Difficult decisions in difficult times – Improving public spending in Brazil

Category: Brazil,Uncategorized
written by oecdecoscope | December 16, 2020

By Jens Arnold and Robert Grundke, OECD Economics Department

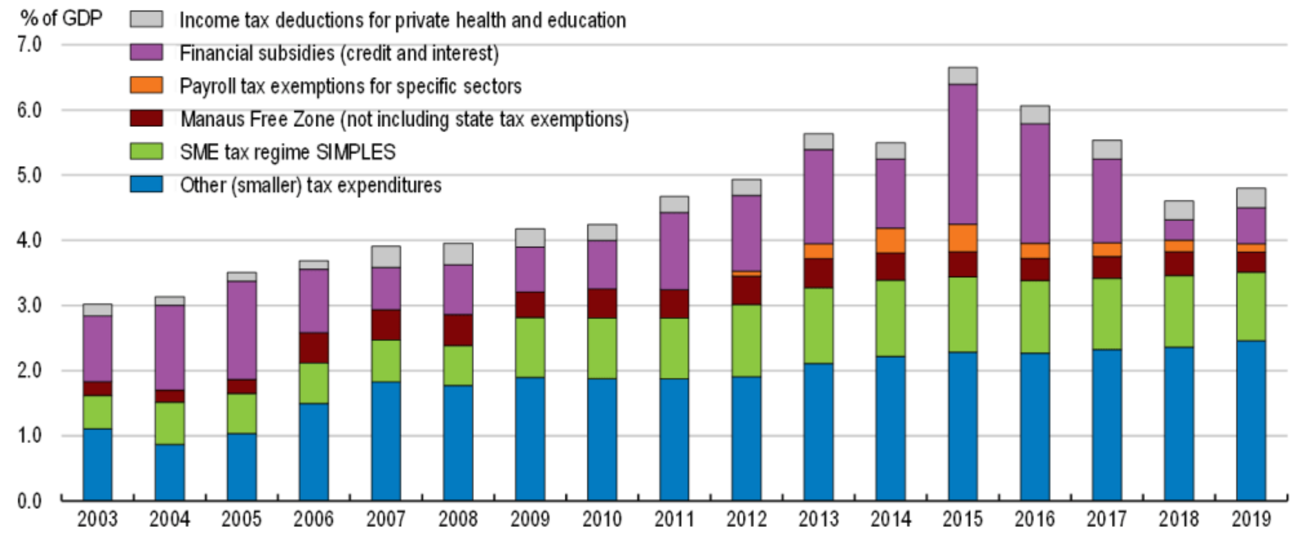
Portuguese version: Escolhas difíceis em tempos difíceis – Melhorando os gastos públicos no Brasil

Brazil’s government designed one of the strongest COVID-19 fiscal support packages in Latin America. Poor households who were already part of the government’s transfer programmes received extra cash. Formal workers could benefit from short-time work schemes in which the government paid part of their salaries so that their employers would keep their jobs alive. In addition, an entirely new emergency benefit was created for informal workers, which account for 40% of the workforce. On the whole, government policies supported the incomes of more than 67 million people, spending more than 8% of GDP.

Now Brazil’s economy has started to recover and is expected to grow by 2.6% next year, provided that recent increases in infections do not require new containment measures. But the bill that the state has to foot as a legacy of COVID-19 will make public finances even more complicated than they were before the crisis. Public debt has increased from 76% to 91% of GDP and is projected to exceed 100% of GDP in a few years time. This will make it difficult to continue all the emergency benefits beyond the end of December, when they are currently meant to end. At the same time, there are still 9% of workers who lost their employment with the pandemic and have not been able to find a job since. Many people are still in need, more than 9 months after COVID-19 hit Brazil.

So how can the fiscal dilemma be solved? Brazil’s tax burden is already as high as in advanced economies. Moreover, Brazil’s tax system is itself in need of reform, as it does little to reduce inequality and its complicated rules weigh on productivity. But a closer look at Brazil’s public expenditure reveals a number of ideas about where to start. Current subsidies, tax exemptions, special tax regimes and other tax expenditures cost almost 5% of GDP in lost revenues (Figure 1). This is a similar amount to what Brazil spends on education. Not all of that lacks a purpose, but many of these tax expenditures make tax treatment less equal and benefit special interests, not those most in need. Although some reductions have been achieved in recent years, touching these expenditures is often politically challenging, but all the more important now in the wake of COVID-19. The legislative branch will have to collaborate in efforts to make public spending more effective, as more than 95% of the budget is outside the control of the government, bound by automatic spending rules that require congressional approval to modify.

Figure 1. Subsidies and tax expenditures have risen in Brazil



Source: Ministry of the Economy, Relatório Orçamento de Subsídios da União.

The 2020 OECD Economic Survey of Brazil discusses these issues in more detail, analysing how changes to current policies could improve the situation of those most in need through better social protection, improve education and vocational training so that more Brazilians can reap new opportunities, and strengthen competition to raise productivity and incomes. Tackling these issues now is more important than ever.

Further reading:

OECD (2020), *OECD Economic Surveys: Brazil 2020*, OECD Publishing, Paris, https://doi.org/10.1787/250240ad-en.

Escolhas difíceis em tempos difíceis – Melhorando os gastos públicos no Brasil

Category: Brazil,Uncategorized
written by oecdecoscope | December 16, 2020

Por Jens Arnold e Robert Grundke, Departamento de Economia da OCDE

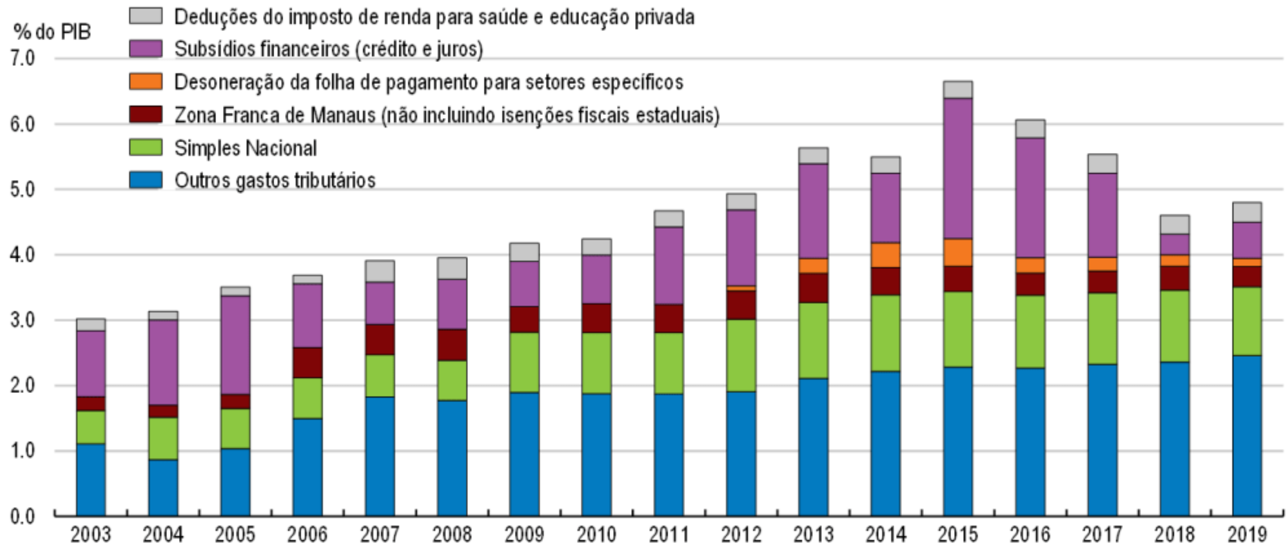
English version: Difficult decisions in difficult times – Improving public spending in Brazil

O governo brasileiro elaborou um dos pacotes de apoio fiscal mais fortes da América Latina. As famílias pobres que já faziam parte dos programas de transferência do governo receberam dinheiro extra. Os trabalhadores formais puderam se beneficiar de regimes de um regime de trabalho em horário reduzido em que o governo pagava parte de seus salários para que seus empregadores mantivessem seus empregos vivos. Além disso, um benefício de emergência inteiramente novo foi criado para os trabalhadores informais, que representam cerca de 40% dos trabalhadores no Brasil. No total, as políticas governamentais sustentaram a renda de mais de 67 milhões de pessoas, gastando mais de 8% do PIB.

Agora a economia do Brasil começou a se recuperar e deve crescer 2,6% no próximo ano, desde que os aumentos recentes nas infecções não exijam novas medidas de contenção. Mas a conta que o estado terá de pagar como legado da COVID-19 complicará ainda mais as finanças públicas do que antes da crise. A dívida pública aumentou de 76% para 91% do PIB e prevê-se que ultrapasse 100% do PIB dentro de alguns anos. A luz disso, dar continuidade a todos os benefícios de emergência após o final de dezembro, quando eles deveriam terminar, será difícil. Ao mesmo tempo, ainda há 9% dos trabalhadores que perderam seu emprego com a pandemia e não conseguiram encontrar emprego desde então. Muitas pessoas ainda precisam de ajuda, mais de 9 meses após o COVID-19 chegar ao Brasil.

