

The path to a sustainable and inclusive recovery

Rethinking the relationship between
fiscal and monetary policy



Online meeting of the OECD Global Parliamentary Network
9 February 2021
Laurence Boone
OECD Chief Economist

Why are we cautiously hopeful and what still needs to be done?

- **The availability of vaccines and strong and continuous policy support** should help navigate better 2021 and beyond. Global growth is expected to average 4% over 2021-22
- **Considerable uncertainty remains.** We are concerned about delayed vaccine deployment and new virus variants leading to **prolonged use of containment measures and weakness in the economy**
- **Policymakers challenges:** amplification of automation trend and employment; firms balance sheet (competitiveness and investment); public debt management



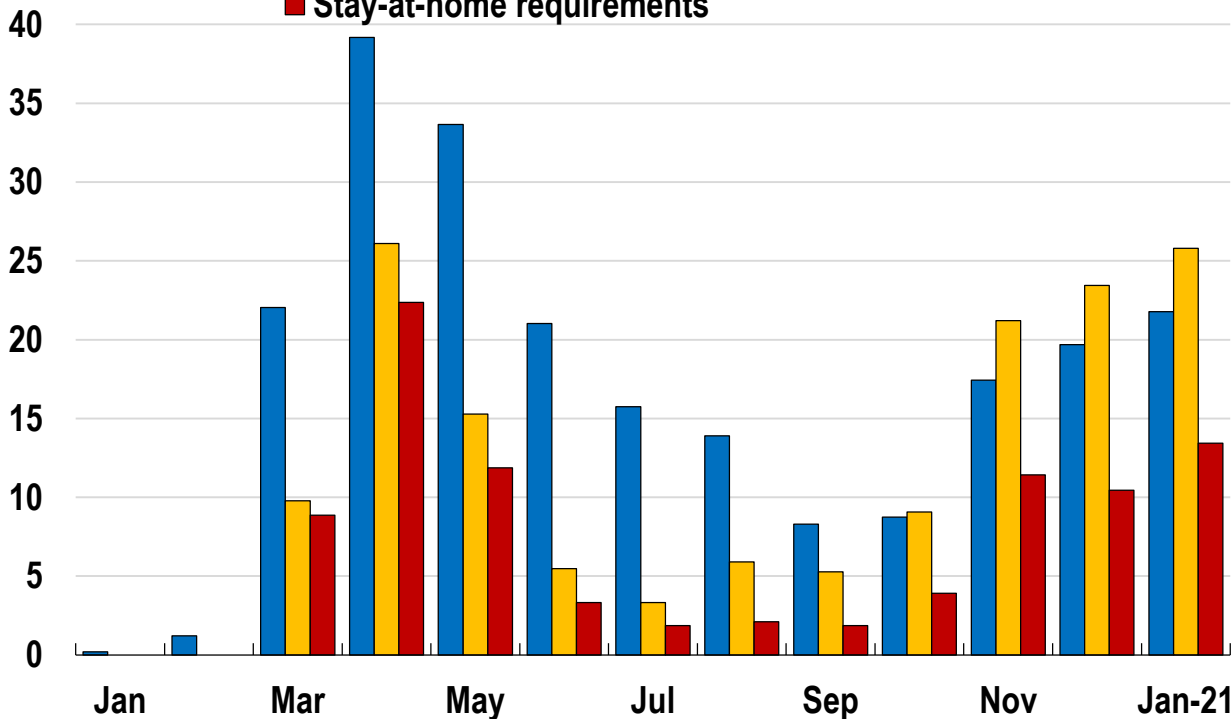
Renewed restrictions and various pace of vaccine deployments may hinder the recovery

Containment measures

OECD and G20 countries

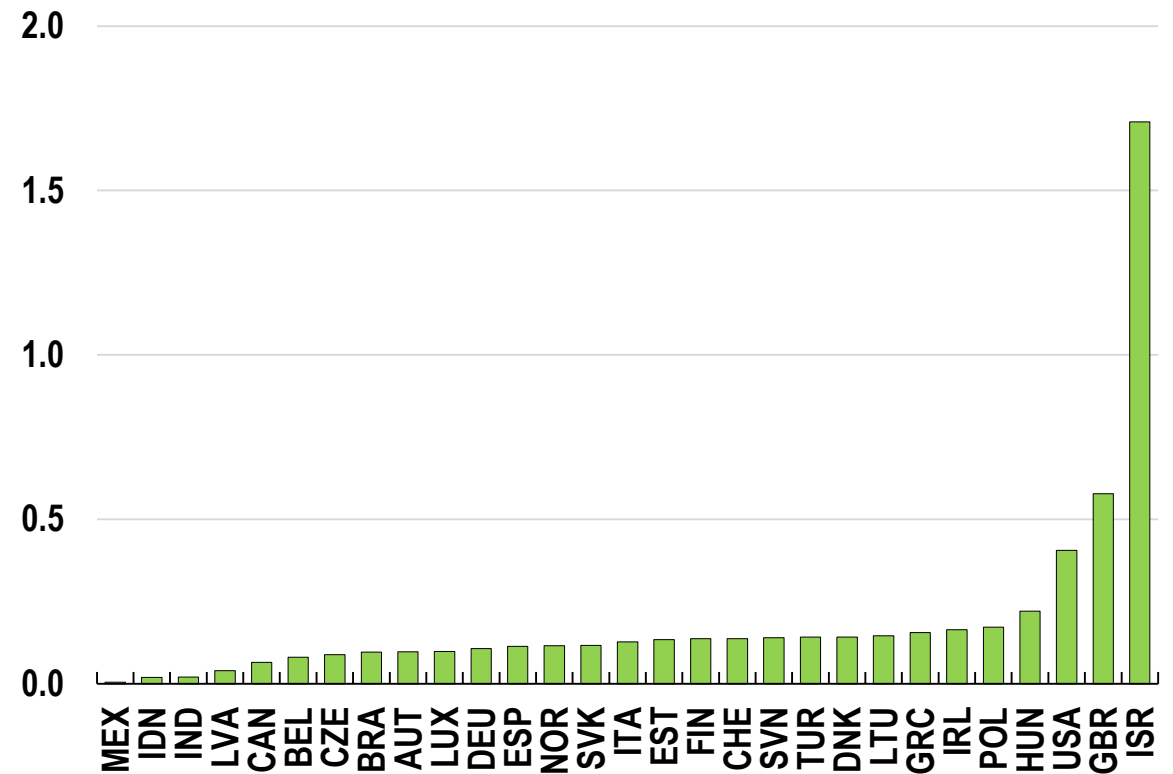
0=no restrictions, 1=4 weeks of restrictions for each country

