No ordinary recovery

Laurence Boone,
OECD Chief Economist

Also available in Français | Español | Portugués | Deutsche

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

Real GDP growth

% change, year-on-year, colours indicate the direction of revisions since the December 2020 Economic Outlook

↓ downward revision, by 0.3pp or more — no change or smaller than 0.3pp ↑ upward revision, by 0.3pp or more

	2020	2021	2022
World	-3.5 ↑	5.8 ↑	4.4 ↑
Australia	-2.5 ↑	5.1 ↑	3.4 ↑
Canada	-5.4 —	6.1 ↑	3.8 ↑
Euro area	-6.7 ↑	4.3 ↑	4.4 ↑
Germany	-5.1 ↑	3.3 ↑	4.4 ↑
France	-8.2 ↑	5.8 —	4.0 ↑
Italy	-8.9 —	4.5 —	4.4 ↑
Spain	-10.8 ↑	5.9 ↑	6.3 ↑
Japan	-4.7 ↑	2.6 ↑	2.0 ↑
Korea	-0.9 —	3.8 ↑	2.8 ↓
United Kingdom	-9.8 ↑	7.2 ↑	5.5 ↑
United States	-3.5 —	6.9 ↑	3.6 —

	2020	2021	2022
G20	-3.1 ↑	6.3 ↑	4.7 ↑
Argentina	-9.9 ↑	6.1 ↑	1.8 ↓
Brazil	-4.1 ↑	3.7 ↑	2.5 ↑
China	2.3 ↑	8.5 ↑	5.8 ↑
India*	-7.7 ↑	9.9 ↑	8.2 ↑
Indonesia	-2.1 ↑	4.7 ↑	5.1 —
Mexico	-8.2 ↑	5.0 ↑	3.2 —
Russia	-2.6 ↑	3.5 ↑	2.8 ↑
Saudi Arabia	-4.1 ↑	2.8 ↓	3.8 —
South Africa	-7.0 ↑	3.8 ↑	2.5 —
Turkey	1.8 ↑	5.7 ↑	3.4 —

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

Yet, too many headwinds persist.

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

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

A new, much-debated risk is the possibility of higher inflation. Commodity prices have been rising fast. Bottlenecks in some sectors and disruptions to trade are creating price tensions. These disruptions should start to fade towards the end of the year, as production capacity normalises and consumption rebalances from goods towards services. There is still a lot of slack in labour markets, restraining wage growth. Against this backdrop, as long as inflation expectations remain well anchored and wage growth remains subdued, we are confident that central banks will remain vigilant but look through these temporary price rises. What is of most concern, in our view, is the risk that financial markets fail to look through temporary price increases and relative price adjustments, pushing market interest rates and volatility higher. Vigilance is needed.

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

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

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

Editorial from the OECD Economic Outlook