Então, como o dilema fiscal pode ser resolvido? A carga tributária já é tão alta quanto nas economias avançadas. Além disso, o próprio sistema tributário do Brasil precisa de reforma, pois faz pouco para reduzir a desigualdade e suas regras complicadas pesam sobre a produtividade. Mas um olhar mais atento sobre os gastos públicos do Brasil revela uma série de ideias sobre por onde começar. Os atuais subsídios, desonerações fiscais, regimes fiscais especiais e outras despesas fiscais custam quase 5% do PIB em receitas perdidas (Figura 1). Esse é um valor semelhante ao que o Brasil gasta com educação. Nem tudo isso carece de um propósito, mas muitas dessas despesas fiscais reduzem a igualdade de tratamento e beneficiam interesses especiais, não aquelas pessoas que mais precisam de ajuda. Embora algumas reduções tenham sido alcançadas nos últimos anos, tocar nessas despesas é muitas vezes politicamente desafiador, mas ainda mais importante agora na esteira do COVID-19. O Legislativo terá de colaborar nos esforços para tornar o gasto público mais eficaz, já que mais de 95% do orçamento está fora do controle do governo, vinculado a regras automáticas de gastos que requerem aprovação do Congresso para serem modificadas.

Figura 1. Subsídios e despesas tributárias aumentaram no Brasil



O Relatório Econômico do Brasil da OCDE 2020 examina essas questões com mais detalhe, analisando como mudanças nas políticas atuais poderiam melhorar a situação dos mais necessitados por meio de melhor proteção social, reforzar a educação e a formação profissional para que mais brasileiros possam colher novas oportunidades e fortalecer a concorrência para aumentar a produtividade e a renda. Lidar com essas questões agora é mais importante do que nunca.

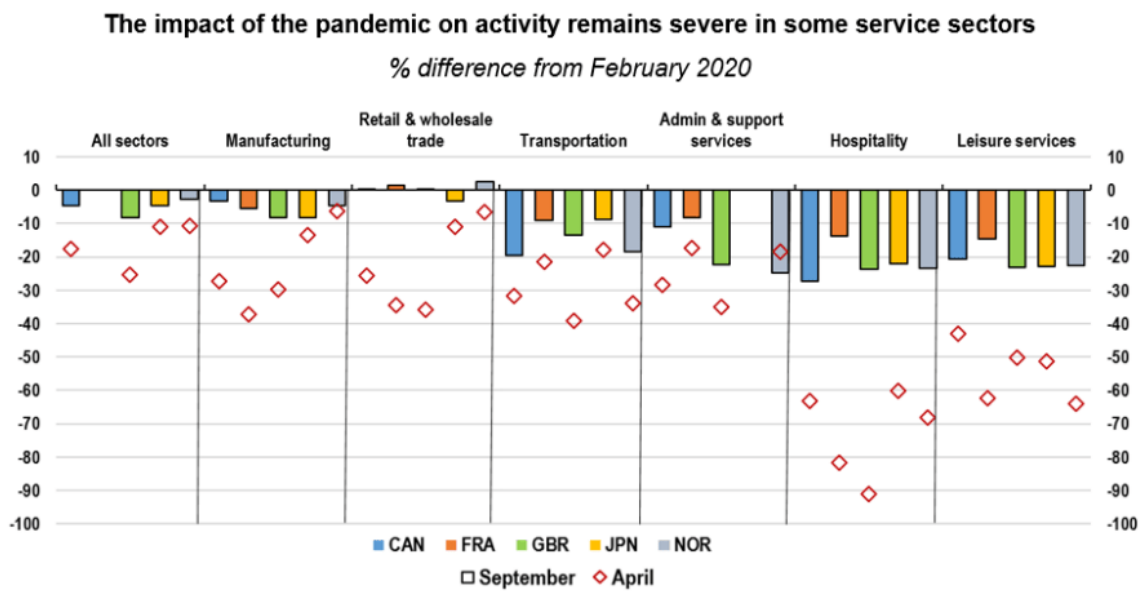
The impact of the COVID-19 pandemic on sectoral output

Category: COVID-19,Economic outlook,Uncategorized
written by oecdecoscope | December 16, 2020
by Nigel Pain, OECD Economics Department

The economic impact of the pandemic has varied significantly across different industries. Monthly economy-wide output data and the special business surveys being undertaken in some countries provide a timely indication of the different impact of the pandemic across types of activity, both in the early stages of the crisis and subsequently. As shown in the December *OECD Economic Outlook*, the containment measures used in response to the pandemic and underlying changes in consumer behaviour have both had a significant impact on activity, particularly in many service sectors.

In the first wave of the pandemic, output fell especially sharply in countries such as the United Kingdom and France, where full economy-wide confinement was required for an extended period (see first figure). By April, retail and wholesale trade volumes in these countries were over one-third lower than in February, prior to the pandemic. Retail output also declined by over one-quarter in Canada. In contrast, many other countries, particularly in Asia and Northern Europe, made greater use of targeted measures on regions and sectors and relied more extensively on effective test, trace and isolate systems to control the virus.

Service sectors requiring close proximity between consumers and producers or between large groups of consumers, including hospitality services, leisure activities and cross-border travel, were hard hit across all economies, with output declining by 60-80% in several countries by April. Output in many other parts of the economy, including manufacturing and most other market-based services also tumbled, although the extent of the decline was more varied, reflecting the mix of containment measures being imposed and differences in specialisation. Declines in these sectors were also typically larger in Canada, France and the United Kingdom than in Japan or Norway.



Note: Monthly GDP in Canada, Norway and the United Kingdom, monthly output in Japan and France. Data based on national industrial classifications. Data on all sector output are not available for France, and data on administrative and support services are not available for Japan. Transportation data for Norway exclude ocean transport.

Source: Office of National Statistics, United Kingdom; Ministry of Economy, Trade and Industry, Japan; Insee, France; Statistics Canada; Statistics Norway; and OECD calculations.

In the subsequent recovery output gradually picked up in all sectors, with many containment measures relaxed until recently, although economy-wide activity and manfacturing output still remained below pre-pandemic levels as of September (see first figure). The rebound was particularly marked in wholesale and retail trade, where output returned quickly to the immediate pre-pandemic level, helped by a rebound in consumer spending.

A weaker recovery occurred in the service sectors most affected initially, pointing to the risk of persistent costs from the pandemic in these sectors. Activity in hospitality, leisure, and transportation, particularly air travel services, continues to be impacted by physical distancing requirements and border closures, with output in September remaining 20-25% below that in February in some countries. The recovery has also been slow in administrative and support services, a category of output that includes travel agencies, where demand is extremely weak.

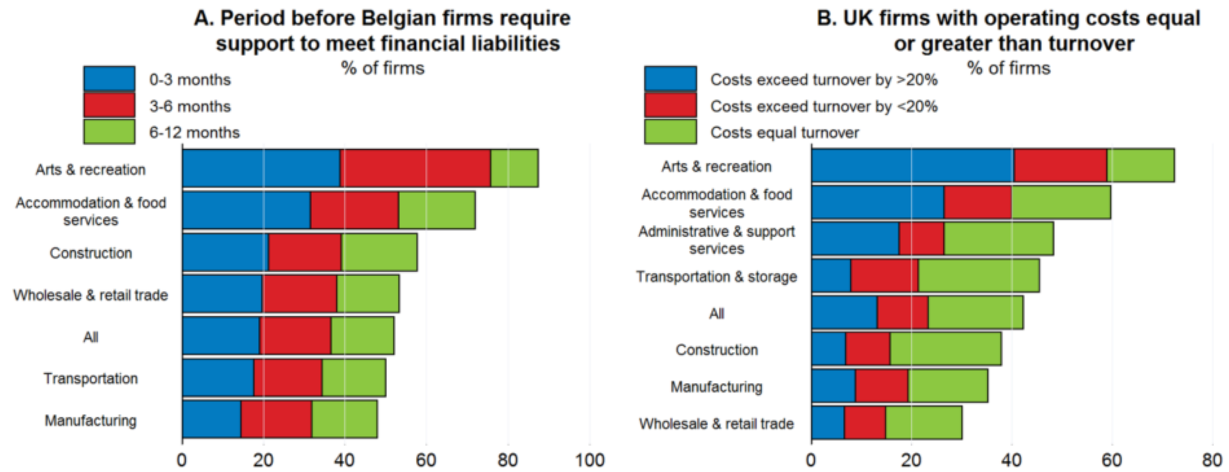
The special business surveys being undertaken by some national statistics offices and central banks provide additional insight into the effects of the pandemic across sectors, including on workforce arrangements, the extent to which government support schemes are being used, investment plans, and corporate finances. Even prior to the tighter containment measures implemented in the past two months in most European economies, survey information was already highlighting the pressures that firms in the hardest hit sectors were facing.

In Belgium, around one-fifth of responding firms indicated that they could not meet their financial liabilities for more than three months without receiving additional equity or credit (see second figure, Panel A). An additional sizeable share of firms indicated that financial liabilities could only be met for between three and six months. Such financial pressures were most evident in the arts and recreation (leisure) sector, and the accommodation and food services (hospitality) sector, with around 40% and 30% of firms respectively indicating that financial liabilities could not be met for more than three months.

In the United Kingdom, around one-fifth of responding firms reported that their operating costs were currently exceeding turnover, with the excess being over 50% in half of these cases (see second figure, Panel B). A further one-fifth indicated that operating costs were equal to turnover. Financial fragilities again appeared to be strongest in the hardest hit service sectors.

These findings highlight the message in the December *OECD Economic Outlook* that flexible and state-contingent government support remains necessary to help sustain viable firms and lower the risks of significant long-lasting costs from the pandemic.

There are signs of financial fragilities in some service sectors



Note: Data in Panel A are responses in September to the question "How long can you still meet your current financial obligations without having to rely on additional equity or credit?", weighted by the number of responding firms. Data in Panel B are responses, weighted by turnover, to the question "In the last two weeks, how did your business's turnover compare to its operating costs?", and refer to the period September 21 to October 4. Firms replying not sure are excluded from the calculations.
Source: National Bank of Belgium; UK Office for National Statistics; and OECD calculations.