- School closures
- Restrictions on gatherings of more than 10 people
- Stay-at-home requirements



Daily Covid-19 vaccine doses administered per 100 people

Seven-day rolling average, 1 February 2021 or latest available



Note: LHS: Restrictions refer to general (rather than targeted) restrictions. School closures refer to countries implementing general school closures of some or all levels; stay at home requirements refer to countries implementing general requirements to stay at home, in some cases with exceptions (e.g., for daily exercise, grocery shopping, and 'essential' trips). For each month, a value of 0 corresponds to no restrictions in place in each country while a value of 0.75 corresponds to 3 weeks of restrictions in place, summed for a total of 45 countries. The figure shows the aggregate across 45 countries. January 2021 average calculated using data up to January 31, 2021 or the latest available date for each country. RHS: Shown is the rolling 7-day average per 100 people in the total population. This is counted as a single dose, and may not equal the total number of people vaccinated, depending on the specific dose regime (e.g. people receive multiple doses). 29 Jan to 1 Feb 2021 data.

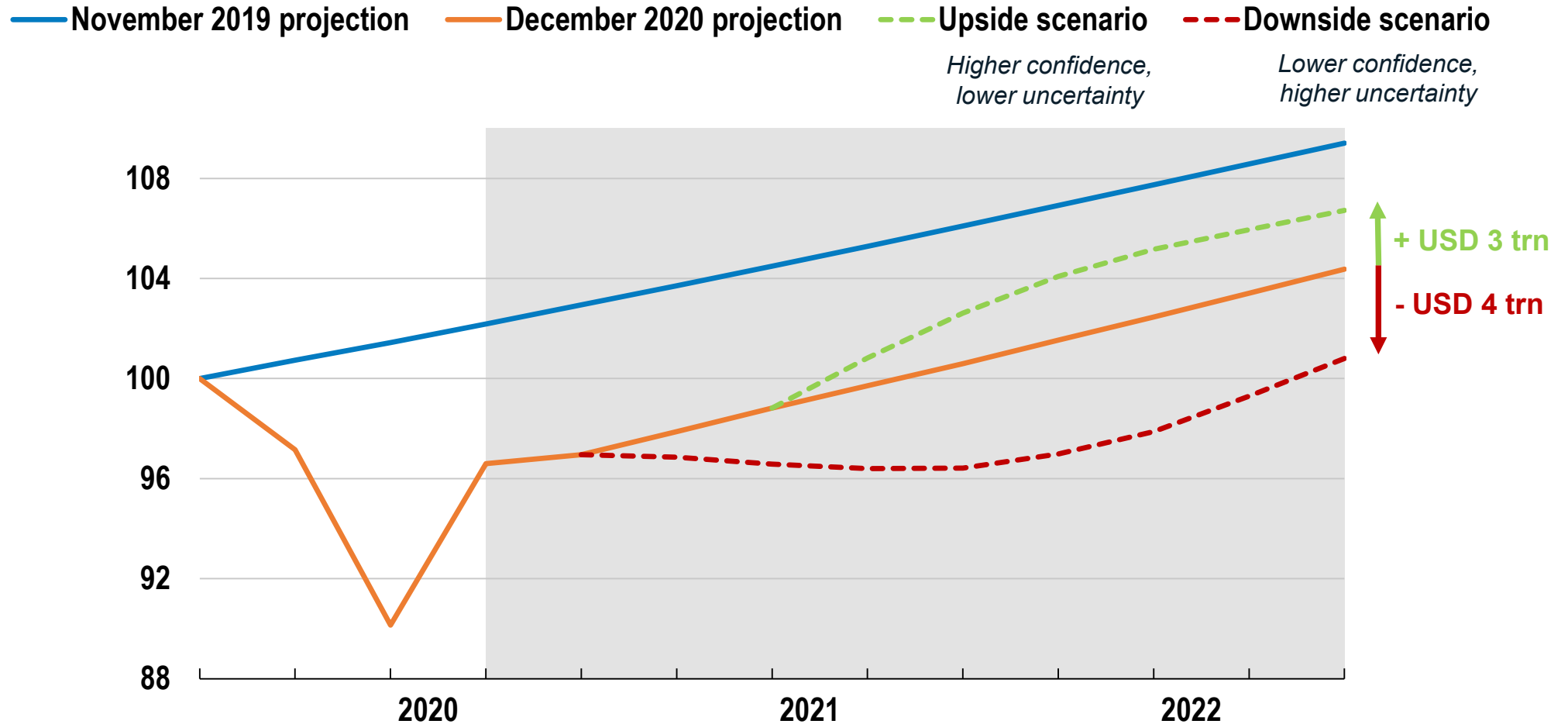
Source: Oxford COVID-19 Government Response Tracker, Blavatnik School of Government; OECD calculations; Our World in Data



