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**Statement by Mr. Gurría**
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## *Written Statement to the IMFC*

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## The Global Economic Outlook

1. **The COVID-19 pandemic has had a devastating social and economic toll, but encouraging news about the deployment and effectiveness of vaccines means that a pathway out of the crisis is now in sight**. Global GDP declined by around 3½ per cent in 2020, and OECD GDP by around 4¾ per cent, substantially larger falls than in the 2008 Global Financial Crisis. Output in some European countries and emerging-market economies declined particularly sharply, reflecting the challenges in controlling the pandemic, and the importance of travel and tourism in many economies. Other countries, particularly in the Asia-Pacific region, saw only mild output declines in 2020, helped by strong and effective public health measures to contain the pandemic. In all countries, the burden of the crisis fell disproportionately on the poorest and most vulnerable. While the economic rebound from the pandemic since mid-2020 has been faster than expected, it is far from complete. Even in countries that achieved positive year-on-year growth in 2020, notably China, output at the end of the year remained well below the levels projected prior to the pandemic. For the world as a whole, GDP was still 4% lower than expected a year earlier, representing a real income shortfall of more than USD 5 trillion.

2. **Public health measures to suppress the spread of the virus and the associated declines in mobility are now having a smaller adverse impact on activity than in the early stages of the pandemic.** Containment policies are more carefully targeted, focusing largely on service sectors with high levels of direct contact between consumers and producers. Businesses and consumers have also adapted to changes in working arrangements and sanitary restrictions. However, underlying sectoral developments are diverging. Global industrial production continues to strengthen and global trade in goods has now surpassed pre-pandemic levels, supported by strong demand for IT equipment and medical supplies. In contrast, many service sector activities and household consumption continue to be affected by ongoing health-related restrictions, and cross-border services trade remains extremely weak. Household saving rates remain well above pre-pandemic levels, providing scope for future spending, but faster progress in vaccine deployment is needed to help restore confidence and reduce precautionary saving.

3. **Labour market conditions are recovering slowly, but remain weaker than prior to the pandemic**. Across the OECD economies, almost 10 million more people are unemployed than prior to the crisis, inactivity rates have risen and aggregate employment rates have declined. Online job postings in February 2021 also remained 8% weaker than a year earlier. Women, youth and low-income workers have been particularly exposed to the risk of job losses during the pandemic. In developing countries, substantial job losses have increased poverty and deprivation for millions of people. Many jobs remain precarious. At the end of 2020 in the major economies, total hours worked in some job-rich service sectors remained 15% or more below pre-pandemic levels.

4. **The emergence of effective vaccines has improved prospects for a durable economic recovery, provided such vaccines are deployed rapidly throughout the world and supportive fiscal and monetary policies continue to underpin demand.** In the March 2021 *OECD Interim Economic Outlook*, global GDP growth was projected to strengthen to 5½ per cent in 2021 and 4% in 2022. This rebound is faster than expected three months earlier, reflecting the impetus provided by stronger economic activity in the latter half of 2020, increasing evidence of the efficacy of COVID-19 vaccines, and the demand stimulus from additional policy support put in place in many countries this year, particularly the United States. OECD analysis suggests that the American Rescue Plan of USD 1.9 trillion could raise US output by between 3-4 per cent in the first full year following implementation, and global output by around 1%. All economies benefit from stronger demand from the United States, with output rising by between ½-1 percentage point in Canada and Mexico, both close trading partners, and between ¼-½ percentage point in the euro area, Japan and China. Expectations for a stronger global recovery are also being reflected in financial and commodity markets, with US long-term bond yields and oil prices returning to their levels prior to the pandemic.

5. **Global GDP should be above the pre-pandemic level by the middle of 2021, but this hides substantial differences in the pace of the recovery across countries and the continued risks of lasting costs from the pandemic**. Vaccination campaigns are proceeding at different rates around the world, and the scale of policy support and sectoral specialisation differ considerably across economies. A handful of countries, including China, India and Turkey, have already surpassed their output levels prior to the pandemic, and the United States should soon do so as well. The economic impact of the pandemic and its aftermath also remains well-contained in many other Asia-Pacific economies, including Japan, helped by the significant regional boost from the upturn in China. A slower recovery is occurring in the major European economies, reflecting continued containment measures in the early part of 2021 and more limited fiscal support, although the acceleration of vaccine deployment should help momentum to build, particularly in the United Kingdom. Emerging-market economies in Latin America and Africa are also facing a renewed resurgence of the virus, a slow pace of vaccine deployment, limited scope for additional policy support and the continued restraints on international tourism.

