

TACKLING CORONAVIRUS (COVID-19)
CONTRIBUTING TO A GLOBAL EFFORT

OECD Economic Outlook

The World Economy on a Tightrope

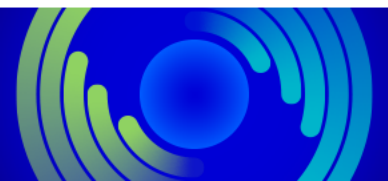
10 June 2020

Laurence Boone
OECD Chief Economist



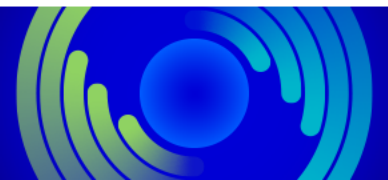
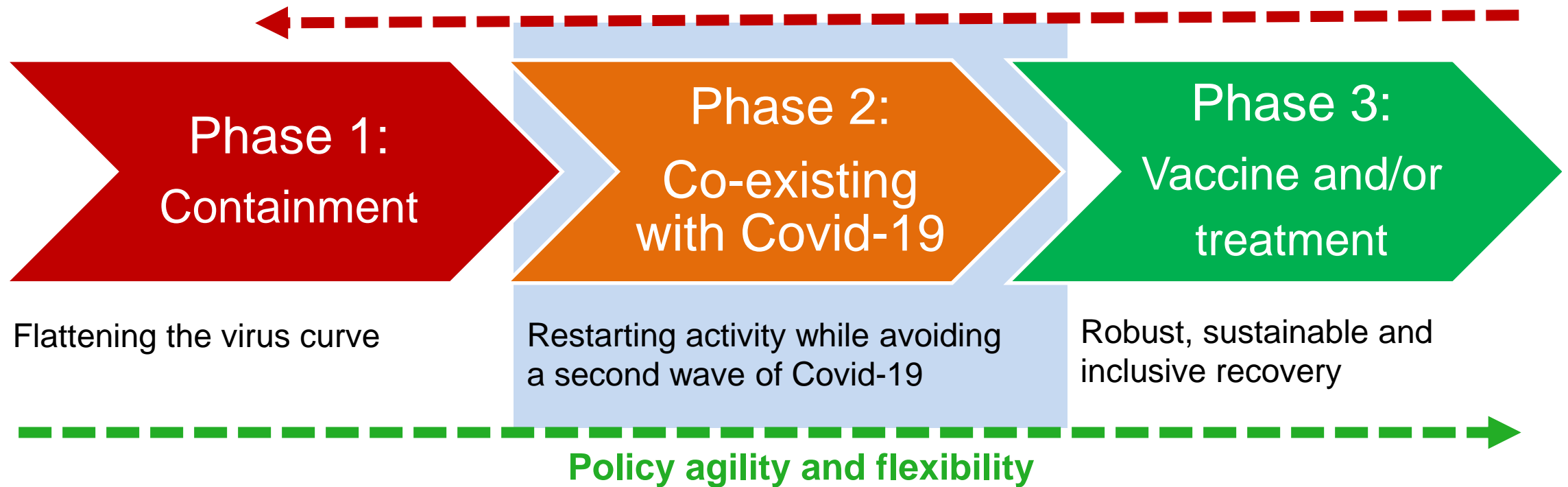
Key messages

- **Covid-19 is the worst health and economic crisis since WWII**, disrupting health, wellbeing and jobs, and creating extraordinary **uncertainty. Our outlook is made up of two equally possible economic scenarios.**
- **Economic impacts are dire everywhere. The recovery will be slow and the crisis will have long-lasting effects**, disproportionately affecting the most vulnerable people.
- **Policy challenges: cooperate for producing and distributing a vaccine; move from blanket to targeted support** to help workers transit to new jobs, ensure rapid firm restructuring and provide social protection to the most vulnerable.