Further reading:

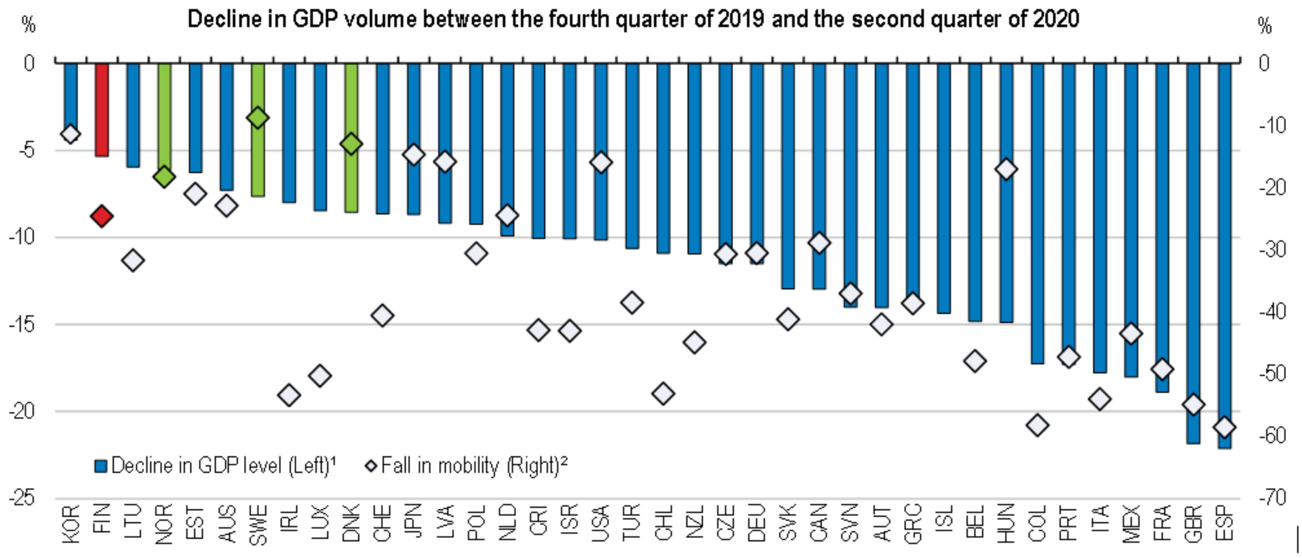
OECD (2020), *OECD Economic Outlook, Volume 2020 Issue 2: Preliminary version*, OECD Publishing, Paris, https://doi.org/10.1787/39a88ab1-en.

Finland: Recovering from the COVID-19 crisis

Category: COVID-19,Finland,Uncategorized
written by oecdecoscope | December 16, 2020
By David Carey, Economics Department.

The COVID-19 pandemic has plunged Finland into a deep recession, albeit milder than in most other countries partly thanks to more targeted confinement measures and a relatively small loss of mobility (Figure 1). The economy is projected to shrink by 3.3% in 2020 and recover gradually with growth of 2.1% in 2021 and 1.8% in 2022, led by private consumption and exports. The government provided substantial financial support to protect jobs and help households and businesses get through the crisis. Public finances deteriorated as a result (Figure 2).Once the recovery is underway, fiscal consolidation will be needed to achieve the government’s aim to stabilise the debt-to-GDP ratio by the end of the decade. To this end, the government has set an objective of increasing employment by 80 000 at that horizon. Increasing the employment rate toward the average level of the Scandinavian Nordic countries could make a substantial contribution to the necessary fiscal consolidation and, together with stronger productivity growth, help to reverse the long-term erosion in relative living standards. The 2020 OECD Economic Survey of Finland provides an in-depth analysis of these challenges and offers policy recommendations for meeting them.

Figure 1. Economic activity and mobility collapsed, but less than elsewhere



Note: 1. % difference between 2019Q4 and 2020Q2 GDP levels.
2. Fall in mobility from the baseline between 1st of March and 27th of June.
Source: OECD, National Accounts database; Google LLC, Google COVID-19 Community Mobility Reports, https://www.google.com/covid19/mobility/.

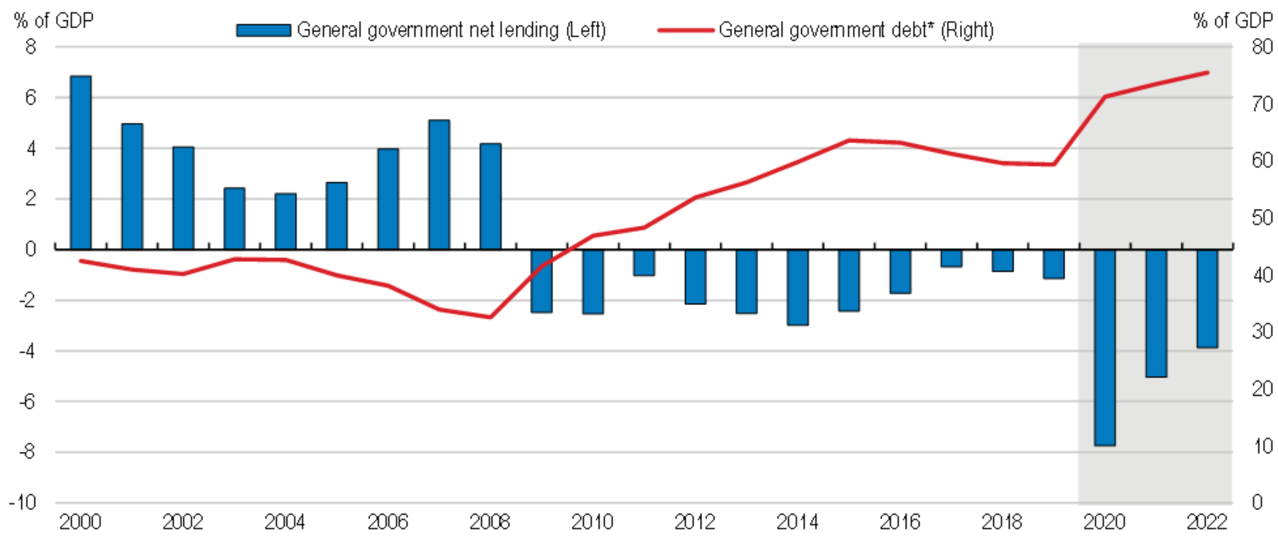
The greatest potential for increasing employment lies in extending working lives. The employment rate for older workers (aged 55-64 years) is 13 percentage points lower than the average for other Nordic countries, where access to early retirement arrangements is much more limited. The extension of the unemployment benefit from age 61 until 65, combined with a longer entitlement to the unemployment benefit for persons aged 58 or more, results in a spike in layoffs from the late-50s. To increase the employment rate of older workers, extended unemployment benefit should be phased out and non-medical criteria for awarding disability benefits to applicants aged 60 or more no longer taken into account.

Labour productivity growth weakened substantially in the past decade. A factor that undermines productivity growth in Finland is skills shortages, largely resulting from relatively low tertiary education attainment. This makes it difficult for more productive firms to hire the qualified workers needed to innovate and expand market shares. To boost the supply of tertiary educated workers, the government plans to streamline the resident permit process to attract more high-skilled immigrants. It also aims to increase the tertiary attainment of 25-34 year olds from 42% to 50%. To this end, the number of study places in the highly selective tertiary education admission system is being raised but further increases will be needed.

Reducing relatively high regulatory barriers to competition in upstream service sectors, such as transport, energy and retail, which hold back incumbents' efforts to reallocate resources more efficiently, would also boost productivity growth. Similarly, repealing the legal restriction that prevents some employers from using the enterprise-bargaining flexibility clauses in their sector collective agreement, as planned, would give these employers greater scope to reorganise their businesses to make them more productive.

Finland is on track to meet its 2020 EU-burden-sharing objective for reducing GHG emissions but will need to implement further cost-effective measures, including making full use of available flexibility mechanisms, to realise its 2030 and 2035 objectives. To reduce transport emissions, which is vital for achieving abatement targets, the government should support the rollout of electric vehicle (EV) charging facilities to lift EV diffusion substantially. There will also need to be an expansion in wind power generation both to meet increased demand for charging EVs and to enable the substitution of electricity for fossil fuels in residential and commercial heating and in industry.

Figure 2. The general government budget deficit and gross debt increase substantially in 2020



Note: General government debt refers to Maastricht definition.
Source: Statistics Finland; Ministry of Finance.

Further reading:

OECD (2020), *OECD Economic Surveys: Finland 2020*, OECD Publishing, Paris, https://doi.org/10.1787/673aeb7f-en.

The increase in bank deposits during the COVID-19 crisis: Possible drivers and implications

Category: COVID-19,Economic outlook,Uncategorized
written by oecdecoscope | December 16, 2020
By Ane Kathrine Christensen, Alessandro Maravalle and Łukasz Rawdanowicz, OECD Economics Department

Since the end of 2019, bank deposits of non-financial corporations (NFCs) have increased rapidly in Japan, the United States and many European countries, far above the average growth rates over the same period in the past five years (figure below, Panel A). In contrast, in the global financial crisis, corporate deposits declined amid the credit crunch and, in some cases, a delayed policy response. Deposits of households have also increased but to a smaller extent; though still, in many countries, at a faster rate than in the previous years or at the beginning of the global financial crisis (figure below, Panel B). This blog, based on the recently released OECD Economic Outlook, reviews possible reasons for, and the implications of, the increase in bank deposits.

Possible explanations behind the unprecedented increase in bank deposits

Several factors could explain the observed surge in deposits:

- Containment measures made some household purchases impossible (Boxes 1.1 and 1.2 in OECD, 2020) at a time when incomes were maintained by government support, thus increasing saving and bank deposits. This effect should be temporary and dissipate as containment measures are lifted gradually and pent-up demand is satisfied. Indeed, so far, growth in deposits was concentrated in the March May period, when strict lockdown was in force in many countries. In the following months, until the recent reintroduction of containment measures, the rate of growth in deposits of both households and NFCs slowed in most countries, though it remained above the average rate over the same period in the past five years.
- Containment measures are likely to have particularly affected consumption of some high ticket services by high-income households, stimulating aggregate saving. High-income households tend to spend a higher share of

their income on services that are heavily affected by containment measures, such as international travel, restaurants and cultural events. As the restrictions are likely to persist for some time, so does this motive for saving.

