of the household savings and corporate cash holdings accumulated during the pandemic would boost spending and productive capacity, and enhance the pace of the recovery.

Table 1.1. The global recovery is continuing, but remains imbalanced

OECD area, unless noted otherwise

	Average 2013-2019	2020	2021	2022	2023	2021 Q4	2022 Q4	2023 Q4
				Per cent				
Real GDP growth[1]								
World[2]	3.3	-3.4	5.6	4.5	3.2	3.8	3.9	3.2
G20[2]	3.5	-3.1	5.9	4.7	3.3	4.1	3.8	3.3
OECD[2]	2.2	-4.7	5.3	3.9	2.5	4.4	3.3	2.2
United States	2.4	-3.4	5.6	3.7	2.4	5.1	3.0	2.3
Euro area	1.9	-6.5	5.2	4.3	2.5	4.9	3.3	2.1
Japan	0.8	-4.6	1.8	3.4	1.1	0.0	3.1	0.9
Non-OECD[2]	4.3	-2.2	5.8	4.9	3.8	3.2	4.3	4.0
China	6.8	2.3	8.1	5.1	5.1	3.9	5.5	5.0
India[3]	6.8	-7.3	9.4	8.1	5.5			
Brazil	-0.3	-4.4	5.0	1.4	2.1			
Unemployment rate[4]	6.5	7.1	6.2	5.5	5.2	5.7	5.4	5.1
Inflation[1,5]	1.7	1.5	3.5	4.2	3.0	4.9	3.4	3.1
Fiscal balance[6]	-3.2	-10.4	-8.4	-5.2	-3.7			
World real trade growth[1]	3.4	-8.4	9.3	4.9	4.5	6.1	5.2	4.2

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.

Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/xk7usv

The state of the recovery calls for supportive policies that are contingent on economic developments and improve the prospects for sustainable and equitable growth in the medium term.

- The top policy priority remains the need to ensure that vaccines are produced and deployed as quickly as possible throughout the world, including booster doses. This will save lives, preserve incomes, enable borders to reopen safely and help alleviate some supply constraints. The recovery will remain precarious and uncertain in all countries until this is achieved.
- Macroeconomic policy support continues to be needed whilst the near-term outlook is still uncertain and labour markets have not yet recovered, with the mix of policies dependent on economic developments in each country. Clear guidance from policymakers about the expected path towards medium-term objectives and the likely sequencing of future policy changes would help to anchor expectations, maintain investor confidence and ensure adequate support for the economy.
- Monetary policymakers should communicate clearly about the extent to which the overshooting of inflation from target will be tolerated to help prevent excessive fluctuations in long-term market interest rates. If the recovery proceeds as projected, sequential moves to gradually moderate support appear appropriate over the next two years in the major advanced economies, initially by tapering asset purchases and subsequently through higher policy interest rates. Policy interest rates have already been raised in some smaller open advanced economies and many emerging-market economies to help dampen inflation pressures. Further increases may be necessary to ensure price stability as yields rise in the major advanced economies.

- Fiscal policies should remain flexible, and an abrupt withdrawal of policy support should be avoided whilst the near-term outlook is still uncertain. Moderation in public spending in 2022 will come mainly from reductions in crisis-related spending as the economy strengthens, rather than substantial discretionary consolidation measures. Credible frameworks that provide clear guidance about the medium-term path towards sustainability, and the needed adjustment of fiscal policy to meet the challenges of the energy transition and future spending pressures, would help to maintain confidence and enhance the transparency of budgetary choices.
- As the focus of policy continues to switch from rescue to recovery, effective and well-targeted reforms are needed to enhance resilience, help deal with the legacies of the pandemic, and tackle longstanding structural challenges such as digitalisation and the need to lower carbon emissions sustainably. Continued income support for the poorest households, enhancing activation and skill acquisition, and strengthening economic dynamism by tackling barriers to market entry, will maintain demand, improve labour market opportunities and help to foster productivity-enhancing reallocation. Environmental policy challenges differ across countries, but credible commitments to low-emission targets, early signals about the future trajectory of carbon prices and other measures to reduce emissions, and greater public sector support for innovation and investment will be of critical importance everywhere.

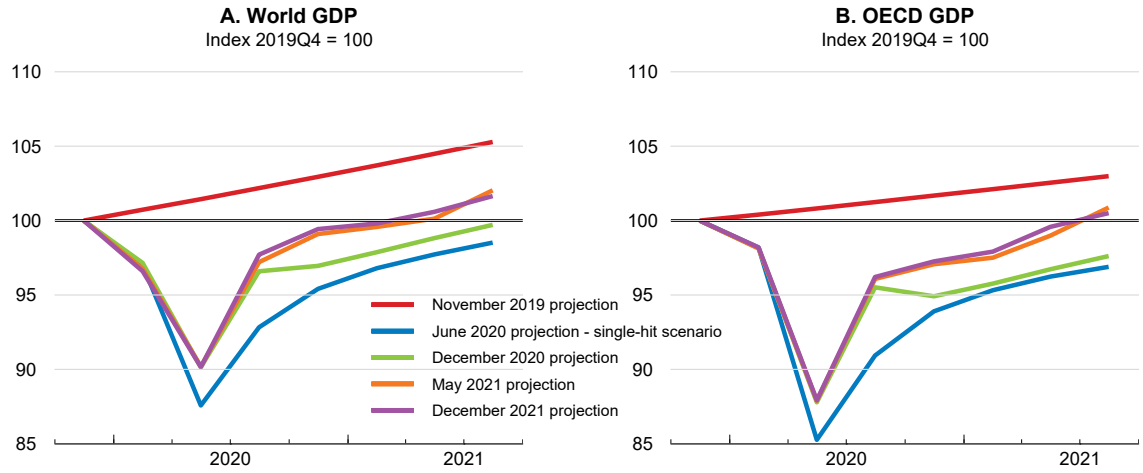
The recovery remains uneven

Global activity is now above pre-pandemic levels, but the recovery is incomplete

The recovery in global economic activity since mid-2020 has been more vigorous than expected (Figure 1.1), with output in most OECD countries is now close to or above pre-pandemic levels. This reflects the prompt and massive policy support for firms and households from the outset of the crisis, including the additional measures announced this year, successful public health measures to limit transmission of the COVID-19 virus and, above all, the rapid rollout of effective vaccines.

The strength of the rebound has not yet permitted a full healing of the global economy from the effects of the pandemic. The world has foregone the growth that would have occurred in 2020 and the first half of 2021: global GDP in mid-2021 was still 3½ per cent lower than projected before the pandemic. Moreover, this foregone growth to date has not been distributed equally: the loss has been proportionately greater for middle-income emerging-market economies as a group than for advanced economies, and greatest of all for low-income developing countries. Contact-intensive sectors and lower-income households have also been particularly hard-hit, contributing to the incomplete recovery in labour markets. Among OECD countries, about 7½ million fewer people were in work in the third quarter of 2021 than in the fourth quarter of 2019. Many emerging and developing economies have also suffered declines in employment during the pandemic (ILO, 2021) and poverty has risen. Even in economies where the number of people in work by mid-2021 was close to or even above its pre-pandemic level, total hours worked were often still lower than in late 2019 (Figure 1.2).

Figure 1.1. The global recovery has outstripped expectations but is not complete



Source: OECD Economic Outlook 110 database; OECD Economic Outlook 106 database; OECD Economic Outlook 107 database; OECD Economic Outlook 108 database; OECD Economic Outlook 109 database; and OECD calculations.

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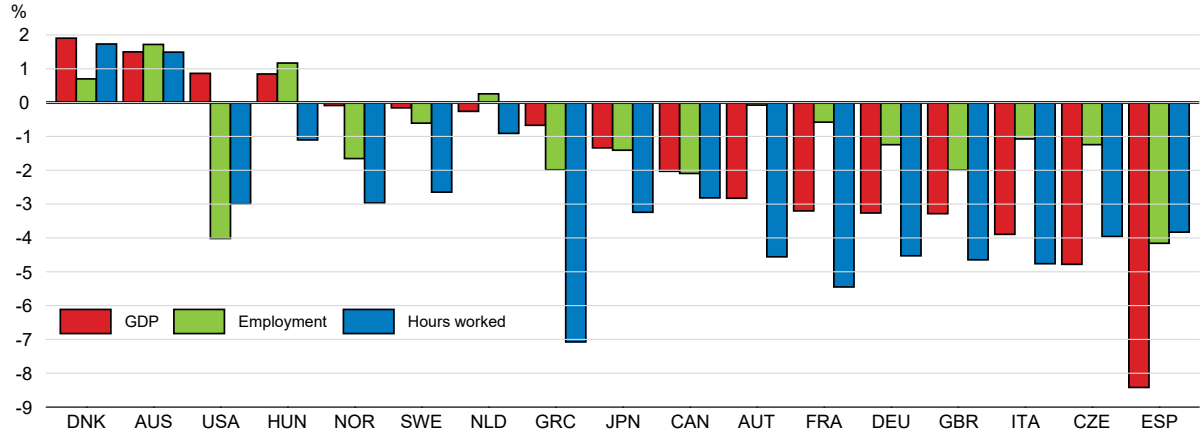
Figure 1.2. The labour market recovery is only partial in most countries

Percentage change between 2019Q4 and 2021Q2



Note: National accounts based measure of employment for all EU member states, Norway and the United States, and labour force survey measure for remaining countries.
Source: OECD Economic Outlook 110 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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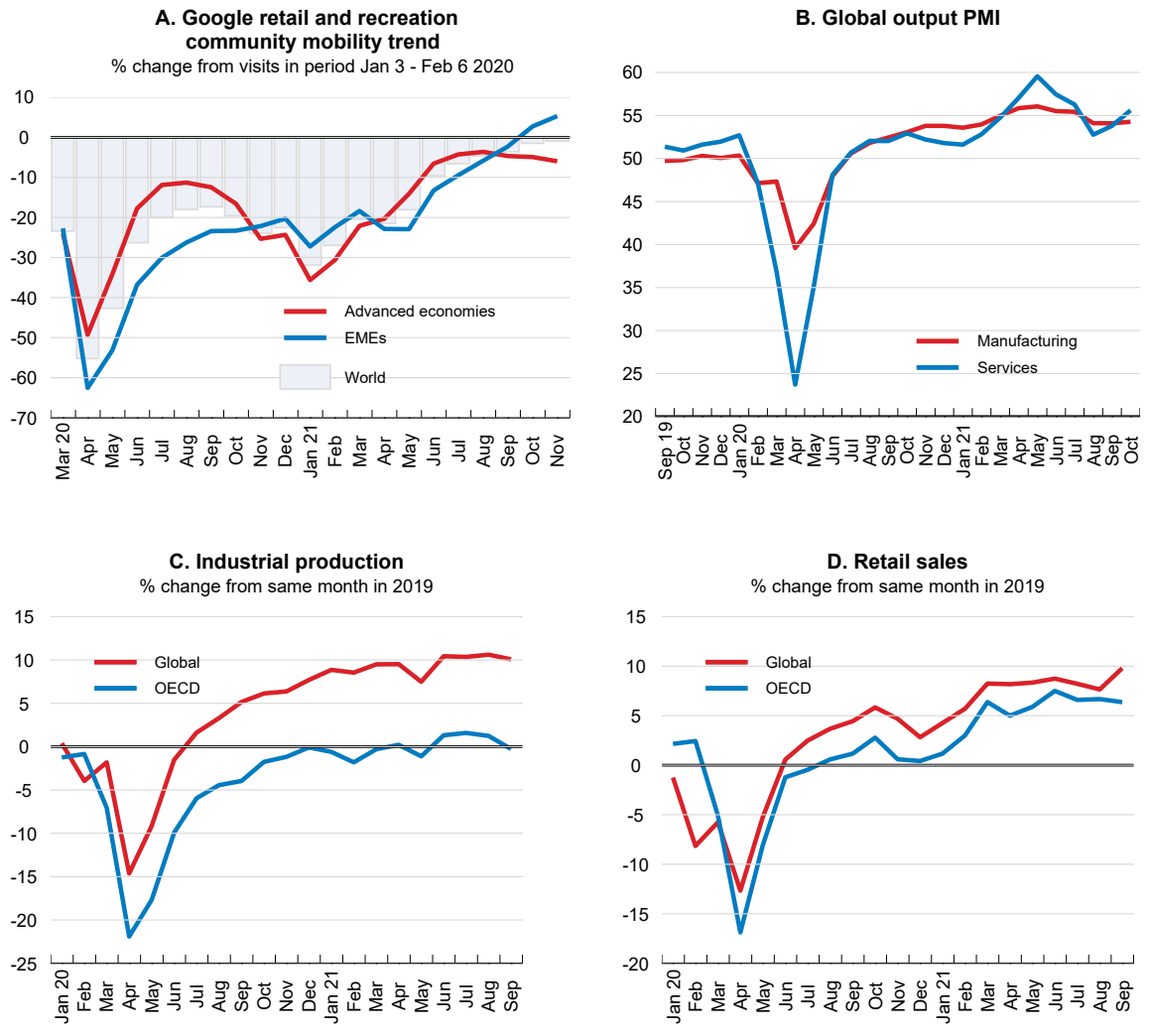
Quarterly global GDP growth is estimated to have remained broadly stable in the third quarter of 2021, with softer outcomes in China and the United States offset by steady growth in the euro area and a rebound in India and some energy-exporting economies. Third quarter output was particularly weak in a number of Asia-Pacific economies, including Japan and Indonesia, reflecting the extent to which activity has been hampered by the Delta variant and supply constraints. Recent high-frequency indicators generally suggest that the pace of the recovery may have eased (Figure 1.3). Location-based indicators of mobility have continued to improve in emerging-market economies, but have begun to ease in the advanced economies, especially in some European countries. Business survey measures of output and new orders are below their peaks earlier this year, and consumer confidence has slipped back in recent months in many countries. Global industrial production and consumer retail spending are above their corresponding levels in 2019, but momentum has eased. The car sector has been particularly affected by supply bottlenecks, and output and sales have fallen sharply in recent months (Box 1.1), holding back the overall recovery.

Figure 1.3. The momentum of the recovery has eased



Note: Data in Panels A, C and D are PPP-weighted aggregates. The retail sales measure uses monthly household consumption for the United States and the monthly synthetic consumption indicator for Japan. Data for November in Panel A are based on information up to November 21.

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

StatLink https://stat.link/od16bj

Box 1.1. The impact of supply-side disruptions on the automotive sector

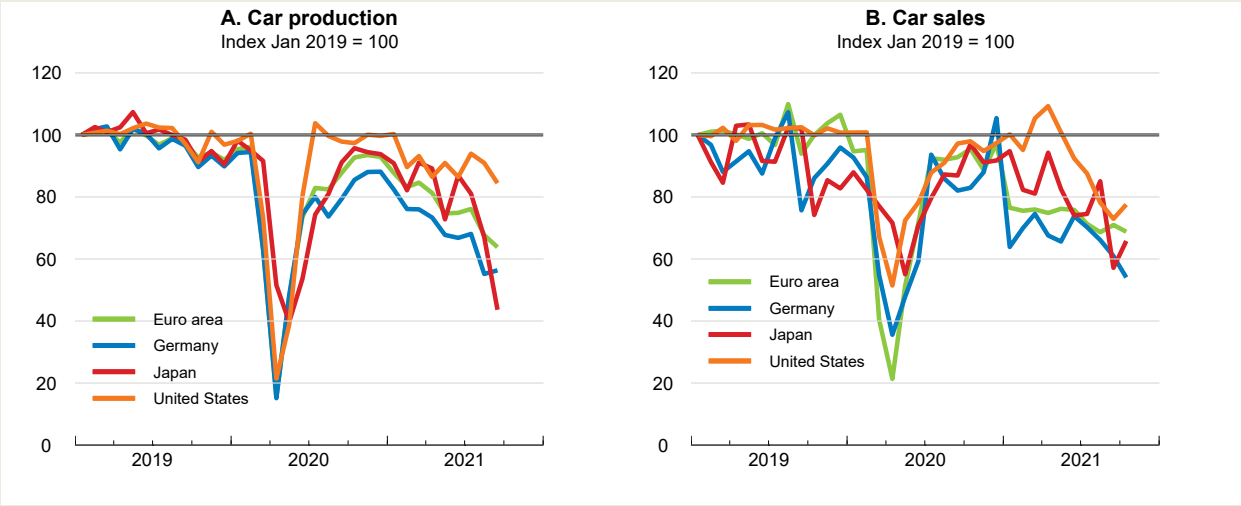
The car sector is being affected severely by supply-chain disruptions

Shortages of semiconductors and other intermediate goods, delays in supplier delivery times and bottlenecks in shipping have hit production in many industries. Recent car models typically contain more than a thousand chips governing a range of essential operations (e.g. engine cooling, battery management, tyre-pressure monitoring, interior lighting, and emergency braking). As a result, the car sector has been especially affected by disruptions, with large production cuts despite strong global demand.

The automotive sector is of particular interest because it plays a major role in the manufacturing sector in many countries, and accounts for a sizeable share of GDP. Prior to the pandemic, motor vehicle production accounted for 2% of GDP in the euro area, 4.7% in Germany, 0.75% in the United States and 3% in Japan. In the first nine months of 2021, motor vehicle production in the euro area was 26% lower than in the same period of 2019, 30% lower in Germany, 10% in United States and 23% in Japan (Figure 1.4, Panel A).

The reduced availability of new cars and low inventory levels have also hit global car sales, which declined by 40% in both Japan and the United States between April and September, and by 16% in Germany (Figure 1.4, Panel B). Global car sales declined by over 20% over the same period, a pace of decline only seen previously in deep recessions, such as the early stage of the pandemic last year. The combination of solid demand and the reduction in supply has placed upward pressure on prices. New and used car prices have risen substantially this year in several countries, especially the United States (Helper and Soltas, 2021).

Figure 1.4. Car production and sales are both contracting



Source: Eurostat; and Refinitiv.

StatLink https://stat.link/3m2eyc

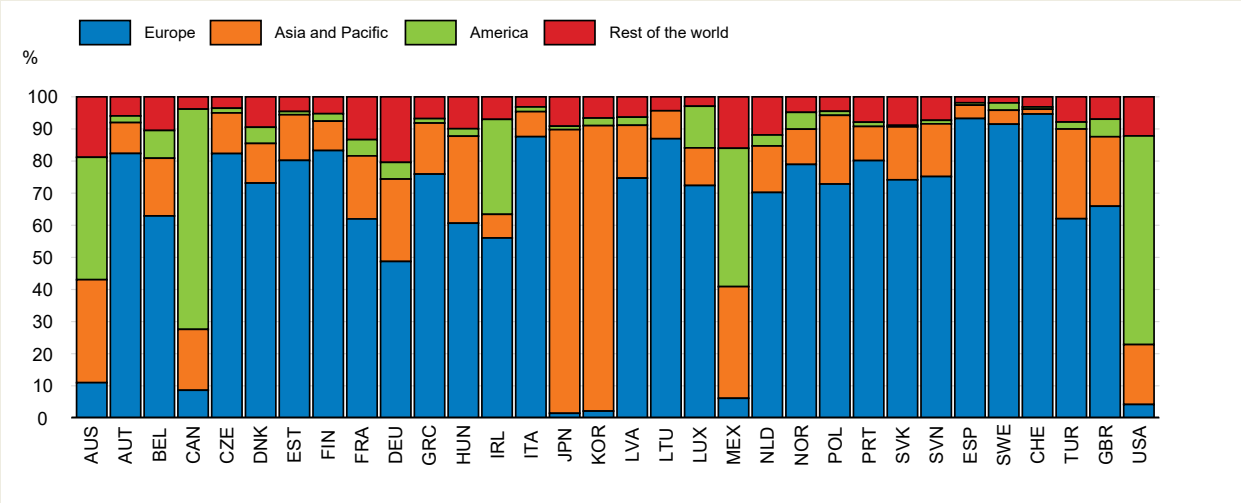
Given the large share of trade-related output throughout the transport equipment sector,[1] recent supply disruptions have played a critical role in the sizeable sectoral decline observed around the world. The output of the transport equipment industry is strongly linked through global value chains, especially in Europe. In 2019, more than 80% of the production in Hungary, Slovakia and Slovenia involved goods that crossed at least two borders along the production process, with the share above 50% for most European countries.

A more detailed, though less up to date, breakdown of transport equipment subsectors is available for 2015. This shows that the motor vehicle industry mostly consumes inputs from Europe (53% of inputs) and Asia (22%). Globally, electronics and electrical equipment represent 6% of total inputs in the sector.

Automotive manufacturers typically source these inputs from trade partners in the same region (Figure 1.5). In Japan and Korea, around 90% of the electronics and electrical equipment inputs in the transport sector come from Asia. The United States and Canada also mostly rely on regional value chains, with 65-75% of electronics and electrical equipment inputs sourced from the Americas.[2] In many central and eastern European countries, the share of inputs from Europe is above 70%.

Figure 1.5. Regional value chains are important in the motor vehicle sector

Value share of electronic and electrical equipment inputs from different regions



Note: America includes Brazil, Canada, Mexico and United States. Asia and Pacific includes Australia, China, Chinese Taipei, Indonesia, India, Japan and Korea. Based on input data in current prices and expressed in USD terms.
Source: World Input-Output Database (WIOD), 2016 release.

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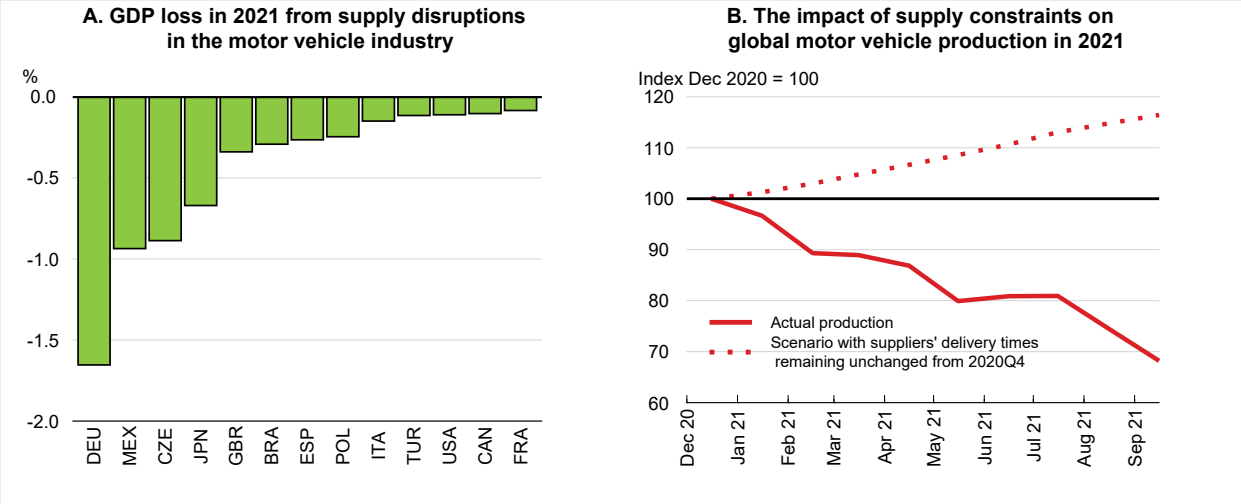
What is the contribution of supply-side disruptions to the contraction of motor vehicle production?

The separate contributions of supply and demand imbalances to the decline in motor vehicle production can be assessed empirically. Econometric estimates for a group of 30 OECD and emerging-market economies show that PMI indicators of suppliers' delivery times and new orders (a proxy for demand) both have significant effects on motor vehicle production. The estimated relationships can be used to derive the difference between car production in 2021 and the output level that might otherwise have been expected from demand growth if suppliers' delivery times had remained unchanged from the level in the fourth quarter of 2020. This gap is substantial in a number of countries, implying that higher supplier delivery times and other disruptions may have reduced motor vehicle production in Germany by an amount equivalent to over 1½ per cent of GDP in the first nine months of 2021 (Figure 1.6, Panel A), and production in the Czech Republic, Japan and Mexico by an amount equivalent to between ½ and 1% of GDP. In many of the other major producers of motor vehicles, the impact of supply constraints on production is smaller, and motor vehicle production represents a lower share of overall activity, but there is still a noticeable drag on GDP this year. Aggregating across countries, there is a growing gap between actual motor vehicle production and what might have occurred in the absence of supply constraints (Figure 1.6, Panel B), with actual production around 25% lower this year than the scenario with no additional supply constraints in 2021.

Figure 1.6. Supply-side constraints are depressing car production in 2021 and weighing on GDP



Note: Panel A shows the implied impact on GDP from the gap between actual motor vehicle production in the first nine months of 2021 and production in a scenario in which new orders (a demand proxy) follow their actual path in 2021, while suppliers' delivery times are held at their 2020Q4 level. Panel B shows the overall gap when aggregated across countries between production in the scenario and actual production, for countries accounting for 85% of global motor vehicle production. Based on estimates for a panel of 30 OECD and emerging economies, over April 1996 to December 2019, with monthly growth rates of car production regressed on country-specific PMI indices, lags of the dependent variable and country and time fixed effects. PMI indices for the overall manufacturing sector are weighted by the share of motor vehicles output in total manufacturing output.
Source: Markit; Eurostat; OECD Structural Analysis database; OECD Trade in Value Added database; and OECD calculations.

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Supply-side strains are expected to persist

At the onset of the pandemic, when automotive producers cut orders for chips in anticipation of lower demand, semiconductor producers shifted part of their production to supply producers of computers, webcams, tablets and other electronic and communication equipment, where sales were soaring. This redirection of semiconductor supply has contributed to the shortages carmakers are facing currently when they wish to expand production. The automotive industry represented around one-tenth of global semiconductor demand in 2020 and only 3% of total revenues of the Taiwan Semiconductor Manufacturing Company in 2019 — the world's largest foundry and top supplier of chips to the automotive industry. By comparison, communication and computers, the two largest semiconductor markets by end-use, jointly account for two-thirds of total demand. In this context, given that it is likely to take semiconductor makers at least six to nine months to realign production, the current supply shortage for motor vehicle manufacturers may continue well into 2022.

1. Motor vehicle production accounts for three-quarters of the overall output of the transport equipment industry at the world level.
2. Even though the share of electronic and electrical equipment inputs imported from Asia and Pacific is relatively small in the North American motor vehicle sector, US carmakers can be highly reliant on Asia for some critical parts and components. Many car producers reported that they had to reduce or cut production this year due to shortages of electronic chips. Part of these chips are produced in the United States, but the bulk of the imports is sourced from a small number of Asian countries.

Supply bottlenecks and labour shortages are checking the momentum of the recovery

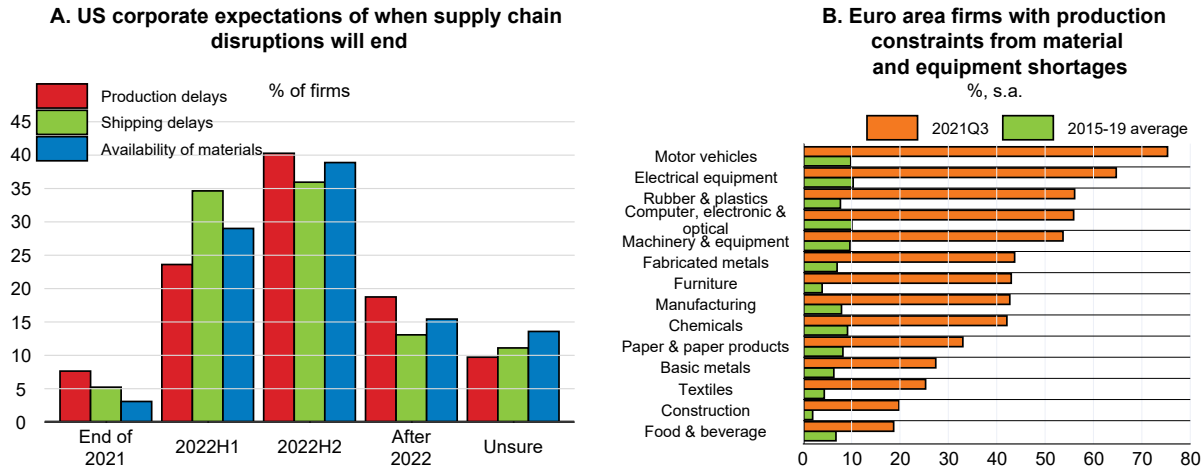
The rapid recovery in global demand over the past year and the slower recovery of production capacity in some sectors have generated supply shortages. While new COVID-19 infections and deaths have been reduced substantially in many advanced economies, outbreaks are continuing to occur in some parts of the world, including many European economies in recent weeks, extending some supply constraints and creating new ones. Such constraints appear to be a factor in the loss of momentum visible in recent economic indicators. Shutdowns and other sanitary restrictions from the continued spread of the COVID-19 virus around the world this year have contributed to the persisting supply disruptions that are holding back the recovery (Figures 1.7 and 1.8), and are putting strong upward pressure on some prices. Survey indicators of supplier delivery times have risen to very high levels in many advanced economies (Figure 1.8, Panel A), particularly in Europe and North America, and inventory levels have declined substantially in many industries. Business surveys suggest that the majority of firms do not expect supply disruptions to be resolved before the latter half of 2022 (Figure 1.7, Panel A; de Bondt *et al*., 2021; IFO, 2021). COVID-19 outbreaks have led to closures of key ports, such as Shenzen and Ningbo in China, creating bottlenecks in global shipping and slowing container traffic (Figure 1.8, Panel B). The pandemic has also been also a factor responsible for closures of factories producing computer chips, which in turn has curbed the production of goods using those chips, especially cars (Box 1.1).

In labour markets, signs of shortages have also appeared (Figure 1.9), even though overall employment has yet to recover fully from the pandemic. In part, this may reflect changes in the location of activities, changes in the skill mix required in the context of the pandemic (notably arising from the sudden shift in consumption from services to goods in many economies and the greater importance of on-line sales), or changes in matching efficiency. This can also be seen in the unfavourable shift in the relationship between vacancies and unemployment – the Beveridge curve – in some economies, such as the United States and Australia. In contrast, in economies like Germany and France, where job retention programmes were relatively broad and employer-employee matches have been preserved, Beveridge curves appear to have been little changed in the aftermath of the pandemic.

The pandemic also led some people to withdraw from the labour force, sometimes by choosing to retire early. Among OECD countries, the largest falls in labour force participation rates have been in Latin America, with the United States, Turkey and Israel also having large declines (see Figure 1.20), By contrast, Japan and a number of European economies had higher labour force participation rates in the latest quarter than they did just before the pandemic. Shortages have also emerged in sectors and countries normally reliant on sizeable cross-border inflows into the labour force. Permanent migration to OECD economies declined by around 30% in 2020, and temporary labour migration also fell sharply (OECD, 2021a).[1] The need to re-hire workers as sectors like hospitality and travel progressively reopened has thus put upward pressure on wages (Figure 1.10), especially in countries like the United States where there was less preservation of firm-worker matches. Despite an increase in near-term inflation expectations, however, expected wage growth remains similar to pre-pandemic norms (Figure 1.11).

[1] The number of working holidaymakers dropped, on average, by 58% in 2020 in OECD countries, and intra-company transfers by 53%. Asylum applications in OECD countries were also affected, falling by 31% in 2020 (OECD, 2021a).

Figure 1.7. Supply chain disruptions are affecting many firms and are expected to persist



Source: European Commission; Duke University, FRB Richmond and FRB Atlanta CFO Survey Q3 2021; and OECD calculations.

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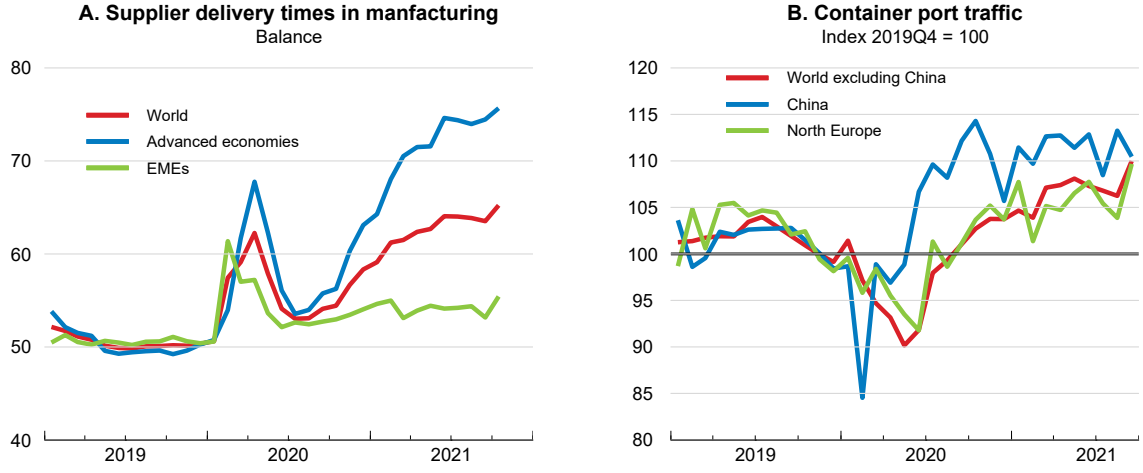
Figure 1.8. Supply constraints have pushed up delivery times and slowed global trade



Note: Series in Panel A based on Manufacturing PMI and defined as 100 minus the proportion of PMI survey respondents reporting that delivery times have stayed the same or become faster.
Source: Markit; RWI/ISL Container Throughput Index; and OECD calculations.

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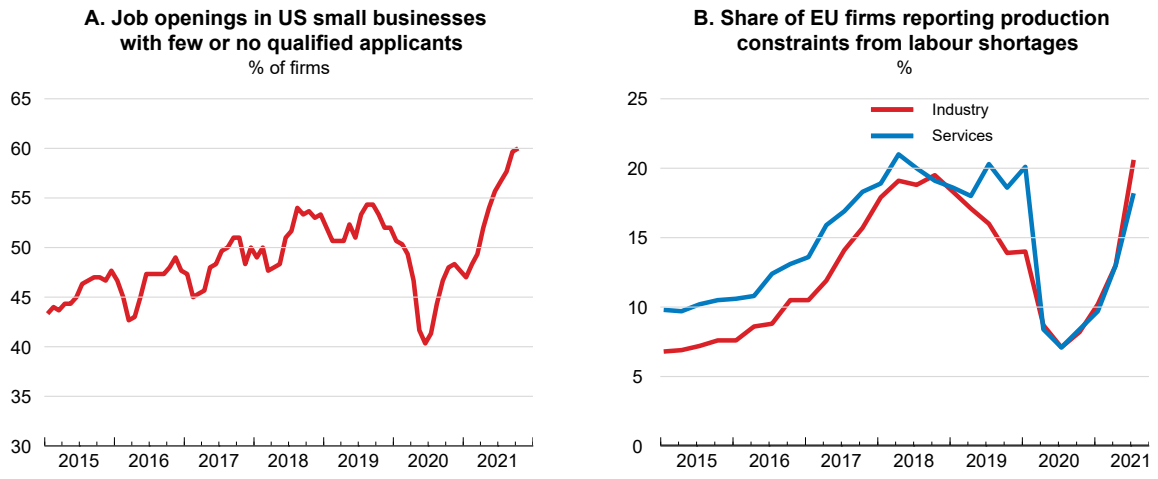
There have been a number of other significant disruptions this year, many of which are related to climate change. Huge wildfires (notably in Siberia – possibly the largest in recorded history – California and Turkey), unprecedented heatwaves and droughts (e.g. in western North America), extreme cold weather events and destructive floods (e.g. in Germany, Belgium and western Canada) have collectively caused thousands of fatalities and major destruction of property and economic disruption. Hurricane Ida in late August and early September 2021 was one the costliest storms in US history and significantly restricted the output and transportation of oil and gas for many weeks, adding to upward pressure on global energy prices (Box 1.2). Such storms, along with other weather-related disasters, have become more frequent and severe as sea and air temperatures rise (World Meteorological Organisation, 2021; IPCC 2021). The economic impact has increased correspondingly, especially on agriculture (FAO, 2021), with the low-income countries being the worst affected.

Figure 1.9. Labour shortages have emerged at an early stage of the recovery



Note: Data in Panel A are a three-month moving average.
Source: National Federation of Small Business; European Commission; and OECD calculations.

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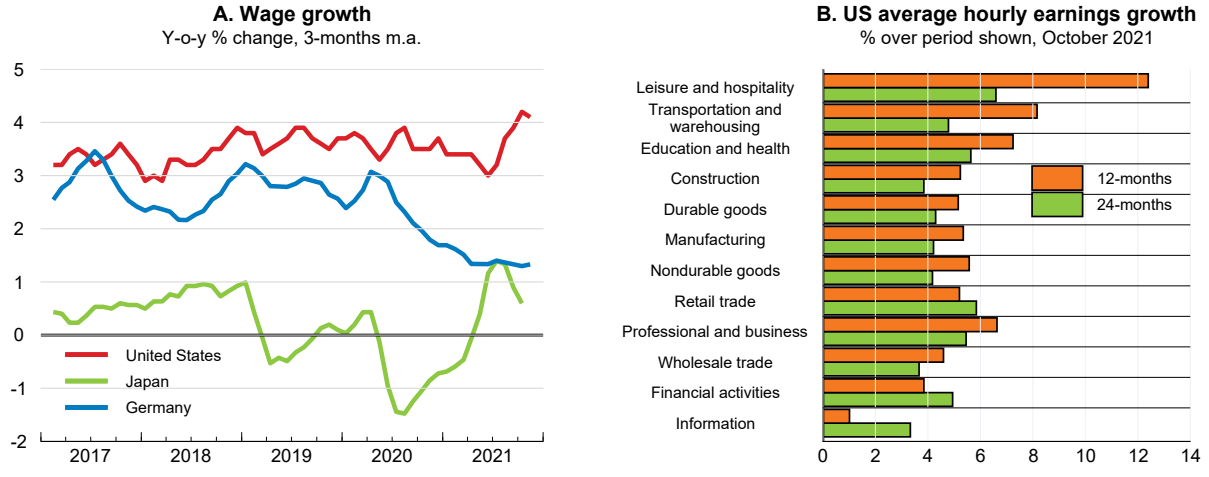
Figure 1.10. Aggregate wage pressures remain moderate despite large rises in some sectors



Note: The wage measures in Panel A are: the median change in hourly wages of individuals observed 12 months apart in the United States; contractual cash earnings in establishments with five or more employees in Japan; and negotiated wages excluding one-off payments in Germany.
Source: Federal Reserve Bank of Atlanta; Bureau of Labor Statistics; Destatis; Ministry of Health, Labour and Welfare, Japan; and OECD calculations.

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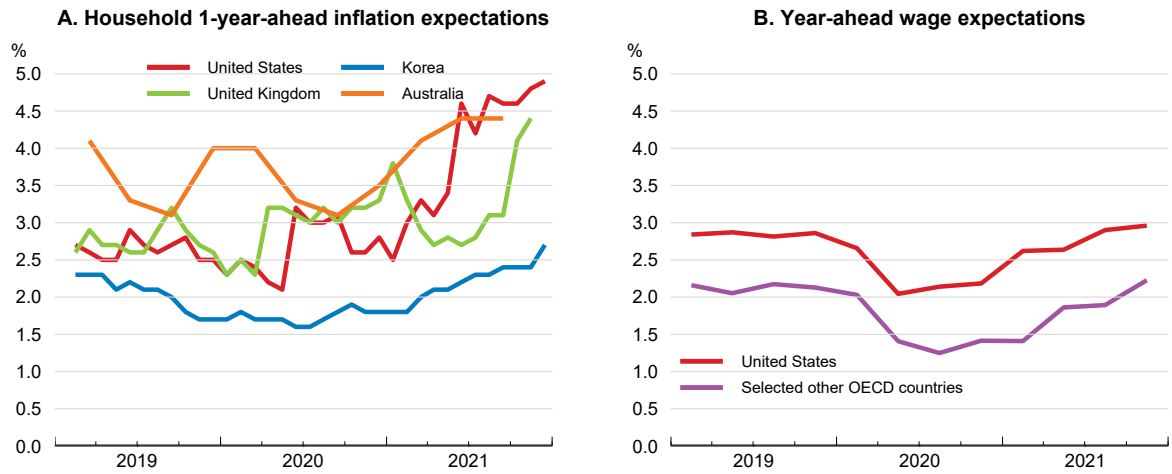
Figure 1.11. Inflation expectations have moved up, but expected wage growth is little changed



Note: In Panel B, 'Selected other OECD countries' corresponds to a weighted average of other OECD countries for which comparable wage expectations data are available: Australia, Canada, New Zealand, Norway, Sweden and the United Kingdom. Countries are weighted by employment levels. The value for 2021Q4 is based on the October value for the United States, and is available only for New Zealand, Norway and the United Kingdom for the aggregate.
Source: Refinitiv; Chartered Institute of Personnel and Development; Bank of Canada; and OECD calculations.

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COVID-19 related and other supply disruptions have helped to push up commodity prices over the past year during a time when demand for these commodities, albeit rising rapidly, was still lower in volume terms than before the pandemic. Oil prices more than doubled between June 2020 and late November 2021, a period during which global production was consistently below 2019 levels. Similar patterns were seen for coal, some metals, and a range of agricultural and industrial commodities. Gas prices and electricity costs have also soared. The spike in energy prices in recent months, resulting from a complex mix of causes (Box 1.2), is directly felt by households, helping to explain why their expectations of near-term inflation have risen strongly in many countries.

Box 1.2. The recent rise in energy prices – drivers and implications

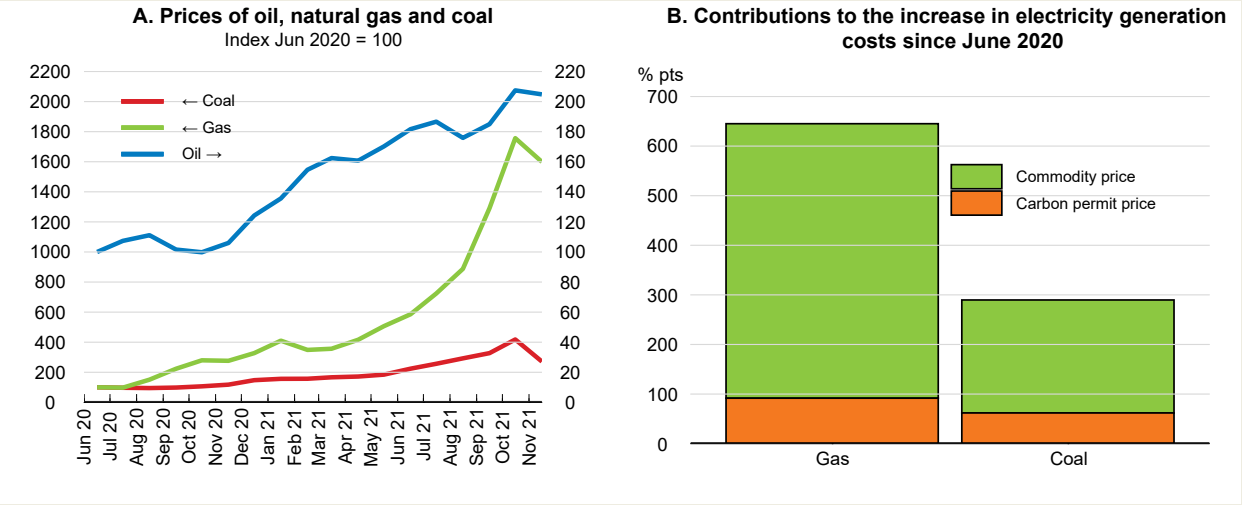
Prices of all major energy commodities have risen sharply since mid-2020

The recovery of energy prices over the past 18 months – after some future prices for oil and natural gas had turned negative in the first wave of the pandemic – has been spectacular. Spot prices for Brent crude have doubled since end-June 2020, while the increases for coal and natural gas have been much larger still, by around 8 times and 18 times respectively at their peaks in early October, with some retracement since then (Figure 1.12, Panel A). Most of the increase has occurred since the early part of this year.

The common factors in the surge in the prices of different energy commodities are restricted supply and the resurgence of demand as economies progressively reopened (Fernández Alvarez and Molnar, 2021). Beyond those basic shared features, however, there have been a range of specificities for the different commodities and particular markets.

The number of active oil rigs globally has risen by about half since falling to a record low in mid-2020, following the sharp decline in oil prices, but it remains well below the levels prevailing just before the onset of the pandemic. The OPEC+ agreement in April 2020 initially reduced global oil output by around 10%, with a partial unwinding of the production cuts thereafter. This was accelerated via subsequent agreements in 2021 as oil demand recovered. Global supply this year has also been restrained by such events as the Texas freeze in February and Hurricane Ida in August. More recently, oil prices have surged to their highest level since late 2014, in part because of additional demand for power generation.

Figure 1.12. Fossil fuel prices have surged, pushing up electricity generation costs



Note: In Panel A, monthly averages from daily prices (November is based on data up to 24 November). Coal price is Australian steam coal average FOB Newcastle (spot price reported by HWWI); gas is Title Transfer Facility Netherlands daily futures price; oil is Brent crude spot price. Panel B shows the contributions from changes in commodity prices and changes in carbon permit prices to changes in the cost of electricity generation using gas and coal respectively in the European Union between June 2020 and October 2021.
Source: Refinitiv; US Energy Information Administration (EIA); and OECD calculations.

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In response to the drop in global demand and low prices, global coal production fell by 5% in 2020, its largest decline since the Second World War. The recovery in supply as demand rebounded was held back by a number of factors including pandemic-control measures (China), floods (Australia and Indonesia) and rail disruption (South Africa).

Significant imbalances between demand and supply have emerged in gas markets, and put significant pressure on international gas prices, even though global demand has returned only recently to pre-pandemic levels. Chinese demand for liquefied natural gas (LNG) has remained unusually high since the winter of 2020, causing some gas that would otherwise have gone to Europe to be diverted. Low water levels and hydroelectric power generation in South America in early 2021 further boosted international LNG demand. The European winter was also colder than normal, spurring greater demand for gas and causing an unusually large draw-down of stocks that have not been restored fully this year. Restocking of reserves in Russia has been a factor in limiting supplies to Europe as demand has turned up this year. European demand for gas in the summer of 2021 was also pushed up by low production of wind power, with wind speeds across the continent unusually low.

In jurisdictions where carbon permit prices have also increased (especially Europe, including the United Kingdom, which now has its own permit system), this has contributed modestly to rising energy prices. The EU carbon permit price roughly tripled from its level just before the pandemic struck to its level in mid-October 2021, though this accounts for only a small part of the total increase in the cost of electricity generation using gas or coal (Figure 1.12, Panel B; see also Pacce *et al.*, 2021).

Rising energy costs have hurt households' purchasing power and fed the rise in inflation expectations

The direct impact of higher prices for oil, natural gas and coal on household expenditures has so far been limited given that spending on electricity and fuels is in the range of 5-10% in most OECD economies and that not all of the increases in spot prices have yet fed through into retail prices. Transaction prices, especially for natural gas, are much less volatile than the spot price, as a large share of gas is shipped on the basis of long-term contracts. In addition, a large share of retail prices reflects costs not related to commodity prices, such as the cost of labour in transportation and indirect taxes. Thus, for example, while the price of crude oil in the United States more than doubled over the year to mid-October 2021, retail gasoline prices increased by only about 50% during the same period. Finally, in some countries, governments have intervened to hold down the prices faced by households. About one third of OECD countries have taken action to cushion the rise in electricity prices, through a mixture of price caps, tax reductions and support for lower-income households (Boone and Elgouacem, 2021).

Even if, overall, the impact of the increase in energy prices on household budgets so far has been limited, that is not necessarily the case for all households. Lower-income households tend to spend a higher share of their income on energy (Figure 1.24), and they are less able to cushion the effect of a jump in energy costs by drawing on savings or reducing other expenditures, as they also spend proportionately more on other necessities.

The contribution to consumer price inflation from energy prices should peak soon

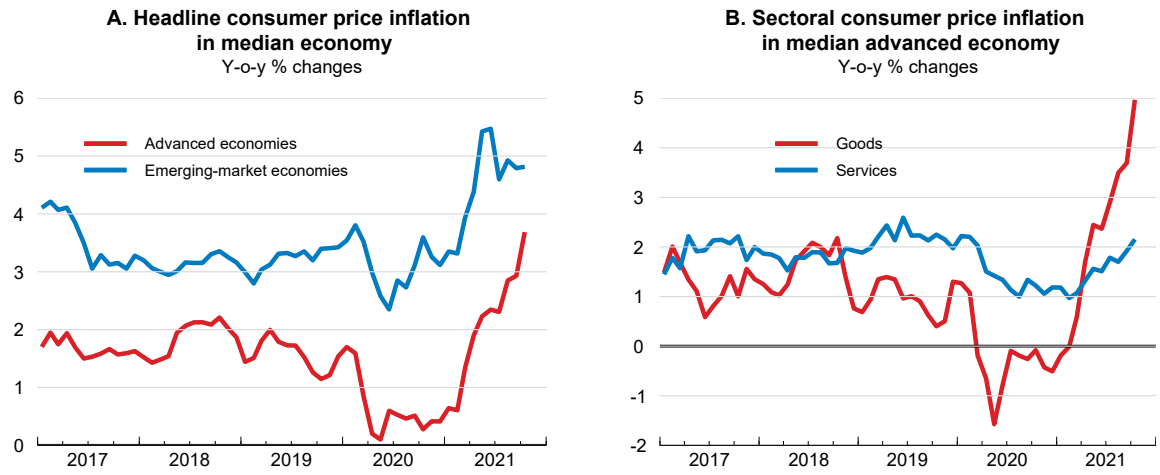
If the price increases for oil and natural gas since mid-2020 are not unwound, further rises in prices for electricity, gas, heating oil and motor fuels can be expected as higher commodity prices become reflected in long-term contracts and regulated price ceilings are raised. In addition, the rise in energy prices has raised costs for businesses already, particularly for industries such as chemicals and metals, and may continue to be passed on into output prices. Even so, however, without further rises in commodity prices, the biggest hit to household budgets will have occurred by the end of the winter of 2021. Further near-term fuel price rises are possible, given relatively low inventory levels, but a likelier outcome is that the supply constraints that have held output below pre-pandemic levels are unwound. In time, demand will also adjust to pricing anomalies that have emerged; for example, at its peak in October 2021 the oil-equivalent price of natural gas in Europe was around USD 200 per barrel, incentivising the use of other fuels. Apart from substitution between gas, oil and coal, the price spikes that have occurred could also help to spur faster development of alternatives to fossil fuels.

Headline inflation and, to a lesser extent, core consumer price inflation have risen markedly in most countries over the past year (Figure 1.13). Among large advanced economies, this is particularly the case for the United States, as well as, to a lesser extent, the United Kingdom, Germany and Canada. Commodity prices have risen particularly sharply, as have prices in many durable goods sectors, especially in the United States, where the switch in consumer demand from services to durable goods was particularly marked (see below). There was much less of a surge in durables demand in the euro area, for example, and price spikes for durable goods were accordingly much more muted. Core inflation (excluding food and energy) in the median advanced economy remains close to or below central bank targets, at 2.2% in October. Base effects are also affecting fluctuations in annual inflation. Some prices fell in most countries in the early phase of the pandemic, creating a low base for year-on-year increases in 2021. In many economies, inflation when smoothed over a two-year period, to control for the pandemic and the rebound, has been similar to the preceding two years, although the United States is a notable exception. Finally, large pandemic-induced changes in consumption patterns and relative prices have created some challenges to the measurement of inflation (Box 1.3).

Financial conditions have generally remained very favourable worldwide in recent months, and have tended to evolve in a similar manner in large advanced economies. In contrast, developments have been more diverse in emerging-market economies. The signal by the US Federal Reserve in September that the tapering of asset purchases could begin imminently prompted repricing, with US nominal bond yields

rising for some weeks. Still, 10-year government bond yields in late-November were little changed from May in the United States,[2] the euro area, Japan and the United Kingdom, which suggests that longer-term inflation expectations have remained anchored despite rising inflation. In contrast, 10-year yields were over 1 percentage point higher than in May in some large emerging-market economies, including Brazil, Turkey and Russia (Figure 1.14). In the euro area, spreads relative to Germany have remained broadly stable. In most economies, both advanced and emerging-market, equity prices generally remain higher than earlier this year. Most large advanced economies' currencies have depreciated against the dollar since May, while the picture is mixed for the major emerging-market economies.

Figure 1.13. Headline inflation has increased but is mainly concentrated in goods



Source: OECD Consumer Price database; Statistics Bureau, Japan; National Statistical Office, India; and OECD calculations.

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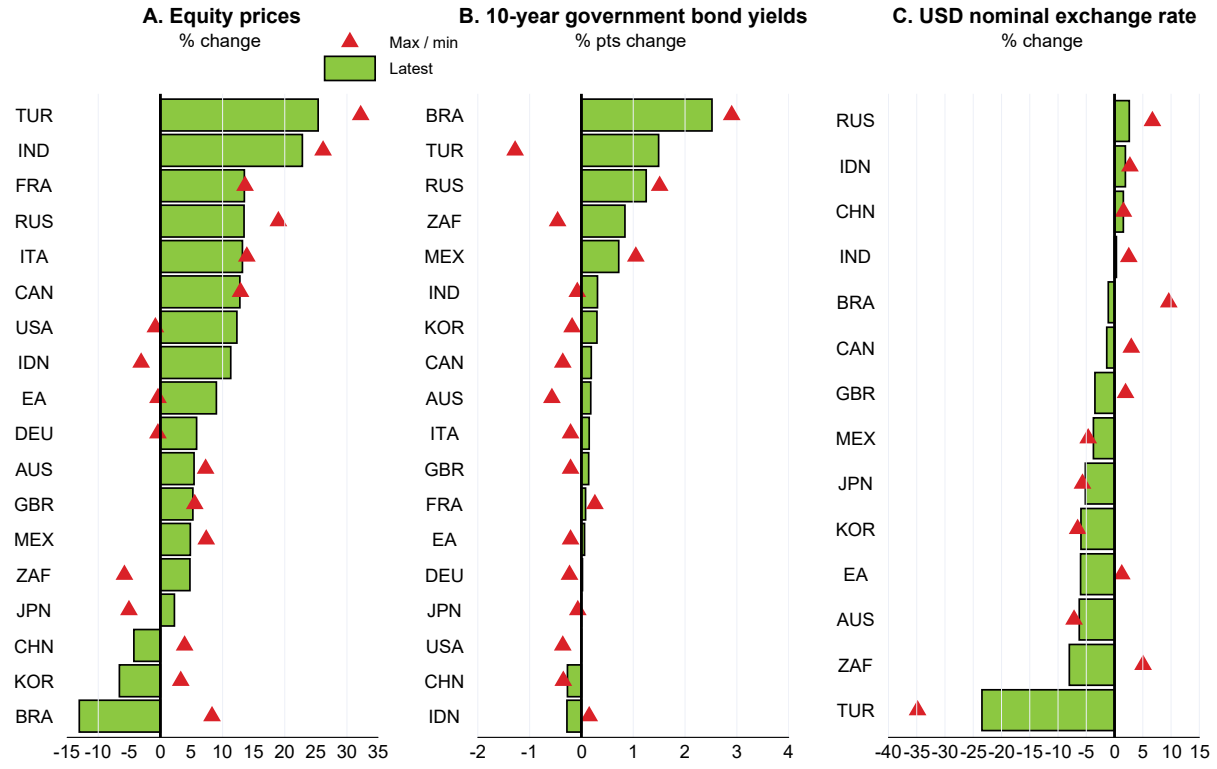
[2] US 10-year bond yields declined by over 25 basis points between May and August, but have subsequently returned to their average level in May.

Figure 1.14. Financial market conditions generally remain favourable



Note: 'Latest' refers to the change between May 2021 and the latest available data up to 24 November. 'Max / min' refers to the maximum change since May 2021. Based on a 10-day average of daily observations.
Source: Refinitiv; and OECD calculations.

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Box 1.3. Inflation measurement during the pandemic and beyond

The COVID-19 crisis has complicated inflation measurement. One difficulty is that the implementation and subsequent lifting of lockdowns and social-distancing measures have significantly altered consumption patterns in most economies. The Consumer Price Index (CPI) is calculated as a weighted average of the prices of different goods and services, with weights based on past expenditure shares. If consumption patterns undergo sudden and large changes, those weights become unrepresentative of the latest expenditure shares, and gaps can emerge between inflation computed with official versus "real-time" weights. The likelihood of sizeable gaps rises when there is a high dispersion of price developments for different categories of goods and services.

An illustrative estimate of the potential magnitude of those measurement gaps for the United States, Japan and the euro area can be obtained by comparing a counterfactual (or "real-time") CPI generated by retrospectively applying weights known at a future point in time (OECD, 2021b) with a CPI generated using official weights.[1] The exercise is done for 2019 (the pre-pandemic year), 2020 (when lockdowns were generally the strictest) and 2021 (when some return towards more normal patterns has been underway in most economies). In 2020, the weights of those expenditure categories requiring mobility or personal

contact fell significantly, while the share of food and housing in households' budgets typically increased. Real-time weights for 2021 are not yet known, but different assumptions can be made about how fast and to what extent consumption patterns return to their pre-pandemic norms. One possible scenario is that those patterns fully go "back to normal", with pre-pandemic weights holding again (Table 1.2). This is a strong simplifying assumption, since the composition of consumers' expenditure in 2021 remains affected by the pandemic, and a full return to pre-pandemic patterns may not occur (Hodbod *et al*., 2021).

Table 1.2. Assumptions on the base years for weights

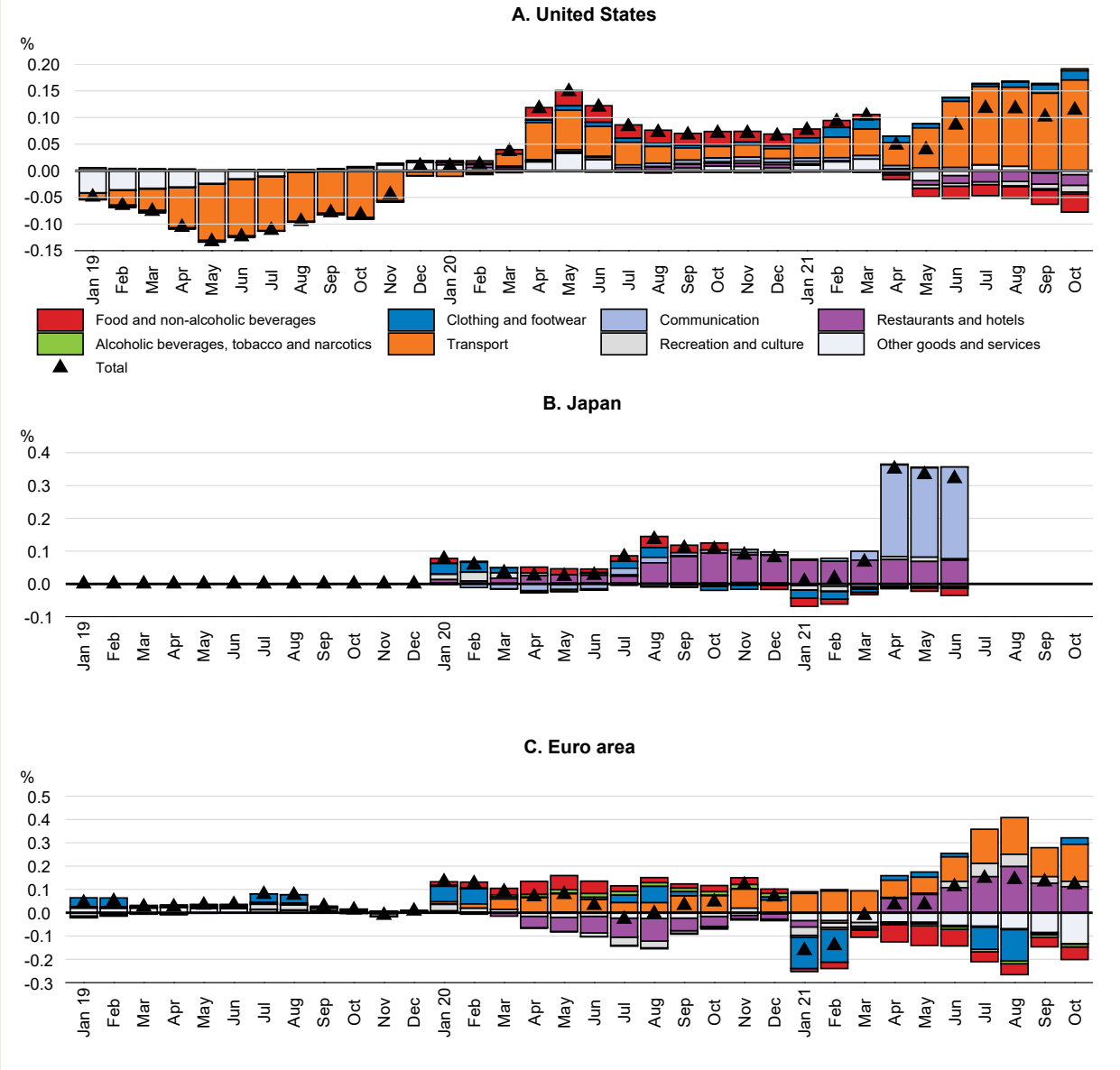
	Scenarios	2019	2020	2021
United States CPI	COICOP-adjusted official weights	2018 weights (released in early 2019)	2019 weights (released in early 2020)	2020 weights (released in early 2021)
	counterfactual (or "real-time")	2019 weights (released in early 2020)	2020 weights (released in early 2021)	2019 weights ("back-to-normal")
Japan CPI	COICOP-adjusted official weights	2015 weights (released in mid-2016)	2015 weights (released in mid-2016)	2020 weights (released in mid-2021)
	counterfactual (or "real-time")		2020 weights (released in mid-2021)	2015 weights ("back-to-normal")
Euro area HICP	official weights	2018 weights (released in early 2019)	2019 weights (released in early 2020)	2020 weights (released in early 2021)
	counterfactual (or "real-time")	2019 weights (released in early 2020)	2020 weights (released in early 2021)	2019 weights ("back-to-normal")

Note: COICOP (Classification of Individual Consumption According to Purpose) is the international reference classification of household expenditure. To improve comparability across economies, COICOP-adjusted weights and indices are used (computed by the OECD with the cooperation of national statistics offices), rather than the country-specific classifications used by the United States and Japan (the euro area HICP already uses COICOP). For the United States, the 2020 weights are only price-updated weights, and thus do not fully capture the impact of the pandemic on consumption patterns.
Source: OECD Main Economic Indicators database.

Following the methodology set out in OECD (2018), the contributions of twelve 2-digit COICOP expenditure categories to the overall annual inflation rate under different weights have been computed (Figure 1.15).

- In the United States, "real-time" inflation has been above the inflation rate computed using COICOP-adjusted official weights since spring 2020. Inflation in transport services was below average in 2020, so the higher official weight (based on 2019 data rather than the decline in transport services spending in 2020) led to a stronger downward impact on aggregate inflation. Conversely, when transport prices accelerated in spring 2021, the higher "back-to-normal" weight has generated a larger contribution to aggregate inflation. Thus there has been a consistently positive contribution of transportation to the difference between counterfactual and official inflation.[2]
- In Japan, "real-time" inflation has persistently been above the inflation rate computed using COICOP-adjusted official weights, mainly due to the contributions of "Restaurants and hotels" from 2020 and "Communication" from April 2021. The weight of "Restaurants and hotels" fell in 2020 while prices fell in 2020 and recovered in spring 2021. In the case of "Communication", a significant fall in mobile phone charges in 2021 (largely unrelated to the pandemic) has exerted a stronger downward impact on aggregate inflation when the higher official weight (referring to 2020) is used.[3]

Figure 1.15. Differences between annual inflation rates computed with counterfactual and official weights



Note: The bars display, for each 2-digit COICOP category, the difference between the contributions to annual all-items inflation obtained using counterfactual and official weights. The category "Other goods and services" consists of "housing, water, electricity, gas and other fuels", "furnishing, household equipment and routine maintenance", "health", "education", and "miscellaneous goods and services". Triangles represent the difference between all-items inflation rates derived by aggregating the contributions of all categories.
Source: OECD Main Economic Indicators database; and OECD calculations.

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- In the euro area, the "real-time" inflation rate has often been higher than the inflation rate computed with official weights, though with some fluctuations. "Transport" and "Restaurants and hotels" both have lower weights in 2020. However, unlike Japan, price increases in "Restaurants and hotels" in 2020 were generally above average, resulting in a negative contribution to the difference between this counterfactual and inflation computed using official weights.

Overall, this illustrative analysis suggests that sharp changes in consumer behaviour, captured by large shifts in expenditure weights, could currently be leading to some underestimation of annual inflation. However, as in OECD (2021b) and ECB (2020), the impact of different expenditure weights tends to be modest: in the present analysis the upper limit of this impact is only around 0.15 percentage points in the United States, 0.35 percentage points in Japan, and 0.2 percentage points in the euro area.[4] The higher estimates for the United States reported in Cavallo (2020) largely stem from the use of weights that are updated monthly, based on credit and debit card transactions. This captures the exceptional and temporary shifts in consumption patterns at the height of the pandemic, but is less comprehensive than households' total consumption expenditure.

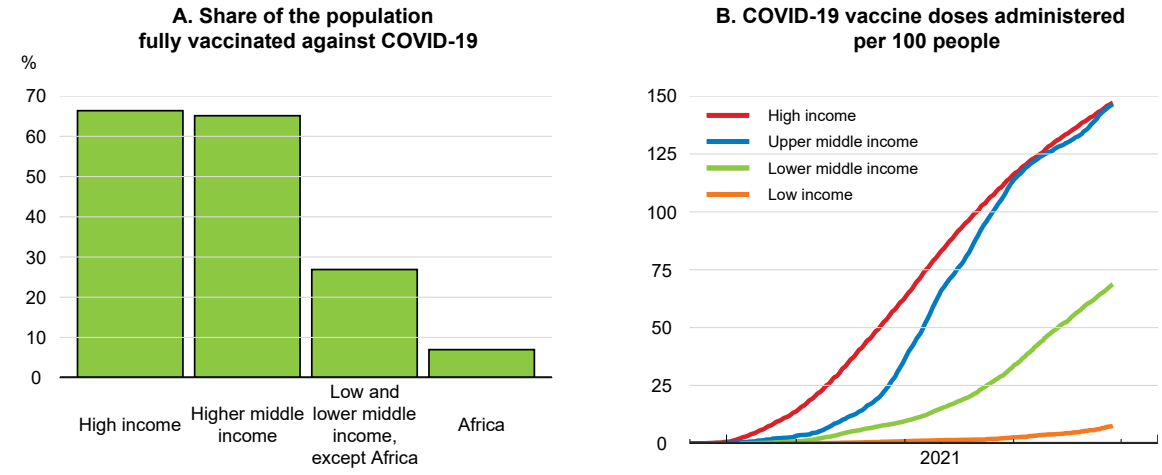
In order to assess the robustness of the above conclusions, a related analysis has been carried out at more disaggregate levels (3-digit and 4-digit COICOP expenditure categories) for the euro area. (COICOP data at this level are not available for the United States and Japan). The difference between annual inflation rates computed with "real-time" and official weights becomes considerably more volatile, partly as a consequence of the marked seasonality in the prices of some smaller items with large changes in weights, such as package holidays and accommodation services. These factors are aggregated when two-digit weights are used, reducing the overall volatility. However, when averaged over each year, the underestimation of inflation is only marginally larger (0.17 percentage points at most) than that computed at the 2-digit level.

1. This index may differ from the official CPI due to a number of methodological differences relating to chain linking and because the consumption classification used in this box (COICOP) differs from the classification used in the CPIs of the United States and Japan.
2. In other words, the decrease in the "real-time" weight in 2020 weakened the impact of the price fall, while the recovery in the "real-time" weight in 2021 amplified the impact of the price rise, resulting in a consistently positive contribution.
3. It should be noted that this higher weight mainly reflects the greater usage of smartphones since 2015, rather than pandemic effects.
4. The extent of the underestimation can vary depending on which "real-time" weights for 2021 are assumed. The estimates presented in this box assume a fully "back to normal" situation. If the weights only moved half the way towards 2019 consumption patterns, the size of the underestimation would also be roughly halved.

A continued recovery is likely

Now that most advanced economies are nearing double vaccination of their eligible populations, the threat of major new waves of hospitalisations and deaths is waning, though in some cases contagion rates remain elevated, and countries with lower vaccination rates remain exposed to risks of further major outbreaks. In much of the rest of the world vaccination rates remain low (Figure 1.16), although the delivery of vaccines to emerging and developing economies is expected to improve steadily in 2022 and 2023. Thus, unless new, more dangerous variants of the virus emerge, COVID-19 should progressively become less of a factor in global economic outcomes over the coming years. An important implication of this is that some of the supply disruptions associated with the pandemic over the past 18 months should ease, even if not in a linear fashion and at a different pace. A waning of the pandemic would also spur the normalisation of demand patterns between goods and services. Together with the easing of supply disruptions, this should facilitate a continued global economic recovery and remove some inflationary pressures, but will not necessarily make the recovery more balanced. For instance, the projections imply that output in the advanced countries is likely to converge on the path that was expected before the pandemic (Figure 1.17), but lower-income countries are projected to remain well short of their pre-pandemic path.

Figure 1.16. Vaccination rates are high in most advanced economies, but still low in many other countries



Note: High income, higher middle income, low and lower middle income countries refer to the World Bank standard groupings.
Source: Our World in Data (accessed on 25 November); and OECD calculations.

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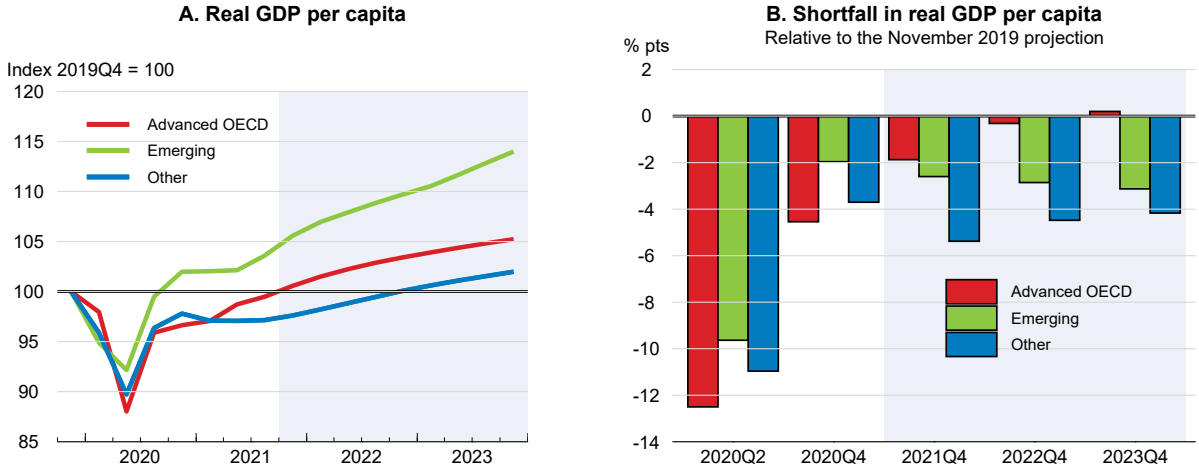
Figure 1.17. The recovery will continue to diverge



Note: Advanced OECD is OECD minus Chile, Colombia, Costa Rica, Mexico and Turkey. Emerging comprises the latter five OECD countries plus the BRIICS plus Argentina, Bulgaria and Romania. Other is all countries excluding the above, the Dynamic Asian economies (Chinese Taipei, Hong Kong, China, Malaysia, Philippines, Singapore, Thailand and Vietnam), and a number of oil-exporting countries. The Other grouping mostly consists of lower-income developing economies.
Source: OECD Economic Outlook 110 database; OECD Economic Outlook 106 database; and OECD calculations.

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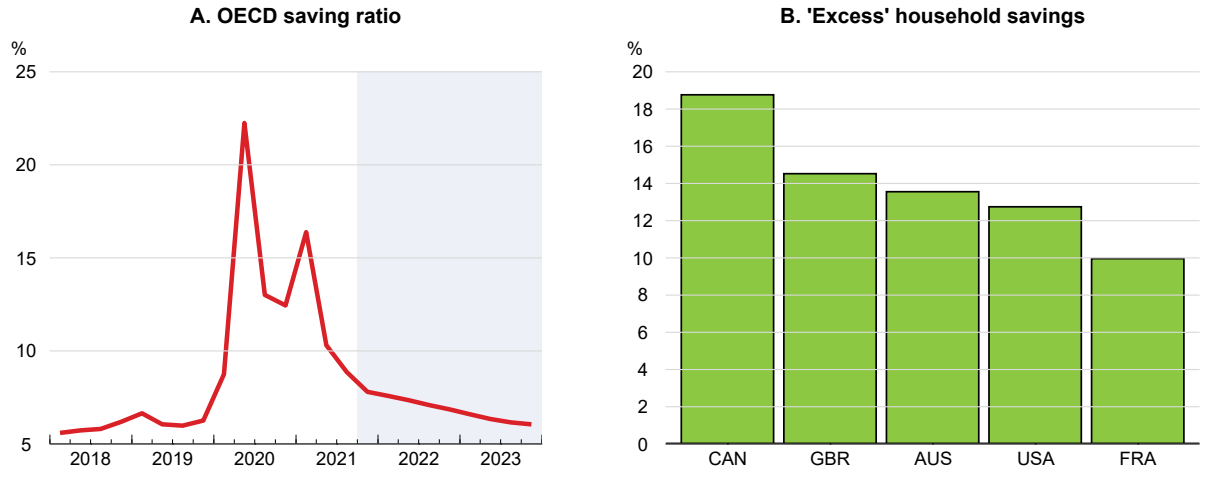
Figure 1.18. Household saving ratios are projected to return to normal, but the accumulated stock of "excess" savings is not expected to be run down

In per cent of household disposable income



Note: Panel A refers to the net saving ratio. The bars in the panel B represent the stock of savings resulting from the cumulative difference of the net household saving ratio over 2020Q1-2021Q2 from its average value in 2019.
Source: OECD Economic Outlook 110 database; and OECD calculations.

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Another key factor impelling the initial sharp rebound in activity and supporting the momentum of the recovery so far has been accommodative fiscal and monetary policies, and supportive financial conditions. In most OECD countries, policymakers have started to remove stimulus progressively as private sector activity normalises, medium-term inflation pressures rise and output gaps close. The projections reflect the assumption that policymakers are successful in balancing the need to avoid maintaining stimulus for too long and removing it too quickly. A key question will be the extent to which households and companies sustain demand by offsetting the removal of stimulus through higher spending and lower saving, as assumed in the projections (Figure 1.18, Panel A). Households and companies could also offset these effects by drawing down the additional savings accumulated during the pandemic (Figure 1.18, Panel B), but the extent to which they might do so is uncertain. There could also be a sustained period of inventory building as supply disruptions are resolved, which would strengthen domestic demand.

Conditional on these assumptions, the global recovery is projected to continue – though remaining uneven, and slowing – over the next two years. Having rebounded by a projected 5.6% in 2021 after the 3.4% decline in 2020, global GDP is projected to rise by 4½ per cent in 2022 and 3¼ per cent in 2023 (Table 1.1). OECD GDP growth follows a similar profile, with the recovery slowing from 5.3% in 2021 to 4% in 2022 and 2½ per cent in 2023, after the drop of nearly 5% in 2020.

For most OECD countries, projected growth in 2022-23 will be faster than the estimated growth of potential output, allowing many of them to return to, or even slightly overshoot, the path of output that was projected before the onset of the pandemic. This raises the question of whether this scenario represents a return, after the major shock imposed by COVID-19, to the situation that prevailed in the years immediately before the pandemic. In many respects, that situation was unsatisfactory, with sluggish growth, intensifying trade frictions and low investment. Such an outcome, while possible, is far from pre-ordained. Business investment fell sharply in most economies in 2020, and structural changes induced by the crisis may involve unusually high rates of capital scrapping, as emergency support measures are unwound. At the same time, however, business investment has been recovering quickly in 2021 and net productive investment is projected to rise steadily in 2022-23, helped by stronger government investment, especially

in Europe. In addition, the crisis triggered major changes in business practices in many firms. It will take more time to weigh the evidence on the aggregate effects of these changes on economy-wide productivity, but some initial evidence suggests that the net effect on firms' productivity has been positive (Criscuolo *et al*., 2021).

