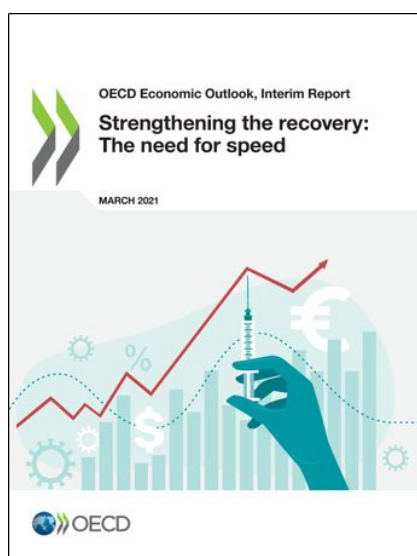


The need for speed: Putting the World Economy on the Fast Track out of the COVID-19 crisis

by Laurence Boone, OECD Chief Economist



This is no ordinary economic crisis. When you walk down the street of a big city like Paris, it's hard not to miss the usually lively restaurants, bars and museums. Travel and activity restrictions – completely unfamiliar to most of us just one year ago, have now become a part of our daily lives. In early March 2020, the OECD warned that COVID-19 could have devastating effects on the world economy. One year later, amid high uncertainty, a global recovery is in sight.

We have upgraded our growth projections

The good news is that the world economy is doing better than what we expected only three months ago. Countries are learning to better address the health situation, some are rolling out vaccines and are gradually lifting restrictions to mobility. People and firms have also adapted: producing, trading and

consuming differently in this new world of restrictions.

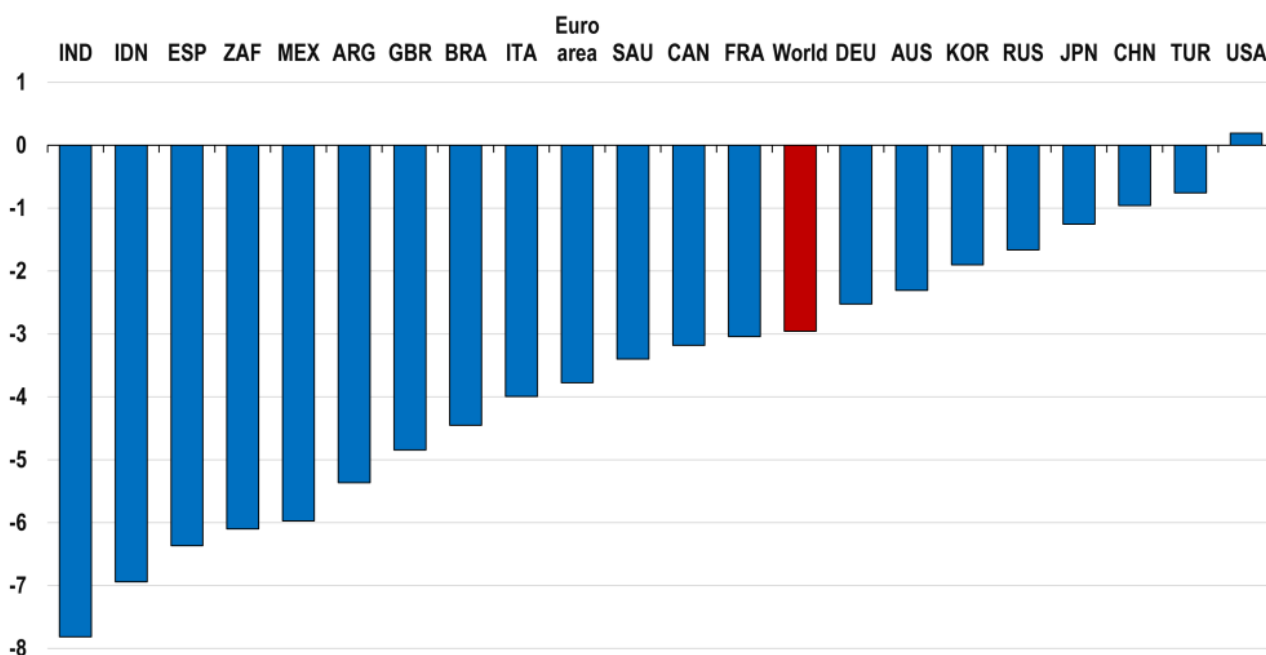
Undeniably, policy support helps. The exceptional fiscal and monetary support that countries have deployed to protect firms and people is working – supporting jobs, incomes and firms. In addition, the massive foreseen US stimulus (USD 1.9 trillion in addition to USD 900 billion in December 2020) will boost the US economy in 2021 and add a full percent to world output in our projection as discussed in our recent post on the American rescue plan.

As a result, we project global growth of 5.6% in 2021 (Table 1), up from 4.2% in our December projections. Most countries are bouncing back, but activity levels remain far behind where we expected them to be in our November 2019 projections before the pandemic. Moreover, divergence in economic performance across and within countries is set to increase.