- High uncertainty about the pandemic and future economic prospects has strengthened motives for precautionary saving, discouraging investment and purchases of durable goods. For example, Mody et al. (2012) show that the change in the unemployment rate – a proxy for variation in economic uncertainty – boosts precautionary savings. These effects are likely to be more persistent.

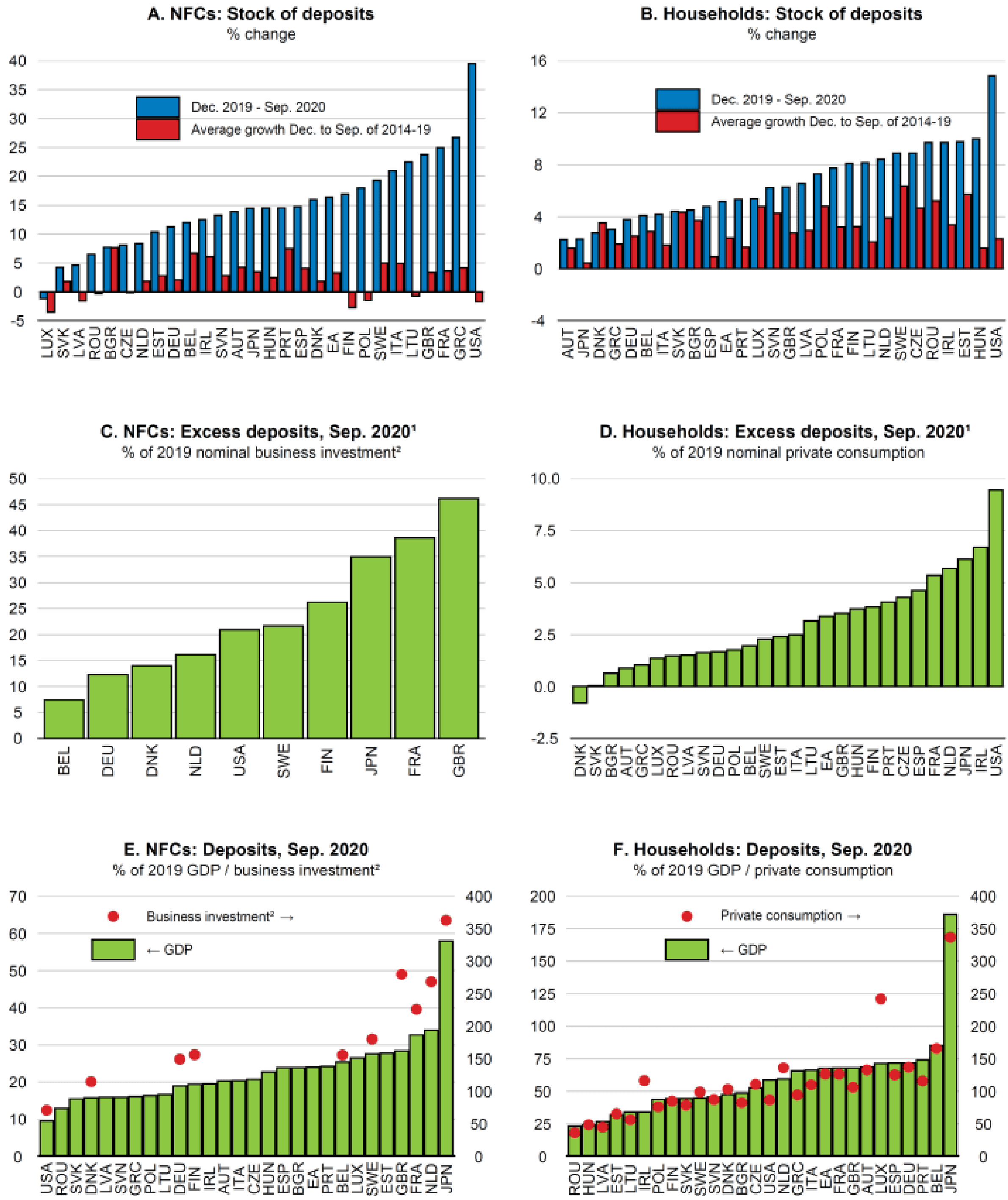
- Amid disruptions to revenues, NFCs' preferences for holding cash have increased with the aim of raising their buffers and avoiding liquidity shortfalls. Cash hoarding has been facilitated by drawing on loan facilities (e.g. revolving credit lines), issuance of corporate bonds by large firms (Goel and Serena, 2020), and by government sponsored loan programmes. In November, the size of the resources made available to businesses through government-sponsored loan programmes (loans and guarantees) was above 10% of 2019 GDP in Canada, France, Germany, Italy, Japan, Spain and the United Kingdom. NFCs could have also reduced riskier financial investments (e.g. in money market funds).

- Crisis-related tax deferral measures have helped households and NFCs to increase liquidity but may also have encouraged them to set aside money to meet postponed tax obligations. Tax deferrals are officially estimated to be high in some countries, exceeding, for example, 13% of GDP in Italy (including the effect of the moratorium on payments to private companies) and close to 5% of GDP in Japan.

Possible implications

A reversal in any of the above factors may result in additional investment and consumption, boosting aggregate demand and accelerating the economic recovery. Back of the envelope calculations show that “excess” deposits are large relative to pre-crisis business investment, potentially indicating a sizeable future impact on investment (figure below, Panel C). For households, “excess” deposits are relatively small relative to private consumption (figure below, Panel C), but both household deposits and consumption are much larger relative to GDP (figure below, Panels E and F), potentially implying a bigger aggregate impact.

Figure. Selected indicators about bank deposits



Note: Based on deposits for domestic residents. For Japan and the United States, the latest available data are from June 2020, and the reference period for comparison is December to June.

1. Excess deposits are calculated as a difference between the September 2020 level of deposits and the level implied by the average percentage change over the past five years (December to September) applied to the December 2019 level.

2. Business investment data are available only for the countries shown.

Source: OECD Economic Outlook 108 database; Bank of Japan; European Central Bank; US Federal Reserve; and OECD calculations.

However, there are several reasons why these excess savings may not boost aggregate private demand beyond negative confidence effects. For example, the distribution of deposits may be skewed. If the increase in NFCs’ deposits has been driven by a few large firms that benefitted from the crisis, particularly in the technology sector, excess deposits are unlikely to stimulate future economy-wide investment. Similarly, if the increase in household deposits has been mostly driven by high income households with a relative low marginal propensity to consume, then a reduction in uncertainty and containment measures would not necessarily lead to a broad-based strengthening of consumption. Moreover, firms could use excess deposits to settle payments due to other companies, creditors or tax authorities.

References

Goel, T. and J.M. Serena (2020), "Bonds and syndicated loans during the Covid-19 crisis: Decoupled again?", *BIS Bulletin*, No. 29. https://www.bis.org/publ/bisbull29.pdf
Mody, A., F. Ohnsorge and D. Sandri (2012), "Precautionary Savings in the Great Recession", *IMF Working Papers*, No. 42, International Monetary Fund. https://www.imf.org/external/pubs/ft/wp/2012/wp1242.pdf
OECD (2020), "General Assessment of the Macroeconomic Situation", Chapter 1 of *OECD Economic Outlook*, Volume 2020, Issue 2, OECD Publishing, Paris.

Unblocking the bottlenecks: infrastructure investment to foster the recovery in Germany

Category: Germany,Uncategorized
written by oecdecoscope | December 16, 2020
By Ze'ev Krill and Andrew Barker, Germany Desk, OECD Economics

Department

The German economy faces a difficult winter as the second wave of the COVID-19 pandemic restricts activity. With vaccines offering a glimmer of hope on the horizon, policy decisions now will be important for the pace and sustainability of the recovery.

Germany managed the initial stages of the COVID-19 crisis well, as high health sector capacity and early testing, tracing and isolation of cases helped bring the initial virus outbreak under control with less stringent containment measures than in many neighbouring countries. A strong government response protected jobs and firms, using fiscal space from prudent budgeting before the crisis. Nevertheless, the German economy is experiencing a severe contraction. In 2020, GDP will decline by 5½ per cent. A rapid recovery during the summer shows the potential of the economy to rebound, but the rebound has come to a halt with the second wave of the virus.

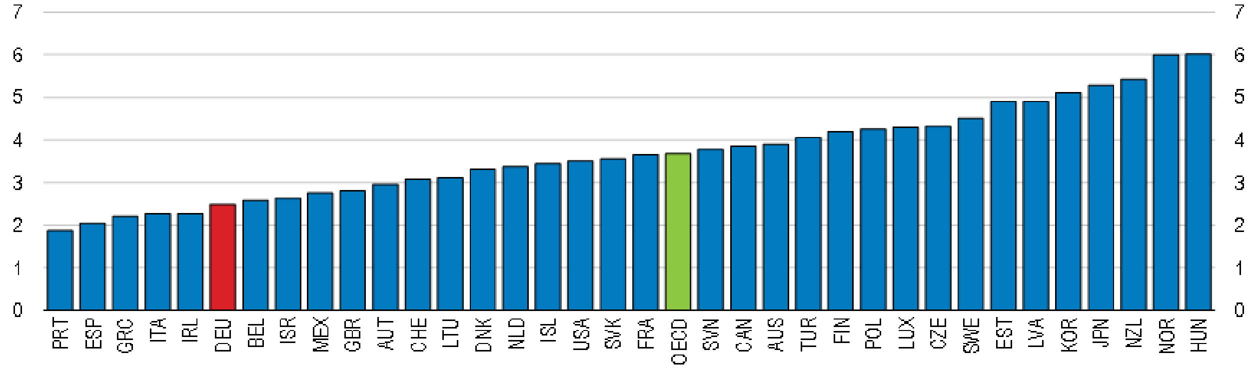
The newly launched 2020 OECD Economic Survey of Germany argues that to aid recovery, fiscal support should be withdrawn only gradually, labour market inclusion promoted and barriers to infrastructure investment reduced while improving infrastructure governance. Greater investment would accelerate the transition to greener energy and transport, the expansion of early childhood education and all-day schooling, as well as the improvement of communication networks needed to accelerate digital transformation.