For non-OECD countries, the medium-term picture is more mixed. In most, absolute GDP growth rates are above those prevailing in the advanced economies but projected output continues to fall well short of the path expected before the pandemic. More concerning still is that many low-income countries are projected to register barely any per capita income growth over a four-year period (Figure 1.17). In general, these economies are less able to afford and administer supportive macroeconomic policies and COVID-19 vaccination programmes, and many are adjusting to tighter monetary policy to control inflation. The upturn in global trade and a gradual recovery in international travel should benefit many economies, but net importers of energy commodities have been hurt by the sharp rises in the prices of oil, gas and coal.

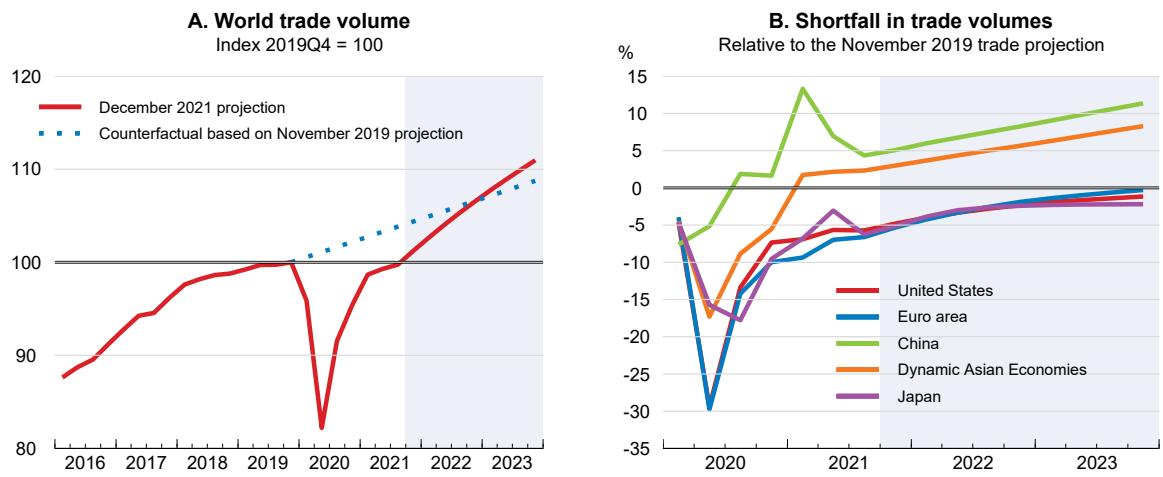
Prospects in the major economies are as follows (Table 1.1):

- In the United States, GDP growth is projected to slow to 3¾ per cent in 2022 and just under 2½ per cent in 2023, after a strong rebound in 2021 (5.6%) that has taken GDP well above its 2019 level; output declined by 3.4% in 2020. Given uneven vaccination levels across the country, further localised COVID-19 outbreaks remain a risk, delaying the full normalisation of economic activity. Additional fiscal spending on infrastructure is projected to mitigate but not prevent a strong fiscal consolidation in 2022. A continued reduction in the household saving ratio in 2022-23 is expected to offset much of the increase in public saving, allowing monetary policy to become less accommodative while maintaining a steady rise in the employment rate.
- Japan's recovery is more gradual than that of the United States, with the 2021 rebound in output projected to offset less than half of the 4.6% contraction recorded in 2020. GDP growth is projected to be near 3½ per cent in 2022 before slowing to just above 1% in 2023. A continued reduction of the household saving ratio in 2022 helps to strengthen private consumption, which, together with the support provided by the newly-announced fiscal package for 2022, will boost activity. The momentum of the post-pandemic recovery is projected to wane in 2023, as output and employment gaps are closed.
- The strong output recovery underway in the euro area is expected to continue, although near-term uncertainty has risen with the renewed rise in COVID-19 infections across Europe. Euro area GDP growth, which is estimated to reach 5.2% in 2021, is projected to moderate to 4¼ per cent in 2022 and 2½ per cent in 2023. The fiscal stance is projected to tighten in 2022 and 2023, as emergency support to firms and households fades, but the associated withdrawal of demand is projected to be offset by strong private consumption as household saving ratios decline to more normal levels. Investment is also projected to continue to rebound, with the positive impact of Next Generation EU grants increasing in 2022-23. This will be particularly beneficial for the economies hardest-hit by the pandemic.
- China achieved the earliest and initially the strongest output recovery from the pandemic, reflecting a strong public health response to the initial outbreak that allowed the economy to reopen before other countries, as well as decisive policy support for demand. The recovery was sustained into 2021 by strong exports as the economies of trading partners reopened, but has slowed as investment in real estate and infrastructure softened and power outages became widespread. GDP growth of over 8% in 2021 is projected to moderate to just over 5% in 2022 and 2023, returning to the gradually slowing pre-pandemic path.

- Output in India is projected to rise by nearly 9½ per cent in fiscal year (FY) 2021-22 before slowing to just over 8% in FY 2022-23 and 5½ per cent in FY 2023-24. After a wave of infections of the Delta variant in the spring of 2021, the economy has been reopening and most high-frequency indicators point to a rapid upturn. The vaccination programme has picked up speed, underpinning consumer confidence, but COVID-19 is projected to leave scars including lower human capital accumulation than otherwise and less investment in infrastructure, damping the medium-term growth outlook.
- Brazil's recovery has been supported this year by a rebound in export growth, offsetting the impact of the severe wave of COVID-19 infections in the first half of the year and subsequent supply bottlenecks. Average annual GDP growth in 2021 is projected to be 5%, but this masks a slowdown through the course of the year. Domestic demand growth is projected to pick up in 2022, supported by further progress with vaccination and an easing of worldwide supply-chain disruptions, but tighter monetary policy will check annual GDP growth in 2022 and 2023 (to around 1½ and 2 per cent, respectively).

After a strong pick-up in the first half of 2021, the volume of global trade in goods and services is projected to reach its pre-pandemic level by the end of 2021.[3] Overall, the volume of world trade should be 9.3% higher in 2021 than in 2020. Momentum is projected to soften over 2022 and 2023, with trade volumes rising by 5 and 4½ per cent respectively, in line with the moderation of global activity. This implies that trade will also reach, and then exceed, its projected path prior to the pandemic by the end of 2022 (Figure 1.19, Panel A).

Figure 1.19. World trade is rebounding quickly, helped by strong growth in Asian trade



Note: The Dynamic Asian economies are Chinese Taipei, Hong Kong, China, Malaysia, Philippines, Singapore, Thailand and Vietnam.
Source: OECD Economic Outlook 110 database; and OECD calculations.

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[3] Trade in goods rebounded more quickly, returning to the pre-pandemic level by the end of 2020, but trade in services is recovering only slowly, and remains below the pre-pandemic level.

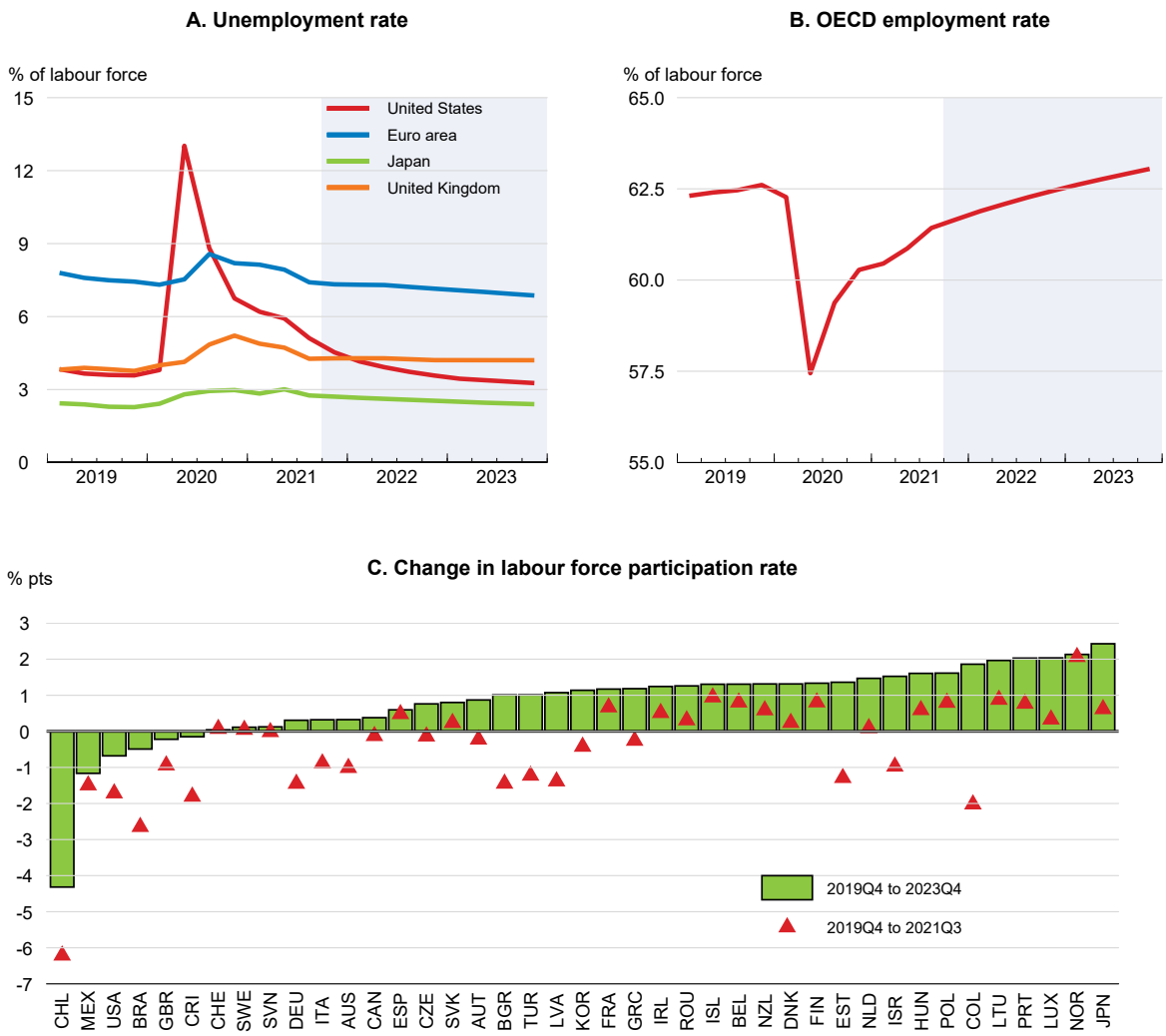
Assorted supply-side impediments — extreme weather incidents, shortages of inputs such as semiconductors, and shipping delays — are constraining production in some industries and holding back merchandise trade growth in the near term. Import growth in China has also slowed. Many bottlenecks are expected to fade by the end of next year, as new capacity starts to be deployed,[4] backlogs are absorbed and demand rebalances towards non-durable goods and services. Despite many countries progressively reopening their borders and alleviating travel restrictions, high uncertainty and weak confidence could still inhibit tourism and business travel for some time, slowing the recovery in services trade. Emerging-market and developing economies, where vaccination rates remain low, could suffer from subdued tourism revenues at least until 2023. In contrast, trade in services is already recovering in some advanced economies.

The global trade recovery varies across regions. Exports of China, the Dynamic Asian Economies and Japan have rebounded strongly in 2021, rising by a projected 16¾, 13¼ and 11¼ per cent respectively, in some cases above the path expected prior to the pandemic (Figure 1.19, Panel B). Export growth in these economies will slow in 2022 as base effects vanish and some important drivers of the 2021 dynamic fade away, notably the exceptional boost to demand for pandemic-related medical and teleworking equipment. Nonetheless, strong global activity will generally support trade. Euro area and US exports are projected to grow by 6 and 3½ per cent in 2022 after 9¾ and 3¾ per cent in 2021. The strong boost to domestic demand in the United States has already lifted imports in 2021 and the impetus should persist in 2022. Global current account imbalances are projected to narrow slightly by the end of 2021 and stabilise afterwards, but remain moderate by historical standards.

Labour market conditions are projected to normalise progressively over the next two years. Above-trend economic growth in most OECD countries will facilitate continued recovery in employment rates, which are projected to be broadly back to pre-pandemic levels by the end of 2022 (Figure 1.20, Panel B). Continued strong employment growth will sustain the gradual decline in unemployment rates that has been underway for more than a year (Figure 1.20, Panel A). In some countries, large numbers of people left the labour force during the first phase of the pandemic, and that decline in labour force participation is expected to be reversed. However, in a few countries, including the United States, the initial sharp fall in the labour force participation rate is not projected to be completely unwound over the projection horizon (Figure 1.20, Panel C). The fading of the pandemic in OECD countries and the reopening of international borders should also ease sectoral labour shortages, implying that the strong upward wage pressures currently prevailing in some sectors and occupations will soften. Nominal OECD-wide growth of wages per employee is projected to fall back slightly from 3½ per cent in 2021 to 3¼ per cent on average in 2022-23. Real wage growth is projected to pick up slightly towards the end of the projection horizon as output gaps close, labour market conditions tighten and inflation moderates.

[4] A detailed analysis of the bottlenecks in container shipping is provided in (UNCTAD, 2021). The report concludes that “high freight rates may be sustained in both short and medium terms”.

Figure 1.20. Labour market conditions are projected to improve further



Note: The labour force participation rate is the percentage of the population aged 15-74 in employment or looking for work. For EU members, and for other European countries working with Eurostat, there is a methodological break between 2020Q4 and 2021Q1, which affects the data in some cases.
Source: OECD Economic Outlook 110 database; and OECD calculations.

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Key risks and vulnerabilities

The evolution of the pandemic remains uncertain

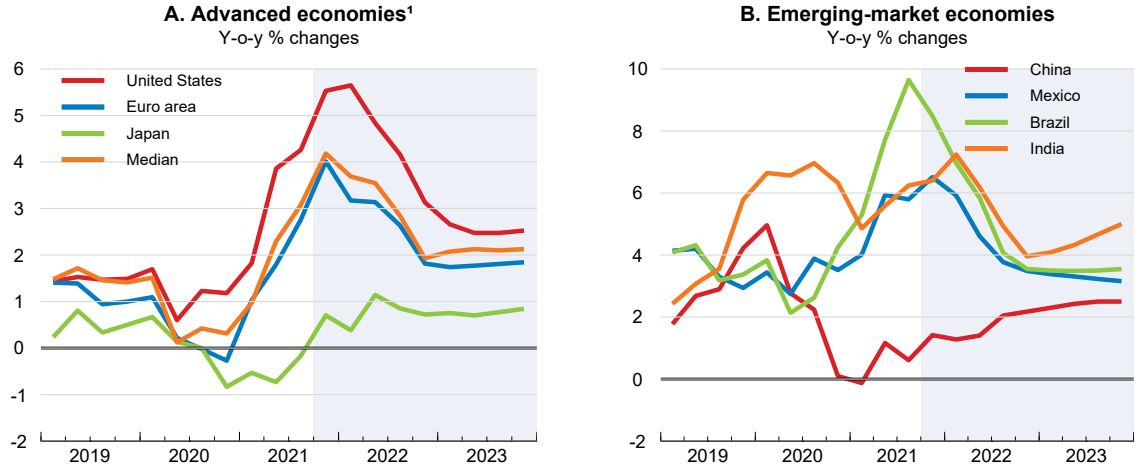
Significant uncertainty remains about the evolution of the pandemic. On the upside, faster global progress in deploying effective vaccines would boost confidence and spending by consumers and companies and encourage an unwinding of the additional household savings accumulated since the outset of the pandemic. This would improve growth prospects in 2022 and 2023, with global output returning to the path expected prior to the pandemic and unemployment falling more sharply in the typical economy. At the same time, stronger demand could raise financial market expectations of an earlier start to interest rate

increases in the advanced economies, which could create particular difficulties for some emerging-market economies. A major downside risk is that the speed of vaccine deployment, and the effectiveness of existing vaccines, will be insufficient to stop the transmission of COVID-19 variants of concern, resulting in a need for new or modified vaccines or repeated campaigns to provide booster doses. In such circumstances, stricter containment measures might need to be re-employed (as is currently occurring in a number of European countries), lower-income economies could continue to lag behind in vaccine deployment, and output and per capita incomes would remain weaker than the pre-crisis path for an extended period. New mobility restrictions and port closures could hamper global trade, as persisting shutdowns in key economies reduce the availability of supplies along supply chains and lengthen supplier delivery times. Such further supply disruption might also create additional upward pressure on some prices.

Inflation could continue to surprise on the upside

Headline consumer price inflation is projected to peak in the majority of advanced and emerging-market economies by the first quarter of 2022, before moderating gradually (Figure 1.21). Large increases in commodity prices, including recent jumps in energy costs, supply shortages, and higher transportation costs are key factors that have pushed up prices around the world. In the major economies, higher shipping costs and commodity prices are estimated to be adding over 1½ percentage points to consumer price inflation in the latter part of 2021, accounting for around three-quarters of the jump in inflation since the fourth quarter of 2020 (OECD, 2021c). The impact of these input price rises on consumer price inflation is expected to fade gradually through 2022-23, with key bottlenecks easing as capacity expands and the rebound in consumer demand growth moderates. Broader cost pressures, particularly in labour markets, are projected to remain moderate but pick up slowly as the recovery proceeds, with unit labour costs in the OECD economies rising by around 1¼ per cent in 2022 and 1¾ per cent in 2023.

Figure 1.21. Inflation is projected to peak by early 2022 in most countries but remain above pre-pandemic levels



Note: The harmonised consumer price index for the euro area; the personal consumption expenditure deflator for the United States; and the overall consumer price index for the remaining countries shown separately.
1. Advanced economies include OECD countries except Chile, Colombia, Costa Rica, Mexico and Turkey.
Source: OECD Economic Outlook 110 database; and OECD calculations.

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- For 2022 as a whole, the consumer price inflation across the OECD is projected to rise to 4¼ per cent, and to 3½ per cent in the major advanced economies. As the effects from past input price rises drop out, and supply constraints wane, inflation is projected to moderate to around 2% in the typical advanced economy by 2023. Inflation is projected to remain above 2% in the United States, the United Kingdom and Canada, prompting some gradual tightening of monetary policy. In the euro area, inflation is projected to settle between 1¾-2 per cent by 2023.

The risks around the baseline scenario are high. It is possible that the resolution of supply constraints will permit a faster-than-projected unwinding of some of the sharp price increases seen over the last year, resulting in a faster decline in inflation. Such an outcome would be benign for the global economy, although it would heighten the challenge of achieving monetary policy objectives in countries that already have underlying inflation below central bank targets.

The main risk, however, is that inflation continues to surprise on the upside, forcing the major central banks to tighten monetary policy earlier and to a greater extent than projected. Such an outcome could stem from a number of possible factors, including prolonged supply disruptions, an upward shift in inflation expectations, labour market pressures, or if prices for a wider range of goods and services start to rise substantially.

- Existing supply disruptions could continue to be more severe, prolonged and widespread than expected, or new sources of bottlenecks could emerge. The most likely cause of such a continued impairment of supply chains is a worsening of COVID-19 dynamics, whether globally or in specific countries that are important to global value chains, particularly in Asia. A renewed worsening of the pandemic could lead to a repeat of the shift in demand from services to goods seen in many countries in the first phase (Figure 1.23), creating another squeeze in goods markets with restricted supply and surging demand, and giving further impetus to inflation. Continued disruptions to energy supply that help to keep energy prices high for longer would also heighten inflation pressures (see below).
- Inflation expectations may become entrenched at levels above central bank targets. Household inflation expectations in many countries have moved up as realised inflation has increased, especially over a one-year horizon. Business expectations of inflation have also generally increased, though by less. Measures of expectations derived from asset prices have tended to show only a modest increase, especially over longer horizons (5-10 years). Household and corporate wage expectations also generally remain moderate, though marginally higher than before the pandemic (Figure 1.11).
- Another potential consequence of continued upside inflation surprises is that the acceleration in price increases becomes broad-based. Past experience in OECD countries suggests that increases in inflation associated with sharp rises in a relatively small number of items tend to be short-lived, while the longer-lasting inflationary periods are characterised by a more-uniform distribution of price increases across components of the index. One common method for eliminating the influence of large but narrowly focussed price changes is to calculate trimmed means, but central banks employ varying methodologies to calculate such measures. Estimates of trimmed mean inflation across a number of OECD countries using a consistent methodology suggest that there is some broad-based inflationary pressure in the United States and the United Kingdom, but less in the euro area or Japan (Box 1.4).

- A particular source of risk for a broadening of inflationary pressure is housing. Housing costs, primarily rents, account for a large share of household expenditures. Historically, increases in housing costs have tended to be very stable, and so far little of the upward pressure on headline inflation has come from this source, but the large weight of housing in price indices means that there is scope for inflation to move higher if rents begin to rise more quickly.[5] Housing, together with food and energy, which have been major sources of upward pressure on consumer prices over the past year, also comprises a larger share of expenditures for lower-income households (Figure 1.24). Inflationary pressure in these components is likely to be keenly felt by many households, potentially contributing to higher inflation expectations and higher wage demands.[6]
- Higher inflation expectations, tighter labour markets, or skill shortages could all trigger stronger wage pressures than projected currently, leading to further price increases or squeezed profit margins. These types of linkages were seen in the 1970s, with upward pressures on inflation from a number of different factors, including the oil price shock in 1973-74, leading to persistently higher wage and price inflation for several years. Changes in labour market institutions since the 1970s have, however, reduced this risk in many countries, though not eliminated it, with a decline in the coverage of collective bargaining agreements, the removal of many automatic wage indexation mechanisms and a reduction in employees' bargaining power due to lower union membership.[7] In the medium term, there are also risks that some of the structural forces helping to place downward pressure on inflation in the past two decades may reverse. In particular, a reconstitution of global supply chains by moving some activities to closer but higher-cost locations would unwind some of the effects on inflation from the globalisation of economic activities since the mid-1990s (Koske et al., 2008; Andrews et al., 2018). Competitive pressures in product markets might also weaken, including from abroad, in the absence of further reforms to allow market exit and entry in the aftermath of the pandemic.
- International mobility restrictions and the large decline in cross-border migration since the onset of the pandemic could also have long-lasting consequences on labour market pressures as sizeable net migration inflows have been an important source of labour force growth over a long period in many countries. Migrants tend to be concentrated in certain sectors, with foreign-born labour accounting for over 10 per cent of the manufacturing labour force in many OECD economies, as well as a high number of seasonal workers in agriculture. A reduction in migration flows can thus increase wage pressures at the sectoral level. For developing economies, restrictions on cross-border mobility also tend to reduce remittances from abroad. These important flows could decline by 14% in 2021 relative to pre-COVID levels (World Bank 2021).

[5] Direct comparability of the full impact of housing rents on inflation across countries is hampered by measurement issues (Grossmann-Wirth and Monnet, 2017).

[6] In the United States and Canada, survey evidence suggests that the wage growth expectations of lower-income workers, and workers with a lower level of completed education, have recently risen more sharply than those of other workers.

[7] On average in the OECD countries, trade union density declined from 33% in 1975 to 16% by 2018 (OECD, 2019), although this decline was not uniform across countries. The share of workers covered by collective bargaining agreements has also declined in OECD countries, from 45% in the mid-1990s to 32% by 2017. In the euro area, only 3% of private sector employees are now estimated to have automatically indexed wages. There is often indexation for minimum wages, or a formal role for inflation in wage bargains, but this still accounts for a minority of employees (Koester and Grapow, 2021).

Box 1.4. Estimating underlying inflation pressures using trimmed means

A key challenge for policymakers is to be able to separate persistent changes in price pressures from changes that are large but ultimately short-lived. Headline inflation is the aggregation of the changes in hundreds of prices of products that are part of household consumption expenditure. Underlying inflation is based on a subset of these changes that are thought to contain information about potential future inflation developments. A good measure of underlying inflation should be less volatile than headline inflation, unbiased, and capture the trend, so that headline will tend to adjust towards underlying inflation (Roberts, 2005).

One widely used estimate of underlying inflation is the core inflation rate, an exclusion-based measure, which removes energy and food-related items in the consumer basket. This works well when temporary fluctuations in commodity prices are the main source of volatility in inflation, but may understate price pressures when there are large fluctuations in a broader range of goods and services.

Trimmed-mean inflation is an alternative measure of underlying inflation pressures. This approach is purely statistical and aims to remove the most extreme price changes on both sides of the distribution of price changes each month, and then to compute mean inflation from the remaining items. While core inflation always removes the same products, those considered to have inherently volatile prices, the trimming eliminates the most extreme price changes in every period, which may involve taking out different items each month.

One practical difficulty is determining the optimal degree of trimming: removing too few items could leave excessive volatility, while removing too many could reduce the usefulness of the measure and push trimmed-mean inflation away from the (unobserved) trend in inflation (Dolmas and Koenig, 2019). Trimmed-mean measures are widely used by the major central banks, but there is no consensus on the optimal degree of trimming. For example, in the United States the Federal Reserve Bank of Cleveland (2021) trimmed-mean CPI inflation estimate removes 8% of the weight on each side of the distribution, and the Federal Reserve Bank of Dallas (2021) trimmed-mean personal consumption expenditure inflation measure is asymmetric, with 24% of the weight from the lower tail and 31% of the weight in the upper tail being trimmed. The Bank of Japan (2021) and Bank of Canada (2021) have been using a symmetric trimming of 10% and 20% at the top and bottom of the distribution, respectively. The European Central Bank (ECB) does not systematically publish trimmed-mean inflation numbers but has been recently using a symmetric 7.5% trimming (ECB, 2021).

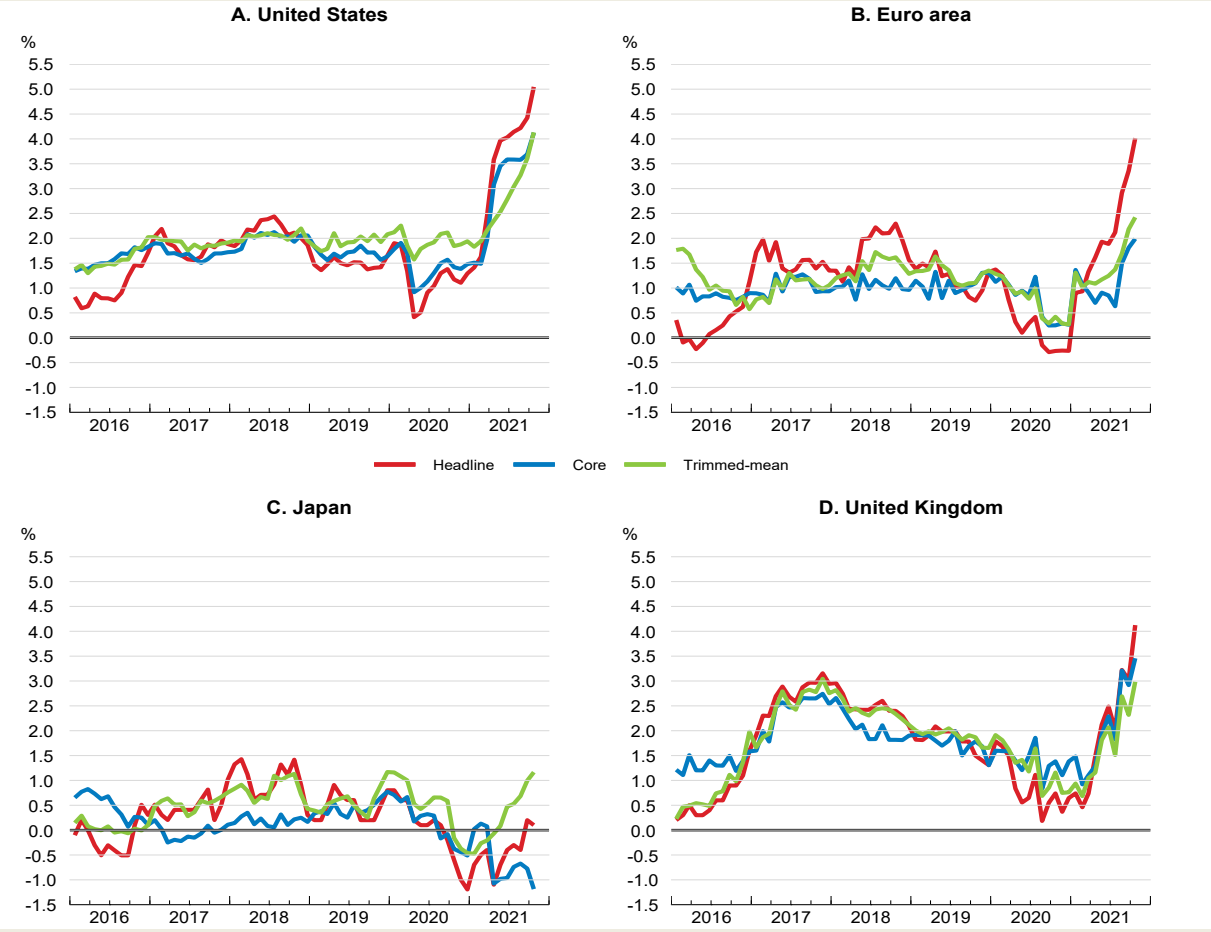
The measures below use a symmetric trimming of 10% at the top and bottom of the distribution to facilitate comparisons across countries, and to reduce the difference with a 36-month average inflation rate (which is used as a reference estimate for trend inflation).

Both core and trimmed-mean inflation are less volatile than headline inflation (Figure 1.22). They usually move in a similar fashion when the most volatile items are food and energy products. During the first phase of the pandemic, headline inflation declined substantially, but a comparison between core and trimmed-mean inflation reveals different drivers across countries. More recently, trimmed-mean inflation has been weaker than headline inflation (except for Japan) but on an upward trend, pointing to a gradual broadening of underlying inflation pressures.

- In the United States, trimmed-mean inflation barely moved in 2020 while core followed headline inflation. The observed deceleration in headline inflation in 2020 thus came from a limited number of items not related to food and energy, most likely related to sanitary restrictions on some services. More recently, annual trimmed-mean inflation has increased quite sharply to 4.1% in October 2021. Core inflation also moved up to 4.1% in October after having stabilised at around 3.6% in the previous four months. These developments suggest that the rise in prices has become more broad-based in recent months.

Figure 1.22. Trimmed-mean estimates of inflation pressures are now rising

Year-on-year percentage changes



Note: Data are for the personal consumption expenditures deflator for the United States; consumer price inflation for Japan; and harmonised consumer price inflation for the euro area and the United Kingdom. Trimmed-mean inflation trims 10% in terms of weights at the top and bottom of the distribution of the year-on-year growth of prices. Core inflation excludes energy and food-related products.

Source: OECD Economic Outlook 110 database; Bureau of Economic Analysis; Japan Statistics Bureau; Eurostat; Office for National Statistics; and OECD calculations.

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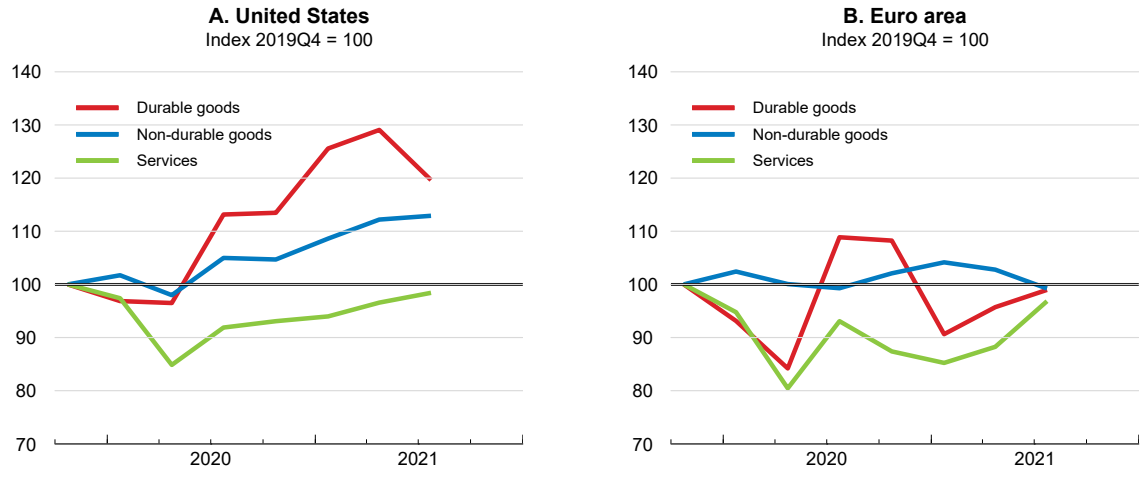
- In Japan, trimmed-mean inflation has usually been above core inflation since 2020, in a period of low headline inflation. This suggests that a small number of components with a large negative inflation rate, outside of food and energy, are holding down headline inflation. Trimmed-mean inflation, which excludes those items, has risen to 1.2% in October.
- In the euro area, during the pandemic core and trimmed-mean inflation were similar, as the same components were removed in both measures. More recently, headline inflation has risen by more than both underlying inflation measures, highlighting the role of higher food and energy costs. However, underlying inflation has also risen, with trimmed-mean inflation reaching 2.4% in October.
- In the United Kingdom, in 2020, as the pandemic hit the economy, headline inflation fell while core inflation remained more stable, the trimmed-mean measure being in the middle. This suggests that some domestic sectors as well as food and energy products had extremely low inflation rates. More recently, trimmed-mean inflation increased to 3% in October, pointing to rising underlying inflation pressures.

Figure 1.23. The pandemic triggered a shift in consumption from services to goods, especially in the United States

Real household consumption expenditures



Note: In Panel B, the data are an average of euro area member countries weighted by nominal consumption expenditures. Non-durable goods incorporate semi-durable goods. Services and non-durable goods are available only for Austria, Estonia, Finland, France, Germany, Ireland, Italy, Latvia, Luxembourg, the Netherlands and Portugal. 2021Q3 data are available only for France, Germany, the Netherlands and Spain.
Source: Bureau of Economic Analysis; Eurostat; and OECD calculations.

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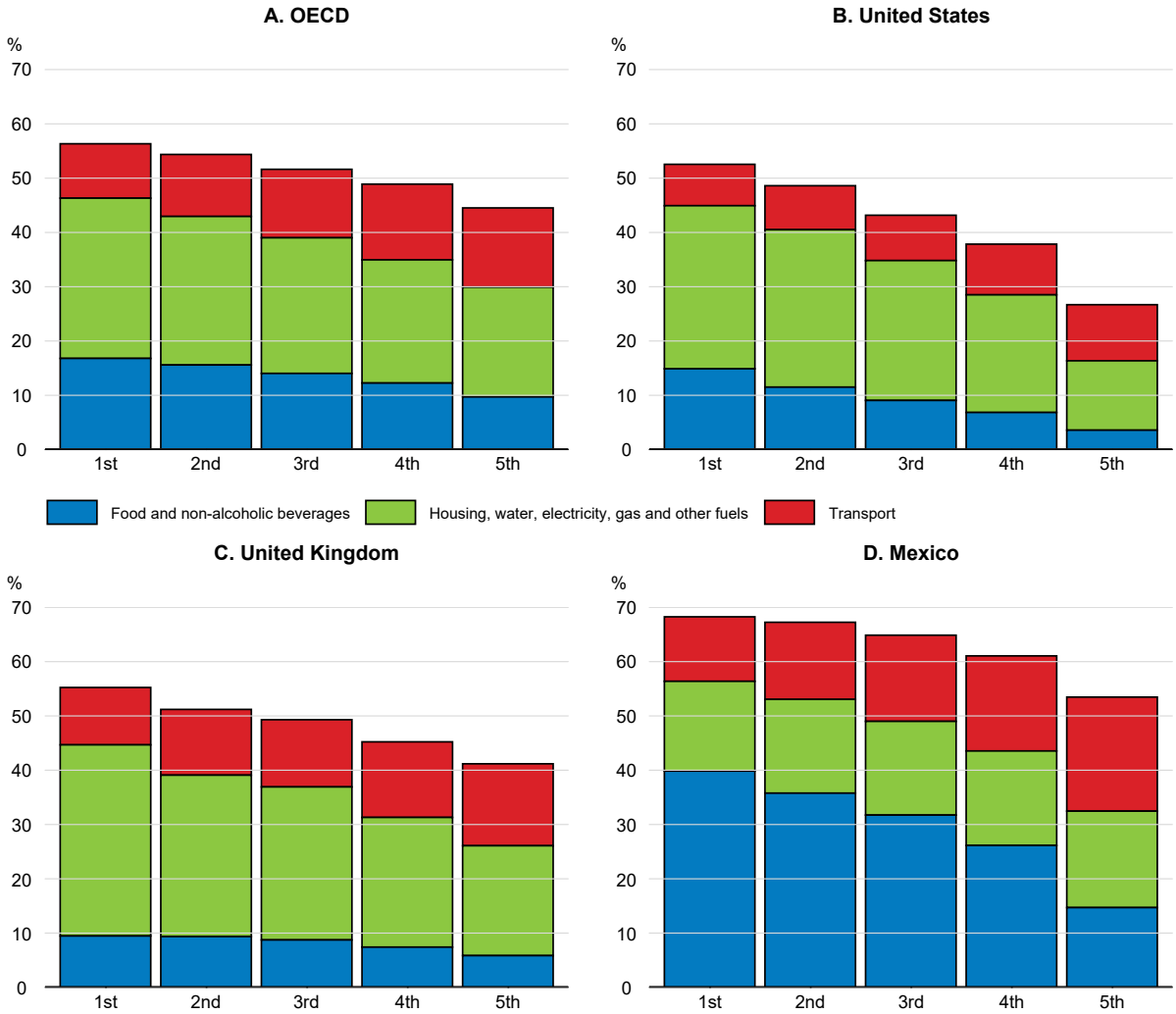
Risks remain that the combination of supply factors that have contributed to the gradual tightening of energy markets could persist and push up global energy prices further over the projection period (Box 1.2). A rise in energy prices reallocates income between producers and consumers. Higher energy prices raise production costs, leading to some energy-intensive capacity being scrapped, and push up consumer prices in all economies, but export revenues will rise, and so may investment, in energy-producing countries. The net impact of rising energy prices on global activity is expected to be negative, however, as the propensity to consume of energy importers is typically higher than that of energy producers.

Simulations using the NiGEM macro-model illustrate the implications of a further 30% rise in world oil, gas and coal prices, starting in the first quarter of 2022. The shock is assumed to be sustained for three years, before fading gradually thereafter. In the first two years of the shock, consumer price inflation is pushed up by around 0.9 percentage points per annum on average in the OECD economies, and by 1¼ percentage points per annum elsewhere (Figure 1.25). GDP growth declines in the OECD economies by a little over 0.3 percentage points per annum in the first two years, with smaller net declines in the non-OECD economies reflecting a balance between stronger growth in the energy-producing economies and deeper declines in the major importing economies. Global carbon emissions are pushed down initially due to reduced use of carbon-intensive energy, but this effect fades in the absence of a sustained price change. Monetary policy reacts to the upturn in inflation with policy interest rates raised by around 1 percentage point on average in the first two years in the major advanced economies before returning towards baseline as inflationary pressures subside.[8]

[8] A variant, in which monetary policy in the advanced economies reacts in the first year of the shock by reducing asset purchases rather than by raising policy interest rates, makes only marginal difference to the balance of the results, but lowers the extent to which policy interest rates move above baseline in the second year.

Figure 1.24. Food, transport and housing account for a larger share of the budgets of lower-income households

Shares of household budgets accounted for by food, housing and transport, by income quintile



Note: Final consumption expenditures by uses. The OECD represents the unweighted average of shares of Australia (for 2017), Canada (2019), Czech Republic (2017), France (2016), Ireland (2016), Israel (2017), Mexico (2018), Netherlands (2017), New Zealand (2015), Slovenia (2018), Sweden (2015), United Kingdom (2017) and United States (2016).
Source: OECD Distributional Information on Household Income, Consumption and Saving database (experimental); and OECD calculations.

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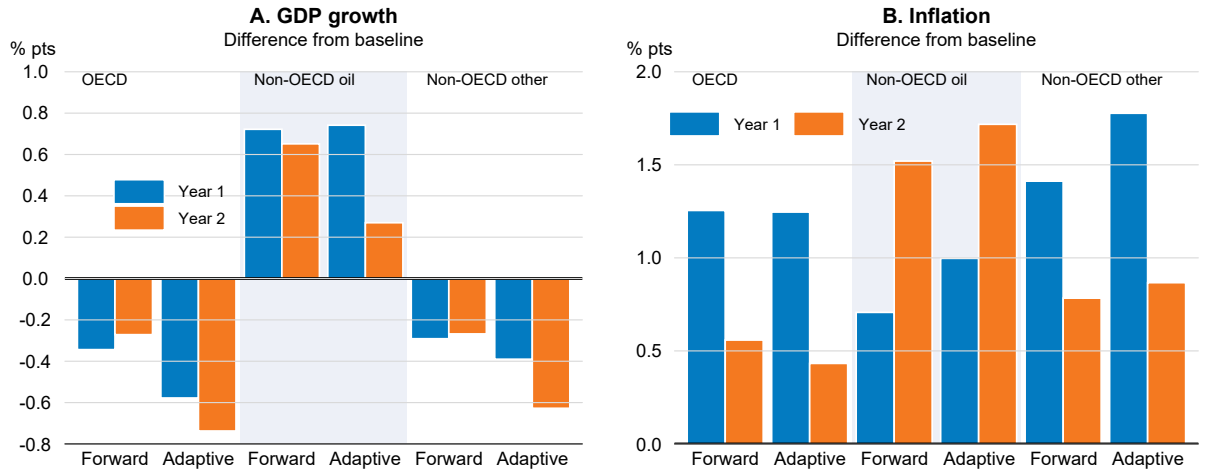
If the simulation is undertaken with backward-looking (adaptive) rather than forward-looking expectations for companies, households and financial markets, there are more noticeable differences. The first-year effect on inflation is similar, but thereafter the impact is weaker in the OECD economies. A key factor behind this is the larger negative effects on output, with GDP growth in the OECD economies declining by around 0.6 percentage points per annum on average in the first two years. This stems from a larger hit to investment and a reduction in energy use, with firms and consumers unaware that higher energy prices will ultimately not persist.

Figure 1.25. A further short-term rise in energy prices would hit growth and add to inflation



Note: Non-OECD oil denotes non-OECD oil-exporting economies and Non-OECD others denotes all remaining non-OECD economies. Forward (adaptive) indicates that producers and consumers have forward-looking (backward-looking) expectations. Simulation of a 30% rise in global oil, gas and coal prices sustained for three years and fading thereafter.
Source: OECD calculations using the NiGEM macroeconomic model.

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Risk repricing could expose vulnerabilities in the corporate sector and emerging-market economies

Financial markets have been resilient but vulnerabilities are mounting

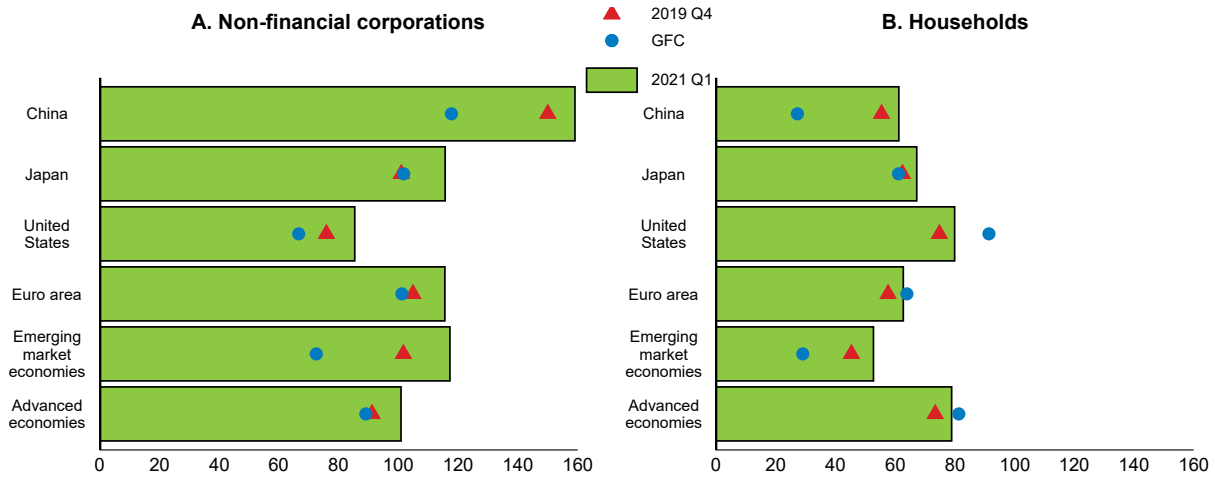
Financial conditions have generally remained very favourable in both advanced and emerging-market economies. Reflecting ample policy support and robust investor risk appetite, bond issuance by sovereigns, non-financial corporations and financial firms has been very strong in 2021, and spending on mergers and acquisitions has soared.[9] Spreads for lower-grade corporate bonds are still low, corporate debt levels have continued to rise (Figure 1.26, Panel A), and asset valuations appear very stretched in some markets, especially housing (Figure 1.27). These developments raise vulnerabilities to abrupt risk repricing in financial markets. The uncertain outcomes from the financial distress being experienced by China's largest property developer could also trigger swings in risk appetite and slow global growth.

In contrast to the global financial crisis (GFC), current vulnerabilities seem to be more concentrated in the corporate sector. With the exception of China, household debt has been relatively stable over the last decade (Figure 1.26, Panel B) and household balance sheets are currently stronger than they were in 2007 (IMF, 2021a). More broadly, the GFC experience has played a role in limiting the amount of risk-taking in the household sector.[10] Global corporate debt, on the other hand, has grown rapidly since the GFC, even as global corporate credit quality was declining (OECD, 2021d).

[9] US investment-grade (IG) corporate bond sales, in particular, are on track for a near-record year in 2021, possibly because companies have sought to lock in low-cost funding before a potential gradual reduction of Federal Reserve support.

[10] In the United States, for instance, underwriting standards have been strengthened. There are also fewer mortgages with variable interest rate payments, and standards for cash-out re-financing are now more stringent (IMF, 2021a).

Figure 1.26. Debt levels have swollen, especially for companies



Note: GFC refers to the level of debt as of 2010 Q4. Debt comprises loans and debt securities.
Source: BIS Total Credit database.

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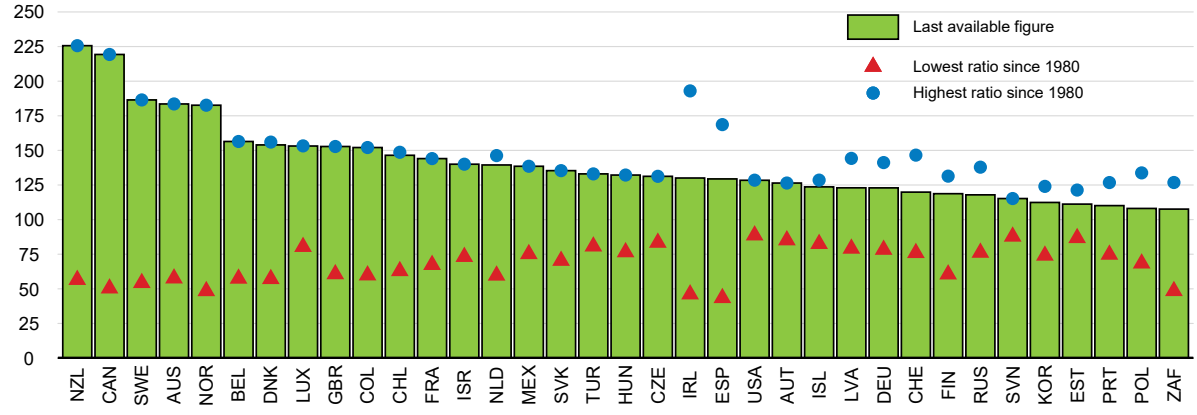
Figure 1.27. Housing valuations are stretched in many countries

House price-to-rent ratio, latest quarter available, long-run average=100



Source: OECD Analytical House Price database; and OECD calculations.

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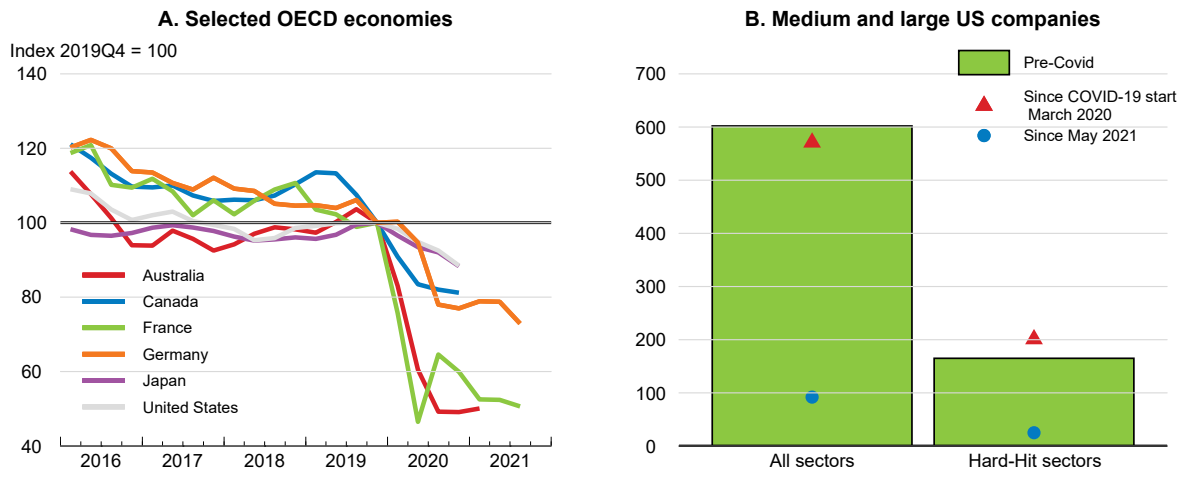
Stress in the corporate sector is currently contained, but could rise

The significant public support provided to many companies since the start of the pandemic, favourable credit conditions, and the global recovery are still keeping corporate bankruptcies in check. In Europe, bankruptcies are well below their historical standards, especially in France and Germany, and a similar picture emerges in other advanced economies (Figure 1.28, Panel A). In the United States, the slowdown in corporate bankruptcies observed in 2020 has persisted through 2021. Even in sectors hit relatively hard, such as energy, consumer services, transportation or real estate, the fallout has been limited so far with a flow of bankruptcies close to pre-pandemic levels (Figure 1.28, Panel B). Major banks in the United States and Europe also posted record profits in the first half of this year, partly as a consequence of a reduction in loan loss provisions.[11] Overall, the wave of bankruptcies feared at the start of the COVID-19 crisis has not yet materialised.

Figure 1.28. Corporate bankruptcies are still subdued



Note: For France and Germany, the bankruptcy index tracks the number of legal units that have started the procedure of being declared bankrupt by issuing a court declaration at any time during the reference quarter. The index covers firms in the industry, construction and services sectors (except public administration, defence, compulsory social security, activities of membership organisations, activities of households as employers and extra-territorial organisations and bodies). Data for the United States, Canada, Japan and Australia are taken from the OECD Timely Indicators of Entrepreneurship. Data for Canada include sole proprietorships. Data for medium and large US companies taken from S&P Capital IQ. The coverage is limited to relatively large US public and private companies with publicly-traded debt with assets greater than USD 2 million and private US companies with assets greater than USD 10 million. Hard-hit sectors cover energy, transportation, consumer services and real estate. The pre-COVID period ranges from September 2018 to March 2020.
Source: Eurostat; S&P Capital IQ; and OECD calculations.

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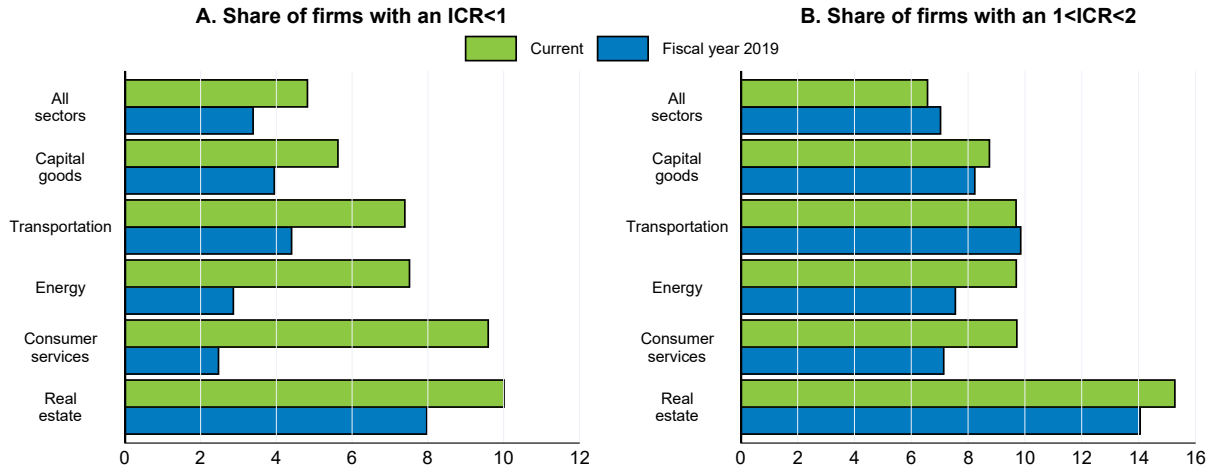
[11] Some indicators of corporate credit quality have also been steadily improving since the peak of the pandemic. For instance, US non-performing loans — loans that were 90 days or more past due or in non-accrual status — continued to decline in 2021Q2 and corporate defaults are reaching new lows.

Corporate investment is picking up, even as debt keeps climbing. Since the start of the pandemic, the debt overhang has been a key source of concern, as high corporate debt typically tends to reduce investment in the aftermath of economic crises with negative implications for the recovery (Kalemli-Özcan *et al*., 2019; Demmou *et al*., 2021). The rapid debt build-up, however, has also been matched by a strong growth of liquid, short-term investments (cash or equivalent) held by companies (OECD, 2021d). This helps explain why rising debt has not prevented strong investment growth. Business fixed investment volumes surpassed their pre-recession level in the United States in the second quarter of 2021, a much quicker recovery than after some other recessions, with a steady rebound also in most other major advanced economies and in some large emerging-market economies.

Longstanding sources of risk remain, some of which have been intensified by the pandemic. The debt generated by the COVID-19 crisis could threaten the recovery in several ways. A large share of the global non-financial corporate debt stock is still rated either as "speculative" or as BBB, the lowest rating in the investment grade category. An unexpected growth slowdown or continued strong growth in their input costs could threaten firms' repayment capacity and their ability to roll over debt. In a sample of mostly large public and private firms monitored by S&P Capital IQ, 5% of firms currently report an interest coverage ratio (ICR) below one, while 7% of firms report an ICR between one and two (Figure 1.29).[12] A steep rise in funding costs or a sharp fall in earnings could therefore endanger a non-trivial share of the corporate sector.

Figure 1.29. Share of larger firms "at risk"



Note: Analysis based on the 28 000 firms covered by S&P for which the interest coverage ratio (ICR) is currently available. The "current" ICR is computed as the ratio between earnings before interest, taxes, depreciation and amortisation (EBITDA) and total interest expenses over the latest fiscal year (FY2020 or FY2021). The FY2019 ICR reports the same statistic for the same sample of firms. The sample covers medium and large public and private non-financial companies operating in OECD countries and major (non-OECD) emerging-market economies.
Source: S&P Capital IQ and OECD calculations.

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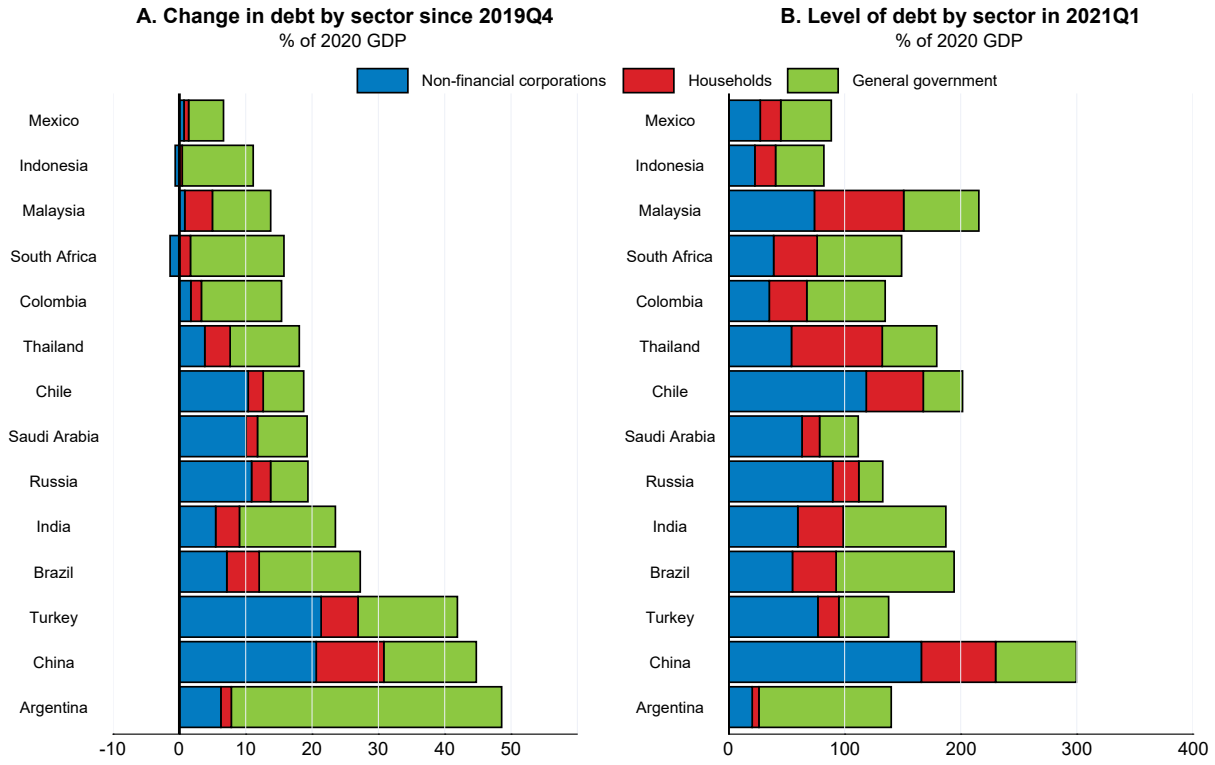
[12] An interest coverage ratio under 1 indicates that current profits do not fully cover interest payments.

Figure 1.30. Debt has increased substantially in many emerging-market economies



Note: Debt comprises loans and debt securities.
Source: OECD Economic Outlook 110 database; BIS credit statistics; and OECD calculations.

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Weak fiscal positions increase vulnerabilities in many emerging-market economies

A decline in COVID-19 infections, accompanied by a lifting of confinement measures, has strengthened mobility and enabled activity to return to pre-pandemic levels in many emerging-market economies. However, an often-slower pace of vaccination than in advanced economies implies that new waves of the virus might overwhelm health systems and bring back the need for mobility restrictions. Furthermore, a recent tightening of financial conditions, high debt, and deteriorating fiscal balances make many emerging-market economies vulnerable to potential swings in global risk sentiment.

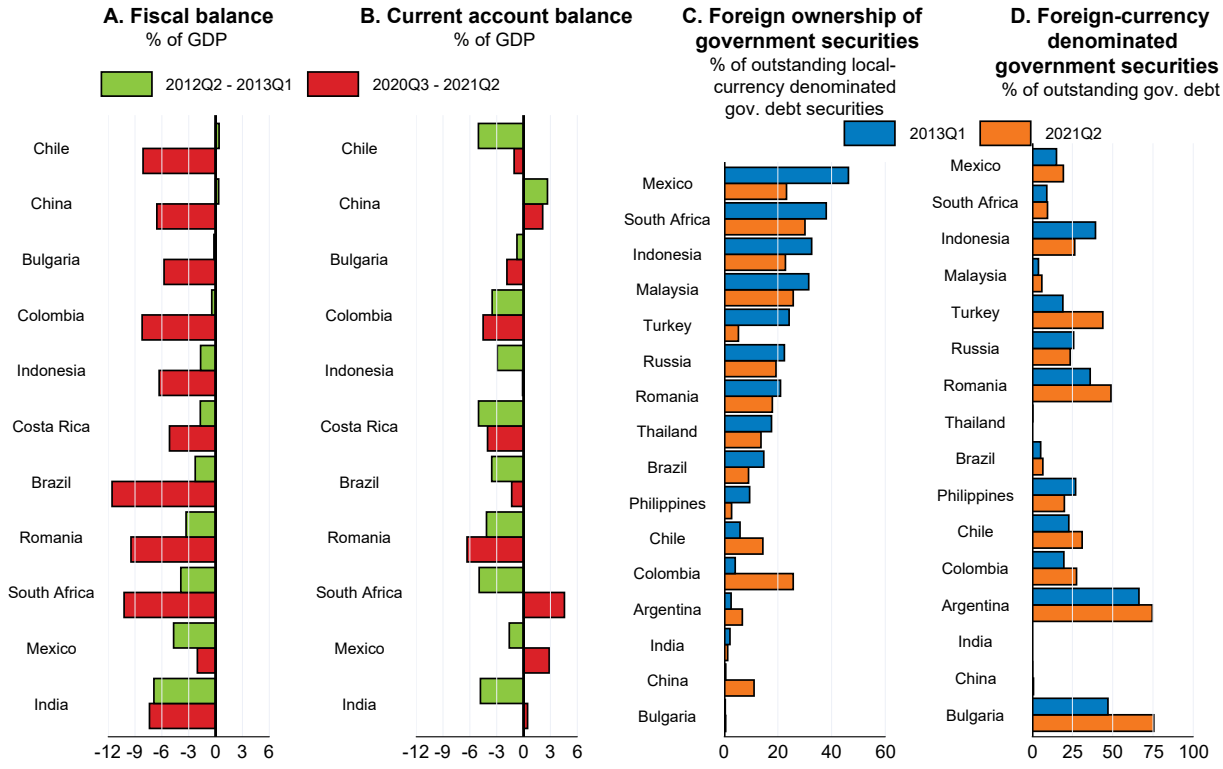
The pandemic has resulted in a further rise in debt in emerging-market economies. Government debt has increased considerably, due to a collapse in tax revenues and elevated spending in response to the pandemic (Figure 1.30, Panel A). Emerging-market economy sovereigns issued USD 1.8 trillion of debt in the first half of 2021, 40% higher than the average amount issued in the first half of each year in 2017-19 (OECD, 2022). Emerging Asia accounted for half of that total, with China accounting for around one-half of the region's issuance. The share of short-term obligations in non-investment grade debt issuance also rose, reducing average maturities, and foreign-currency-denominated debt issuance has declined, possibly suggesting more difficult access to foreign debt markets.[13] The debt sustainability outlook in the low-income countries eligible for the G20 Debt Service Suspension Initiative has also remained complex, making it challenging for these countries to re-orient limited public spending towards health measures

[13] In July 2021, Fitch downgraded Colombia's credit rating to speculative from investment grade and downgraded Tunisia's credit rating to B- from B. In October 2021, Moody's downgraded Tunisia's credit rating from B3 to Caa1.

(IMF, 2021b). In some emerging-market economies, the rise in private sector debt has also been very substantial. Excessive leverage in the real estate sector in China, sizeable declines in commodity prices at the onset of the pandemic in Chile and large-scale credit guarantee measures and currency depreciation in Turkey have all added to non-financial corporate debt (Figure 1.30, Panel B).

Vulnerabilities in emerging-market economies are now skewed to fiscal imbalances rather than current account imbalances, in contrast to past episodes of shifts in investor sentiment and higher risk aversion, such as the "taper tantrum" in 2013 (Figure 1.31, Panels A and B). With a few exceptions, such as Chile and Colombia, the reliance on foreign investors in local-currency sovereign bond markets is now lower than in early 2013, which mitigates potential vulnerabilities to reversals in global risk sentiment (Figure 1.31, Panel C). However, large increases in public debt accompanied by limited demand by foreign

Figure 1.31. Indicators of fiscal and external vulnerabilities in emerging-market economies



Note: Red bars in Panels A and B denote the average for 2020Q3-2021Q2. Green bars in Panels A and B denote the average of four quarters preceding 2013Q2, during which global financial markets volatility has increased. Countries in Panels A and B are sorted according to the average fiscal balance-to-GDP ratio during 2012Q2-2013Q1. Countries in Panels C and D are sorted according to the foreign ownership of local-currency government securities in 2013Q1.
Source: OECD Economic Outlook 110 database; IMF Sovereign Debt Investor Base for Emerging Markets database; and OECD calculations.

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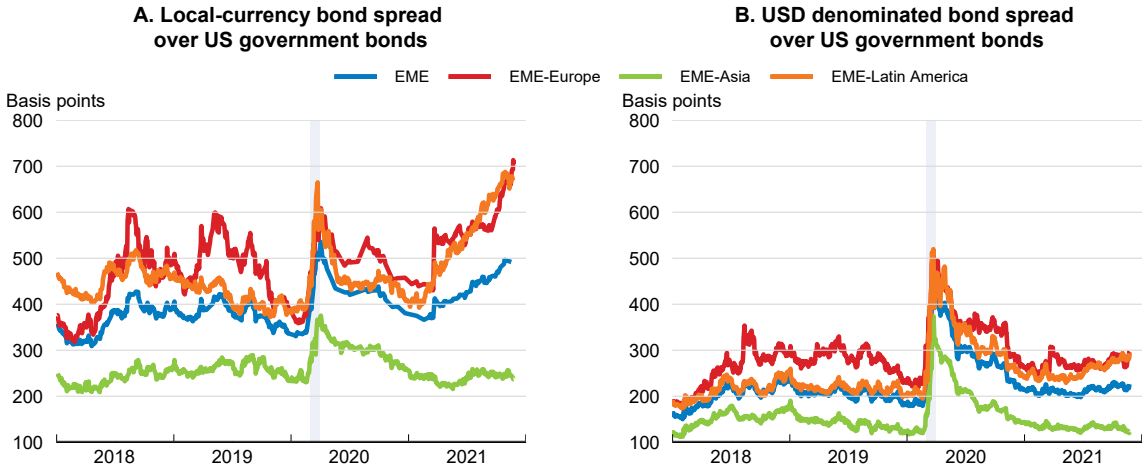
investors could create doubts about debt sustainability and make it more challenging for businesses and households to raise new finance in domestic markets, hindering the economic recovery (Priftis and Zimic, 2020; Broner *et al*., 2021). Although the currency composition of public debt is often broadly comparable to early 2013, the higher share of foreign-currency debt in countries like Argentina, Bulgaria, Romania and Turkey (Figure 1.31, Panel D) may make these economies more vulnerable to abrupt fluctuations in exchange rates. Risks might also quickly intensify in some countries should a decline in private savings — enabled by the easing of confinement measures — and a pick-up in real investment lead to a deterioration in external balances, particularly if sizeable fiscal deficits persist.

Capital inflows into emerging-market economies have recently moderated (De Crescenzio and Lepers, 2021) and government bond yields and spreads have started to pick up.[14] Movements in local-currency government bond yields in emerging-market economies have recently displayed marked regional differences, with strong increases in Latin America and Europe, but not in Asia (Figure 1.32, Panel A). At the same time, foreign-currency sovereign bond yields have increased only mildly in all regions, suggesting that the repricing of sovereign risk in emerging-market economies primarily reflects currency risk rather than credit risk (Figure 1.32, Panel B).[15] If depreciation risks were to materialise, they could delay the projected convergence of inflation to central banks' target ranges, and potentially require further monetary policy tightening that would hamper the economic recovery.

Figure 1.32. Bond yields indicate a significant rise in currency risk in emerging-market economies



Note: Panel A shows the yield differential between 10-year, local-currency emerging-market economy and US government bonds. Panel B shows the JP Morgan EMBI global bond spread, a measure for sovereign risk spread of USD denominated emerging-market economy government bonds over US government bonds. The shaded area in both panels denotes March 2020. "EME – Europe" covers Bulgaria, Romania, Russia and Turkey. "EME – Asia" covers China, Indonesia, India, Malaysia, Philippines, Thailand and Vietnam. "EME – Latin America" covers Brazil, Chile, Colombia and Mexico. The "EME" aggregate covers all countries, additionally including South Africa. Aggregate spreads correspond to unweighted cross-country averages.
Source: Factset; Refinitiv; and OECD calculations.

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[14] Gross capital inflows have been improving in commodity exporters such as Brazil and Chile, where the terms of trade have been rising (De Crescenzio and Lepers, 2021).

[15] Forward premiums calculated in order to construct covered interest parity conditions (Du and Schreger, 2016) indicate that for the 13 countries included in the emerging-market economy aggregate in Figure 1.32, over 90% of the positive gap between 5-year government bond yields and equivalent US government bonds could be attributable to currency risk in 2021Q1. In the quarter that preceded the taper tantrum in May 2013, currency risk was estimated to account for around 75% of excess government bond yields.

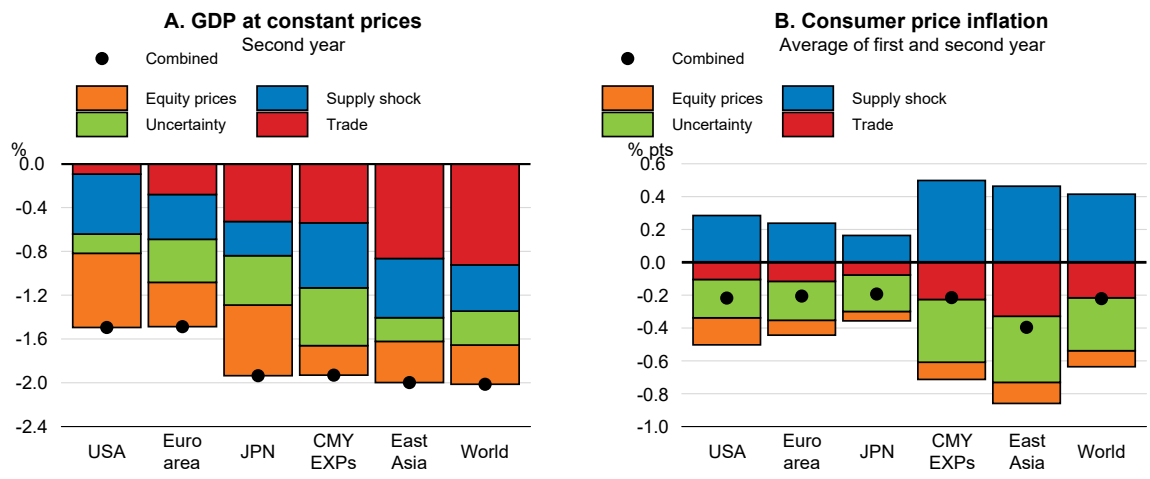
Risks of a sharp slowdown in China have risen

The property sector has been a strong source of growth for the Chinese economy for many years, but this has been accompanied by rising leverage of developers and, more recently, households. Regulatory efforts to curb banks' property lending and strengthen the balance sheets of property developers were introduced last year. Recent events have highlighted the continuing risks in China's real estate market, with the potential for large cross-sector and cross-border spillovers. The worsening financial soundness of some large Chinese real estate developers poses risks for financial intermediaries, including foreign ones. These would be amplified if the crisis in the sector were to worsen and lead to defaults and a substantial decline in property prices.

Any major default would be managed carefully by the government, potentially limiting the overall systemic risks to financial stability. Nonetheless, credit conditions could tighten and bond spreads increase, with significant risks to economic growth beyond those already incorporated in the projections. The construction sector and real estate services both represented between 7-7½ per cent of total value-added in 2020, with linkages stretching into many other parts of the economy (Rogoff and Yang, 2021). Not all of these activities will reflect new real estate development, as construction will also include non-housing activities and real estate services will include the management of existing occupied properties. A severe slowdown would, however, significantly impact other sectors, particularly ones providing materials for construction activity. Final demand would be hit directly, with real estate development representing around 25-30% of total fixed asset investment in 2019 and 2020. Regional and local governments could also face budgetary pressures if the revenue from sales of land rights were to decline substantially, potentially reducing spending on infrastructure investment. Greater uncertainty could also damp domestic demand.

Figure 1.33. A sharp slowdown in China would hit growth and trade around the world

Difference from baseline



Note: Simulated impact of a two-year decline of 2 percentage points per annum in domestic demand growth in China, a supply shock in China reflected in a rise of 10% in Chinese export prices, an increase of 50 basis points in global investment risk premia, and a decline of 10% in equity prices in all economies. The red bars show the contribution from the direct demand-driven slowdown in trade; the blue bars show the additional contribution from adding higher Chinese export prices; the green bars show the contribution from adding higher uncertainty; and the orange bars show the additional effects from lower equity prices. Commodity-exporting economies (CMY EXPs) include Argentina, Australia, Brazil, Chile, Indonesia, Russia, South Africa and other non-OECD oil-producing economies. East Asia includes Korea and the Dynamic Asian Economies.
Source: OECD calculations using NiGEM.

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Illustrative simulations, using the NiGEM global macroeconomic model, highlight the different potential adverse effects that a slowdown in China might have:

- An unanticipated decline of 2 percentage points per annum in the growth rate of domestic demand in China for two years could directly lower global GDP growth by over 0.4 percentage points per annum, and global inflation by 0.2 percentage points per annum, with the impact on output in Japan, commodity-producing economies and other economies in East Asia being higher than elsewhere (Figure 1.33). Lower global commodity prices contribute to the decline in inflation, given the significant role that China has in many commodity markets, with energy prices down by around 5% and metals prices by around 10%.
- If the slowdown in China disrupted the production of key inputs needed in other countries – with the supply shock proxied by a 10% rise in Chinese export prices — the adverse effects on the world economy would intensify, with global GDP growth lowered by close to 0.7 percentage points per annum, Higher export prices from China would directly push up global inflation by around 0.4 percentage points per annum, illustrating the impact of supply bottlenecks, and inflation in the advanced economies by around ¼ percentage point per annum.
- If accompanied by a deterioration in global equity prices and heightened uncertainty, reflecting risk repricing in financial markets, global GDP growth could be lowered by 1 percentage point per annum on average in the first two years of the shock. These shocks would also be deflationary, with the combined impact of all the shocks considered reducing global inflation by around ¼ percentage point per annum in the first two years.

Downside risks to the trade outlook

While the major threat to the near-term trade outlook remains a resurgence of further COVID-19 outbreaks that result in new mobility restrictions and port closures, rising trade tensions and pressures around strategic sovereignty issues represent another risk. The near stalling of global trade in 2018-2019, due to geopolitical tensions, highlights the need for a stable and predictable environment that allows trade to thrive. Many countries and regions are currently pushing forward industrial policies for strategic technologies. A potential risk is that these policy measures could result in rising trade tensions or restrictions, especially because barriers to trade are still high compared to pre-2018.

Policy requirements

The imbalances that are becoming increasingly apparent as the recovery progresses create challenges for policy. International co-operation remains vital to secure the recovery and improve prospects for sustainable and equitable longer-term growth. Governments need to ensure that all resources necessary are used to deploy effective vaccinations as quickly as possible throughout the world to save lives and ease the supply disruptions associated with the pandemic. Macroeconomic policy support remains necessary while the recovery is far from complete, with gradual moves to rebalance policy being well-communicated and set in clear and credible medium-term frameworks. As the focus of policy continues to switch towards ensuring a sustainable and equitable recovery, effective and well-targeted reforms will be essential to enhance resilience, deal with the legacies of the pandemic, and tackle longstanding structural challenges.

Health policy priorities

A key multilateral priority is to ensure that all resources necessary are used to deploy effective vaccinations as quickly as possible throughout the world to save lives, preserve incomes and help overcome supply shortages in labour and product markets. The recovery will remain precarious in all countries until this is achieved. The majority of the world remains unvaccinated, with vaccination rates especially low in many

low-income countries. Failure to ensure the global suppression of the virus raises the risks that further new, more-transmissible variants continue to appear, with containment measures having to be reintroduced.