A gradual walk towards recovery

World GDP

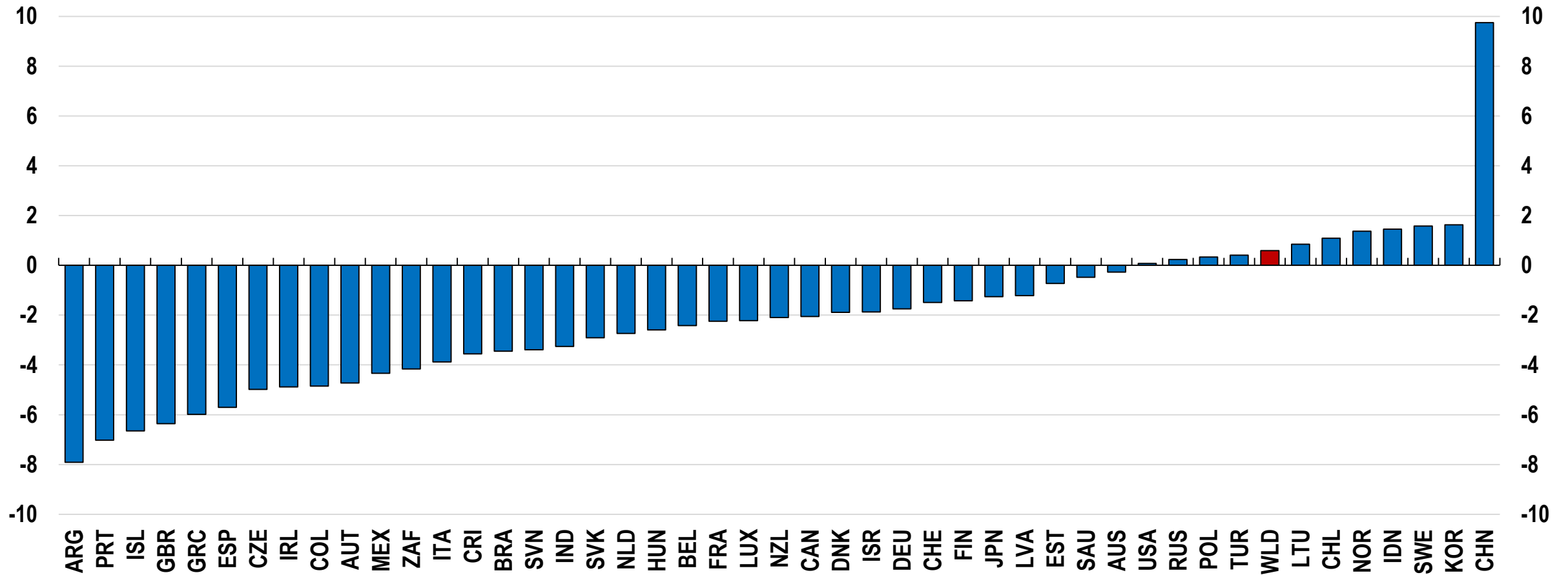
Index 2019Q4 = 100



Economic performance will vary significantly

GDP

% change between 2019Q4 and 2021Q4, constant prices



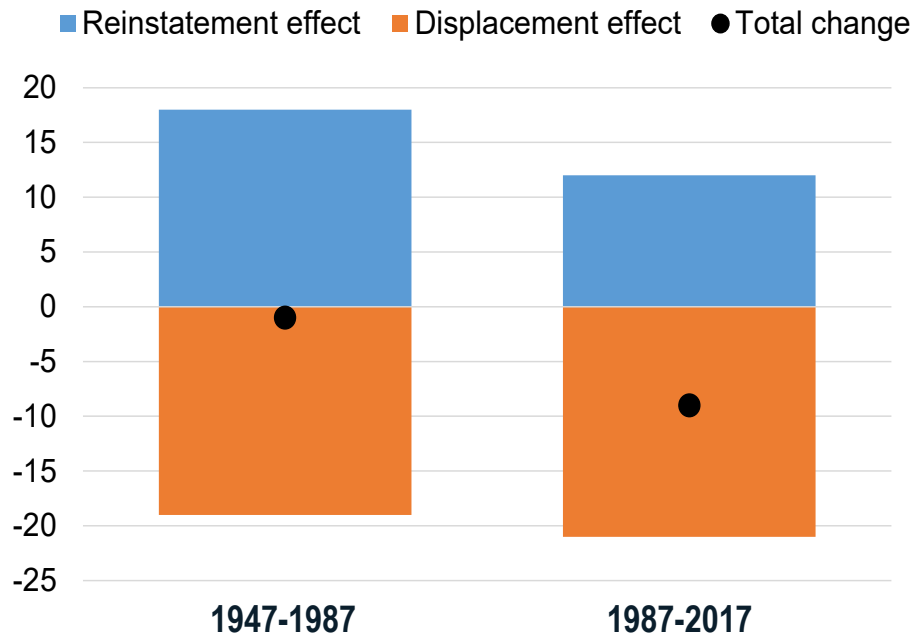
Risks and challenges



Challenge 1: Underemployment and aggravated pressure from automation

Labor share of output and automation

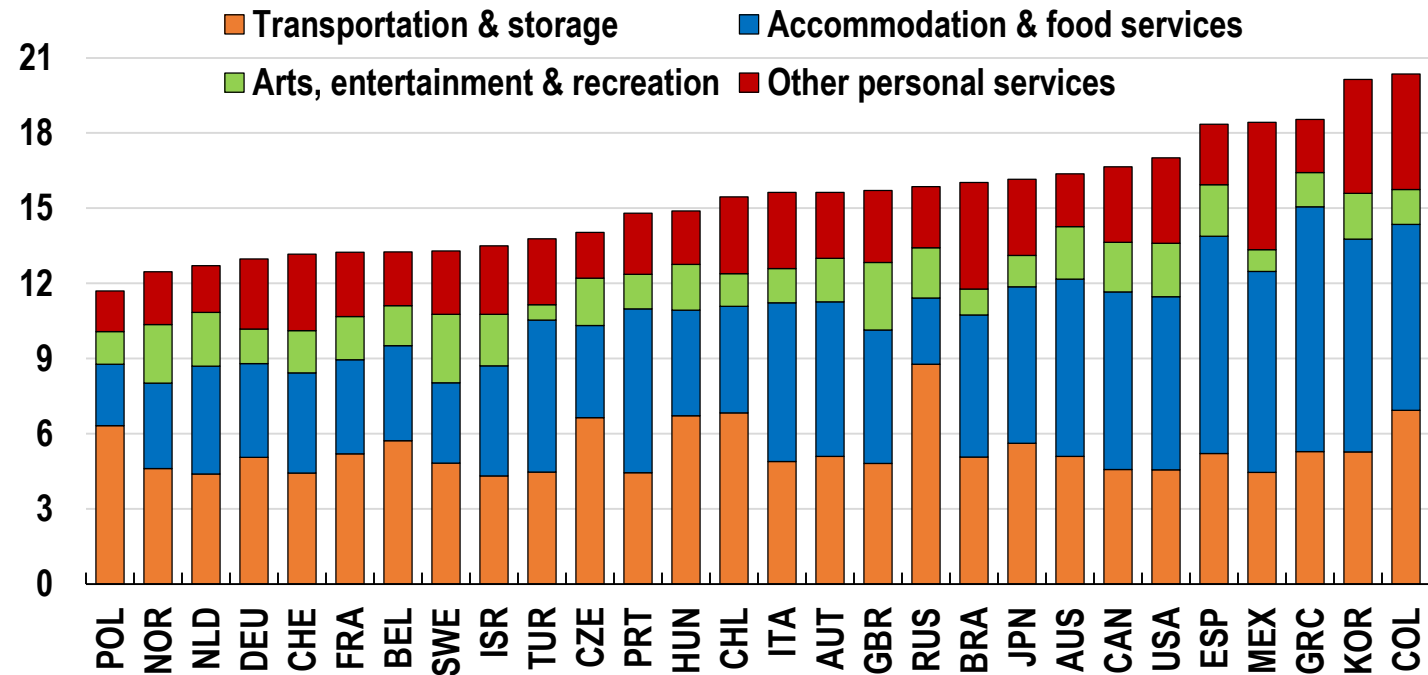
Cumulative % points change over two periods



Displacement from automation is now less likely to be offset by new technologies that lift human productivity and labour demand

Sectors hard-hit by COVID are labour intensive

% total employment, 2019 or latest available

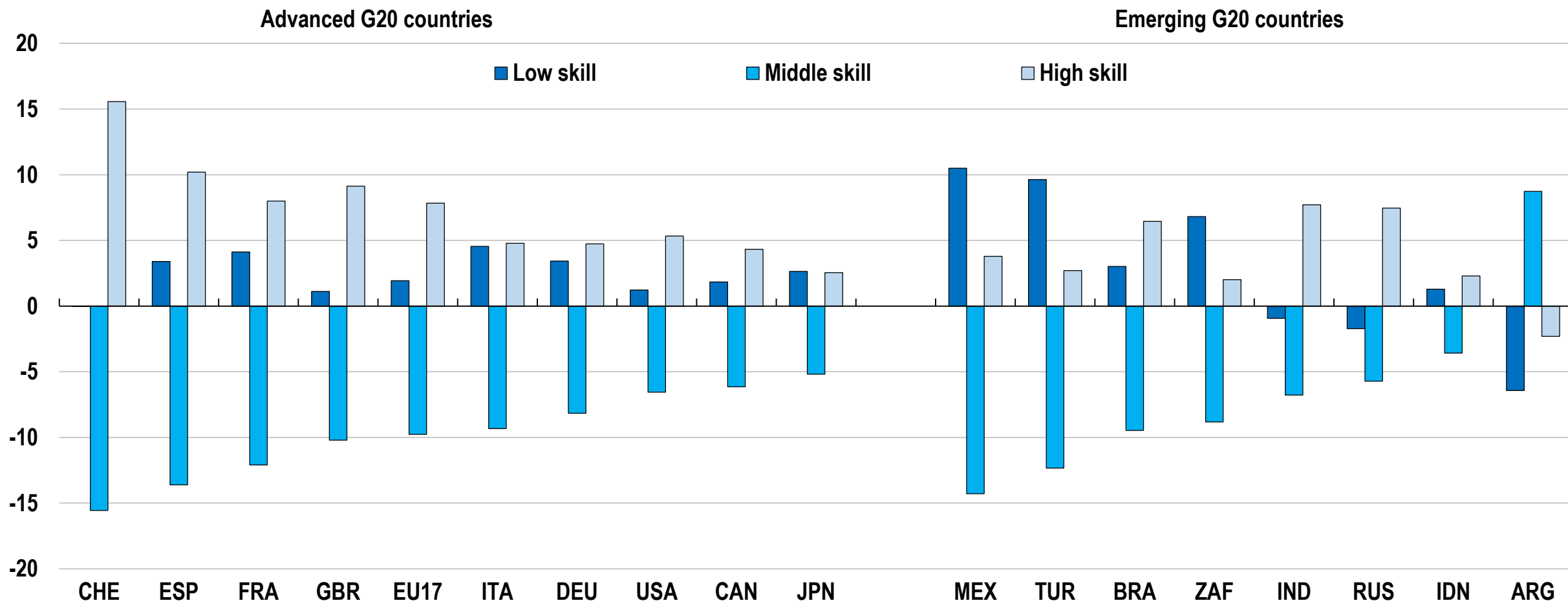


Will COVID-induced automation and habit change permanently reduce demand for low-skilled workers servicing business travel and CBD workplaces?



Middle-skill occupations have declined over the past two decades

% point change in the share of employment in each skill group between the mid-1990s to the mid-2010s*



Note: Percentage point change in the share of employment represents the percentage point change in the share of total employment for advanced G20 countries, and the percentage point change in the share of working adults for emerging G20 countries. High-skilled occupations include jobs classified under the ISCO-88 major groups 1, 2 and 3. Middle-skilled occupations include jobs classified under the ISCO-88 major groups 4, 6, 7 and 8. Low-skilled occupations include jobs classified under the ISCO-88 major groups 5 and 9. 1995-2015 for advanced G20 countries, 2004-2017 for Argentina, 1995-2015 for Brazil, 2000-10 for China, 1994-2012 for India, 2007-15 for Indonesia, 1995-2017 for Mexico, 1997-2017 for the Russian Federation, 1996-2007 for South Africa, 2001-10 for Turkey. EU17 represents an unweighted average of mostly western, northern, and southern European countries for which data are available.

