OECD Economic Outlook

World Economy on a Tightrope

Une Reprise sur Ligne de Crête

10 June 2020

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OECD Chief Economist
Key messages

• Covid-19 is the worst health and economic crisis since WWII, disrupting health, wellbeing and jobs, and creating extraordinary uncertainty. Our outlook is made up of two equally possible economic scenarios.

• Economic impacts are dire everywhere. The recovery will be slow and the crisis will have long-lasting effects, disproportionally affecting the most vulnerable people.

• Policy challenges: cooperate for producing and distributing a vaccine; move from blanket to targeted support to help workers transit to new jobs, ensure rapid firm restructuring and provide social protection to the most vulnerable.
This is a marathon not a sprint: We are only in phase 2 of the pandemic crisis

Phase 1: Containment
Flattening the virus curve

Phase 2: Co-existing with Covid-19
Restarting activity while avoiding a second wave of Covid-19

Phase 3: Vaccine and/or treatment
Robust, sustainable and inclusive recovery

Potential reversion if the number of Covid-19 cases increases above threshold levels

Policy agility and flexibility
Global activity has collapsed

Percentage change in GDP
Quarter-on-quarter

OECD      World

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The recovery will be slow and uncertain

World GDP

Constant prices, index, 2019Q4 = 100

November 2019 projections  Single-hit scenario  Double-hit scenario
Economic Outlook projections

Projected GDP change in 2020 in G20 economies

%, year-on-year

-16 -14 -12 -10 -8 -6 -4 -2 0

Single-hit scenario
Additional decline in the double-hit scenario
Unemployment rates will rise to high levels

2020 Unemployment rate projections

- 2020Q4: Single-hit scenario
- 2020Q4: Additional increase in the double-hit scenario
- 2009Q4

Countries included: ZAF, ESP, TUR, USA, BRA, GBR, FRA, OECD, ITA, CAN, AUS, NLD, MEX, RUS, CHE, DEU, KOR
Public debt will jump

Estimated government gross financial liabilities
% of GDP

- 2021: Single-hit scenario
- 2021: Additional increase in the double-hit scenario
- ◆ 2019
- ◇ 2007

Japan
United States
OECD
Euro area
Canada
Israel
Australia
New Zealand
Switzerland
Korea
TACKLING CORONAVIRUS (COVID-19)
CONTRIBUTING TO A GLOBAL EFFORT

RISKS
Vulnerable workers risk facing a greater impact

Larger employment declines for low-paid workers

Employment declines April vs February 2020, United States

More youth work in the hardest-hit sectors

Share of youth and adults employed in the hardest-hit sectors, 2019
Firms’ high leverage is a source of vulnerability

Debt of non-financial corporations
% of GDP, 2019 or latest available

Firms in hard-hit sectors are indebted
Debt-to-equity ratio, 2018 or latest available

Accommodation and food services
Arts, entertainment and recreation
Manufacturing
Emerging markets are susceptible to financial volatility

Capital outflows have increased

Cumulative portfolio flows to EMEs since event start date, USD billion

-120
-100
-80
-60
-40
-20
0
20
40
60
80
100
120

Days since event start date

GFC (2008)
Taper Tantrum (2013)
China stock market sell-off (2015)
Covid-19 (2020)
TACKLING CORONAVIRUS (COVID-19)
CONTRIBUTING TO A GLOBAL EFFORT

POLICY IMPLICATIONS
Trade, not protectionism, to fight the virus

Share of top 10 exporters of personal protective products
% of world exports

The number of export controls on medical goods has increased in 2020
Help workers transition to new jobs

Registered unemployment and applications for participation in job retention schemes

Early March to end of April 2020, or latest available, % of labour force

Job retention applications
Newly registered unemployed

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Keep viable firms in business

Official estimates of indirect financial support

% GDP

Loans, guarantees and other contingent liabilities
Tax and social security contribution deferrals
Conditions allow monetary and fiscal policies to remain supportive

Inflation is expected to stay subdued
Year-on-year % changes,
solid (dashed) lines show single (double)-hit scenarios

Government debt servicing payments are low
% of nominal GDP, 2019
Key policy messages

Focus on health

- Strengthen health care systems and build the supply of medical equipment
- Use test, track, trace and isolate and distancing strategies to limit virus outbreaks
- Ensure global cooperation to develop, manufacture and distribute vaccines/treatments worldwide

Support the transition

- Support job transitions but strengthen income protection
- Facilitate rapid firm restructuring and help firms digitalise, especially SMEs
- Maintain liquidity support and stand ready to address renewed financial turmoil

Plan the recovery

- Enable more resilient supply chains and promote a green transition
- Keep fiscal and monetary policies supportive
- Public finances: invest and focus on progressivity and fairness
ANNEX
# Economic Outlook projections

## G20 GDP growth

% year-on-year

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Note: 1 Fiscal years starting in April.
### Economic Outlook projections

#### GDP growth % year-on-year

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Public debt will jump

General government gross public debt
% of GDP, Maastricht definition

Country-specific notes for official estimates of indirect financial help to the economy

AUS: Tax deferrals have been announced, but not quantified.

CHE: Measures also include tax deferrals as part of the second CHF 32bn support package, but these have not been quantified.

DEU: State loans and credit guarantees include EUR 100 bn (2.9% of GDP) for recapitalisation of larger companies and important start-ups by an economic stabilisation fund and an extension of the limit on available credit guarantees by the state-owned development bank KfW of EUR 357 bn (10.4% of GDP). On 6th April, another immediate loan scheme for SMEs via KfW was announced, but at the moment there is no official estimate of its size. The estimate of the volume of announced tax deferrals is not available.

ESP: Measures to support credit consist of EUR 104 bn in state guarantees, and includes EUR 80 bn of private capital.

GBR: Contingent liabilities include over GBP 330 billion (14.9% of GDP) of state loans and guarantees for struggling businesses, through the Coronavirus Corporate Financing Facility (CCFF) and the Coronavirus Business Interruption Loan Scheme (CBILS).

ITA: State loans and credit guarantees include the expected multiplication effect on the credit market. Extra liquidity will be provided by the moratorium on debt repayment and debt interest payments until end-September on an approximated volume of firm loans of EUR 220 bn; the moratorium on mortgage payments for vulnerable households. Estimates for these measures are not available. Estimates of tax deferrals measures are not available.

KOR: Estimates include announced off-budget measures worth WON 75 trillion (about 3.9% of GDP), among which contingent liabilities worth WON 48.5 trillion (2.5% of GDP) used to create funds aimed at stabilising financial markets (corporate bond market stabilisation fund, short-term monetary market stabilisation fund, stock market stabilisation fund and a primary collateralised bond obligations scheme) and a Special Purpose Vehicle for the purchase of corporate debt of WON 10 trillion (0.5% of GDP).

NLD: Tax deferral measures are reported as the mid-point of an estimated range of EUR 45-60 billion.

USA: Tax referral represent the fiscal cost incurred in 2020 as estimated by the Joint Committee on Taxation (JCT). Under the Paycheck Protection Program (around USD 659 bln), loans to small business (<500 employees) can turn into grant (loan forgiveness) if they are used for spending in qualified costs (labour costs); loan forgiveness will be diminished in case of reduction of the number of employees.
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