Stronger international efforts are needed to provide low-income countries with the resources needed to vaccinate their populations for their own and global benefits. These include vaccine supply and assistance to help overcome domestic logistical hurdles to vaccine deployment, with an urgent strengthening of global ACT-A and COVAX mechanisms. Effective multilateral action is also required to share knowledge, medical and financial resources, and avoid harmful bans to trade. Such bans would be self-defeating given the strong cross-border linkages in supply chains for vaccines and healthcare products.

Monetary policy should remain supportive but gradually become less accommodative

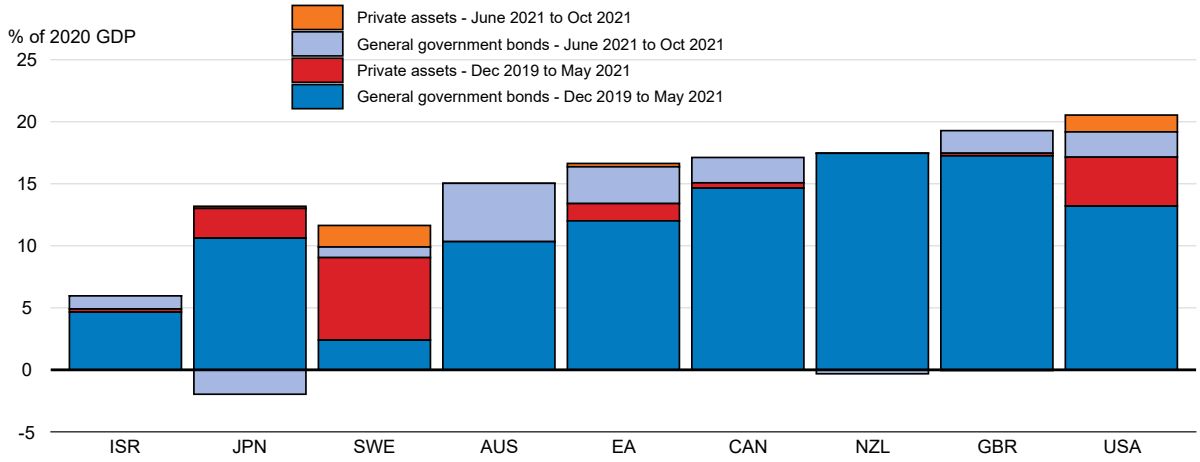
Monetary policy in the major advanced economies remains highly accommodative, which is appropriate given that the recovery is still uneven and incomplete. Major central banks have communicated an intention to look through current increases in inflation and have so far left their key policy rates unchanged, though a number of smaller advanced economies have recently raised policy rates.[16] In addition, the asset holdings of many central banks have increased further due to ongoing asset purchase programmes (Figure 1.34), though a number of central banks have started to slow down the pace of net purchases, or have even brought them to an end. The Federal Reserve has started to taper asset purchases given the state of the recovery, and the ECB has moderately reduced the pace of purchases under its Pandemic Emergency Purchase Programme (PEPP). The Reserve Bank of Australia ceased targeting the yield on the April 2024 government bond this November, whilst maintaining its government securities purchase programme. The Bank of Canada started to recalibrate and adjust the scale of its quantitative easing programme late last year and ended it in October 2021, with new government bonds now being purchased only to replace maturing bonds. In contrast, the Bank of Japan has extended the duration of its special funds-supplying operations until the end of March 2022 to facilitate financing in the private sector.

A key issue is the extent to which central banks will continue to maintain accommodative monetary policy and look through the current upturn in headline inflation. Tolerance of inflation overshooting is more likely if the factors pushing up inflation are seen as ones that will ultimately wane, underlying price developments are contained, and medium-term inflation expectations remain well anchored. Such judgements will become more challenging if current supply shocks and inflationary pressures turn out to be more persistent than currently expected. Current policy frameworks in the major central banks make it possible to accommodate some overshooting of inflation while preserving policy credibility:

- In August 2020, the Federal Reserve adopted a flexible average inflation targeting strategy, which tolerates inflation levels moderately over 2% for a period of time after a persistent period of low inflation.
- The new monetary policy strategy of the ECB, unveiled in July 2021, adopted a symmetric 2% inflation objective. Occasional periods during which inflation is moderately above target are compatible with this new strategy, and forward guidance has been strengthened.
- To enhance the credibility of its 2% inflation target, the Bank of Japan announced already in September 2016 an “inflation-overshooting commitment”. This can be regarded as a form of “make-up” strategy, in which past deviations from the inflation target are offset in the future.

[16] The Czech Republic has raised its key policy rate by 250 basis points since May 2021, Hungary by 150 basis points, Iceland by 125 basis points, Poland by 115 basis points, New Zealand and Korea by 50 basis points, and Norway by 25 basis points.

Figure 1.34. Changes in asset holdings by major central banks since December 2019



Note: Data for the euro area are from end-September 2021. Private assets include corporate bonds, commercial paper, asset-backed securities and exchange traded funds. General government bonds are treasury bills and municipal, state and central government bonds.
Source: OECD Economic Outlook 110 database; Reserve Bank of Australia; Bank of Canada; Bank of England; European Central Bank; Bank of Israel; Bank of Japan; Reserve Bank of New Zealand; Sveriges Riksbank; US Federal Reserve; and OECD calculations.

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To help anchor expectations and minimise the risk of an abrupt repricing in financial markets, clear communication is needed about the horizon and extent to which any such overshooting will be tolerated, together with guidance about the planned timing and sequencing of eventual moves towards policy normalisation. These steps should be sequential in the major advanced economies, with an initial stabilisation of central bank balance sheets (by only reinvesting proceeds from maturing assets) before policy rates are increased. In that respect, the Federal Reserve and a number of other central banks have announced a very clear distinction between balance sheet and interest rate policies and emphasised different criteria for their respective tightening.[17] Such communication and guidance should help to minimise the risks involved in the process of policy normalisation, and enable normalisation to proceed gradually, as appropriate given still-high uncertainty.[18] Asset purchases also come with specific costs and risks, which might justify tapering them before raising policy rates (Blinder *et al.*, 2013), particularly if they amplify financial stability risks by driving down term premia.

An alternative approach, particularly at a time when inflation has risen unexpectedly quickly, might be to raise policy interest rates before ending net asset purchases of longer-dated securities. Such an approach would clearly signal an intent to reduce near-term inflationary pressures, while ensuring that the yield curve does not steepen excessively. The impact of a change in policy interest rates on the economy is also better understood than the effect of asset purchases, and might also be easier to reverse if needed. At the same time, this approach could send mixed signals, with little clarity about whether the intention was to reduce

[17] In his Jackson Hole speech on August 27, 2021, the Chair of the Federal Reserve indicated that reducing the pace of asset purchases was conditional on substantial progress toward maximum employment and price stability goals (measured since last December) and that this "substantial further progress" test had been met for inflation. However, he also clarified that changes in asset purchases were not intended to carry a direct signal regarding the timing of an interest rate liftoff, for which a different and substantially more stringent test was designed.

[18] This approach would also largely follow the steps of the Federal Reserve over 2013-18, who began tapering in December 2013, before moving on to rate rises in December 2015 and to an actual reduction in the size of the balance sheet in October 2017.

monetary policy accommodation, particularly as long-term interest rates are an important factor that helps to determine private sector spending in many economies. In effect, policy could be becoming more accommodative by expanding asset purchases and enhancing market liquidity, whilst seeking to damp inflationary pressures through higher short-term interest rates.[19]

However, even with a sequential approach starting with tapering of purchases, central banks could still be forced to increase policy rates earlier or faster than expected to counter persistently high inflation and signs that inflation expectations are drifting up substantially. If such a scenario gives rise to substantial repricing in financial markets, with potentially a rapid fall in asset prices, there could also be a need to implement additional net asset purchases temporarily to defuse market tensions and preserve the smooth transmission of monetary policy.

In the major advanced economies, monetary policy is projected to evolve gradually towards normalisation over the next two years in a sequential manner, though at a different pace across jurisdictions:

- In the United States, where inflation is projected to remain above 2% during the next two years, the Federal Reserve is now beginning to reduce net asset purchases, with a gradual tapering continuing throughout 2022. Gradual successive increases totalling 150 basis points in the Federal Funds rate are projected to follow by the end of 2023, beginning in the latter half of 2022.
- In the euro area, where underlying inflation pressures are expected to rise more slowly, and to remain close to but under 2%, the ECB is projected to continue reducing net asset purchases gradually, with policy rates unchanged in the next two years.
- In Japan, the Bank of Japan is expected to keep policy rates unchanged throughout the projection horizon. Inflation is projected to remain at or below 1% through 2022-23, in line with the recent assessments of the Policy Board members of the Bank of Japan.[20]
- Policy rate increases are also anticipated in the United Kingdom and Canada. In the United Kingdom, where global cost pressures have continued to affect consumer goods prices, the Bank of England is expected to raise its Bank Rate to 0.5% in the projection period. In Canada, the first increase in policy interest rates is assumed to take place in the second half of 2022, with three further rate rises, totalling 100 basis points, to follow in 2023.

These policy steps should remain state-dependent, so that central banks can respond to unexpected developments in activity and labour markets, financial conditions and the broader inflation outlook. The projected pace of mild policy normalisation over 2022-23 implies a continued accommodative stance to support the recovery. Central banks should be ready to tighten policy more rapidly if the recovery is faster than expected or if signs of more broad-based or durable inflation pressures emerge, as has already been the case in a number of smaller, open advanced economies.

Macroprudential policy should be deployed where necessary to mitigate financial market risks. In many countries, macroprudential tools such as the countercyclical capital buffer were eased aggressively in the early stages of the pandemic, as part of broader steps to provide capital relief to banks and ensure stable financial conditions. A gradual tightening should occur as the economy recovers. Addressing pockets of risks in housing markets will be particularly critical. House prices have continued to increase rapidly, partly due to a prolonged period of very low interest rates, and valuations are at record highs in many countries (see above). The ensuing reduced affordability for many households could also add to wage pressures in some countries. In addition, soaring house prices could lead to a build-up of vulnerabilities, both in the

[19] Central banks' balance sheets could also be adversely affected by a rise in policy interest rates whilst maintaining or expanding asset purchases, and the smaller slope of the yield curve could make the increased remuneration of commercial banks' reserves weigh on central bank profitability.

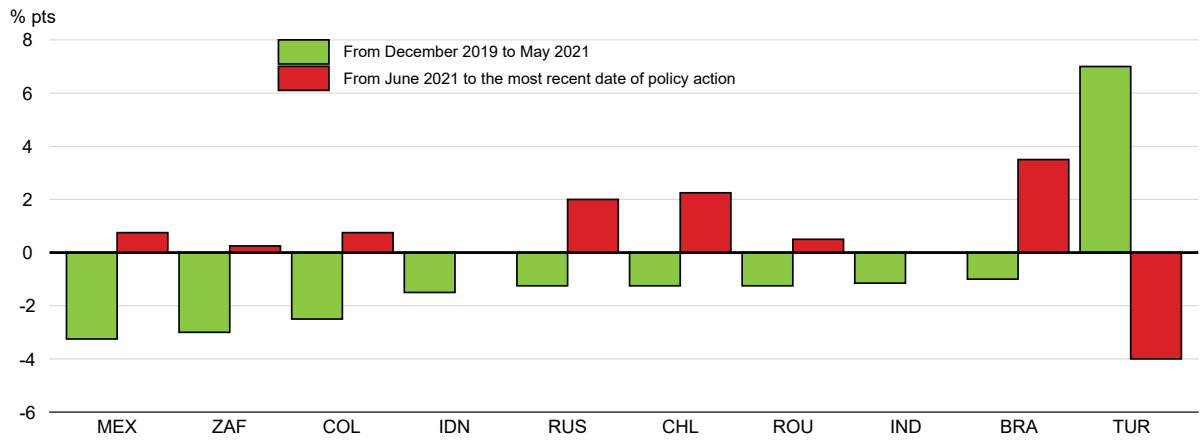
[20] The majority of the Policy Board members projected that core inflation would be between 0.8% and 1.0% (median 0.9%) in FY 2022 and between 0.9% and 1.2% (median 1%) in FY 2023.

corporate (real estate) and household sectors. In the latter, measures such as loan-to-value or debt-service coverage ratios are essential to prevent excessive risk-taking and should be tightened if necessary. These efforts should be complemented by a thorough stress testing of banking sector resilience to potential fluctuations in property markets. In parallel, steps are needed to address vulnerabilities in non-bank financial intermediaries, account for a rising share of real estate financing over the last decade.

The monetary policy stance has already been tightened substantially in some major emerging-market economies like Brazil and Mexico, amidst rising inflationary pressures from higher food and energy prices, past currency depreciations and supply-chain disruptions (Figure 1.35). Pent-up demand owing to government transfers has increased services inflation in Brazil, and a high integration in global value chains has passed the effect of supply-chain bottlenecks on to domestic prices in Mexico. In contrast, monetary policy is projected to remain broadly accommodative in South Africa, with only a modest increase in the key policy rate, enabled by a strong currency and well-anchored inflation expectations. After remaining unchanged this year, key policy rates are also projected to rise only slowly in 2022 in India and Indonesia, where spare capacity remains sizeable. Lower food price inflation in India, due to the normalisation of supply chains in agricultural production, and both well-anchored inflation expectations and a limited pass-through of global prices into administered prices in Indonesia have held down domestic price pressures in these countries. In China, financing costs have been eased by a reduction in reserve requirements on banks and no monetary policy rate increase is projected, with the pass-through to headline

Figure 1.35. Many emerging-market economy central banks have tightened monetary policy

Change in the main policy interest rate



Note: Based on information as of 24 November 2021.
Source: Bank for International Settlements; Central banks; and OECD calculations.

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inflation from currently rising producer prices remaining very limited. Following recent policy interest rate decreases in Turkey, further currency depreciation is adding to monetary policy challenges, and inflation is projected to be well above the target range of the central bank for some time in the absence of moves to tighten monetary policy. Asset purchase programmes introduced at the onset of the pandemic have been discontinued in almost all major emerging-market economies, with the exception of Indonesia. Clearly communicating the modalities and exit strategies of those interventions would ensure that they ease financial conditions effectively without de-anchoring inflation expectations (Mimir and Sunel, 2021).

Fiscal policy support should remain flexible and contingent on the state of the recovery

After a strongly expansionary fiscal stance in 2020-21, governments now face complex policy challenges. The pace of withdrawal of pandemic-related measures should balance the preservation of necessary support to the recovery with the need to avoid hampering required resource reallocation. Over a longer horizon, steps will be needed to ensure the sustainability of the public finances and support the transition to carbon neutrality. These challenges have important implications for the composition of public expenditure and revenue, and call for strengthened fiscal frameworks to convey clear policy guidance to markets and the public opinion.

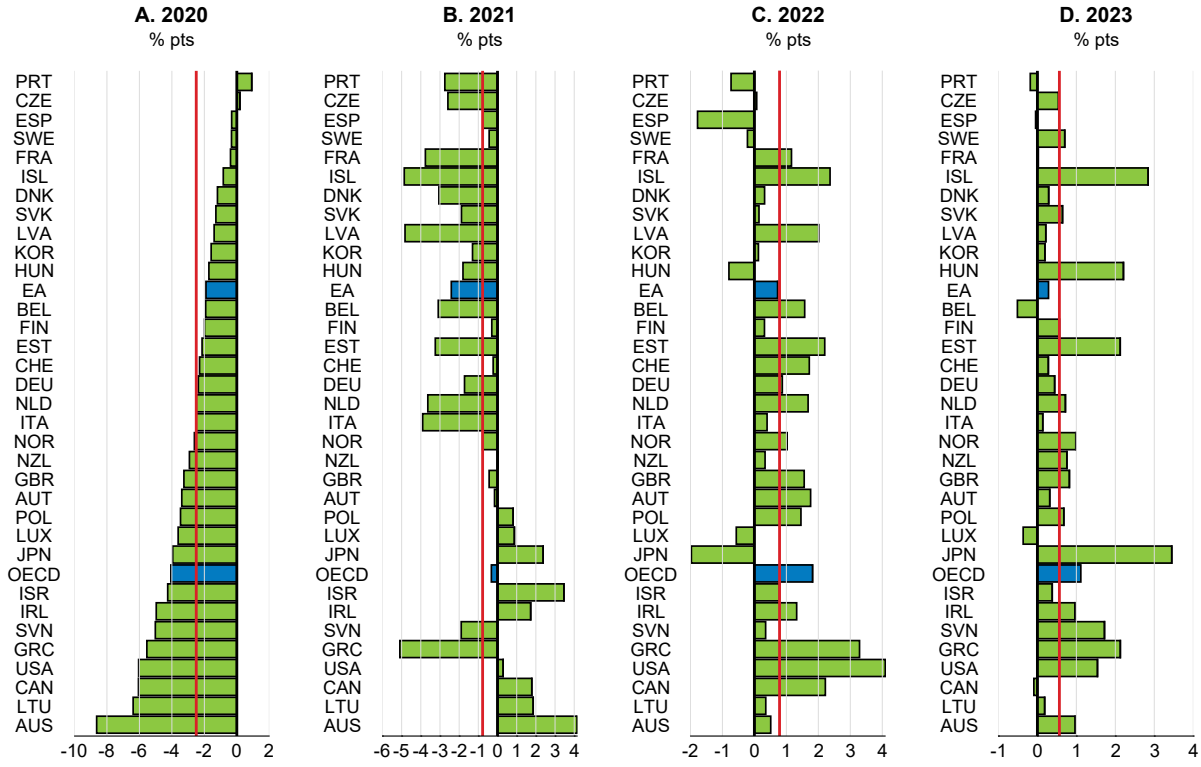
Fiscal policy has remained supportive this year, largely due to the continued implementation of measures announced in 2020 and early 2021. Discretionary fiscal easing, as approximated by the change in the underlying primary balance, a conventional though uncertain measure of the fiscal stance, is estimated to be 0.8% of potential GDP in the median OECD economy in 2021 (Figure 1.36), and is often larger across Europe. This partly reflects the beginning of the implementation of the Next Generation EU (NGEU) recovery plans.

Fiscal projections for 2022-23 are conditional on announced government measures and OECD assessments of current plans (Annex 1.A). In the median OECD economy, the underlying primary balance is estimated to increase by 0.8% of potential GDP in 2022, and by 0.6% in 2023:

- In the United States, most crisis-related fiscal support has already been withdrawn. The projections take account of the recently legislated infrastructure bill and assume that an additional budget reconciliation bill currently being negotiated comes into force, the two bills jointly adding around 0.3% of GDP of spending net of tax increases in both 2022 and 2023. Measures in these bills mainly come from the proposals under the American Jobs Plan (decarbonisation, infrastructure and research and development) and American Families Plan (support for low-income families), and the ensuing additional spending will be mostly tax-financed. Even with this additional spending, there may be a substantial tightening of the fiscal stance in the next two years, with the underlying primary balance projected to improve by more than 5% of potential GDP over 2022-23.
- In the EU, the assessment and approval of national recovery and resilience plans is proceeding swiftly, and initial disbursements of NGEU grants to recipient countries have begun. The implementation of plans, which is to take place until 2026, is projected to be significantly frontloaded in the two largest recipients of support, Italy and Spain, who are both expected to absorb 60% or more of the respective national grant envelopes over 2021-23 (the median absorption rate is estimated at 54%). In the euro area, stimulus from NGEU implementation, with absorbed grants projected to exceed 0.5% of euro area GDP in both 2022 and 2023, is not projected to prevent a significant increase in the underlying primary balance (1% of potential GDP over those two years combined).

Figure 1.36. The fiscal stance is normalising as crisis-related support is withdrawn

Change in the underlying primary balance, in per cent of potential GDP



Note: Vertical lines indicate the medians.
Source: OECD Economic Outlook 110 database; and OECD calculations.

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- In Japan, the government which took office in October announced a new economic package, which will be approved in the FY 2021 first supplementary budget and the FY 2022 initial budget. The package is likely to include cash benefits for vulnerable households and measures to support businesses hardest hit by COVID-19 and sectors that can help strengthen supply chain resilience, as well as policies aimed at longer-term growth and redistribution. As a consequence, a substantial loosening of the fiscal stance is projected in 2022 (2 per cent of potential GDP), boosting economic activity. With the recovery projected to be well on track, considerable consolidation efforts are expected in 2023.

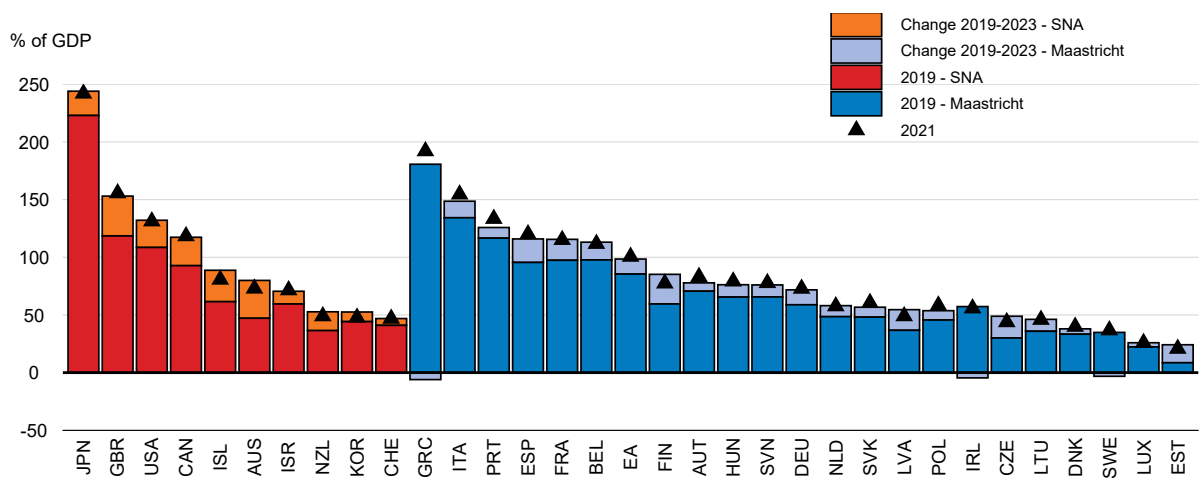
Underlying primary budget balances are projected to increase in 2022 and 2023 in a large majority of economies (Figure 1.36, Panels C and D). The withdrawal of crisis-related support measures, which is now under way in many countries and assumed to proceed in 2022, is the main driver of the sizeable increase of underlying balances in 2022 and partly explains their additional improvement in 2023. Projected fiscal developments also reflect, especially in 2023, discretionary deficit-reduction measures, which are likely to weigh on activity.

With the recovery in activity and declining deficits, public debt ratios are projected to stabilise as of 2021, and even start declining in some countries (Figure 1.37). Nonetheless, debt ratios in 2023 are likely to exceed 2019 levels considerably (by 14 percentage points in the median OECD economy), and will need to be adjusted over the medium term given future demands on the public finances from long-term trends such as ageing populations (Guillemette and Turner, 2021). At the same time, debt-servicing burdens remain low due to very low interest rates. This provides room, while interest rates remain low, for additional fiscal support where needed, including measures to accelerate the transition towards climate neutrality.

The removal of pandemic-related support will need to be gradual to minimise contractionary impacts on activity and preserve space to sustain higher levels of public investment (see below). Credible fiscal frameworks that provide clear guidance about the medium-term path towards sustainability, and the likely policy changes along that path, would help to maintain market confidence and public support. Enhancing ownership and reconciling sustainability with sufficient counter-cyclicality should guide efforts to reform fiscal governance.

Reforming the composition of public finances can have important payoffs in terms of stronger medium and long-term growth, which should be the mainstay of public debt sustainability by enabling a gradual reduction of debt-to-GDP ratios. After the global financial crisis, developments in public finance composition were often adverse; for instance, many countries cut public investment. The policy response over the next few years appears likely to be more favourable. Many countries are expected to reallocate budget resources towards public investment in 2021-23, though on a relatively modest scale (Box 1.5). On the revenue side, compositional changes seem more muted, possibly suggesting an unexploited potential for tax reforms that promote equity, growth and environmental sustainability (OECD, 2021e). Priorities vary across countries, but often include reducing labour taxation on low-wage earners, increasing or broadening environmental taxes and property taxes, and expanding tax bases (OECD, 2021f).

Figure 1.37. General government gross financial liabilities



Source: OECD Economic Outlook 110 database; and OECD calculations.

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Reforms to public spending and revenue can also foster the transition to a low-carbon economy. Higher public investment and support for innovation are essential to strengthen incentives for private low-carbon investment and to meet climate-neutrality targets, and their benefits will often be enhanced by coordination among countries — examples include cross-border grid interconnections, offshore grids and recharging infrastructure interoperability (OECD, 2021g). At the same time, investments that are inconsistent with the transition to a low-carbon economy should be phased out.[21] On the revenue side, a necessary step is to increase the effective price of carbon emissions. Possible policy tools include carbon taxes, cap-and-trade schemes and the elimination of fossil fuel tax exemptions and reduced rates. It will be important to dedicate most of the ensuing additional revenues to the provision of green infrastructure and targeted support to vulnerable households and firms in the energy transition. However, relatively few countries envisage significant policy action on this front in 2022-23.[22]

Fiscal positions have started to improve in emerging-market economies as output recovers, but the outlook for the public finances is uneven. The recovery has been very gradual in some countries, especially lower-income countries, which reduces the feasibility, and indeed the appropriateness, of a quick reduction in deficits. In addition, rising financing costs have made it more difficult for many countries to reduce public debt-to-GDP ratios. Higher commodity prices have had heterogeneous impacts, bolstering fiscal revenues in commodity exporters like Argentina, Chile and South Africa, but hampering fiscal consolidation — including through a tightening of financing conditions — in commodity importers like India and Turkey.

Provided market access is preserved, delaying steps to ensure the long-term sustainability of the public finances may be justified until emerging-market and developing countries can reach a robust recovery path enabled by an improved health outlook. However, once that has been achieved, those steps should accelerate to preserve market confidence and create buffers. For example, in China, a number of tax exemptions are being phased out, which is projected to strengthen fiscal balances. In contrast, despite being well into the recovery phase from the pandemic, increased political uncertainty and imminent elections are delaying fiscal consolidation efforts in some countries, like Brazil and Chile. Countries with limited fiscal space face difficult choices in ensuring fiscal sustainability, and should pursue fiscal reforms that enhance medium-term growth. In Colombia, a recently legislated tax and spending reform goes some way towards halting the rise in debt, but does not go far enough in reducing tax expenditures and switching to a more growth-friendly tax mix.

Box 1.5. Recent and prospective changes in the composition of public finances across the OECD

The COVID-19 crisis has given rise to exceptional fiscal support measures, including spending on healthcare and vaccination, subsidised job retention schemes, social transfers, tax and social security contribution deferrals and moratoria on various charges and fees. As the recovery strengthens, governments face the challenge of replacing emergency support with measures that foster sustainable and equitable growth. This box tracks the recent and expected evolution of public spending and revenue composition in 33 OECD economies over 2019-23. It also compares the projected paths of public investment with model simulations based on previously estimated growth effects from fiscal expenditure reallocation.

[21] As of mid-July 2021, spending on environmentally positive measures still represented only 21% of total COVID-19 recovery spending in OECD, EU and Key Partner countries (OECD, 2021h).

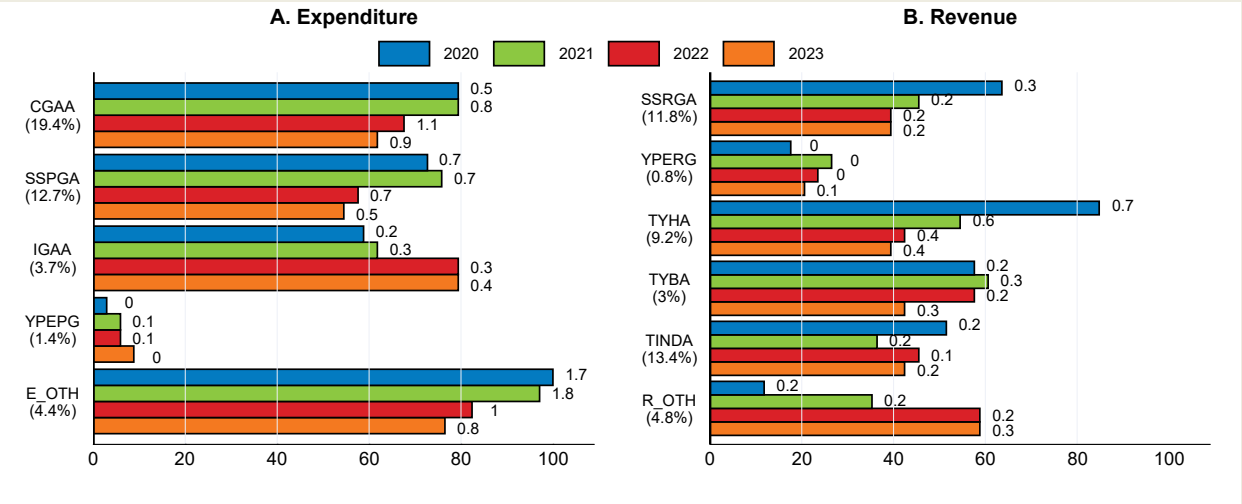
[22] A noteworthy recent policy initiative is the Fit for 55 package proposed by the European Commission in July 2021, which foresees, *inter alia,* extending emissions trading to new sectors and updating the Energy Taxation Directive. Accompanying measures that sufficiently offset adverse distributional impacts on household incomes would improve the political feasibility of higher carbon pricing.

Results highlight common patterns across countries. As a reflection of fiscal expansion, both the frequency and size of spending item increases (relative to 2019 levels) generally exceed those of revenue items (Figure 1.38). On the expenditure side, the residual category (denoted E_OTH, which is generally small) increases in most countries — by close to 2% of potential GDP in the median country — during the emergency period of 2020-21 (Figure 1.38, Panel A). Most of this spending shift is explained by the large increase in various subsidies to respond to the pandemic, which were on average 1.6% of potential GDP higher in 2020 relative to 2019.[1] As the recovery progresses, this residual spending category is expected to gradually decline. At the same time, public investment (IGAA), which understandably was not the key priority when the pandemic struck, is expected to increase in 2021-23 relative to 2019 levels in a growing number of countries, albeit by a relatively modest 0.3-0.4 per cent of potential GDP. Finally, the persistence of generally low interest rates until 2023 should lead to a continued decline in implicit interest rates on public debt, and low government interest payments.

On the revenue side, as household incomes have been preserved in many countries (largely thanks to public expenditure, as discussed above), taxes on households (TYHA) rose in 2020, an increase expected to wane gradually in subsequent years (Figure 1.38, Panel B). A similar pattern, though somewhat mitigated, holds for social security contributions (SSRGA), as job retention schemes kept many workers on the payroll of employers. In a low interest rate environment, the property income received by governments (YPERG) has become less important. In contrast, the residual revenue category (R_OTH) is rising as a share of potential GDP in a majority of countries in 2022-23, mainly due to receipts of NGEU grants by EU member states.

Figure 1.38. The fiscal spending and revenue mixes are evolving

Share of countries (in per cent) with an increase relative to 2019 in the ratios of cyclically-adjusted budget items to potential GDP



Note: The spending items considered are public consumption (CGAA), social security benefits (SSPGA), public investment (IGAA), property income payments (YPEPG) and a residual category (E_OTH) which includes subsidies. The revenue items are social security contributions (SSRGA), direct taxes on households (TYHA) and on firms (TYBA), indirect taxes (TINDA), property income received (YPERG) and a residual category (R_OTH) which includes, *inter alia,* sales of goods and services and capital transfers received. The sample includes all 38 OECD countries except for Chile, Colombia, Costa Rica, Mexico and Turkey, due to missing data. Figures for 2021-23 reflect OECD projections. Numbers in parentheses in the vertical axes denote the median ratio of the respective budget item to potential GDP in 2019 across the 33 OECD countries considered. Numbers to the right of bars show the rounded median increase in the respective budget item in percentage points of potential GDP, computed across the subset of countries recording an increase. The OECD cyclical adjustment methodology (Price *et al*., 2015) is applied to those items deemed sensitive to the business cycle – i.e. all revenue items except for property income and the residual item, and, on the expenditure side, social benefits.
Source: OECD Economic Outlook 110 database; and OECD calculations.

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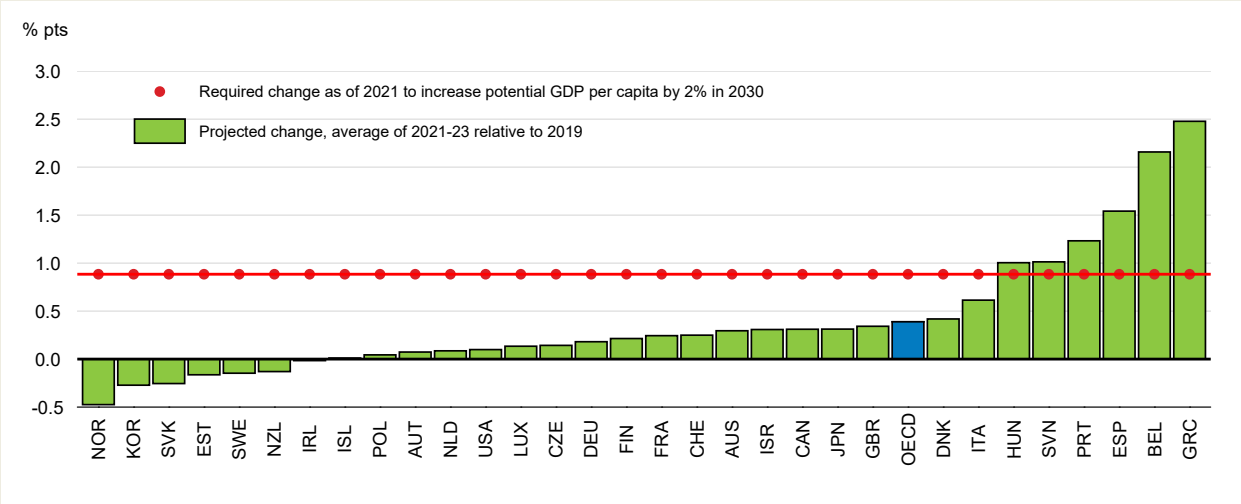
Increasing public investment would strengthen the recovery from the pandemic

Under sound governance arrangements, public investment generates positive externalities, increases the productive capital stock and mitigates underinvestment by the private sector due to market failures (Fournier, 2016; Pain *et al*., 2018). OECD estimates show that shifting the composition of public expenditure towards public investment while keeping total spending unchanged (henceforth referred to as "spending-neutral" shifts) can increase potential growth (Fournier and Johansson, 2016; Cournède *et al*., 2018). These estimates can be used to compute how much spending reallocation towards public investment would be needed to increase potential GDP per capita by a certain amount in the medium and long run – for instance, to achieve a 2% increase by 2030. This would correspond to an improvement of approximately 0.2 percentage points per annum in the annual growth of potential GDP per capita in the coming decade in the typical country (Figure 1.39).[2]

Figure 1.39. Projected public investment increases are welcome but often too modest

Changes in the average annual public investment-to-potential GDP ratio



Note: Green bars show the difference between the average public investment-to-potential GDP ratio in 2021-23 and that in 2019, based on the OECD projections. The red line with markers shows the spending-neutral increase in the average annual public investment-to-potential GDP ratio over 2021-30 that is required to boost potential GDP per capita by 2% in 2030. The growth effects of spending reallocation towards public investment are estimated keeping government size unchanged, and thus imply proportional decreases in spending on other budget items, whose growth effects, positive or negative, are controlled for. "OECD" shows the unweighted average of countries with available data that are included in the figure.

Source: OECD Economic Outlook 110 database; Fournier and Johansson, 2016; Cournède et al., 2018; and OECD calculations.

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These simulation results are stylised and illustrative, *inter alia* because the required compositional shifts reflect average effects across countries that abstract from country-specific features, such as the existing level of the public capital stock and potentially diminishing returns to further investment. Nonetheless, the results suggest that there may be a case for larger public investment increases than those currently being envisaged until 2023. In particular, OECD countries are projected to increase their public investment-to-potential-GDP ratio by 0.4 percentage points on average in 2021-23, which is lower than the average annual amount that would be required to boost potential GDP per capita by 2% in 2030.[3] The few countries with ambitious projected increases in public investment in the near future tend to be among the major recipients of NGEU grants, such as Greece, Spain and Portugal.

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1. In contrast, the other expenditure items of the residual category have on average either remained broadly stable or, in the case of capital transfers, recorded a moderate increase (an average of 0.5 per cent of potential GDP).
2. Annual potential GDP per capita growth has been subdued since the global financial crisis, at about 1.1% in the median OECD country over 2010-19. This is about 0.9 percentage points per annum lower than during in the decade before the global financial crisis.
3. If countries further increase investment later in this decade, the gap to the required increase for a 2% gain in potential GDP per capita will be reduced or even fully eliminated, even though that gain may be reached with some delay relative to 2030.

Structural priorities to enhance resilience and restore dynamism

Economic policy efforts for most of the past two years have largely been focussed on coping with the effects of the pandemic. As those effects dissipate, it becomes increasingly possible to switch the focus away from near-term rescue efforts to longer-term priorities, with macroeconomic policy support accompanied by effective and well-targeted reforms. A key priority is the need to enhance economies' resilience, which has been highlighted by the onset of the pandemic and the recovery from it. It is also necessary to tackle longstanding structural challenges such as digitalisation and the transition to zero net carbon emissions. Continued income support for the poorest households, enhancing activation and skill acquisition, and strengthening economic dynamism by tackling barriers to market entry and exit, will maintain demand, improve labour market opportunities and help to foster productivity-enhancing reallocation. Environmental policy challenges differ across countries, but early signals about the future trajectory of carbon prices, greater public sector support for innovation and investment, and ensuring policies are communicated clearly and accompanied by redistribution where necessary will be of critical importance everywhere.

In virtually all economies, the pandemic provoked a deep recession and major structural changes. It remains unknown how long-lasting the effects will be, but the shocks have underlined the importance of policies to facilitate the reallocation of resources between activities. Initial evidence from three OECD countries suggests that the tendency for high productivity firms to expand and low productivity firms to contract – which propels aggregate medium-term productivity growth – remained intact in the early phase of the pandemic, implying that job retention schemes did not necessarily distort firm dynamics (Andrews *et al*., 2021). Some evidence from Australia suggests that distortive effects may build over time, however, pointing to a danger of retaining job retention schemes longer than is needed.

The need to accommodate the shifts in activity arising from the pandemic at minimum cost, and address the potential long-term costs from the disruption to schooling during the pandemic, adds to the pre-COVID challenges requiring structural policy action. Many OECD economies were characterised by high and often growing inequalities of income and/or wealth, and all were faced with a host of underlying challenges. Governments need to seize the opportunity at a time when macroeconomic policies are supportive and demand is rising quickly to accelerate reforms. This will ensure that the extraordinary support mobilised to combat the current crisis, including plans to boost public investment, also advances longer-term objectives.

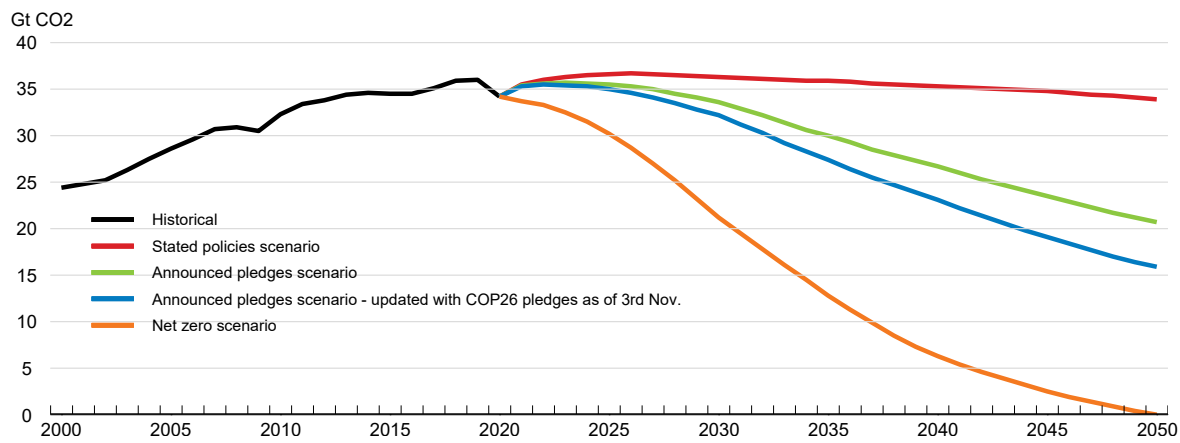
A key priority is to support people by maintaining adequate income support for those most in need whilst enhancing reforms that improve labour market opportunities, alleviate skill shortages and foster reallocation. Many countries face particularly important challenges in reforming their labour markets. Nearly two-fifths of the recommendations made by the OECD in its 2021 *Going for Growth* report (OECD, 2021f) are for reforms to improve the functioning of labour markets and enrich job prospects. Substantial additional investments are needed in activation and enhanced vocational education and training to boost skills and create new opportunities for displaced workers, lower-skilled workers, youth and those still on reduced working hours. Targeting training courses to individuals and delivering them in a flexible manner, including through online teaching tools, can help to allow training to be combined with part-time work and irregular work schedules.

There is also a need, highlighted by the pandemic, for governments to improve the codification and enforcement of labour standards for migrant workers. The vulnerability associated with an inability to change employers will remain a salient concern, and countries should consider how to make worker protections a part of their long-term labour migration structure. In addition, countries would generally benefit from raising immigration limits to make up for at least some of the foregone immigration during the pandemic. Canada is one country that has done this, raising its 2021 target by 18%.

As the recovery progresses, the focus for policy should increasingly move towards improving the prospects for sustainable and equitable growth. This includes additional public investment in health, digital and low-carbon infrastructure and changes in the composition of taxation. Improving broadband connectivity, helping firms develop online business models and enhancing digital skills are all areas in which further reforms would accelerate the adoption of digital technologies. Well-designed infrastructure investment projects, including expanded and modernised electricity grids and spending on renewables (coordinated across countries where relevant), and projects with shorter payback periods, such as more energy-efficient buildings and appliances, can also serve the twin objectives of closing employment gaps and achieving climate-related goals.

Climate change and the degradation of the environment are a key challenge that requires actions across a wide range of policy areas. Global carbon dioxide (CO_2) emissions must decline by 45% (compared to 2010 levels) by 2030 and reach at least net-zero globally by 2050 to hold the increase in global average temperature to 1.5°C above pre-industrial levels. To achieve this goal, the scale of annual CO_2 emissions reductions through 2030 would need to be of a similar order of magnitude to that seen in 2020, when emissions declined largely due to drastic restrictions on mobility. The latest United Nations Production Gap report (United Nations, 2021) finds that governments plan to produce more than twice the amount of fossil fuels in 2030 than would be consistent with limiting long-term warming to 1.5°C above pre-industrial levels. Analysis by the International Energy Agency (IEA) indicates the pledges made for the COP26 meeting in Glasgow, while a positive step, secure less than half the reduction in emissions needed to be consistent with the Net Zero Scenario (Figure 1.40). In particular, concerning the crucial decade ahead, the climate pledges made globally leave a 70% gap in the amount of emissions reductions needed by 2030 to keep 1.5°C within reach (Birol, 2021).

Figure 1.40. CO2 emissions in World Energy Outlook scenarios over time, 2000-2050



Source: International Energy Agency (IEA), CO2 emissions in World Energy Outlook scenarios over time, 2000-2050, IEA, Paris https://www.iea.org/data-and-statistics/charts/co2-emissions-in-world-energy-outlook-scenarios-over-time-2000-2050-and-corresponding-global-temperature-rise-in-2100

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Establishing transparent and participative institutions and governance frameworks would facilitate the design and implementation of decarbonisation strategies and bolster public acceptability. Developing data and indicators that are comparable across countries and take into account current and future trends in emissions would allow for a more systematic evaluation of countries' performance and enable progress to be monitored. International benchmarking efforts, such as those proposed by the OECD International Programme for Action on Climate, provide a useful platform in this direction.

Emission pricing and standards and regulations can complement each other, with emission pricing helping to speed up the deployment of low-carbon technologies and products as encouraged or mandated by standards and regulations. In addition, complementary policies – for example, to offset any regressive distributional implications of mitigation policies, to reskill workers in transition, or to facilitate green infrastructure investment – are key, as is engagement with stakeholders on the design of climate policy packages.

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

Fiscal policy settings for 2021-23 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.

Projections for the EU countries account for spending financed by the Next Generation EU (NGEU) grants and loans, based on expert judgments about the distribution across years and different expenditure categories and informed by officially announced plans where available. NGEU 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 those 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. This may differ from the stated path of the monetary authorities.

The projections assume unchanged exchange rates from those prevailing on 8 November 2021: one US dollar equals JPY 113.6, EUR 0.86 (or equivalently one euro equals USD 1.16) and 6.39 renminbi.

The price of a barrel of Brent crude oil is assumed to remain constant at USD 80 throughout the projection period. Non-oil commodity prices are assumed to be constant over the projection period at their average levels from October 2021.

The cut-off date for information used in the projections is 25 November 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

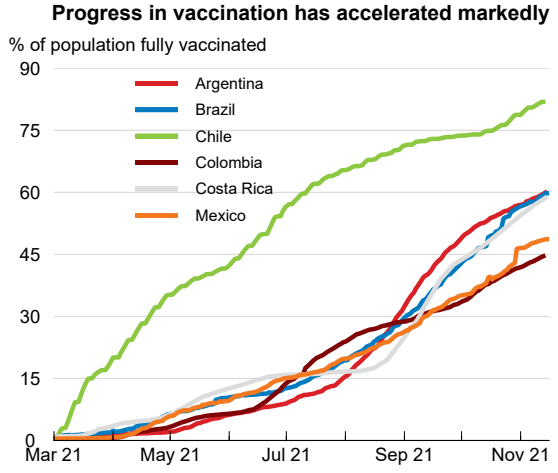
The economy is projected to expand by 2.5% in 2022 and 2.3% in 2023 against the backdrop of a strong recovery in 2021, declining COVID infections and an acceleration in vaccination rates. Private consumption and investment have been vigorous while high commodity prices have bolstered exports, with the current account now in surplus. Inflation has picked up and will remain high, in part because a large share of the fiscal deficit is monetised. Foreign currency reserves have declined. Unemployment has come down and formal employment has risen, but high labour informality remains a concern, while poverty affects more than 40% of the population.

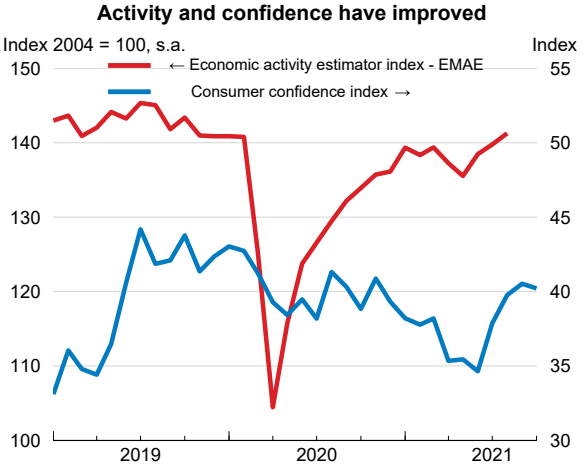
Given the firming recovery and significant risks of a disorderly unwinding of macroeconomic imbalances, a meaningful fiscal adjustment remains a key priority, while continuing to protect the most vulnerable. Outlining a medium-term path towards fiscal sustainability would help to shore up confidence. Public spending efficiency could be improved, including by scaling back public employment and subsidies, while preserving well-targeted social expenditures. Monetary policy should withdraw support and take more decisive action to bring down inflation, which disproportionally affects low-income households.

The recovery has gathered momentum

COVID-19 infections have declined substantially recently, and most mobility restrictions, including for international travel, have been lifted. Vaccination progress has outpaced regional peers, with more than 60% of the population fully vaccinated. After a contraction of GDP in the second quarter of 2021, consumer confidence has rebounded strongly, with similar positive signals seen in other short-term economic indicators such as industrial capacity utilisation, retail sales and an economic activity indicator, which has surpassed pre-pandemic levels. Unemployment has declined slightly to 9.6%, similar to 2019 levels, but labour participation and employment are still below pre-pandemic levels. Exports have strongly benefited from improving terms of trade. Against the backdrop of high transfers from the central bank to the Treasury and other factors, inflation has recently edged up again to 52.1% year-on-year, after several months of deceleration.

Argentina





Source: Center for Systems Science and Engineering at Johns Hopkins University; CEIC; and INDEC.

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Argentina: Demand, output and prices

Argentina	2018	2019	2020	2021	2022	2023
	Current prices ARS billion	Percentage changes, volume (2004 prices)				
GDP at market prices	14 744.8	-2.0	-9.9	8.0	2.5	2.3
Private consumption	10 243.2	-7.3	-13.8	7.4	2.3	2.1
Government consumption	2 330.4	-1.2	-3.3	4.1	-0.7	-0.4
Gross fixed capital formation	2 248.7	-15.9	-12.9	30.9	1.3	2.0
Final domestic demand	14 822.4	-7.7	-12.2	10.1	1.7	1.7
Stockbuilding[1]	200.9	-0.7	1.8	0.3	-0.5	0.0
Total domestic demand	15 023.4	-8.7	-10.1	10.2	0.8	1.3
Exports of goods and services	2 128.7	9.1	-17.3	8.0	13.7	8.2
Imports of goods and services	2 407.2	-19.0	-17.9	18.3	5.0	3.9
Net exports[1]	- 278.6	4.4	-0.5	-1.2	1.7	0.7
Memorandum items						
GDP deflator	_	50.9	39.9	56.8	41.0	38.7
Current account balance (% of GDP)	_	-0.6	0.7	0.8	0.9	1.3

1. Contributions to changes in real GDP, actual amount in the first column.
Source: OECD Economic Outlook 110 database.

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Policy tightening will reduce macroeconomic imbalances

Fiscal policy has turned more expansionary since mid-2021 with the announcement of higher social benefits, including bonuses for pensioners and transfer recipients, but also subsidised lending programmes for consumer durable purchases, higher public sector wages and benefits through an increase in the minimum wage and additional capital spending. An increase in the basic deduction for personal income taxes implies that this tax now affects only 10% of salaried workers. As the recovery is firming, fiscal adjustment should be accelerated beyond the 0.7 percentage points consolidation planned for 2022. This would also reduce the need for monetary financing, which remains a significant source of financing for the public deficit. Price controls and slower increases in administered prices such as fuel, transport and public utility tariffs have done little to contain price pressures sustainably. By contrast, the managed nominal exchange rate is helping to anchor inflation expectations, but at the cost of significant currency reserve losses and an increasing gap between the official and parallel exchange rates, which has now reached 90%. Monetary policy is projected to become less expansionary as tightening will be inevitable to bring inflation on a declining path and reduce other macroeconomic imbalances, which is a precondition for relaxing tight capital controls and import restrictions.

Growth will remain solid but there are significant risks

In the short run, consumption is buoyed by policy support that lifts household disposable incomes. External demand will remain supportive. As fiscal and monetary policy support is gradually withdrawn in 2022, growth is projected to moderate to 2.5% in 2022 and 2.3% in 2023. The risks of a disorderly adjustment remain significant, given high inflation and significant macroeconomic imbalances. Low and declining net foreign currency reserves provide little room for support in the case of renewed pressures on the currency, which could occur as financial conditions tighten in advanced economies. Short-term central bank liabilities in domestic currency of almost 10% of GDP imply additional risks and will likely limit the pace of policy rate increases. Restoring access to financing from multilateral institutions or international capital markets could mitigate some of these risks. Lower rainfall in the context of the regular meteorological phenomenon “La Niña” could reduce agricultural exports. On the upside, higher commodity prices would provide some relief for the external and fiscal accounts.

Strengthening confidence and protecting the vulnerable will be key challenges

Macroeconomic imbalances continue to weigh on domestic demand and confidence, and resolving this will require prudent and predictable fiscal policies and less monetary financing while strengthening the credibility and independence of the central bank, and eventually removing foreign exchange controls. Reducing the fiscal deficit can be achieved through improvements in public spending efficiency, including in public employment and subsidies, and by broadening tax bases, including personal income taxes. In contrast, well-targeted social expenditures, in particular cash transfers to poor and vulnerable households, should be safeguarded or even expanded as poverty is above pre-pandemic levels. Formal job creation could be accelerated by reducing high non-wage labour costs and labour market rigidities. Strengthening domestic and external competition and entrepreneurship through lower regulatory and trade barriers holds the key for raising productivity and innovation.

Australia

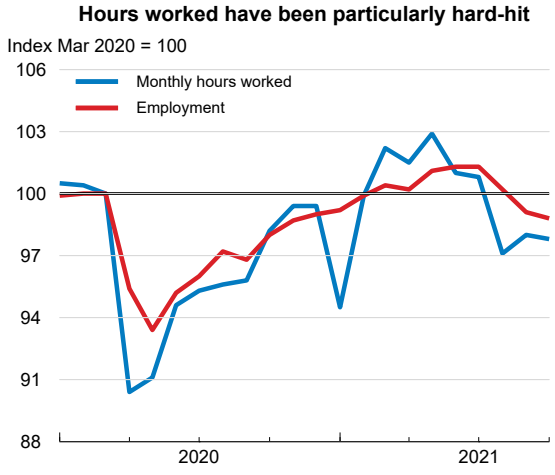
Real GDP is projected to grow by 3.8% in 2021, 4.1% in 2022 and 3% in 2023. The economy is recovering as strict containment measures first imposed in some states in mid-2021 have now been lifted. As the recovery continues, labour market conditions will improve and spare capacity will be absorbed. Wage and price pressures will subsequently build, even though they are expected to remain contained.

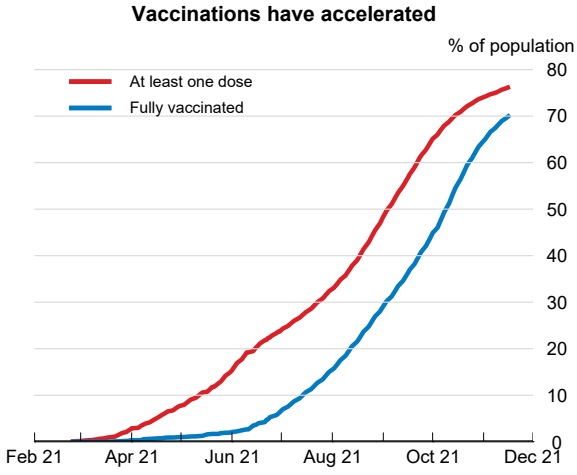
Further fiscal support was announced by both federal and state governments in response to recent containment measures, although it has been mostly wound back since states exited the lockdowns to which the fiscal support was tied. At the same time, monetary policy remains accommodative. The Reserve Bank of Australia should be vigilant about signs of rising inflation and may need to tighten monetary policy faster than it is currently anticipating. Efforts should continue to prioritise the vaccination process in order to allow a quick and full reopening of the economy, including of its international borders. This would enable foreign students, workers and tourists to enter the country and alleviate the labour shortages reported in sectors that are reliant on these workers.

Activity fell as lockdowns were reinstated, though less than in 2020

COVID-19 cases rose to their highest levels during the third quarter of 2021, in particular in the states of New South Wales and Victoria, which account for more than half of Australian GDP. The strict containment measures that were reinstated in these states in the middle of the year resulted in a contraction in economic activity and employment, although the downturn was milder than that in early 2020. Total hours worked fell more than employment, as some workers experienced reduced hours or no work without losing their jobs. More recently, real-time economic indicators suggest activity is recovering quite rapidly following the lifting of lockdowns. Despite reports of labour shortages in certain sectors, there is little evidence so far of strong broad-based wage growth. The net trade balance has improved in 2021, following a strong increase in exports.

Australia





Source: Australian Bureau of Statistics; and Refinitiv.

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Australia: Demand, output and prices

Australia	2018	2019	2020	2021	2022	2023
	Current prices AUD billion	Percentage changes, volume (2018/2019 prices)				
GDP at market prices	1 901.1	1.9	-2.5	3.8	4.1	3.0
Private consumption	1 063.2	1.2	-5.8	3.7	4.4	3.5
Government consumption	357.6	5.7	7.0	4.7	6.8	2.3
Gross fixed capital formation	455.4	-2.6	-3.1	7.6	4.2	3.0
Final domestic demand	1 876.2	1.1	-2.6	4.8	4.9	3.1
Stockbuilding[1]	2.4	-0.3	-0.2	1.1	-0.1	0.0
Total domestic demand	1 878.6	0.8	-2.8	5.9	4.7	3.1
Exports of goods and services	438.4	3.1	-9.9	-2.4	3.5	4.4
Imports of goods and services	416.0	-1.3	-13.2	8.5	7.0	5.2
Net exports[1]	22.5	1.0	0.4	-2.1	-0.4	0.1
Memorandum items						
GDP deflator	_	3.3	1.0	5.3	2.4	1.9
Consumer price index	_	1.6	0.9	2.7	2.7	2.1
Core inflation index[2]	_	1.6	1.3	2.3	2.4	2.1
Unemployment rate (% of labour force)	_	5.2	6.5	5.1	4.7	4.3
Household saving ratio, net (% of disposable income)	_	5.0	15.5	12.0	8.6	6.8
General government financial balance (% of GDP)	_	-0.5	-12.3	-6.7	-5.0	-3.6
General government gross debt (% of GDP)	_	47.1	66.8	73.0	77.2	79.9
Current account balance (% of GDP)	_	0.6	2.7	4.1	3.4	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 110 database.

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Fiscal policy support was reintroduced in response to the lockdowns

The Commonwealth government expanded economic support to households and firms as Victoria and New South Wales experienced a return to severe lockdowns. The COVID-19 Disaster Payment for workers experiencing reduced hours was increased and made recurring as long as lockdown restrictions remained in place. Small and medium-sized businesses received new support payments of up to 40% of their state payroll, as well as increased tax relief. Childcare providers also received additional targeted support. Most of these support measures have now been wound back. A number of measures announced in the latest Budget, however, are set to support the recovery over the next few years: businesses and households were provided with extended tax relief, and funding for aged care and childcare was increased. As the economy recovers and support measures tied to the lockdowns fade, the government deficit is projected to gradually fall from 6.7% of GDP in 2021 to 3.6% in 2023.

High vaccination rates have allowed states to lift almost all restrictions for the fully vaccinated. The outbound travel ban has been lifted since 1 November, while inbound travel by foreigners is still restricted. However, the government has indicated that skilled migrants and students will be able to return to Australia in December. While there is no date for a full reopening of the Australian borders, the government has indicated that it hopes that some inbound travel by fully vaccinated foreign travellers will be possible before the end of the year. Monetary policy has remained accommodative, although the Reserve Bank of Australia has started to adjust its policies in the face of improvements in the economic outlook and higher than expected inflation outturns. In September, the central bank started slightly reducing its government bond purchases from AUD 5 billion to AUD 4 billion a week until at least mid-February 2022. In November 2021,

it announced that it would no longer maintain the target on the April 2024 government bond yield. The Reserve Bank of Australia is projected to conclude the asset purchase programme in the first half of 2022 and raise its policy interest rate at the end of 2023 following a sustained increase in underlying inflation into the target band. However, there is a risk of an earlier rise in interest rates if inflation surprises to the upside.

Growth will continue to recover as the economy reopens

Economic activity is projected to rebound with the gradual relaxation of the recent lockdowns, with GDP growth reaching 3.8% in 2021 and 4.1% in 2022. As the vaccinated population returns to work, the labour market recovery will drive household consumption, aided by the recent temporary increase in government support and the gradual decline of the household saving ratio. The full reopening of international borders will eventually boost exports and support the labour market recovery as tourism resumes and more foreign workers are allowed to enter the country. Core inflation is projected to rise, as spare capacity is eroded and global supply-chain issues feed through further to prices. Wage pressures are projected to build as labour market conditions improve, though they are expected to remain contained. Reports of labour shortages have been concentrated in sectors particularly reliant on international students and foreigners on Working Holiday visas, such as tourism and hospitality, and therefore the full reopening of Australian borders should alleviate some of the resulting price pressures.

Trade relations with China, which have already deteriorated, represent a downside risk. China has already placed tariffs and restrictions on major Australian exports, and these could be expanded if the trade dispute worsens. The large amount of savings accumulated by households during the pandemic could pose an upside risk to the projections. Given that most employment relationships were preserved during the most recent lockdowns, a rapid unwinding of accumulated savings could drive a stronger rebound in activity in the coming months.

Policies should focus on enabling resource reallocation

Given some of the structural changes that have occurred during the pandemic, resource reallocation should be promoted, including through occupational licensing reforms and changes to land use regulations that more easily allow land to be repurposed. Further fiscal support may be needed if the recovery falters. However, a clear medium-term fiscal strategy should be laid out with well-defined targets and timeframes. This could make medium-term fiscal adjustment conditional on measurable economic outcomes. Now is also an appropriate time for a review of Australia's monetary policy framework, given the prolonged recent episode of inflation undershooting the central bank target, the new monetary policy tools that were deployed during the pandemic and the changed environment for macroeconomic management with interest rates near their lower bound. Australia's recent commitment to achieve net zero emissions by 2050 is welcome, and efforts must be made to continue to ensure that the national climate strategy is comprehensive, effective and inclusive.

Austria

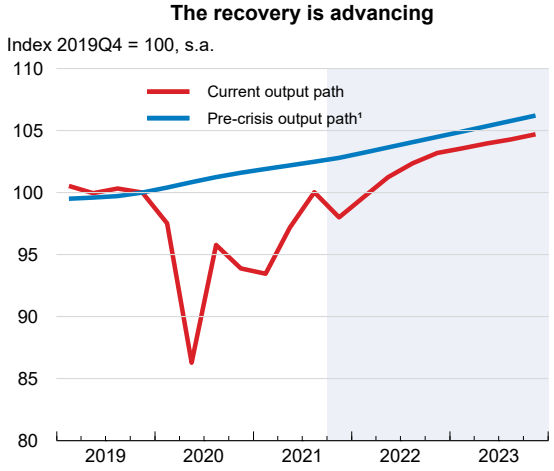
The new lockdown will temporarily weigh on activity, but GDP is projected to recover quickly, growing by 4.6% in 2022 and 2.5% in 2023. A significant rebound in global trade underpins investment growth. Private consumption is expanding as households lower their saving ratio. Supply bottlenecks and labour shortages are weighing on activity. The outlook remains highly uncertain and dependent on the evolution of the pandemic and the length of the new lockdown, especially in hospitality sectors. Inflation is projected to increase to around 3% in 2021 and 2022 but will moderate over 2023.

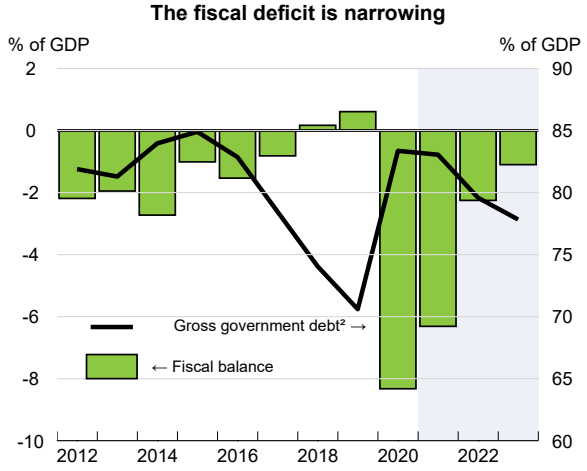
The authorities should adjust support measures as sanitary conditions evolve. They should use the remaining fiscal space to facilitate post-pandemic structural changes, such as reducing the employment costs of the long-term unemployed and bolstering childcare services. A carbon tax will be phased in from mid-2022 accompanied by cuts in the personal and corporate income tax rates and various other measures. Business investment in green technology and digitalisation should continue to be incentivised.

The rebound in service sector activity has fuelled the expansion

Economic activity in the first three quarters of 2021 grew faster than expected. Following the gradual easing of sanitary and travel restrictions and progress with the vaccination campaign in the first half of 2021, output in service sectors severely hit by the pandemic rebounded. Shortages in input materials have put strong upward pressures on producer prices and are holding back a more buoyant increase of activity. Significant labour shortages have also emerged, but wage inflation has remained relatively benign so far. Consumer prices have risen by more than 3% in September and October 2021 compared to the previous year, largely driven by the transportation, energy and hospitality sectors. The sanitary situation has deteriorated since the end of the summer and both the number of people testing positive for the virus and hospitalisations have accelerated sharply in October and November. The authorities have announced a 20-day country-wide strict lockdown, starting on 22 November. Vaccinations against the virus will be mandatory after February 2022.

Austria





1. The pre-crisis growth path is based on the November 2019 OECD Economic Outlook projection, with linear extrapolation for 2022 and 2023 based on trend growth in 2021.
2. Maastricht definition.
Source: OECD Economic Outlook 106 and 110 databases.

StatLink https://stat.link/upnlta

Austria: Demand, output and prices

Austria	2018	2019	2020	2021	2022	2023
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices*	385.4	1.5	-6.8	4.1	4.6	2.5
Private consumption	200.0	0.6	-8.4	3.7	5.8	2.6
Government consumption	74.5	1.5	-0.4	3.1	0.2	0.5
Gross fixed capital formation	92.7	4.8	-5.0	7.9	4.4	2.9
Final domestic demand	367.2	1.9	-5.9	4.7	4.2	2.3
Stockbuilding[1]	6.0	-1.2	0.1	0.0	0.0	0.0
Total domestic demand	373.2	0.6	-5.8	4.5	4.1	2.3
Exports of goods and services	214.3	3.3	-11.5	10.4	8.1	5.6
Imports of goods and services	202.2	1.8	-9.3	11.6	6.9	5.3
Net exports[1]	12.2	0.9	-1.5	-0.3	0.8	0.2
Memorandum items						
GDP deflator	_	1.6	2.3	1.6	2.8	2.1
Harmonised index of consumer prices	_	1.5	1.4	2.8	3.0	2.3
Harmonised index of core inflation[2]	_	1.7	2.0	2.4	2.7	1.8
Unemployment rate (% of labour force)	_	4.5	5.4	5.0	4.7	4.5
Household saving ratio, net (% of disposable income)	_	8.5	14.4	11.4	7.3	7.3
General government financial balance (% of GDP)	_	0.6	-8.3	-6.3	-2.3	-1.1
General government gross debt (% of GDP)	_	93.5	112.3	110.7	106.6	104.2
General government debt, Maastricht definition[3] (% of GDP)	_	70.6	83.4	83.1	79.6	77.8
Current account balance (% of GDP)	_	2.1	1.9	-0.2	0.1	0.3

* 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.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/9u3nmt

An ambitious tax reform is under way

The authorities started to adapt the COVID-19 support programmes from mid-2021 by withdrawing measures in sectors where conditions are normalising. Income support has been shifted to the standard social safety net. The primary budget deficit is expected to narrow over the projection horizon. While fiscal policy is tightening, grants of around EUR 3.5 billion from the Recovery and Resilience Facility will support further public investments, mostly in the areas of digitalisation and greening the economy, until 2026. An important tax reform, combining gradual increases in carbon prices with personal and corporate income tax cuts, has been sent to Parliament. Carbon emissions in sectors not covered by the EU Emissions Trading System (ETS) will be taxed at EUR 30 per tonne in 2022, rising to EUR 55 per tonne in 2025. The tax reform also foresees an increase in the family tax credit and child surplus, new incentives for investments and the so-called regional climate bonus, a compensation of the carbon tax burden for citizens living in more rural areas. The tax reform will be phased in gradually from mid-2022 to 2025 and is expected to benefit employment growth and corporate investment.

The new lockdown will likely lead to a temporary slowdown in activity

Private consumption will remain strong with households lowering their saving ratio. The rebound in global trade and the generous investment premium will continue to boost corporate investment. Labour markets will continue to improve. Supply bottlenecks, in particular in manufacturing and construction sectors, and skills shortages will however weigh on economic activity. Inflation is set to increase to around 3%. While supply bottlenecks are expected to fade by the latter half of 2022, wage negotiations are based on inflation rates over the last 12 months and will exert upward pressure on prices in 2022. A prolonged lockdown is a considerable downside risk to the projections. The ski tourism season is important for the economy, with February being the most important month for winter tourism in terms of overnight stays. An extension of the current lockdown into 2022 would jeopardise the winter season and have significant adverse effects on activity and employment.

Labour and skill shortages and ageing require better activation of labour resources

Plans to phase in carbon prices for sectors not covered by the ETS are welcome. Still, reaching the ambitious 2040 carbon neutrality goal will be difficult on the basis of current policies. Further cuts in greenhouse gas emissions will be needed, particularly in transportation, buildings and industrial sectors. Labour and skill shortages, and the ageing of the population call for new initiatives to better mobilise Austria's large labour reserves, including the high proportions of partially or entirely inactive women and elderly workers. Ensuring the long-term sustainability of the pension system, e.g. by linking the retirement age to life expectancy and by reducing early retirement pathways, bolstering childcare and elderly care services to facilitate women's labour force participation, and enhancing financial and workplace incentives to continue working at an older age, would be welcome.

Belgium

Private consumption and business investment are set to continue driving a robust economic rebound. GDP growth is projected to reach 3.2% in 2022 before reverting towards potential at 1.4% in 2023. The labour market has recovered, with the unemployment rate expected to peak at 6.6% in 2022 and then decline. Labour and skill shortages in key sectors could weigh on growth. Inflation is edging up and rapidly rising energy prices could fuel wage inflation through indexation.

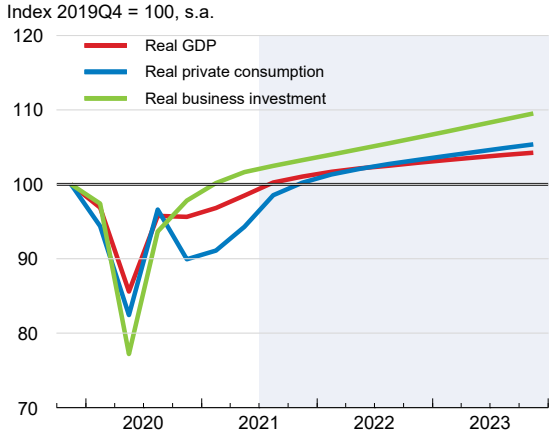
Fiscal policy is expected to tighten in 2022. Enhanced lifelong learning and active labour market policies are needed to reallocate workers and reach the government's ambitious employment targets, especially among vulnerable groups. Swift execution of planned product market reforms is key for reviving productivity growth. Given the high ratio of public debt to GDP, rebuilding fiscal buffers will be necessary to be able to cope with future shocks and further increase green and digital investment.

A buoyant recovery is occurring following the lifting of restrictions

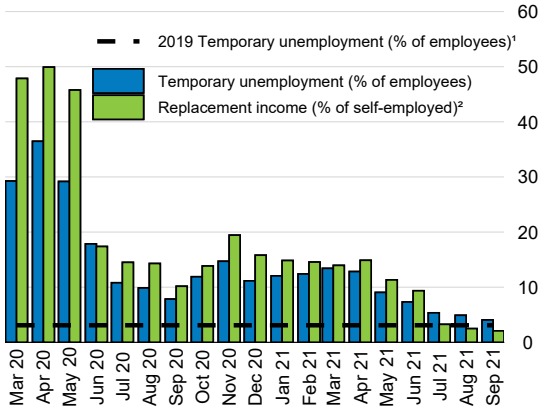
Growth is surpassing expectations, driven by resilient business investment and a surge in private consumption enabled by the effective vaccine rollout (74% of the population had been fully vaccinated by mid-November). Both business and consumer confidence have peaked over the summer, but remain above historical trends. Google retail and recreation indicators are showing a normalisation of consumer mobility since June. Reinforced containment measures were taken in November in response to the recent surge in COVID-19 cases, including mandatory teleworking, stricter rules on large private events and limited opening hours in restaurants and bars. The labour market is tightening, with relatively large and increasing vacancy rates. Temporary unemployment has fallen while employment has been expanding, exceeding pre-pandemic levels since the spring. Inflation is rising due to supply constraints, service businesses looking to restore profit margins and rapidly rising natural gas, domestic heating oil and electricity prices. Core inflation has edged up and energy products contributed 3.8 percentage points to the 5.4% annual headline inflation rate in October.

Belgium

Investment and consumption are driving growth



The labour market has recovered



1. Calculated as the monthly average over 2019.
2. Social security benefit granted in case of cessation of business (droit passerelle/overbruggingsrecht).
Source: OECD Economic Outlook 110 database; National Bank of Belgium; National Employment Office; and National Institute of Social Security for the Self-Employed.

StatLink https://stat.link/nop982

Belgium: Demand, output and prices

Belgium	2018	2019	2020	2021	2022	2023
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	460.0	2.1	-5.7	6.1	3.2	1.4
Private consumption	238.2	1.8	-8.2	5.7	6.6	2.2
Government consumption	106.2	1.7	0.2	2.0	-0.5	-0.3
Gross fixed capital formation	108.5	4.5	-6.2	10.8	3.4	2.9
Final domestic demand	453.0	2.4	-5.8	6.0	4.1	1.8
Stockbuilding[1]	8.2	-0.5	-0.3	-0.3	0.0	0.0
Total domestic demand	461.1	1.9	-6.1	5.6	4.0	1.8
Exports of goods and services	382.0	2.0	-5.5	10.5	5.1	3.2
Imports of goods and services	383.1	1.6	-5.9	10.0	6.0	3.5
Net exports[1]	- 1.1	0.3	0.4	0.5	-0.7	-0.4
Memorandum items						
GDP deflator	_	1.8	1.3	3.3	2.3	1.8
Harmonised index of consumer prices	_	1.2	0.4	2.9	3.3	2.1
Harmonised index of core inflation[2]	_	1.5	1.4	1.1	1.8	2.1
Unemployment rate (% of labour force)	_	5.4	5.6	6.3	6.6	6.4
Household saving ratio, net (% of disposable income)	_	6.1	15.5	11.2	5.6	4.3
General government financial balance (% of GDP)	_	-1.9	-9.1	-8.1	-4.8	-5.0
General government gross debt (% of GDP)	_	120.4	141.5	140.5	140.0	141.9
General government debt, Maastricht definition[3] (% of GDP)	_	97.7	112.8	111.7	111.3	113.1
Current account balance (% of GDP)	_	0.2	0.8	0.4	-0.6	0.1

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.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/cvdl7p

Support measures are unwinding

The extension of temporary unemployment for employees and replacement income for the self-employed is set to expire at the end of 2021. Moratoria on both loans and government claims (social security contributions and value added tax) ended in June, while the suspension of bankruptcy proceedings was lifted in January. Large pandemic-related spending has increased Maastricht public debt from 97.7% of GDP in 2019 to 112.8% of GDP in 2020, with around EUR 14 billion of support measures in 2021 (2.8% of GDP) and EUR 2 billion budgeted for 2022, down from around EUR 21 billion in 2020. Subordinated debt and guarantees amount to around 2.5% of GDP in 2021. The national recovery and resilience plan includes EUR 5.9 billion (1.2% of GDP) of Next Generation EU grants, overwhelmingly earmarked for green (building renovation and transport infrastructure) and digital investment, with two thirds of the total planned to be absorbed over the period 2021-23. The supplementary investment allowance is also planned to be restricted to green and digital assets beyond 2022.

Domestic demand is set to drive growth

GDP surpassed its pre-pandemic level in the third quarter of 2021 and is projected to expand by 3.2% in 2022 before growth stabilises at 1.4% in 2023. Private consumption is expected to drive growth in 2022, with the household saving ratio normalising and the economy fully open, but will moderate in 2023. Business investment is also projected to grow robustly given high demand prospects, rising capacity

utilisation and low interest rates. While public consumption is expected to recede due to lower COVID-related spending on support measures and healthcare, public investment is set to increase as the national recovery plan is rolled out. Net exports are projected to damp GDP growth. Unemployment is expected to peak at 6.6% in 2022 as hours worked rise and job retention measures are unwound, before falling in 2023. The high inflation rate in late 2021 is projected to carry over through 2022 before receding in 2023, as the contributions of supply chain bottlenecks and energy prices subside. An export boost from higher-than-expected growth in Belgium's main trading partners is an upside risk, but risks are generally on the downside. A worsening of the sanitary situation would necessitate partial restrictions on non-essential economic activities. Limited cross-border migration, and increasing labour demand related to recovery plans and the reconstruction of flood-affected areas, could worsen labour and skill shortages in key sectors such as construction and IT services. Energy price pressures are building up and are expected to trigger a further 2% automatic wage indexation in early 2022, adding to the 2% automatic indexation in the last quarter of 2021 and creating the risk of labour cost inflation over the projection period.