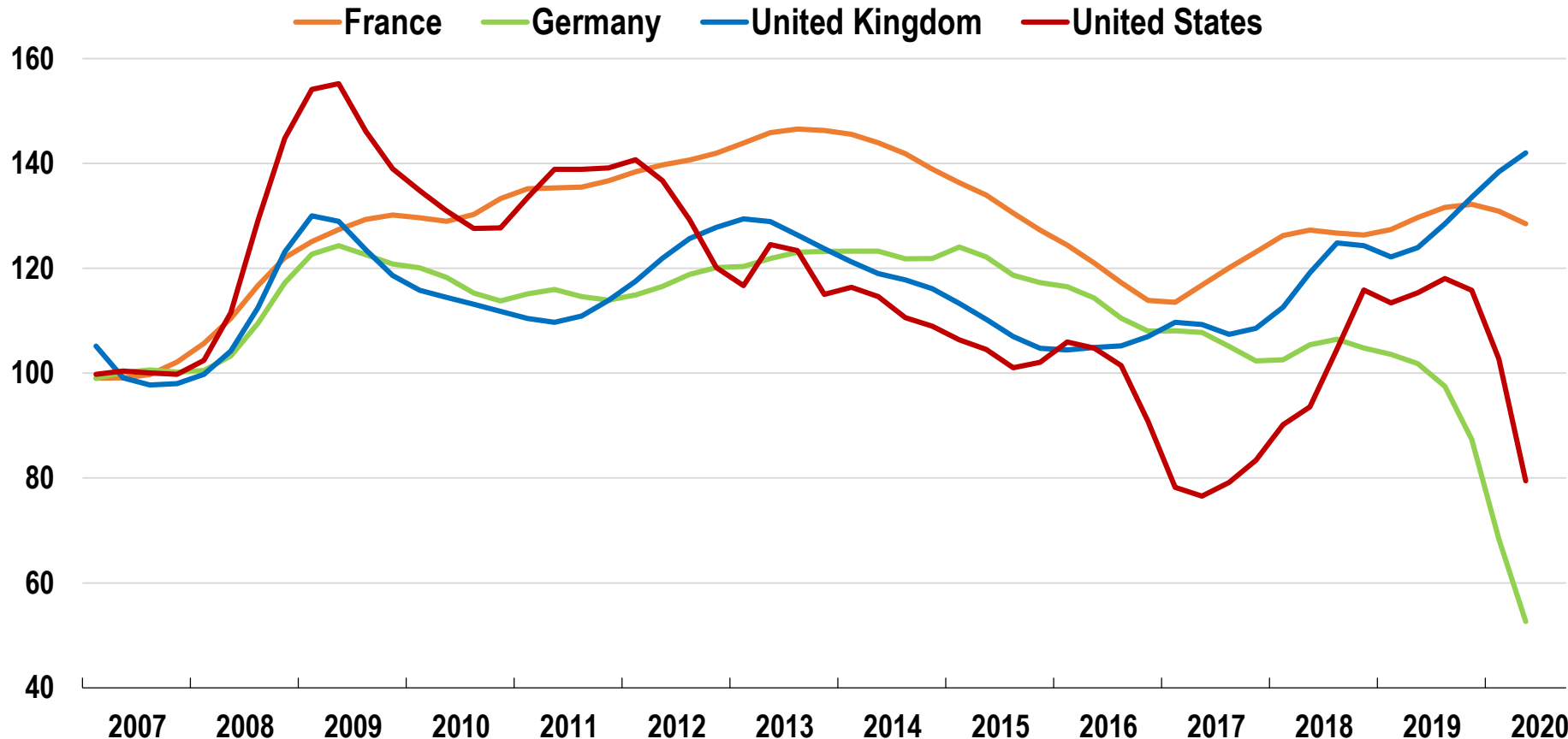
Source: OECD Employment Outlook 2019.



Challenge 2: Bankruptcies

Bankruptcies

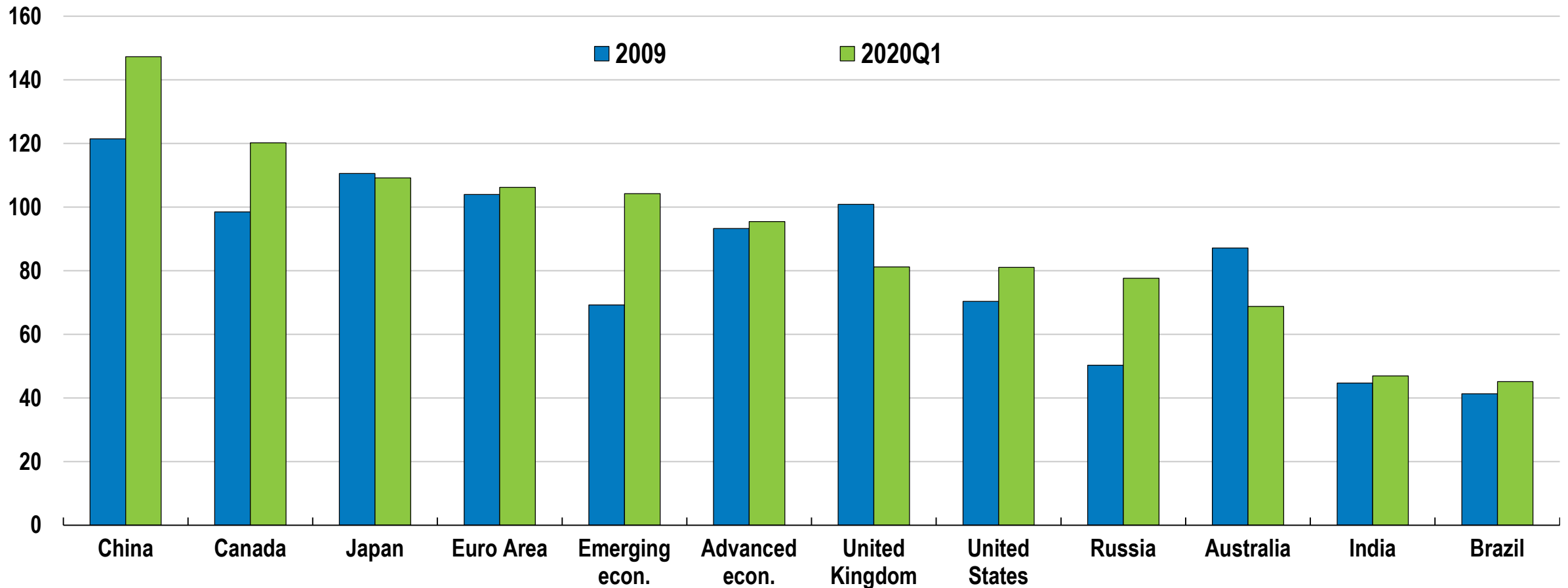
Index 2007 = 100, grand total for corporations