Weak public investment is not a new challenge. Public investment as a share of GDP in Germany has been among the weakest in OECD countries (Figure 1) since the mid-1990s. While public investment has picked up since 2014, municipal investment remains insufficient to cover depreciation. Net municipal capital stock has declined by some EUR 80 billion since 2003 (Figure 2), contributing to a backlog estimated at

EUR 147 billion, concentrated in transport and schools.

Figure 1: Public investment is low

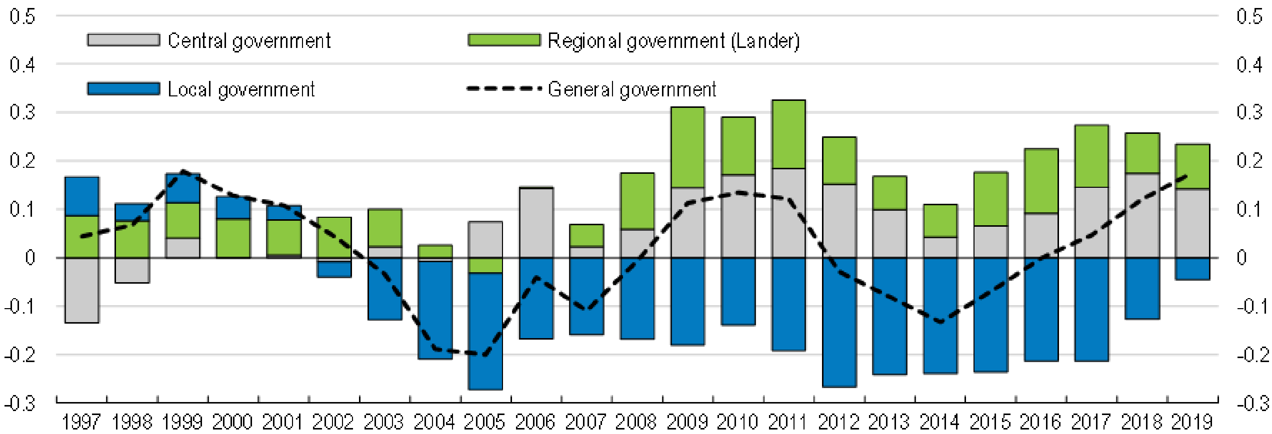
General government investment, % of GDP, 2019 or latest available year



Source: OECD Economic Outlook database.

Figure 2: Public investment has picked up, even though net municipal investment is still negative

Net public investment[1] by level of government, % of GDP



1. Public gross fixed capital formation less depreciation.

Source: OECD National Accounts database.

Nevertheless, the next couple of years may look different. The recent pickup in public investment is set to continue, owing to the recovery package and the increase in funding for public transport infrastructure. The main challenge is to make sure the new fiscal capacity is dedicated to well-directed public investment, including increased transfers to municipalities, while resolving local planning and construction industry capacity constraints. The COVID-19 crisis may create spare capacity in some parts of the economy, but a reduction in migrant flows could exacerbate shortages of construction workers. Germany should investigate opportunities to increase flexibility through reducing the stringency of occupational licensing and facilitating use of foreign labour in key construction occupations. Capacity constraints also exist in local planning agencies. Resolution requires active support from central government, clear allocation of responsibility for technical assistance and long-term commitment of all levels of government. Among EU municipalities reporting under-provision of infrastructure, Germany has the highest proportion citing technical capacity as a major obstacle. Cooperation between local governments, as is the case in New Zealand and Switzerland, would help pool capacity, develop specialisation, increase consistency and efficiency, and share learning.

Further reading:

OECD (2020), OECD Economic Surveys: Germany 2020, OECD Publishing, Paris,
https://www.oecd-ilibrary.org/economics/oecd-economic-surveys-germany-2020_91973c69-en

---

América Latina: impulsando una recuperación inclusiva

Category: COVID-19,Economic outlook,Posts in Spanish,Uncategorized
written by oecdecoscope | December 16, 2020

Por Jens Arnold, Paula Garda, Alberto González Pandiella, Alvaro S. Pereira, Departamento de Economía, OCDE

Por primera vez desde que comenzó la pandemia, comienza a haber esperanza de que una cura a la COVID-19 esté a la vista. Tras un fuerte descenso del 4% este año, se prevé que el PIB mundial aumente algo más del 4% en 2021, y otro 3¾% en 2022. Pero la recuperación será desigual entre países, con aquellos que cuenten con sistemas eficaces de testeo, rastreo y aislamiento mostrando mejor desempeño, aunque se verán frenados por la debilidad general de la demanda mundial. Mucho dependerá de la distribución masiva de una vacuna o tratamiento eficaz, cuyo calendario aún no se conoce.

América Latina está siendo una de las regiones más golpeadas por la pandemia Covid-19. No sólo por los números de contagios y muertes, que contabilizan un tercio de las muertes en el mundo, sino también porque los números rojos que arrojan las economías son de los más preocupantes, con las consecuencias negativas en los ámbitos sociales que acarrean. En medio de altas tasas de contagio y muertes, los frágiles sistemas de salud, la alta informalidad, los complejos escenarios fiscales, la disminución de los precios de las materias primas, la fuerte caída en los ingresos del turismo, y el débil crecimiento de la productividad pre-pandemia, se suman a los desafíos económicos que experimentan otros países de la OCDE.

Una recuperación gradual está en marcha, luego de una recesión sin precedentes: se prevé que el crecimiento de seis grandes economías de la región, que abarcan alrededor del 85% del PIB de América Latina, se reduzca 8.1% en 2020 (Tabla). La actividad económica ha comenzado a recuperarse mientras que las medidas de contención en la mayoría de los países se han levantado, pero la recuperación en los próximos años será gradual, casi recuperando los niveles pre-pandemia a finales de 2022 (Gráfico 1, panel A).

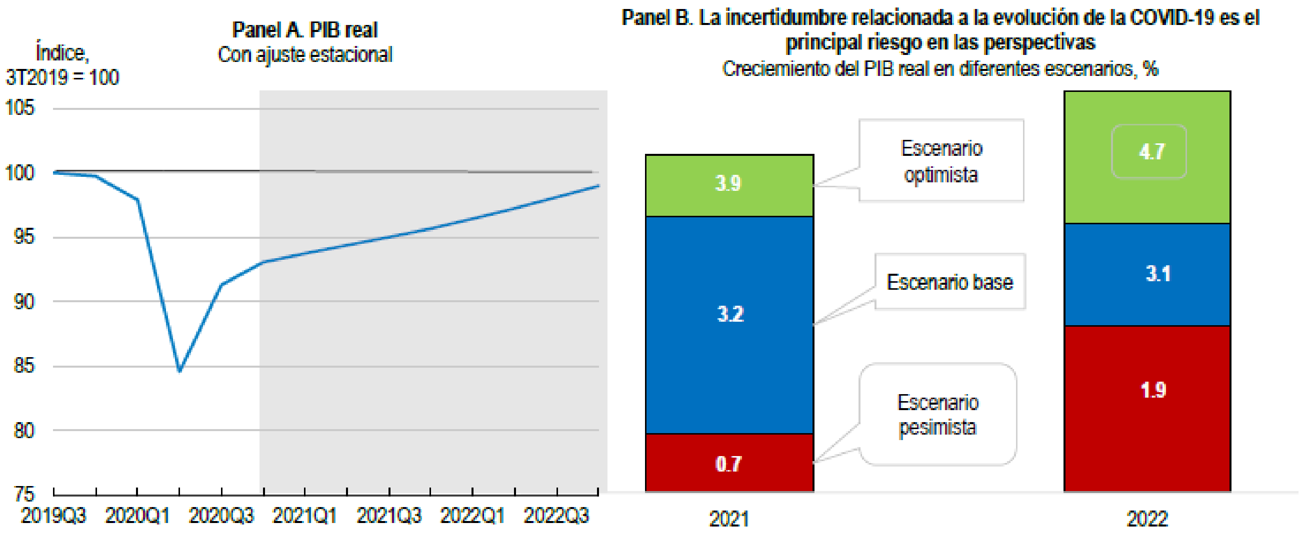
Tabla. Perspectivas Económicas para América Latina

	2019	2020	2021	2022
	PIB, volumen desestacionalizado, var. anual, %			
Argentina	-2.1	-12.9	3.7	4.6
Brasil	1.1	-6.0	2.6	2.2
Chile	1.0	-6.0	4.2	3.0
Colombia	3.3	-8.3	3.5	3.7
Costa Rica	2.1	-5.6	2.0	3.8
México	-0.3	-9.2	3.6	3.4
AL	**0.5**	**-8.1**	**3.2**	**3.1**
Mundo	**2.7**	**-4.2**	**4.2**	**3.7**

Nota: AL es la media ponderada por PIB a paridad de poderes de compra de los 6 países en la tabla.
Fuente: Perspectivas Económicas de la OCDE N. 108, Diciembre 2020

Sigue habiendo una inusual incertidumbre en torno a las perspectivas que dependen de la evolución de la pandemia (Gráfico 1, Panel B). En el escenario positivo, la confianza de los consumidores y de las empresas podría mejorar más rápido que en el escenario base si hubiera indicios de que un tratamiento o una vacuna eficaces pudieran desplegarse ampliamente más rápido. En el escenario negativo, la incertidumbre podría agudizarse si se intensificaran los brotes de COVID-19, o si se requirieran medidas de contención más estrictas para controlar su propagación. La confianza podría verse negativamente afectada si la distribución de la vacuna o los efectos secundarios fueran decepcionantes. La prioridad inmediata en la región debe ser evitar posibles brotes de la COVID-19, fortaleciendo los sistemas de salud, y los sistemas de testeo, rastreo y aislamiento, así como asegurar un despliegue rápido de la vacuna cuando esté disponible.