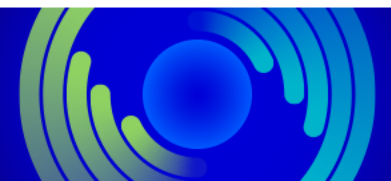
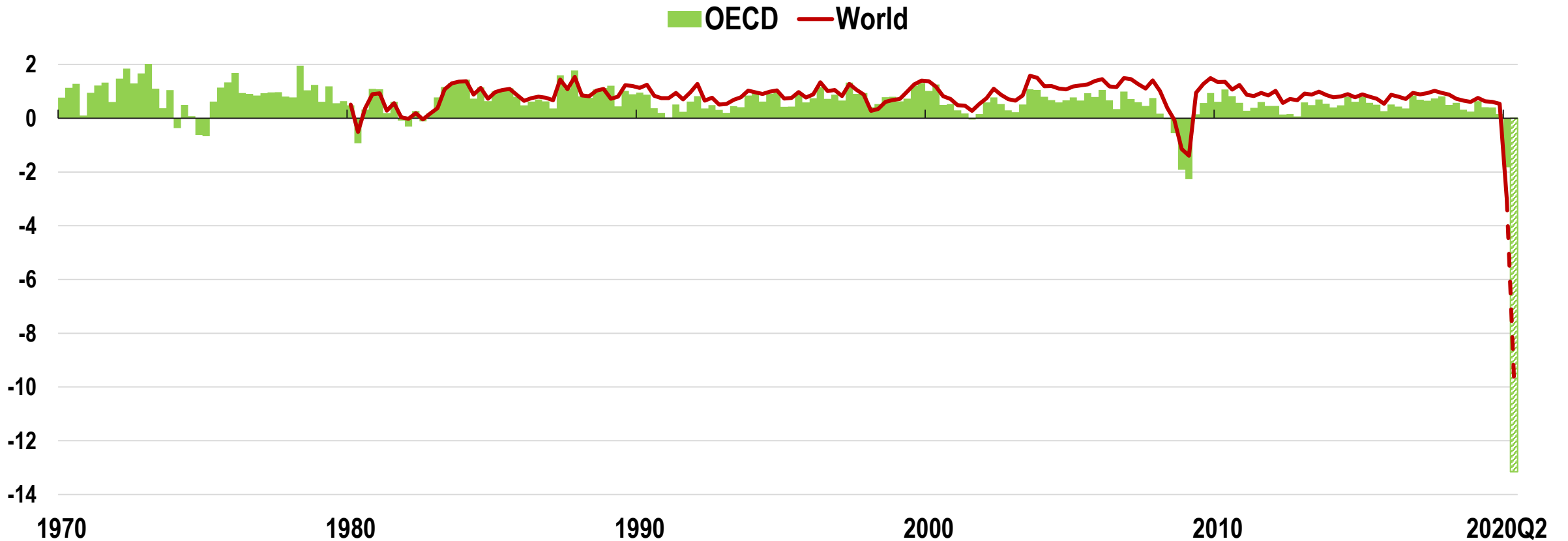
This is a marathon not a sprint: We are only in phase 2 of the pandemic crisis

Potential reversion if the number of Covid-19 cases increases above threshold levels