Corporate debt has increased to worrying levels

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

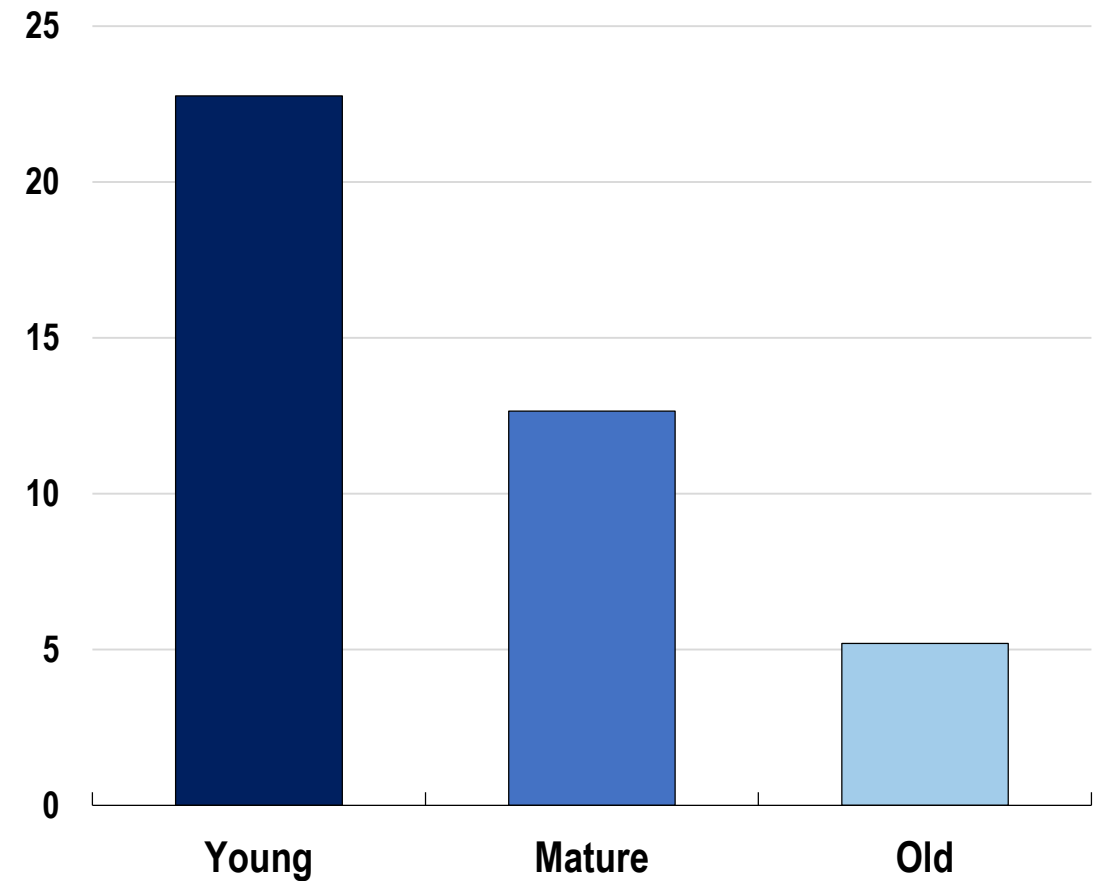
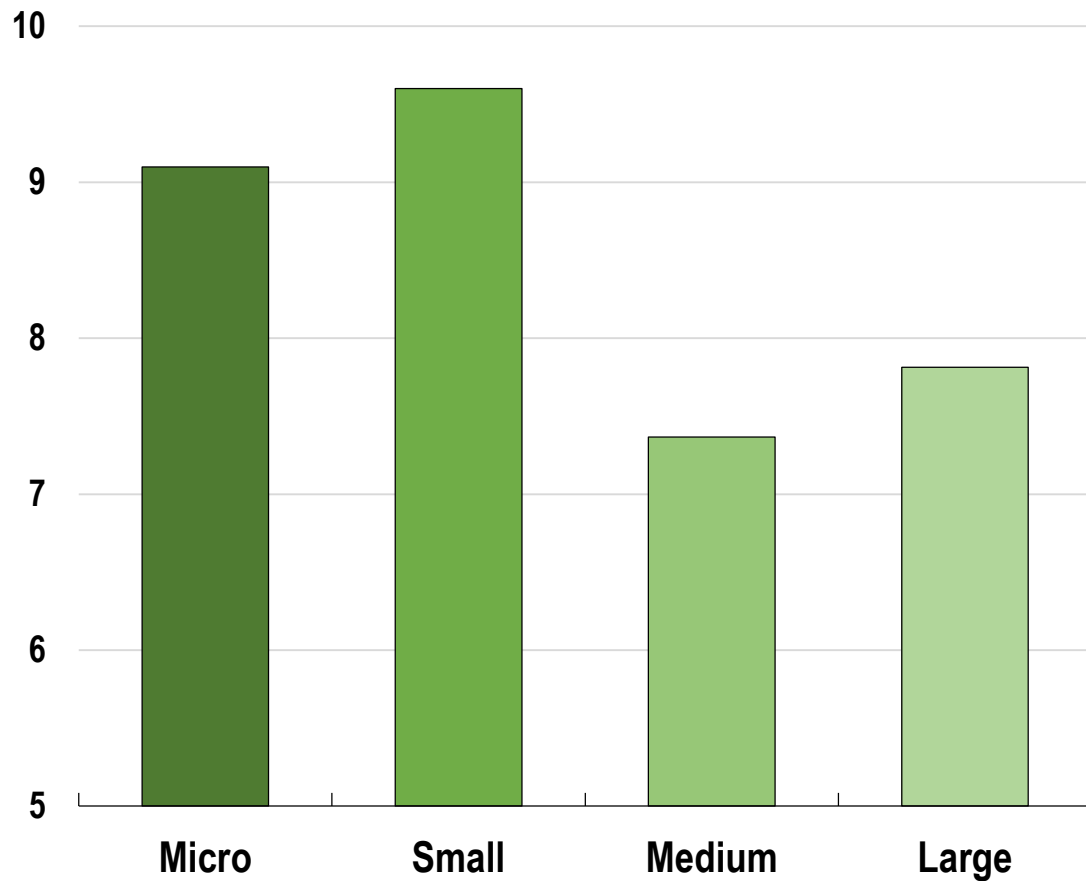
Outstanding corporate debt, % of GDP