Gráfico 1. Una recuperación gradual, rodeada de incertidumbre

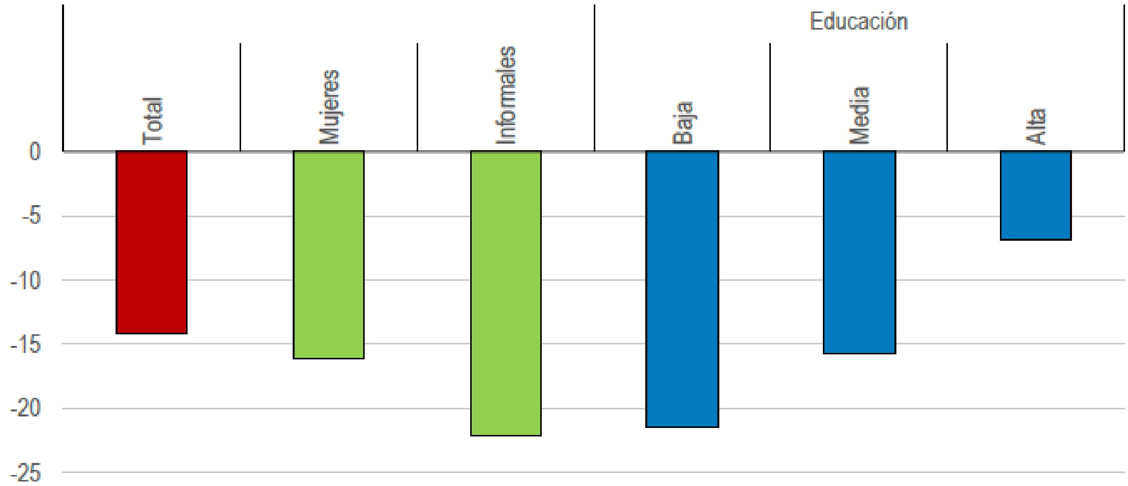


Nota: Datos se refieren a la media ponderada por PIB a paridad de poderes de compra de Argentina, Brasil, Chile, Colombia, Costa Rica y México.
Fuente: Perspectivas Económicas de la OCDE N. 108, Diciembre 2020

Pero para tener una recuperación vigorosa e inclusiva, América Latina tiene que evitar que esta pandemia deje cicatrices de largo plazo en el mercado de trabajo, y en consecuencia en la pobreza y las desigualdades. Las pérdidas de empleo han alcanzado niveles históricos, afectando sobre todo a los más vulnerables: las mujeres, los trabajadores informales y los de menor calificación (Gráfica 2). Y aunque una incipiente recuperación está en marcha, el empleo de estos grupos vulnerables sigue rezagado. En parte, esto se debe a que los trabajadores menos calificados e informales estaban ocupados en los sectores más afectados por las medidas de contención, y donde la incipiente recuperación es aún débil e incierta. Y el empleo femenino está contenido al menos en parte debido al cierre de las escuelas, que aún no se han completamente abierto en la región.

Gráfico 2. Los vulnerables son los más afectados por la pandemia

Variación interanual del empleo en América Latina, %



Nota: AL es el promedio simple de la variación interanual de Argentina, Brasil, Chile, Colombia y México. Variación entre tercer trimestre de 2020 y cuarto trimestre de 2019 para Brasil, Chile, Colombia y México; variación entre segundo trimestre de 2020 y cuarto trimestre de 2019 para Argentina.

Fuente: Cálculos de la OCDE en base a Encuestas del Mercado laboral: INE- ENE para Chile, INEGI-ENEO nuevo y ENEO para México, DANE-GHEI-Mensual, IGEB-PNAD para Brasil, INDEC- EPH para Argentina.

Las ayudas que varios gobiernos de la región han implementado a través de programas de trasferencias monetarias, mayor acceso a las cesantías y/o subsidios al empleo son fundamentales para mitigar la crisis. Y aunque es necesario mantenerlos hasta que la recuperación esté afianzada, es hora de repensar y fortalecer los mecanismos de protección social de forma permanente (como lo hemos hablado aquí). Pero si no se logra reactivar el mercado laboral formal, particularmente en sectores intensivos en mano de obra de baja calificación, las ayudas , que son en principio de carácter temporal, van a tener que mantenerse por periodos prolongados. La situación fiscal está ya muy comprometida en la región (como ya lo discutimos aquí) y está situación se agravará por los efectos de la crisis y el consecuente aumento del endeudamiento público, una de las principales vulnerabilidades en la región.

Se ha vuelto urgente la necesidad de emprender reformas estructurales que permitan una rápida recuperación del mercado laboral, evitando el incremento de la informalidad, la pobreza y las desigualdades. Las políticas de reactivación del mercado laboral, como son los subsidios a la contratación, que han puesto en marcha Chile o Colombia, son un buen primer paso, y necesitan tener un claro foco en los más vulnerables. Dar mayor foco a la protección a los trabajadores, en lugar de a la protección de los trabajos, ayudaría a crear mercados de trabajo más inclusivos y menos segmentados. Adicionalmente, se deben eliminar barreras a la formalización empresarial, sobre todo en las pequeñas y medianas empresas, por ejemplo, a través de la racionalización de los procesos regulatorios, y la creación de mecanismos de ventanilla única. Líneas de crédito específicas para empresas pequeñas, como las que varios países han puesto en marcha desde marzo, también podrían apoyar a empresas que quieran formalizarse, mejorando así los incentivos. Revisar los elevados costos laborales y no laborales, y los sistemas tributarios complejos también incentivarían la formalización. Y no menos importantes son las políticas activas de empleo y sistemas de capacitación de calidad en competencias relevantes que den a todos los trabajadores, en especial a los más vulnerables, la oportunidad de encontrar trabajos de calidad que pueden emerger en el mundo post-COVID.

Los países deben comenzar el proceso de discusión e identificación de las reformas y planificar la implementación. Algunas de estas reformas deberán esperar a que la recuperación esté afianzada y la pandemia se desvanezca. Pero en todos los casos, el mejor momento para avanzar es ahora. Una agenda de reformas que revitalice el crecimiento contribuiría también de manera clave a la sostenibilidad fiscal.

Para leer en más detalle sobre las proyecciones macroeconómicas, así como los principales desafíos estructurales ir al reporte en la o la versión español y portugués o versión inglés (que incluye proyecciones para todos los países de la OECD y principales desafíos).

Información detallada para estos 6 países con sus notas país correspondientes:

http://www.oecd.org/economy/panorama-economico-argentina/

http://www.oecd.org/economy/panorama-economico-chile/

http://www.oecd.org/economy/panorama-economico-colombia/

http://www.oecd.org/economy/panorama-economico-costa-rica/

http://www.oecd.org/economy/panorama-economico-mexico/

http://www.oecd.org/economy/panorama-economico-espana/

Asia & Pacific economies are projected to rebound from COVID-19

Category: Australia,China,COVID-19,India,Indonesia,Japan,Korea,Malaysia,New Zealand,Thailand,Uncategorized
written by oecdecoscope | December 16, 2020

by Patrick Lenain and Kosuke Suzuki, OECD Economics Department

While the world is struggling to exit from the coronavirus crisis, the region Asia & Pacific is a notorious exception: many countries in the region have stopped the COVID-19 pandemic after the first wave, and they quickly returned on a path of growth in the second half of 2020 – a rare accomplishment. The OECD projects that the region’s recovery will continue in 2021 and 2022 (Table 1).

Table 1: Strong growth projected in Asia & Pacific
(Real GDP growth, % year-on-year)

	2020	2021	2022
Australia	-3.8	3.2	3.1
China	1.8	8.0	4.9
India*	-9.9	7.9	4.8
Indonesia	-2.4	4.0	5.1
Japan	-5.3	2.3	1.5
Korea	-1.1	2.8	3.4
New Zealand	-4.8	2.7	2.6
Dynamic Asia**	-4.6	4.3	4.6
Asia & Pacific	**-1.5**	**5.9**	**4.1**
Rest of world	-5.7	3.2	3.4
World	**-4.2**	**4.2**	**3.7**