Facilitating reallocation will be key

More effective lifelong learning, such as the planned personalisation of training allowances, is necessary to support workers as job retention policies are unwound. While planned reforms to boost labour market transitions and facilitate activation across regional borders are welcome, further action and enhanced active labour market policies targeted on vulnerable groups are needed to reach the authorities' ambitious employment targets by 2030. The execution of reforms to streamline regulations and support digitalisation as outlined in the national recovery plan will be key to increase productivity and potential growth. Expenditure-led adjustments, outlined in a medium-term fiscal adjustment strategy at each level of government, will be required once the recovery is firmly based in order to rebuild fiscal space to address future shocks and create room for supporting the low-carbon transition. Effective co-ordination of climate-related efforts across different levels of government and a credible long-term carbon pricing framework will be needed to achieve net-zero targets.

Brazil

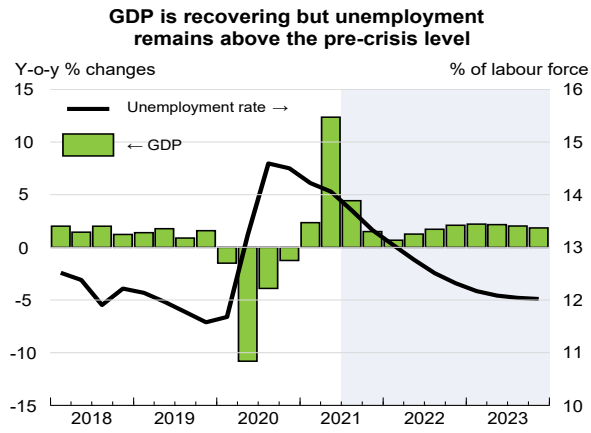
GDP growth is projected to reach 5% in 2021, but to slow down to 1.4% in 2022 and 2.1% in 2023. The vaccination campaign has accelerated and economic activity, underpinned by private consumption and investment, restarted as restrictions were lifted. Exports have benefited from the global recovery, the robust demand for commodities and a weak exchange rate. However, supply bottlenecks, lower purchasing power, higher interest rates and policy uncertainty have slowed the pace of recovery. The labour market is recovering with some delay and unemployment remains above pre-pandemic levels.

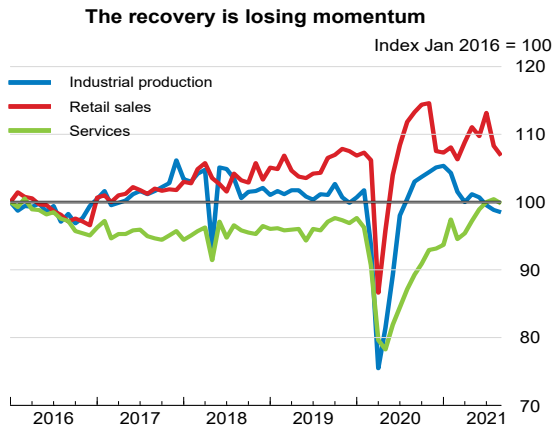
Inflation has risen significantly in recent months, prompting the central bank to increase policy rates from 2% to 7.75%. Continued tightening of monetary policy is projected over 2022 to curb inflation dynamics and to keep inflation expectations anchored. Fiscal reforms can also play an important role in containing inflationary pressures. Strengthened fiscal rules would increase market confidence about the government's commitment to keep sustainable finances. More efficient public spending would create fiscal space for growth-enhancing policies and a more inclusive social protection programme.

The pace of recovery is slowing

The vaccination campaign has accelerated significantly and over 60% of the population was fully immunised by mid-November 2021. At this pace, the entire adult population should be immunised by the end of the year. The occupancy rate in intensive care units fell to its lowest level since January 2021. The economy started to recover as mobility restrictions were lifted, driven by pent-up consumption and investment. Services, in particular, increased every month by 1.3% on average between April and August. However, supply bottlenecks are hampering the recovery of industrial production, which remains 3% below pre-pandemic levels. Accelerating inflation is damaging the recovery of wholesale trade, retail sales and services. Lower purchasing power and higher interest rates have interrupted the upturn in consumer and business confidence, slowing the recovery of domestic demand.

Brazil 1





Source: OECD Economic Outlook 110 database; IBGE; and OECD calculations.

StatLink https://stat.link/wl187d

Brazil: Demand, output and prices

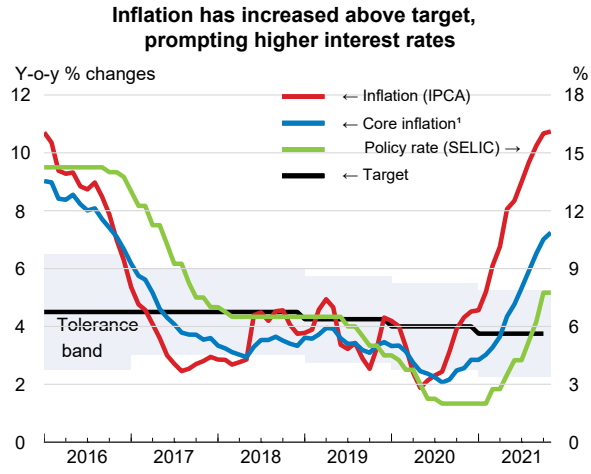
Brazil	2018	2019	2020	2021	2022	2023
	Current prices BRL billion	Percentage changes, volume (2000 prices)				
GDP at market prices	6 999.8	1.4	-4.4	5.0	1.4	2.1
Private consumption	4 520.9	2.2	-5.5	3.0	1.0	1.7
Government consumption	1 393.3	-0.4	-4.7	-0.1	0.9	0.4
Gross fixed capital formation	1 056.2	3.4	-0.7	16.5	-0.1	2.7
Final domestic demand	6 970.4	1.9	-4.6	4.5	0.8	1.6
Stockbuilding[1]	4.7	-0.1	-0.9	1.1	-0.3	0.0
Total domestic demand	6 975.1	1.7	-5.5	5.7	0.4	1.7
Exports of goods and services	1 022.2	-2.3	-2.3	12.2	5.8	3.4
Imports of goods and services	997.5	1.1	-10.4	16.9	1.1	1.6
Net exports[1]	24.8	-0.5	1.2	-0.6	1.0	0.5
Memorandum items						
GDP deflator	_	4.3	5.2	11.6	5.4	3.6
Consumer price index	_	3.7	3.2	7.8	5.1	3.5
Private consumption deflator	_	3.7	3.0	9.1	5.5	3.8
General government financial balance (% of GDP)	_	-5.8	-13.6	-7.8	-7.0	-6.5
Current account balance (% of GDP)	_	-3.5	-1.7	-0.5	-0.8	-0.7

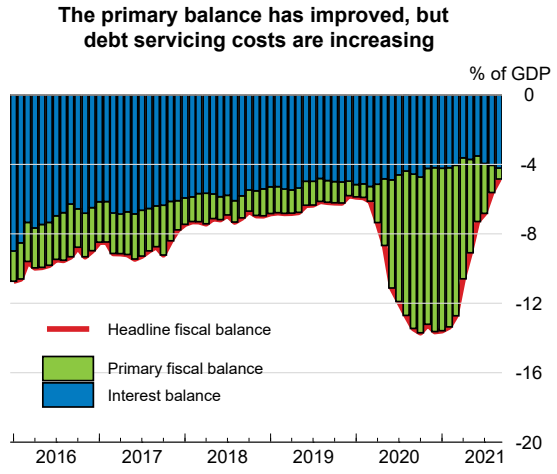
1. Contributions to changes in real GDP, actual amount in the first column.
Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/1hkeb0

Several factors are contributing to rising inflation. International commodity prices, and logistical and transportation costs have increased. Global demand is picking up, underpinned by fiscal stimulus in Brazil's main trade partners, while global value chain bottlenecks are holding up adjustments in supply and raising inflationary pressures in industrial goods. The hydric crisis is reducing water levels and contributing to higher domestic electricity prices, as two-thirds of the electricity supply relies on hydropower, and to food price inflation. Pent-up consumption, supported by generous government income transfers to the lowest-income households during the crisis, is pushing services inflation up. Policy uncertainty and increasing fiscal risk are also weighing on the exchange rate, raising imported inflation.

Brazil 2





1. Core inflation excludes energy and food products.
Source: OECD Economic Outlook 110 database; Central Bank of Brazil; and OECD calculations.

StatLink https://stat.link/2c0vbz

Fiscal risks have increased and the tightening of monetary policy has accelerated

In March 2021, Congress approved a new round of COVID-19 emergency support, not subject to the spending cap rule, worth 1.4% of GDP, consisting of cash transfers to poor households, employment support, credit incentives and health spending. The job preservation scheme ended in August and the emergency income support programme was withdrawn in October 2021. Fiscal consolidation has started at the end of 2021 and is assumed to continue during the projection period. Primary fiscal revenues have started to increase again as the economy recovers, also supported by higher inflation. The government has proposed a new, more generous, welfare programme, pending approval in Congress. To finance the new programme, the government suggested a tax reform that, among other changes, introduces a dividend tax. However, the tax reform is expected to, at least temporarily, lower fiscal revenues in 2022. Furthermore, judicial payment orders arising from debt owed by government entities to private individuals and non-financial companies, to pay damages, contractual differences or compensate for expropriations, have reached more than 1% of GDP. The government is planning to repay only part of that debt in 2022 and to postpone the remaining payments, raising uncertainty about its ability to respect the spending rule in the coming years.

The central bank has accelerated the pace of monetary policy tightening to contain rising inflation. The key interest rate stood at 2% in March 2021 and reached 7.75% in October. The central bank is expected to increase policy rates significantly in the near future. Monetary policy tightening and increased fiscal risks are pushing longer-term interest rates up and increasing debt servicing costs.

Growth will regain momentum as inflation falls and labour markets recover

The pace of recovery will regain momentum in 2022 as labour market outcomes continue to improve. Employment growth and slowly falling inflation, on the back of higher interest rates, will support households' disposable income and sustain private consumption growth. Private investment is also expected to recover towards the end of 2022 as global supply-chain bottlenecks vanish and business sentiment improves. Non-financial corporations' indebtedness is at record lows, suggesting that there is scope for credit expansion and further investment, despite tighter financial conditions. Exports will continue to benefit from the global recovery.

There are important downside risks to the forecast. The hydric crisis could last longer than expected and require electricity rationing, leading to persistent inflation and lower growth prospects. Prolonged political uncertainty and increasing fiscal risk could undermine the credibility of fiscal rules, de-anchoring inflation expectations and reducing investment growth. Weaker than expected growth in China could damage the performance of exports. On the upside, if the hydric crisis ends soon, global supply bottlenecks vanish sooner than expected and high commodity prices are sustained for longer, the pace of recovery could accelerate more than projected.

Reforming the public finances would support the recovery and increase resilience

To finance policies that will increase potential growth while maintaining a sustainable fiscal position, the government needs to improve public spending efficiency. Mandatory spending items and indexation rules limit the government's ability to respond to shocks. Strengthening the medium-term fiscal framework, including subnational finances, would boost market confidence and private investment, while keeping debt servicing costs down. Fiscal reforms should be accompanied by labour and product market reforms. Social protection programmes should be redesigned to increase incentives for formal employment and make growth more inclusive. More competition-friendly regulation would boost productivity, export competitiveness and living standards. Policies that promote environmentally sustainable activities would increase resilience to climate-related shocks. Environmental considerations should be more systematically integrated into public policies, including land-use planning. Subsidies for polluting activities, such as fossil fuel and pesticides production, should be progressively scaled down. The capacity of agencies in charge of monitoring and enforcing environmental laws should be strengthened.

Bulgaria

The economy is projected to grow by 3¼ per cent in 2021 and to accelerate in 2022-23 with GDP growth ranging between 4¼ and 4½ per cent. The renewed dynamism of exports, the strength of investments supported by significant EU funds and the robust momentum of private consumption should stimulate activity. Inflation is rising sharply due to the surge in energy prices and the tightening of the labour market, and is expected to see its underlying level reach 2¼ per cent in 2023, the highest rate since 2010.

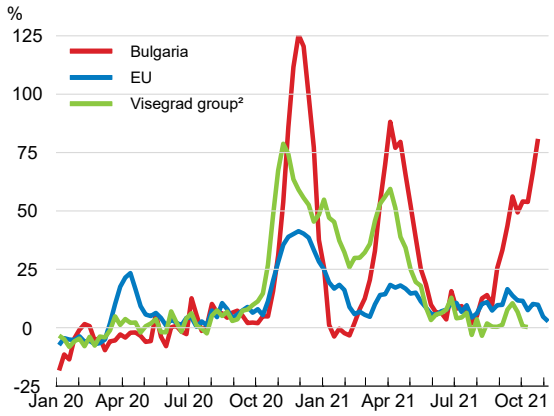
Speeding up vaccination, which is progressing only slowly, is essential to limit the risk that a further expansion of the pandemic will lead to new containment measures that would hamper the recovery. Effective management and use of the EU funds received by Bulgaria has a key role to play in sustaining activity and boosting potential growth. Strengthening potential growth and the convergence process of the country also requires pursuing and deepening reforms to increase competition, modernise the administration and fight corruption.

Bulgaria faces a resurgence of the pandemic

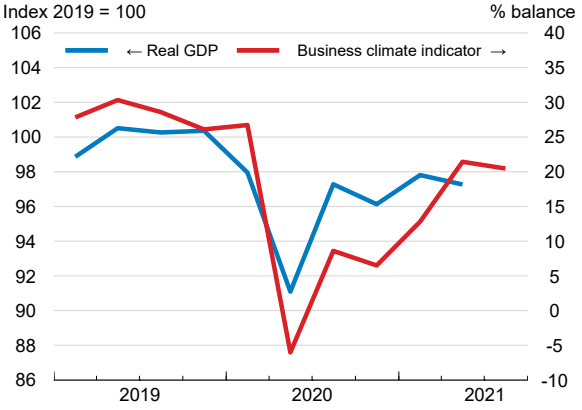
A fourth epidemic wave linked to the spread of the Delta variant has been hitting Bulgaria since the beginning of August 2021. With less than 25% of the population fully vaccinated as of 22 November this year, the lowest rate among EU countries, the increase in contamination is accompanied by a marked rebound in COVID-19-related mortality. To stem this new wave, the authorities reintroduced containment measures in early September. The use of a COVID-19 “green certificate” is mandatory for all indoor activities since 21 October. These include access to bars, restaurants, sports centres, cinemas and

Bulgaria

The COVID pandemic is on the rise again since August 2021
Excess mortality P-scores[1]



The recovery has slowed since end-2020



1. P-scores show how the number of weekly deaths in 2020-21 differs as a percentage from the average number of deaths in the same period over the years 2015-19. Comparisons across countries are affected by differences in the frequency of testing and completeness of death reporting.
2. Average of Czech Republic, Hungary, Poland and Slovak Republic.
Source: OECD Economic Outlook 110 database; Our World in Data; and National Statistical Institute.

StatLink https://stat.link/idfq3l

Bulgaria: Demand, output and prices

Bulgaria	2018	2019	2020	2021	2022	2023
	Current prices BGN billion	Percentage changes, volume (2015 prices)				
GDP at market prices	110.0	4.0	-4.4	3.2	4.2	4.5
Private consumption	65.8	6.0	-0.4	7.0	4.0	3.9
Government consumption	18.0	2.0	8.3	3.0	3.0	1.4
Gross fixed capital formation	20.6	4.5	0.6	-5.5	11.7	13.0
Final domestic demand	104.5	5.0	1.3	3.3	5.2	5.1
Stockbuilding[1]	2.7	0.0	-1.2	-0.3	-0.3	0.0
Total domestic demand	107.2	4.9	0.0	2.7	4.8	5.1
Exports of goods and services	72.2	4.0	-12.1	10.6	5.5	5.4
Imports of goods and services	69.4	5.2	-5.4	10.8	6.2	6.4
Net exports[1]	2.8	-0.7	-4.4	0.0	-0.4	-0.7
Memorandum items						
GDP deflator	_	5.2	4.2	4.7	3.6	3.5
Consumer price index	_	3.1	1.7	3.0	4.8	2.3
Core consumer price index[2]	_	1.8	1.2	1.0	1.6	2.2
Unemployment rate (% of labour force)	_	4.2	5.1	5.5	5.1	4.7
Household saving ratio, net (% of disposable income)	_	2.0	7.1	2.9	1.1	0.9
General government financial balance (% of GDP)	_	2.1	-4.1	-5.7	-5.0	-3.9
General government gross debt (% of GDP)	_	30.3	36.2	41.7	46.0	49.0
General government debt, Maastricht definition[3] (% of GDP)	_	20.0	24.7	30.2	34.5	37.4
Current account balance (% of GDP)	_	1.9	-0.3	-0.2	-1.1	-1.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/87zp1h

theatres. This pass is also compulsory for hospital and nursing home staff. The persistence of uncertainties on the health situation but also on political prospects, with three legislative elections having taken place this year, has weighed on business confidence and investment. Consumption, on the other hand, recovered with the improvement of the labour market and consumer confidence, which however has weakened at the end of 2021. Following the sharp rise in energy prices and the tight labour market, inflation reached 6% year-on-year in October 2021.

Fiscal support to the economy will not jeopardise the health of public finances

Given the evolution of the pandemic, the authorities have expanded fiscal measures to support the economy and the public deficit is expected to widen to around 5¾ per cent of GDP in 2021. Most notably, in September, the wage subsidy scheme to protect jobs and help businesses was extended. The budgetary expenditures required to deal with the pandemic should gradually moderate in 2022 and especially 2023 on the assumption of a marked improvement in vaccination coverage. In contrast, public investments will increase substantially in 2022 and 2023 due to the support of Next Generation EU grants, which should total around 10% of GDP during the period 2021-26. These grants being budget balance neutral, the fiscal deficit should gradually shrink, which will limit the rise in government debt to below 40% of GDP by 2023 (according to the Maastricht definition).

Economic recovery is set to strengthen

Supported initially by a rebound in exports in a more favourable external context, output growth should gradually benefit from more dynamic domestic demand from spring 2022 to reach 4¼ per cent in 2022 and 4½ per cent in 2023. Private consumption and investment are expected to gain strength as political and health uncertainties dissipate. The decline in unemployment is expected to continue, with wage increases leading to a gradual rise in underlying inflation to 2¼ per cent in 2023, while headline inflation will accelerate in late 2021 and early 2022 due to the surge in energy prices. However, the risks surrounding these projections are substantial. On the downside, they relate to a decline in confidence if it proves again not possible to reach a government agreement between political parties following the November elections. The vaccination rate, which is assumed to result in a lasting improvement in the health situation from the first quarter of 2022 in the projections, could also remain low. On the other hand, economic prospects could be brighter if the EU funds made available to Bulgaria are used more quickly than expected to build infrastructure, with a positive effect on investment.

Accelerating vaccination should be the priority

Stronger incentives appear necessary to rapidly expand the coverage of immunisation given the high vaccine hesitancy in the population. From this perspective, the introduction of the COVID-19 “green certificate” will probably have beneficial effects, as in other EU countries. Following the November elections, cooperation between the elected political parties will also be important to ensure effective planning of EU funds’ use, boost productivity and accelerate the country's convergence process through an ambitious reform programme to increase competition, reduce administrative bureaucracy and fight corruption. Anti-corruption institutions should in particular be provided with the necessary responsibilities, co-ordination mechanisms and resources to fulfil their role. The authorities should also progressively remove public support for fossil fuels and redirect these funds to invest in renewables and to compensate poorer households for temporarily higher electricity prices during the transition.

Canada

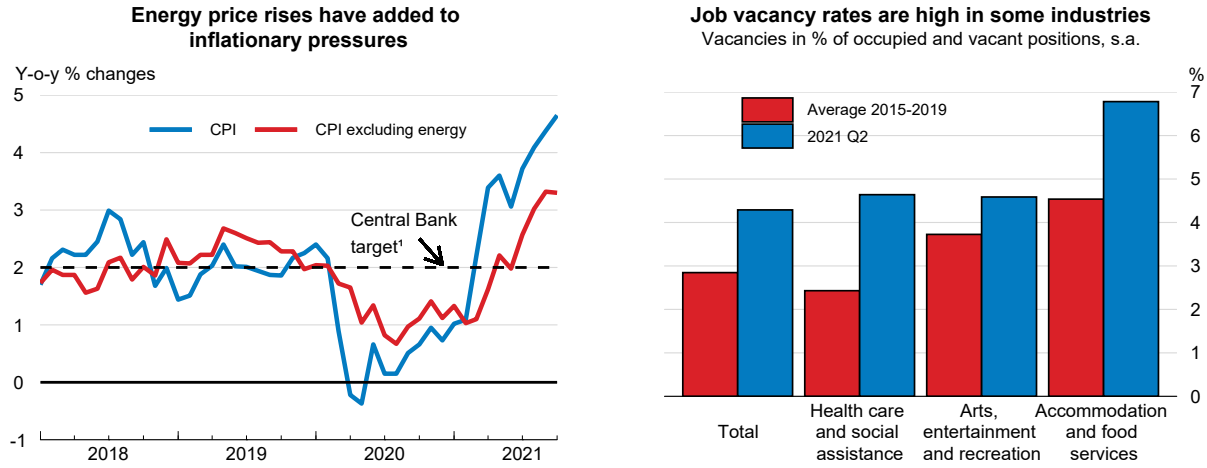
Supply-chain disruptions have slowed but not arrested Canada's economic recovery. With a fourth wave of infections receding, output is projected to surpass pre-pandemic levels by the end of 2021 and grow faster than trend at 3.9% in 2022 and 2.8% in 2023. Inflation is projected to moderate as production bottlenecks clear, before strengthening again as unemployment falls. More persistent supply constraints could, however, mean that inflation stays higher for longer and delay a projected acceleration in trade and consumer spending.

Monetary support should start to be withdrawn as remaining spare capacity in the economy is absorbed. Underlying price pressures and financial imbalances need to be closely monitored. Budget deficits will decrease over the next two years as improved business conditions enable a gradual withdrawal of pandemic support. The public debt burden should be reduced in the medium term to rebuild fiscal space for future shocks. Measures to improve housing affordability and childcare support are appropriately on the social policy agenda. Improvements to insolvency processes would support a strong business sector recovery.

The recovery is back on track despite supply constraints

A fourth wave of infections peaked in September, delaying economic re-opening plans in some provinces. But case numbers have since fallen, enabling further lifting of containment measures. The United States has also reopened its northern border to vaccinated Canadians. Data on trade and household consumption have revealed the significant effect of larger-than-anticipated disruptions to the manufacture and supply of durable goods, including motor vehicles. Cooling housing market activity has also been tempering growth in domestic expenditure. Residential construction remains at high levels, but has declined from a peak registered during lockdown conditions in April. With these drags on growth, industry output data suggest the recovery resumed in the third quarter, but at a modest pace. Firms surveyed in the Bank of Canada's Business Outlook Survey continue to anticipate strengthening sales notwithstanding supply-side constraints. Disruption due to recent flooding in British Columbia risks exacerbating bottlenecks in some sectors.

Canada 1



1. The Central Bank target is the mid-point of the Bank of Canada's target range for consumer price inflation of 1 to 3%.
Source: Statistics Canada; and OECD calculations.

StatLink https://stat.link/u2h3j5

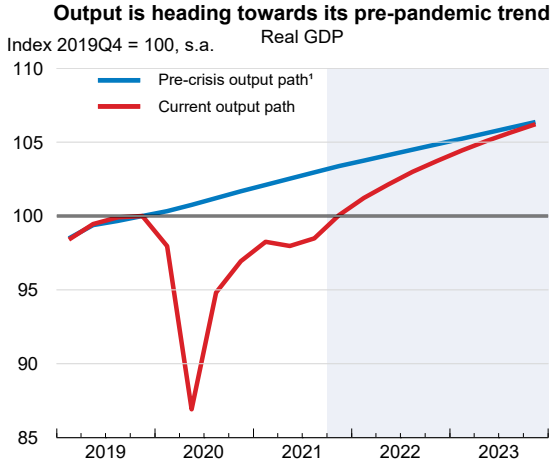
Canada: Demand, output and prices

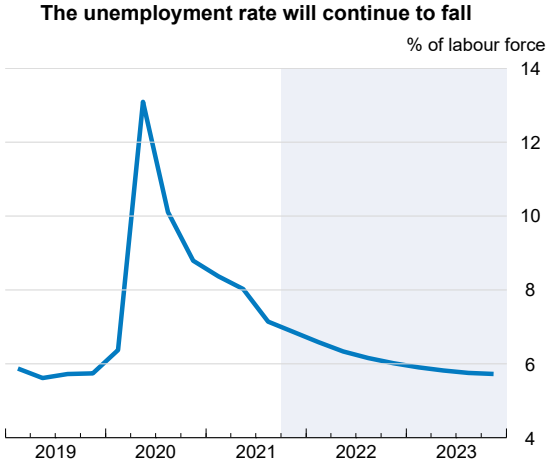
Canada	2018	2019	2020	2021	2022	2023
	Current prices CAD billion	Percentage changes, volume (2012 prices)				
GDP at market prices	2 231.2	1.9	-5.3	4.8	3.9	2.8
Private consumption	1 292.8	1.7	-5.9	4.3	6.3	4.4
Government consumption	462.4	2.0	-0.3	5.7	1.7	1.1
Gross fixed capital formation	503.4	0.3	-3.7	7.5	0.3	1.3
Final domestic demand	2 258.5	1.4	-4.3	5.3	3.9	3.0
Stockbuilding[1]	14.8	0.2	-1.6	1.1	0.3	0.0
Total domestic demand	2 273.4	1.6	-5.9	6.4	4.2	3.0
Exports of goods and services	721.7	1.3	-10.0	1.3	3.5	2.6
Imports of goods and services	763.9	0.4	-11.2	6.9	5.0	3.7
Net exports[1]	- 42.2	0.3	0.5	-1.8	-0.4	-0.3
Memorandum items						
GDP deflator	_	1.7	0.8	7.4	2.8	1.9
Consumer price index	_	2.0	0.7	3.3	3.3	2.1
Core consumer price index[2]	_	2.1	1.1	2.4	3.0	2.1
Unemployment rate (% of labour force)	_	5.7	9.5	7.6	6.3	5.8
Household saving ratio, net (% of disposable income)	_	1.4	14.5	11.9	6.0	3.2
General government financial balance (% of GDP)	_	0.5	-10.9	-5.4	-1.6	-0.5
General government gross debt (% of GDP)	_	92.7	126.6	118.4	118.1	117.4
Current account balance (% of GDP)	_	-2.1	-1.8	0.3	0.0	-0.4

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 110 database.

StatLink https://stat.link/qalek4

Canada 2





1. The pre-crisis output path is based on the November 2019 OECD Economic Outlook projection, with linear extrapolation for 2022 and 2023 based on trend growth in 2021.
Source: OECD Economic Outlook 106 and 110 databases.

StatLink https://stat.link/duxm5o

Hiring has picked up, consistent with expectations of strengthening demand. Employment is above pre-pandemic levels and labour force participation has increased. However, many of those employed are still working reduced hours – total hours worked are below levels in February 2020. Moreover, the unemployment rate remains elevated and over a quarter of those unemployed have been out of work for half a year or more (up from 16% before the pandemic). Meanwhile, labour shortages have emerged in some industries, partly ascribed to reluctance of workers to return to some service-sector jobs. Job vacancy rates are particularly high in household services, with reports of employers increasing pay offers to entice new hires. Energy price increases, while boosting income from commodity exports, are adding to price pressures elsewhere. Supply-chain bottlenecks have coincided with strong demand for durable goods, disruption due to extreme weather in British Columbia, as well as increased housing and food prices. The consumer price index rose by 4.7% year-on-year in October. However, long-term inflation expectations remain anchored and economy-wide wage pressures are moderate.

Federal support to households and businesses has been extended

Demand remains supported by considerable monetary and fiscal policy stimulus. The Bank of Canada is holding-off on raising the policy rate from its current level of 0.25% until spare capacity in the economy has been absorbed, which it now expects to occur in mid-2022. The bank has, however, already ended its asset-purchase programme, ceasing to add further monetary stimulus since October; yields on long-term government securities remain above the levels at the start of the year. The projections envisage four policy rate rises by the end of 2023, totalling 100 basis points.

Pandemic support measures are being re-targeted. Major wage and rent support schemes for businesses have been replaced with programmes aimed at the tourism and hospitality sectors and firms hardest hit by the pandemic. The timeframe for individuals submitting new claims for the Canada Recovery Benefit expired in October. However, a new programme (the Canada Worker Lockdown Benefit) will support individuals unable to work due to future lockdowns. Projected declines in the fiscal deficit in 2022 and 2023 are premised on further withdrawal of pandemic support through to May next year. A medium-term strategy will need to be set for rebuilding fiscal space for future shocks. Scheduled increases in the national minimum price on carbon of CAD 10 per tonne in 2022 and CAD 15 per tonne in 2023 are expected to have a small positive effect on consumer price inflation. Proceeds from the federal carbon pricing system are returned to households and businesses to compensate for cost increases.

Easing supply constraints will unlock pent-up demand

After faltering over the summer, the economic recovery is projected to gather pace going into 2022. International supply-chain disruptions have been more pervasive and persistent than previously anticipated. A gradual clearing of bottlenecks will enable a further release of pent-up domestic demand, in particular from households with significant savings accumulated during the pandemic. Strong household consumption and increased business investment will more than offset a moderation in housing investment from the high levels seen earlier in the year. Goods exports will expand as manufacturers of automobiles and parts ramp up production, with strengthening world demand further supporting growth. The reopening of the border with the United States will spur the recovery in tourism and related services. Strong output growth will support increased labour demand and help pull unemployment down towards pre-pandemic levels. Inflation should ease as energy price pressures abate and supply bottlenecks are resolved through 2022.

The potential for future outbreaks and more contagious variants of COVID-19 remains a risk to the economic outlook. However, with a high vaccination rate, Canada is better prepared than many other countries to withstand such pressures without re-imposition of strict lockdowns. Improving confidence and labour market conditions could see households spend more than expected, digging into stores of wealth built up earlier in the pandemic. In contrast, significant risks are posed by disruptions to international goods trade. Longer plant shutdowns and shipping delays could bring stronger price increases and impede a recovery in household consumption and trade volumes.

Reforms could facilitate resource reallocation and business sector recovery

Economic re-opening, and reduced pressure on hard-hit sectors, will enable the federal government to further taper emergency support to businesses and households. This will be important for reallocating resources to growing firms and to ease worker shortages. Funding should, however, be maintained for skills training and re-employment assistance for individuals losing jobs, to reduce time spent unemployed. The government is committed to expanding childcare support, which will encourage employment, and measures to alleviate housing costs for low-income households. Work remains to be done to improve outcomes for indigenous people, including through enhancing self-determination. Progress on lowering inter-provincial trade barriers and improving insolvency processes should be prioritised to improve the business environment. Following through with planned increases in federal carbon pricing and taxation will be essential to reduce greenhouse gas emissions, backed with continued support for investment in green technologies.

Chile

The Chilean economy is growing strongly, fuelled by a rapid vaccine rollout, a large fiscal stimulus, high commodity prices and the short-term impact of extraordinary pension fund withdrawals on consumption. GDP growth is expected to reach 12% in 2021 and slow towards 2% in 2023, as monetary and fiscal policies tighten. Inflation has risen amid buoyant domestic demand and supply bottlenecks, but is projected to slowly return to the target of 3% by early 2023.

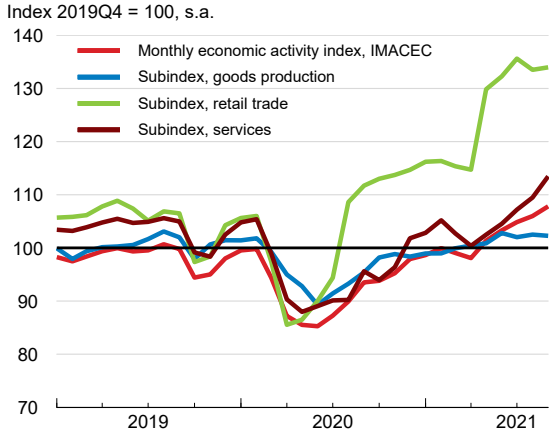
In the short term, the main challenge for macroeconomic policies will be to avoid overheating. The planned fiscal adjustment is appropriate. Focusing support on those firms and households that need it most would go in this direction, but a reform to raise higher public revenues is needed to accommodate higher social spending needs. Monetary policy tightening, which has started, should continue to reach a neutral stance in early-2022 to ensure that inflation returns to target. Strengthening access to quality education, life-long learning and job search support would help to address increases in inequality and foster a stronger recovery of employment.

Demand is expanding vigorously while inflation has increased

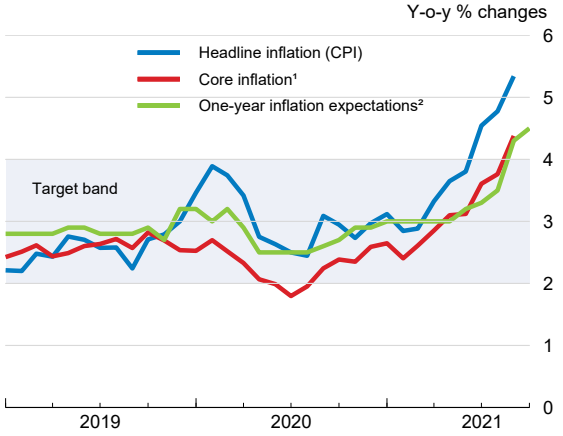
One of the fastest vaccination rollouts in the world has substantially reduced COVID-19 cases and deaths, allowing an almost full reopening of the economy. Household consumption is thriving on the back of strong fiscal support to households and continuous pension fund withdrawals. Economic activity recorded strong growth in the third quarter of 2021 with vigorous retail trade and services growth. Short-run business confidence has risen significantly supporting investment, especially in machinery, in a context of strong demand and reopening of the economy. The strong increase in domestic demand led to an acceleration of headline and core consumer price inflation well beyond the central bank target of 3%. The peso depreciation and higher energy prices have added to inflationary pressures, and inflation expectations have started to rise. Wage pressures have emerged as firms are facing difficulties in hiring workers. The unemployment rate, at 8.4% in September, is almost 4 percentage points lower than a year ago. However, around a third of the jobs lost during the pandemic have yet to return, while labour force participation is well below pre-crisis levels.

Chile

Economic activity is growing strongly



Inflation has increased above the central bank target



1. Consumer Price Index (CPI) excluding energy and food products.
2. Inflation expectations are based on the Survey of Economic Expectations, which is a monthly survey of a group of academics, consultants and executives or advisors of financial institutions carried out by the Central Bank of Chile.
Source: OECD Economic Outlook 110 database; CEIC; the Central Bank of Chile; and INE.

StatLink https://stat.link/kc4nm2

Chile: Demand, output and prices

Chile	2018	2019	2020	2021	2022	2023
	Current prices CLP billion	Percentage changes, volume (2013 prices)				
GDP at market prices*	191 064.1	0.9	-6.0	12.0	3.5	2.0
Private consumption	121 614.2	1.1	-7.6	21.1	7.4	1.5
Government consumption	27 459.0	0.0	-3.7	10.2	1.4	1.1
Gross fixed capital formation	40 946.4	4.5	-11.7	17.2	6.7	1.5
Final domestic demand	190 019.5	1.7	-8.1	18.4	6.4	1.5
Stockbuilding[1]	1 649.1	-0.7	-1.3	3.0	-1.3	0.0
Total domestic demand	191 668.6	0.9	-9.4	21.5	4.9	1.4
Exports of goods and services	54 380.8	-2.5	-1.1	-1.2	2.7	4.3
Imports of goods and services	54 985.4	-2.4	-12.8	31.3	7.3	2.3
Net exports[1]	- 604.6	0.0	3.4	-8.6	-1.2	0.6
Memorandum items						
GDP deflator	_	1.9	8.3	8.3	5.1	3.1
Consumer price index	_	2.6	3.0	4.3	5.4	3.2
Private consumption deflator	_	1.0	3.3	4.7	4.9	3.1
Unemployment rate (% of labour force)	_	7.2	10.7	8.9	7.5	6.9
Central government financial balance (% of GDP)	_	-2.9	-7.3	-7.5	-4.6	-3.2
Current account balance (% of GDP)	_	-3.7	1.3	-4.1	-4.4	-3.6

* 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 110 database.

StatLink https://stat.link/yhmiw0

Policy stimulus is being withdrawn

Fiscal policy reacted vigorously to support households and firms during 2021, with overall measures reaching 8% of GDP, including a cash transfer reaching 80% of Chilean households. This support is expected to reduce poverty and inequality significantly. Fiscal consolidation will appropriately reduce the structural budget deficit from 11.5% of GDP this year to 3.9% in 2022 and by 1% of GDP per year starting in 2023, to stabilise debt around 40% of GDP. Rebuilding fiscal buffers and the need to increase spending in areas with longstanding challenges, such as education and training, social protection, and public infrastructure will require gradual and permanent increases in public revenues. The Central Bank of Chile has raised the policy rate by 225 basis points this year, to 2.75% in October, and should continue raising rates to reach a neutral level by early-2022.

Economic growth will moderate

Economic growth has been driven by buoyant private consumption in 2021 on the back of fiscal expansion, pension fund withdrawals and loosened mobility restrictions. High copper prices and measures to accelerate private investment projects have boosted fixed investment. Without reforms to enhance productivity, growth will slow over 2022 and 2023 as fiscal support and the savings and liquidity accumulated from the pension fund withdrawals fade, financial conditions tighten and high uncertainty depresses investment. Employment is projected to continue recovering at a slower pace with pre-pandemic levels regained only in early-2023. Inflation will converge to the 3% target early in 2023 as domestic activity decelerates. Downside risks to the outlook include more persistent inflation and overheating of the economy. The outcome of the constitutional process and the presidential elections at end-2021 are sources of uncertainty. A stronger-than-expected adjustment in China's construction sector could lower

copper prices and exports. A fourth wave of extraordinary withdrawals from pension funds would further reduce already low old-age pensions, increase inequality and require pension funds to liquidate assets, further reducing the saving rate and exacerbating already observed negative effects on financial stability. Moreover, the short-term demand boost will exacerbate the overheating of the economy. Upside risks to growth include a faster resolution of international supply bottlenecks and further materialisation of pent-up demand.

Policies to boost long-term growth are needed

Reducing high inequality and strengthening economic resilience and growth will require a comprehensive reform agenda. Long-term growth would benefit from streamlining complex regulatory procedures to expose firms to competition, innovation and digital tools. Strengthening public employment services, unemployment benefits and the training system would support workers, particularly vulnerable ones, in finding quality jobs. Meeting the 2050 carbon-neutrality target will require sustained efforts to decarbonise the energy matrix and electrify transport. Planned reforms to raise pension benefits for low-income earners will promote inclusiveness, but a deeper reform of the pension system will be inevitable to address structurally low pension benefits and high public financing costs that have been aggravated by the pension fund withdrawals.

China

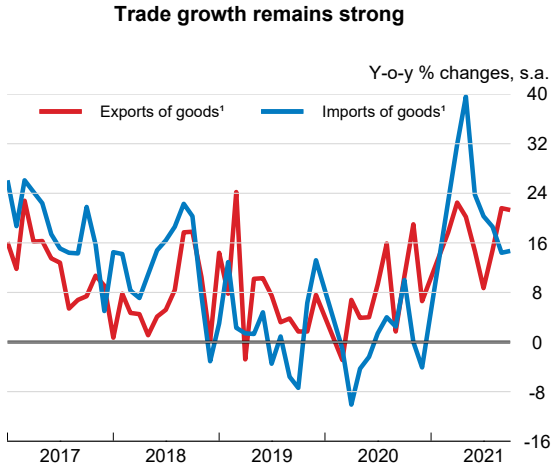
Economic growth will reach 8.1% this year as the economy rebounds, but will slow to 5.1% in 2022 and 2023. The swift recovery, driven by strong exports on the back of re-opening of overseas economies and robust investment, has stalled in the second half of the year. A large real estate company's default is shaking financial markets and confidence in the sector, thereby weakening real estate investment, an important engine of growth. Prospects for manufacturing investment have also worsened due to temporary power cuts in a large number of provinces. Consumption growth is stable, but adverse confidence effects coupled with inadequate social protection still hold it back. Consumer price inflation is low as there is only limited pass-through from surging prices in upstream industries.

Monetary policy will remain prudent, ensuring sufficient liquidity, but refraining from significant easing. Fiscal policy will consolidate further to meet fiscal rule targets. The rebound of economic activities and the phasing out of COVID-19-related tax exemption and reduction measures has resulted in buoyant revenues. Reining in anti-competitive practices may cause disruptions in service provision in the short term, but will lead to greater efficiency over time. Confidence would be enhanced by more systematic implementation of anti-trust regulations. The authorities should adhere to their commitment not to bail out failing private enterprises to sharpen risk pricing. On-going electricity shortages and power cuts should be used to accelerate the transition toward renewables as well as the adoption of cleaner technologies.

The number of cases is relatively low, but there is no rush to open borders

Strict measures remain in place to keep the spread of the virus under control and sporadic outbreaks are suppressed by stringent, localised lockdowns, mass testing and mass isolation measures. Inoculation targets have been met and as of end-October nearly 80% of the population is vaccinated. A new large-scale isolation centre is being built in Guangdong Province for overseas arrivals. However, with the preponderance of virus variants that are more contagious and more difficult to trace, and the disruption of supply chains due to restrictions, the zero tolerance policy is increasingly questioned. Given the rapid spread of new variants and the high share of asymptomatic carriers (partly owing to vaccination), border controls are unlikely to be an effective way to remain COVID-free in the longer run.

China 1



1. In nominal terms (CNY).
Source: CEIC.

StatLink https://stat.link/y291do

China: Demand, output and prices

China	2018	2019	2020	2021	2022	2023
	Current prices CNY trillion	Percentage changes, volume (2015 prices)				
GDP at market prices	91.9	6.0	2.3	8.1	5.1	5.1
Total domestic demand	91.3	5.9	1.9	6.3	4.8	5.1
Exports of goods and services	17.5	1.5	1.6	16.7	2.4	5.5
Imports of goods and services	17.0	0.4	-0.8	7.8	0.4	5.3
Net exports[1]	0.6	0.2	0.4	2.0	0.4	0.3
Memorandum items						
GDP deflator	_	1.2	0.7	3.8	1.9	1.4
Consumer price index	_	2.9	2.5	0.8	1.7	2.4
General government financial balance[2] (% of GDP)	_	-3.7	-6.9	-6.4	-6.0	-6.1
Headline government financial balance[3] (% of GDP)	_	-2.8	-3.7	-3.1	-3.0	-3.2
Current account balance (% of GDP)	_	0.7	1.9	1.7	1.5	1.5

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 110 database.

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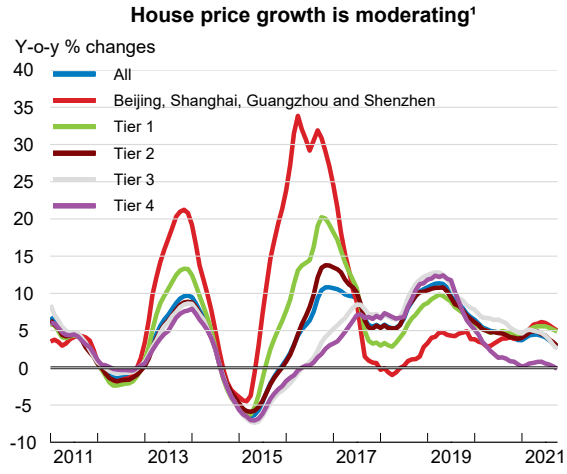
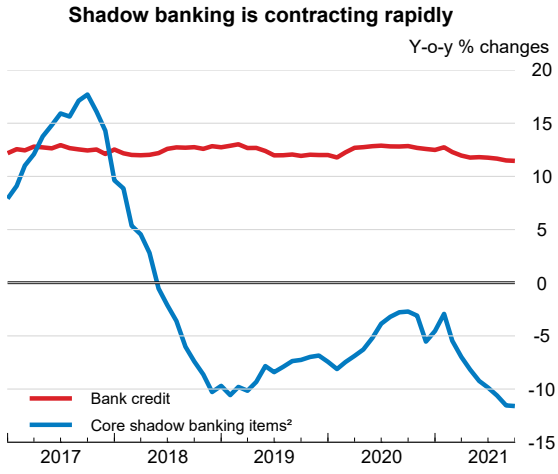
China 2





1. Tier 1 comprises 17 cities, Tier 2 22, Tier 3 21 and Tier 4 10 cities.
2. Core shadow banking items include entrusted loans, trusted loans and undiscounted bankers' acceptance.
Source: CEIC.

StatLink https://stat.link/ifpv6g

Growth in the third quarter was 4.9% year-on-year (0.2% quarter-on-quarter) following very high rates in the preceding quarters. Industrial output slowed due to stringent implementation of environmental targets and power cuts spreading across over half of the provinces, but the services sector recovery continued to gain momentum. Export growth remained strong as overseas economies continued to rebound, although it was affected by COVID-19-related port closures. Investment growth is slowing as some of its key components such as real estate and infrastructure investment have weakened. The stringent regulations to rein in real estate investment (the so-called three red lines related to financial ratios as well as caps on real estate lending by bank type) and deflate the bubble that was forming tightened liquidity conditions for property companies and even pushed some large ones to default on their debt. 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 remain neutral and fiscal support will become more targeted

Monetary policy is assumed to remain neutral, avoiding large-scale easing, but replenishing liquidity as needed. The benchmark interest rate has remained unchanged for over a year and other rates are also relatively stable. Credit events in the property market have tightened borrowing conditions not only for companies in the sector but also for other high-risk borrowers. This has led to a slight increase in informal interest rates, which reflect credit risk for smaller private companies. As the share of unsold properties reached the highest level in thirteen years, many cities adopted stimulus measures such as lump-sum or per-square-metre subsidies for first-time buyers, tax reductions, or broadening the definition of eligible home buyers. Orderly bond defaults will help to sharpen risk pricing and gradually remove implicit guarantees. Corporate debt has stabilised at a very high level of nearly 160% of GDP. Deleveraging should thus continue. 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 in the coming couple of years as the recovery is solid in most sectors. Some support measures will remain in place, however. For instance, debt moratoria are being extended on a case-by-case basis and firms hit by the crisis can 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 by 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.

Growth is returning to its pre-pandemic gradually slowing path

Growth in 2021 will be strong, but will return to the gradually slowing pre-pandemic path thereafter. Infrastructure investment will pick up as the issuance of special bonds accelerates and as projects are frontloaded. This will make up for some of the lower investment in real estate. Further acceleration of corporate defaults will improve risk pricing, but may adversely affect banks, trust companies, and other private and institutional investors. Sporadic virus outbreaks will continue, constraining consumption. In any case, for a sustainable pick-up in consumption, the social protection net needs to be strengthened. CPI inflation will be somewhat higher due to the very low base and some pass-through from producer prices, but will remain under the target.

The sanitary situation remains a downside risk as sporadic outbreaks continue even with very high rates of inoculation. The lack of mutual recognition of vaccination certificates prevents the reopening of borders. Continued credit events and disorderly deleveraging in the overstretched property sector may trigger failures of smaller banks and shadow banking institutions. In contrast, relaxing prudential measures and

encouraging investment in real estate may fuel the bubble and subsequently cause greater disruptions. Relaxing environmental regulations to address electricity shortages would boost production in the short run, but would make it more difficult to meet longer-term environmental objectives. Trade disputes with multiple countries imply risks to trade and supply chains, though new tariff exclusions on bilateral tariffs imposed earlier by the United States could boost exports.

Turning crisis into an opportunity to initiate key reforms

The COVID-19 crisis should be used as an opportunity to initiate fundamental reforms to enhance competition. This includes easing restrictions on the entry and conduct of private and foreign enterprises as well as phasing out the privileges of state-owned firms and public entities, in particular implicit government guarantees. Administrative monopolies, which are mostly manifest in exclusive rights to provide certain goods and services, should be dismantled to allow for competition. Stronger consumer protection could also boost competitive pressures. The creation of a level playing field and adherence to competitive neutrality should be done in a coherent and systematic way to avoid uncertainty and adverse confidence effects stemming from campaign-style implementation of regulations. 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 spending on new technologies to decarbonise industrial processes, which would work towards achieving climate goals. Furthermore, on-going power shortages should accelerate the transition to renewables. As renewables production has become sustainable and subsidies are being phased out, more funds should be channelled to support the transition to zero net emissions.

Colombia

After surpassing its pre-crisis level in the third quarter of 2021, GDP is projected to grow by 5.5% in 2022 and 3.1% in 2023. Private consumption is the main driver of the recovery as employment picks up, although at a slower pace than economic activity. Vaccine coverage has made significant progress, but is trailing behind regional peers. Strong commodity prices and improving prospects in key trading partners will continue to underpin exports.

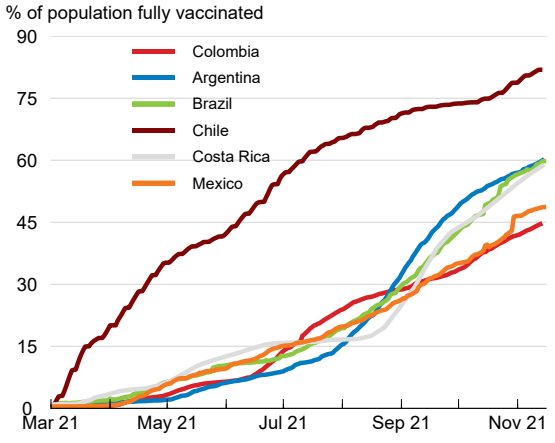
Fiscal policy will provide continuous support to vulnerable households during 2022, while spending reductions in other areas will usher in a gradual fiscal adjustment that is set to intensify in 2023. A recent fiscal reform has laid the ground for this adjustment, but stabilising public debt will require additional efforts. Addressing long-standing challenges like low tax revenues, low tax progressivity and low coverage of social benefits could ensure a more inclusive recovery. Amid rising inflation, monetary policy has appropriately started to withdraw some of the previous stimulus.

After a peak in COVID-19 infections in July, the recovery has gathered pace

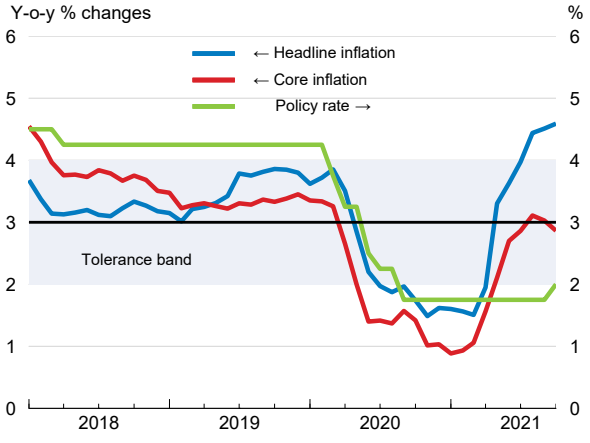
The most virulent infectious wave of COVID-19 hit Colombia in July 2021. Since then, case numbers have fallen massively and many distancing measures have been relaxed. Progress in vaccination has been steady, but is trailing behind regional peers. Following a temporary setback amid widespread social unrest in April and May of 2021, consumer confidence has picked up visibly in the second half of the year, while investment continues to be supported by infrastructure programmes. GDP expanded by 5.7% quarter-on-quarter in the third quarter of 2021. Employment has recently started to reflect improvements in activity and 95% of employment losses that occurred during the pandemic have now been recovered. Salaries in retail and manufacturing now exceed pre-pandemic levels. Commodity prices and external demand have been favourable, supporting exports, including beyond natural resources. Against this background, headline consumer price inflation has risen and exceeds the tolerance band around the 3% inflation target. Core consumer price inflation, by contrast, is below target and inflation expectations remain well anchored. Wage growth in the manufacturing and retail sectors has exceeded inflation.

Colombia

Progress in vaccination is lagging behind regional peers



Rising inflation has triggered monetary tightening



Source: Center for Systems Science and Engineering at Johns Hopkins University; DANE; and BRC.

StatLink https://stat.link/dht7nw

Colombia: Demand, output and prices

Colombia	2018	2019	2020	2021	2022	2023
	Current prices COP trillion	Percentage changes, volume (2015 prices)				
GDP at market prices	987.8	3.3	-6.8	9.5	5.5	3.1
Private consumption	672.9	3.9	-5.6	13.6	5.6	3.8
Government consumption	152.3	5.3	3.7	13.2	6.2	-1.4
Gross fixed capital formation	209.7	3.1	-20.6	8.3	4.6	6.5
Final domestic demand	1 034.9	4.0	-7.1	12.8	5.5	3.4
Stockbuilding[1]	- 0.3	0.2	0.0	0.6	0.3	0.0
Total domestic demand	1 034.6	4.1	-7.2	13.0	6.6	3.3
Exports of goods and services	157.1	3.1	-18.3	11.5	10.9	6.9
Imports of goods and services	203.8	7.3	-17.3	27.7	10.6	6.0
Net exports[1]	- 46.8	-1.0	0.8	-4.0	-0.8	-0.3
Memorandum items						
GDP deflator	_	4.0	1.4	7.3	6.1	3.4
Consumer price index	_	3.5	2.5	3.5	4.6	3.3
Core inflation index[2]	_	3.3	2.0	2.4	3.7	3.1
Unemployment rate (% of labour force)	_	10.5	15.9	13.8	11.9	10.8
Current account balance (% of GDP)	_	-4.6	-3.6	-5.0	-4.6	-4.7

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 110 database.

StatLink https://stat.link/l5zhvj

Policy stimulus is gradually being withdrawn

Monetary policy has reacted to rising inflation and started to withdraw some of the significant stimulus provided since the outbreak of the pandemic. This gradual normalisation towards a neutral policy stance is projected to continue, with the policy interest rate rising to 4% by 2023, although this projection is conditioned on assumptions that are subject to substantial uncertainty. Similarly, fiscal policy will need to move from unprecedented support to a gradual adjustment as the recovery strengthens in 2022. In line with a recent fiscal reform approved in September 2021, exceptional income support to vulnerable households will be maintained during 2022, while other spending areas are seeing significant consolidation, including public investment and administrative expenses. A previously planned reduction of high corporate taxes has been withdrawn. Improving fiscal outcomes will shore up confidence, after gross public debt has risen to 62% of GDP in 2021, up from 50% in 2019.

Growth will remain solid while labour market improvements will be slower

The current strong pace of the recovery is projected to ease over 2022 and 2023. Private consumption and investment will be the main drivers of growth, buoyed by fiscal support in the near term and underpinned by continuous improvements in confidence. External demand and oil prices will remain supportive, but financing conditions are gradually becoming less favourable. The labour market is projected to recover at a considerably slower pace, with pre-pandemic employment levels regained only in mid-2023. Based on current assumptions, inflation will be above the 3% target in 2021 and 2022, before converging back to target in 2023. Besides a potential emergence of new virus variants, risks surround the adherence to fiscal plans, given that a significant part of the planned fiscal adjustment will have to be implemented by the next administration. Unexpected events on international capital markets, possibly related to changing

financial conditions in advanced economies, could affect portfolio capital flows, which have been volatile in the recent past.

Addressing structural bottlenecks and improving equity will require deeper reforms

The pandemic has exacerbated previous challenges in poverty, inequality and labour market informality, while interrupting many children's education for up to 18 months. Healing these scars will require additional spending in social protection, health and education, which can be financed only with additional public revenues. This provides an opportunity for a deeper reform of the tax system and its widespread exemptions and special rates, most of which favour the better off. It can also be used to bolster fiscal sustainability and ensure compliance with the modified fiscal rule, which now contains a debt anchor. A significant overhaul of the fragmented pension system could increase coverage and reduce old-age poverty, while fragmented cash benefit programmes could be merged into a universal social safety net, building on recent advances in social registries. Improving incentives for formal job creation together with measures to reduce trade barriers and strengthen competition could facilitate necessary reallocation processes, supporting both productivity and equity. Deforestation, a major source of greenhouse gas emissions, could be reined in with stronger enforcement efforts and an expansion of rural land registries.

Costa Rica

GDP will grow by 3.9% in 2022 and 2.9% in 2023. Strong external demand will drive growth, with the tourism sector also gradually rebounding. Consumption will strengthen more gradually, supported by a progressive improvement in the labour market and accelerating vaccination. Private investment will rebound strongly, boosted by improved economic prospects. Inflation will increase gradually, but will likely stay below the 3% target rate as sizeable domestic spare capacity remains.

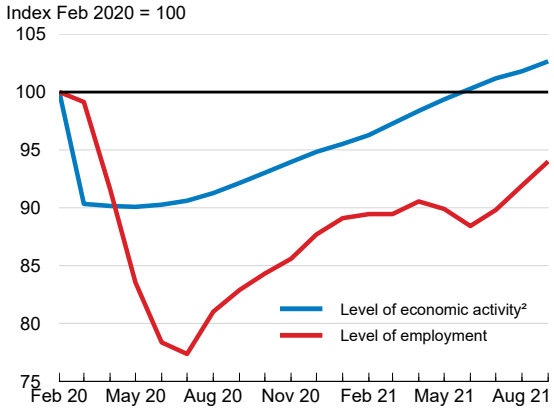
Fiscal policy should continue to reallocate spending towards social protection to support the recovery, while implementing the public employment reform and increasing fiscal revenues to ensure debt sustainability and improve public sector efficiency. Monetary policy should remain accommodative as long as inflation expectations remain well anchored and inflation remains below the target rate of the central bank. Phasing out remaining exemptions to the competition law would boost productivity and lower prices. Shifting part of the tax burden from social security contributions to property taxes and reducing the cost of setting up firms would boost formal job creation.

The employment recovery lags behind economic activity

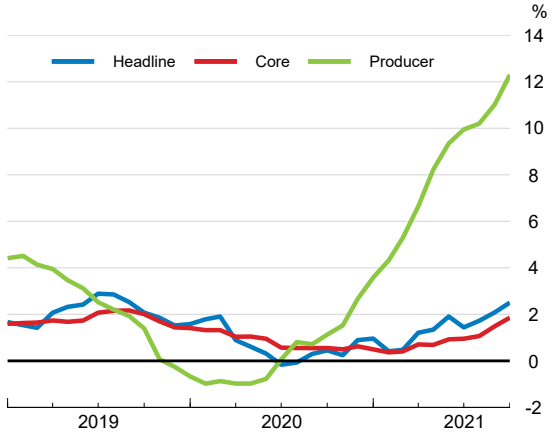
The recovery of economic activity is progressing fast and in September 2021 it was 2.6% above the pre-pandemic level, driven by strong external demand for manufacturing, business services and agricultural products, including activities in both the free trade zone (medical equipment, processed food) and the traditional sector (plastic and metal products). The increase in imported commodity prices, especially energy commodities, and a slight depreciation of the exchange rate have contributed to higher consumer price inflation, which reached 2.5% in October, above the low end of the inflation band target of the central bank (2-4%). Market expectations for inflation in 3 years and 5 years time remain well anchored, and wage pressures are contained.

Costa Rica

The recovery in employment lags behind that in economic activity[1]



Consumer price inflation pressures remain contained[3]



1. The horizontal black line indicates the pre-pandemic level (February 2020).
2. Economic activity is measured by the monthly index of economic activity (IMAE).
3. Headline, core and producer indicate, respectively, the headline consumer price inflation rate, the core consumer price inflation rate and the producer price inflation rate. The core consumer price inflation rate measures consumer price inflation excluding food and energy components.
Source: Banco Central de Costa Rica.

StatLink https://stat.link/ehg2wm

Costa Rica: Demand, output and prices

Costa Rica	2018	2019	2020	2021	2022	2023
	Current prices CRC trillion	Percentage changes, volume (2017 prices)				
GDP at market prices	36.0	2.3	-4.1	5.0	3.9	2.9
Private consumption	23.4	1.8	-4.8	3.1	3.5	3.4
Government consumption	5.8	5.3	0.7	0.3	1.0	0.0
Gross fixed capital formation	6.6	-6.5	0.7	9.4	8.6	3.1
Final domestic demand	35.8	0.8	-2.9	3.8	4.0	2.8
Stockbuilding[1]	0.1	0.4	-0.5	1.5	-0.7	0.0
Total domestic demand	35.8	1.3	-3.4	4.7	3.1	2.7
Exports of goods and services	12.2	3.1	-9.5	16.5	10.1	6.7
Imports of goods and services	12.0	0.1	-7.9	16.1	8.0	6.5
Net exports[1]	0.2	1.0	-0.7	0.4	0.9	0.2
Memorandum items						
GDP deflator	_	2.2	0.2	2.0	1.9	2.3
Consumer price index	_	2.1	0.7	1.6	2.4	2.6
Core inflation index[2]	_	2.7	1.3	0.8	2.0	2.6
Unemployment rate (% of labour force)	_	11.8	19.5	16.8	14.3	13.4
Current account balance (% of GDP)	_	-2.1	-2.3	-3.2	-2.6	-2.6

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 110 database.

StatLink https://stat.link/18prty

Two waves of contagions since April, the last one peaking in late September, have put hospital capacity under considerable pressure and slowed the reopening of the economy. This has particularly affected labour intensive sectors (hotels and restaurants, face-to-face services sectors), moderating the recovery in employment. The progress in the vaccine campaign, with just over 73% of the entire population having received at least one dose as of early November, should allow more restrictions to be lifted in the next months.

Public spending reallocations and low interest rates support the recovery

Despite limited fiscal space, Costa Rica is supporting the recovery by reorienting public spending towards health and social programmes. The fiscal situation has recently improved thanks to strong revenue performance and expenditure restraint in line with the fiscal rule. The projections assume that the public employment reform will be implemented and additional measures increasing fiscal revenues will be approved. However, planned measures to increase revenues remain unlegislated and they are key to meet the government's fiscal plan to achieve the primary surplus target of 1% of GDP by 2023 and put the public debt-to-GDP ratio on a downward path. Similarly, the approval of the public employment bill is critical to increase public spending efficiency and ensure that a higher share of public spending supports the most vulnerable. The central bank's credit facility programme, amounting to around 2.3% of GDP and aimed at providing liquidity to the private sector, was finalised last June. It has been almost entirely used to renew existing credits at lower interest rates, involving largely households and micro and small enterprises that received around 70% of the total amount. The central bank is also supporting the recovery by maintaining interest rates at historically low levels, and should continue to do so as long as inflation expectations remain well anchored and inflation remains below the 3% target. An independent central bank, focused on maintaining low and stable inflation, is vital to navigate potential episodes of uncertainty and financial volatility.

Domestic demand will strengthen gradually

Exports are driving growth, with domestic demand strengthening gradually as remaining economic restrictions are lifted in the first half of 2022 and the successful vaccination campaign progresses further. The gradual reactivation of tourism throughout 2022-23 will support the recovery in labour intensive sectors, improving employment. The public finances are expected to continue improving, with spending remaining contained, in line with the fiscal rule, and revenues benefiting from higher economic activity. However, political gridlock that delayed the approval of the additional fiscal measures underpinning government fiscal plans would hinder public debt sustainability, with potential negative repercussions on financial markets and the exchange rate. Inflation is projected to reach 2.4% in 2022 and 2.9% by end 2023, increasing gradually in accordance with the pace of recovery of domestic demand and labour market conditions, and as large idle domestic resources get slowly absorbed. The high degree of dollarisation of Costa Rica's economy exposes the country to risks associated with sharp exchange rate movements, which could stem from an unexpected tightening of global financial conditions. A higher-than-expected recovery in the tourism sector would boost exports and the labour market recovery.

Continuing reforms would strengthen the recovery

Continuing the implementation of the structural reforms initiated during the OECD accession process would strengthen the recovery and ensure that more Costa Ricans benefit from it. Reinforcing the childcare network would allow more women to access formal jobs and help reduce large educational inequalities. Strengthening the governance and performance of state-owned enterprises would benefit the economy as a whole, as they play a dominant role in many key sectors, such as electricity and banking. The high administrative burden to start a company could be reduced by establishing virtual one-stop shops, where all administrative requirements can be met at once and online. Phasing out remaining exemptions to the competition law would boost productivity and lower prices. Costa Rica is advancing in the implementation of the National Decarbonisation Plan that aims to achieve the goal of net-zero emissions by 2050. Initiatives undertaken include, among others, increasing the share of zero-emission vehicles in the public transport fleet and maintaining the 100% share of electricity produced from renewable sources.

Czech Republic

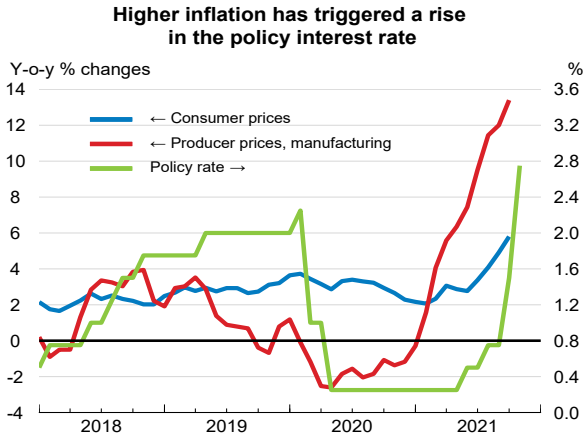
After contracting sharply in 2020, GDP is projected to grow by 2.5% and 3% in 2021 and 2022, respectively, and 3.9% in 2023. The removal of most containment measures amid steady progress with vaccinations will support a rebound in services and boost household consumption. Meanwhile, exports and manufacturing activity will face headwinds until mid-2022 due to supply bottlenecks. Unemployment will continue to fall and the labour market will tighten. Currently high inflation is expected to rise further in early 2022, but then subside toward the 2% target level by late 2023.

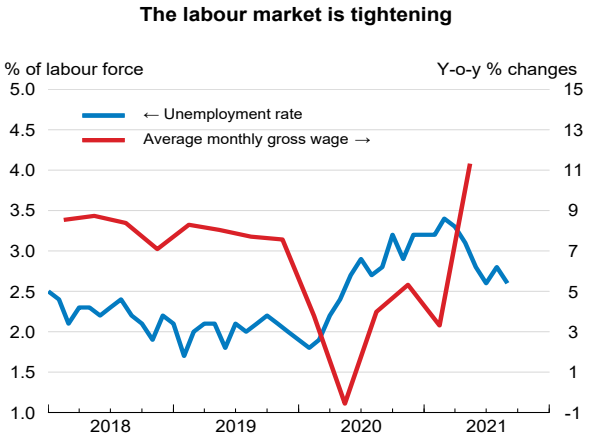
Faced with accelerating inflation and rising inflation expectations, the Czech National Bank began withdrawing monetary accommodation in June 2021. By end-November, it had raised the policy interest rate by 250 basis points in cumulative terms, to 2.75%. Rate rises are assumed to continue until the first quarter of 2022. The government deficit will rise further in 2021, due to the stimulus tax package and extended COVID-19 support. A gradual fiscal consolidation is planned thereafter. Bringing inactive people to work would ease emerging labour shortages and help the recovery.

The economy is recovering

The number of COVID-19 cases picked up rapidly in the autumn of 2021. 58% of the population had been fully vaccinated by mid-November, and progress with vaccination accelerated considerably after a marked slowdown over the summer. The removal of pandemic restrictions had boosted economic activity, notably in the services sector, but at the end of November 2021 some restrictions were introduced on the hospitality sector and gatherings. Household consumption growth is buoyed by recovering incomes. Meanwhile, the growth of manufacturing and exports has stalled due to bottlenecks in international supply chains. The latter, together with rapidly increasing demand, contributed to manufacturing producer prices growing 13.4% year-on-year in October 2021. Annual CPI inflation has risen markedly and stood at 5.8% in October, driven by rising costs of housing, transport, clothing and footwear and hospitality. Slowing activity and concerns about rising inflation have lowered economic sentiment. The unemployment rate has fallen from the peak of 3.3% in the first quarter of 2021, and average wage growth has picked up. There are signs that the Czech labour market is again facing labour shortages, most notably in construction but also in the reopened services sector and manufacturing.

Czech Republic





Source: OECD Main Economic Indicators database; Refinitiv; and OECD Short-term labour force statistics.

StatLink https://stat.link/239azg

Czech Republic: Demand, output and prices

Czech Republic	2018	2019	2020	2021	2022	2023
	Current prices CZK billion	Percentage changes, volume (2015 prices)				
GDP at market prices	5 416.2	3.0	-5.8	2.5	3.0	3.9
Private consumption	2 569.9	2.6	-6.8	4.9	6.7	2.3
Government consumption	1 048.9	2.5	3.4	2.3	1.6	1.0
Gross fixed capital formation	1 424.6	5.9	-7.2	3.0	7.4	3.2
Final domestic demand	5 043.4	3.5	-4.8	3.7	5.7	2.3
Stockbuilding[1]	48.2	-0.3	-0.8	3.0	0.0	0.0
Total domestic demand	5 091.6	3.1	-5.6	7.0	5.6	2.2
Exports of goods and services	4 172.9	1.4	-7.0	7.4	3.2	6.0
Imports of goods and services	3 848.3	1.5	-6.9	14.4	6.8	3.6
Net exports[1]	324.6	0.0	-0.5	-4.0	-2.4	1.7
Memorandum items						
GDP deflator	_	3.9	4.4	4.8	5.5	2.6
Consumer price index	_	2.8	3.2	3.8	6.1	2.3
Core inflation index[2]	_	2.5	3.6	4.8	5.2	2.1
Unemployment rate (% of labour force)	_	2.0	2.5	2.9	2.6	2.5
Household saving ratio, net (% of disposable income)	_	8.5	16.9	11.4	4.2	2.9
General government financial balance (% of GDP)	_	0.3	-5.6	-7.1	-4.8	-3.3
General government gross debt (% of GDP)	_	37.4	46.5	52.6	55.8	57.7
General government debt, Maastricht definition[3] (% of GDP)	_	30.0	37.7	43.8	47.0	48.9
Current account balance (% of GDP)	_	0.3	3.6	-0.9	-3.5	-1.9

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/5ue7ty

The Czech National Bank has tightened monetary policy

Most emergency support measures introduced in 2020 were extended into 2021, and fiscal policy has continued to be expansionary. Gradual fiscal consolidation is planned (and incorporated in our projections) from 2022 onwards, at 0.5% of GDP annually in structural terms. The recovery will also be supported by spending and investment financed from the Recovery and Resilience Facility. Given accelerating inflation and signs of de-anchoring of inflation expectations, the Czech National Bank (CNB) has started withdrawing monetary accommodation. It raised the policy interest rate from 0.25 to 2.75% between June and November 2021 and signalled further rises in the near future. The projections assume that the policy interest rate will plateau at 3.75% in the first half of 2022. In addition, the CNB decided to increase the countercyclical capital buffer rate for exposures located in the Czech Republic in incremental steps from 0.5% to 1% (effective from 1 July 2022) and then 1.5% (effective from 1 October 2022) and 2% from January 2023. It has also reintroduced limits on new mortgage loans (based on debt-to-income and debt service-to-income ratios).

The economy will continue its recovery

GDP will grow moderately until mid-2022, facing headwinds from supply bottlenecks and negative net exports. Growth will pick up thereafter. Investment momentum should stay strong as sentiment improves and government investment grows, financed by Next Generation EU funds. Household consumption will be boosted by spending from accumulated household savings. This will raise imports. Unemployment will fall further. Inflation will continue rising until the first half of 2022, as administered prices rise significantly, but then subside towards the 2% target by end-2023. Uncertainty remains high. Inflation could rise even more rapidly if inflation expectations de-anchor or if the exchange rate depreciates markedly. Manufacturing could be disrupted further by distortions to global supply chains, adversely affecting activity and putting further pressures on prices. On the upside, the current substantial government support and public investment could have a stronger positive impact and households may reduce their currently high saving ratio by more than assumed.

Policy support should be withdrawn gradually

After a period of very accommodative monetary policy, the CNB appropriately reacted to the rapid pick-up in consumer prices and concerns about inflation expectations. Monetary policy tightening, together with the reduction of temporary pressures from global commodity prices and supply constraints, will help steer inflation back to target. Macroprudential tools should also be used further if needed to counter risks in the housing market and help restore adequate buffers. On the fiscal side, a gradual consolidation 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, would help sustain 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

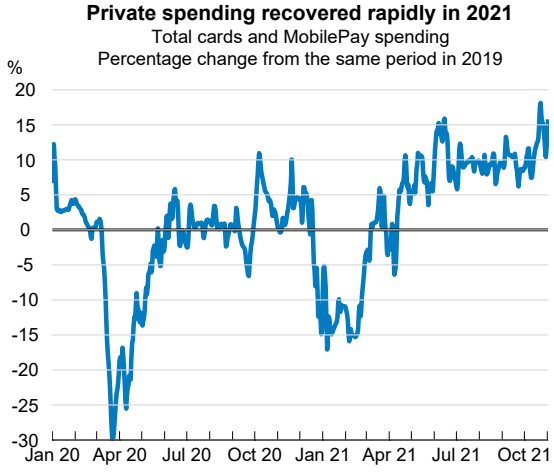
The Danish economy is recovering strongly from the COVID-19 crisis, with growth of 4.7% this year, projected to ease to 2.4% in 2022 and 1.7% in 2023. A rapid rebound in private consumption as the economy reopened from March saw GDP and employment exceed their pre-crisis levels in the second quarter of 2021. Further virus outbreaks are the major risk, but there are also upside risks to growth and inflation if households choose to spend excess savings accumulated during the crisis and labour shortages become more persistent.

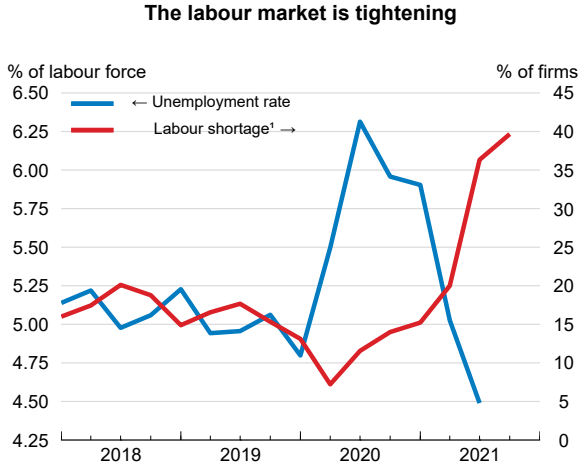
Exceptional fiscal support is being removed as the economy recovers, with DKK 4 billion (0.17% of GDP) set aside in 2022 for further COVID-19-related measures. The government should be ready to step in with more substantial targeted support if a deterioration of the health situation threatens the recovery, or to tighten macroeconomic policy in case of overheating. Further policy measures are under consideration and will be necessary for Denmark to meet its target to reduce greenhouse gas emissions by 70% by 2030 and to manage adverse outcomes for vulnerable households.

The recovery is well-established

A gradual reopening from March 2021 enabled an early rebound in household consumption, driving strong GDP growth of 2.8% in the second quarter and 2% in the third quarter. One of the highest vaccination rates in the OECD, with almost 90% of the adult population fully vaccinated, enabled the removal of all virus containment measures from the start of September. However, the vaccination rate is lower among younger adults and proof of vaccination or a recent negative test was again required for visits to restaurants, travel and large events from 12 November as case numbers rose. The rapid recovery has led to tightness in the labour market, with the unemployment rate falling below its pre-crisis level in July 2021 and a high share of businesses reporting labour shortages across a broad range of industries, including construction, manufacturing, hotels and restaurants. Private sector wage growth has picked up to just over 3%, slightly higher than before the crisis and reflecting some catch-up from postponed wage negotiations. Rapid energy price growth saw headline inflation also pick up to over 3% in October, while core inflation is still under 1.5%. The balance of consumer expectations of consumer prices over the 12 months from October was the highest since 1980.

Denmark





1. Simple average of the share of firms reporting labour shortages in manufacturing, construction and services.

Source: Danske Bank; OECD Economic Outlook 110 database; and Statistics Denmark, Statbank tables BAR03, KBYG33 and KBS2.