SMEs are particularly vulnerable

More smaller and younger firms could become distressed

% of otherwise viable firms predicted to become distressed



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

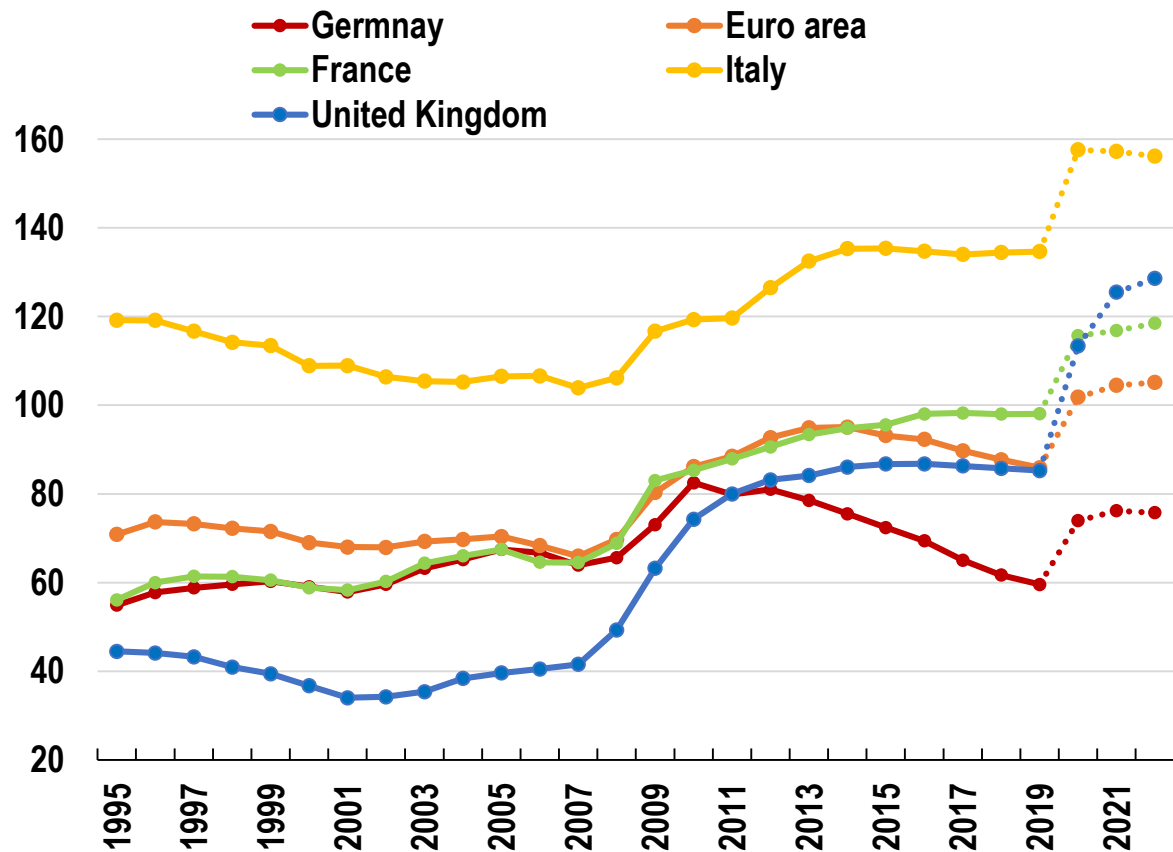
Source: OECD Economic Outlook December 2020 Issue Note 2: Insolvency and debt overhang following the COVID-19 outbreak: assessment of risks and policy responses, using Orbis® data.