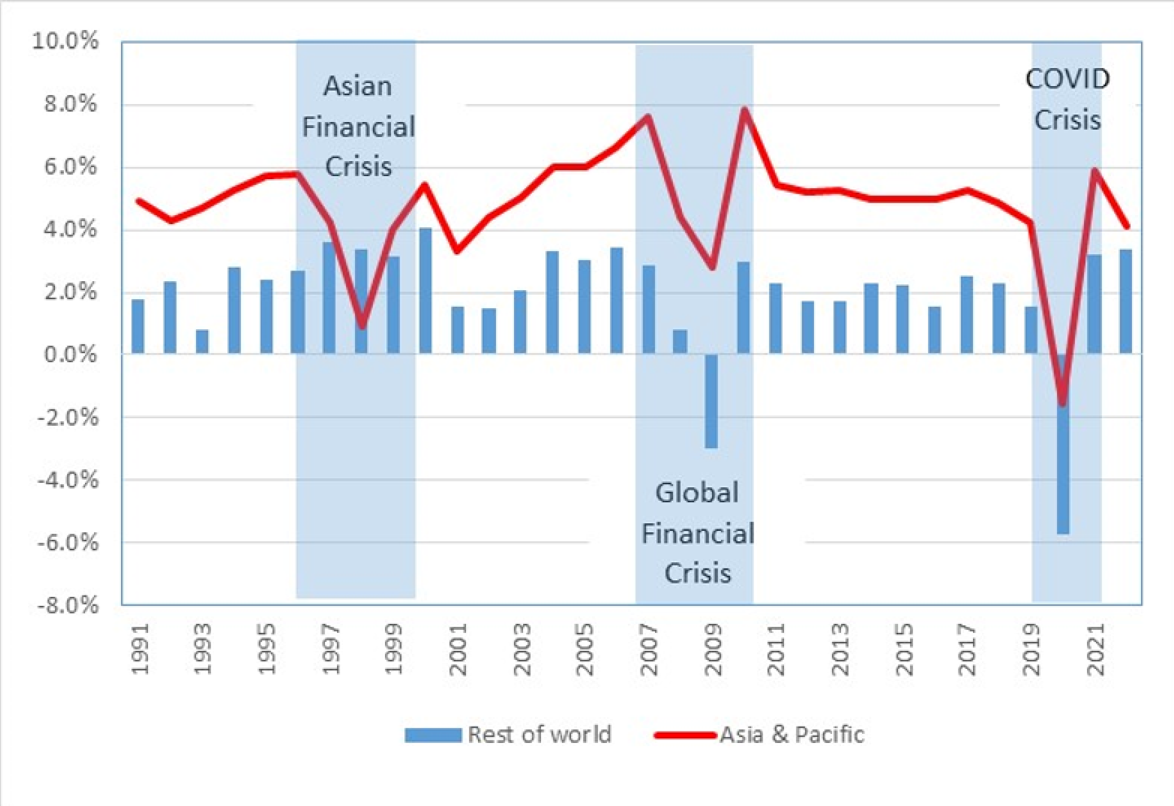
* Fiscal year starting in April.
** Dynamic Asia includes Chinese Taipei, Hong Kong, Malaysia, Philippines, Singapore, Thailand and Vietnam.

Source: *OECD Economic Outlook*, December 2020.

The region’s current resilience is in sharp contrast with the late 1990s, when the Asian Financial Crisis hit it very hard (Figure 1). Governments in the region drew lessons from this experience and were better prepared when the Global Financial Crisis arrived. They were also ready when the coronavirus struck: fiscal space was available, monetary policies were sound, exchange rates were flexible, foreign exchange reserves abundant, bank well capitalised, external indebtedness was low – and health systems had been re-organised.

Figure 1 – The economic performance of Asia & Pacific has improved

(Annual GDP growth in %)



Source: *OECD Economic Outlook*, December 2020.

Strong resilience in the face of crises contributes to long-term growth, especially in poor and emerging countries, as shown by a literature launched by Easterly et al. (1993). Thanks in large part to their growing resilience, the 15 countries and territories of Asia & Pacific doubled their share in world GDP from 19% in the early 1990s to 34% currently. The region has become an economic powerhouse and most likely will gain further ground. The Regional Comprehensive Economic Partnership (RCEP) recently signed will provide another boost to long-term growth, as discussed in the recent OECD Economic Survey of Thailand.

Of course, not all countries of the region have the same resilience. To throw light on this disparity, we use a hierarchical cluster analysis (Ward linkage), a statistical procedure that identifies homogenous groups of observations without making a difference between dependant and independent variables. We identify four groups of countries with common factors for each of the three crises. To group the region's economies, we use the following indicators: 1) the depth of recession, 2) the speed of recovery, and 3) the post-recession scarring of growth. The first two indicators provide a contemporary measure of resilience when faced with a shock, while the third indicator is an ex-post measure of resilience. For the current crisis, we use the number of COVID-19 deaths as a proxy of ex-post resilience, in line with empirical findings that the spread of the coronavirus has damaged economic activity due a combination of government-imposed lockdowns and self-imposed lockdowns (Golsbee and Syverson, 2020).

Our cluster analysis reveals some diversity within the region. The resilience of individual economies has changed rapidly – in both directions (Table 2). Some key findings are:

- Australia has shown great resilience during the first two crises, but fell into a recession with the coronavirus.
- While China and India were resilient in the face of the first two crises, they have lost some ground with the COVID-19 pandemic, especially India.
- Korea and Thailand have seen their resilience improve after each crisis.
- Vietnam has consistently been the most resilient economy in the region.

Table 2 – Many Asian & Pacific economies are resilient in the face of shocks, though not all

Asian Financial Crisis (1997-99)			
Sharp recession, slow exit & scarring	Recession, rapid exit & scarring	Mild recession & rapid exit	Muted impact of crisis
IDN, THA	HKG, KOR, MYS, SGP	JPN, NZL, PHL	AUS, CHN, IND, MNG, TWN, VNM
Global Financial Crisis (2008-09)			
Sharp recession & slow exit	Sharp Recession, rapid exit & scarring	Recession & rapid exit	Muted impact of crisis
JPN	HKG, SGP, TWN	KOR, MNG, MYS, NZL, PHL, THA	AUS, CHN, IDN, IND, VNM
COVID-19 Crisis (2020-21)			
Sharp recession, slow exit & scarring	Recession, slow exit & scarring	Recession, slow exit	Recession, swift exit
IDN, IND, PHL	AUS	CHN, HKG, JPN, MYS, TWN	KOR, MNG, NZL SGP, THA, VNM

Rising resilience

Source: OECD estimates using a hierarchical cluster analysis procedure (Ward linkage).

Despite this diversity, the region displays overall a strong resilience and is placed to recover rapidly from the COVID-19 crisis, assuming that the pandemic is brought under control and that the large population can be vaccinated soon. If this happens, Asia & Pacific will confirm its new position as a global powerhouse. The return to economic growth should be an opportunity to address socioeconomic problems inherent in several countries, notably high informality and inequality, and make headways on a path of decarbonisation.

References:

Easterly, W., M. Kremer, L. Pritchett, and L. H. Summers (1993), “Good Policy or Good Luck? Country Growth Performance and Temporary Shocks,” Journal of Monetary Economics, 32, pp. 459–483.

Goolsbee A. and C. Syverson (2020), “Fear, Lockdown, and Diversion: Comparing Drivers of Pandemic Economic Decline 2020”, NBER Working Paper No. 27432, June.

OECD (2020), *OECD Economic Surveys: Thailand 2020: Economic Assessment*, OECD Publishing, Paris, https://doi.org/10.1787/ad2e50fa-en.

OECD (2020), *OECD Economic Outlook, Volume 2020 Issue 2: Preliminary version*, OECD Publishing, Paris, https://doi.org/10.1787/39a88ab1-en.

Turning hope into reality

Category: Uncategorized
written by oecdecoscope | December 16, 2020

Also available in Español | Français | Portugués

by Laurence Boone,
OECD Chief Economist

For the first time since the pandemic began, there is now hope for a brighter future. Progress with vaccines and treatment have lifted expectations and uncertainty has receded. Thanks to unprecedented government and central bank action, global activity has rapidly recovered in many sectors, though some service activities remain impaired by physical distancing. The collapse in employment has partially reversed, but large numbers of people remain underemployed. Most firms have survived, albeit financially weakened in many cases. Without massive policy support, the economic and social situation would have been calamitous. The worst has been avoided, most of the economic fabric has been preserved and could revive quickly, but the situation remains precarious for many vulnerable people, firms and countries.

The road ahead is brighter but challenging. At the time of writing, the global death toll has risen to 1½ million, subsequent waves have hit many countries and the first one continues unabated in others. While waiting for effective vaccinations to be widely distributed or some breakthrough in treatment, hopefully in the course of 2021 for most, managing the pandemic will still impose strains on the economy. Economic activity will continue with fewer face–to-face interactions and partly-closed borders for a few more quarters. Some sectors will regain strength, others will be on standstill. Developing or emerging economies, where tourism is important, will continue to see their situation deteriorate and will require more international aid. Policies will have to continue to sustain economic activity forcefully, all the more so since the end of the health crisis is in sight.

The global economy will gain momentum over the coming two years, with global GDP at pre-pandemic levels by the end of 2021. After a sharp decline this year, global GDP is projected to rise by just over 4% in 2021, and by a further 3¾ per cent in 2022. Scientific progress, pharmaceutical advances, more effective tracing and isolation, and adjustments in the behaviour of people and firms will help keep the virus in check, allowing restrictions on mobility to be lifted progressively. Importantly, policies to support jobs and firms, in place since the beginning of the pandemic, will enable a faster rebound when restrictions are lifted. Together with reduced uncertainty, these improvements should encourage the use of accumulated savings to fuel consumption and investment. The exceptional fiscal relief provided throughout 2020 – and needed beyond, will pay off handsomely. The rebound will be stronger and faster, as more and more activities reopen, limiting the aggregate income loss from the crisis.

We project the recovery will be uneven across countries, potentially leading to lasting changes in the world economy. The countries and regions with effective test, track and isolate systems, where vaccination will be deployed rapidly, are likely to perform relatively well, though the overall weakness of global demand will hold them back. China, which started recovering earlier, is projected to grow strongly, accounting for over one-third of world economic growth in 2021. OECD economies will rebound, growing at 3.3% in 2021, but recovering only partially from the deep 2020 recession. A striking feature of these projections is the shrinking contribution of Europe and North America to global growth, though that may reverse somewhat should vaccine distribution be fast and efficient.