StatLink https://stat.link/omt5dg

Denmark: Demand, output and prices

Denmark	2018	2019	2020	2021	2022	2023
	Current prices DKK billion	Percentage changes, volume (2010 prices)				
GDP at market prices	2 253.6	2.9	-2.7	4.7	2.4	1.7
Private consumption	1 052.8	1.4	-1.9	3.3	3.7	1.7
Government consumption	546.7	1.2	-0.1	4.7	-0.3	0.5
Gross fixed capital formation	496.4	2.8	2.1	8.3	3.2	3.1
Final domestic demand	2 095.9	1.7	-0.5	4.9	2.5	1.7
Stockbuilding[1]	25.2	-0.3	-0.2	-0.3	0.2	0.0
Total domestic demand	2 121.1	1.4	-0.8	4.5	2.7	1.7
Exports of goods and services	1 268.6	5.0	-7.7	3.4	3.2	3.6
Imports of goods and services	1 136.1	2.4	-4.8	2.8	3.8	4.0
Net exports[1]	132.5	1.6	-2.1	0.5	-0.1	0.0
Memorandum items						
GDP deflator	_	0.7	2.3	1.4	1.6	2.3
Consumer price index	_	0.8	0.4	1.8	2.6	2.3
Core inflation index[2]	_	0.8	0.9	1.2	2.0	2.3
Unemployment rate (% of labour force)	_	5.0	5.6	4.9	4.2	4.2
Household saving ratio, net (% of disposable income)	_	3.6	5.8	5.7	3.8	3.7
General government financial balance (% of GDP)	_	4.0	-0.2	-1.5	0.3	0.8
General government gross debt (% of GDP)	_	48.1	58.8	56.4	55.0	54.6
General government debt, Maastricht definition[3] (% of GDP)	_	33.3	42.2	39.8	38.4	38.0
Current account balance (% of GDP)	_	8.7	8.2	7.6	7.7	7.7

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/8zoeyr

Exceptional support during the crisis has largely been withdrawn

Fiscal support helped Denmark weather the crisis through its job retention scheme, transfers to households and liquidity support for firms. The job retention scheme and access to interest-free loans finished in June 2021, with repayment of loans beginning from April 2022. The deficit in 2021 was amplified by one-off expenditure of around 0.7% of GDP to compensate the mink industry for mandated stock culls during 2020. The underlying primary balance is projected to improve by 0.3 percentage points of GDP in each of 2022 and 2023. The government's recovery plans include over DKK 10 billion in measures assessed to have positive environmental impacts, including tax deductions for emission-reducing investments by firms, support for energy renovations, green innovation and transportation, as well as measures to rehabilitate carbon-rich soils. Much of this is financed by EU grants for Denmark's recovery and resilience plan, 59% of which are allocated towards climate initiatives. Monetary policy became more expansionary from October 2021, with the current-account rate cut by 0.1 percentage points to -0.6% in order to maintain the peg to the Euro, and interest rates are projected to remain negative in line with European Central Bank policy rates.

Capacity use is set to tighten as the recovery continues

Accommodative monetary policy under the peg to the Euro and strong external demand as other economies recover will underpin a continuation of solid GDP growth. The rate of private consumption growth will slow as the recovery matures, with the household saving rate returning to around its pre-crisis level in 2023. The end of the immediate reopening bounce and the availability of a large number of workers temporarily employed in virus testing and vaccination is likely to ease immediate labour market pressures, as will increases in the retirement age. Employment is set to rise gradually along with wages, pushing core inflation above 2% in 2023. There are risks that overheating could see a tighter labour market and an acceleration of inflation, particularly if households reduce saving more rapidly and spend the savings accumulated during the crisis. On the downside, further virus outbreaks in Denmark and abroad could see another contraction in private consumption, investment and external demand.

Policies are needed to mitigate financial and climate risks

Tighter macroprudential regulations may be necessary to reduce macroeconomic and financial stability risks if a strong recovery combines with low interest rates to drive further asset price growth. Conversely, further virus outbreaks could require substantial additional targeted support to the worst affected households and firms. Denmark has made impressive progress in deploying renewable energy and reducing emissions without derailing economic growth or employment. However, more action is needed to meet Denmark's legal commitment to cut emissions by 70% by 2030, and managing the socioeconomic consequences of such a rapid transition will be challenging. Clear policy signals are needed to encourage private investment and innovation in clean technologies, along with measures to ensure a just transition for those adversely affected.

Estonia

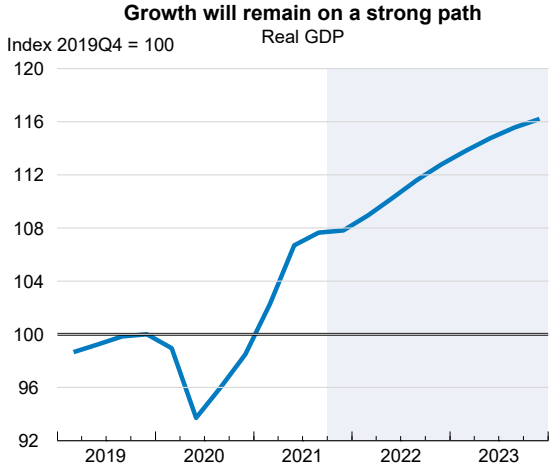
Despite the fast escalation of infections at the beginning of the year, GDP is projected to grow by 9.6% in 2021 and 4.5% in 2022, before slowing to 3.8% in 2023. Private consumption, driven by a gradual decline in the household saving ratio, the absorption of EU funds and investment will be the main drivers of growth. Inflation is expected to remain high in 2022.

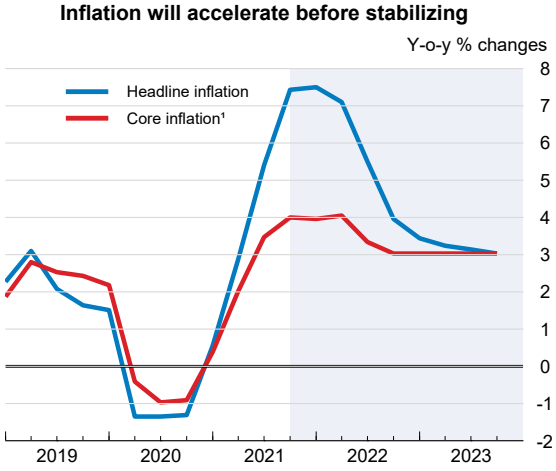
Given the notable strength of the recovery, policies should be tightened if inflation pressures and overheating continue. Fiscal support should be withdrawn more rapidly than planned if necessary, while rapid developments in the housing market should be monitored and macro-prudential policy instruments adjusted if prices diverge excessively from fundamentals. The recovery is also exposing some entrenched imbalances in the labour market, where the lack of suitable labour despite a substantially higher unemployment rate than before the pandemic underscores skill mismatches, putting pressure on wages and inflation. Strengthening upskilling and reskilling programmes in line with employers' needs will be key to addressing labour shortages.

An acute wave of contamination has not stopped the recovery

With a particularly strong wave of new COVID-19 cases at the beginning of the year, lockdown measures were put in place during the second quarter. Those were, however, mild, and roughly 75% of the economy was unaffected or affected only partially through supply chains. As a result, GDP grew at an annual rate of 8.5% in the first half of 2021 while wages grew by 12% and inflation reached 6.8% in October. Activity is now well above its pre-pandemic level and industrial enterprises' production and expectations have been at record-high levels since the summer. These trends are underpinned by the efficient rollout of the vaccination programme. As of November 2021, 70% of Estonia's eligible population was fully vaccinated, while the booster shot programme has started. Renewed contaminations in November have not prompted any significant new containment measures.

Estonia





1. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/9wt4vj

Estonia: Demand, output and prices

Estonia	2018	2019	2020	2021	2022	2023
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	25.8	4.0	-2.7	9.6	4.5	3.8
Private consumption	12.9	3.9	-2.5	6.9	5.4	2.8
Government consumption	5.0	3.1	3.1	3.5	1.1	0.8
Gross fixed capital formation	6.4	5.9	16.5	28.1	4.7	3.3
Final domestic demand	24.3	4.4	3.9	12.9	4.3	2.6
Stockbuilding[1]	0.8	-1.2	-1.0	3.8	0.4	0.0
Total domestic demand	25.1	3.0	2.2	16.3	4.7	2.6
Exports of goods and services	19.2	6.5	-5.0	15.3	7.7	5.3
Imports of goods and services	18.5	3.8	0.5	27.4	8.6	3.8
Net exports[1]	0.7	2.1	-4.1	-8.4	-1.3	1.0
Memorandum items						
GDP deflator	_	3.3	-0.5	1.7	4.7	3.6
Harmonised index of consumer prices	_	2.3	-0.6	4.1	6.0	3.2
Harmonised index of core inflation[2]	_	2.4	0.0	2.5	3.6	3.0
Unemployment rate (% of labour force)	_	4.4	6.8	6.2	5.4	5.3
Household saving ratio, net (% of disposable income)	_	8.7	11.9	10.2	7.2	5.8
General government financial balance (% of GDP)	_	0.1	-5.6	-6.4	-3.5	-2.3
General government gross debt (% of GDP)	_	13.6	24.8	33.4	37.8	40.6
General government debt, Maastricht definition[3] (% of GDP)	_	8.6	19.0	20.8	22.4	24.2
Current account balance (% of GDP)	_	2.5	-0.2	-6.9	-5.5	-2.1

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.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/9c0bjt

Effective economic support has helped mitigate social and economic impacts

The 2021 supplementary budget has provided further resources to cover the extraordinary additional COVID-19-related costs, notably the enlargement of testing and vaccinations capacities. The wage support scheme passed in 2020 and re-instated in 2021 was withdrawn in May amid the improved sanitary situation and the progress in the vaccination programme. Other measures such as excise tax cuts, tax incentives, and the deferral of tax debt have been maintained. However, they are assumed to fade out completely in 2022 and 2023 given the strength of the recovery. Due to the low take-up of financing support to businesses in 2020, the unused amounts have been carried over for 2021, but no plan has been announced to extend this support further.

The recovery is expected to continue but overheating is looming

Strong growth is expected to continue in 2022 before slowing in 2023. Thanks to the rollout of the vaccination programme and the perspective of a restrictions-free economy, GDP is projected to grow by 9.6% in 2021. In 2022 GDP growth will continue to be strong, supported by private consumption and the gradual decline in the saving rate from the peak achieved at the beginning of 2021, and by investment. The expected pick-up in EU fund absorption, as spending under the previous 2014-2020 financing cycle approaches its end in 2023, and future spending related to the EU Recovery and Resilience Facility, just under EUR 1bn, will also underpin growth in 2022. The use of savings in individual pension funds will also continue to sustain private consumption in 2022. However, these effects are expected to fade in 2023, with

GDP growth projected to slow down to 3.8%, with inflation easing to 3.2% once the situation in the labour market returns close to the pre-pandemic conditions. Estonia's positive outlook is subject to risks that are skewed to the upside. Virus mutation, or the lack thereof, further disruptions or recovery of supply chains, weaker or stronger-than-expected domestic and external demand, could all have negative or positive impacts on GDP growth. If euro area monetary policy remains very accommodative, a stronger-than-expected domestic recovery could reduce spare capacity and result in overheating, pushing up domestic inflation substantially.

Policies need to keep the economy in balance

Diverging economic conditions and inflation developments between Estonia and the euro area should be kept in check by withdrawing fiscal support and reducing spending more rapidly than announced if overheating and rapid inflation and wage developments continue. On the other hand, when justified, targeted fiscal support should be maintained if some hard-hit sectors, such as transport, tourism, culture and sports, are struggling to benefit from the recovery. Macro-prudential instruments, such as debt-to-income and loan-to-value ratios, should also be promptly adjusted if real-estate market prices continue to rise rapidly due to favourable financing conditions and the expected gradual withdrawal of deposits accumulated during the pandemic that could be used inthis market. Inflation and wage pressures could also be eased by addressing imbalances in the labour market. Stepping up the engagement of employers and trade unions in vocational education and training programmes, promoting pathways from these programs into higher levels of education, and creating specific training programmes, notably for those with inadequate skills, would allow low-skilled and displaced workers to strengthen their attachment to the labour market and benefit from the recovery, while alleviating labour shortages.

Euro area

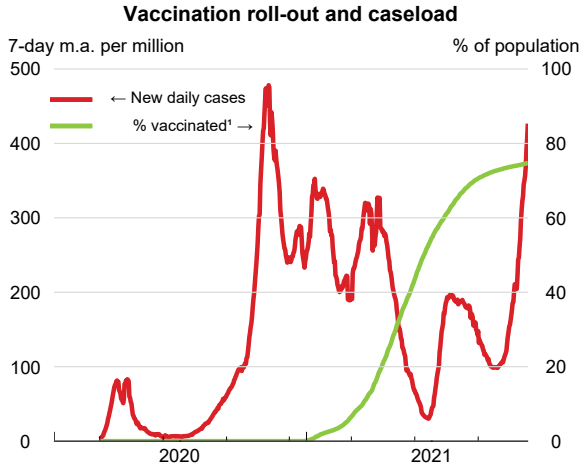
After a strong rebound in 2021 with GDP growth of 5.2%, as confinement measures were gradually lifted, economic activity in the euro area is projected to expand by 4.3% in 2022 and 2.5% in 2023. Growth will be supported by strong consumption, with households reducing their saving rate, and higher investments owing in part to national and European recovery plans. Unemployment is projected to decline to close to pre-crisis levels. With the rapid reopening of the economy, supply chain bottlenecks and the rebound in energy prices are pushing up inflation. Although inflation dynamics vary across the euro area, this is not expected to last, with inflation returning to levels below the ECB objective by the end of 2022.

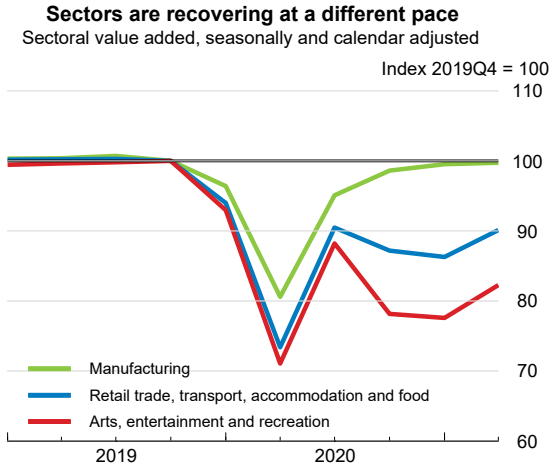
Monetary policy is set to remain largely accommodative even if the exceptional level of accommodation through the Pandemic Emergency Purchase Programme (PEPP) is expected to be gradually reduced. Likewise, while exceptional emergency fiscal measures are being reduced, the swift and effective implementation of recovery plans should support activity and potential growth by facilitating the sectoral reallocation towards a more digital and greener economy. The suspension of the fiscal rules until end-2022 should be an opportunity to revisit the European fiscal framework. The euro area should also upgrade its banking crisis management toolkit, notably by expanding the use of asset management companies and improving the single resolution mechanism.

Activity has rebounded sharply and created supply side bottlenecks

The vaccination rollout, which started in December 2020, has gathered pace across Europe, with about 75% of the EU population having received at least one dose of vaccine by mid-November. However, the vaccination rate ranges from under 25% (Bulgaria) to close to 90% (Portugal) and there are still concerning pockets of infection, in particular in Eastern Europe. While still varying across countries and over time, restrictions are returning in certain areas. While the earlier relaxation had allowed services sectors, recreation and international travel to be reopened, the latest epidemic developments have introduced some downside risks.

Euro area 1





1. Share of the population with at least one dose of vaccine received.
Source: Our World in Data; Eurostat; and OECD calculations.

StatLink https://stat.link/9mfj0q

Euro Area: Demand, output and prices

Euro area	2018	2019	2020	2021	2022	2023
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	11 571.0	1.6	-6.5	5.2	4.3	2.5
Private consumption	6 203.7	1.4	-8.0	3.5	5.9	2.4
Government consumption	2 364.5	1.8	1.2	3.6	1.1	0.7
Gross fixed capital formation	2 426.7	6.8	-7.4	4.1	5.0	3.8
Final domestic demand	10 994.8	2.7	-5.9	3.7	4.6	2.3
Stockbuilding[1]	108.5	-0.1	-0.4	0.4	-0.1	0.0
Total domestic demand	11 103.3	2.5	-6.2	4.0	4.4	2.3
Net exports[1]	467.7	-0.8	-0.4	1.4	0.1	0.3
Memorandum items						
GDP deflator	_	1.7	1.6	2.0	2.3	1.8
Harmonised index of consumer prices	_	1.2	0.3	2.4	2.7	1.8
Harmonised index of core inflation[2]	_	1.0	0.7	1.3	1.8	1.8
Unemployment rate (% of labour force)	_	7.6	7.9	7.7	7.2	7.0
Household saving ratio, net (% of disposable income)	_	7.2	13.8	11.1	6.9	6.1
General government financial balance (% of GDP)	_	-0.6	-7.2	-6.7	-3.8	-2.7
General government gross debt (% of GDP)	_	103.1	120.9	122.0	120.4	119.9
General government debt, Maastricht definition[3] (% of GDP)	_	85.5	99.5	100.6	99.0	98.5
Current account balance (% of GDP)	_	3.0	2.7	3.4	3.1	3.3

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.

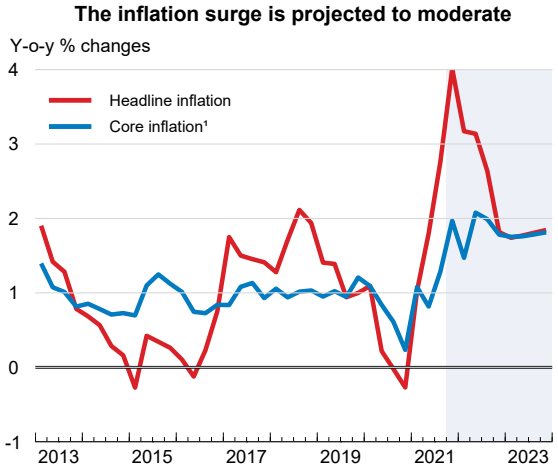
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

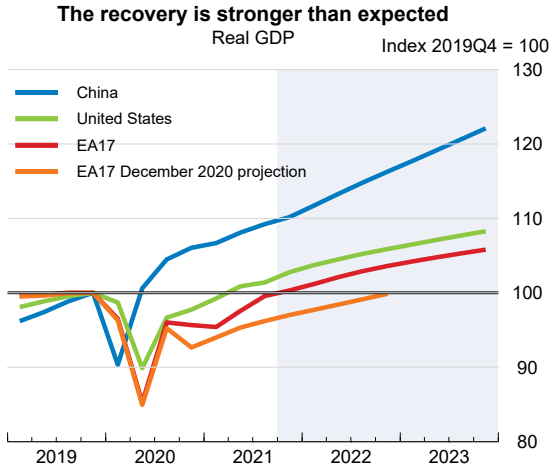
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/bhorad

Euro area 2





1. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

Source: OECD Economic Outlook 108 and 110 databases; and OECD calculations.

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Economic activity rebounded sharply in the first half of 2021, with growth remaining very dynamic in the third quarter. Private consumption, fuelled by pent-up demand and a rise in labour compensation, has been a key driver so far. This has helped to support the recovery in service sectors, following that in manufacturing. However, this rapid resumption of economic activity has now slowed due to a series of supply chain bottlenecks, particularly in the construction and transportation sectors. As a result, the manufacturing PMI has eased since its peak in the summer 2021. Bottlenecks, combined with a rise in energy prices, have also caused a surge in the annual rates of headline and core inflation, which reached 4.1% and 2% respectively in October 2021. While long-term inflation expectations have rebounded from their trough, they remain anchored below the ECB inflation target so far.

Fiscal and monetary policy shifts must be managed carefully

The ECB has maintained very favourable financing conditions for public and private borrowers through the crisis. Targeted and non-targeted longer-term refinancing operations and the expansion of its pandemic emergency purchase programme (PEPP) have played a critical role supporting the euro area recovery. Still, with net emergency purchases only set to run until March 2022, this will be an important policy shift and could increase the importance of the Public Sector Purchase Programme (PSPP). The new monetary policy strategy and forward guidance rightly raise the bar for policy normalisation and may in fact warrant a more flexible use of the PSPP programme, which could be extended until headline inflation is anticipated to stay durably at 2%. With inflation projected to return to levels below 2% by the end of 2022 and until the end of 2023, and given the global context of policy normalisation in other advanced economies, ECB policy will be central to prevent undue monetary tightening. Policy rates are assumed to remain unchanged in 2022 and 2023.

National fiscal policies have provided substantial support to activity in 2020 and 2021. On top of the operation of automatic stabilisers, governments provided discretionary stimulus above 2 percentage points of euro area GDP in 2021, but a gradual consolidation is expected in 2022 and 2023 as exceptional support measures are phased out. Member States will benefit from the implementation of national recovery plans, financed in part by EU grants and loans over the projection horizon. The medium-term fiscal outlook at the national level is in part contingent on the timing and conditions for the reinstatement of the Stability and Growth Pact.

After a strong rebound, growth will progressively return to potential

Growth is projected to be 5.2% in 2021 before gradually slowing to 4.3% in 2022 and 2.5% in 2023. Private consumption and investment will continue to benefit from the lifting of containment measures and buoyant household spending. In 2022, unemployment is projected to be at pre-pandemic levels and to fall below that in 2023 but, assuming the absence of sustained wage pressures, inflation is set to fall below 2% by the end of 2022. Activity will be further supported by strong export growth fuelled by the recovery in the rest of the world. This will bring the euro area current account surplus well above 3% of GDP as early as 2021.

Regarding risks to the outlook, the effectiveness of the vaccination campaign could be hampered by implementation challenges (third doses, vaccination reluctance) as well as the emergence of new variants. This could lead to renewed restriction measures. In this context, a hasty and generalised fiscal consolidation or a too rapid reduction in the pace of the asset purchase programmes by the ECB could slow the recovery and could potentially reignite sovereign debt tensions and, more generally, weaken the cohesion of the euro area and cyclical convergence across its member states. Finally, persistent supply bottlenecks could lead to higher-than-expected inflation and uncertainty about the recovery. Conversely, prompt and efficient deployment of national recovery and resilience plans, combined with an ambitious reform of the EU fiscal framework would bolster confidence, durably enhance growth and help Europe succeed in the green and digital transitions.

Economic policies should support sectoral resource reallocation

The need for policy support to encourage resource allocation across sectors and boost potential growth remains. Emergency fiscal policy support should become more targeted as the economy recovers. Public investment, especially for energy transition and digitalisation, including via research and innovation, is an essential policy lever to support economic transition. The Recovery and Resilience Facility (RRF) will be particularly important in that respect. 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.

In spite of the importance of the RRF, national fiscal policy will remain the main fiscal tool. The current uncertainty over the evolution of European fiscal rules is creating risks about the fiscal policy stance. The debate opened by the European Commission's communication on the reform of the fiscal framework is encouraging, but a consensus is yet to emerge. Before that, the Commission will have to consider how to reintroduce the Stability and Growth Pact without harming the recovery or undermining green investment needs.

Structural reforms should remain a central part of the European economic agenda. They are critical to the sustainability of the ongoing economic rebound and are needed to foster convergence. They should focus in particular on reforms related to education, digitalisation, and the environmental and energy transition, as well as the financial sector. For example, an upgraded crisis management framework, which allows faster restructuring of banks is needed. This calls for a new toolkit that may include Asset Management Companies, asset protection schemes, reforms to loan foreclosure procedures and support for the development of secondary markets for distressed debt.

Finland

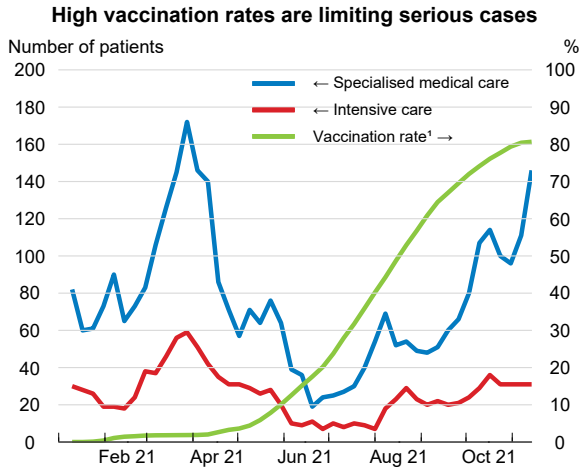
Economic growth is projected to slow from 3.5% in 2021 and 2.9% in 2022 to a more sustainable rate of 1.5% by 2023. Private consumption expenditure will slow as support from a declining saving rate diminishes and government expenditure will fall as COVID-19-related support terminates. The unemployment rate will fall below the pre-COVID-19 rate by 2022, but the inflation rate will remain considerably higher. The main downside risk to the outlook is that vaccination rates, booster shots for vulnerable groups and intensive-care-unit capacity do not turn out to be sufficient to avoid future containment measures.

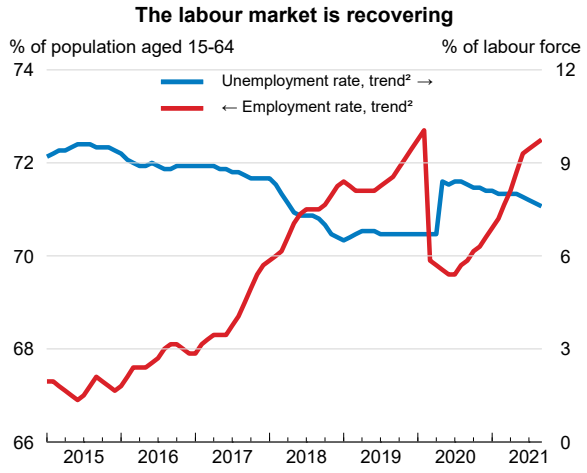
To increase the employment rate, incentives for early retirement on disability benefit should be removed and activation services strengthened. The transition between secondary and tertiary education should be eased to reduce skills shortages and increase productivity. To reduce greenhouse gas emissions, heat production using peat should be subject to the same tax regime as other fossil fuels used for heat production, whereas agricultural subsidies should be progressively replaced by subsidies for environmental benefits.

The economy has strongly rebounded from the COVID-19 shock

Following a strong rebound from the coronavirus shock, real GDP exceeded the pre-COVID-19 level by the second quarter of 2021 and continued to grow, albeit more slowly, in the third quarter. The fourth coronavirus wave has slowed growth since then, but the effect has been smaller than during past waves thanks to high vaccination rates. Retail sales growth has slowed in recent months, despite buoyant earnings and excess household savings. In contrast, housing starts remain strong and business investment is picking up. The employment rate and job vacancies have returned to pre-COVID-19 levels and the unemployment rate has fallen to 7½ per cent, one percentage point higher than before the pandemic. Nominal wages have accelerated, with a rise of 2.4% in the year to the third quarter. Consumer price inflation increased to 3.2% in the year to October, driven mainly by increases in housing-related costs and petrol and diesel prices. Consumer and industry confidence have increased to high levels.

Finland





1. Fully vaccinated, in per cent of population aged 12 or over.
2. Statistics Finland trend series, which are adjusted for both seasonal and random variation.
Source: Finnish Institute for Health and Welfare; and Statistics Finland.

StatLink https://stat.link/qpnhyz

Finland: Demand, output and prices

Finland	2018	2019	2020	2021	2022	2023
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	233.5	1.3	-2.9	3.5	2.9	1.5
Private consumption	123.9	0.7	-4.7	3.2	3.4	2.0
Government consumption	53.5	2.0	0.5	3.6	0.0	-1.4
Gross fixed capital formation	56.2	-1.6	-0.7	2.8	3.6	1.9
Final domestic demand	233.6	0.4	-2.5	3.2	2.6	1.1
Stockbuilding[1,2]	2.8	-0.8	-0.2	0.1	0.0	0.0
Total domestic demand	236.4	-0.1	-1.1	3.5	2.6	1.1
Exports of goods and services	89.8	6.8	-6.8	3.1	6.1	3.9
Imports of goods and services	92.7	2.3	-6.5	2.6	5.0	3.3
Net exports[1]	- 2.9	1.7	-0.1	0.2	0.4	0.2
Memorandum items						
GDP deflator	_	1.5	1.3	2.7	2.2	1.7
Harmonised index of consumer prices	_	1.1	0.4	1.9	1.9	1.8
Harmonised index of core inflation[3]	_	0.7	0.5	1.1	1.4	1.8
Unemployment rate (% of labour force)	_	6.7	7.8	7.7	6.6	6.3
Household saving ratio, net (% of disposable income)	_	0.6	4.8	3.2	1.7	1.2
General government financial balance (% of GDP)	_	-0.9	-5.5	-4.0	-2.2	-1.3
General government gross debt (% of GDP)	_	73.0	85.7	93.6	98.6	101.4
General government debt, Maastricht definition[4] (% of GDP)	_	59.5	69.5	77.4	82.4	85.2
Current account balance (% of GDP)	_	-0.3	0.8	-0.7	-0.1	0.1

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. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/w46tl9

The number of serious coronavirus cases has increased but remains lower than during the first half of the year. The vaccination rate reached 81% of the population aged 12 or over in mid-November, but is now increasing only slowly. The government announced in early September that its hybrid COVID-19 strategy with national restrictions and comprehensive recommendations would be waived when 80% of the target population had been vaccinated or had the opportunity to be vaccinated, in favour of regionally determined measures. The regional phasing out of restrictive measures started in late September.

Fiscal policy will tighten as COVID-19 measures unwind

Fiscal policy is set to tighten, with discretionary fiscal measures falling from 3.8% of GDP in 2020 to 0.7% of GDP in 2023 mostly owing to the termination of COVID-19 measures in 2021 and 2022 and of future-oriented investments and other temporary measures in 2023. The large increase in public investment that took place in 2020 will start to unwind in 2023 when a hospital construction and modernisation programme draws to a close and some transport infrastructure projects are completed. The underlying primary balance is projected to increase by 0.3 and 0.6 percentage points of GDP in 2022 and 2023, respectively. This takes account of grants from the EU Recovery and Resilience Facility of 0.2 percentage points of GDP in 2022 and 2023 that will be channelled to investment grants, subsidies, public consumption and investment. The temporary layoff scheme remains an important non-discretionary instrument to protect jobs in the event of a sharp downturn.

Economic growth will slow to more sustainable rates

Economic growth is projected to slow from 3.5% in 2021 to 1.5% in 2023 as the effects of the rebound from the COVID-19 shock fade. Consumption expenditure will slow as earnings growth weakens and, with household saving approaching desired levels, declines in the saving rate diminish. Government consumption and investment will fall as temporary increases to counter the COVID-19 shock terminate. The unemployment rate should fall to around 6¼ per cent in 2023 and wages should accelerate as the labour market tightens and workers get compensation for higher inflation, which is projected only to ease to 1.8% in 2023. The main downside risk to the outlook is that vaccination rates, booster shots for vulnerable groups and intensive-care-unit capacity would turn out not to be sufficient to avoid future containment measures. An upside risk is that the Recovery and Resilience Facility encourages more private investment than assumed.

Structural reforms would increase sustainable growth

To increase the employment rate towards rates in other Nordic countries, conditions for awarding disability benefit for persons aged 60 or over should be aligned with those for other applicants, and public employment service resources and efficiency enhanced. Easing the transition between secondary and tertiary education by reforming the highly selective tertiary education admission system and increasing the number of study places available would help to reduce skills shortages and increase productivity. To reduce greenhouse gas emissions in the burden-sharing sector efficiently, a comprehensive package of price and complementary measures should be implemented, including subjecting heat production using peat to the same tax regime as for other fossil fuels used for heat production and by progressively replacing agricultural subsidies with subsidies for environmental benefits.

France

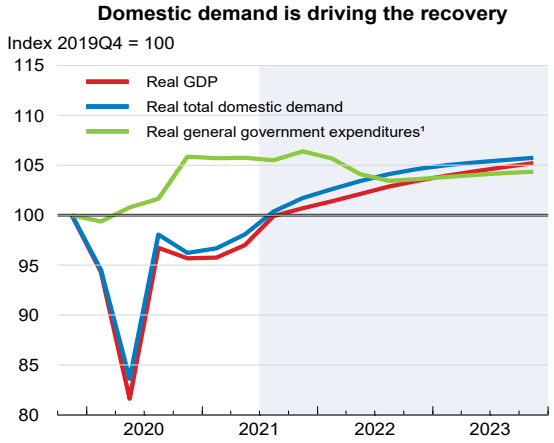
GDP is projected to rebound by 6.8% in 2021 before growth moderates to 4.2% in 2022 and 2.1% in 2023. Domestic demand will drive the recovery. Improved labour market outcomes will boost private consumption while the recovery and investment plans will support investment. Exports will gradually catch up as prospects in the aeronautic and tourism sectors improve. Headline inflation has reached a high level, but the temporary freeze of regulated energy prices will reduce the short-term impact of wholesale energy price rises, while persistent labour market slack should temporarily limit pressures for wage increases.

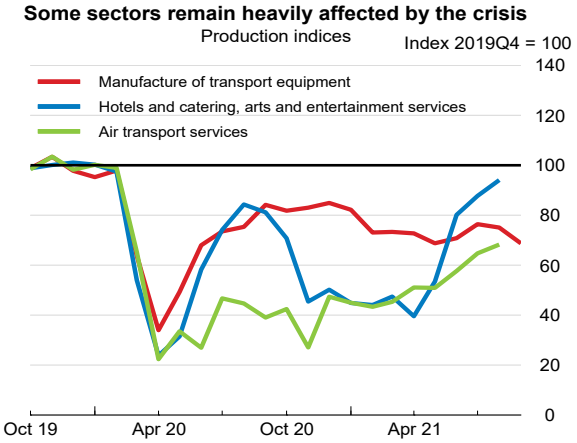
Fiscal support has become more targeted and should be reduced further as the recovery gains traction. A swift and efficient implementation of the ambitious recovery and investment plans would support more sustainable growth, notably through green investments. Enhancing the upskilling and reskilling programmes for workers and supporting the diffusion of digital skills among small firms are key to an inclusive recovery and long-term growth. A reform of the fiscal framework should ensure fiscal sustainability and improved expenditure efficiency through spending reviews and improved expenditure allocation.

Activity has rebounded strongly

Thanks to the acceleration of the vaccination campaign and the fall in COVID-19 cases, the authorities eased sanitary restrictions over the summer, allowing a strong rebound in activity. The level of domestic demand increased by 3.8% over the second and third quarters of 2021 and November's confidence indicators point to a sustained, albeit slowing, recovery. Despite large activity losses in some sectors (the automotive industry, tourism and transport services), new hires bounced back quickly. As a result, employment and the active population now exceed their pre-crisis levels. The share of workers on the job retention scheme has decreased further to below 3% of private sector employees in September, and job vacancies are historically high.

France 1





1. Deflated by the GDP deflator.
Source: OECD Economic Outlook 110 database; and Insee (2021), Industrial production index (IPI) and services production index (SPI).

StatLink https://stat.link/ho8kvg

France: Demand, output and prices

France	2018	2019	2020	2021	2022	2023
	Current prices EUR billion	Percentage changes, volume (2014 prices)				
GDP at market prices	2 364.6	1.8	-8.0	6.8	4.2	2.1
Private consumption	1 272.9	1.9	-7.2	4.8	6.8	2.3
Government consumption	550.0	1.0	-3.2	6.4	1.9	0.3
Gross fixed capital formation	541.7	4.1	-8.9	12.0	3.7	1.6
Final domestic demand	2 364.6	2.2	-6.7	6.8	4.9	1.6
Stockbuilding[1]	23.1	0.0	-0.2	-0.2	-0.3	0.0
Total domestic demand	2 387.7	2.1	-6.8	6.6	4.5	1.6
Exports of goods and services	751.1	1.5	-16.1	8.2	7.5	5.9
Imports of goods and services	774.2	2.4	-12.2	7.3	8.4	4.2
Net exports[1]	- 23.1	-0.3	-1.1	0.1	-0.4	0.4
Memorandum items						
GDP deflator	_	1.3	2.5	0.8	1.0	1.5
Harmonised index of consumer prices	_	1.3	0.5	2.1	2.3	1.4
Harmonised index of core inflation[2]	_	0.6	0.6	1.3	1.6	1.4
Unemployment rate[3] (% of labour force)	_	8.5	8.1	7.8	7.6	7.5
Household saving ratio, gross (% of disposable income)	_	14.7	21.0	19.0	14.7	13.9
General government financial balance (% of GDP)	_	-3.1	-9.1	-8.0	-4.9	-3.8
General government gross debt (% of GDP)	_	123.5	146.5	146.4	146.4	146.9
General government debt, Maastricht definition[4] (% of GDP)	_	97.4	115.1	115.1	115.1	115.6
Current account balance (% of GDP)	_	-0.3	-1.9	-1.0	-2.0	-1.6

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.
4. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 110 database.

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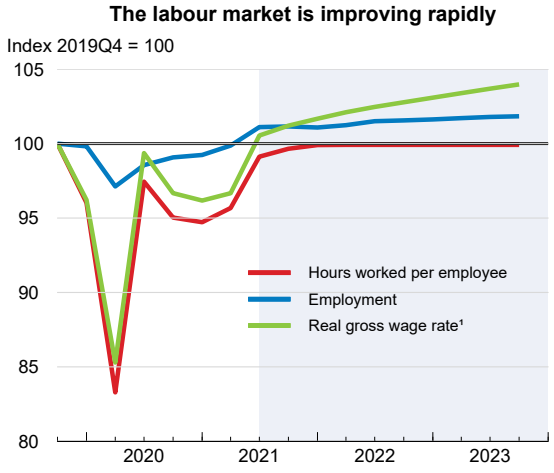
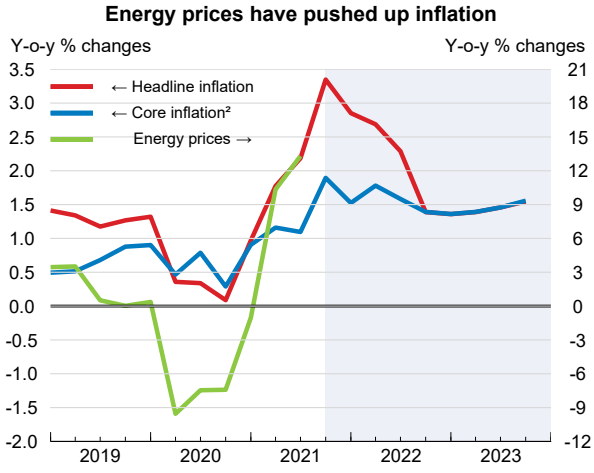
France 2





1. Deflated by the GDP deflator.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 110 database; and Eurostat (2021), Harmonised index of consumer prices (HICP) database.

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Headline inflation increased to 3.2% over the year to October, mainly driven by energy prices and a rise in manufactured goods' prices linked to some global value chain disruptions. Real wages have been so far remained broadly flat in the private sector. Despite rising job vacancies and a historically high employment rate, the unemployment rate was still above 8% in the third quarter of 2021, and 18% of participants in the labour market remained constrained in their labour supply in terms of employment or working hours.

Policy support is becoming more targeted

The authorities are progressively limiting emergency fiscal measures and two major recovery and investment plans are providing broad support for the economy. The implementation of the EUR 100 billion medium-term recovery plan (France Relance) and the 2030 investment plan (EUR 30 billion until 2027) is set to lead to discretionary fiscal spending of 1.5% of GDP in 2021 and around 1.3% of GDP annually in 2022-23. The rollback of emergency measures from 2.6% of GDP in 2021 to around 0.3% in 2022 and strengthened funding for training will encourage resource reallocation. Higher public investment in infrastructure and digitalisation, as well as additional financing for training programmes, are also set to improve productivity and achieve more durable growth. The EUR 10.5 billion business tax cut and hiring subsidies are supporting firms and jobs. Car and energy investment subsidies for households are targeted to green alternatives and will raise durable goods consumption and housing investment. The already planned housing and corporate income tax cuts, as well as higher funding for the health and education sectors, will support household income and business profit margins.

The European Central Bank's monetary policy continues to support aggregate demand. The implementation of the Next Generation EU plan will buttress recovery measures in France (France is set to receive EUR 40 billion of European grants) and its main trading partners, thereby boosting domestic and external demand. The French authorities have also prolonged to 2022 targeted emergency measures for hard-hit sectors and firms to support firm financing and to alleviate corporate costs, notably through tax holidays and high public subsidisation of wages under short-time work agreements. To respond to the current commodity price spikes, gas and electricity charges have been temporarily capped, vouchers for poorer households' energy consumption increased and an additional one-off means-tested transfer introduced which will support 38 million people.

Domestic demand will remain the main driver of growth

Growth is projected to reach 6.8% in 2021 before gradually slowing down to 4.2% in 2022 and 2.1% in 2023. A stabilisation of sanitary conditions – following the quick rollout of the vaccination campaign – will bolster confidence. Domestic demand will be the key driver of growth but is expected to expand at a decreasing rate as pent-up demand moderates. Employment will strengthen, gradually pushing up wages and core inflation. As demand in trading partners rebounds rapidly, and supply bottlenecks in the transport equipment sector fade, export performance will improve. Business investment, which has been resilient, will strengthen further, as strong economic prospects, accommodative financing conditions and the support from the recovery and investment plans offset reduced profit margins and high gross debt. The budget deficit and public debt are projected to remain at high levels relative to GDP, with public debt (Maastricht definition) remaining close to 116% of GDP in 2023.

Persistent supply bottlenecks and labour shortages could lead to more entrenched and higher-than-expected inflation and raise uncertainty about global growth, thereby lowering domestic demand. Activity in some sectors, such as transport equipment, travel and tourism services, is also 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 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.

The recovery plans and structural reforms will boost long-term growth

The French recovery plan and the 2030 investment plan are set to provide well-balanced fiscal support. The authorities are rolling back unconditional fiscal measures, but specific schemes continue to target viable firms affected by persistent sanitary restrictions or temporarily depressed demand. The flexible approach of adapting policies to the evolution of the pandemic should be maintained. Achieving an efficient reallocation of workers in the aftermath of the crisis is a key challenge, as labour shortages have emerged and gross corporate debt has risen. The increased targeting of the short-time work schemes is welcome as the labour market recovery has been strong. 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 to support the recovery and help to bring about longer working lives. Strengthening innovation and management training initiatives for small firms would also raise economic activity by facilitating the adoption of new technologies and removing barriers to growth of small businesses. As the recovery is becoming entrenched, a medium-term fiscal strategy to gradually lower public expenditures and increase their efficiency should be firmly implemented to raise growth and improve medium-term fiscal sustainability. It should build on a strengthened fiscal framework ensuring more efficient and transparent public spending allocation through spending reviews.

Germany

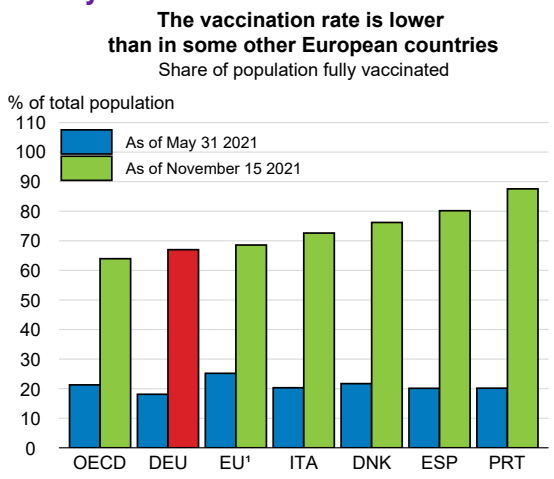
The economy is projected to grow by 2.9% in 2021, 4.1% in 2022 and 2.4% in 2023. The recovery is being hampered by shortages of key manufacturing inputs, although a large stock of unfilled orders signals a strong potential rebound as supply constraints ease. Private consumption will accelerate in 2022 as confidence improves. Solid investment will be underpinned by low interest rates and increasing capacity pressures. Inflation is likely to ease in 2022, but remain elevated. The rise in COVID-19 cases and persistent supply shortages in critical industries could slow the recovery.

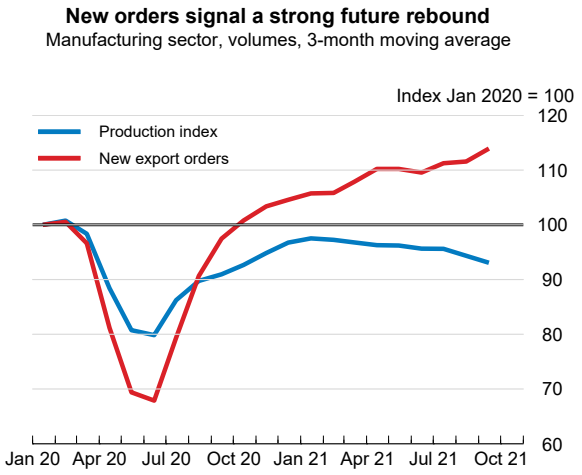
Fiscal policy will gradually become less supportive, even though public investment is set to grow and could play a bigger role if delivery constraints can be overcome. Boosting infrastructure investment and improving planning capacity would accelerate the energy transition and digitalisation. Enhancing active labour market policies, in particular training, would ease transitions to jobs in high demand.

The recovery is being hampered by lingering supply constraints

The pandemic continues to weigh on economic activity, with a surge in cases since mid-October, especially in places where vaccination progress is lagging. As of mid-November, approximately 67% of the population is fully vaccinated, but the rate of vaccination has decelerated and Germany lags many of its European peers. In the third quarter of 2021, GDP was up by 1.7% on the previous quarter, due to higher household consumption. Supply constraints are causing output to lag considerably behind strong demand. While export orders in manufacturing reached record high levels – benefiting from strong global demand – industrial production fell, due to a lack of raw materials and intermediate products. A shortage of semiconductors is weighing on car production in particular. Consequently, the IFO business climate index has fallen for five consecutive months, with companies less satisfied with their current business, more sceptical about the coming months and on average expecting resolution of supply constraints only in the third quarter of 2022. Still, in the services sectors, expectations improved.

Germany 1





1. OECD members only.
Source: OECD calculations based on Our World in Data; and Refinitiv.

StatLink https://stat.link/3msel7

Germany: Demand, output and prices

Germany	2018	2019	2020	2021	2022	2023
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	3 372.3	1.1	-4.9	2.9	4.1	2.4
Private consumption	1 753.2	1.6	-6.1	0.8	6.8	2.3
Government consumption	670.4	3.0	3.5	3.0	0.7	0.8
Gross fixed capital formation	711.6	1.9	-3.0	1.8	3.6	3.4
Final domestic demand	3 135.2	2.0	-3.3	1.6	4.6	2.2
Stockbuilding[1]	27.6	-0.1	-0.9	1.1	-0.2	0.0
Total domestic demand	3 162.8	1.8	-4.2	2.8	4.4	2.2
Exports of goods and services	1 598.9	1.1	-10.1	7.4	4.1	4.0
Imports of goods and services	1 389.3	2.9	-9.2	7.7	4.9	3.8
Net exports[1]	209.6	-0.7	-1.0	0.3	-0.1	0.3
Memorandum items						
GDP without working day adjustments	3367.9	1.1	-4.6	2.8	3.9	2.2
GDP deflator	_	2.1	1.6	3.0	3.2	2.1
Harmonised index of consumer prices	_	1.4	0.4	3.1	2.8	2.2
Harmonised index of core inflation[2]	_	1.3	0.7	2.1	2.4	2.2
Unemployment rate (% of labour force)	_	3.2	3.9	3.6	3.2	3.1
Household saving ratio, net (% of disposable income)	_	11.1	16.3	15.0	10.0	9.3
General government financial balance (% of GDP)	_	1.5	-4.3	-4.9	-2.3	-1.3
General government gross debt (% of GDP)	_	67.4	78.8	82.8	82.0	81.7
General government debt, Maastricht definition[3] (% of GDP)	_	58.8	68.9	72.8	72.0	71.8
Current account balance (% of GDP)	_	7.6	6.8	6.8	6.1	6.2

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. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 110 database.

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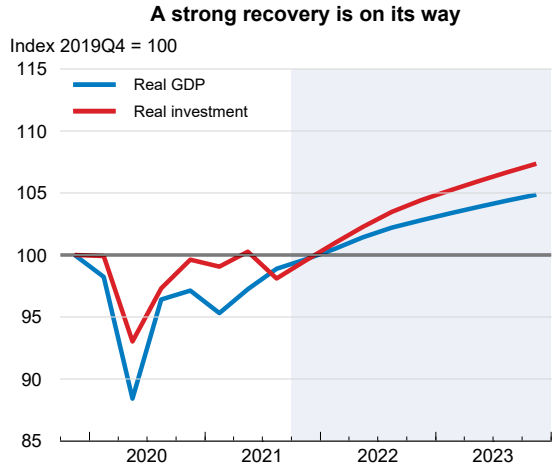
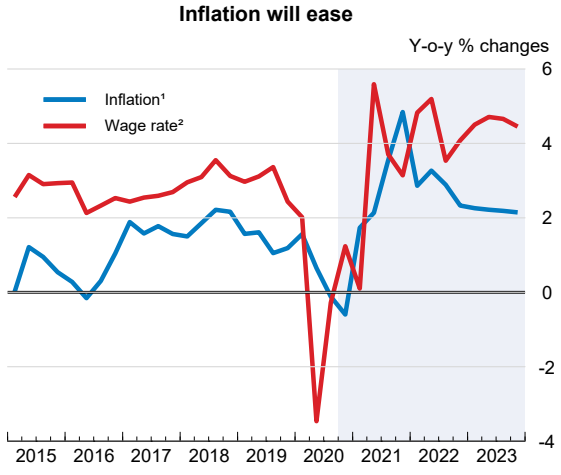
Germany 2





1. Harmonised index of consumer prices.
2. Average nominal wage per employee.
Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/0lve7x

Employment growth has been strong since June, with an increase of 0.4% in the third quarter of 2021. At the same time, the vacancy rate returned to the high pre-crisis level, and the unemployment rate fell to 3.4% in September. Consumer prices increased by 4.5% in the twelve months to October, boosted by a number of factors including energy price increases (with heating oil and fuels up by 44%), the pass-through of producer price increases due to supply constraints, and the end of the temporary VAT cut in the second half of 2020. One-year inflation expectations of individuals have increased to 4.2% on average in October. Key unions have responded to higher prices with increased wage demands, but recent pay deals in construction, retail and wholesale trade have seen wage increases contained at an average of about 2½ per cent over the next two years.

Fiscal policy is gradually normalising

Fiscal policy has supported the economy in 2021 through payments to firms affected by containment measures, bonus payments for families, expanded short-time work and increased public investment. As in 2020, government expenditure is set to considerably undershoot budget plans, with a federal deficit of EUR 133 billion from January to September 2021 compared with approved annual borrowing of EUR 240 billion (6.9% of GDP). The main COVID-19 fiscal support measures, including the expanded short-time work scheme, will terminate by the end of 2021 while the focus of economic policy shifts to shaping the recovery. A re-imposition of the debt brake is expected to happen in 2023. The underlying primary deficit is projected to decline by 1.4% of GDP between 2021 and 2023. Highly accommodative monetary policy by the European Central Bank continues to support aggregate demand.

Next Generation EU grants will be used to tackle climate change, enhance digitalisation, strengthen healthcare and reduce barriers to investment. About half of the grants are set to be spent by 2023. A EUR 25/tonne CO_2 price in transport and building heating was introduced at the beginning of 2021, contributing about 0.3 percentage points to inflation in 2021, with further gradual price increases to follow in 2022 and 2023.

A strong recovery is on its way

Private consumption is projected to slow in the short term due to the increase in COVID-19 cases, but will be supported in 2022 by pent-up demand, a strong labour market and gradual normalisation of activity in the services sector. Exports will increase at the same pace as external demand as supply constraints ease gradually. Business investment will edge up, supported by favourable financing conditions and increasing capacity usage, but is being held back in the short term by the effect of global supply constraints on the manufacture of capital goods. Inflation is likely to ease in 2022 as the base effect from the 2020 VAT cut ends, though the slow pass-through of gas price increases to consumers will keep inflation elevated. Nominal wage growth will accelerate in response to higher price levels and the expected rise in the minimum wage. After rising by 14 percentage points during the crisis, public debt as a share of GDP will decline from 2022 due to lower deficits and higher nominal GDP growth.

The rise in COVID-19 cases could slow private consumption considerably, especially if stringent restrictions are imposed. Widespread demands for higher wages and more severe shortages in the labour market (while labour supply is limited due to a drop in immigration) risk starting an inflationary spiral. In addition, a wave of insolvencies may occur after government credit-support programs expire. On the other hand, if supply constraints ease sooner, exports could expand more rapidly to meet strong demand.

Boosting infrastructure investment and supporting employment transitions

Boosting infrastructure investment would help to accelerate the energy transition and digitalisation while supporting private investment. This requires streamlining infrastructure planning processes, improving public procurement through better data collection, raising financial support for good municipal investment projects, and focusing on cost-benefit analysis through an independent infrastructure advisory body. The extension of the short-time work scheme during the crisis greatly alleviated employment losses. Nonetheless, some workers lost their jobs, particularly low-income workers who often work in jobs that do not qualify for the scheme. The end of the short-time work scheme will incentivise the necessary reallocation of labour and capital but risks leaving more households vulnerable. Enhancing active labour market policies, in particular training, could ease the transition to higher-paying jobs. A green transition is key to the recovery programme, yet Germany still has many opportunities to improve the cost-effectiveness of its climate mitigation measures. Examples include making emissions pricing more uniform as well as supporting use of renewable electricity in transport and buildings by reducing electricity taxes and expanding green infrastructure.

Greece

Greece's GDP is projected to increase by 6.7% in 2021 and just under 5% in 2022, before growth moderates in 2023. As containment measures eased in April 2021, economic activity rebounded, supported by a stronger-than-expected summer tourist season. Government support and investments will further contribute to the recovery of employment and consumption. High levels of spare capacity will likely limit the rise in inflation. A worsening in the health situation and investment delays would imperil the projected recovery.

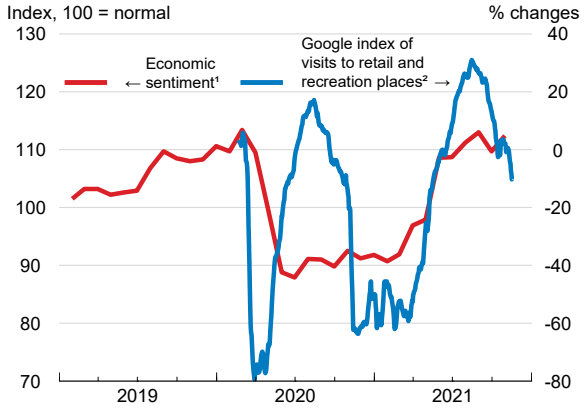
The government will continue to gradually withdraw emergency fiscal support measures as the sanitary situation evolves, while its recovery and resilience plan is expected to boost activity and productivity through investments in the green transition, upgrading digital infrastructure and skills, and supporting private firms' investments. Realising the projected acceleration in investment will require resolving banks' remaining non-performing loans and tax credits, and improving the investment climate and the public sector's performance. Sustaining the recovery will require activating workers and raising adults' skills to lift employment and productivity.

Greece recovered strongly after lifting containment measures

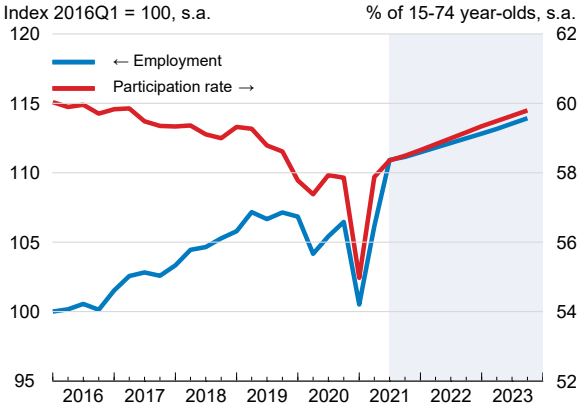
Greece's economy recovered strongly following the progressive lifting of containment measures from April 2021. By September, business confidence had recovered to post-financial crisis highs as businesses re-opened. International air arrivals during July-August reached more than 60% of their 2019 peak, boosting incomes and supporting the recovery of consumption and employment. Employment grew by 9.9% between April and September 2021. Although bank health improved as banks cleared 38% of their non-performing loans between March and June 2021, reducing the share of non-performing loans to 20.3%, new lending to the private sector slowed. Three agencies upgraded their rating of Greece's public debt to be close to investment grade. The annual rate of headline inflation rose to 3.4% in October, largely due to rising energy prices, while core inflation only rose to 0.2%.

Greece

The lifting of COVID restrictions has helped return business confidence to pre-pandemic peaks



The projected recovery will require activating workers



1. The Economic Sentiment Indicator tracks overall economic activity based on a selection of questions asked to industry, services, retail trade and construction industry participants and consumers in the EU Harmonised Business and Consumer Surveys.
2. Google measures visitor numbers recorded on mobile devices to specific categories of location (e.g. grocery stores; parks; train stations) every day and compares this change relative to baseline day before the pandemic outbreak (the median value for the 5-week period from January 3 to February 6, 2020). A 7-day moving average is applied.
Source: Eurostat; Google COVID-19 Community Mobility Reports via Our World in Data; and OECD Economic Outlook 110 database.

StatLink https://stat.link/0a6uio

Greece: Demand, output and prices

Greece	2018	2019	2020	2021	2022	2023
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	179.6	1.8	-9.0	6.7	4.8	2.9
Private consumption	124.3	1.8	-7.9	2.1	4.4	2.1
Government consumption	35.5	1.7	2.6	4.6	-2.1	-0.6
Gross fixed capital formation	20.0	-3.3	-0.3	14.0	17.3	10.2
Final domestic demand	179.8	1.2	-4.9	4.1	4.6	2.7
Stockbuilding[1,2]	3.6	0.0	1.4	1.7	0.0	0.0
Total domestic demand	183.4	1.0	-4.0	5.8	4.4	2.6
Exports of goods and services	70.0	4.9	-21.5	14.2	13.0	5.1
Imports of goods and services	73.9	3.1	-7.6	10.9	8.1	4.2
Net exports[1]	- 3.9	0.6	-5.5	0.2	1.1	0.0
Memorandum items						
GDP deflator	_	0.2	-0.8	2.6	3.1	1.5
Harmonised index of consumer prices	_	0.5	-1.3	0.4	3.1	1.5
Harmonised index of core inflation[3]	_	0.8	-1.2	-1.2	1.9	1.6
Unemployment rate (% of labour force)	_	17.3	16.3	14.6	12.9	12.7
General government financial balance[4] (% of GDP)	_	1.1	-10.1	-9.6	-4.0	-1.1
General government gross debt (% of GDP)	_	205.0	243.0	228.8	217.3	211.4
General government debt, Maastricht definition[5] (% of GDP)	_	180.7	206.3	192.0	180.6	174.6
Current account balance[6] (% of GDP)	_	-1.5	-6.6	-7.2	-6.7	-6.5

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. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
6. On settlement basis.
Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/hxa5b9

Expectations for future price rises have been rising and since mid-2021 have been above averages of recent years in manufacturing, construction and retail. Rates of new COVID-19 infections and deaths have been above most other OECD countries since July 2021, reflecting lagging vaccination rates, with 61.5% of the population fully vaccinated by October 2021. Recent measures, such as requiring unvaccinated people to be tested to access a range of public services, may encourage greater vaccinations.

Support will shift from emergency measures to the recovery and resilience plan

The government maintained emergency support measures throughout 2021 worth EUR 15.6 billion (8.8% of 2021 GDP). Several temporary measures were extended until 2022 but limited in size to EUR 2.9 billion. In response to rising energy prices, the government expanded transfers to households by EUR 500 million. Over the coming years government measures will shift to supporting a sustained recovery. Greece's recovery and resilience plan, "Greece 2.0", foresees disbursing EUR 0.6 billion (0.3% of 2021 GDP) in 2021, EUR 3.2 billion in 2022, and EUR 3.4 billion in 2023, funded through Next Generation EU grants. Measures include investments and policy reforms to support the green and digital transitions. The budget is projected to return to a primary surplus above 1% of GDP by 2023, consistent with the government's fiscal strategy.

Investments and an improved business climate will drive sustained growth

Strong growth is projected as an improving business climate and the recovery and resilience plan boost employment and investment. Government support will continue to bolster incomes and consumption into 2022, which will be further supported by a 2% minimum wage increase at the start of 2022. Exports will be aided by rebounding global demand and the recovery in global tourism. Reform efforts are expected to promote business confidence and contribute to higher employment rates by raising labour market participation, while infrastructure and business investments are projected to support employment and improve productivity. The pass-through of higher energy and global prices into Greece's consumer prices is projected to be checked by the economy's ongoing spare capacity. A key risk is that a worsening health situation may lead to new travel restrictions and curtail the recovery in tourism. Lags in implementing reforms and investments would exacerbate scarring from businesses failures and workers dropping out of the labour market, and delay improvements in the economy's capacity and productivity.

Mobilising private investment would boost productivity and the green transition

The evolving fiscal support can help sustain the recovery in the face of ongoing headwinds and uncertainty. Public investment should be strengthened to support growth. This, together with a medium-term fiscal plan, would contribute to fiscal sustainability. Better targeting support measures, such as cuts in some VAT rates for sectors such as entertainment, would increase their impact. Refocusing support towards active labour market programmes and training, by building on recent reforms to vocational education and implementing plans to increase the capacity of the public employment service and promote training, would help employers recruit workers with the needed skills. Implementing measures to raise public sector effectiveness laid out in Greece 2.0, such as further progress in the digitalisation of public services, are crucial for improving the investment climate and achieving the ambitious expansion in public investment. Improving access to finance for investment by completing efforts to restore banks' health would further enhance the impact of Greece 2.0. Implementing a comprehensive plan to adapt to and to mitigate climate change, which is already affecting Greece, will be imperative for sustaining long-term growth.

Hungary

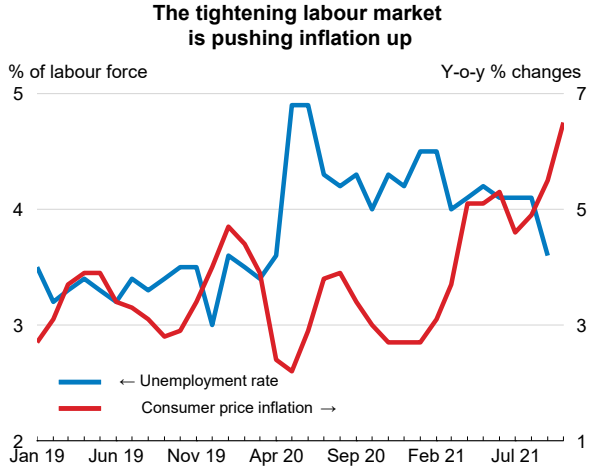
GDP is projected to expand by 6.9% in 2021, before growth slows to 5% in 2022 and 3% in 2023. The recovery will be driven mainly by domestic demand. Private consumption will continue to benefit from higher real incomes. Investment will rebound on the back of increasing industrial capacity constraints and inflows of EU funds. Headline inflation will remain high, reflecting supply-side constraints and a tight labour market. A significant risk is that stronger wage growth and prolonged supply shortages could intensify inflation pressures.

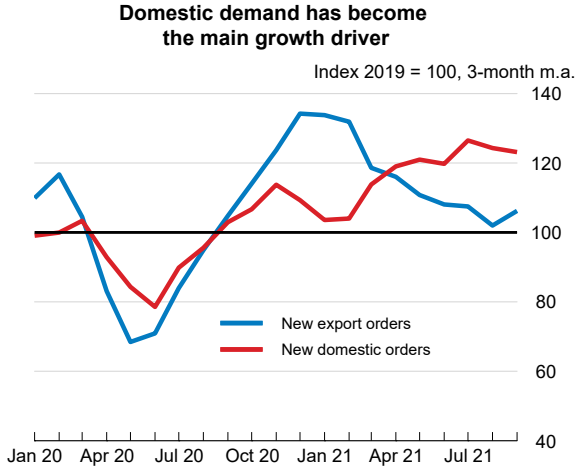
Fiscal policy will remain expansionary in 2022, before gradually consolidating in 2023. In contrast, the central bank began a tightening cycle in early summer, which has seen the policy base rate increase by 1½ percentage points to 2.1%. A better-balanced policy mix would help to contain inflation expectations. Moreover, structural reforms should focus on raising potential growth. Labour taxes should be further lowered to help address labour shortages, financed by lower spending and increased consumption, property and environmental taxation.

Economic activity has now surpassed its pre-pandemic level

The initially fast vaccination rollout has slowed and as of November 2021, only about 60% of the population was fully vaccinated. Nonetheless, fewer restrictions and stronger international demand have allowed economic activity to surpass its pre-pandemic level in the second quarter of 2021. Since then, domestic demand has become the main driver of growth, as reflected in the strong expansion of retail sales and domestic orders over the summer, sustaining economic growth of 0.7% in the third quarter. By contrast, external demand is weighed down by supply chain disruptions. Industrial production contracted for the fourth consecutive month in September 2021, while exports and new export orders remain volatile. The resurgence of COVID cases and hospitalisations led the government to introduce new restrictions in mid-November, including the mandatory use of masks in-door, although no new lockdown measures were announced.

Hungary





Source: OECD Labour database; OECD Main Economic Indicators database; Hungarian Central Statistical Office; and OECD calculations.

StatLink https://stat.link/9rd3b5

Hungary: Demand, output and prices

Hungary	2018	2019	2020	2021	2022	2023
	Current prices HUF billion	Percentage changes, volume (2015 prices)				
GDP at market prices	43 392.4	4.6	-4.8	6.9	5.0	3.0
Private consumption	21 373.1	5.0	-1.4	3.9	6.1	4.2
Government consumption	8 543.1	4.2	0.4	3.7	2.1	0.3
Gross fixed capital formation	10 729.9	12.8	-6.9	8.7	10.6	5.9
Final domestic demand	40 646.2	6.9	-2.6	5.2	6.6	3.9
Stockbuilding[1]	902.3	0.1	-0.1	0.3	0.0	0.0
Total domestic demand	41 548.4	6.8	-2.6	5.4	6.4	3.8
Exports of goods and services	36 338.7	5.4	-5.9	9.5	6.3	4.7
Imports of goods and services	34 494.7	8.2	-3.5	7.7	8.1	5.7
Net exports[1]	1 844.0	-2.0	-2.1	1.6	-1.2	-0.7
Memorandum items						
GDP deflator	_	4.8	6.1	7.3	7.9	5.0
Consumer price index	_	3.3	3.3	5.0	6.0	4.0
Core inflation index[2]	_	3.2	3.0	4.1	5.0	4.0
Unemployment rate (% of labour force)	_	3.3	4.1	4.0	3.5	3.6
Household saving ratio, net (% of disposable income)	_	9.2	10.5	10.1	8.9	9.6
General government financial balance (% of GDP)	_	-2.1	-8.0	-7.5	-5.8	-3.9
General government gross debt (% of GDP)	_	84.1	98.2	97.0	94.5	93.5
General government debt, Maastricht definition[3] (% of GDP)	_	65.5	80.1	79.1	77.0	76.2
Current account balance (% of GDP)	_	-0.7	-1.6	-0.5	-0.7	-1.5

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/qwgco4

By mid-2021, the labour market had returned to its favourable pre-pandemic situation, with a fall in the unemployment rate by 0.4 percentage points to 4%, while the employment rate rose by 1.1 percentage points to a historic high of 73.9%. Gross earnings of full-time employees in the private sector continued to register strong growth of around 8% in early summer. Core inflation has been rising due to service price increases, as the services and tourism sectors re-opened, followed by industrial goods price increases driven by imported raw material prices. High energy prices and supply side constraints are further feeding into headline inflation, with the annual rate reaching 6.6% in October and remaining consistently above the central bank's upper tolerance band of 4% since February 2021. The yield curve has become steeper since spring, pointing to higher inflation expectations.

Fiscal policy will remain expansionary next year

Fiscal policy remains expansionary while monetary policy has entered a tightening cycle. The central bank has raised its base policy rate by 1½ percentage points to 2.1% since June, and has announced further policy tightening via monthly base rate increases as long as the headline inflation forecast remains above the central bank's target of 3%. Fiscal policy will become more expansionary with another four-percentage point reduction in employers' social security contributions in 2022, which will compensate employers for the 20% rise in the minimum wage and help preserve their external competitiveness. There will be further temporary tax reductions for small local businesses. In addition, families with dependent children will get a personal income tax refund up to the average wage in early 2022. The announced fiscal measures will contribute to an expected budget deficit of 5.8% of GDP in 2022. The budget deficit will fall to 3.9% of GDP in 2023, reflecting the strong economy and the removal of one-off measures. Despite the large deficit,

gross public debt will be reduced by using government reserves. Additional EU subsidies from the Recovery and Resilience Facility will finance investment in health, infrastructure as well as the green and digitalisation transformation, boosting total EU funds to 3½ per cent of GDP annually between 2021 and 2026.

Domestic demand will be the main growth driver

Economic activity is projected to remain strong, bringing economic output to levels above its potential in 2022. Domestic demand will continue to be the main driver of growth. Private consumption will benefit from further increases in real incomes on the back of a tightening labour market. Private and public investment will rebound strongly, reflecting ongoing capacity constraints and stronger inflows of EU funds. Unemployment will decline to pre-pandemic levels in 2022. Higher energy prices are expected to feed into headline inflation until mid-2022. High inflation will persist also due to strong wage growth. The 20% increase in minimum wages in January 2022, affecting about a fifth of all employees, is likely to have strong spillover effects on other wages. However, the impact on overall wage costs, and indirectly on price inflation, will be dampened by the reduction of employers' social security contributions. Downside risks include prolonged supply chain problems, which together with stronger wage growth could fuel rising inflation expectations. Also, the resurgence of the virus could potentially lead to new lockdown measures and lower domestic spending. On the upside, a faster resolution of supply chain problems and a stronger recovery of major European trading partners would benefit growth.

Policy needs to contain inflation expectations

A faster fiscal consolidation would help contain inflation expectations and secure long-term fiscal sustainability. Structural reforms should focus on raising potential growth. Labour taxes should be further lowered to help address labour shortages, financed by lower spending on mortgage and loan subsidies, and an increased reliance on consumption, property and environmental taxation, while addressing adverse distributional impacts. Productivity growth would benefit from more effective competition regulation as well as enhanced anti-corruption efforts.

Iceland

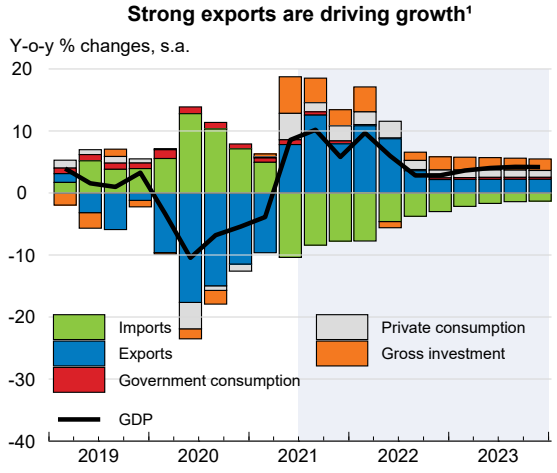
The economy is projected to grow by 5.2% in 2022 and 4% in 2023, driven by rebounding foreign tourism and robust goods exports. Business investment will slow as financial conditions are tightening and pent-up projects are being terminated. Household consumption will remain solid on the back of rising wages and employment, despite reduced policy support. Risks surrounding foreign tourism and shipping costs could weigh on the projections.

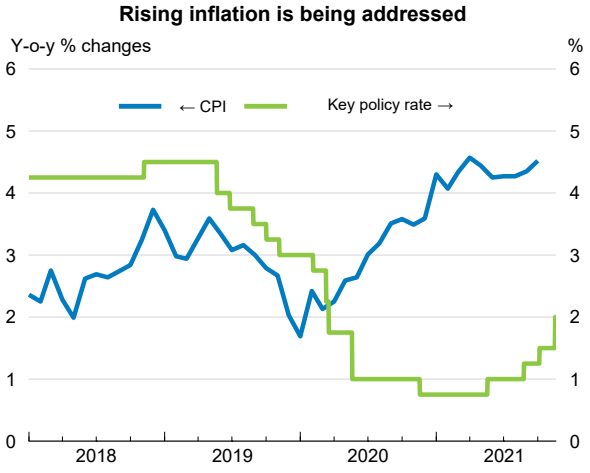
The central bank has recently raised interest rates from 0.75% to 2% as consumer price inflation increased to more than 4%. The bank should be ready to increase them further should long-term inflation expectations rise. The budget balance will improve by around 7.5 percentage points of GDP until end-2023, as planned by the government, which is appropriate. Public investment in green technologies and to foster innovation and digital skills should be continued, to boost productivity and lift sustainable long-term growth.

The economy is rebounding as the health situation normalises

After stalling in early 2021, economic momentum is back. Goods exports, in particular fisheries and aluminium, are accelerating, and tourism continues to grow rapidly as international travel gains traction. Household consumption is strong reflecting growing wages, a shrinking saving rate and expanding credit. Spending on restaurants and other leisure activities exceeds pre-pandemic levels. Business investment is booming on the back of pent-up projects and rising confidence. The labour force is expanding rapidly as immigration is resuming. The unemployment rate has gradually fallen from a peak 8% at the end of 2020 to less than 5%. Domestic COVID-19 restrictions are being relaxed further, even though measures at the border were tightened after the caseload suddenly spiked in summer. By end-November, almost 90% of the population older than 12 years was fully vaccinated.

Iceland





1. The sum of components may deviate from observed GDP growth because of balancing items, chain-linking procedures and direct/indirect seasonal adjustment methods.
Source: OECD Economic Outlook 110 database; Statistics Iceland; and Central Bank of Iceland.

StatLink https://stat.link/cazj5p

Iceland: Demand, output and prices

Iceland	2018	2019	2020	2021	2022	2023
	Current prices ISK billion	Percentage changes, volume (2015 prices)				
GDP at market prices	2 844.7	2.4	-6.5	5.0	5.2	4.0
Private consumption	1 429.9	1.9	-3.0	4.0	3.7	2.4
Government consumption	686.6	3.9	4.5	2.2	0.7	1.2
Gross fixed capital formation	625.8	-2.1	-8.7	14.1	7.1	8.6
Final domestic demand	2 742.4	1.5	-2.4	5.6	3.6	3.5
Stockbuilding[1]	7.7	-0.6	0.9	0.1	0.0	0.0
Total domestic demand	2 750.2	0.8	-1.6	5.8	3.6	3.5
Exports of goods and services	1 326.7	-4.7	-30.2	12.7	16.8	5.3
Imports of goods and services	1 232.2	-8.4	-22.5	14.6	12.4	4.0
Net exports[1]	94.6	1.5	-4.4	-0.8	1.5	0.6
Memorandum items						
GDP deflator	_	4.6	3.2	4.3	3.1	2.5
Consumer price index	_	3.0	2.8	4.3	3.5	2.5
Core inflation index[2]	_	2.9	2.9	4.3	3.5	2.5
Unemployment rate (% of labour force)	_	3.9	6.4	5.9	4.0	3.6
General government financial balance (% of GDP)	_	-1.5	-8.6	-11.6	-7.9	-4.2
General government gross debt[3]	_	61.5	70.4	80.7	86.6	88.7
Current account balance (% of GDP)	_	5.8	0.9	-0.5	1.2	1.7

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 110 database.

StatLink https://stat.link/by38q1

Policy is tightening

Monetary policy is tightening. Between May and November, the central bank has raised the interest rate in four steps from 0.75% to 2%. Headline consumer price inflation has reached more than 4%, fuelled by rising house prices and shipping costs. The króna has slightly depreciated since the summer of 2021. The policy interest rate is projected to rise further to 2.8% by the end of 2023 to anchor inflation expectations. Fiscal tightening has also started as the short-term work scheme − the flagship support programme during the crisis − has ended. The budget is expected to tighten further by around 5% points of GDP until 2023, as planned by the government, which is appropriate.