Challenge 3: Public debt is set to continue rising markedly

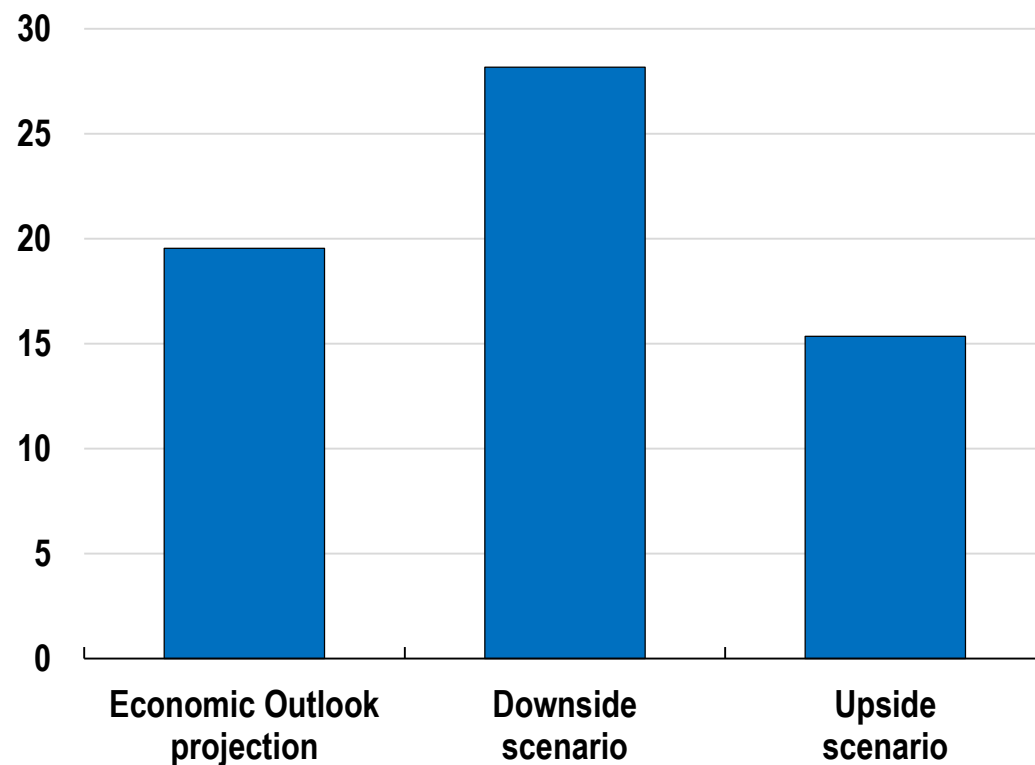
General government debt

% of GDP, Maastricht definition



Change in government debt-GDP ratio between 2019 and 2022

% points, median advanced economy



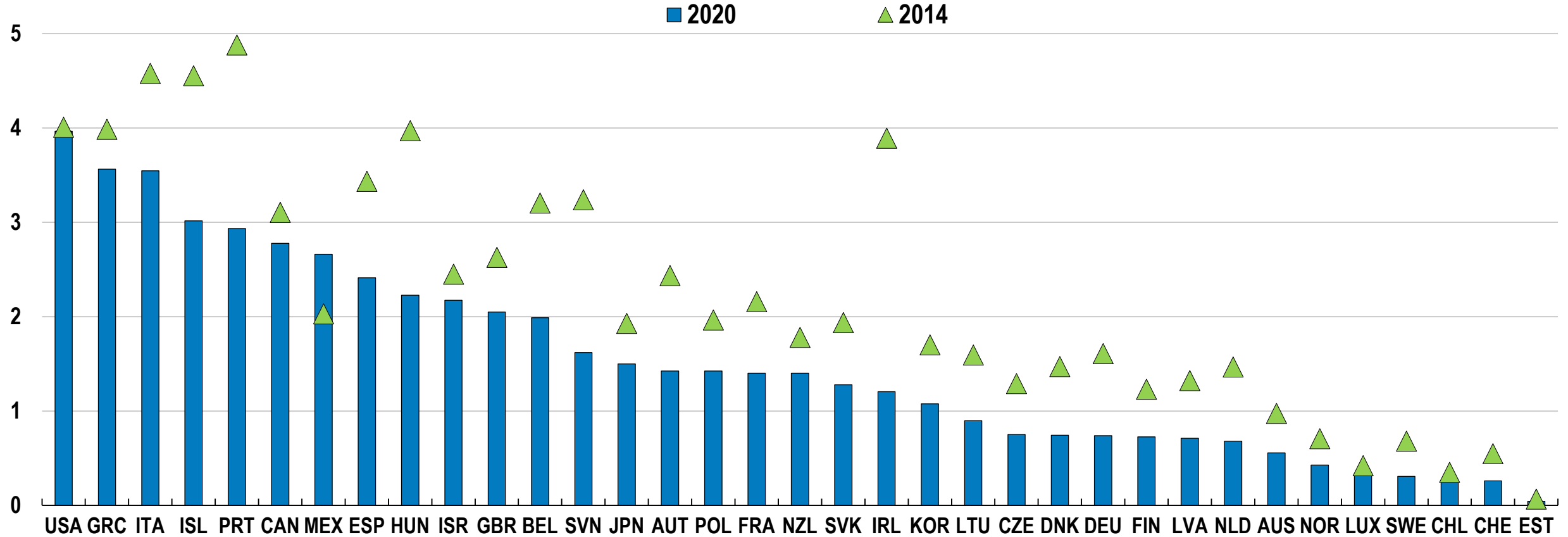
Note: LHS: Dotted lines are a projection. Euro area refers to the 17 euro area countries also members of the OECD. RHS: Based on 20 advanced economies: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Hungary, Ireland, Italy, Japan, Netherlands, Poland, Portugal, Spain, Sweden, the United Kingdom, United States
Source: OECD Economic Outlook 108 database; and OECD calculations.



Central banks are buying time for us to review fiscal policy and address the debt issue

Debt servicing costs are low

Government debt servicing payments, % of nominal GDP



Conclusion

- **The health situation is uncertain:** including the production and distribution of vaccines and the possible effects of more transmissible and severe COVID-19 variants
- **Monetary and fiscal policies need to continue supporting economic activity** to help with a quick and strong rebound. **Fiscal policy needs to become more targeted** as the crisis continues
- **The crisis and long-term trends are resulting in three key challenges to:**
 - **People and employment:** digitalisation and the effects on low and middle-skilled jobs
 - **Firms:** indebtedness, government support – when and how to withdraw?
 - **Public finances and resilience**



Thank you

Find out more about our work at:

 <https://oecd.org/coronavirus>

 <https://twitter.com/oecdeconomy>

 eco.contact@oecd.org

 <https://oecdecoscope.blog/>