The outlook continues to be exceptionallly uncertain, with both upside and downside risks. On the upside, efficient vaccination campaigns and better co-operation between countries could accelerate the distribution of the vaccine worldwide. Conversely, the current resurgence of the virus in many places reminds us that governments may be forced again to tighten restrictions on economic activity, especially if the distribution of effective vaccines progresses slowly. And confidence would take a hit if vaccine distribution or secondary effects proved disappointing. The toll on the economy could be severe, in turn raising the risk of financial turmoil from fragile sovereigns and corporates, with global spillovers.

Despite the huge policy band-aid, and even in an upside scenario, the pandemic will have damaged the socio-economic fabric of countries worldwide. Output is projected to remain between 4 to 5% below pre crisis expectations in many countries in 2022, raising the spectre of substantial permanent costs from the pandemic. The most vulnerable will continue to suffer disproportionately. Smaller firms and entrepreneurs are more likely to go out of business. Many low wage earners have lost their jobs and are only covered by unemployment insurance, at best, with poor prospects of finding new jobs soon. People living in poverty and usually less well covered by social safety nets have seen their situation deteriorate even further. Children and youth from less well-off backgrounds, and less qualified adult workers, in particular, have struggled to learn and work from home, with potentially long lasting damage.

Governments will have to continue using their policy instruments actively, with better targeting to help those hardest hit by the pandemic. The fact that vaccines are in sight suggests that this is not the time to reduce support, as was done too early in the aftermath of the Global Financial Crisis. Rather it confirms health and economic policies must work hand in hand. Public health measures have to double down to limit the impact of cyclical virus outbreaks and the associated restrictions. It is also crucial that policymakers ensure continuous fiscal support to keep sectors, firms and the associated jobs alive. The lessons from the last nine months are that such policy action was and remains appropriate. Monetary and fiscal policy will need to continue working vigorously in the same direction, at least as long as the health crisis threatens otherwise viable economic activities and employment.

Heightened policy activism need not be a concern if deployed to deliver higher and fairer growth. Extensive fiscal support is pushing public debt levels to record highs, but the cost of debt is at record lows. A striking feature of the outlook is the absence of correlation between the extent of fiscal support and the resulting economic performance, suggesting not all has been used wisely. Unprecedented monetary and fiscal support cannot be wasted, it must be funnelled into stronger and better economic growth. There are at least three priorities for policymakers. First, investing in essential goods and services such as education, health, physical and digital infrastructure. Second, decisive actions to reverse durably the rise in poverty and income inequality. Third, international cooperation: the world cannot solve a global crisis through single-country and inward looking actions.

Redirecting public spending towards essential goods and services would signal that governments have learnt lessons from the crisis. The need for enhanced resilience should drive public and private investment in health, education and infrastructure. Better health resilience is not just about vaccine distribution and beds in intensive care units, it is also about health prevention and affordable access to healthcare for all. Enhanced resilience is also about investing in people skills, ensuring better education and labour market outcomes, and ultimately higher trend growth and wellbeing. Walking that talk starts with more and better-targeted resources for early years of education, better paid and trained education staff, as well as better lifelong training support, especially for vulnerable groups including parents in difficulties. Too often previous crises have resulted in lower investment and lasting infrastructure gaps, including in digital and decarbonised energy. This needs to change.

Support to the most vulnerable, especially children, youth and the less-skilled, who have not been fully sheltered from the crisis, will have to intensify. Education systems can improve in many countries, leveraging on lessons drawn from the crisis. Governments must invest to ensure all households, teachers and pupils can access good quality broadband and are equipped for digital education, especially for those in deprived environments. The crisis has shown the urgency to gear up digital skills. It has also unveiled shortfalls in social support systems. Fiscal policy should be better directed to vulnerable groups outside the usual welfare system and who are not eligible for the additional help provided so far, for their own benefit and the benefit of society as a whole.

Finally, international cooperation has faltered in recent years, just when it is needed more than ever. The “Global” Financial Crisis was mostly a crisis of a few advanced economies, but triggered an unprecedented cooperative response. The pandemic is the first fully global crisis since World War II: it has been answered by massive national responses, but closed borders and little cooperation. Protectionism and shutting frontiers are not the answer: they prevent the distribution of essential goods throughout the world and penalise economies that rely on their participation in global value chains to catch-up. This must be reversed. Wide, rapid and generous production and distribution of effective medical treatments and vaccines must be organised for all countries. Multilateral fora must enhance action on debt transparency and a moratorium where needed, while supervisors need to pay high attention to the indebtedness of firms. The world must avoid the health and economic crisis also becoming a financial one.

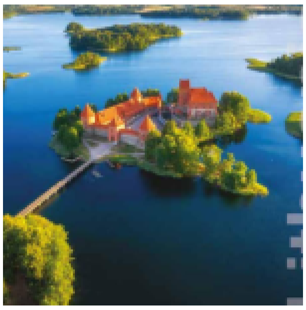
When asked what the post-Covid world will look like, let’s hope the answer will be: “perhaps mostly the same, but a little bit better”.

Editorial from the OECD Economic Outlook

OECD (2020), *OECD Economic Outlook, Volume 2020 Issue* 2, OECD Publishing, Paris, https://doi.org/10.1787/39a88ab1-en.

Restart the reform engine to help the recovery in Lithuania

Category: Uncategorized
written by oecdecoscope | December 16, 2020



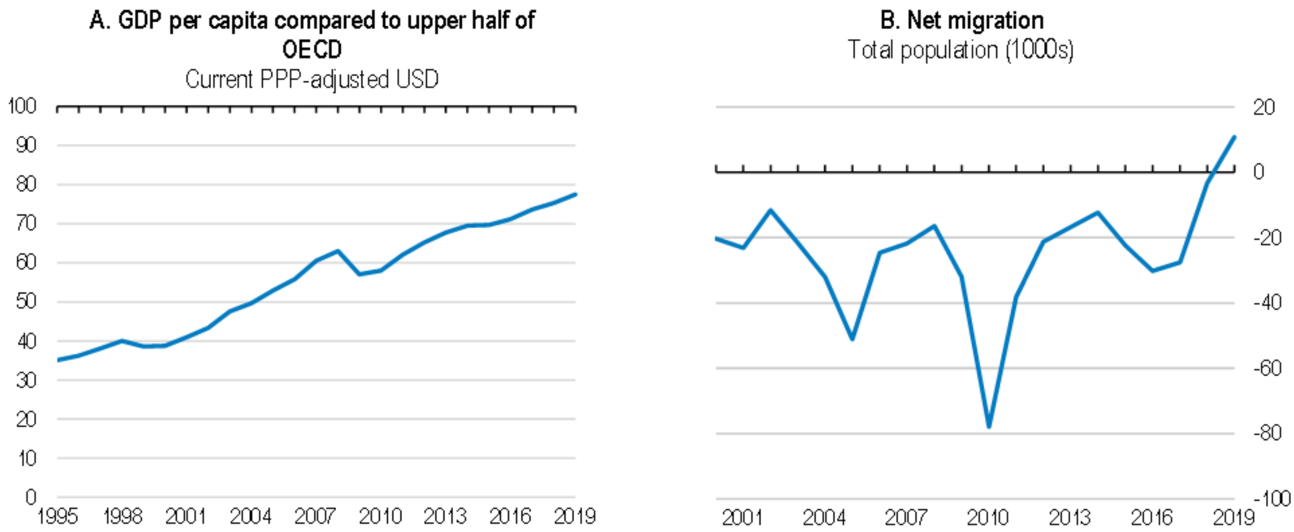
by Hansjörg Blöchliger and Vassiliki Koutsogeorgopoulou

The COVID-19 crisis was less severe than elsewhere but a second wave looms

Lithuania weathered the COVID-19 shock well, thanks to effective containment measures, a well-functioning health system and swift public support to firms and households. With GDP projected to decline by around 2% in 2020, the economy contracted less than in almost any other OECD country. The recent surge in infections is however worrying and carries significant health and economic risks. Against this background, the country should continue to protect the most vulnerable from the fallouts of the crisis.

Before the pandemic, the economy performed strongly and was converging rapidly towards the wealthiest OECD countries. Success was driven by strong export and investment and supported by sound financial and fiscal policies and a friendly business climate. Key policy initiatives such as a completely revamped insolvency framework, lower labour taxation and a simplified innovation system helped sustain growth, and they will underpin the recovery. As income prospects continued to brighten, immigration exceeded emigration for the first time since renewed independence.

FIgure: **Lithuania is converging rapidly, and Lithuanians are coming back**



Source: OECD Economic Outlook 107 database; and Statistics Lithuania.

Past fiscal prudence has provided room for strong fiscal support

Fiscal policy has been prudent over the past decade, providing space for support to households and firms amounting to some 10% of GDP in 2020. To ensure a sustainable recovery after the pandemic, the “DNA Plan for the Future” will invest an additional and highly welcome 4% of GDP into education, innovation, digital transformation and climate action.

Still gross public debt will rise sharply. As a small open economy, Lithuania is highly vulnerable to external shocks. To maintain fiscal space, the government should set a long-term numerical debt target and establish a credible debt reduction path once the recovery is well on its way.

Public companies proliferate and underperform

Public companies (or state owned enterprises, SOEs) are widespread, and their governance remains weak. Many SOEs do not reach the financial targets the government sets for them. Although professionals are gradually replacing politicians on SOE boards, their share remains low at around 60%. Municipal SOEs proliferate, often violating competition rules. The government should subject all SOEs to the same laws, regulations and market constraints as private companies. If no compelling reasons persist to maintain public ownership, SOEs should be sold to private investors.

Further reading:

OECD (2020), *OECD Economic Surveys: Lithuania 2020*, OECD Publishing, Paris,
https://doi.org/10.1787/62663b1d-en