The best economic policy to exit this global pandemic is rapid vaccination, worldwide

Differences in health management and vaccine rollout, and consequently restrictions, as well as sectoral specialisation in hard-hit sectors such as tourism and policy support are driving the increase in divergence. Several emerging market economies, as well as European ones, are lagging behind in the recovery (Figure 1).

Figure 1: Divergence is increasing
 2021Q4 GDP projections, % change from pre-pandemic projections for 2021Q4



Note: Pre-pandemic projections refer to the OECD Economic Outlook November 2019 projections.
 Source: OECD Economic Outlook database; OECD Economic Outlook 106 database; and OECD calculations.

To speed up the rollout of vaccines, policymakers need to get on a wartime footing with vaccine production and distribution. Production is currently being scaled up thanks to voluntary licensing, but more can be done. Governments should encourage the maximum use of existing manufacturing vaccine facilities and distribution networks, while fast-tracking consents for new facilities where necessary. This means using government purchasing leverage to foster private sector licensing, transfer of technology deals and a cooperative effort across firms that would normally be competitors. Regarding the distribution of vaccines, this means governments requiring and funding vaccination centres to operate seven days per week and long hours.

To be effective, vaccine rollout needs to be not only fast, but also global. This is the only way to win the race against virus mutations and to fully reopen sectors such as travel and tourism, which accounts for over 20% of GDP in some countries. As long as the virus is raging somewhere, the risk of new virus variants is high, which will mean that we will need to keep some borders shut, restraining activity. A coordinated and multilateral approach to licensing and technology

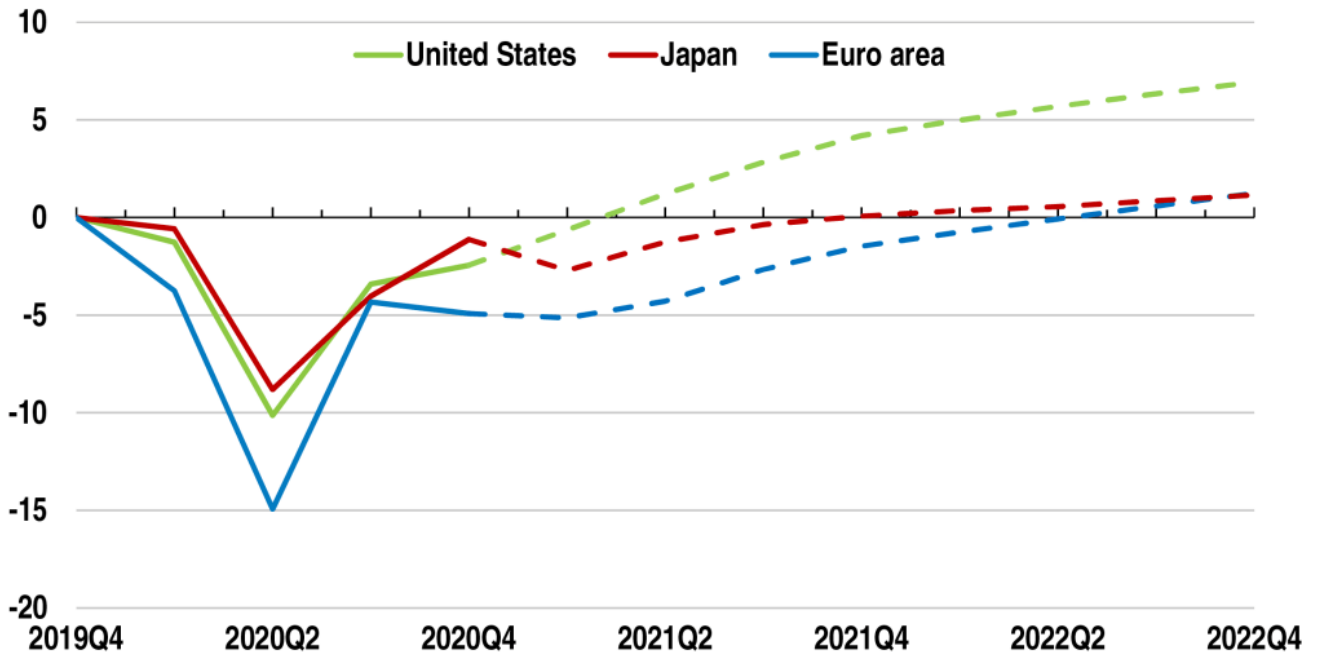
transfers, as well as purchasing, notably through increasing funding to COVAX, is the most efficient way of scaling up production and distribution worldwide, and especially in emerging markets.