6. **The distribution of risks has become more balanced in recent months, but a wide range of outcomes remains possible, depending on the evolution of the pandemic, the pace at which vaccines can be deployed, and the impact of the gradual re-opening of economies over time**. Faster progress in vaccine deployment in all countries would enable restrictions to be lifted more quickly, and provide a stronger boost to the confidence and spending of consumers and companies. In such a scenario, global output could be brought close to the path expected prior to the pandemic, with global GDP growth **raised** by around 1½ and 1 percentage point in 2021 and 2022, respectively. Slower progress in vaccine rollout and the emergence of new virus mutations resistant to existing vaccines would hit confidence, spending and employment, with global GDP growth **lowered** by 1 percentage point in 2021 and 1¼ percentage point in 2022. Output would remain below the pre-crisis path for an extended period, raising the chances of long-lasting costs from the pandemic. Real incomes in this scenario would be around USD 6 trillion lower than in the upside scenario, highlighting the huge cost of failing to ensure rapid and complete vaccination around the world.

## Policy Requirements

7. **The top policy priority, both on epidemiological and economic grounds, is to ensure vaccines are produced and deployed as quickly as possible throughout the world.** This will save lives, preserve incomes and limit the damage being done to well-being. Everything necessary should be done to enhance the capacity for a faster pace of vaccinations and ensure that supplies are used fully as they become available. Failure to do so would increase the risk that new more threatening variants appear, and raise the long-lasting economic and social costs from the pandemic. The crisis will not be fully over anywhere until it is over everywhere.

8. **National policy efforts to enhance the production and delivery of vaccines must be accompanied by greater global co-operation and funding to ensure adequate and timely availability of affordable vaccines throughout the world**. Supplies of vaccines for the poorest countries, and the funds committed to the COVAX initiative, remain well below what is required if vaccinations are to be provided to all in need. The resources required to provide vaccines to lower-income countries are small compared with the gains to all countries from a stronger and faster global economic recovery. The announcement by some high-income countries that surplus vaccines will be distributed to lower-income economies is welcome, but the pace at which this will occur is uncertain. Closure of borders to limit exports of finished vaccines should be avoided, and would be self-defeating given the strong interdependencies along vaccine supply chains.

9. **Accommodative monetary policies need to be maintained in the major advanced economies to help preserve favourable financing conditions and low long-term interest rates**. Current monetary and financial policy programmes offer sufficient scope to deal with fluctuations in the recovery and any financial market volatility. Buffers exist within these programmes for emergency lending and bank lending support and the pace of asset purchases can be calibrated as required. Macroprudential tools can also be deployed to help ensure stability in financial and housing markets where asset valuations appear stretched.

10. **Transitory factors that push up headline inflation, such as higher commodity prices and temporary supply shortages in particular sectors, do not warrant changes in the monetary policy stance provided underlying price pressures remain well contained**. In the United States, strong demand growth may push up inflation to some extent, but the new flexible average inflation-targeting framework should allow this to be accommodated without immediate increases in policy interest rates. In the euro area and Japan, underlying price pressures remain subdued given softer demand and significant slack in labour and product markets. Policy interest rates have recently been raised in several emerging-market economies, including Brazil, to help limit upward pressure on inflation expectations. Such changes signal a tighter policy stance, but need not be large provided the effects of higher commodity prices on inflation can be contained and exchange rates remain stable. Enhanced currency swap lines between the major central banks could help to ensure orderly market conditions.

11. **Fiscal policy support should be contingent on the state of the economy and the pace of vaccinations, with new policy measures implemented promptly and fully if required.** The extent of fiscal support is likely to vary significantly across economies over the next two years, with substantial extra spending in the United States, and to a smaller extent Canada, Germany and Japan, but limited discretionary measures in many other economies, particularly in Europe. Nonetheless, budget deficits will remain large, and the automatic fiscal stabilisers should be allowed to operate fully. In the EU economies, intensified efforts must be made to bring forward spending from the Next Generation Recovery Fund and to fully utilise the resources available.

12. **A premature and abrupt withdrawal of support should be avoided, while economies are still fragile and growth remains hindered by containment measures and a slow pace of vaccinations**. Debt levels have risen substantially but debt-servicing costs remain low, helped by the space provided by very accommodative monetary policy. In the advanced economies, ensuring debt sustainability should increase in priority only once the recovery is firmly in place. In the emerging-market economies, fiscal support, particularly emergency income support measures, should be maintained provided market conditions remain favourable and debt sustainability is not at risk.