The recovery will continue

GDP is projected to grow by 5.2% in 2022 and 4% in 2023, driven by strong foreign tourism upon further relaxation of COVID-19 restrictions and sustained demand for aluminium and seafood. Business investment will slow following the 2021 boom as financial conditions are tightening and pent-up projects are worked off. Household consumption growth will remain solid thanks to continuously growing wages and dissaving. Inflation will gradually decline as house prices slow and shipping costs normalise. Public debt will rise to around 89% of GDP despite fiscal tightening. The projections are subject to considerable uncertainty and risks. Foreign tourism could stall if economic and health conditions worsen again. Further supply chain disruptions and persistently high shipping costs would affect exports and imports disproportionally. A stronger than usual volcanic eruption could sever air transport links.

Strengthening digitalisation could underpin long-term growth

Digital innovation could help accelerate the reallocation of labour and underpin the post-pandemic recovery. A more competition-friendly regulatory framework would sharpen firms' incentives to adopt advanced technologies. The public sector should become more digitised. More effective public support for business R&D and a higher take-up rate of generous tax incentives would spur innovation by small firms. Business and universities need to collaborate more to maximise knowledge flows. Strengthening digital skills could reduce labour market mismatch and facilitate the transition to more productive jobs. Investment in green and digital technologies and higher carbon taxation could help achieve the country's climate targets.

India

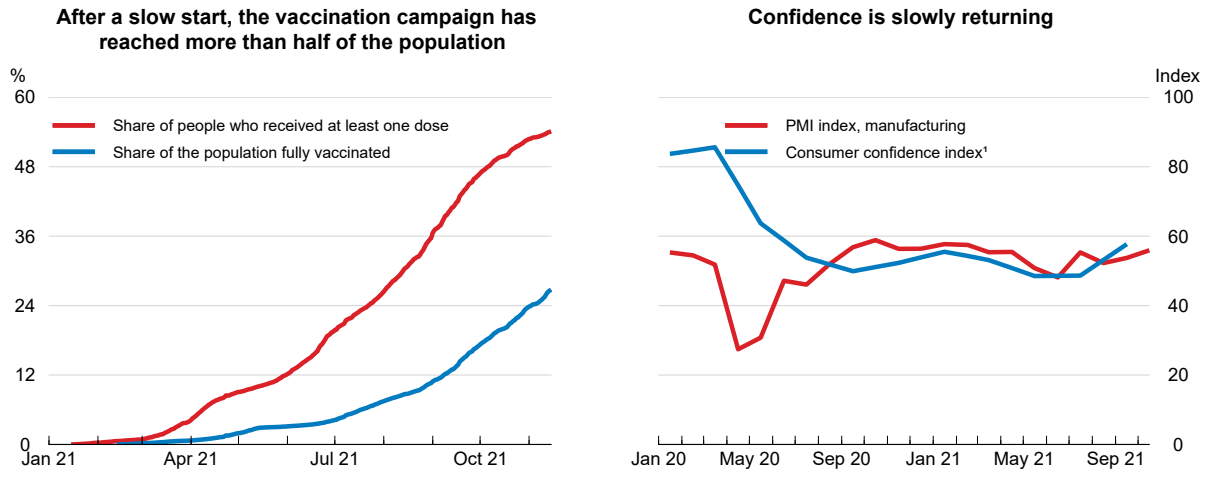
After the second infection wave that peaked in May, the recovery is gaining momentum and GDP is projected to grow at 9.4% in fiscal year (FY) 2021-22 before reverting to 8.1% in FY 2022-23 and 5½ per cent in FY 2023-24. Inflation has remained close to the upper band of the Reserve Bank of India (RBI), but should ebb as supply chain disruptions are overcome. Financial markets remain strong and capital inflows support the build-up in reserves. The appearance of a new virus variant, especially if combined with a relaxation of attitudes, is the major downside risk, together with a less supportive global economic and financial environment.

The macroeconomic policy mix is well balanced. The RBI stands ready to act forcefully if increases in global commodity prices feed into wages and then to core prices. The government is also committed to invest more in social and physical infrastructure, although well-targeted, direct fiscal support to vulnerable households and firms should also be increased. Reducing unnecessary regulation in product and labour markets, accelerating the sale of public companies in non-strategic sectors, following the successful sale of Air India, and restructuring state-owned banks would boost investment and job creation.

After a dramatic second wave, the pandemic is steadily receding

The normalisation momentum came to a halt in winter and spring 2021 as the Delta variant caused a sharp increase in cases and fatalities. Intensive care capacity came under acute pressure and confinement measures were re-introduced, albeit limited to the most affected areas. The vaccine rollout started in January, covering 30 million healthcare and front-line workers, and was progressively extended to wider swathes of the adult population. By end-September, more than half of the eligible population had been given at least one jab and at mid-November, more than one Indian out of four was fully vaccinated.

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/br0hm7

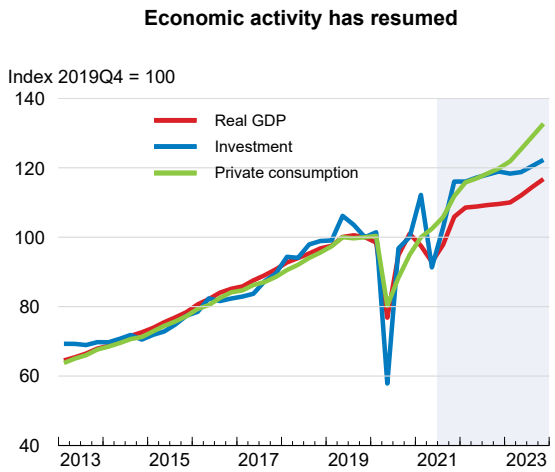
India: Demand, output and prices

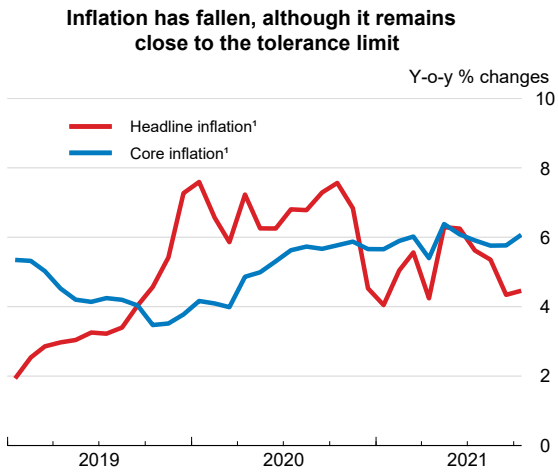
India	2018	2019	2020	2021	2022	2023
	Current prices INR trillion	Percentage changes, volume (2011/2012 prices)				
GDP at market prices	188.9	4.0	-7.3	9.4	8.1	5.5
Private consumption	112.2	5.5	-9.1	19.9	9.5	9.8
Government consumption	20.4	7.9	2.9	9.4	11.5	2.7
Gross fixed capital formation	55.1	5.4	-10.8	16.1	10.9	2.8
Final domestic demand	187.7	5.8	-8.3	17.4	10.1	7.1
Stockbuilding[1,2]	8.2	-0.7	0.0	0.0	0.0	0.0
Total domestic demand	195.9	4.4	-9.1	11.1	10.1	6.8
Exports of goods and services	37.7	-3.3	-4.7	13.7	5.9	6.3
Imports of goods and services	44.7	-0.8	-13.6	21.4	15.2	11.5
Net exports[1]	- 7.0	-0.5	2.2	-1.8	-2.4	-1.6
Memorandum items						
GDP deflator	_	3.6	4.6	10.1	4.4	5.1
Consumer price index	_	4.8	6.2	6.4	4.8	4.2
Wholesale price index[3]	_	1.7	1.3	7.2	6.0	4.4
General government financial balance[4] (% of GDP)	_	-6.9	-7.1	-6.9	-6.6	-5.5
Current account balance (% of GDP)	_	-0.8	0.9	-0.6	-1.6	-2.1

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 110 database.

StatLink https://stat.link/nydqar

India 2





1. Headline inflation refers to the change in price of all goods in the basket, while core inflation excludes food and fuel items. Seasonally adjusted and based on monthly consumer price index and core CPI (index 2012 = 100) provided by the Central Statistics Office.
Source: OECD Economic Outlook 110 database; and CEIC.

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The economic shock has been weaker than during the 2020 wave. Since the summer of 2021, growth has rebounded, pulled by exports, consumer demand and, more importantly, a very strong base effect. Most key high-frequency indicators, including sales of two-wheelers and tractors, are rising gradually and mobility indices sharply improved during the Diwali festive season and remain well-oriented. Consumer price inflation stood at 4.5% in October, a significant decline from the October 2020 reading of 7.6%. The recent moderation can be explained by base effects, an excellent monsoon season, a resumption of agriculture supply chains that lowered food prices (which account for 39% of the CPI basket) and administrative steps (such as lower import duties on edible oils). Both merchandise exports and imports have expanded forcefully, boosted by oil trade. Easier conditions in capital markets have benefited large corporates and young start-ups, with a record 51 initial public offers (IPOs) on the two main stock exchanges between January and November 2021. Foreign exchange reserves have increased due to strong foreign direct and portfolio investment flows. In 2021, the rupee has experienced a smaller depreciation against the US dollar than most emerging Asian peers.

The policy mix is appropriate and structural reforms would strengthen the recovery

Despite the economic recovery, GDP is still far from the pre-crisis levels. Most fiscal measures taken in response to the pandemic, including enhanced support to informal workers, migrants and disadvantaged groups, remain in place. Tax revenues have soared, driven by the recovery in activity and deferred payments of taxes due in 2020. The privatisation of the state-run airline in October 2021 may open the way to further deals that make public enterprises more efficient under new ownership and augment fiscal space. Monetary policy has been similarly supportive, through rate easing and liquidity provision, although bank credit growth has remained subdued. Given the pressures from global commodity prices and supply disruptions maintaining RBI transparent communication of its commitment to the inflation target and exchange rate flexibility will be essential in the upcoming phase of monetary policy normalisation. With policy rates projected to rise in 2022, the exit of non-viable 'zombie' firms and effective non-performing loans (NPLs) resolution should be made easier. Two new entities have been established: the National Asset Reconstruction Company will acquire stressed assets from commercial banks, while the India Debt Resolution Company will sell them in the market.

In 2020-21, important structural reforms, including labour, insurance and ports liberalisation, advanced despite the pandemic. The priority should now be steady implementation of the new legislation. Other measures currently under consideration include the Mines and Minerals Bill, the reform of the judiciary, and the Insolvency and Bankruptcy Code (Amendment) Ordinance. The new National Bank for Financing Infrastructure and Development will address sizeable gaps in physical infrastructure, especially in rural areas. It will be important to put in place a credible medium-term fiscal strategy to bring down the debt-to-GDP ratio and create the fiscal space to meet multi-faceted development needs. At the recent COP26, India pledged to reach net zero by 2070 and to produce half of its energy from renewable resources by 2030. In this regard, investment needs to upgrade the power grid and scale up the share of renewables in installed capacity are huge and require a co-ordinated institutional framework and supportive regulation to attract capital.

Growth will remain robust, although it will slow down in 2023

Prospects of an economic rebound in India are firming up as GDP is set to expand by 9.4% in FY 2021-22 and 8.1% in FY 2022-23, before moderating to 5½ per cent in FY 2023-24. Activity is supported by the increasing pace of vaccination, which is boosting consumers' sentiment, and the inflation slowdown, which protects purchasing power. In the medium term, however, uncertainty over employment and earnings

prospects will slow down the revival of households' consumption. Growth, moreover, will be uneven: rural areas are struggling to absorb the huge flows of migrant returnees, while on the supply side the buoyancy of manufacturing boosted by the Production-Linked Incentive scheme contrasts with the slow return to normalcy of contact-intensive services. The current account will return to deficit, after the exceptional 2020 surplus. The economic outlook in FY 2023-24 is projected to deteriorate due to the lingering negative legacy of COVID-19 on key growth-drivers such as business investment in new machinery.

Headline inflation is projected to remain below the upper tolerance limit of the flexible inflation targeting approach, which it exceeded in FY 2021 due to rising commodity prices and supply disruptions, such as coal and chip shortages. The main risk is related to such disruptions: if they become entrenched, this could weigh on growth and un-anchor inflation expectations. An acceleration in consumer price inflation would weaken real income growth, affecting poor households in particular. Rising oil import prices could also worsen both the fiscal and current account balances.

Fighting poverty and investing in the future should remain the policy priority

India has made remarkable progress over the past two decades in accelerating economic growth and making a dent on poverty. Improving social policy delivery and targeting it better are now fundamental challenges to heal the scars left by the pandemic. Even though poverty rates have fallen from the peak reached in the 2020 lockdown, they are still well above 2019 levels as labour markets have yet to fully recover. In particular, low-skilled domestic migrants and urban workers, who bore the brunt of employment shocks in both waves, have yet to see their earnings return to pre-pandemic levels. And while India still enjoys a demographic dividend, the young face an adverse outlook. Schools have been mostly shut since March 2020, worsening the educational gap between different parts of society, and extra resources may be needed to avoid long-lasting damage to educational attainment and well-being. Inequality is also rising and in many industries market power is increasingly concentrated. Even during the crisis, the authorities have launched structural reforms that could boost potential growth, create better jobs and make it possible to achieve the Sustainable Development Goals. This momentum must be extended into other policy areas, such as sustainable energy and competition, and maintained in a spirit of open dialogue with all stakeholders, including independent civil society organisations.

Indonesia

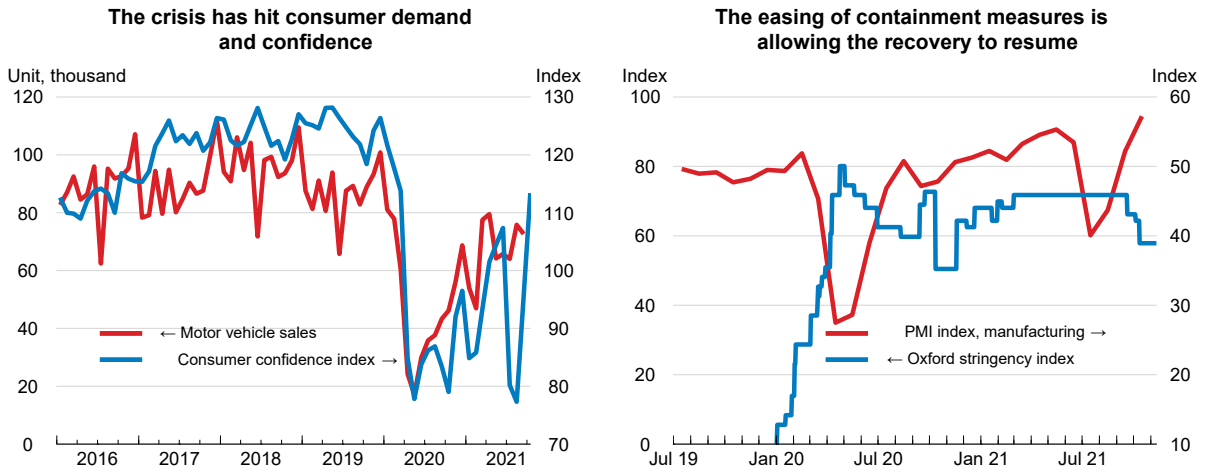
Indonesia's recovery has been delayed by renewed restrictions and uncertainty as the Delta COVID-19 variant spread rapidly. Growth in 2021 is projected to be relatively modest at 3.3%, but will rebound in 2022 and 2023 to above 5% as the normalising health situation allows consumer demand and investor confidence to return. Inflation expectations remain well anchored and the pass-through of higher global prices into consumer prices is expected to be limited. Delays in securing vaccines and vaccinating the eligible population would risk further health crises, slowing the recovery and placing policy under stress.

The government's plan to progressively return the budget deficit to within its 3% of GDP ceiling is appropriate if Indonesia stays on track to vaccinate the eligible population by early 2022 and can fully lift health restrictions. If the recovery is delayed, additional fiscal support would limit further social and economic damage. Following the crisis, investing more in skills, infrastructure and social protection would enable a more sustained and inclusive recovery. This can be financed by boosting revenues while reallocating spending from the remaining poorly-targeted subsidies. Improving institutional integrity, including by protecting Bank Indonesia's independence, will help deepen domestic financial markets and better protect Indonesia from shifts in global financial market sentiment.

The Delta variant and lagging vaccination have set back the recovery

A fierce new wave of COVID-19 infections and associated restrictions quickly halted the recovery, and activity contracted in the third quarter of 2021. A lack of vaccines and logistical challenges delayed Indonesia scaling-up vaccinations, allowing the Delta variant to spread widely and placing the health system under significant stress. By June 2021, Indonesia had extended stringent movement and travel restrictions across major population areas, which limited consumer spending and dented investors' confidence. Infections slowed over the third quarter of 2021 as the pace of vaccinations accelerated, allowing authorities to relax restrictions in October 2021, and pent-up demand boosted activity. Rising global commodity prices provided an additional fillip, supporting export values and incomes especially in commodity-producing areas.

Indonesia 1



Source: Oxford COVID-19 Government Response Tracker, Blavatnik School of Government; Markit; and CEIC.

StatLink https://stat.link/qb4l8n

Indonesia: Demand, output and prices

Indonesia	2018	2019	2020	2021	2022	2023
	Current prices IDR trillion	Percentage changes, volume (2010 prices)				
GDP at market prices	14 838.8	5.0	-2.1	3.3	5.2	5.1
Private consumption	8 455.1	5.2	-2.7	1.6	5.0	5.6
Government consumption	1 338.6	3.3	1.9	4.2	1.4	1.3
Gross fixed capital formation	4 791.2	4.5	-4.9	3.4	5.4	7.2
Final domestic demand	14 585.0	4.8	-3.1	2.4	4.8	5.8
Stockbuilding[1]	412.4	-0.9	-0.3	-0.1	0.5	0.0
Total domestic demand	14 997.4	3.7	-3.3	2.2	5.2	5.7
Exports of goods and services	3 116.5	-0.9	-7.7	21.7	8.8	4.5
Imports of goods and services	3 275.1	-7.4	-14.7	19.1	9.9	7.2
Net exports[1]	- 158.6	1.4	1.1	1.1	0.2	-0.3
Memorandum items						
GDP deflator	_	1.6	-0.5	5.4	4.1	3.1
Consumer price index	_	3.0	1.9	1.7	2.8	3.1
Private consumption deflator	_	3.2	1.9	1.8	3.5	3.6
General government financial balance (% of GDP)	_	-2.2	-6.2	-5.7	-4.8	-2.9
Current account balance (% of GDP)	_	-2.7	-0.4	0.4	1.2	0.5

1. Contributions to changes in real GDP, actual amount in the first column.
Source: OECD Economic Outlook 110 database.

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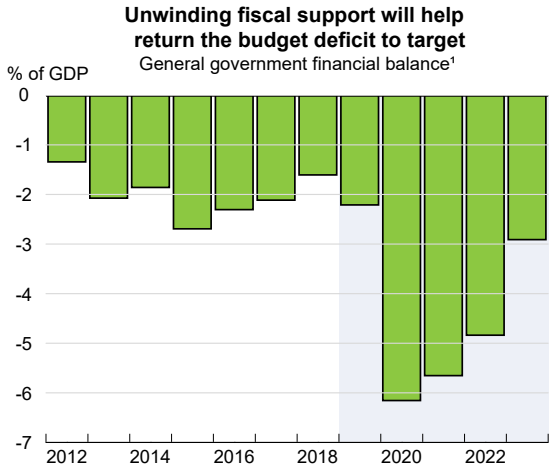
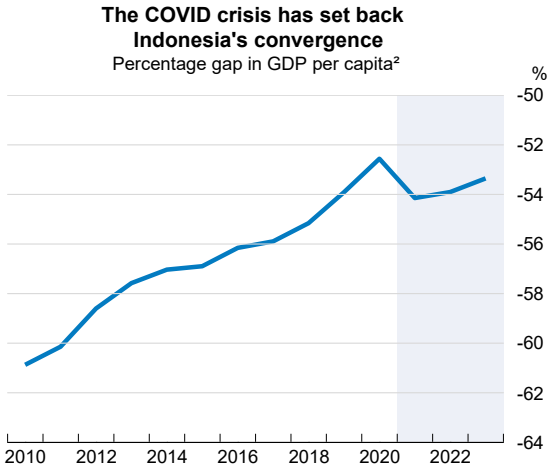
Indonesia 2





1. The data for 2019 and 2020 are OECD estimates.
2. Relative to the population weighted average of 18 OECD member countries that have the lowest real GDP per capita in 2019 (in constant 2015 PPPs).
Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/l4oz27

Nonetheless, activity and employment remain below potential. Along with regulated prices and well-anchored inflation expectations, this has limited the pass-through of higher global prices into consumer prices. The headline inflation rate has been broadly stable through 2021, reaching 1.7% in the year to October 2021, while core inflation has slowed to 1.3%.

Economic support measures are being unwound

Fiscal and monetary policies have supported activity through the crisis and are expected to normalise with the recovery. After a historically wide budget deficit of 6.2% of GDP in 2020, the government plans to modestly narrow the deficit in 2021 and 2022. In 2023, the government plans a sharper fiscal consolidation as it reinstates its Constitutional budget deficit ceiling of 3% of GDP, which implies the primary budget will be near balance. Expenditure measures have contributed less than revenues to Indonesia's fiscal support during the crisis and expected consolidation in coming years. Additional spending in 2021 has been mostly for health measures, including vaccinations, and support to firms, while much of the vital social support provided in 2020 was not extended. Revenues, which fell sharply with activity and commodity prices in 2020, are expected to rise from late 2021 with higher commodity prices and the economic recovery. The government also plans to raise revenues by increasing some tax rates, including VAT rates, and by improving collection. A carbon tax, to be introduced in April 2022, will be among the new revenue measures. The rate of USD 2.10 per tonne of CO_2 equivalent is lower than originally planned and most other countries' carbon taxes, but it is an important step to pricing carbon. Indonesia plans to develop a carbon market to help substantially reduce its greenhouse gas emissions, which are currently the highest relative to GDP among G20 countries after accounting for land use. Meanwhile, Indonesia continues to subsidise energy, notably electricity, which is largely generated with coal. Subsidies of USD 4.3 billion (0.4% of GDP) in 2021 mostly benefit small household and business users. The government is working to cut subsidy costs by improving energy efficiency and the efficiency of electricity generation and distribution.

Monetary policy is expected to remain supportive as fiscal policy consolidates. Bank Indonesia (BI) has maintained its policy interest rate at the historic low of 3.5%, and it is expected to maintain rates at this level into 2022 before gradually raising rates as inflationary pressures emerge. The desynchronisation between monetary policy in Indonesia and other economies creates risks of portfolio capital outflows, which would place pressure on the Rupiah exchange rate and interest rates. However, the rise in global commodity prices is providing some offsetting support to the Rupiah. Maintaining the credibility of BI's inflation targeting framework, and exchange rate flexibility, will help monetary policy to support the recovery.

Completing the vaccination campaign will allow the economy to rebound

Improvements in the health situation and the progressive lifting of restrictions are projected to enable a demand-driven rebound in activity late in 2021 and into 2022. Higher commodity prices, the recovery in global travel and tourism, and Indonesia's spare capacity compared with other manufacturing exporters are expected to support exports, employment and incomes. Private investment is likely to be additionally supported by the relatively low cost and ready access to financing following a period of depressed borrowing. These factors should more than offset the withdrawal of fiscal support. Inflation is projected to gradually rising to the centre of Bank Indonesia's target band. Factors moderating inflation pressures include the spare capacity created by the crisis, price subsidies that limit the pass-through of higher energy prices, the stable Rupiah, and well-anchored inflation expectations.

Realising the projected rebound and return to growth will require the recent pace of vaccination to continue, so as that the population is broadly vaccinated by the second quarter of 2022. New supply shortages or logistical challenges that delayed the ramping-up of vaccinations, or the growth of vaccination hesitancy, could expose the country to future waves of infections and further delay the recovery. If the normalisation of the health and economic situations is delayed, the planned return of the budget deficit to within the 3% of GDP ceiling would weaken the recovery and increase the risk of scarring from the crisis. In this case, the limited resources for social protection could amplify the humanitarian impact of the crisis, for example by allowing past progress in reducing poverty and inequality to unwind.

Higher-quality investment in infrastructure and skills can accelerate Indonesia's convergence

The COVID-19 crisis has set back Indonesia's convergence with high-income countries, underscoring the importance of continuing progress on reforms and investments in infrastructure and skills. Ensuring infrastructure becomes a driver rather than a drag on rapid growth in activity and living standards is an ongoing challenge in Indonesia, amplified by the growing priority of cutting greenhouse gas emissions. Better co-ordination across levels of government, a more robust public procurement system that awards contracts to the highest economic quality bid, and strengthening transparency and integrity in public resource management can improve the quality and effectiveness of public investment. The introduction of a carbon price and planned development of a carbon market will encourage private investments that support the green economy transition. Developing institutional integrity and effectiveness, including by supporting Bank Indonesia's integrity, can help deepen domestic financial markets and support financing for innovative businesses and investments. Boosting educational outcomes and skills is vital for sustained growth in productivity and well-being, especially following the disruption to schooling during the COVID shutdowns. For example, solid analytical and problem-solving capabilities across the population provide the best foundations for the government's digital and high technology goals. Achieving this will require reforms such as making early childhood education compulsory, improving teaching quality through better contracts and performance support for teachers, and developing transparent and robust certification of tertiary and vocational education quality.

Ireland

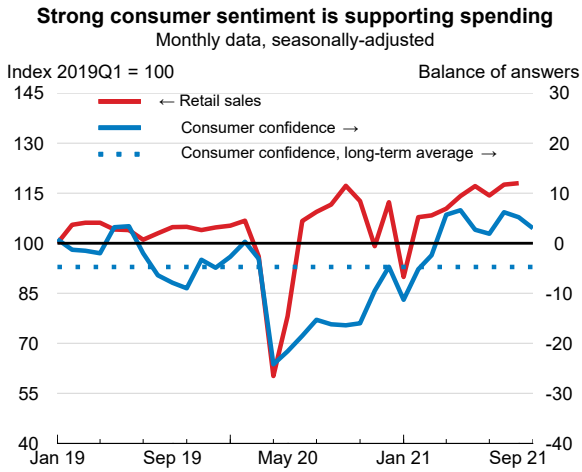
Underpinned by continued export buoyancy in multinational dominated sectors and a rebound in domestic activity, growth is surging in 2021 to 15.2%, before gradually easing in 2022 to 5.7% and 3.9% in 2023. The unwinding of households' large pandemic-related excess savings will support consumer spending, as will the projected labour market recovery. Improving confidence foreshadows robust domestic investment.

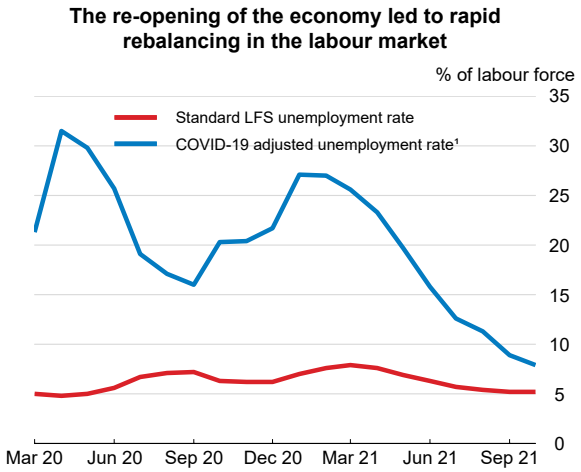
Markedly improved labour market conditions justify the phasing out of emergency support by early 2022. To ensure an equitable recovery in the context of the digital and energy transitions, policy needs to remain supportive for the most vulnerable groups. Effectively targeted fiscal measures will be key to shielding unskilled workers and low-income households from the scars of long-term unemployment and energy poverty. Similarly, persistent Brexit-related business disruptions may warrant enhanced temporary support to affected SMEs.

Widespread vaccination has supported the rebound in domestic activity

An effective vaccination roll-out supported the economy's gradual re-opening and helped reduce pressure on hospitals. However, more recently, hospital and intensive care admissions have mounted, despite about 92% of the adult population being fully vaccinated. The government has consequently postponed plans for a full easing of remaining restrictions by end-October and re-introduced some limitations, while extending access to vaccine booster doses.

Ireland





1. The COVID-19 adjusted monthly unemployment rate can be considered as the upper bound of the "true" unemployment rate, as it is computed as if all recipients of Pandemic Unemployment Payments were classified as unemployed, according to ILO standards.
Source: Central Statistics Office; and European Commission, Directorate-General for Economic and Financial Affairs.

StatLink https://stat.link/aums0l

Ireland: Demand, output and prices

Ireland	2018	2019	2020	2021	2022	2023
	Current prices EUR billion	Percentage changes, volume (2019 prices)				
GDP at market prices	325.6	5.1	5.8	15.2	5.7	3.9
Private consumption	99.2	3.2	-11.1	6.3	9.9	3.9
Government consumption	38.8	6.8	9.4	2.5	-1.5	1.5
Gross fixed capital formation	91.9	100.5	-22.9	-45.7	11.7	6.0
Final domestic demand	229.9	43.2	-14.8	-21.1	8.1	4.2
Stockbuilding[1]	3.0	1.5	0.0	0.3	0.1	0.0
Total domestic demand	232.9	46.8	-13.7	-20.6	8.3	4.1
Exports of goods and services	399.7	10.5	9.5	17.2	5.5	4.2
Imports of goods and services	307.0	42.5	-7.5	-10.3	6.5	4.6
Net exports[1]	92.7	-27.2	21.4	33.7	1.7	1.5
Memorandum items						
GVA[2], excluding sectors dominated by foreign-owned multinational enterprises	_	3.7	-8.6	4.1	8.0	4.1
GDP deflator	_	4.1	-1.3	-0.6	2.1	1.4
Harmonised index of consumer prices	_	0.9	-0.5	2.1	2.7	1.7
Harmonised index of core inflation[3]	_	0.9	-0.1	1.4	1.9	1.7
Unemployment rate (% of labour force)	_	5.0	5.8	6.3	5.7	5.1
Household saving ratio, net (% of disposable income)	_	5.3	21.6	15.3	6.5	5.1
General government financial balance[4] (% of GDP)	_	0.5	-4.9	-3.2	-1.7	-0.6
General government gross debt (% of GDP)	_	69.5	72.3	69.6	68.0	66.5
General government debt, Maastricht definition[5] (% of GDP)	_	57.3	58.5	55.8	54.2	52.7
Current account balance (% of GDP)	_	-19.9	-2.7	16.3	18.2	19.2

1. Contributions to changes in real GDP, actual amount in the first column.
2. Gross value added.
3. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
4. Includes the one-off impact of recapitalisations in the banking sector.
5. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 110 database.

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Real GDP is growing very strongly in 2021, underpinned by persistently buoyant exports in multinational-dominated sectors and a strong rebound in domestic-oriented ones, following the gradual lifting of restrictions. A successful vaccination rollout strengthened household confidence, which, combined with large pandemic-related excess savings, supported strong consumption growth. Business conditions remain sound, as firms continue to hire on the back of expanding orders and investment prospects have improved. However, the recovery remains uneven, with output in many contact-intensive sectors still below pre-pandemic levels. Moreover, increased supply chain delays, triggered by rapidly growing demand, have resulted in markedly higher input prices. Were firms to pass such cost pressures fully on to consumers, upside inflationary risks, already relatively high with annual inflation rising to 5.1% in October, would be further intensified.

Fiscal support needs to be increasingly targeted

The strength of the recovery and the resilience of the labour market, since the re-opening of the economy, warrant the government's decision to phase out the Pandemic Unemployment Payments and Employment Wage Subsidy schemes by the end of April 2022. The fiscal stance, though, is set to remain supportive. Targeted social measures will be required to sustain displaced workers and ailing, but viable, firms in the most affected sectors. At the same time, revenues from the newly increased carbon tax will be largely

earmarked to offset its regressive impact on poorer households. The adoption of a spending rule and much larger than expected tax receipts, as of late, have significantly improved public finances. The budget deficit is expected to almost vanish by 2023. Still, further expansions in current expenditure will have to be kept in check in the medium term. Ensuring an adequate build-up of fiscal reserves to tackle the long-term consequences of population ageing, while meeting growing housing needs and funding the climate and digital transitions, will remain the country's main fiscal challenge.

The economy is poised for a strong recovery

High household excess savings and confidence levels have paved the way for a rebound in consumer spending. This will gain further momentum in 2022, as sanitary restrictions are lifted. Because of still impaired global supply chains, strong growth of domestic demand will see inflationary pressures rise in the near term. These, however, will start to subside from mid-2022. Strong economic activity will support employment and wage growth. The phasing out of public support schemes in early 2022, though, will slow the standard unemployment rate's return to 2019 pre-pandemic levels, which will be reached only by the end of 2023**.**

In the near term, the re-imposition of tighter restrictions, driven by an acceleration of infections with the Delta variant and mounting pressure on hospital capacity, could limit the rebound in consumption and weigh on labour market outcomes. In the medium term, to the extent that higher corporate tax rates may influence the localisation of multinationals, the recent agreement on international taxation could have implications for Ireland's economy and public finances. In addition, heightened tensions around the implementation of the agreement between the European Union and the United Kingdom could further aggravate business constraints, risking a reorientation of trade flows. On the upside, a faster-than-expected recovery in tourism could bring a needed boost to the lagging hospitality industry.

Sustaining growth will require structural measures

While the short-term outlook is favourable, Ireland faces important challenges in the medium to long term in sustaining growth and improving well-being. The government has recently launched a programme to boost housing supply and has committed to ambitious climate change objectives. These will require substantial investment. Therefore, maintaining budgetary discipline and boosting participation and productivity in the domestic-oriented economy, in particular by enhancing access to finance for innovative SMEs, will be important. COVID-19 stretched the medical system's capacity, suggesting attention to ensuring effectiveness in health spending is warranted.

Israel

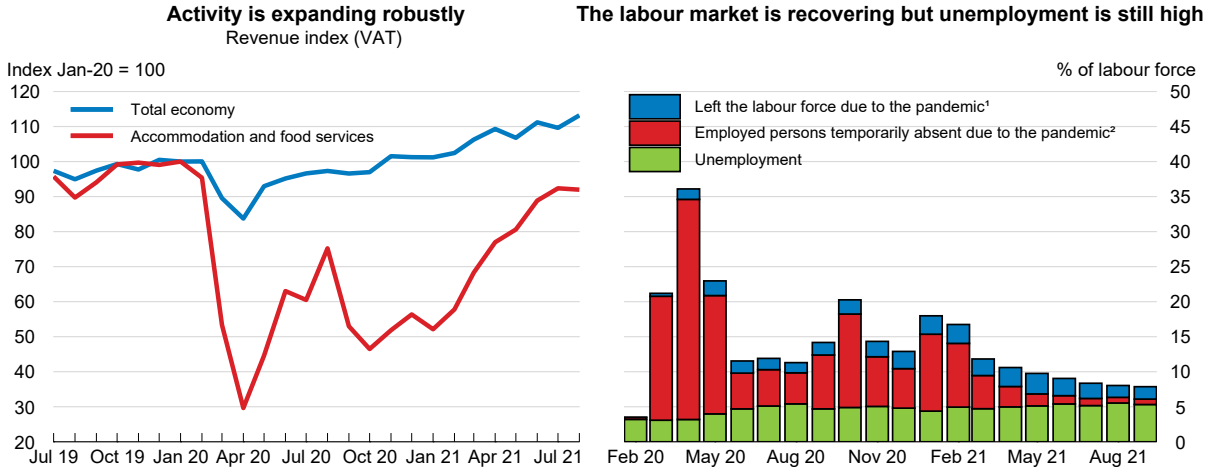
Economic activity rebounded strongly in 2021 and GDP is projected to grow robustly by 6.3% in 2021, 4.9% in 2022 and 4% in 2023. The progressing booster vaccination campaign, a gradually recovering labour market and fading uncertainty will support domestic demand. Strong growth of high-tech services exports will continue. The recovery could be slower if the health situation deteriorates again, or the increase in inflation is stronger or more persistent than assumed in the projections. Growth could be stronger if accumulated savings are withdrawn more quickly.

The withdrawal of policy support should be gradual, given still substantial uncertainties about the outlook. Support should focus on helping the unemployed transition to new jobs. The government adopted an ambitious reform programme in August 2021, including measures to boost infrastructure investment and improve the business environment. Timely and effective implementation of the programme would strengthen productivity and make the recovery more sustainable.

The fourth wave of the pandemic had limited impact on the recovery

After a strong fourth wave of the pandemic in the summer, the number of infections and severe cases started to recede at the end of September. In response to the fourth wave, the government tightened some restrictions on gatherings, albeit with limited impact on economic activity, and launched a booster vaccination campaign in August. The campaign offered third vaccinations to the elderly first and to all people above 12 years quickly thereafter. As of mid-November, about 43% of the population had received a booster vaccination. Since October, a number of indoor activities require a third vaccination.

Israel



1. 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.
2. 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: Israel Central Bureau of Statistics; and OECD calculations.

StatLink https://stat.link/w6ag09

Israel: Demand, output and prices

Israel	2018	2019	2020	2021	2022	2023
	Current prices NIS billion	Percentage changes, volume (2015 prices)				
GDP at market prices	1 341.6	3.7	-2.1	6.3	4.9	4.0
Private consumption	731.2	4.0	-9.2	10.2	6.6	4.6
Government consumption	305.3	2.7	2.5	1.0	1.0	0.4
Gross fixed capital formation	286.1	3.0	-4.0	9.1	6.2	5.3
Final domestic demand	1 322.6	3.5	-5.3	7.7	5.2	3.8
Stockbuilding[1]	7.8	0.2	1.1	-0.3	-0.2	0.0
Total domestic demand	1 330.4	3.7	-4.2	7.3	5.0	3.8
Exports of goods and services	402.4	3.7	-1.9	11.4	6.5	4.9
Imports of goods and services	391.3	3.3	-9.4	15.4	5.2	4.4
Net exports[1]	11.2	0.1	2.0	-0.4	0.6	0.4
Memorandum items						
GDP deflator	_	1.9	0.9	2.4	2.1	1.3
Consumer price index	_	0.8	-0.6	1.5	2.1	1.4
Core inflation index[2]	_	0.7	-0.1	1.3	2.1	1.4
Unemployment rate (% of labour force)	_	3.8	4.3	5.2	5.0	4.3
Household saving ratio, gross (% of disposable income)	_	2.8	11.0	6.7	3.6	3.1
General government financial balance (% of GDP)	_	-3.9	-10.8	-5.6	-3.9	-3.2
General government gross debt (% of GDP)	_	59.5	71.5	71.5	70.8	70.5
Current account balance (% of GDP)	_	3.4	5.4	5.7	5.6	5.7

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 110 database.

StatLink https://stat.link/lc3dy2

Economic activity has rebounded strongly and GDP already surpassed its pre-pandemic level by mid-2021. GDP growth moderated to around 0.6% in the third quarter of 2021 relative to the second quarter, partly driven by volatile car purchases. The labour market is recovering on the back of the return of furloughed workers, but the number of unemployed workers remains significantly above pre-pandemic levels. At the same time, the job vacancy rate has increased strongly this year, exceeding pre-crisis levels. Consumer price inflation accelerated to 2.3% in October 2021, mainly on the back of rising energy, food and housing expenditure prices. Survey-based medium-term inflation expectations remain anchored close to the mid-point of the central bank's target range (1-3%).

Policy support is being withdrawn

The government significantly tightened eligibility to unemployment benefits for workers on unpaid leave in June and phased out grants to hard-hit businesses. The authorities target a central government budget deficit of 3.9% in 2022, down from around 11.6% in 2020. This is largely on account of strong revenue growth, driven by buoyant activity in the high-tech and real estate sectors, the phasing out of most COVID-19 emergency support measures, and some additional consolidation efforts. The central bank ended its credit facility for SMEs via banks and announced the end of its government bond-buying programme by the end of the year, conditional on the recovery staying on track.

The economy will continue to recover robustly

Private consumption is projected to grow robustly as the booster vaccination campaign progresses, remaining restrictions are removed, and the labour market gradually improves. Fading uncertainty will boost investment growth while exports will be supported by the continued strength of high-tech services. Growth is projected to converge towards its potential rate in 2023. Unemployment will remain above the pre-crisis levels until the end of 2023, which will moderate wage growth. The projections take into account the government's fiscal target for 2022, and assume continuing fiscal consolidation in 2023, as well as increases in the policy rate in 2023. Consumer price inflation is projected to fall below the mid-point of the central bank's target range in 2023 as energy price increases abate and supply shortages ease over the projection period. The recovery could be slower if the health situation deteriorates again. A stronger or more persistent increase in inflation could force the central bank to tighten the monetary stance earlier and more strongly with adverse consequences for growth. On the upside, consumption growth could be stronger if accumulated savings are withdrawn more quickly.

Implementing structural reform plans would strengthen productivity

The withdrawal of policy support should be gradual, given still substantial uncertainties about the outlook and high unemployment. Stepping up retraining and job-search support can help the unemployed transition to new jobs and avoid unemployment becoming structural. The government's plans to boost infrastructure investment, streamline licencing requirements, lower tariffs and reform the vocational system have the potential to foster competition, business dynamism and productivity growth. More investment in pre-school education would improve skills and make growth more inclusive. The planned introduction of carbon pricing in the medium term will help reach the new and more ambitious greenhouse gas emissions reduction targets more cost-effectively and should be complemented by removing barriers to the expansion of renewable energy and improving energy efficiency.

Italy

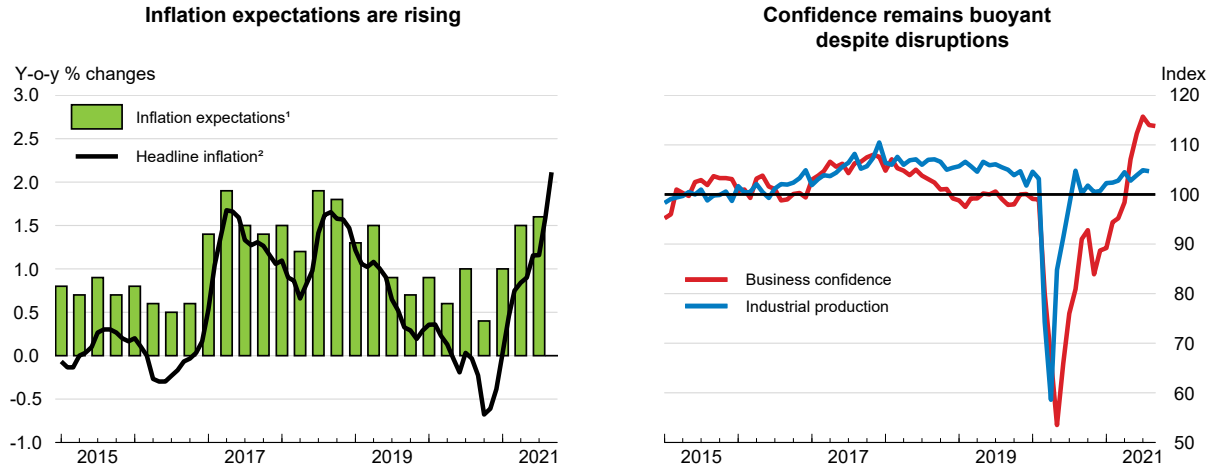
The strong 2021 rebound from COVID-19 is forecast to ease progressively in 2022 and 2023, with growth of 4.6% and 2.6%. The recovery is expected to benefit from supportive fiscal policy, including investment financed through Next Generation EU funds, and progressively normalising services activity. A gradual rise in employment should support steady consumption growth. The recent increase in headline inflation is expected to moderate, but core inflation is forecast to rise as spare capacity declines and purchasing power increases.

Fiscal policy is expected to remain supportive over the forecast horizon. Household transfers for energy price shocks and the planned reform of taxes and social safety nets will be important to sustain the recovery. Support for firms should be increasingly targeted to the most viable. Higher growth over the medium term is needed to lower public debt. The implementation of structural reforms to digitise and streamline civil justice and bankruptcy systems, increase competition, especially in services, and raise the effectiveness of the public administration remain crucial, alongside tax reform to reduce the labour tax wedge and complexity.

The recovery has expanded to the services sector as COVID-19 restrictions abated

Growth in the third quarter maintained the strong pace of the second quarter rebound, with services sector activity recovering thanks to eased COVID-19 restrictions. Growth in industrial production and retail sales continued in the third quarter, although at more moderate rates. Confidence remains elevated, at levels above or equal to 2019. Surveys suggest disruptions to global trade continue, although local supply chains appear to have mitigated some of the impact. Tourism rebounded in the third quarter, but levels remain well below 2019. A subdued employment recovery has lagged improved activity. Temporary contracts have driven job gains. Contract negotiations suggest still contained wage growth, with much of the recent improvement in wage growth driven by workers exiting short-time work and returning to jobs.

Italy 1



1. All businesses expected rate of annual inflation in 2 years time based on survey conducted by Banca d'Italia.
2. Headline inflation, harmonised index of consumer prices (HICP).
Source: ISTAT; Bank of Italy; and OECD Monthly Economic Indicators.

StatLink https://stat.link/ri549l

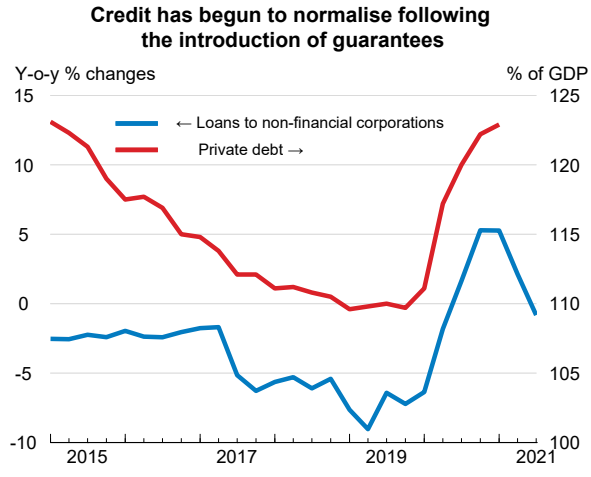
Italy: Demand, output and prices

Italy	2018	2019	2020	2021	2022	2023
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	1 771.2	0.4	-9.0	6.3	4.6	2.6
Private consumption	1 066.3	0.2	-10.8	5.5	4.7	1.9
Government consumption	334.5	-0.5	1.9	1.1	1.0	1.2
Gross fixed capital formation	316.2	0.7	-9.4	16.5	7.6	5.2
Final domestic demand	1 716.9	0.2	-8.1	6.5	4.5	2.4
Stockbuilding[1]	11.7	-0.5	-0.4	-0.2	-0.1	0.0
Total domestic demand	1 728.6	-0.3	-8.4	6.4	4.4	2.4
Exports of goods and services	555.0	1.8	-14.7	12.7	6.9	4.1
Imports of goods and services	512.4	-0.5	-13.4	13.9	6.4	3.8
Net exports[1]	42.6	0.7	-0.9	0.1	0.4	0.2
Memorandum items						
GDP deflator	_	0.9	1.2	1.5	1.9	1.6
Harmonised index of consumer prices	_	0.6	-0.1	1.8	2.2	1.6
Harmonised index of core inflation[2]	_	0.5	0.5	0.7	1.2	1.6
Unemployment rate (% of labour force)	_	10.0	9.3	9.6	8.9	8.4
Household saving ratio, net (% of disposable income)	_	2.5	10.3	4.7	1.0	-0.1
General government financial balance (% of GDP)	_	-1.5	-9.6	-9.4	-5.9	-4.3
General government gross debt (% of GDP)	_	155.7	183.9	182.7	178.6	176.8
General government debt, Maastricht definition[3] (% of GDP)	_	134.3	155.7	154.6	150.4	148.6
Current account balance (% of GDP)	_	3.2	3.5	3.1	3.0	3.1

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.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/5u230y

Italy 2



Source: Bank of Italy; and ISTAT.

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The rise in inflation has been driven by energy price developments, although prices for activities heavily affected by COVID-19 restrictions, such as restaurants and leisure, have rebounded alongside activity. Price expectations have risen across firms in both the short and long term, but remain below 2%. Health policies continue to facilitate low levels of COVID-19-related restrictions, with all regions bar one subject to the least restrictive regime. Although infection rates have risen substantially with the spread of the delta variant, hospitalisation rates remain low in most regions. Vaccination rates continue to rise, with over 90% of those 50 and older now fully vaccinated, and more than a quarter of those over 70 having received their booster shots. All workers are now required to provide proof of vaccination, immunity or a negative COVID-19 test.

Fiscal policy remains supportive

Fiscal policy remains supportive, as confirmed by the interim budget, with the government targeting a steady reduction in the primary deficit to 1.2% of GDP in 2023. This is a slightly faster improvement than the OECD forecast of 1.8% of GDP, with the difference driven primarily by the government assuming stronger revenue outcomes. Reduced COVID-19 income support to households in 2022 will be offset by revised social safety nets, including the universal child allowance, and higher health care spending. Tax payment deferrals have been extended. Targeted support to firms will be extended beyond 2021 through the SME guarantee fund. Reforms to the tax system will be focused on reducing the labour tax wedge to support employment and improving equity. The government has set aside EUR 8 billion to support tax reform.

In response to the current energy price spike, the government reduced system charges for renewable energy subsidies, lowered the VAT rate on gas to 5% and increased existing energy subsidies for poorer households. Over EUR 5.5 billion has been allocated for 2021 and 2022. The National Recovery and Resilience Plan commits over EUR 100 billion in spending to the green transition, including infrastructure to support greener transport options such as rail and electric vehicles, increased renewable energy supply as well as incentives to support energy efficiency for households. The interim budget reaffirmed the government's commitment to reaching the New Green Deal and the objective of gradually removing harmful environmental subsidies and rationalising energy prices.

The growth turnaround is set to continue

GDP growth is expected to remain robust over the forecast horizon, albeit slowing as activity normalises and fiscal stimulus is gradually withdrawn. Private investment is forecast to remain robust as demand, reform implementation and investment incentives sustain confidence. The National Recovery and Resilience Plan supports higher public investment. Tourism and global supply chain constraints are forecast to ease steadily, sustaining export growth. Household consumption is expected to rise as employment gradually increases, fiscal policy is supportive, confidence rises and COVID-19-related restrictions ease on services activities. Corporate failures are expected to rise. Adequate loan loss provisioning will help mitigate the impact on larger banks and their lending. Although energy price impacts will gradually fade, core inflation is expected to increase over the forecast horizon. The steadily closing output gap and higher employment will allow some pass-through of higher producer prices to consumers. Stronger-than-expected 2021 growth has helped to lower the debt-to-GDP ratio.

Risks to the forecast are balanced, given the heightened uncertainty about the recovery trajectory. The recovery in household spending could be weakened by inflation eroding purchasing power, particularly from energy prices, faltering employment or confidence. By contrast, a stronger recovery in permanent jobs and higher wages present upside risks. The pace of implementation of the National Recovery and Resilience Plan presents up and downside risks to confidence and growth. Much will depend on the success of the recently legislated deadlock breaking mechanisms. A sharp spike in non-performing loans could lower credit growth, delay already lengthy court procedures and increase the associated losses. High levels of public debt remain a source of potential vulnerability, alongside COVID-related risks.

Policy must be implemented to ensure that it supports growth

Fiscal policy support should be gradually reduced as the recovery becomes firmly established, as planned. Ongoing household support for energy price shocks and the planned reform of taxes and social safety nets are important to sustain the recovery. Support for firms should be increasingly targeted to the most viable, to mitigate potential risks to the banking sector and long-term productivity. Digitalising and streamlining civil justice and bankruptcy processes will limit downside risks to the recovery, as will increased competition and use of certification in regulation, particularly in the services sector. Over the medium term, reforms should support higher public administration effectiveness and more growth-enhancing public spending. Tax reform, combined with a redesign of family and other benefits, could lower complexity and the labour tax wedge, raising employment. The revenue from the welcome decision to reduce environmentally harmful taxes should be used explicitly to support those most affected by the green transition. A long-term plan to harmonise and gradually raise carbon prices across the different sectors, with supporting policies and time to ease transition costs, would raise certainty and support investment. It would take early advantage of Italy's already high levels of energy efficiency to support competitiveness and avoid higher transition costs in the future. A more digitised and well-staffed public sector would facilitate these reforms.

Japan

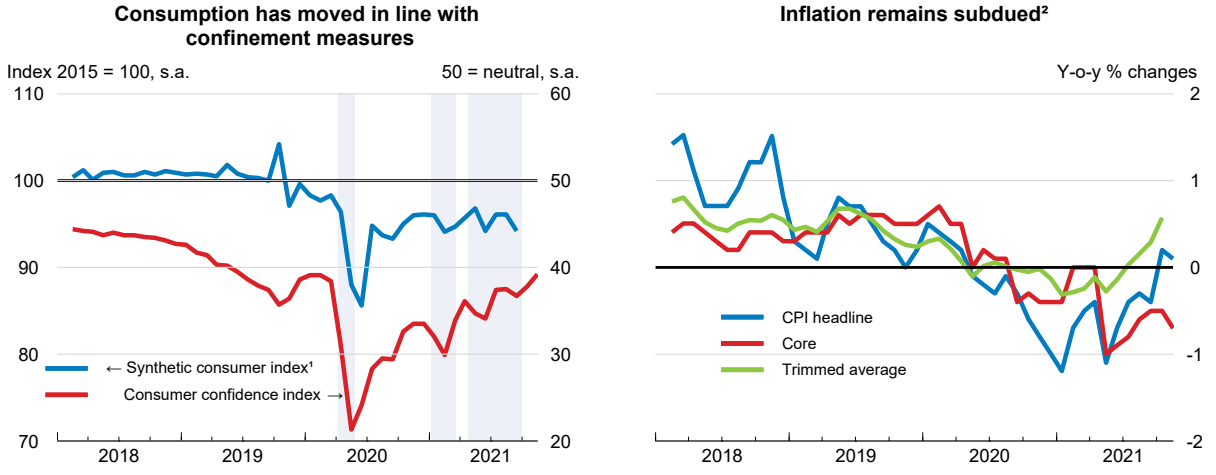
The re-introduction and expansion of the fourth state of emergency in July held back the economic recovery. Significant progress in vaccination and falling rates of infection are now supporting the resumption of stronger consumption growth and lifting investment, as supply chain disruptions are resolved. A new economic policy package will boost activity. As a result, the economy is projected to grow by 1.8% in 2021, 3.4% in 2022 and 1.1% in 2023.

With the recovery still to gain traction, policy support remains important, especially for the most affected households and businesses. Fiscal support can also improve well-being and the outlook in the longer term, such as by strengthening the medical system and by investing in human resources, technology and infrastructure. Along these lines, the new economic package will both spur the economy in the short run and support longer-term growth. Once the recovery is secured, the government should resume fiscal consolidation efforts to ensure longer-term sustainability.

Growth slowed with confinement measures, but will rebound as they are lifted

The introduction and then expansion of a fourth state of emergency due to surging Delta variant infections held back the recovery of consumption in mid-year, causing GDP to decline in the third quarter. However, the subsequent improvement of the sanitary situation thanks to rapid vaccination has allowed confinement measures to be removed gradually from October. Indeed, vaccination rates now surpass many of the countries that started campaigns earlier. Current supply-chain disruptions, especially amongst major trading partners, have weighed on production and trade, and pushed up producer prices.

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 periods when states of emergency were declared.
2. Consumer price indices exclude the impact of the October 2019 consumption tax increase. The core price index excludes energy and fresh food related items from headline CPI. The trimmed average is calculated by excluding the top and bottom decile of the price changes (measured by items' weight in the CPI).
Source: Cabinet Office; Ministry of Internal Affairs and Communications; and Bank of Japan.

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Japan: Demand, output and prices

Japan	2018	2019	2020	2021	2022	2023
	Current prices YEN trillion	Percentage changes, volume (2015 prices)				
GDP at market prices	556.2	0.0	-4.6	1.8	3.4	1.1
Private consumption	305.0	-0.3	-5.8	1.3	4.2	1.7
Government consumption	108.9	1.9	2.8	2.7	1.1	-1.7
Gross fixed capital formation	140.1	0.9	-4.2	-0.6	4.4	1.9
Final domestic demand	554.0	0.4	-3.7	1.1	3.5	1.0
Stockbuilding[1]	2.0	0.0	-0.1	-0.2	0.1	0.0
Total domestic demand	556.1	0.5	-3.8	1.0	3.6	1.0
Exports of goods and services	101.9	-1.5	-11.7	11.3	4.3	3.4
Imports of goods and services	101.8	1.0	-7.3	6.0	4.9	2.6
Net exports[1]	0.1	-0.4	-0.7	0.8	-0.1	0.1
Memorandum items						
GDP deflator	_	0.6	0.8	-0.6	0.6	0.7
Consumer price index[2]	_	0.5	0.0	-0.2	0.8	0.8
Core consumer price index[3]	_	0.4	0.1	-0.5	0.5	0.8
Unemployment rate (% of labour force)	_	2.3	2.8	2.8	2.6	2.4
Household saving ratio, net (% of disposable income)	_	2.7	10.7	7.1	5.8	3.3
General government financial balance (% of GDP)	_	-2.9	-9.5	-6.4	-6.9	-3.1
General government gross debt (% of GDP)	_	223.0	237.3	242.0	243.4	244.0
Current account balance (% of GDP)	_	3.4	2.9	3.2	2.5	2.5

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 110 database.

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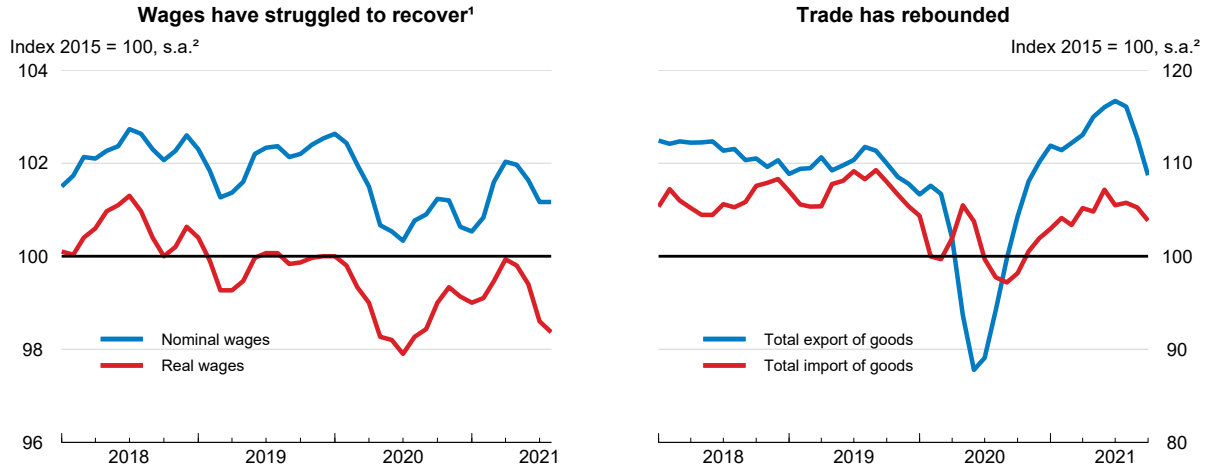
Japan 2



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

StatLink https://stat.link/gcquaw

However, cost pressures have not been passed on to consumers with negative implications for business profitability and wage growth, which remains weak especially due to a reduction of working hours and declines in the regular summer bonus payments. Consumer price inflation has remained subdued, particularly following a cut of mobile phone fees in early 2021 (reducing inflation by 1.1 percentage points). Excluding this one-off effect, inflation has turned positive more recently, but remains below the 2% inflation target.

Fiscal and monetary policies remain supportive

While Japan started its vaccination campaign after many other countries, central and local governments successfully accelerated vaccination and over 75% of the total population had been fully vaccinated by mid-November 2021. Partly thanks to fast vaccine deployment and targeted confinement measures, the number of COVID-19 infections and deaths has fallen dramatically and remains low in comparison with many other countries. The government has adapted its guidance in dealing with COVID-19 with the aim of avoiding stop-and-go confinement measures. For example, some local governments started subsidising holders of certificates of vaccination or negative test results for some services. In addition, the new Japanese government has disclosed an economic policy package, which includes measures such as increasing the health care system's in-patient capacity, continued support for affected households and promotion of sectors that can help strengthen supply chain resilience. The package also features policies supporting longer-term growth and redistribution. Total additional government spending will be around JPY 50 trillion (9.2% of 2020 GDP), boosting economic activity mainly in 2022 and 2023.

Monetary policy has remained accommodative, with yield curve control maintaining longer-term interest rates around zero as well. The Bank of Japan has also supported lending to businesses affected by the coronavirus and has recently extended the duration of this support by six months until the end of March 2022 as firms remain under stress. In addition, the Bank of Japan has decided to introduce support for financial institutions that lend or invest in green projects, using interest rate differentials as an incentive. This scheme will become operational in December 2021, and will continue until early 2031 to provide long-term support towards climate targets.

Economic growth will continue, but risks remain

Private consumption is projected to continue to recover as remaining confinement measures are lifted, supported by measures in the new economic policy package including benefits to households and a resumption of the "Go To Travel" campaign. While they are currently affected by supply-chain disruptions, exports are set to expand steadily as trade partners recover. Imports will also grow, reflecting the recovery of domestic consumption and business investment. Recent surveys point to strong planned investment including in software and R&D. Investment will be buoyed by the recovery of exports and production, plus the subsidies to SMEs and R&D, especially in the digital and green areas. The labour market will continue improving, although wage growth may remain sluggish in the near term, partly due to composition effects with the re-employment of lower-wage workers and squeezes on corporate profits. Consumer price inflation will gradually increase as domestic demand grows, but remain below target. Accordingly, monetary policy will remain accommodative.

Sanitary risks remain important. Even with a high vaccination rate, breakthrough infections by a new variant could occur. Further sanitary shocks in other countries would strongly affect trade and prices, weakening production and investment. In contrast, faster improvement of the sanitary situation globally and rapid deployment of effective therapeutic medicines or a swift easing of supply-chain restraints would boost confidence, consumption and investment.

Further reforms are required for sustainable growth

In order to secure a resilient recovery, the government should continue to support affected households and firms. However, support should become more targeted. Spending to enhance the medical system, including by developing vaccines and medicines for COVID-19, will improve the country's resilience in case of a new public health emergency. To avoid scarring effects and offset the effects of an ageing population, continuing "work-style" reform to encourage greater participation and enhancing vocational training and education to improve the chances of entering employment are important. The digital transformation could also serve to improve resilience to sanitary shocks and boost productivity. In addition, greater digitalisation may enable the economy to cope more effectively with supply shocks. Against this backdrop, the Digital Agency, established in September 2021, should support greater digitalisation in both public and private sectors. As also highlighted in the new policy package, increasing R&D and investment in digitalisation and to reach climate change objectives could enhance longer-term growth and sustainability, while supporting the economy as the recovery gains greater traction. Timely and successful implementation, with regular evaluation, will help achieve these goals. However, this large-scale stimulus will push up government debt further still. Once the economic recovery is well on track, fiscal consolidation efforts should resume on both the expenditure and the revenue side, including social security and tax system reforms, to ensure longer-term sustainability in the face of demographic headwinds.

Korea

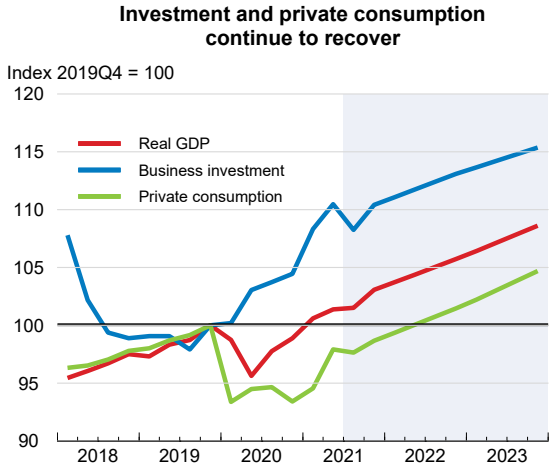
The Korean economy continues to recover following the COVID-19 shock, propelled by strong export growth, improving business investment and public support. Growth is set to reach 4% in 2021 and to remain robust in 2022 and 2023, averaging close to 3%. While distancing measures have weighed on the service sector over the past summer, rapid vaccination paves the way for an acceleration in private consumption.

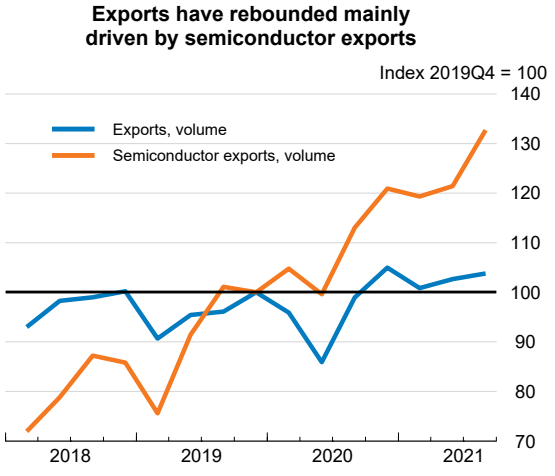
The Bank of Korea has started to normalise monetary policy to address rising inflation and high and rising household debt. Fiscal support should continue, notably to low-income households and businesses hard-hit by the pandemic, until the recovery is well under way. Relatively low public debt leaves room for continued fiscal support, but prioritising spending is important given the need to address rapid population ageing and climate change and reduce income inequality in line with the New Deal initiatives.

Rapid vaccination set the stage to ease restrictions

Strict distancing measures to contain the spread of the Delta variant, notably in the greater Seoul area, have been in place since July, holding back the recovery of customer-facing services and constraining third-quarter growth. However, following a rapid vaccination campaign, close to 83% of the total population had received their first shots and around 80% had been fully vaccinated by 25 November. This is enabling a phased easing of restrictions on business operations and private gatherings. Exports and business investment have been strong this year owing to soaring global demand, notably for semiconductors, and employment is rising. Job recovery in in-person services has lagged behind but is expected to rebound as distancing measures are lifted. The annual rate of headline consumer price inflation rose to 3.2% in October, and core inflation, excluding food and energy, reached 2.4%.

Korea





Source: OECD Economic Outlook 110 database; and Bank of Korea.

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Korea: Demand, output and prices

Korea	2018	2019	2020	2021	2022	2023
	Current prices KRW trillion	Percentage changes, volume (2015 prices)				
GDP at market prices	1 898.2	2.2	-0.9	4.0	3.0	2.7
Private consumption	911.6	2.1	-5.0	3.4	3.3	3.0
Government consumption	304.7	6.4	5.0	5.5	4.3	3.2
Gross fixed capital formation	576.6	-2.1	2.6	2.6	2.0	2.2
Final domestic demand	1 792.9	1.5	-0.8	3.5	3.1	2.8
Stockbuilding[1]	21.1	0.0	-0.6	-0.3	0.1	0.0
Total domestic demand	1 814.0	1.5	-1.5	3.3	3.1	2.8
Exports of goods and services	791.8	0.2	-1.8	8.5	2.1	2.2
Imports of goods and services	707.6	-1.9	-3.3	7.5	2.4	2.4
Net exports[1]	84.2	0.8	0.5	0.7	0.0	0.0
Memorandum items						
GDP deflator	_	-0.8	1.3	2.0	1.4	0.8
Consumer price index	_	0.4	0.5	2.4	2.1	1.5
Core inflation index[2]	_	0.7	0.4	1.3	1.9	1.5
Unemployment rate (% of labour force)	_	3.8	4.0	3.6	3.1	3.1
Household saving ratio, net (% of disposable income)	_	8.1	14.1	12.0	9.9	8.2
General government financial balance (% of GDP)	_	1.0	-2.3	-2.9	-2.5	-2.1
General government gross debt (% of GDP)	_	44.2	45.4	47.8	49.2	52.6
Current account balance (% of GDP)	_	3.6	4.5	5.0	4.4	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 110 database.

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Monetary policy normalisation has begun, while fiscal policy remains supportive

Expansionary fiscal policy continues to support the economy. The government has introduced two sizeable supplementary budgets totalling about KRW 50 trillion (2.6% of annual GDP) this year, with programmes including cash relief as well as job creation and retention schemes. The 2022 budget spending proposal of KRW 604 trillion entails an 8.3% increase compared to the 2021 original budget. The government allocated KRW 12 trillion to reduce greenhouse gas emissions and respond to the climate crisis in the 2022 budget as a step towards Korea's 2050 net zero target. The general government deficit is projected to reach around 3% of GDP in 2021 and 2.5% of GDP in 2022, and gross general government debt is expected to rise to about 52% of GDP by 2023.

The Bank of Korea raised its policy rate by 25 basis points to 1% in November, following a similar increase in August, to contain rising inflation and household debt, and has signalled further increases. Nominal wages were up over 4% in the first half of this year but this mainly reflects a low base effect from last year.

Economic growth is expected to be stable through 2023

After a rebound of 4% in 2021, real GDP is projected to grow by 3% in 2022 and 2.7% in 2023. A gradual relaxation of distancing measures and supportive fiscal policy will boost private consumption and employment, notably in the service sector. Export growth is projected to remain robust through 2023 on the back of strong global demand for major items such as IT products, machinery and petrochemicals. However, supply bottlenecks and shortages causing delivery delays are likely to continue to hamper exports of some products. Business investment is set for solid growth, owing to strong demand for Korean products and planned government spending on key industries such as semiconductors, batteries and vaccines. Rising house prices and the build-up of household debt raise financial stability concerns.

Public support remains needed for economic recovery and sustainable growth

Fiscal support to households and companies particularly affected by the pandemic should remain in place until the economy has fully recovered. However, it should become more targeted and help facilitate job transitions. As the economy recovers, public investment should focus on accelerating digitalisation, greening the economy and reducing social inequality in line with the New Deal's orientations. In the process, it will be important to encourage the restructuring of companies and to spend more on vocational education and training for employees and youth. Monetary policy should look through the transient components of the ongoing inflation spike but become less accommodative over time. Stronger prudential policy may be needed if household debt does not level off. Meanwhile, efforts should be stepped up to supply more housing with a view to stabilising housing prices.

Latvia

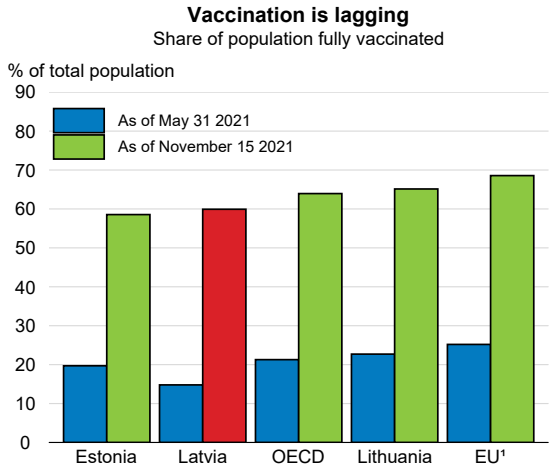
Strong economic growth is projected, but downside risks remain substantial as Latvia is experiencing its most severe wave of COVID-19 and vaccination has been slow. GDP is projected to grow by 4.3% in 2021, 3.6% in 2022 and 4.8% in 2023. Private consumption will lead the recovery, buoyed by unspent earlier government transfers to households, pent-up demand and the associated drawdown of precautionary savings. Exports will remain robust, despite global shortages of some key components. Unemployment will decrease gradually from 2022, falling close to its pre-crisis level. Inflation will ease, but remain above 2%.

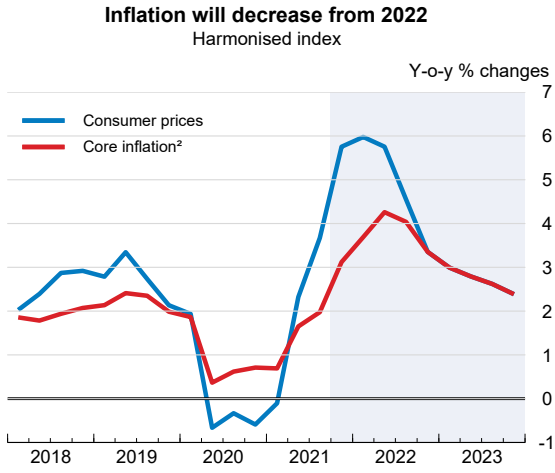
Fiscal support will diminish but substantial EU-funded investments should help to continue modernising the economy as labour supply shrinks, notably by promoting growth-enhancing improvements in transportation, skills and innovation capabilities. Efforts to confront poverty, especially among the elderly, should be strengthened.

Restrictions to economic activity have been re-imposed

The number of COVID-19 cases rose rapidly starting from mid-July and peaked at the end of October, while vaccination has been slow. Only 60% of the population is fully vaccinated, among the lowest rates in the OECD, even though the daily vaccination rate has been accelerating since mid-September. A state of emergency was imposed in October 2021 for three months. A 25-day lockdown started in late October with schooling taking place online, all non-essential stores closed and a night-time curfew imposed. Vaccinations are required for all public-sector workers and in specified private-sector professions, and many public services are available only to those with a COVID-19 certificate. The worsening pandemic has caused the Economic Sentiment indicator and business confidence in services and retail trade to drop sharply in recent months.

Latvia





1. OECD members only.
2. Harmonised index of consumer prices excluding energy, food, alcohol and tobacco.
Source: OECD Economic Outlook 110 database; and OECD calculations based on Our World in Data.

StatLink https://stat.link/89odup

Latvia: Demand, output and prices

Latvia	2018	2019	2020	2021	2022	2023
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	29.2	2.5	-3.6	4.3	3.6	4.8
Private consumption	17.3	0.2	-7.6	0.3	4.2	5.6
Government consumption	5.3	3.4	2.6	3.6	1.9	2.0
Gross fixed capital formation	6.4	6.9	0.2	5.4	6.2	7.4
Final domestic demand	29.0	2.3	-3.9	2.2	4.2	5.3
Stockbuilding[1]	0.3	1.0	0.1	6.5	-1.1	0.0
Total domestic demand	29.4	3.1	-3.8	8.4	2.9	5.1
Exports of goods and services	17.9	2.1	-2.2	3.9	5.1	4.4
Imports of goods and services	18.1	3.0	-2.5	10.7	4.0	4.8
Net exports[1]	- 0.2	-0.6	0.2	-4.0	0.6	-0.4
Memorandum items						
GDP deflator	_	2.6	-0.1	5.3	4.1	2.7
Harmonised index of consumer prices	_	2.7	0.1	2.9	4.9	2.7
Harmonised index of core inflation[2]	_	2.2	0.9	1.9	3.8	2.7
Unemployment rate (% of labour force)	_	6.3	8.1	7.5	6.6	6.2
Household saving ratio, net (% of disposable income)	_	0.1	9.1	12.9	8.2	4.9
General government financial balance (% of GDP)	_	-0.6	-4.5	-8.7	-5.4	-3.9
General government gross debt (% of GDP)	_	48.1	56.0	61.7	65.4	67.3
General government debt, Maastricht definition[3] (% of GDP)	_	36.7	43.2	49.0	52.6	54.6
Current account balance (% of GDP)	_	-0.7	2.9	-3.3	-2.1	-2.3

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.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/onfuql

Latvia's GDP grew by 0.3% in the third quarter of 2021 compared with the previous quarter. Private spending has picked up since the spring. Household consumption was supported by a steep rise in wages, following increases in the statutory minimum wage and public-sector pay, as well as shortages in skill-intensive sectors. Stockbuilding made a significant contribution to growth in the first half of 2021. Export growth has also been strong: in September, exports of goods were 24% higher than a year before, led by wood and wood products. However, pandemic containment measures have caused activity in some labour-intensive sectors to remain subdued. Overall, the national definition of the unemployment rate fell to 6.4% in September, down 1.6 percentage points compared to a year earlier. Inflation accelerated to 6% in October, driven mainly by rising housing, food and fuel prices. This has been reflected in rising inflation expectations.

Fiscal policy remains supportive

Most of the income-support measures introduced since the beginning of the crisis ended at mid-year. However, the government introduced in November 2021 a monthly allowance for five months for vaccinated seniors, partially to compensate for the increase in energy prices. The government is also planning to compensate employees and firms in sectors hurt by the lockdown and keep increasing doctors', teachers' and police officers' pay. The underlying government primary deficit is projected to decrease from 6.2% of GDP in 2021 to 3.9% of GDP in 2023. Latvia will receive about 6.7% of 2020 GDP as grants from Next Generation EU, 35% of which is expected to be spent by 2023. About 60% will be devoted to fighting climate change and accelerating Latvia's digital transformation.