Fiscal support has been key in preserving the economic and social fabric

Widespread vaccination will also make fiscal and monetary support more effective. The countries that are able to combine fast vaccination with supportive macroeconomic policies are the ones expected to benefit from faster recoveries (Figure 2). As our economies re-open, many entertainment hotel and restaurant workers can hope to get back to work. But, prospects are not the same for everyone. Following the Global Financial Crisis, young people struggled to find employment and policy was too slow to react – it took a decade for the employment prospects of graduates to “normalise” (Figure 3). To avoid such a negative outcome and the scarring effects of unemployment this time around, fiscal policy needs to be better targeted at supporting young people, for example by introducing wage subsidies to help firms expand apprenticeship and in-firm training programmes. It also needs to make use of the opportunity to pave the way forward for a better future – fixing the massive digital divide exposed by the pandemic and directing investment to support environmental sustainability.

Figure 2: Output is expected to diverge

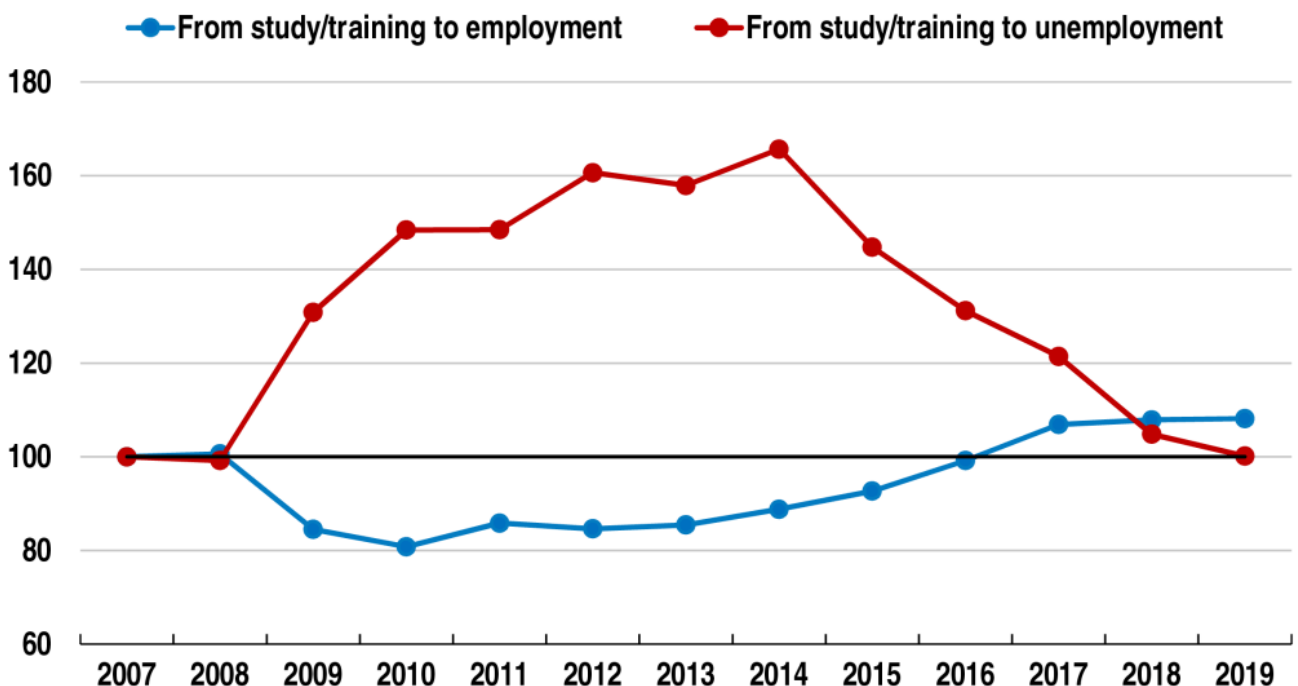
% difference in real GDP from pre-pandemic levels, dashed lines represent projections



Note: % difference in real GDP since the fourth quarter of 2019.
Source: OECD Economic Outlook database; and OECD calculations

Figure 3: The scarring effects on young people from the 2008 recession

Labour market transitions from studying/training, index 2007=100



Note: The transition from study to employment from t to t+1 is computed as a share of the total students/trainers in the period t. The transition from study to unemployment from t to t+1 is computed as a share of the total students/trainers in the period t. The series are computed as unweighted averages across the following OECD-EU countries for which LFS data are available: Austria, Belgium, Czech Republic, Estonia, Finland, France, Greece, Hungary, Italy, Latvia, Lithuania, the Netherlands, Norway (2007 to 2018 only), Poland, the Slovak Republic, Slovenia, Spain and Sweden.

Source: European Union Labour Force Survey; and OECD calculations.

With the arrival of vaccines, the world economy will eventually fully re-open for business. But how the recovery is going to shape up is in the hands of policymakers: swift

vaccination, targeted fiscal support and ramping up investment in new and green technologies can make a difference. Many challenges lie ahead but this crisis has taught us the importance of resilience: our ability to both avoid and respond to shocks. And, without multilateral co-operation the global recovery in growth and the jobs that go with it are at risk. There is no time to waste!

Reference:

OECD (2021), *OECD Economic Outlook, Interim Report March 2021*, OECD Publishing, Paris, <https://doi.org/10.1787/34bfd999-en>.