13. **It is of paramount importance to reach a consensus-based solution by mid-2021 on the tax challenges arising from digitalisation**. There is a unique opportunity within the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) to ensure the fair taxation of multinational companies, including digital companies. Such a deal could increase global corporate income tax revenues by up to USD 100 billion per year, a rise of around 4%, with gains for all countries. Failure to achieve a consensus-based solution would likely lead to a proliferation of uncoordinated and unilateral tax measures and damaging tax and trade disputes.

14. **Enhanced structural reform efforts are required in all countries to mitigate the adverse impact of the crisis, improve resilience against future shocks, and strengthen the prospects for sustainable and inclusive growth.** The crisis is likely to require some labour and capital reallocation, although the extent remains uncertain. Some sectors most affected by physical distancing requirements and associated changes in consumer preferences may be permanently smaller after the crisis. A lasting shift towards remote working, reduced business travel and the increasing digital delivery of services could further change the mix of jobs available and their locations. Such potential shifts accentuate longstanding pre-pandemic issues from an extended period of weak productivity growth, widening inequalities in opportunities and outcomes, and the need to adjust to the long-term challenges of digitalisation and climate change. The policies put in place to foster the recovery from COVID-19 are an opportunity to address these old and new challenges.

15. **The sequencing of reforms will be particularly important to help the recovery gain traction and maximise the gains from reforms**. Measures with a fiscal dimension, such as planned public infrastructure investments in digital networks, transportation and energy, can help support demand and be an important source of new jobs for displaced workers. Strong income support for poorer households will help to make the recovery more inclusive and boost demand, given their high marginal propensity to spend. Strengthening economic dynamism by tackling barriers to market entry, and enhancing activation and skill acquisition, will also improve labour market opportunities for all and help to foster productivity-enhancing reallocation.

16. **Continued income support for households and companies remains warranted, but needs to be carefully targeted to facilitate the necessary reallocation of labour and capital across sectors and firms.** A key challenge is to provide sufficient support for viable jobs while helping displaced workers find new jobs in other sectors or locations. Firms in sectors not subject to mandatory restrictions could be asked to bear part of the costs of short-time work schemes to help signal jobs that are more likely to remain viable, with support remaining unconditional in other sectors. Equally, governments need to balance support for ultimately viable firms who can switch back to private capital markets as the recovery progresses, with steps to phase out support for other businesses. Debt financing and credit guarantees have helped to ease immediate financial constraints, but equity-type financing would be beneficial for many businesses, including SMEs. Possible approaches could include converting some pandemic-related public loans into grants, with repayment conditional on performance and regular assessments of viability, or strengthening incentives for private sector equity financing and co-participation in public support schemes.

17. **The shift towards the use of online platforms and teleworking during the pandemic has underlined the opportunities provided by digital technologies**. Effective and well-targeted policies are required to accelerate the digital transformation of public and private sector activities and to ensure that poorer households, small firms, remote regions and lower-income countries are not left behind. Improving broadband connectivity, helping firms develop online business models, enhancing digital skills, and ensuring secure online payments and data privacy, are all reforms that would help to foster the digital transformation.

18. **Government efforts to support the recovery need to take advantage of the opportunity to accelerate the transition towards a low-carbon economy and limit the long-term threat from climate change**. Many countries, including a majority of OECD member states, have made commitments under the Paris Agreement to reduce greenhouse gas emissions and achieve long-term carbon neutrality, but concrete actions on policies are lacking. Currently, most carbon emissions are either priced too low or not priced at all, and fossil-fuel subsidies continue to be widely used. Some governments have included "green" measures in their fiscal stimulus and investment programmes in response to the pandemic, but these are typically only a small share of the overall support provided, and the balance between green and non-green spending is relatively unfavourable. In this context, the OECD is developing – under the leadership of France – the International Programme for Action on Climate (IPAC), which seeks to help countries achieve the aims of the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement.

19. **A clear roadmap for the alignment of long-term price signals with environmental and climate policy objectives, including through carbon pricing, would reduce environmental policy uncertainty and improve prospects for the funding of investments in clean technologies**. Such steps would need to be accompanied by a package of compensating measures to mitigate the adverse impact on poorer households and small businesses. Fiscal support through infrastructure investment projects, including expanded and modernised electricity grids and spending on renewables, and incentives to encourage energy-efficient buildings and appliances, would help to reduce emissions and provide a source of demand and new employment opportunities.