The recovery will gather pace in 2022

Strong economic growth is projected, but downside risks remain substantial. Goods exports will remain robust, but the sectors more dependent on face-to-face contacts (such as tourism) are projected to recover more slowly. The latest restrictions will weigh on private consumption in the fourth quarter of 2021, but it will rebound thereafter. An acceleration of capital spending supported by EU funds is expected to underpin medium-term growth but also add to overheating risks in the construction sector. Unemployment will edge up in the short term, before decreasing gradually. Headline inflation and wage growth will slow in 2022; however, uncertainty is unusually high. Inflation could rise further due to supply-chain disruptions, rising wages due to skills shortages and inflation expectations. Employment could decrease if mandatory vaccination requirements were to be met with workers' resistance. On the other hand, a faster vaccine rollout would increase consumption and output growth.

Labour market and environmental performance should be strengthened

Policies should remain supportive in the near term and should be adjusted in response to evolving health conditions, while considering the risks of overheating. Achieving more ambitious climate mitigation objectives will require a combination of investment in renewables, greater international gas and electricity market linkages and a decrease in the favourable tax treatment of natural gas, diesel for vehicle use and heating oil. To reduce long-term unemployment, tackle informality and address the challenges of a shrinking population, Latvia should enhance labour market performance and skills. Tax wedges should be reduced, and active labour market spending should be boosted, notably training.

Lithuania

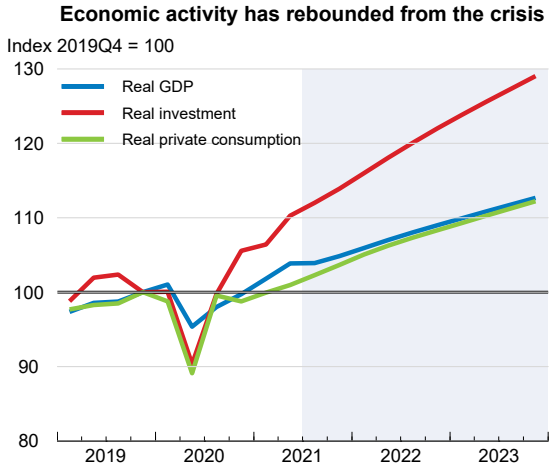
The Lithuanian economy has rebounded rapidly from the pandemic shock, with GDP growth projected at over 5% in 2021 and close to 3.7% on average in 2022 and 2023. Rapid wage increases, pent-up demand and continued EU-fund flows will remain the main drivers of domestic activity. Unemployment will fall gradually to pre-crisis levels. However, the resurgence of the pandemic casts a shadow on the outlook. Higher oil prices will have an impact on inflation, adding to underlying price pressures.

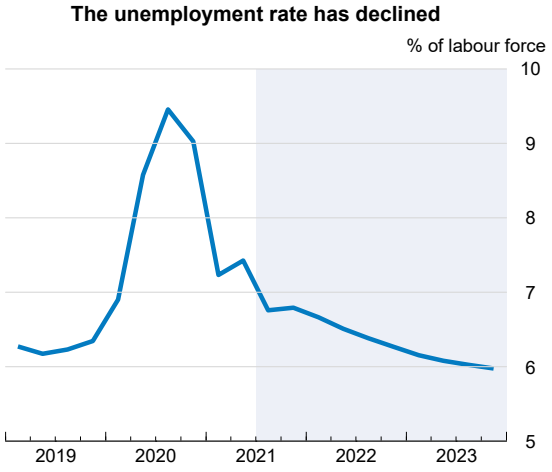
Fiscal policy continues to support the recovery, but in a more targeted manner. This is appropriate to ensure the effectiveness of support and help rebuild fiscal buffers. Further increases in social benefits are necessary to protect the most vulnerable groups. Boosting digital skills through a more responsive education system and effective training programmes is key to productivity growth during the recovery. Regional gaps in digital infrastructure need to be addressed.

Economic activity has bounced back, but infections have been rising again

Lithuania gradually relaxed the restrictions introduced in November 2020 to contain the second wave of the pandemic. However, infections started rising again in mid-July 2021, peaking in late October. From 13 September, it has become compulsory to hold a COVID-19 pass to access all contact services, entertainment and public events. Non-holders can only access essential shops and services, including health care, education and social services. By 22 November this year, 63% of the total population had been fully vaccinated.

Lithuania





Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/uexoj9

Lithuania: Demand, output and prices

Lithuania	2018	2019	2020	2021	2022	2023
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	45.5	4.6	-0.1	5.1	3.8	3.5
Private consumption	28.0	3.1	-2.1	5.4	4.9	3.8
Government consumption	7.5	-0.3	-0.4	0.2	0.1	0.1
Gross fixed capital formation	9.5	6.6	-1.8	11.8	7.6	6.2
Final domestic demand	45.0	3.3	-1.8	5.7	4.6	3.6
Stockbuilding[1]	- 0.3	-1.7	-1.9	-1.5	0.0	0.0
Total domestic demand	44.7	1.6	-3.8	4.7	4.8	3.7
Exports of goods and services	34.2	9.9	0.4	11.7	6.2	5.2
Imports of goods and services	33.4	6.1	-4.4	16.1	7.7	5.5
Net exports[1]	0.8	3.0	3.5	-1.7	-0.8	-0.1
Memorandum items						
GDP deflator	_	2.7	1.5	4.4	3.5	2.5
Harmonised index of consumer prices	_	2.2	1.1	3.8	3.2	2.5
Harmonised index of core inflation[2]	_	2.3	2.6	2.9	2.4	2.5
Unemployment rate (% of labour force)	_	6.3	8.5	7.1	6.5	6.1
Household saving ratio, net (% of disposable income)	_	-0.2	9.0	6.2	4.5	2.9
General government financial balance (% of GDP)	_	0.5	-7.2	-4.3	-3.2	-2.8
General government gross debt (% of GDP)	_	44.5	55.5	54.7	54.2	55.1
General government debt, Maastricht definition[3] (% of GDP)	_	35.9	46.6	45.9	45.3	46.2
Current account balance (% of GDP)	_	4.0	5.3	4.3	2.4	2.3

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.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/spbr7u

Output surpassed its pre-pandemic level already in early 2021 and strengthened further in the second quarter of the year with the gradual lifting of restrictions to contain the second wave of the pandemic. GDP barely increased in the third quarter, however. The improvement in confidence has fuelled business investment, coming on top of strong public investment and household spending. Private consumption has also benefited from an unwinding of savings accumulated during the lockdowns and strong wage growth. Credit card spending was buoyant in the third quarter. The unemployment rate declined to 6.8% in the third quarter from a peak of 9½ per cent around a year earlier. Harmonised consumer price inflation reached 8.2% in October 2021, driven mainly by oil price increases. Economic activity is also influenced by the containment measures introduced in September, although the new restrictions apply solely to the non-holders of a COVID-19 pass.

Fiscal policy continues to support the recovery, but in a more targeted manner

Budget spending on COVID-19-related programmes has been reduced in the course of 2021, as some measures expired and others became more targeted. For instance, the short-time work scheme has been extended but eligibility has been tightened. This streamlining is appropriate to ensure the effectiveness of the measures and help rebuild fiscal buffers, while supporting the recovery. The fiscal stance is expected to gradually become less supportive in 2022 and 2023. The 2022 draft budget has an increased focus on structural priorities and sustainable growth, incorporating increased funding for the implementation of the government's multi-year investment programme, while continuing to address the needs of vulnerable

groups through further increases in social benefits and minimum wages. Lithuania will receive about 4.5% of 2020 GDP from the EU Recovery and Resilience Facility, over half of which is expected to be spent by 2023.

Growth will remain robust

Following the strong rebound in 2021, real GDP is projected to grow by 3.8% in 2022 and 3.5% in 2023. Investment will remain the main driver of growth over the next two years, supported by continued EU-fund flows and implementation of the government's multi-year investment programme in key fields, such as digital innovation and energy efficiency. Reduced uncertainty will stimulate business investment. Rising wages on the back of increasing minimum pay and higher compensation for public servants, and a decline in the household saving ratio will support private consumption. Labour market conditions will tighten as unemployment falls gradually to its pre-crisis level and skill mismatches remain large. Upward pressure from higher oil prices and supply bottlenecks are likely to dissipate, leading to a decline in headline inflation, even though underlying inflationary pressures will persist as slack declines. The risks surrounding the projections relate mainly to the development of the pandemic, the strength of the recovery in Lithuania's trading partners and geopolitical tensions. A combination of stronger wage growth and prolonged supply bottlenecks could lead to higher-than-expected inflation. Upside risks to the outlook include a faster rollout of effective vaccination and swifter-than-expected use of EU recovery funds.

Boosting productivity remains a key priority for long-term growth

Policies that address skills-related challenges and promote a wider diffusion of digital technologies could help improve productivity and support solid growth in the post-COVID-19 era. Boosting digital skills, through a more responsive education system and effective training and re-training programmes, is key in this regard, and will also limit the higher inequalities that may arise from digitalisation. Training for teachers should be increased to ensure effective use of digital technologies in schools. Sharpening firms' incentives to adopt digital technologies will require regional gaps in digital infrastructure to be addressed and easier access to finance for young innovative firms. Making R&D business support more effective could also encourage innovation. Further digitalisation of government would boost productivity and promote more inclusive growth by enabling a better tailoring of social benefits and services to individuals' needs.

Luxembourg

The Luxembourg economy is set to strengthen further, growing 6.5% in 2021, 3.7% in 2022 and 3.1% in 2023. Investment is expected to rise, alongside stronger consumption, supporting growth even as financial and business services activity normalises. Employment and wage growth remain robust. Core inflation is forecast to rise steadily as growth remains high and spare capacity declines. Risks to growth are balanced. Spillover effects from EU-wide Next Generation EU funds may be larger than forecast, or price pressures higher.

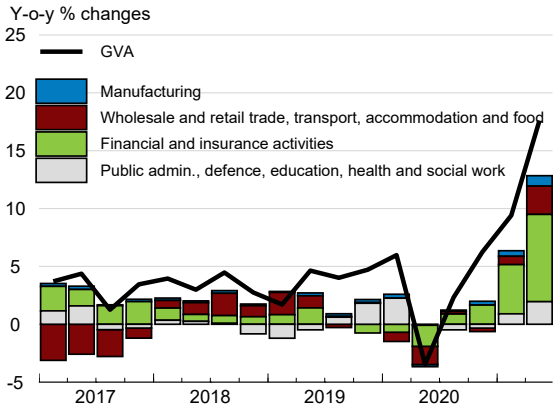
The economy's recovery has been uneven, and policy support should remain flexible for those firms exposed to tourism and global supply disruptions. Bankruptcy reforms should facilitate early restructuring. House price inflation remains high, and additional measures should be considered. A broader and more diversified economy will require continued green policy reforms and infrastructure investments. Current strong growth represents an opportunity for further pension reform.

A short-term slowdown in activity

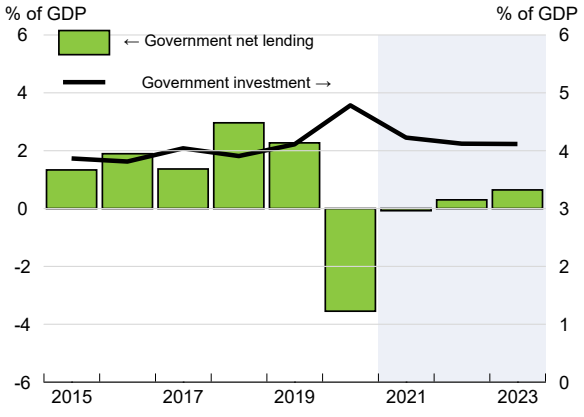
Business confidence has fallen, but remains well above 2019 levels. The labour market recovery is robust, both in permanent positions as well as for younger workers. Vacancies continue to rise. The unemployment rate fell from 6.3% in December 2020 to 5.5% in September 2021. Most COVID-19-related restrictions were lifted in July, and shopping footfall recovered modestly in the third quarter following the holidays. Bankruptcies have begun to rise, but remain contained. Inflation is high, with the harmonised consumer price index reaching 5.3% in October, primarily due to energy prices. House prices continue to grow at double digit rates, despite the introduction of loan-to-value limits, as structural factors limiting supply are interacting with high savings and exceptionally low interest rates.

Luxembourg

The financial sector has driven the recovery



Higher public investment is a critical component of the recovery



Source: Eurostat; and OECD Economic Outlook 110 database.

StatLink https://stat.link/9jrqtp

Luxembourg: Demand, output and prices

Luxembourg	2018	2019	2020	2021	2022	2023
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	60.3	3.3	-1.8	6.5	3.7	3.1
Private consumption	20.2	2.5	-6.9	3.2	6.0	3.0
Government consumption	10.1	3.8	6.7	3.5	2.9	3.3
Gross fixed capital formation	9.8	9.9	-4.3	11.5	5.2	2.9
Final domestic demand	40.1	4.6	-2.7	5.4	5.0	3.0
Stockbuilding[1]	0.5	0.0	0.2	-0.3	0.2	0.1
Total domestic demand	40.6	4.7	-2.8	4.7	5.4	3.3
Exports of goods and services	118.5	5.8	1.2	10.8	3.4	3.0
Imports of goods and services	98.8	6.9	1.6	10.2	4.1	3.1
Net exports[1]	19.7	0.1	-0.3	4.6	0.2	1.0
Memorandum items						
GDP deflator	_	0.6	4.3	4.6	2.2	2.0
Harmonised index of consumer prices	_	1.6	0.0	3.2	2.9	2.0
Harmonised index of core inflation[2]	_	1.8	1.2	1.3	1.8	2.0
Unemployment rate (% of labour force)	_	5.4	6.4	5.8	5.3	5.2
Household saving ratio, net (% of disposable income)	_	7.9	18.1	19.9	17.3	14.0
General government financial balance (% of GDP)	_	2.3	-3.5	-0.1	0.3	0.6
General government gross debt (% of GDP)	_	30.3	32.6	33.7	36.5	38.3
General government debt, Maastricht definition[3] (% of GDP)	_	22.3	24.8	25.8	26.1	25.9
Current account balance (% of GDP)	_	4.6	4.3	4.4	4.2	4.3

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.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/0t1vzh

Fiscal policy aims to encourage higher investment and greener growth

The government's crisis response included existing household income support, supplemented with liquidity and financing of short-time work schemes and more generous parental and sick leave. More generous short-time wage support was extended to firms struggling with severe flooding in July this year and construction materials shortages. The government plans for the budget deficit to almost close by 2023, as the economic recovery reduces transfers and incentive schemes, and revenues recover. The OECD forecast is for a faster improvement, thanks to stronger growth. Higher public investment of over 4% of GDP between 2022 and 2023 is intended to support infrastructure and innovation. Most of the recovery and resilience plan spending (EUR 183 million or 0.3% of GDP) will be completed by 2024.

The government introduced a carbon tax in January 2021 to raise the price of carbon to EUR 20 per tonne; the price will rise to EUR 30 per tonne in 2023. To help mitigate the impact, public transport has been free since the beginning of 2021. The government's green policy also includes efforts to improve private energy efficiency, encourage electric vehicle adoption and raise recycling capacity.

Continued expansion is likely as sectors hit by COVID-19 normalise

GDP growth is expected to be 6.5% in 2021 before moderating to 3.7% in 2022 and 3.1% in 2023. Household consumption will rise in 2022, due to reduced restrictions, the return to more on-site working and a robust recovery in employment. Public sector investments will be positive throughout the forecast period. COVID-related incentives to support a greener investment path will increase private investment, particularly in 2021, with strong demand sustaining growth from 2022.

Export growth will moderate in 2022 and 2023 following exceptionally strong financial market services activity in 2021, but is forecast to remain positive as supply-chain restrictions lift. Core inflation is expected to rise as a tight labour market raises cost pressures against a backdrop of strong demand. Automatic wage indexation raised all gross salaries by 2.5% in October 2021. Risks to the outlook are balanced. Spillover effects from Next Generation EU funds or stronger than expected financial market performance could raise export growth relative to the forecast. Heightened global financial market volatility could negatively affect activity, exports and financial sector earnings. A faster rise in COVID infections could slow the pace of recovery.

A stronger recovery requires a consistent focus on productivity and investment

The government must remain ready to act, despite the strong recovery. Viable firms exposed to tourism and global supply disruptions may still require targeted support. Cross-border labour tax agreements may still be necessary depending on the pandemic's global evolution. Increasing the economy's productive capacity, with more investment and faster firm growth, would help offset rising inflationary pressures. Bankruptcy reforms should enable early restructuring and facilitate second chances. Additional macro-prudential measures to manage the pace of house price growth and its inflationary impact should be considered. Public investment in housing market infrastructure and cross-border rail systems can be complemented with congestion charges, smart electricity grids and better interconnectivity in electricity and gas markets to further support behaviour change. This would reinforce carbon pricing. The fast recovery from the crisis provides an opportunity to improve the fiscal balance in the long term by raising the reabsorption rate of older workers into the workforce through pension reforms.

Mexico

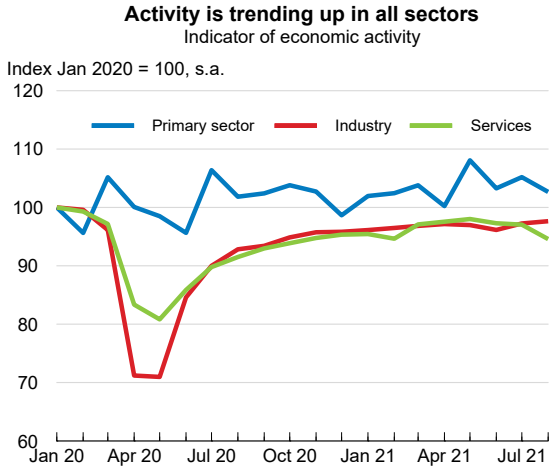
The economy is projected to expand by 3.3% in 2022 and by 2.5% in 2023, after growing by 5.9% in 2021. Exports will continue to benefit from the strong recovery in the United States. Consumption will be supported by the gradual improvement in the labour market and the increasing share of the population who are vaccinated. Investment will benefit from planned infrastructure projects. Inflation will edge down, after the significant increase in 2021.

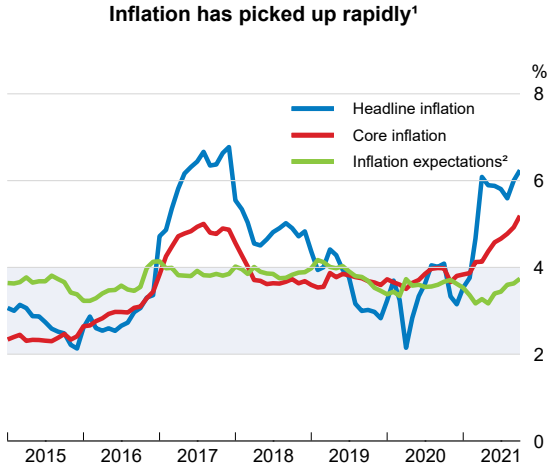
If the recovery falters or the pandemic resurges, spending on social protection and public investment should increase further and the planned gradual reduction of the fiscal deficit be delayed. Monetary policy should gradually tighten further if inflation does not converge to the 3% target. Improving business regulations at sub-national level, by lowering administrative burdens and monetary costs for starting and formalising companies, would help to raise private investment and formal job creation.

The recovery has broadened

Activity has trended up in agriculture, industry and services. The latter displays some heterogeneity, with the recovery in high-contact sectors, such as leisure and hospitality, lagging behind while activity in some other sectors is above pre-pandemic levels. Tourism, an important source of jobs and revenues for several regions, is 27% below pre-pandemic levels. Consumption is 3% below its pre-pandemic level while investment is recovering more slowly, remaining 7% below its pre-pandemic level. The vaccination campaign is progressing steadily, but with significant heterogeneity across regions. As of mid-November, 58% of the population had received at least one dose and 49% are fully vaccinated. Inflation has increased significantly. Given Mexico's high integration in global value chains, global inflation and supply-chain cost disruptions are exerting significant pressure on both headline and core inflation. Domestic factors, such as

Mexico





1. The grey shaded area represents the Central Bank of Mexico's inflation target range.
2. Inflation expectations for the next 12 months by specialists in the economy of the private sector.
Source: INEGI; and Bank of Mexico.

StatLink https://stat.link/r4k7iz

Mexico: Demand, output and prices

Mexico	2018	2019	2020	2021	2022	2023
	Current prices MXN billion	Percentage changes, volume (2013 prices)				
GDP at market prices	23 524.4	-0.2	-8.3	5.9	3.3	2.5
Private consumption	15 238.4	0.4	-10.5	7.7	2.5	2.3
Government consumption	2 721.8	-1.3	2.3	3.1	4.0	2.3
Gross fixed capital formation	5 179.0	-4.7	-18.3	9.8	5.5	4.5
Final domestic demand	23 139.3	-0.9	-10.5	7.6	3.2	2.7
Stockbuilding[1]	866.0	-0.2	-0.1	0.1	-0.1	0.0
Total domestic demand	24 005.3	-1.2	-10.6	7.8	3.2	2.8
Exports of goods and services	9 235.1	1.5	-7.3	8.2	6.4	5.3
Imports of goods and services	9 716.0	-0.7	-14.6	14.3	5.6	5.8
Net exports[1]	- 480.9	0.8	2.7	-1.9	0.4	-0.1
Memorandum items						
GDP deflator	_	4.1	2.9	6.2	4.6	3.2
Consumer price index	_	3.6	3.4	5.6	4.4	3.3
Core inflation index[2]	_	3.7	3.8	4.5	4.0	3.3
Unemployment rate[3] (% of labour force)	_	3.5	4.4	4.1	3.8	3.6
Current account balance (% of GDP)	_	-0.3	2.3	-0.5	-0.6	-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 110 database.

StatLink https://stat.link/wfe31u

the recovery in the demand for some services, and additional upward pressures on some food and energy prices are fuelling inflation. The labour market is gradually recovering. The standard unemployment rate, at 4.2%, is 0.8 percentage points above the level of late 2019. The rate jumps to 27% when considering also the population that remains outside the labour force and would accept a job and those who would like to work more hours.

Fiscal policy has become more supportive and monetary policy started to tighten

The fiscal stance, while remaining cautious, is less restrictive than foreseen in the 2021 budget, mildly supporting the ongoing recovery. The budget deficit is expected to increase to 3.4% of GDP in 2021 (from 2.9% of GDP in 2020), remain broadly unchanged in 2022 and decrease thereafter. The official measure of public debt is expected to stabilise around 51% of GDP. Mexico's tax-to-GDP ratio is the lowest in the OECD and lower than that of regional peers. Responding to increasing spending needs in education, health or social protection, while maintaining the commitment to debt sustainability, would require increasing tax revenues. This could be achieved by broadening tax bases, phasing out inefficient and regressive exemptions, and strengthening the property tax, once the recovery is well-established.

The Central Bank of Mexico reduced policy rates by 325 basis points after February 2020 to support the recovery and provided large liquidity and credit facilities. As inflation significantly increased, the central bank appropriately raised policy rates by 25 basis points in its June, August, September and November meetings, bringing the policy rate to 5%. It is assumed that the rate will increase further to 5.25% by end-2021. If price pressures continue and inflation does not converge gradually to the 3% target, additional interest rate increases would be warranted.

The recovery will continue

The economy is projected to expand by 3.3% in 2022 and by 2.5% in 2023. With an increasing share of the population vaccinated and the improvement in the labour market, consumption will be a key growth driver. Exports will continue to benefit from deep integration into value chains. Inflation is expected to slow gradually in 2022 and 2023, as the effects of monetary policy tightening kick in, supply disruptions abate and ample spare capacity limits wage pressures. However, the inflation outlook remains very uncertain and subject to risks. Inflation may be higher for longer than anticipated, eroding purchasing power, particularly of vulnerable households, and requiring a larger tightening of monetary policy than projected, which would weaken the recovery. If infections significantly increase, restoring containment measures would be needed, hampering economic activity. Episodes of financial volatility in other emerging-market economies may trigger greater risk aversion, reduce net financial inflows and increase Mexico's financing costs. On the upside, if growth in the United States is stronger than anticipated, exports and job creation could be more robust. Supply-chain integration could deepen further, due to the updated trade agreement with the United States and Canada. The recovery in tourism could be stronger than anticipated, boosting job creation in some regions.

Rebooting investment and boosting productivity are key priorities

Expanding access to financial services, by boosting competition in financial markets and expediting the legal enforcement of contracts, would enable SMEs to invest more, grow and increase productivity. Improving access and the quality of childcare would increase female labour force participation and reduce educational inequalities. Allocating more resources towards primary education would mitigate the adverse effects of the pandemic on educational outcomes and long-term growth. Transitioning towards massive urban and inter-urban transport could substantially reduce traffic congestion and emissions.

Netherlands

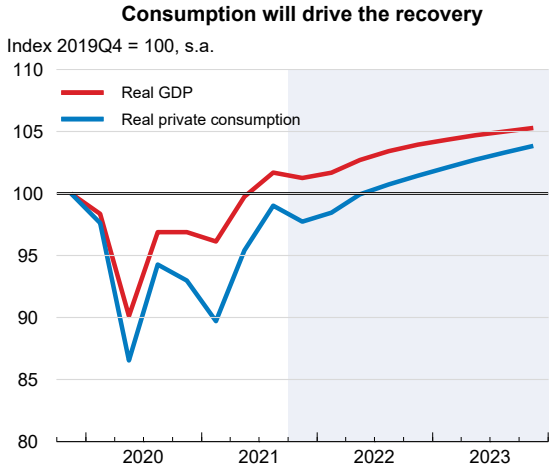
The Dutch economy will grow robustly in 2021 by 4.3%, before expanding by 3.2% in 2022 and 1.8% in 2023. Private consumption will drive growth as households' saving rates continue to normalise after rising sharply early in the pandemic. Private investment is recovering more slowly due to lingering uncertainty. As the economy recovers and job vacancies increase, unemployment will remain at low levels.

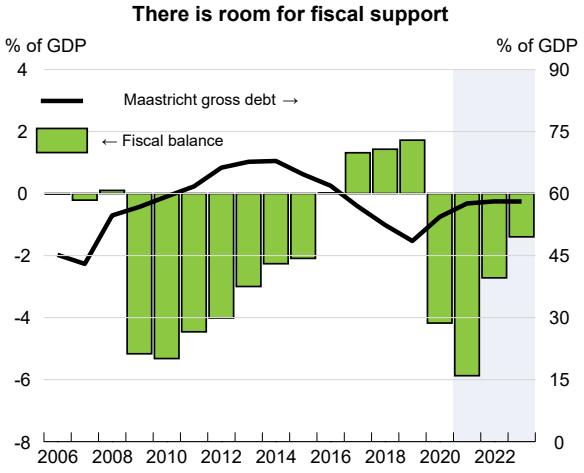
Fiscal policy should continue to support growth and become more targeted to ease structural change. Further promoting retraining and upskilling programmes could facilitate economic restructuring. Clear strategies for long-standing issues such as climate change, nitrogen emissions and housing supply shortages need to be developed to support confidence and investment. The Dutch fiscal position remains strong despite the impact of the COVID-19 crisis and gives the new government, once formed, some room to adopt a more ambitious spending plan on training, upskilling, climate change and housing supply.

A successful vaccination rollout is supporting the economic recovery

The Dutch health situation remains challenging. More than 70% of the population have been fully vaccinated and the link between new cases, hospitalisation and deaths has weakened in recent months. Restrictions had been phased out gradually since the end of April, but on the back of rising case and hospitalisation numbers since mid-October, stricter measures were reintroduced on 13 November. GDP increased by 1.9% in the third quarter of 2021, mainly driven by private consumption, taking it back above its pre-pandemic level. The labour market is rebounding strongly as job vacancies are rising quickly across all sectors. In October, the unemployment rate was back to the pre-pandemic low of 2.9%. Headline inflation increased to 3.7% in October, the highest rate in nearly 20 years, mainly due to a jump in prices of electricity, gas and other fuels.

Netherlands





Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/yzqaps

Netherlands: Demand, output and prices

Netherlands	2018	2019	2020	2021	2022	2023
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	774.4	1.9	-3.8	4.3	3.2	1.8
Private consumption	341.6	0.9	-6.6	2.8	4.9	2.8
Government consumption	188.7	2.8	1.0	4.1	1.3	0.5
Gross fixed capital formation	158.2	6.1	-4.2	2.3	2.0	3.1
Final domestic demand	688.5	2.6	-3.9	3.1	3.2	2.2
Stockbuilding[1]	4.3	0.3	-0.3	-0.3	0.2	0.0
Total domestic demand	692.8	2.9	-4.3	2.8	3.3	2.2
Exports of goods and services	655.5	1.9	-4.8	6.9	5.1	3.2
Imports of goods and services	573.9	3.1	-5.5	5.2	5.5	3.8
Net exports[1]	81.6	-0.7	0.1	1.8	0.3	-0.1
Memorandum items						
GDP deflator	_	3.0	2.3	2.4	2.4	1.8
Harmonised index of consumer prices	_	2.7	1.1	2.4	3.1	1.7
Harmonised index of core inflation[2]	_	1.9	1.9	1.7	2.1	1.7
Unemployment rate (% of labour force)	_	3.4	3.8	3.4	3.5	3.4
Household saving ratio, net[3] (% of disposable income)	_	11.4	17.8	15.3	12.6	12.5
General government financial balance (% of GDP)	_	1.7	-4.2	-5.9	-2.7	-1.4
General government gross debt (% of GDP)	_	62.4	69.8	73.1	73.6	73.5
General government debt, Maastricht definition[4] (% of GDP)	_	48.5	54.4	57.6	58.1	58.1
Current account balance (% of GDP)	_	9.4	7.0	8.5	8.9	9.0

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.
3. Including savings in life insurance and pension schemes.
4. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/qy5lxo

Support measures will fade as the recovery is advancing

The main COVID-19 fiscal support measures were terminated by the end of September 2021. As new restrictions were introduced on 13 November, the government has announced a new corona business support package for adversely affected businesses until the end of 2021. Moreover, some of the credit and loan schemes remain available for businesses until the end of 2021, but spending on support measures is expected to end in 2022. As the Netherlands is still ruled by a caretaker government, investments in the recently published budget are only the very necessary ones. Spending on climate measures will increase, including on renewable energy and other technologies that reduce CO_2 emissions, energy infrastructure, and the implementation of existing agreements from the Climate Agreement. Once a new government is formed, more ambitious programmes are expected, for instance in education, healthcare, taxes, work and income. The fiscal deficit is projected to narrow from 5.9% of GDP in 2021 to 1.4% of GDP in 2023, reflecting the end of pandemic support programmes and strong economic growth over this period.

The economy is set to continue its recovery

Output is projected to grow by 3.2% in 2022 and 1.8% in 2023. Consumption will continue to drive growth, boosted by some households, especially higher-income ones, drawing on savings accumulated during the pandemic. However, increased pension premiums will dampen overall private consumption growth. Public debt is expected to stay below the Maastricht benchmark of 60% of GDP in 2021 and stabilise over 2022 and 2023, keeping some room to support growth. Due to supply bottlenecks, resilient domestic demand

and base effects, annual headline inflation is projected to remain high at around 3.7% in early 2022, before gradually slowing as supply chain issues fade and domestic demand stabilises. Cautious wage agreements following the COVID-19 crisis are expected to slow down wage growth, limiting the impact of labour costs on inflation in 2021 and 2022. Business investment will recover more slowly due to lingering uncertainty. While higher spending than assumed in the forecast is a clear upside risk, there remain several downside ones. The most prominent risk remains the persistence of the recent rise in COVID-19 cases that could lead to stricter and longer lockdowns than is the case today. Increased business debt during the crisis could dampen productive investment, hampering the recovery. While it has not been the case so far, a continuation of rising house prices could eventually increase macroeconomic vulnerabilities.

Long-standing structural challenges need to be addressed to sustain the recovery

More targeted fiscal policy should continue to support growth, as the crisis has widened pre-existing inequalities. Students from disadvantaged backgrounds fell further behind during school closures, and income inequality increased as temporary workers were particularly vulnerable to job termination during the crisis, although the quick recovery allowed many of them to be reemployed. Initiatives like the National Education Programme are a first step towards addressing learning gaps but risk being delayed due to a shortage of teachers. Aligning tax rates and social security contributions between different contract types for workers doing similar jobs could lead to greater equity on the job market. Further supporting retraining and upskilling by programmes such as the Personal Learning and Development Budget (STAP) are promising initiatives to support economic restructuring. The National Growth Fund and, to a lesser degree, the Next Generation EU funds are sources of public investment over the coming years to stimulate the economy. Once the new government is in place it should allocate these funds efficiently and go further in addressing long-standing structural challenges via public investment, notably boosting housing supply and facilitating the green transition and digitalisation, including expanding renewable energy generation capacity and reducing nitrogen emissions from agriculture.

New Zealand

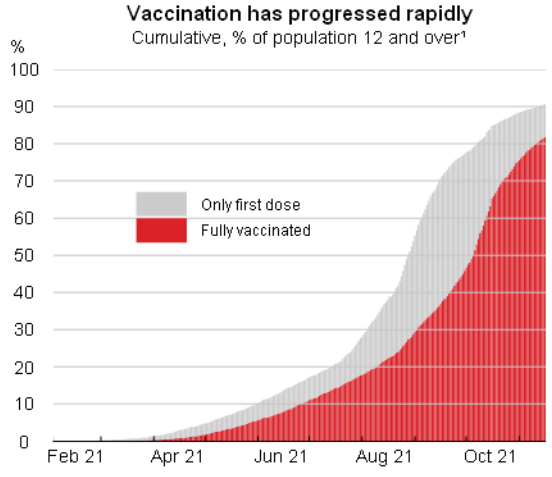
Economic growth should reach 4.7% in 2021, reflecting the bounce-back from the disruption caused by the pandemic, but will slow to 3.9% in 2022 and 2.5% in 2023 as macroeconomic policies tighten and capacity constraints are alleviated only gradually after the border begins to re-open in early 2022. Inflationary pressure will remain strong, as the economy continues to run above capacity and the labour market remains very tight, boosting wages. Growth may slow more markedly if vaccination delays among some population groups were to push back border re-opening.

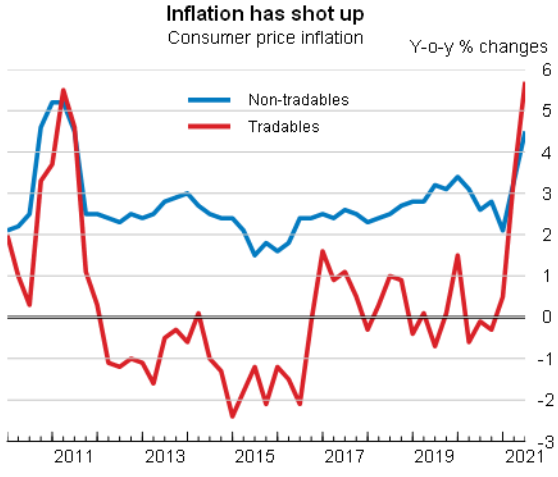
Successful COVID-19 containment and border re-opening require vaccinating population groups that lag behind and boosting the medical sector's capacity to cope with a higher occurrence of acute infection cases. Macroeconomic policies should be tightened faster if high inflation persists. Housing policy reforms concerning planning, infrastructure and social housing are needed to increase supply of more affordable housing.

As New Zealand prepares to re-open, its economy is overheating

New Zealand's COVID-19 strategy has shifted from elimination to minimisation of community infection cases and protection, including swift vaccination of its population. The response framework that relied on lockdowns was replaced at the beginning of December by a new framework that allows businesses requiring vaccination certificates to operate with few or no restrictions under moderate community infection and pressure on the healthcare system. The government also reduced the number of days that vaccinated travellers entering New Zealand must spend in Managed Isolation and Quarantine (MIQ) facilities and announced that self-isolation for seven days would replace MIQ stays for fully vaccinated New Zealand citizens and residents from early 2022 and fully vaccinated foreign nationals from 30 April. Over 80% of the eligible population has been fully vaccinated so far, but a delay in take-up among some population groups has been a challenge. The government has mandated workers in health, educational and correctional sectors as well as border workers to get vaccinated. It has also introduced electronic vaccination certificates for accessing large events, enclosed public spaces and international travel.

New Zealand





1. As of 16 November 2021.
Source: New Zealand Ministry of Health; and the Reserve Bank of New Zealand.

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New Zealand: Demand, output and prices

New Zealand	2018	2019	2020	2021	2022	2023
	Current prices NZD billion	Percentage changes, volume (2009/2010 prices)				
GDP at market prices	303.1	3.0	-1.1	4.7	3.9	2.5
Private consumption	175.1	3.4	-1.3	8.2	2.2	1.8
Government consumption	54.5	5.4	6.3	8.0	4.1	1.4
Gross fixed capital formation	71.0	3.2	-7.0	6.3	6.3	4.1
Final domestic demand	300.7	3.7	-1.2	7.7	3.6	2.3
Stockbuilding[1]	2.9	-0.8	-0.8	1.8	0.0	0.0
Total domestic demand	303.5	2.9	-2.0	9.8	3.6	2.3
Exports of goods and services	84.0	2.5	-12.6	-4.2	6.4	5.8
Imports of goods and services	84.5	2.1	-16.0	10.8	4.5	4.7
Net exports[1]	- 0.5	0.1	0.9	-3.5	0.3	0.1
Memorandum items						
GDP deflator	_	2.3	2.1	3.6	3.1	2.5
Consumer price index	_	1.6	1.7	3.8	3.9	2.7
Core inflation index[2]	_	1.8	2.3	3.7	3.7	2.7
Unemployment rate (% of labour force)	_	4.1	4.6	3.9	3.7	3.7
Household saving ratio, net (% of disposable income)	_	0.4	4.8	0.5	-0.2	-0.9
General government financial balance (% of GDP)	_	-0.3	-5.3	-4.1	-3.0	-2.2
General government gross debt (% of GDP)	_	36.4	45.4	49.0	51.2	52.7
Current account balance (% of GDP)	_	-2.9	-1.1	-4.1	-4.9	-4.5

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 110 database.

StatLink https://stat.link/lka34e

The economy grew strongly in the first half of 2021, driven by robust private consumption, investment and commodity exports. The quarantine-free travel arrangement with Australia initiated in April 2021 also boosted service exports, but was suspended in June. Employment soared in the year to the third quarter, lifting the employment rate to a record high and cutting the unemployment rate to 3.4%, the lowest since 2007. Consumer price inflation shot up to 4.9% in the year to the third quarter, driven by an increase in housing-related costs and high oil prices and transportation costs. The Reserve Bank of New Zealand's preferred estimate of core inflation rose to 2.7%, close to the upper bound of its inflation target band (1% to 3%). The economy is likely to have contracted more than 5% in the third quarter owing to the lockdown of Auckland and nearby regions and suspension of the travel arrangement. However, a rebound is expected in the fourth quarter of 2021 and the first quarter of 2022 as confinement measures ease. Business confidence remains robust and hiring intentions are the highest since 1995.

Macroeconomic policies are being tightened

The Reserve Bank has started withdrawing some of the highly expansionary monetary stimulus that contributed to the swift economic recovery, but also fuelled house price inflation, which reached 30% in the year to the second quarter of 2021. The Reserve Bank increased its policy rate by two successive 25 basis point steps in October and November, to 0.75%, and is projected to raise it to 2% by early 2023. The Large Scale Asset Purchase programme was halted in July, after purchasing government bonds amounting to 16% of GDP. The Reserve Bank also tightened macro-prudential policy to contain the impacts of house price inflation on the economy. It reinstated loan-to-value ratio restrictions for mortgage lending in March 2021 and tightened them for investors in May and for owner-occupiers in November. It is

also considering introducing debt serviceability restrictions to reduce the risk of borrowers being unable to service their debts. The fiscal stance is likely to have been neutral in 2021, as some of the operational expenditure meant to have occurred in fiscal year 2020 was shifted to 2021 and tax expenditure measures introduced in 2020 as part of the COVID-19 response came into force. The fiscal stance will be contractionary in 2022 and 2023, as COVID-19-related spending is phased out. Nevertheless, some fiscal stimulus will be provided by large infrastructure investments in the pipeline, such as “shovel-ready” projects amounting to 0.8% of GDP that are being rolled out until 2022. The NZD 12 billion New Zealand Upgrade Programme and the NZD 3.8 billion of housing-related infrastructure investment (together amounting to about 5% of GDP) will also be implemented over a longer period. The fiscal stance should be tightened more rapidly to avoid concentrating the burden of macroeconomic stabilisation on monetary policy.

Economic growth will moderate but remain robust

House price inflation that boosted private consumption through its wealth effect will moderate, due to tighter lending regulations, higher mortgage lending rates and the increase in housing supply implied by the record high issuance of residential building consents. Private consumption will nevertheless be supported by strong earnings growth. The progressive easing of border restrictions from early 2022 will alleviate labour shortages only gradually, in part owing to more restrictive immigration policies. It will allow the tourism sector, which accounted for 20% of exports prior to the pandemic, to recover, and boost investment by removing uncertainties and costs associated with international business. Aside from a delay in border re-opening, a sharp economic slowdown in China would hold back growth by reducing exports and food commodity prices. Conversely, larger than foreseen inflows of migrant workers would alleviate labour shortages and allow the economy to grow faster. The annual consumer price inflation rate is projected to remain above 4% until mid-2022, after which it will gradually decline as temporary effects from high fuel prices and supply chain disruptions pass.

Public health and housing reforms are needed to sustain economic growth and improve well-being

The number of intensive-care beds and ventilators and qualified personnel to operate them should be increased in order to cope with community infection. Urban planning reforms and measures to reduce financial barriers to increasing the supply of urban infrastructure are boosting housing supply but need to be taken further. Urban planning regulations should be reformed to require city councils in the five largest cities to allow medium-density housing on all residential land without having to go through a resource consenting process. Furthermore, city councils’ ability to restrict high-density housing in city centres and close to transport hubs should be curtailed. To increase investment in housing-related infrastructure, the government should identify and remove unwarranted barriers to Special Purpose Vehicles for financing such infrastructure and strengthen city councils’ incentives to accommodate growth. Substantially increasing the supply of social housing would improve housing affordability for low-income households and reduce child poverty.

Norway

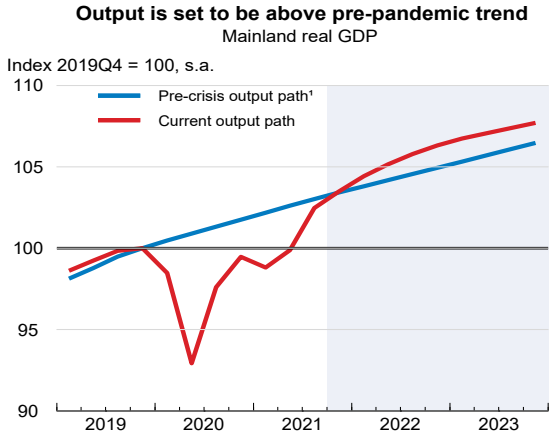
Real mainland GDP growth of 4.2% is projected for both 2021 and 2022, as the economy recovers to its pre-pandemic path. In 2023 output growth will be 1.7%, in line with potential. Consumption growth will remain strong as households lower their saving ratio. Employment already exceeds the pre-pandemic level and unemployment will fall further. Headline consumer price inflation should ease as electricity price increases and supply bottlenecks unwind, then rise gradually, along with wage growth, as spare capacity is absorbed. However, the current price pressures may spark an earlier acceleration in overall wage and price growth.

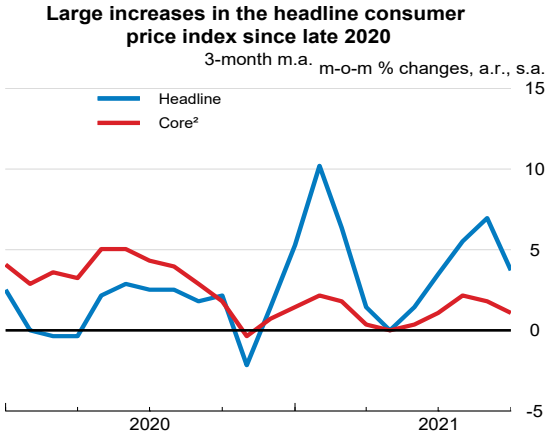
Monetary policy normalisation should continue given the outlook for price inflation, the output recovery and the ongoing financial imbalances reflected in high household indebtedness. Most temporary government support for households and businesses has been withdrawn. This is helping bring the mainland fiscal deficit towards target. Measures aimed towards the green transition, higher labour force participation, and a better environment for business should continue.

Output growth has been strengthening

More than 70% of Norway's population is fully vaccinated against COVID-19. However, a recent surge in cases has brought a rise in the number of hospitalisations. Economic recovery, damped by restrictions early this year, has resumed apace; mainland output grew by 2.6% in the third quarter (non-annualised). Savings accumulated during lockdowns are boosting household spending power. Most of the sectors worst affected by the crisis have substantially recovered. Indeed, strong demand in the hospitality industry has contributed to a spike in job vacancies and wage pressures in that sector. Continuing strength in the global oil price and large increases in natural gas prices are bolstering income and brightening prospects for investment. Headline consumer price inflation has seen sharp increases in recent quarters, largely

Norway





1. The pre-crisis output path is based on the November 2019 OECD Economic Outlook projection, with linear extrapolation for 2022 and 2023 based on trend growth in 2021.
2. Core inflation is Statistics Norway's CPI-ATE measure which adjusts for tax changes and excludes energy products.
Source: OECD Economic Outlook 106 and 110 databases; and Statistics Norway.

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Norway: Demand, output and prices

Norway	2018	2019	2020	2021	2022	2023
	Current prices NOK billion	Percentage changes, volume (2019 prices)				
Mainland GDP at market prices[1]	2 935.4	2.0	-2.3	4.2	4.2	1.7
Total GDP at market prices	3 553.9	0.7	-0.7	4.1	4.6	2.4
Private consumption	1 526.9	1.1	-6.6	4.4	7.9	2.7
Government consumption	826.1	1.3	1.8	3.0	2.2	1.2
Gross fixed capital formation	850.3	9.5	-5.6	0.3	4.3	2.5
Final domestic demand	3 203.3	3.4	-4.2	2.8	5.4	2.3
Stockbuilding[2]	146.8	-1.1	-0.4	0.2	0.1	0.0
Total domestic demand	3 350.1	2.1	-4.5	3.1	5.3	2.1
Exports of goods and services	1 349.5	1.1	-1.2	5.6	8.0	3.1
Imports of goods and services	1 145.7	5.1	-11.9	2.7	11.5	2.7
Net exports[2]	203.8	-1.2	3.7	0.9	-0.3	0.5
Memorandum items						
GDP deflator	_	-0.5	-3.6	15.0	5.8	1.3
Consumer price index	_	2.2	1.3	3.4	2.0	1.4
Core inflation index[3]	_	2.6	3.1	1.3	1.0	1.5
Unemployment rate (% of labour force)	_	3.7	4.4	4.9	3.9	3.6
Household saving ratio, net (% of disposable income)	_	7.6	14.5	13.4	8.2	7.7
General government financial balance (% of GDP)	_	6.6	-3.0	-2.4	-0.6	0.0
General government gross debt (% of GDP)	_	47.0	53.8	..	..	..
Current account balance (% of GDP)	_	2.9	2.0	12.1	14.3	14.3

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 110 database.

StatLink https://stat.link/joun3y

due to electricity price increases. Pressures on consumer prices from global supply bottlenecks are present but, so far, have played only a minor role. The benchmark annual wage increase in the centralised bargaining system was set at 2.7% for 2021. Strong wage growth in the third quarter suggests increases may exceed this benchmark in some sectors. Norway's strong house price growth during the pandemic has added to already substantial long-term increases. Household borrowing has also increased further. However, the market may be cooling; prices in Oslo have been flat in recent months.

Macroeconomic support is sensibly being reduced

Fiscal revenues have grown and spending on government transfers has diminished as economic activity has strengthened. The government has been able to remove most of the temporary support provided to households and businesses. The projections envisage a substantial decrease in the oil-adjusted fiscal deficit in 2022. Norges Bank began raising its key policy rate in September with an increase from zero to 0.25%. The projections assume an increase in the policy rate to 1.5% by the end of 2023. The Bank emphasised concern for financial imbalances, including the high level of household indebtedness, in its decision to start rate normalisation. The new coalition government is committed to increasing the price of carbon to NOK 2 000 per tonne (around EUR 200) by 2030. Compensation for heavily affected groups and industries is planned.

Economic output is set to reach pre-pandemic trend

From 2022 economic output is projected to be running slightly above the pre-pandemic path. Annual economic growth is expected to be 4.2% in both 2021 and 2022. Household consumption will continue to contribute significantly to the recovery and the household saving ratio will fall. The mainland economy is expected to be running roughly at its potential growth rate in 2023, with an increase of 1.7%. The projection envisages that current cost and price pressures, notably from electricity price increases, will ease in the coming months without triggering widespread higher price and wage inflation. The latter nevertheless remains a risk. Further restrictions to combat the spread of COVID-19 also remain a risk.

Policy makers can now turn more fully to structural challenges

Going forward, policy should focus on advancing the green transition, facilitating business sector productivity growth and ensuring high levels of employment. Application of carbon pricing to more sectors of the economy would be a welcome follow-up to the planned price increases. Continued support is needed for research into technological solutions to facilitate the green transition, including carbon capture and storage projects. Meanwhile, policy needs to help business sector productivity and employment, including through improvements to insolvency processes. Further efforts should be made to increase labour force participation, including through a reform of sickness benefits and disability pensions which are a major channel of early retirement. Reforms bringing more affordable housing would also be welcome, including more support for low-income renters, fewer tax concessions favouring home ownership, and planning reforms that give more scope to new property development.

Poland

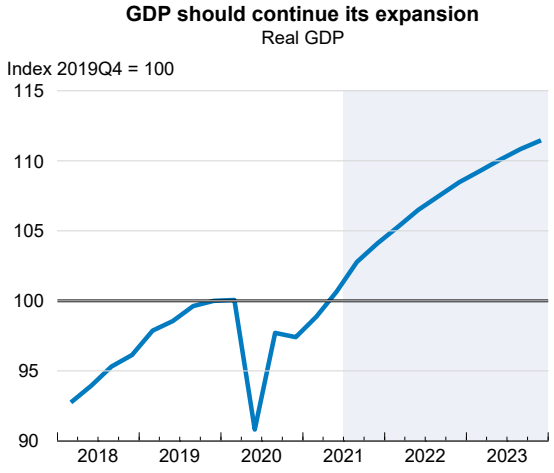
After a strong rebound during the first half of the year, GDP has surpassed its pre-pandemic level and is expected to grow by 5.3% in 2021. This momentum should continue with GDP growth projected to reach 5.2% in 2022, before easing to 3.3% in 2023. Consumption and investment will drive the recovery, with a sustained withdrawal of savings and the disbursement of EU funds significantly contributing to growth. However, an expanding economy and a tighter labour market will result in diminishing spare capacity, leading existing inflationary pressure to increase further.

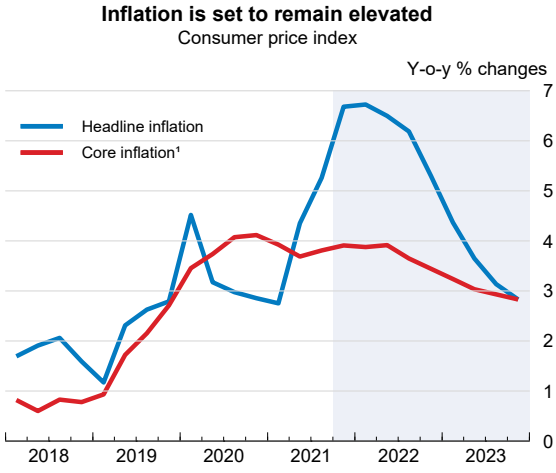
Policy should support stable and sustainable growth. Monetary policy has already begun tightening and additional interest rate increases, clearly communicated, might be necessary should inflationary pressures continue to mount. Fiscal support should be withdrawn at a faster pace than currently planned. In the medium-term, labour market policies should support upgrading skills to adapt to the post-pandemic economy. Public investment should focus on developing infrastructure and, in energy in particular, the move towards a greener economy.

The public health environment has improved but remains challenging

After an intense second wave at the beginning of the year, the public health situation has improved significantly, but it continues to remain challenging. Having peaked in March, new infections dropped and then stabilised during summer. The pace of vaccinations picked up from mid-April and around half of the total population has now been fully vaccinated. Poland has started a booster vaccination programme for its older citizens. However, the public health environment has deteriorated since early October amid a resurgence in infections.

Poland





1. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/9oybp7

Poland: Demand, output and prices

Poland	2018	2019	2020	2021	2022	2023
	Current prices PLN billion	Percentage changes, volume (2015 prices)				
GDP at market prices	2 121.6	4.7	-2.5	5.3	5.2	3.3
Private consumption	1 239.8	3.9	-2.9	5.8	5.7	3.2
Government consumption	376.3	6.5	4.9	2.9	2.2	2.0
Gross fixed capital formation	386.4	6.1	-9.0	5.4	7.8	7.1
Final domestic demand	2 002.5	4.8	-2.6	5.1	5.4	3.7
Stockbuilding[1]	54.1	-1.0	-0.7	1.1	0.2	0.0
Total domestic demand	2 056.6	3.6	-3.3	6.3	5.5	3.5
Exports of goods and services	1 172.0	5.2	0.1	11.5	4.0	3.0
Imports of goods and services	1 107.0	3.0	-1.2	14.6	5.1	3.5
Net exports[1]	65.0	1.3	0.7	-0.8	-0.3	-0.1
Memorandum items						
GDP deflator	_	3.2	4.1	3.9	4.0	3.0
Consumer price index	_	2.2	3.4	4.8	6.2	3.5
Core inflation index[2]	_	1.9	3.8	3.8	3.7	3.0
Unemployment rate (% of labour force)	_	3.3	3.2	2.6	3.4	3.4
Household saving ratio, net (% of disposable income)	_	0.7	6.9	4.3	-0.9	-0.6
General government financial balance (% of GDP)	_	-0.7	-7.1	-4.7	-1.7	-0.4
General government debt, Maastricht definition[3] (% of GDP)	_	45.6	57.4	58.3	55.9	53.7
Current account balance (% of GDP)	_	0.5	2.9	0.1	-1.1	-0.8

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/uh8grk

The economy has bounced back strongly from the pandemic

Despite epidemiological challenges, the economy has rebounded strongly and above expectations as GDP expanded by 3.3% during the first half of 2021. This was mostly driven by a recovery in consumption as consumer confidence improved amid an improving health outlook, loosening restrictions and falling uncertainty. The labour market tightened further as vacancies grew strongly and wages increased across all sectors of the economy. Since then, consumer confidence and retail sales surveys have pointed to continued consumption growth while industrial production indicators suggest that output has increased further. Quarterly GDP growth is estimated to have been 2.1% in the third quarter of 2021. Surging global energy prices and supply bottlenecks resulted in mounting inflationary pressure. Headline harmonised consumer price inflation reached 6.4% in October, well above the central bank's upper-range target. Core inflation has also remained elevated throughout most of 2021.

Policy has acted to stabilise the economy

Monetary and financial conditions tightened in response to rising inflation. The National Bank of Poland raised the key short-term interest rate from 0.1% to 0.5% in October and increased bank reserve requirements from 0.5% to 2% to contain inflation and prevent inflation expectations from de-anchoring. In November, the key short-term interest was raised further to 1.25%. Fiscal policy remained supportive in the first half of 2021. A second wave of 'Anti-Crisis Shield' fiscal measures provided more targeted support to the economy until the end of June but has now expired.

The economy is set to expand further in 2022 and 2023

The positive momentum should continue, with Polish GDP projected to expand by 5.3% in 2021. Looking ahead, GDP growth should reach 5.2% in 2022 before easing to 3.3% in 2023. Widespread vaccination should allow economic activity to resume largely as normal, which will support solid growth in private consumption as savings accumulated during the pandemic are spent. As uncertainty declines, investment will also support growth until 2023, boosted by just under half of the EUR 36bn of EU's Recovery and Resilience Facility (RRF) funds allocated to Poland. The labour market is expected to become increasingly tight, leading to higher wage growth. In an economy above its pre-pandemic level, diminishing spare capacity should exert upward pressure on inflation. While higher energy prices and supply bottlenecks should push up annual headline inflation in 2022 before fading, underlying inflationary pressures are expected to persist and core inflation should remain elevated throughout 2023. With the aim of bringing inflation back to target, monetary policy should tighten further, with key policy interest rates increasing to 2.25%, and soften growth in 2023. The Polish New Deal, a fiscal package focused on lowering taxes for the middle-class and increasing health spending, should boost the economy from 2022 onwards. On balance, fiscal policy is foreseen to be gradually reduced by 2023, on the back of stronger growth and lower-than-expected COVID-19 related social spending, but further fiscal tightening may be necessary to stabilise the economy.

The outlook is uncertain and the risks are broadly balanced. On the upside, rising consumer confidence and higher wage growth could lead to stronger consumption growth and higher inflation. On the downside, a worsening of the pandemic could weaken confidence, leading to a loss of momentum and softer growth. Continued tensions with the European Commission and uncertainty around the disbursement of EU RRF funds could also drag on the recovery.

Policies must ensure a sustainable and green recovery

A focus on labour market reforms, productivity-friendly investments and decarbonisation would support a more sustainable and green recovery. Labour market programmes to improve relatively low basic skills, especially among older adults, should be strengthened and limited lifelong training opportunities for the unemployed and the low-skilled should be broadened in order to develop the skills necessary for a more digital and green economy. Helping displaced workers with job placement and reforming pensions to encourage greater labour market participation, especially among older workers, should support labour supply and underpin growth. Public investment that develops Poland's infrastructure, particularly in transport, energy and digital technologies, should help smaller firms better access foreign markets. Within the energy sector, a focus on low-carbon and renewable energy would facilitate the move toward a greener economy.

Portugal

The economy is projected to grow by 4.8% in 2021, 5.8% in 2022 and 2.8% in 2023. GDP should surpass its pre-crisis level only around mid-2022. Robust growth is mainly driven by domestic demand, and will be boosted by the absorption of EU funds. The current rise in production costs, driven essentially by energy prices, is not expected to fuel underlying price pressures substantially given still sizeable slack in the economy.

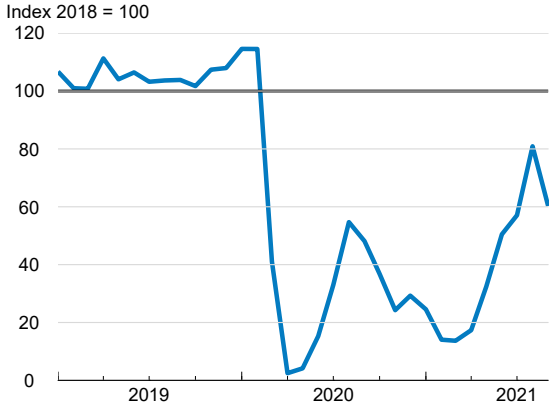
The fiscal stance is expected to remain supportive over the forecast horizon, mainly due to sizeable absorption of Next Generation EU grants. The non-performing loan (NPL) ratio, though decreasing, is among the highest in Europe, which is a possible source of financial stress. Since some reallocation of activities and jobs is inevitable in the aftermath of the COVID-19 crisis, strengthening insolvency regimes would facilitate it, while allowing the economy to cope better with a possible surge in business failures and NPLs. It is important to avoid reversing past labour market reforms, which can undermine a sustainable recovery.

The economy is rebounding strongly

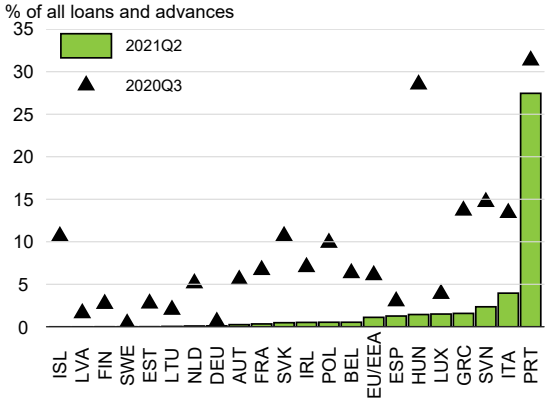
GDP rebounded more strongly than expected in the second and third quarters of 2021, driven mainly by private consumption, while most restrictive sanitary measures have been removed. The number of confirmed COVID-19 cases has fallen significantly, while the share of fully vaccinated people stands at more than 85%, among the highest in the world. Both consumer confidence and retail sales data imply a continued strong rebound in consumption in the near term. Business sentiment in the services sector continues to improve, while the tourism industry is recovering rapidly, albeit from very low levels. In contrast, industrial production has slowed moderately over the past months, while production costs have risen strongly largely due to energy prices and supply constraints, although this has not fed into consumer prices much.

Portugal

Tourism activity is recovering but is still below pre-crisis levels[1]



The reliance on loan moratoria by Portuguese firms was significant



1. The number of nights spent at tourist accommodation establishments.
Source: INE, Portugal; and OECD calculations based on EBA (2021) Risk Dashboard 2021Q2.

StatLink https://stat.link/r70ytv

Portugal: Demand, output and prices

Portugal	2018	2019	2020	2021	2022	2023
	Current prices EUR billion	Percentage changes, volume (2016 prices)				
GDP at market prices	205.2	2.7	-8.4	4.8	5.8	2.8
Private consumption	131.9	3.3	-7.1	4.5	4.6	1.9
Government consumption	34.8	2.1	0.4	4.3	2.9	1.3
Gross fixed capital formation	36.0	5.4	-2.7	5.7	8.1	8.5
Final domestic demand	202.7	3.4	-5.0	4.7	5.0	3.1
Stockbuilding[1]	1.6	-0.3	-0.6	0.2	0.0	0.0
Total domestic demand	204.2	3.1	-5.5	4.9	4.9	3.1
Exports of goods and services	89.1	4.1	-18.6	9.2	10.5	4.6
Imports of goods and services	88.2	4.9	-12.1	9.2	8.0	5.3
Net exports[1]	0.9	-0.4	-2.9	-0.2	0.8	-0.4
Memorandum items						
GDP deflator	_	1.7	1.9	0.9	1.4	1.2
Harmonised index of consumer prices	_	0.3	-0.1	0.8	1.7	1.1
Harmonised index of core inflation[2]	_	0.4	-0.2	0.1	1.6	1.1
Unemployment rate (% of labour force)	_	6.6	7.0	6.9	6.7	6.5
Household saving ratio, net (% of disposable income)	_	-2.2	3.5	2.4	-1.1	-2.0
General government financial balance[3] (% of GDP)	_	0.1	-5.8	-4.3	-2.4	-1.6
General government gross debt (% of GDP)	_	136.1	157.5	155.7	150.6	148.2
General government debt, Maastricht definition[4] (% of GDP)	_	116.6	135.2	133.4	128.3	125.8
Current account balance (% of GDP)	_	0.4	-1.1	-1.0	-0.6	-0.9

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. Based on national accounts definition.
4. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/o5e8rj

Policy will remain supportive

Fiscal policy is expected to be supportive in 2022 and 2023, although most of emergency measures against the COVID-19 crisis are wound down. This mainly reflects the absorption of grants from the EU Recovery and Resilience Facility, which is assumed to amount to 0.6% of GDP in 2021, 1.3% of GDP in 2022, and 1.5% of GDP in 2023. Recently, the government has also introduced a number of measures to cushion the negative effects from rising energy prices, such as fuel subsidies for households and for public transport operators as well as a control of fuel marketing margins. The draft Budget 2022 was not approved by Parliament and an early election will take place on 30 January 2022. As a consequence, some new stimulus measures planned in the draft Budget, such as a reduction in personal income tax and a rise in the payroll in public administration, are not incorporated in the projections. In contrast, public infrastructure investment, largely relying on EU funds, is assumed to be implemented as planned. Financing conditions will remain favourable, as monetary policy by the European Central Bank will remain accommodative. While most of emergency measures against the COVID-19 have been phased out, the moratorium on bank loans ended as scheduled in September 2021.

The strong recovery will continue, boosted by investment

The recovery is projected to remain robust, and increasingly driven by investment. In Portugal, the absorption of Next Generation EU grants is expected to be swift, as close to 60% of the total amount has already been contracted. Consumption will remain strong, while the saving ratio should decline as uncertainty related to the epidemic wanes. Exports, currently still subdued, will be slow to recover fully, reaching the pre-crisis level only at the beginning of 2023, as tourism is expected to continue to be affected by mobility restrictions across borders. If restrictions are removed earlier than expected, this would be an upside risk for tourism and activity. High production costs, due to energy prices and supply constraints, are not expected to derail inflation expectations, which remain moderate given sizeable slack in the economy. Employment will increase only slowly, as many jobs had been protected by the job retention scheme, and firms have reacted by increasing working hours instead, at least initially. A major risk is related to business failures that can be more prevalent than expected, harming financial stability and raising unemployment. This could follow the removal of the moratorium on bank loans, as the share of businesses having relied on the moratorium in Portugal was by far the highest across European countries.

Policy can support sustainable growth

As some reallocation of activities and jobs is likely inevitable, due to changes in people's preferences and behaviour, policy support should be strictly targeted to viable jobs and firms. Strengthening insolvency regimes can reduce the obstacles hampering the successful restructuring of viable firms and the smooth exit of non-viable ones. This includes facilitating the use of out-of-court procedures, which can also alleviate court congestion in face of a potential surge in business failures. While significant job losses are expected in certain sectors, other sectors are increasing vacancies, which may not be easily filled due to job-skill mismatches. Such job reallocation can be facilitated by strengthening public employment services and upskilling and reskilling programmes. The government should also avoid increasing firing costs abruptly, which would discourage job creation, and increasing the legal minimum wage rapidly, which would reduce job opportunities for low-skilled workers in particular and feed into inefficiently high labour costs in the longer run.

Romania

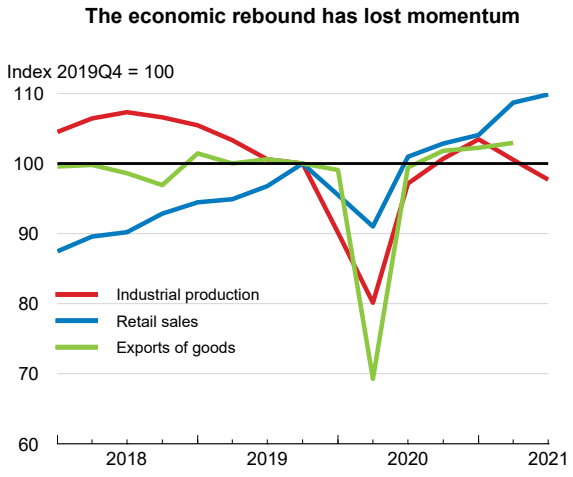
After reaching its pre-pandemic level in the first half of 2021, economic activity will temporarily moderate due to the fourth wave of the virus. Over the next two years, GDP growth is projected to remain strong, at about 4.5% in 2022 and 2023, assuming the pandemic is brought back under control. Pent-up demand will sustain private consumption, and investment will surge supported by the absorption of EU funds. Tensions on the labour market will drive wages upwards and keep inflation above the central bank target.

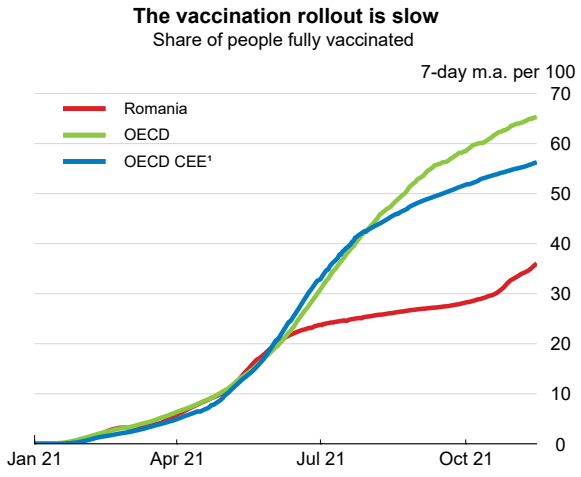
Accelerating vaccination from the current low level and supporting those most affected by the pandemic are key to sustain the recovery. If the recovery develops as expected, fiscal consolidation should start in 2022 and address important imbalances in public finances, including pension sustainability. Monetary policy should continue to gradually normalise to maintain well-anchored inflation expectations. Improving conditions for green and digital investments, notably by addressing skills shortages, is crucial for sustainable growth.

Romania is hard-hit by the fourth wave of the pandemic

With record-high reported cases and deaths, the fourth wave of the pandemic is severe, putting huge pressure on hospitals. Non-urgent hospitalisations have been suspended and international assistance to address shortages in medical equipment and ICU beds has been requested. The resurgence of the pandemic prompted a tightening of restrictions, including night curfews for unvaccinated people, mandatory mask wearing and the closure of schools. The vaccination rate is the second lowest in the European Union, at around 35%, due to a low take-up.

Romania





1. OECD CEE is the average of the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia.
Source: OECD Economic Outlook 110 database; OECD Monthly Economic Indicators; and OECD calculations based on Our World in Data.

StatLink https://stat.link/6tw25v

Romania: Demand, output and prices

Romania	2018	2019	2020	2021	2022	2023
	Current prices RON billion	Percentage changes, volume (2010 prices)				
GDP at market prices	951.7	4.1	-3.9	6.3	4.5	4.5
Private consumption	607.3	4.1	-5.2	4.1	4.5	4.1
Government consumption	160.1	6.9	2.0	1.6	2.6	2.1
Gross fixed capital formation	200.4	13.0	6.8	7.5	8.3	9.8
Final domestic demand	967.8	6.4	-1.1	4.6	5.1	5.2
Stockbuilding[1]	16.4	-1.2	-1.4	3.0	-0.5	0.0
Total domestic demand	984.2	5.1	-2.4	7.6	4.4	5.0
Exports of goods and services	398.4	4.6	-9.7	11.3	6.1	4.9
Imports of goods and services	430.9	6.8	-5.1	14.6	5.6	5.9
Net exports[1]	- 32.5	-1.2	-1.6	-1.9	-0.1	-0.7
Memorandum items						
GDP deflator	_	6.8	3.8	5.3	5.3	3.9
Consumer price index	_	3.8	2.6	4.9	5.6	3.6
Core consumer price index[2]	_	3.2	3.7	4.5	4.3	3.6
Unemployment rate (% of labour force)	_	3.9	5.0	5.1	4.8	4.4
General government financial balance (% of GDP)	_	-4.4	-9.4	-8.0	-6.6	-5.3
General government gross debt (% of GDP)	_	44.5	59.4	62.4	66.1	69.1
General government debt, Maastricht definition[3] (% of GDP)	_	35.3	47.4	50.3	54.1	57.1
Current account balance (% of GDP)	_	-4.9	-5.0	-6.5	-6.1	-6.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/3byroj

The economic recovery has slowed

After a strong recovery in the first half of 2021, economic activity has been cooling. Supply-chain disruptions have damped manufacturing activity, which was already on a declining path before the pandemic. The rapid growth in coronavirus infections has hurt confidence. Consumer spending has remained robust, but lost momentum on the back of lower pent-up demand and price increases. Inflation has surged, far above the central bank target band, mainly driven by sharp increases in food and energy prices. Underlying inflationary pressures have built up due to the relatively fast pass-through of higher production costs into consumer prices. Average wage growth has remained solid, reaching 7% over the first eight months of 2021. Labour market conditions have improved, with the number of registered unemployed close to its pre-crisis level.

Macroeconomic policies will remain supportive

Monetary policy should continue to normalise gradually over the next two years, as the economic recovery progresses. Policy interest rates are projected to converge to their pre-crisis level by the end of 2023. The government committed to reduce the budget deficit from 9.4% in 2020 to below 3% by 2024. Despite the progressive withdrawal of emergency measures and higher-than-expected tax revenues due to the strong economic performance, the fiscal stance will tighten only slightly in 2021. Fiscal consolidation is set to

continue in 2022, sustained by improved tax collection. Public investment will surge, exceeding 5% of GDP by the second half of 2023, with increased absorption of European funds granted under the Cohesion policy and the Next Generation EU plan.

Risks to the outlook are high

At around 4.5% in 2022 and 2023, GDP growth is expected to remain robust, under the assumption that the health situation will progressively improve and containment measures will be phased out. Business investment will firm, helped by the disbursement of EU funds and external demand. Private consumption will continue to support activity, helped by a fall in the household saving ratio. A tighter labour market will push wages up, maintaining inflationary pressures. As the impact of past increases in commodity prices fades, inflation will edge down to around 3.5% by the end of 2023. The recovery of supply chains will sustain exports of goods, including cars, but rising production costs will limit gains in export market shares in the medium term. The current account will remain in deficit, due to strong demand for imports. The main risks to the outlook stem from the evolution of the pandemic. Deeper labour shortages, persistent supply-chain bottlenecks, and rising energy prices could also accentuate inflation pressures and dampen external and domestic demand. In contrast, productivity-enhancing reforms and investments envisaged under the recovery and resilience plan could materialise faster than expected, with a positive impact on competitiveness and growth.

Policy measures can improve economic potential and resilience

Encouraging a high take-up of vaccines is critical to limit the human and economic costs of the health crisis. Maintaining support to those affected by the pandemic and providing adequate resources to the healthcare sector to tackle the consequences of the fourth wave is a key priority. Over the medium run, improving the business environment by reducing the administrative burden on firms, providing adequate transport infrastructure and easing access to training is crucial to foster private investment and address labour shortages. The transition to greener energy sources should also accelerate to reduce reliance on fossil fuels and reduce air pollution from current high levels. The effective implementation of the Recovery and Resilience Plan, especially of the planned structural reforms, will be key to put growth on a sustainable path. In particular, reforms of the pension and the tax systems are needed to restore the sustainability of public finances.

Slovak Republic

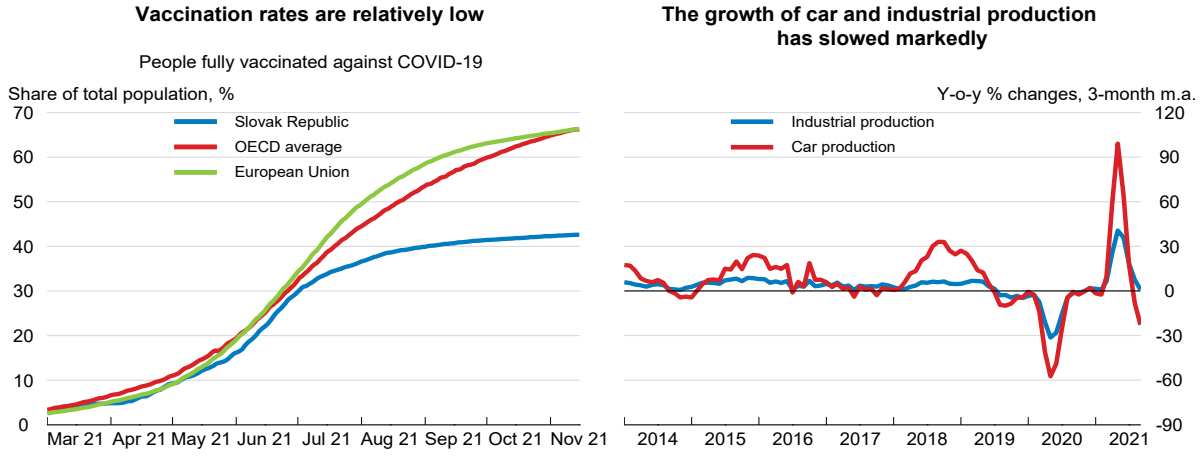
The economy is projected to grow by 3.2% in 2021, 5% in 2022, and 4.8% in 2023. Consumption and investment rebounded in the second quarter on the back of easing pandemic containment measures, but growth moderated in the third quarter. Rising infections, relatively low vaccination rates and supply disruptions will weigh on economic activity in the near term. The recovery will accelerate in 2022 and 2023 mainly on the back of strong investment growth, aided by EU Recovery and Resilience Facility and EU structural funds. Possible further restrictions and a slower absorption of EU funds could weaken the recovery.

