A balancing act

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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.

Real GDP growth projections

G20 economies, % change, year-on-year

	2021	2022	2023
World	+ 5.6%	+ 4.5%	+ 3.2%
Australia	+ 3.8%	+ 4.1%	+ 3.0%
Canada	+ 4.8%	+ 3.9%	+ 2.8%
Euro area	+ 5.2%	+ 4.3%	+2.5%
France	+ 6.8%	+ 4.2%	+ 2.1%
Germany	+ 2.9%	+ 4.1%	+ 2.4%
Italy	+ 6.3%	+ 4.6%	+ 2.6%
Spain	+ 4.5%	+ 5.5%	+ 3.8%
Japan	+ 1.8%	+ 3.4%	+ 1.1%
Korea	+ 4.0%	+ 3.0%	+ 2.7%
United Kingdom	+ 6.9%	+ 4.7%	+ 2.1%
United States	+ 5.6%	+ 3.7%	+ 2.4%

	2021	2022	2023
G20	+ 5.9%	+ 4.7%	+ 3.3%
Argentina	+ 8.0%	+ 2.5%	+ 2.3%
Brazil	+ 5.0%	+ 1.4%	+ 2.1%
China	+ 8.1%	+ 5.1%	+ 5.1%
India	+ 9.4%	+ 8.1%	+ 5.5%
Indonesia	+ 3.3%	+ 5.2%	+ 5.1%
Mexico	+ 5.9%	+ 3.3%	+ 2.5%
Russia	+ 4.3%	+ 2.7%	+ 1.3%
Saudi Arabia	+ 2.9%	+ 5.0%	+ 3.0%
South Africa	+ 5.2%	+ 1.9%	+ 1.6%
Turkey	+ 9.0%	+ 3.3%	+ 3.9%

Source: OECD Economic Outlook, Volume 2021 Issue 2

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.

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