Targeted policy support should be maintained until the recovery is firmly underway. Stepping up active labour market policies is key to facilitating the reallocation of labour. Strengthening the governance of public investment spending and public procurement will help ensure timely and effective implementation of the recovery plan. A medium-fiscal consolidation strategy should be adopted to address medium-term fiscal challenges, especially those related to rapid population ageing.

Economic activity has lost momentum

Economic growth picked up in the second quarter, helped by easing pandemic containment measures and a gradual resumption of economic activities, particularly in services sectors. However, supply shortages, together with increasing infections, are now weighing on the recovery. After months of decline, infections and hospitalisations have been rising strongly again with the spread of the Delta variant. Rising infections and slow progress in vaccination, have led to renewed tightening of restrictions in districts with high infection rates. To increase vaccination rates, the government introduced financial incentives (a vaccination lottery), and deployed mobile vaccination teams to better reach certain regions and population groups, including the Roma. Still, only around 43% of the population were fully vaccinated by mid-November.

Slovak Republic



Source: Our World in Data; Statistical Office of the Slovak Republic; and OECD calculations.

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Slovak Republic: Demand, output and prices

Slovak Republic	2018	2019	2020	2021	2022	2023
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	89.4	2.6	-4.4	3.2	5.0	4.8
Private consumption	50.4	2.7	-1.5	1.1	3.6	2.9
Government consumption	16.7	4.6	0.9	3.3	2.8	0.7
Gross fixed capital formation	18.8	6.7	-11.6	-0.7	15.0	14.5
Final domestic demand	85.9	3.9	-3.2	1.2	5.6	4.8
Stockbuilding[1]	2.0	0.0	-2.2	2.6	0.1	0.0
Total domestic demand	87.8	3.9	-5.1	3.9	5.5	4.7
Exports of goods and services	86.0	0.8	-7.4	10.7	2.6	5.6
Imports of goods and services	84.5	2.1	-8.4	11.5	3.2	5.4
Net exports[1]	1.6	-1.2	0.9	-0.5	-0.5	0.1
Memorandum items						
GDP deflator	_	2.5	2.4	2.2	3.5	2.3
Harmonised index of consumer prices	_	2.8	2.0	2.6	4.1	2.5
Harmonised index of core inflation[2]	_	2.0	2.4	2.9	3.0	2.4
Unemployment rate (% of labour force)	_	5.8	6.7	7.0	6.4	5.8
Household saving ratio, net (% of disposable income)	_	4.1	5.1	5.2	3.2	3.2
General government financial balance (% of GDP)	_	-1.3	-5.5	-6.7	-4.4	-2.5
General government gross debt (% of GDP)	_	63.4	79.3	80.0	77.7	76.2
General government debt, Maastricht definition[3] (% of GDP)	_	48.1	59.7	60.5	58.2	56.7
Current account balance (% of GDP)	_	-2.7	-0.4	-1.1	-2.2	-1.9

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. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/46zexo

Quarterly GDP growth slowed to around 0.4% in the third quarter of 2021. Car manufacturers have had to suspend production temporarily owing to supply shortages of semiconductors, leading to a marked slowdown in industrial production and exports. Car sales have fallen sharply recently. High-frequency activity indicators, such as the Google location-based measures of retail and recreation mobility, have also fallen. At the same time, harmonised consumer price inflation surged, to 4.4% in October, on the back of rising energy and food prices, a tax increase on tobacco, and higher prices of construction input materials.

Several COVID-19 fiscal support measures have been extended

Short-term work schemes, grants for firms and self-employed workers as well as sickness and care benefits have been extended until the end of December 2021. The budget foresees a gradual phasing-out of emergency pandemic measures in 2022 and the medium-term plan foresees additional structural consolidation in 2023. This will be partially offset by the use of grants from the EU Recovery and Resilience Facility, which could amount up to EUR 6.3 billion (6.3% of annual GDP) in total over the period 2021-2026. The Ministry of Finance expects the country to draw around 40% of the total funds from the EU Recovery and Resilience Facility by 2023, mainly for investment.

The recovery is set to accelerate

GDP growth will accelerate in 2022 and remain strong in 2023, driven by robust investment related to the EU recovery and structural funds. Private consumption will strengthen, as the health situation improves in the course of the first half of 2022, the labour market further recovers, and household savings gradually normalise. Higher administered energy prices will put upward pressure on inflation in 2022. Wage growth will also increase in the private sector though remain contained in the public sector. Inflation will however slow as supply chain bottlenecks and order backlogs gradually ease from mid-2022, as assumed. Inflation could be higher if supply constraints are prolonged and input price pressures are more strongly passed on to consumer prices. A slower absorption of EU funds would curb investment growth. Private consumption could be weaker if the development of the health situation requires stricter measures.

Policies are needed for a sustainable recovery

The government should stand ready to maintain policy support in the near-term, targeted to people and sectors that may be affected by renewed restrictions. Stepping up active labour market policies, notably re-training measures, is crucial to facilitate workforce reallocation. The recovery plan foresees ambitious investment and reforms especially for the transition to a low-carbon economy, education, healthcare, and innovation. To ensure a timely and effective implementation of the recovery plan, the governance of public investment spending and public procurement should be further strengthened. The government should adopt a medium-term fiscal consolidation strategy to address fiscal challenges, especially those associated with the rapidly ageing population. The strategy should include reforming pensions, health and long-term care, and mobilising underutilised labour resources.

Slovenia

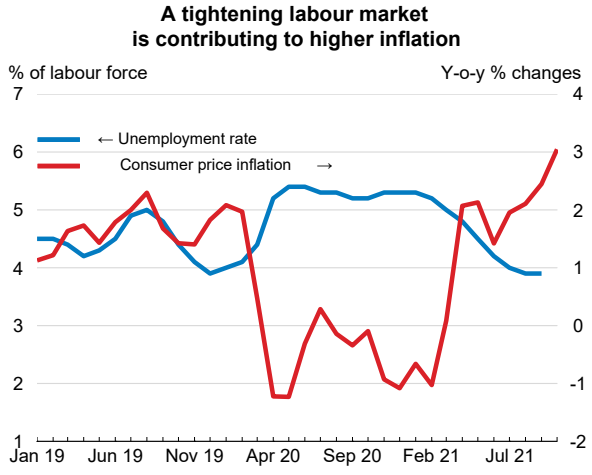
Economic growth is projected to recover to about 5.9% in 2021 and 5.4% in 2022, and moderate to a still robust 3.2% in 2023. Domestic demand will be the main driver of growth. Higher real incomes will boost private consumption. Investment will increase on the back of increasing capacity constraints and larger inflows of EU funds. Headline inflation will rise, and reach 3% by 2023, reflecting high energy prices, supply side constraints and a tighter labour market.

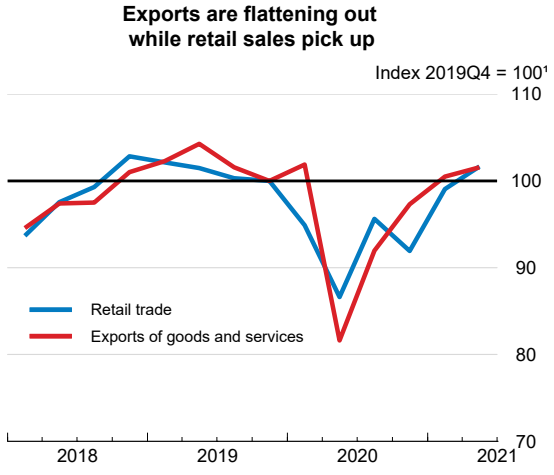
With gradual fiscal policy tightening, the public deficit will reach 3% of GDP in 2023. As the recovery becomes self-sustained, a more neutral fiscal policy stance would help to prepare the public finances for upcoming ageing-related spending pressures. Meanwhile, additional EU funds are providing a stimulus to economic growth and should help accelerate the green and digital transitions. A more growth-friendly tax mix would also help to raise potential growth. Labour taxes should be lowered to help address labour shortages and raise participation, financed by higher property and indirect taxes.

Economic activity is back to pre-pandemic levels

The vaccination rollout has been slow, with only about half of the population fully vaccinated in November 2021. Nonetheless, the re-opening of service sectors and strong international demand lifted economic activity above its pre-pandemic level in the second quarter of 2021. Since then, import growth has outpaced export growth. International supply chain bottlenecks are weighing on exports, forcing car suppliers to temporarily halt production at the end of the summer. Business confidence continued to deteriorate for a third consecutive month in October. The resurgence of COVID cases and hospitalisations has led the government to introduce new restrictions in early November, including earlier closing hours for bars and restaurants, although no new lockdown measures were announced.

Slovenia





1. Both series are in constant price terms.
Source: OECD Economic Outlook 110 database; OECD Labour database; OECD Main Economic Indicators database; and OECD calculations.

StatLink https://stat.link/cfznl2

Slovenia: Demand, output and prices

Slovenia	2018	2019	2020	2021	2022	2023
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	45.9	3.3	-4.2	5.9	5.4	3.2
Private consumption	23.9	4.8	-6.6	7.6	7.9	3.4
Government consumption	8.4	2.0	4.2	1.7	1.7	1.1
Gross fixed capital formation	8.8	5.5	-8.2	10.9	7.6	5.7
Final domestic demand	41.1	4.4	-4.7	6.9	6.4	3.4
Stockbuilding[1]	0.9	-0.9	0.1	1.0	0.0	0.0
Total domestic demand	42.0	3.3	-4.6	9.6	6.6	3.3
Exports of goods and services	38.9	4.5	-8.7	10.1	6.0	4.2
Imports of goods and services	35.0	4.7	-9.6	13.3	7.2	4.5
Net exports[1]	3.9	0.3	-0.1	-1.3	-0.5	0.0
Memorandum items						
GDP deflator	_	2.2	1.2	2.4	3.0	3.3
Harmonised index of consumer prices	_	1.7	-0.3	1.7	2.8	3.0
Harmonised index of core inflation[2]	_	1.9	0.8	0.6	2.3	3.0
Unemployment rate (% of labour force)	_	4.4	5.0	4.6	4.0	3.8
Household saving ratio, net (% of disposable income)	_	6.5	16.3	12.3	7.3	6.2
General government financial balance (% of GDP)	_	0.4	-7.7	-7.2	-5.1	-3.0
General government gross debt (% of GDP)	_	86.2	109.1	106.3	104.5	104.0
General government debt, Maastricht definition[3] (% of GDP)	_	65.6	79.8	77.7	76.4	76.0
Current account balance (% of GDP)	_	6.0	7.4	4.0	4.3	4.3

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.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/xm8pce

The labour market has returned to its favourable pre-pandemic situation, with a fall in the unemployment rate by 1.4 percentage points since the beginning of the year. The tightening labour market has spurred strong wage growth in the private sector of around 6% over the year to August 2021, although part of the strong increase in remuneration may be explained by workers returning to employment from the short-time work scheme. Headline inflation accelerated to 3.5% in October, reflecting strong increases in energy prices and supply side constraints. Core inflation picked up due to service price increases as the service and tourism sector reopened.

Fiscal policy remains supportive

Fiscal policy will remain expansionary in 2022. Additional support will come from the EU Recovery and Resilience Facility funds, which will on average provide 0.7% of GDP per year in additional investment over 2021-26, notably in health and the green and digitalisation transformations. The announced fiscal measures will, together with the strong economy, reduce the budget deficit to 5% of GDP in 2022. Despite the large deficit, gross debt will be reduced by using government reserves to buy back government bonds. In 2023, the fiscal stance will become less expansionary with a projected consolidation of around 1.7% of GDP as a result of the removal of one-off measures.

Domestic demand will drive growth

The projected strong growth in economic activity should close the output gap by 2023. The recovery will mostly be driven by domestic demand. Private consumption will benefit from further increases in real incomes on the back of a tightening labour market. Investment will rebound owing to increasing capacity constraints and inflows of EU funds. The buoyant labour market will drive the unemployment rate below pre-pandemic levels from the end of 2021. High energy prices will continue to drive headline inflation until mid-2022. Afterwards, continued real wage growth is expected to contribute to inflation, reflecting the tightening labour market, although immigration from other ex-Yugoslavian countries should dampen wage pressures to some extent. A downside risk is that a combination of stronger wage growth and prolonged supply shortages could fuel inflation expectations. Higher-than-expected insolvencies could add to supply side constraints. Also, the resurgence of the virus could potentially lead to new restrictive measures and lower domestic spending. On the upside, a faster resolution of international supply-chain problems would benefit export activity and strengthen growth.

Preparing public finances for upcoming challenges

As the recovery becomes self-sustained, a more neutral fiscal policy stance would help to prepare the ground for shoring up fiscal sustainability. Meanwhile, the additional EU funds are providing economic stimulus and an opportunity to accelerate growth-enhancing public investment. To boost growth potential and promote fiscal sustainability, structural reforms to raise labour force participation and improve productivity should be accelerated. A more growth-friendly tax mix through further reductions in labour taxes financed by higher property and indirect taxation, would help raise long-term growth prospects. Productivity growth would benefit from stronger competition, through continued privatisation efforts, and a more flexible wage-setting process to help enhance reallocation of labour towards more productive sectors.

South Africa

Growth is projected to rebound to 5.2% in 2021 before slowing to 1.9% in 2022 and 1.6% in 2023. Social protests in July halted a relatively strong rebound in activity. However, GDP growth will still be strong in 2021 driven by exports and household consumption. Household consumption is supported by government social transfers and a drawdown of savings. High commodity demand and sustained high prices will continue to boost exports and government revenues until mid-2022. Investment is projected to increase from 2022, as firms renew their capital stock.

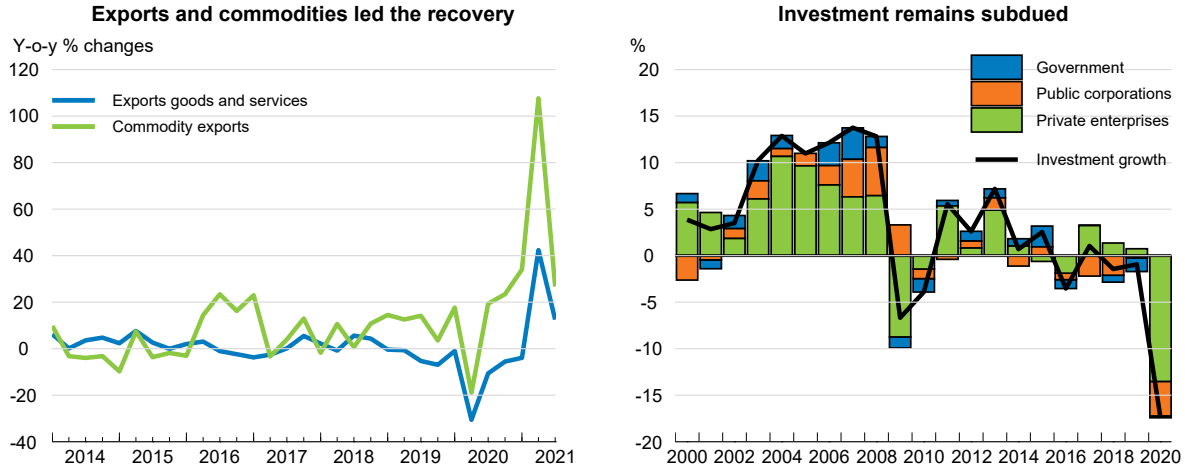
Fiscal policy will remain constrained over the projection period. However, windfall revenues from the commodity boom are helping the government to finance the response to the pandemic. Investing in electricity generation, infrastructure and higher education, and lifting regulatory burdens are essential to boost potential growth. Inflation, though increasing, remains under control and will hover around the 4.5% target of the Reserve Bank. Monetary policy should remain slightly accommodative as growth is set to recede from next year.

A strong economic recovery led by exports

Monthly indicators point to an activity slowdown in the third quarter compared to the two previous quarters following riots in July. Seasonally adjusted manufacturing production increased by 7.6% in August 2021 compared with July 2021, following declines of 8.4% in July 2021 and 0.5% in June 2021. Retail trade improved in August after decreasing in the previous quarter. These indicators point to a recovery of activity in August but supply-chain bottlenecks and increased electricity load-shedding continue to weigh on production.

The spread of the virus has receded markedly, and daily new cases are below 1000 for the country. The alert level has been set to the lowest level, requiring the wearing of masks in transport, offices and gatherings and a curfew from midnight to 4 a.m. The vaccination process, after a slow start in February has accelerated, but only 34% of the adult population is fully vaccinated as of mid-November.

South Africa



Source: OECD Economic Outlook 110 database; South African Reserve Bank; and OECD calculations

StatLink https://stat.link/lchq1m

South Africa: Demand, output and prices

South Africa	2018	2019	2020	2021	2022	2023
	Current prices ZAR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	5 357.6	0.1	-6.4	5.2	1.9	1.6
Private consumption	3 408.4	1.1	-6.5	6.1	2.0	2.1
Government consumption	1 037.9	2.7	1.3	0.0	0.9	1.3
Gross fixed capital formation	849.2	-2.4	-14.9	-0.6	3.1	6.7
Final domestic demand	5 295.5	0.8	-6.2	3.9	1.9	2.6
Stockbuilding[1]	37.0	0.4	-1.7	0.7	-0.1	0.0
Total domestic demand	5 332.5	1.2	-8.0	4.6	1.9	2.6
Exports of goods and services	1 472.7	-3.4	-12.0	12.5	5.7	2.9
Imports of goods and services	1 447.6	0.5	-17.4	10.2	6.0	6.7
Net exports[1]	25.2	-1.1	1.8	0.6	0.0	-1.0
Memorandum items						
GDP deflator	_	4.5	5.3	5.1	3.2	3.7
Consumer price index	_	4.1	3.3	4.4	4.8	4.5
Core inflation index[2]	_	4.1	3.4	2.9	4.0	4.5
General government financial balance (% of GDP)	_	-5.7	-11.6	-7.8	-6.1	-5.6
Current account balance (% of GDP)	_	-2.6	2.0	4.9	1.2	-1.1

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 110 database.

StatLink https://stat.link/an4o26

Fiscal support is being reduced

Monetary policy remains accommodative as the Reserve Bank has maintained the repurchasing rate at 3.5% since March 2020. However, after inflation jumped to 5% in September, above the 4.5% target, the reserve bank increased the repurchasing rate by 25 basis points to 3.75% in November and signalled its readiness for progressive normalisation of monetary policy. An accommodative monetary policy stance remains appropriate as inflation is projected to return towards the target, expectations remain anchored and fiscal policy is constrained. The policy interest rate is projected to start rising again moderately in the second half of 2022. The currency has remained strong, even appreciating during some periods, which has helped to cushion the transmission of external pressures to domestic prices. Jobs lost due to the pandemic have not been recovered yet. Wage pressures should remain low despite the headline increase from the temporarily higher share of skilled workers in job creation.

Despite limited fiscal space, the government has reinstated the COVID-19 Social Relief of Distress Grant of ZAR 350 per month covering unemployed working-age individuals not receiving any social grants from August 2021 to March 2022. Most of the other relief measures have been prolonged for a few months in 2021 but are planned to be discontinued before the end of the year.

A progressive return to the long-run growth trend is projected

Assuming the pandemic is contained and there are no further stringent restrictions, GDP growth is projected to reach 5.2% in 2021, mainly on the back of a very strong first half of the year, before receding to 1.9% and 1.6% in 2022 and 2023 respectively. The main engine of growth will transition from exports (global commodity demand and prices are projected to slow over 2022) to internal demand, driven by household consumption and investment. Household consumption should remain strong, boosted by an improving labour market, sustained credit levels and government social transfers. Private investment

should progressively pick up on the back of needed capital replacement and expected improvements in the implementation of policy reforms and electricity generation.

The recent government initiatives to address the electricity crisis, such as permitting some municipalities to buy electricity from suppliers other than Eskom and allowing private companies to self-generate up to 100 MW, should help to ease electricity shortages over the medium term. Fiscal policy, though remaining prudent, should gain some fiscal space over the projection period and contribute to growth through public investment. Domestic near-term risks to growth include increased load-shedding (rolling blackouts) by the power utility and higher-than-expected electricity prices, which could derail growth. However, continued higher demand and prices for commodity exports would boost growth.

Restoring confidence is key for investment and growth

A decisive policy action on electricity generation is needed to lift growth potential. With the recovery and improved growth prospects, electricity shortages will start to bite on production. Further increasing the purchase of renewable energy could quickly bring additional electricity in the grid and stimulate confidence, which in turn is needed for business investment. Fixing failing state-owned enterprises, including through better governance and privatisation, would reduce government transfers to these entities and therefore contribute to restoring public finances and confidence. Finally, prolonging the COVID-19 Social Relief of Distress Grant until jobs lost during the pandemic are recovered would support household consumption and growth. Improving the implementation of public infrastructure investment projects, in particular in the transport sector, will reduce trade bottlenecks, reduce the cost of doing business and increase growth potential.

Spain

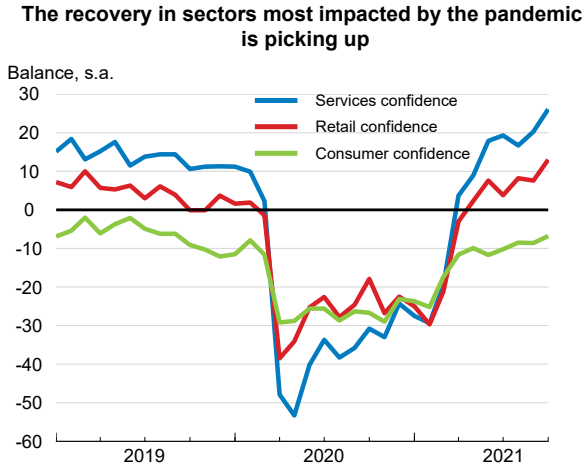
GDP is projected to grow by 5.5% in 2022 and 3.8% in 2023, supported by fiscal and monetary policy. Domestic demand will be the main driver of growth as higher confidence, improving labour market conditions, favourable financing conditions and the Next Generation EU funds boost private consumption and investment. Headline inflation in 2022 will remain high, due to the carryover effect from 2021, while core inflation will remain at moderate levels.

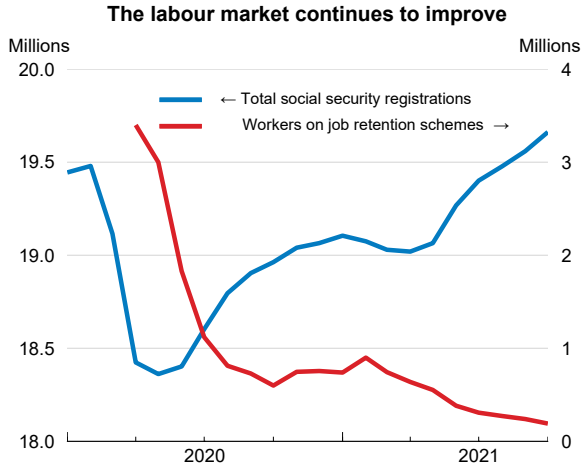
Fiscal policy is set to remain supportive in 2022 and to be broadly neutral in 2023. Upskilling and reskilling of workers, through active labour market policies and adult learning, will be key to facilitate an inclusive recovery and reap the benefits of increasing digitalisation. To prevent a potential rise in firm insolvency, the provision of direct aid to viable firms should be expedited and the draft insolvency law should be approved swiftly. Introducing reforms to eliminate regulatory obstacles to business growth and improve innovation are essential to enhance productivity and boost growth potential.

The lifting of restrictions has given momentum to the recovery

Thanks to a fast vaccination uptake (80% of the total population fully vaccinated in mid-November) and the fall in cases, regional authorities have eased restrictions further, allowing the additional reopening of the service sector. Consequently, the recovery became broad-based, with a robust improvement in service activity and confidence indicators, and GDP grew by 2% in the third quarter. Manufacturing activity continues to be strong, and the share of firms facing bottlenecks due to the shortage of certain inputs and raw materials at 22% was less than the EU average of 48% according to an October survey. Credit card spending data in October point to a pick-up in expenditures in tourism-related activities, including by foreigners.

Spain





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

StatLink https://stat.link/kogc3i

Spain: Demand, output and prices

Spain	2018	2019	2020	2021	2022	2023
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	1 203.3	2.1	-10.8	4.5	5.5	3.8
Private consumption	699.5	1.0	-12.0	4.4	4.5	3.1
Government consumption	224.7	2.0	3.3	3.2	2.5	1.7
Gross fixed capital formation	234.0	4.5	-9.5	3.8	8.1	7.0
Final domestic demand	1 158.2	1.9	-8.5	4.0	4.8	3.6
Stockbuilding[1]	12.4	-0.2	-0.5	0.3	0.0	0.0
Total domestic demand	1 170.6	1.6	-8.9	4.3	4.8	3.6
Exports of goods and services	423.1	2.5	-20.1	11.7	10.7	6.1
Imports of goods and services	390.4	1.2	-15.2	11.4	8.5	5.4
Net exports[1]	32.7	0.5	-2.2	0.3	0.8	0.3
Memorandum items						
GDP deflator	_	1.3	1.1	1.6	2.6	1.5
Harmonised index of consumer prices	_	0.8	-0.3	2.9	3.2	1.5
Harmonised index of core inflation[2]	_	1.1	0.5	0.4	1.2	1.5
Unemployment rate (% of labour force)	_	14.1	15.5	15.0	14.2	13.6
Household saving ratio, net (% of disposable income)	_	4.2	10.8	6.9	4.8	4.5
General government financial balance (% of GDP)	_	-2.9	-11.0	-8.1	-5.4	-4.2
General government gross debt (% of GDP)	_	117.7	147.6	147.8	144.8	143.6
General government debt, Maastricht definition[3] (% of GDP)	_	95.5	120.0	120.1	117.1	115.9
Current account balance (% of GDP)	_	2.1	0.8	0.6	1.0	1.2

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. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 110 database.

StatLink https://stat.link/q2sw0k

Labour markets have been resilient compared to previous crises as job retention schemes have played a key role in limiting job losses and are enabling a faster recovery. The increase in social security affiliations, and the decline in the number of workers on job retention scheme to 190 718 (around 6% of the peak in April 2020) have brought effective employment rates almost back to pre-pandemic levels. Despite declining, the unemployment rate remains high at 14.7% in the third quarter, and high rates of youth (30%) and long-term unemployment (32%) persist. The wage rate has increased by 2.6% in the third quarter of 2021 compared to the second quarter. The annual growth rate of headline inflation increased to 5.4% in October, mainly driven by electricity prices, which will carry over to early 2022. Overall inflation expectations remain around target, even if survey evidence suggests that price expectations in October differed across sectors, with a larger increase in manufacturing.

Policy support to firms and households remains substantial

Spain is set to get EUR 70 billion (5.8% of GDP) of the Next Generation EU funds. Around 85% is assumed to be absorbed in the projection period, in line with authorities' plans. The Budget 2022 includes EUR 27 billion of the funds, of which around 40% is allocated to energy, infrastructure and environment investment. The short-term work schemes and the extraordinary support to the self-employed have been extended until the end of February 2022, made more targeted and linked to training. Firms' access to direct aid schemes was eased in September. A number of temporary tax cuts, and price caps to protect vulnerable consumers and SMEs were introduced to address the impact of the increase in energy prices. The slight increase in the minimum wage and the introduction of the mechanism to offset the loss of pension

purchasing power will also support household incomes. The public debt-to-GDP ratio has increased from 95.5% in 2019 to 120% in 2020-21 (according to the Maastricht definition).

Domestic demand will be the main driver of growth

GDP is projected to reach pre-pandemic levels by the first quarter of 2023. The strong recovery of private consumption, fuelled by pent-up demand and the reopening of services sectors, is set to be the main driver of growth in 2022. The Next Generation EU funds, together with a recovery in final demand and lower uncertainty, will support private investment. The unemployment rate is projected to fall to 13.6% in 2023. The carryover effect from 2021 will impact headline inflation in 2022, even as the contribution of the energy component and base effects from 2020 ease and slack in labour markets remains. The downside risks include a resurgence of the pandemic, greater persistence of inflation with a pass-through to final prices and wages, larger-than-expected scarring effects from higher unemployment and insolvencies, and a lower than projected absorption speed of the EU funds. A quicker-than-projected convergence of tourism to pre-pandemic levels and a higher-than-assumed impact of EU funds on economic activity could boost growth further.

The effective use of EU funds and structural reforms can raise long-term growth

Assuming the selection of good investment projects and the implementation of reforms, the EU funds can raise growth potential. The effective implementation of prior structural reforms addressing internal market fragmentation of product markets, which can be a barrier to the entry and growth of innovative firms, can raise the impact of the funds on economic activity. Reducing labour market duality, and improving skills and job prospects of those disproportionately affected by the pandemic, especially the youth, through more efficient active labour market policies, should be prioritised for an inclusive recovery. As the moratorium on insolvency proceedings will expire in June 2022, expediting the approval of the draft insolvency reform bill and ensuring that direct aid goes to the viable firms in need will be key to limit potential scarring effects from the pandemic. Increasing the energy efficiency of buildings and promoting a higher share of renewables, as planned in the recovery plan, and facilitating more competition in the electricity market can help address energy poverty and support the green transition. The high public debt calls for renewed fiscal prudence once the recovery is firmly underway. Pension reforms, which are increasing the purchasing power of pensioners, should be balanced with those to ensure long-term fiscal sustainability.

Sweden

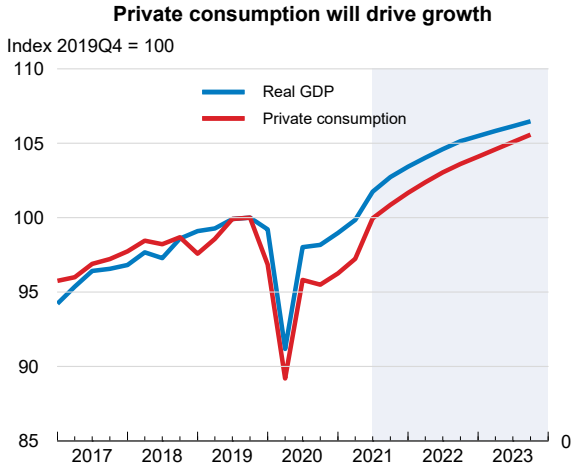
The Swedish economy has caught up with its pre-pandemic level, and is steaming ahead, with projected GDP growth of 4.3% in 2021 and 3.4% in 2022, fuelled by the removal of COVID-19-related restrictions and a continued rebound of consumption and investment, before easing to 1.6% in 2023. Demand is supported by falling unemployment and rising employment and wages. Inflation is projected to peak in 2022 before falling back towards the 2% target.

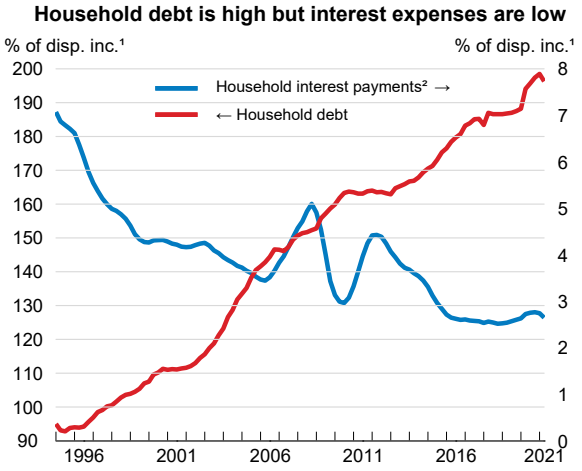
Monetary policy should remain accommodative as long as core inflation remains low and inflation pressures mainly come from volatile energy prices. Mortgage amortisation requirements have been reinstated to dampen house price and household debt growth. Sound public finances allow fiscal policies to remain supportive. Investments in skills and job matching are needed to meet structural change and bring down long-term unemployment, which has risen significantly during the crisis.

The economic recovery continues as restrictions are lifted

Economic activity continued to recover in the summer and autumn, spurred by strong consumption and investment, returning GDP to its pre-pandemic level by the third quarter of 2021. 82% of the population 16 years and older had been vaccinated by mid-November, and almost all COVID-19-related restrictions were lifted in late September. Vaccine passports are being introduced for large-scale events. Household and industry confidence are at very high levels. Exports have levelled off, as manufacturing industries, notably the automotive industry, grapple with supply chain disruptions. Registered unemployment has steadily declined since July 2020, as demand for customer-facing services has picked up and job vacancies have climbed to historical highs. Wages, which are largely centrally negotiated, have increased only slightly faster than before the pandemic. House prices and household debt, which have grown strongly throughout the crisis, are now slowing down. Headline inflation in October is at its highest level for a decade, driven largely by higher energy costs, but core inflation has remained below the 2% inflation target.

Sweden





1. Per cent of net disposable income.
2. Adjusted for interest tax deduction.
Source: OECD Economic Outlook 110 database; and Sveriges Riksbank.

StatLink https://stat.link/vis54h

Sweden: Demand, output and prices

Sweden	2018	2019	2020	2021	2022	2023
	Current prices SEK billion	Percentage changes, volume (2020 prices)				
GDP at market prices	4 830.2	2.0	-2.9	4.3	3.4	1.6
Private consumption	2 206.5	0.8	-4.7	4.5	4.2	2.1
Government consumption	1 258.2	0.3	-1.0	2.8	1.4	0.6
Gross fixed capital formation	1 216.9	-0.3	-0.6	6.2	5.6	2.0
Final domestic demand	4 681.6	0.4	-2.7	4.5	3.8	1.7
Stockbuilding[1]	41.2	-0.1	-0.7	0.1	0.0	0.0
Total domestic demand	4 722.7	0.2	-3.3	4.6	3.8	1.7
Exports of goods and services	2 208.2	6.1	-5.0	7.1	4.6	3.5
Imports of goods and services	2 100.7	2.2	-6.0	7.9	5.6	3.8
Net exports[1]	107.5	1.8	0.3	0.0	-0.2	0.0
Memorandum items						
GDP deflator	_	2.5	1.6	3.1	2.5	2.0
Consumer price index[2]	_	1.8	0.5	2.0	2.6	2.1
Core inflation index[3]	_	1.7	0.5	2.3	2.8	2.1
Unemployment rate[4] (% of labour force)	_	6.8	8.3	8.8	7.6	6.8
Household saving ratio, net (% of disposable income)	_	15.6	17.1	14.9	13.8	13.4
General government financial balance (% of GDP)	_	0.6	-2.8	-1.3	-0.2	0.6
General government debt, Maastricht definition[5] (% of GDP)	_	34.9	39.7	36.8	34.1	31.7
Current account balance (% of GDP)	_	5.5	5.7	6.2	6.2	6.1

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. Following the adaptation of the Swedish Labour Force Surveys (LFS) to the new EU framework regulation, there is a break in 2021 in the unemployment series.
5. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 110 database.

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Macroeconomic policy settings remain supportive

Monetary and fiscal policies remain supportive. In September, the government phased out many COVID-19-related measures, such as short-time work allowances and compensation for sick leave. The proposed 2022 budget boosts spending by SEK 74 billion (1.5% of GDP), and includes tax cuts for low-income earners as well as increased grants to municipalities to help cover COVID-19-related expenses. The budget also contains fiscal measures to incentivise the transition towards a greener economy, such as support to local climate investments. The Riksbank has signalled that the repo rate will remain at 0% for some time to come, but has terminated crisis liquidity support and is projected to start tapering asset purchases in 2022.

Services consumption will drive growth

GDP growth is projected to be 3.4% next year, before easing to 1.6% as the post-pandemic catch-up dissipates. Private consumption will be a main growth driver, fuelled by a high rate of vaccinations and unwound containment measures, rising employment and wages. Fiscal policy is set to turn from expansion to some tightening over the projection period, despite grants from the EU Recovery and Resilience Facility amounting to 0.2% of GDP in 2022 and 2023. The fiscal balance is projected to become positive in 2023 and Maastricht debt will be back at the pre-pandemic level next year. Consumer price inflation is projected

to peak at around 3%, but could remain elevated if wage growth accelerates and supply chain disruptions drag on.

If high energy prices persist, this could dampen household consumption as well as production in energy-intensive industries. A tight labour market and higher inflation could lead to earlier than foreseen monetary policy tightening. Household debt has risen to almost 200% of disposable income, making households vulnerable to interest rate increases. There is a risk that long-term unemployment will stay durably higher than before the crisis, as happened after the 2008-09 financial crisis. Energy prices, which are sensitive to weather and the balance of supply and demand in neighbouring countries, could boost demand if they decline. Swifter than expected resolution of supply-chain bottlenecks is another upside risk.

Policies should address unemployment and the green transition

The government should continue to improve incentives to work and invest in skills and tailored job matching to upskill migrants and address potential scarring effects from the pandemic. Investments in infrastructure and power distribution are needed to meet the increasing demand for electricity from the transition to a green economy. Monetary policy should remain accommodative as long as core inflation remains low and inflation expectations are anchored.

Switzerland

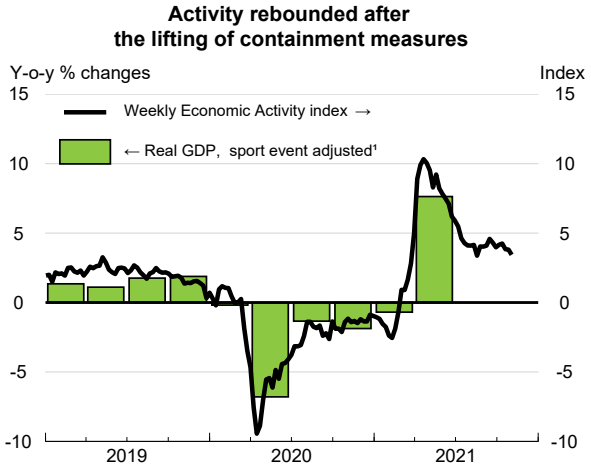
Real GDP is expected to increase by 2.9% in 2021, 3% in 2022 and 2.1% in 2023. Activity rebounded in 2021 as containment measures were lifted, but the successive waves of the pandemic in the second part of the year have increased uncertainty. The continued growth in exports, notably in the chemical and pharmaceutical sectors, and improving sentiment should support private investment. Better labour market prospects and the reduction of currently high savings will underpin consumption growth. With high energy prices, inflation has crept up but is projected to remain moderate.

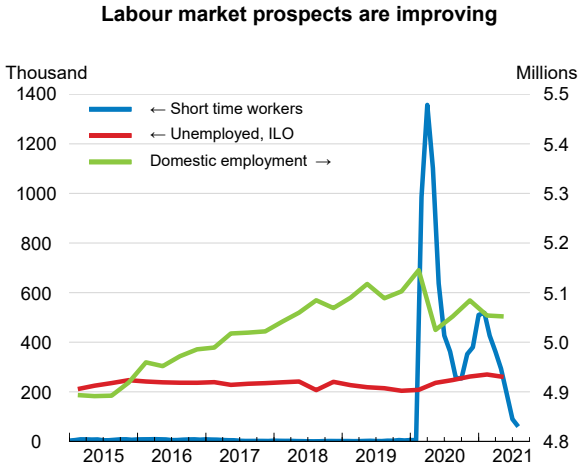
With well-anchored inflation expectations and still high uncertainty, the current supportive monetary policy stance remains appropriate. COVID-19-related fiscal measures should be gradually withdrawn, but targeted support to vulnerable workers and firms should be maintained for the time being. Structural reforms to improve the business environment, remove barriers to competition and trade, increase labour market inclusiveness and improve the environmental sustainability of investment and consumption would foster a strong recovery.

The pace of the recovery has moderated but remains robust

Since mid-October the number of COVID-19 infections has increased significantly. A COVID-19 certificate has been required to access indoor spaces such as restaurants, bars and museums since mid-September, but progress in vaccination has slowed down since October. As of mid-November, about 65% of the total population had been fully vaccinated, below the European Union average. The lifting of most containment measures during the spring triggered a strong rebound in economic activity in the second quarter of 2021. Export volumes, driven by the chemical and pharmaceutical sectors, have recovered rapidly. There are signs that growth momentum has moderated recently with weakening retail trade growth and subdued

Switzerland





1. GDP adjusted for the effects of major international sporting events, as such events can have a sizable impact on Swiss GDP but do not occur every year, complicating business cycle analysis.
Source: Secrétariat d'État à l'économie (SECO); and Federal Statistical Office (FSO).

StatLink https://stat.link/oifd95

Switzerland: Demand, output and prices

Switzerland	2018	2019	2020	2021	2022	2023
	Current prices CHF billion	Percentage changes, volume (2015 prices)				
GDP at market prices	719.8	1.2	-2.5	2.9	3.0	2.1
Private consumption	372.2	1.4	-3.7	1.7	3.8	1.9
Government consumption	79.9	0.7	3.5	6.4	-2.5	-0.4
Gross fixed capital formation	184.0	0.6	-1.7	4.8	3.6	1.1
Final domestic demand	636.1	1.1	-2.3	3.2	2.9	1.4
Stockbuilding[1]	- 5.9	0.7	1.3	-3.0	-0.5	0.0
Total domestic demand	630.2	1.9	-0.9	-0.1	2.4	1.4
Exports of goods and services	476.6	-0.7	-6.3	7.6	5.4	4.4
Imports of goods and services	387.0	-0.2	-4.4	3.1	4.7	3.8
Net exports[1]	89.6	-0.4	-1.8	3.1	1.0	0.9
Memorandum items						
GDP deflator	_	-0.1	-0.5	1.2	1.4	1.0
Consumer price index	_	0.4	-0.7	0.6	1.0	0.8
Core inflation index[2]	_	0.4	-0.3	0.3	0.7	0.8
Unemployment rate (% of labour force)	_	4.4	4.8	5.1	4.6	4.4
Household saving ratio, net (% of disposable income)	_	17.4	23.1	23.0	20.1	18.7
General government financial balance (% of GDP)	_	1.3	-2.8	-2.3	0.2	0.8
General government gross debt (% of GDP)	_	41.0	43.9	46.8	47.2	46.9
Current account balance (% of GDP)	_	4.9	1.2	6.2	6.5	6.4

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 110 database.

StatLink https://stat.link/e0omlq

new car registrations. However, overall growth should remain robust, as business sentiment is still strong. GDP is set to catch-up with the pre-pandemic levels before the end of the year. While the unemployment rate remains above its pre-pandemic level, the number of furloughed and unemployed workers has declined significantly since the beginning of the year and the number of vacancies increased. After being negative for roughly a year, consumer price inflation has risen on the back of higher energy prices, but remains well below the upper bound of the central bank's target range.

Policy support remains substantial

A strong fiscal position with low public debt has enabled the government to provide generous support to workers and firms during the crisis. To help the recovery, the government has developed a transition strategy that aims at gradually withdrawing exceptional COVID-19-related measures while helping workers and firms adapt to structural changes and boosting growth through investments and structural reforms. A gradual scaling back of the crisis-related extensions to the job retention scheme started in July 2021, but a complete normalisation of the scheme is not planned before 2022. The hardship clause program that offers grants, loans and credit guarantees to the hardest hit companies is maintained until end-2021, and more flexibility has been given to the cantons to tailor eligibility requirements to specific local needs. Due to negative interest rates and a relatively small domestic bond market, the Swiss National Bank has remained committed to foreign exchange interventions as an instrument to stave off safe-haven pressures (and related deflationary pressures). Monetary policy is expected to remain accommodative, maintaining a negative policy rate.

The economic recovery will continue

With the rebound in activity, GDP growth is projected to reach 2.9% in 2021. Fading pandemic-related uncertainties and a low cost of capital should further support investment in 2022. Labour-market normalisation and a reduction in the high saving rate of households will boost consumption over the next two years. Buoyant external demand should foster exports. With significantly lower COVID-19-related expenses in 2022, the general government budget deficit should turn into a surplus and further consolidation is projected in 2023. Employment will gradually strengthen, pushing wages up by a little over 1½ per cent per annum in 2022 and 2023, but consumer price inflation is projected to remain moderate. However, uncertainty remains high. Risks in the financial sector have increased with rising corporate indebtedness and growing imbalances in the domestic real estate market. Trade disruptions, due to renewed pandemic waves or new trade barriers, including with the EU, could hamper the recovery. On the upside, a faster rundown of accumulated savings would result in higher consumption and activity.

Targeted policy support would enable an inclusive recovery

With moderate inflation pressures and well-anchored long-term inflation expectations, the accommodative monetary policy stance remains appropriate. Continued close supervision of financial risks is warranted. The removal of fiscal policy support should be gradual to avoid hampering the recovery. In this regard, temporary adjustments to the application of federal fiscal rules as currently envisaged by the government are welcome as they could provide more leeway over the pace of consolidation. Support should increasingly focus on hardest-hit firms and on people, rather than jobs, by facilitating reallocation through job search and upskilling. Strengthening the business environment, lowering barriers to competition and trade, and fostering the labour market integration of under-represented groups such as foreign nationals, women and older workers, would spur productivity and help sustain the recovery. Policies to improve the environmental sustainability of consumption and investment would help accelerate progress in transitioning to a low-carbon economy.

Turkey

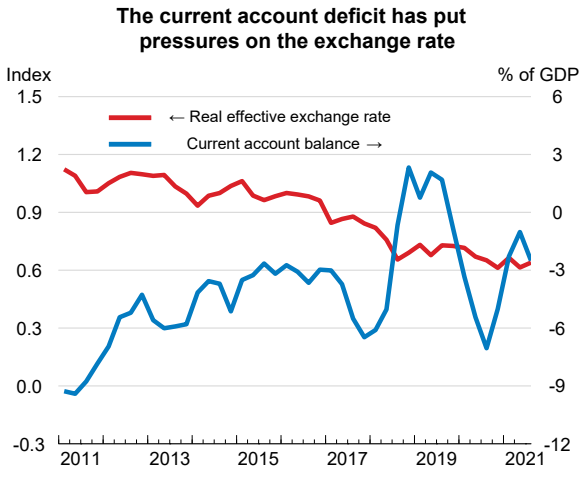
In the absence of further shocks, GDP growth is projected to be 9% in 2021 before easing to 3.3% in 2022 and 3.9% in 2023. Vaccinations have progressed fast, but certain population groups are still reluctant and the number of COVID-19 cases has increased through the autumn with the spread of more contagious variants. Inflation is very high and sticky. Recent cuts in interest rates have put further pressures on inflation expectations, the exchange rate, real household incomes and external financing.

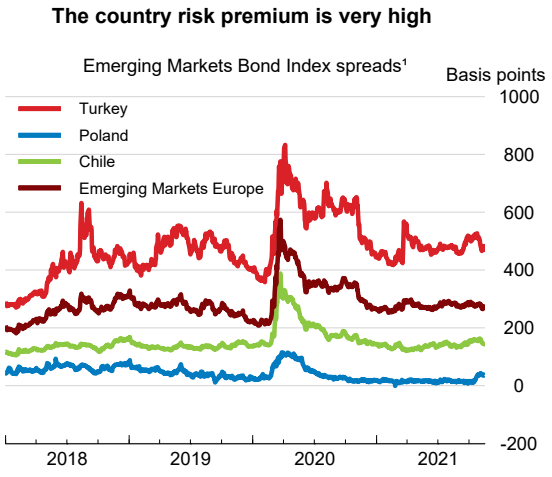
The macroeconomic policy stance and mix should be normalised. Monetary policy should provide credible forward guidance for a realistic convergence path to the official inflation target. This should be accompanied by targeted fiscal support to highly indebted firms and households who relied on subsidised loans during the pandemic and may face strains under rapidly increasing market interest rates and high inflation. Turkey could better seize the new opportunities stemming from global value chain restructuring by reducing labour tax wedges and employment rigidities in the formal sector, promoting level-playing competition between different types of firms and implementing more assertive green transition policies, drawing on its welcome recent ratification of the Paris agreement.

The surge in exports fuelled the recovery

The vaccination rate of the population above 18 attained 80% for two dose injections by mid-November and third dose vaccinations have started. The number of fatalities has declined, supporting domestic activity and the recovery of international tourism. However, certain population groups and provinces remain reluctant and, with more contagious virus variants, daily COVID-19 cases were around 25 000 in mid-November. Not all major tourism markets have recognised Turkey as a safe destination. The authorities are pushing for a broader vaccine uptake.

Turkey





1. Stripped spread in basis points of the JP Morgan Emerging Market Bond Index (EMBI). Global index for Turkey, Poland and Chile and Euro EMBI global diversified index for Emerging market Europe. The last data point refers to 17 November 2021.
Source: OECD Economic Outlook 110 database; and Factset.

StatLink https://stat.link/vbalp8

Turkey: Demand, output and prices

Turkey	2018	2019	2020	2021	2022	2023
	Current prices TRY billion	Percentage changes, volume (2009 prices)				
GDP at market prices	3 758.8	0.9	1.8	9.0	3.3	3.9
Private consumption	2 111.9	1.6	3.0	7.7	3.3	4.2
Government consumption	552.0	4.0	2.1	2.8	2.5	1.7
Gross fixed capital formation	1 115.0	-12.4	7.2	8.9	5.1	6.8
Final domestic demand	3 778.9	-2.2	3.9	7.3	3.7	4.6
Stockbuilding[1]	- 10.7	0.2	4.7	-4.4	-0.6	0.0
Total domestic demand	3 768.1	-2.0	9.0	2.6	3.1	4.4
Exports of goods and services	1 171.0	4.4	-14.8	16.9	7.0	6.1
Imports of goods and services	1 180.3	-5.2	7.6	-2.8	6.1	7.8
Net exports[1]	- 9.3	3.0	-7.1	5.8	0.2	-0.6
Memorandum items						
GDP deflator	_	13.9	14.8	23.4	25.5	19.6
Potential GDP, volume	_	4.3	3.9	4.0	3.8	3.8
Consumer price index[2]	_	15.2	12.3	18.7	23.9	21.7
Core inflation index[3]	_	13.4	11.2	17.6	21.6	21.4
Unemployment rate (% of labour force)	_	13.7	13.1	12.2	12.5	12.6
Current account balance (% of GDP)	_	0.9	-5.3	-2.1	-1.7	-1.6

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 110 database.

StatLink https://stat.link/duv7nz

Growth has been buoyant, pulled by very strong exports. Manufacturers have seized the opportunities arising in their traditional European and new overseas markets following disruptions in international value chains. Substantial real exchange rate depreciation has boosted net exports, but has severely destabilised relative prices, market expectations and risk perceptions. The competitiveness and profit margins of small-size manufacturers, who generally rely on short-term commercial loans denominated in domestic currency, have benefitted. Large firms integrated in global value chains, who import their technological inputs and rely on long-term loans denominated in foreign currency, have been negatively affected. Employment has expanded more rapidly in export-oriented manufacturing than in services. Turkey's aggregate employment rate, at 46% of the working age population, still remains well below the OECD average of 61%.

The policy mix is unbalanced

Inflation has drifted up further after the COVID-19 shock, approaching 20% in October against the official central bank target of 5%. The lack of credibility in monetary policy has fostered recurrent episodes of capital outflows, the dollarisation of domestic savings and foreign exchange reserve losses. Gross foreign reserves have nevertheless improved in recent months, with the help of special drawing rights from the IMF and swap agreements with certain foreign central banks. The policy interest rate is set below inflation, and was cut further in October and November. Risk premia have surged, 12 and 24-month ahead inflation expectations have increased further and medium-to-long term market interest rates have reached very high levels — 10-year government bond rates are above 21% and the currency has depreciated further. The credibility of inflation measurement should be improved, for instance by using independent expert advice, as previously envisaged. Fiscal policy remains tight, partly to offset the weak credibility of monetary policy and the uncertainties surrounding the contingent liabilities which have built up in the public financial sector. According to government plans, the primary fiscal deficit which had increased only slightly from 0.7% of GDP in 2019 to 1.2% in 2020 will tighten to 0.8% in 2021, 0.4% in 2022 and 0.1% of GDP in 2023.

Growth is projected to stay below potential

High inflation – which has a larger impact on low and middle-income households since energy and food account for a large share of their consumption basket – as well as higher rollover costs of subsidised pandemic loans will dent real incomes. Demand and employment in domestic services will be affected, while tourism and manufacturing exports are expected to remain dynamic as international mobility, trade and transportation conditions improve. Current account funding and foreign debt rollover needs are high, at above 20% of GDP for the next 12 months. The evolution of monetary policy and related exchange rate developments are difficult to predict in the current environment and inflation is projected to remain at a high level and is subject to potential further pressures from wages, import costs and producer prices. This outlook is subject to significant upward and downward risks. If monetary policy tightens and succeeds in lowering inflation, the normalisation of risk premia and market interest rates would support confidence and economic activity. If current policy weaknesses generate additional strains as global monetary conditions tighten, external and internal funding conditions may worsen, with adverse macroeconomic consequences.

Improving the policy mix and structural reforms will be key to support activity and job creation

The macroeconomic policy mix should be consolidated. The central bank should raise its policy interest rate above inflation and provide credible forward guidance for achieving the official inflation target. Meanwhile, the government should provide temporary and targeted support to the firms and households who may face severe strains under higher market interest rates and inflation. Turkey should also resume structural reforms, including by reducing tax wedges and promoting more flexible employment conditions in the formal sector, more level-playing competition between different types of firms, and more assertive climate transition policies. These reforms would help the many dynamic firms throughout the country to better seize the opportunities arising from the restructuring of international value chains and from the transition to a low-carbon economy, permitting the business sector to grow at full potential.

United Kingdom

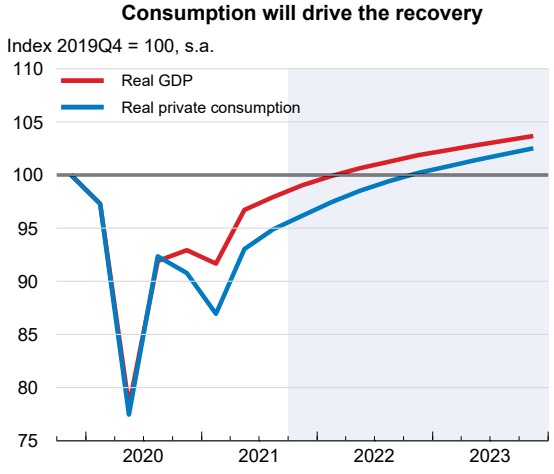
The economy is recovering and expected to reach pre-crisis levels at the beginning of 2022. Output is projected to rise by 6.9% in 2021, with growth moderating to 4.7% in 2022 and 2.1% in 2023. Consumption is the main driver of growth during the projection period. Business investment will improve but continues to be held back by uncertainty. Increased border costs following the exit from the EU Single Market are weighing on imports and exports. Unemployment will continue to decline. Inflation will keep increasing due to higher energy and commodity prices and continuing supply shortages. It is expected to peak at 4.9% in the first half of 2022 and then fall back towards the 2% target by the end of 2023.

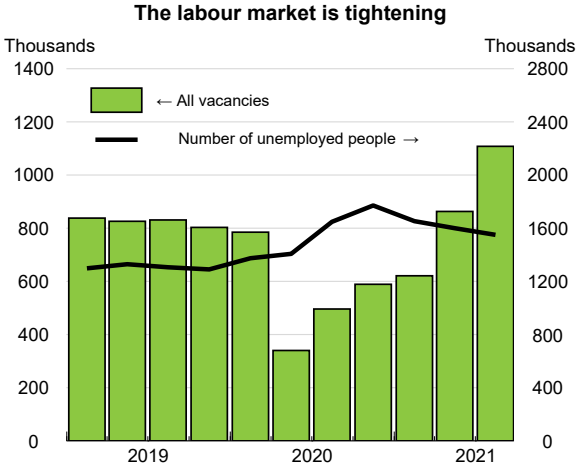
Monetary policy should tighten gradually to bring inflation back to target over the medium term, as price pressures show signs of becoming persistent. Fiscal policy should continue to support the economy and become more targeted to aid economic restructuring. Boosting training and career counselling programmes can facilitate economic reallocation and ease job transitions. Government programmes should focus on providing certainty on long-term issues such as the transition to net zero in order to support investment. The effects from phasing out fiscal support measures on businesses and households should be closely monitored, in the context of planned tax increases, to avoid derailing the recovery.

Vaccination progress is supporting the recovery

A fast initial roll-out of COVID-19 vaccines has weakened the link between new COVID-19 cases, hospitalisations and deaths, allowing a broad reopening of the economy. In England, practically all COVID-19-related restrictions were lifted on 19 July, allowing nightclubs to reopen and easing restrictions on large events and performances. Hygiene and distancing advice remains in place. Devolved administrations in Scotland and Wales progressively lifted COVID-19-related restrictions over the summer, whereas some restrictions on group sizes remain in Northern Ireland. To prepare for a potential third wave over the winter and on the back of a sharp increase of confirmed cases in October, booster jabs are being offered to eligible people and vaccination offers are expanded to include healthy 12-15 year olds.

United Kingdom 1





Source: OECD Economic Outlook 110 database; and ONS labour market statistics.

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United Kingdom: Demand, output and prices

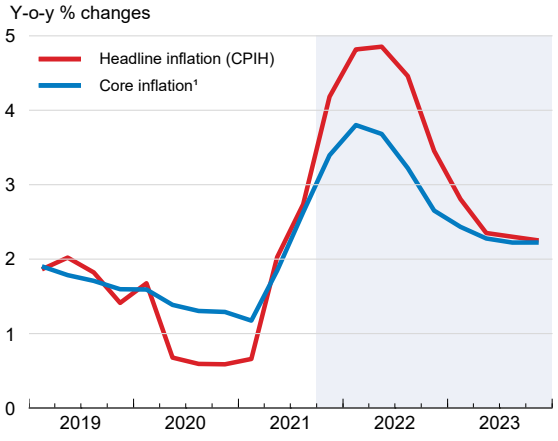
United Kingdom	2018	2019	2020	2021	2022	2023
	Current prices GBP billion	Percentage changes, volume (2019 prices)				
GDP at market prices	2 174.4	1.7	-9.7	6.9	4.7	2.1
Private consumption	1 412.3	1.3	-10.9	3.7	6.6	2.8
Government consumption	399.0	4.2	-6.3	15.8	3.9	1.1
Gross fixed capital formation	386.5	0.5	-9.1	4.6	4.2	2.9
Final domestic demand	2 197.8	1.7	-9.7	6.5	5.6	2.5
Stockbuilding[1]	4.9	-0.1	-0.5	1.5	0.1	0.0
Total domestic demand	2 202.7	1.6	-10.4	7.8	5.6	2.4
Exports of goods and services	663.3	3.4	-14.7	-2.5	5.1	3.7
Imports of goods and services	691.6	2.9	-16.8	1.6	8.0	4.5
Net exports[1]	- 28.3	0.1	0.8	-1.1	-0.8	-0.3
Memorandum items						
GDP deflator	_	2.0	5.9	0.8	2.3	2.2
Harmonised index of consumer prices	_	1.8	0.9	2.4	4.4	2.4
Harmonised index of core inflation[2]	_	1.7	1.4	2.3	3.3	2.3
Unemployment rate (% of labour force)	_	3.8	4.5	4.5	4.3	4.2
Household saving ratio, gross (% of disposable income)	_	4.6	13.4	12.2	6.5	5.3
General government financial balance (% of GDP)	_	-2.3	-12.9	-9.1	-5.4	-4.0
General government gross debt (% of GDP)	_	118.5	154.4	155.6	153.6	153.1
Current account balance (% of GDP)	_	-2.7	-2.6	-2.8	-3.5	-3.5

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 110 database.

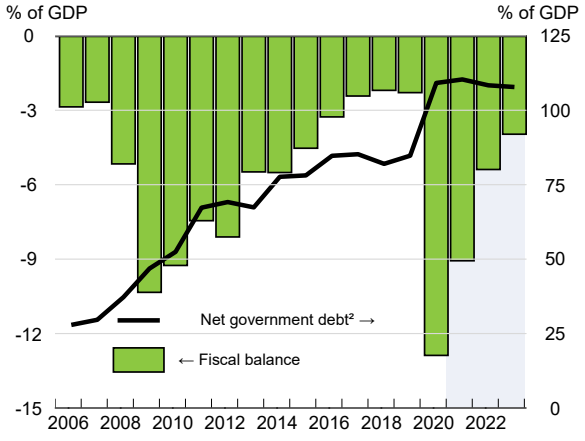
StatLink https://stat.link/dqn3vg

United Kingdom 2

The surge in inflation is projected to moderate



The fiscal balance is set to improve gradually



1. Harmonised Consumer Price Index excluding food, energy, alcohol and tobacco.
2. General government net financial liabilities.
Source: OECD Economic Outlook 110 database.

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Output rose strongly in the first half of 2021 as the economy gradually reopened, but high frequency data indicate a slowing of the economy due to supply and labour shortages. GDP growth slowed to 1.3% in the third quarter of 2021. Hospitality services and events benefited particularly from the lifting of COVID-19 restrictions in England. Production output, in particular from mining and quarrying, grew in the third quarter, whereas the construction sector contracted. The labour market has rebounded strongly, with vacancies reaching a record high level of almost 1.2 million in September. Employment is on the rise, while unemployment has been decreasing since January. Labour shortages are emerging in sectors particularly affected by the pandemic and in which EU-born migrants were also over-represented, such as accommodation and food services, wholesale and retail trade and transport and logistics. Average regular pay excluding bonuses increased by 6% between June and August 2021, but according to the Bank of England underlying wage growth is estimated to be more modest. A surge in energy prices, in combination with supply and labour shortages that are exacerbated by increased trade and immigration restrictions following the exit from the EU Single Market, have pushed inflation well above the 2% target, to 4.2% in October. Inflation expectations in October for the year ahead also edged up reaching to 4.4%.

Support measures have ended following the lifting of containment restrictions

The main fiscal support measures have been phased out and spending on support measures will largely disappear in 2022. The Coronavirus Job Retention Scheme (CJRS), the Self Employment Income Support Scheme (SEISS) and the GBP 20 a week increase to the Universal Credit ended in September, along with a number of other crisis supports. Other measures, such as reduced VAT rates on hospitality and recreational services, are being tapered away. Some degree of fiscal tightening is expected as the government plans tax increases in 2022, when income tax brackets will be frozen and national insurance contributions increased, and in 2023, when an increase in corporate income tax is planned. Spending will be focused on infrastructure improvements and projects supporting the transition to a carbon net zero economy.

Monetary policy remains supportive. The Bank of England has maintained its 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 (about 44% of GDP in 2020). As inflationary pressures are mounting on the back of supply and labour shortages, and rising fuel and energy prices, the Bank is projected to tighten policy over the near term, gradually increasing the policy rate from 0.1% to 0.5% to maintain the inflation target over the medium term. When the policy rate reaches 0.5%, the Bank of England intends to stop reinvesting the proceeds of maturing assets, if appropriate given the economic circumstances, and it will only consider selling assets once the policy rate rises to at least 1%.

The recovery is set to continue

Output is projected to grow by 6.9% in 2021 before growth slows to 4.7% in 2022 and 2.1% in 2023. Consumption will continue to support growth but is expected to slow as government support is wound down and households feel the income effects of rising prices. Households in lower income brackets, who saved less during the crisis, are set to be particularly affected by the winding-down of COVID-19 support. In contrast, wealthier households will normalise their savings, which increased sharply in 2020. Business investment in 2022 will be supported by an increased deduction for some types of investments available until April 2023. Unemployment will gradually decline to 4.2% in 2023 as the labour market continues to tighten. Labour shortages add to wage pressures, but are not expected to persistently push up inflation. Annual consumer price inflaiton is set to peak at 4.9% in the second quarter of 2022 on the back of rising energy prices as well as upward pressures from trade disruptions and imported inflation. Public investment will rise over the course of 2022 and 2023 reflecting planned spending increases on infrastructure and climate. The general government deficit is projected to decline gradually to 5.4% of GDP in 2022 and 4% of GDP in 2023.

The projection is surrounded by risks. Lingering public health concerns and higher-than-expected goods and energy prices could weigh on consumption. A prolonged period of acute supply and labour shortages could slow down the recovery by forcing firms into a more permanent reduction in their operating capacity. Higher inflation expectations could lead to an earlier-than-expected increase of the policy rate. A worsening trade relationship with the European Union could also weigh on the economic outlook in the medium term. Upside risks include a faster-than-expected relocation of workers from the ended furlough scheme into available job vacancies.

Addressing long-term challenges to sustain the recovery

Monetary policy should tighten amidst clear signs of persistent price pressures. Fiscal policy should remain supportive. Boosting investment in skills, retraining and career counselling programmes is a welcome step as it can support the restructuring of the economy. Reducing out-of-pocket costs of childcare further would help parents, notably mothers, to increase hours in paid employment and training. The government can also stimulate the recovery by being clear about its approach to the transition to a net zero economy, and policy decisions can provide the needed certainty for businesses to increase investment. In addition, public investment should focus on improving residential heating and on necessary infrastructure to reach the UK's ambitious carbon emission objectives, such as infrastructure to electrify new economic sectors and to make the electricity system more suitable for much higher volumes and variability of renewable energy.

United States

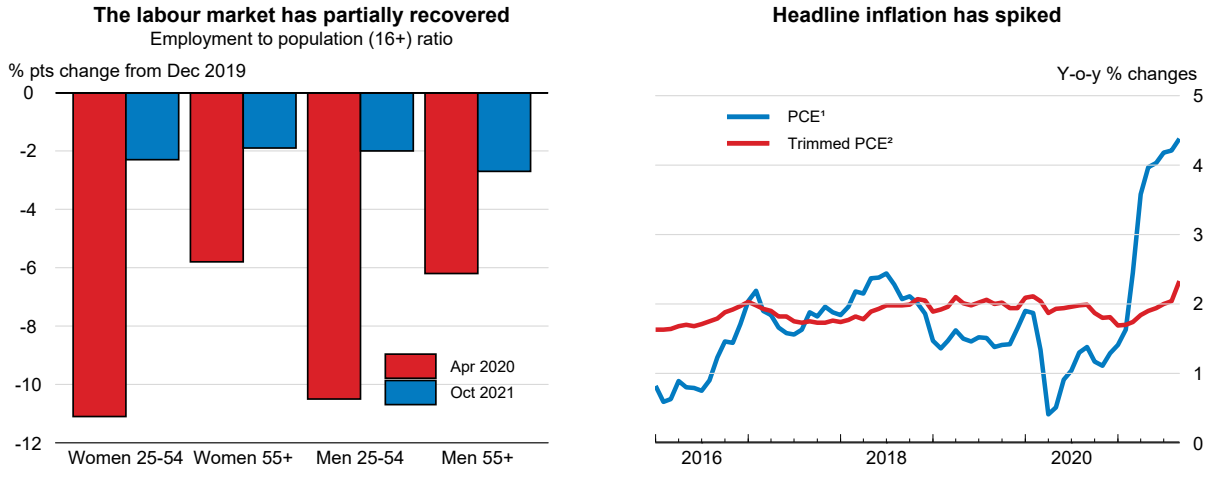
Real GDP is anticipated to grow by 5.6% in 2021, before rising by 3.7% and 2.4% in 2022 and 2023 respectively. Supply disruptions will gradually ease, facilitating a rebuild of business inventories and stronger consumption growth in the near-term. With the continued recovery in the labour market, nominal wage growth will pick up further. While price inflation is projected to moderate in some sectors as supply disruptions abate, higher wages, along with recent increases in housing rents and shipping rates, will lead to stronger overall consumer price growth than prior to the pandemic.

Monetary policy remains highly accommodative, but the announced tapering of government bond purchases is appropriate as the recovery becomes more firmly entrenched. Sustained price pressures will prompt a gradual increase in the federal funds rate starting in mid-2022. The ongoing withdrawal of fiscal support is now having a dampening impact on economic growth. Nevertheless, accumulated excess savings from earlier stimulus measures and lockdowns will continue to underpin household consumption and business investment over the coming quarters. In plotting a path to achieving net zero emissions by 2050, further investment in clean and resilient infrastructure, as well as enhanced pricing of environmental externalities, will be important.

Economic activity is reaccelerating and inflationary pressures have become more pronounced

After a surge in COVID-19 cases and supply disruptions caused growth to moderate in the third quarter, recent monthly data suggest a subsequent reacceleration of activity. For instance, indicators of consumer spending and industrial production picked up notably in October. The proportion of the total population fully vaccinated continues to rise steadily, but at around 60%, it is below that in most other OECD countries.

United States 1



1. Personal Consumption Expenditures price index.
2. The Trimmed Mean PCE inflation rate is published by the Federal Reserve Bank of Dallas and is an alternative measure of core inflation in the price index for personal consumption expenditures (PCE).
Source: Refinitiv.

StatLink https://stat.link/e3gwuv

United States: Demand, output and prices

United States	2018	2019	2020	2021	2022	2023
	Current prices USD billion	Percentage changes, volume (2012 prices)				
GDP at market prices	20 527.2	2.3	-3.4	5.6	3.7	2.4
Private consumption	13 913.5	2.2	-3.8	8.0	3.8	2.4
Government consumption	2 869.4	2.0	2.0	1.5	2.6	1.9
Gross fixed capital formation	4 281.7	3.1	-1.5	6.4	3.8	3.6
Final domestic demand	21 064.6	2.4	-2.5	6.7	3.7	2.6
Stockbuilding[1]	58.7	0.1	-0.5	0.0	0.4	0.0
Total domestic demand	21 123.3	2.4	-3.0	6.8	4.1	2.6
Exports of goods and services	2 533.5	-0.1	-13.6	3.8	3.4	3.5
Imports of goods and services	3 129.7	1.2	-8.9	13.4	6.0	4.1
Net exports[1]	- 596.2	-0.2	-0.3	-1.4	-0.5	-0.2
Memorandum items						
GDP deflator	_	1.8	1.2	4.0	3.7	2.4
Personal consumption expenditures deflator	_	1.5	1.2	3.9	4.4	2.5
Core personal consumption expenditures deflator[2]	_	1.7	1.4	3.3	3.9	2.5
Unemployment rate (% of labour force)	_	3.7	8.1	5.4	3.8	3.4
Household saving ratio, net (% of disposable income)	_	7.6	16.6	12.5	9.0	8.2
General government financial balance (% of GDP)	_	-6.4	-15.4	-12.5	-7.2	-5.5
General government gross debt (% of GDP)	_	108.5	133.9	131.2	131.3	132.1
Current account balance (% of GDP)	_	-2.2	-2.9	-3.6	-3.8	-3.9

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 110 database.

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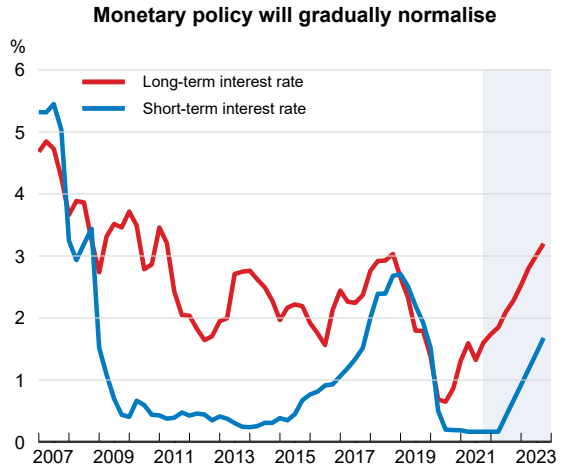
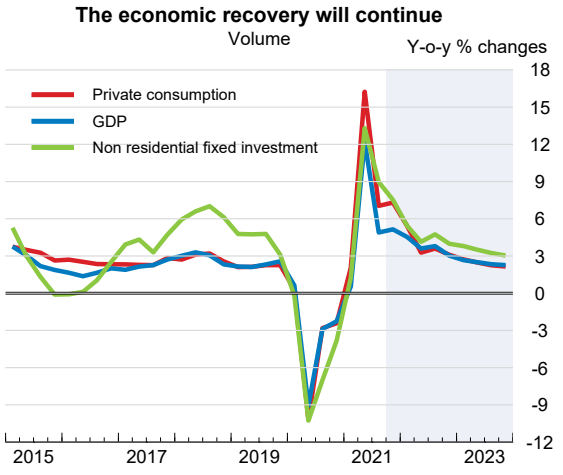
United States 2





Source: OECD Economic Outlook 110 database.

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The labour market recovery continues to progress, although the employment to population ratio remains over 2 percentage points below pre-pandemic levels. Inflation has spiked, with particularly strong growth in components related to motor vehicles and energy. There are also signs of emerging inflationary pressures due to rising housing rents and wage pressures in some sectors. Notable wage increases have been observed in the leisure and hospitality sector, as well as in transport and warehousing. This partly reflects labour shortages, with the job openings rate in both sectors having risen in recent months. Even so, measures of underlying inflation, such as the trimmed-mean personal consumption expenditure deflator, are well below headline inflation. Long-term inflation expectations derived from both household surveys and financial markets also appear to have risen only modestly.

Pandemic-related fiscal policy support has been wound back

The pandemic-related fiscal measures announced in 2020 and early 2021 have now largely expired. Even so, earlier stimulus checks, supplementary unemployment benefit payments and expanded benefit coverage, have resulted in significant accumulated savings that will continue to support the economic recovery. The household saving rate increased by around 9 percentage points in 2020 and remained well above pre-pandemic levels in 2021. Longer-term public spending plans related to physical infrastructure are likely to start being implemented next year, with new funding for transport networks, broadband upgrades and improvements to power and water systems. There is also proposed additional public spending over the next decade on education, healthcare, childcare support and measures to reduce carbon emissions. However, these initiatives will provide only modest support to aggregate economic output within the projection period, as they are expected to be largely funded by new tax measures. Overall, the enactment of these long-term spending plans is assumed to add around 0.3% of GDP in net additional spending in both 2022 and 2023.

Monetary policy continues to provide substantial support to the economic recovery, both through the near-zero federal funds rate and central bank purchases of Treasury securities and agency mortgage backed securities. Monthly asset purchases will now be reduced, reflecting substantial progress in both returning the economy to maximum employment and inflation to above 2%. It is anticipated that asset purchases will gradually and predictably decline over the ensuing months. This will mark a slowing in the pace at which additional monetary policy accommodation is added. The Federal Open Market Committee has stressed that the decision to reduce asset purchases is distinct from any eventual decision to raise the federal funds rate from its current 0-¼ per cent range.

The economic recovery will continue

Real GDP growth is anticipated to strengthen through the end of 2021 and early 2022. Recent improvements in the public health situation will support increased services consumption and labour market participation through this period. Supply disruptions may take some time to fully ease, but will eventually allow stronger goods consumption by households and businesses to rebuild inventories. This will be accompanied by a recovery in trade growth. As the labour market further tightens, broadly-based wage pressures will become more pronounced. It is anticipated that inflation will recede somewhat from its current elevated level, with a gradual abatement of supply shortages related to motor vehicles and energy reducing price pressures in these components. Nonetheless, higher wages, along with recent increases in housing rents and shipping rates, will contribute to consumer price inflation remaining well above 2%. This is expected to prompt the Federal Reserve to begin raising the federal funds rate in mid-2022 and then announce further rate rises, reaching 1.5-1.75% by the end of 2023.

An upside risk to the projections is that the high levels of accumulated household savings fuel a stronger rebound in consumption than expected. In contrast, inflation could continue to surprise on the upside and a de-anchoring of longer-term inflation expectations could prompt tighter monetary and financial conditions starting in early 2022 that dent the recovery. A further resurgence in COVID-19 cases that restricts economic activity is also a downside risk, with those states with relatively low vaccination rates being particularly susceptible.

New infrastructure spending plans should be coupled with strong governance

Boosting public infrastructure investment can support the future prospects of the United States economy and the well-being of the population. However, an efficient selection of infrastructure projects is vital, utilising careful cost-benefit analysis that takes into account inter-jurisdictional spillovers of different projects and the structural shifts since the onset of the pandemic, such as more remote working. Infrastructure priorities also need to be carefully aligned with environmental and climate action plans. In plotting a path to net zero emissions by 2050, greater use of renewable sources in electricity generation will be required. Dramatic cost reductions in wind and solar power generation are underpinning their significant expansion. However, ongoing complementary investments to ensure good connections with electricity grids and energy storage capacity (given the intermittent nature of these renewable sources) are needed. More broadly, enhanced pricing of environmental externalities will further encourage emission abatement opportunities.

OECD Economic Outlook

The global recovery from the COVID-19 pandemic is uneven and becoming imbalanced. The *OECD Economic Outlook, Volume 2021 Issue 2*, highlights the continued benefits of vaccinations and strong policy support for the global economy, but also points to the risks and policy challenges arising from supply constraints and rising inflation pressures.

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.

Volume 2021/2
No. 110, December

PRINT ISBN 978-92-64-66238-4
PDF ISBN 978-92-64-65571-3

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