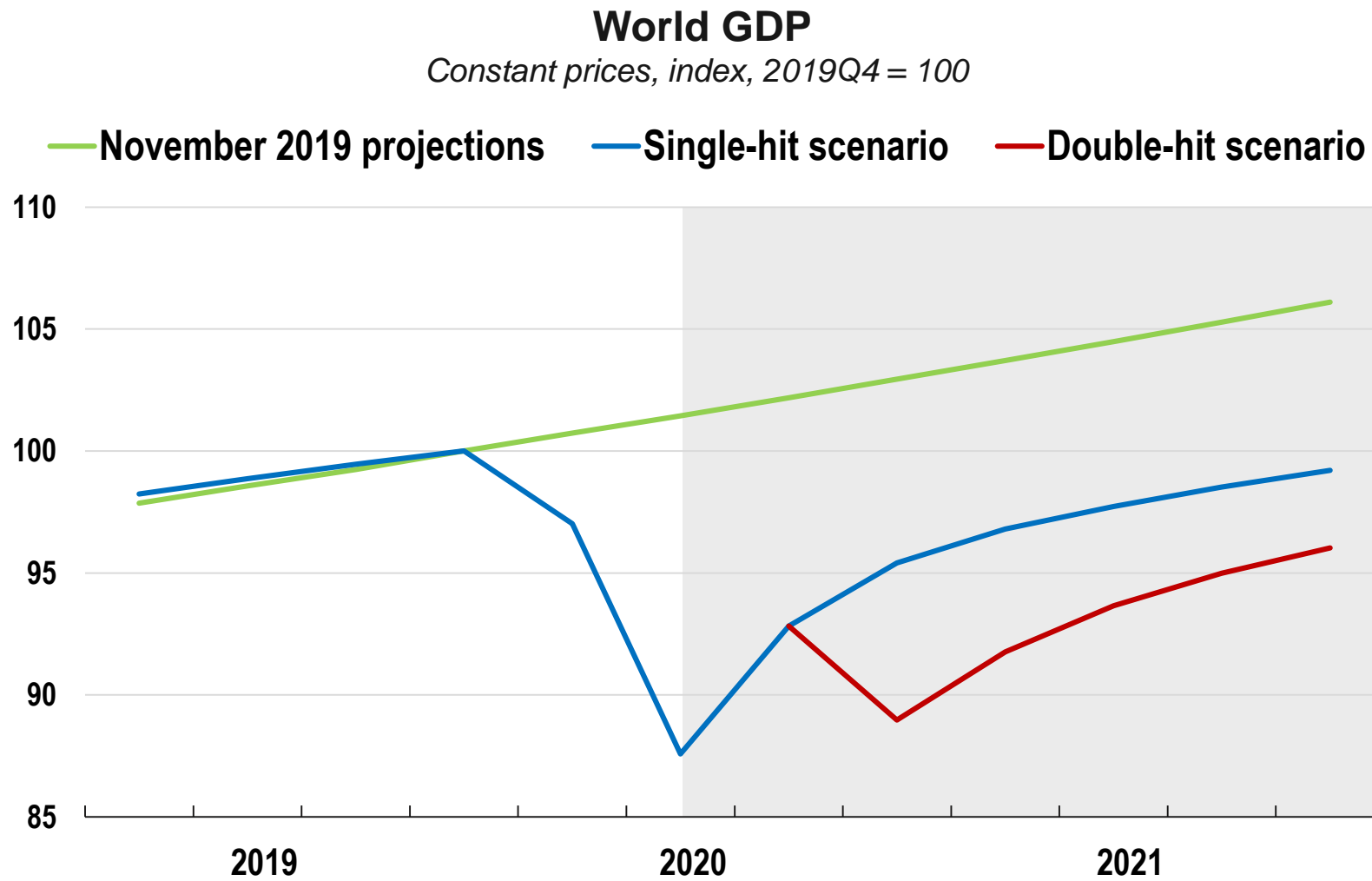


Global activity has collapsed

Percentage change in GDP
Quarter-on-quarter



The recovery will be slow and uncertain

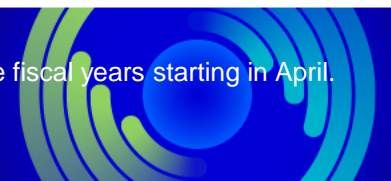
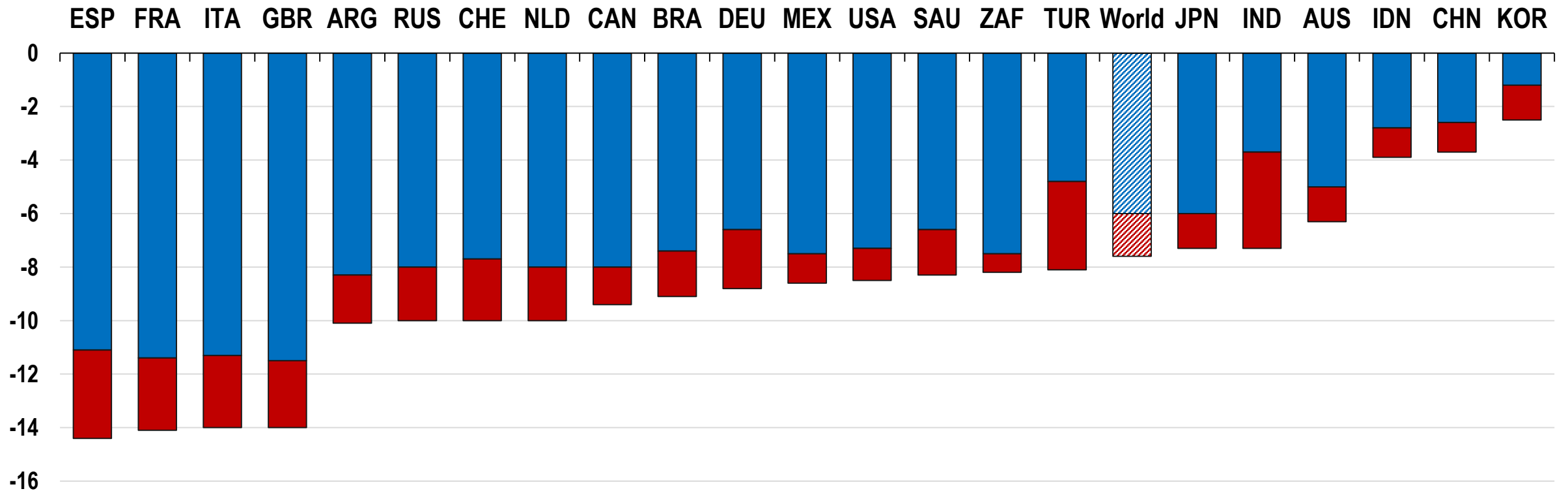


Economic Outlook projections

Projected GDP change in 2020 in G20 economies

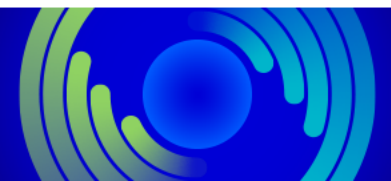
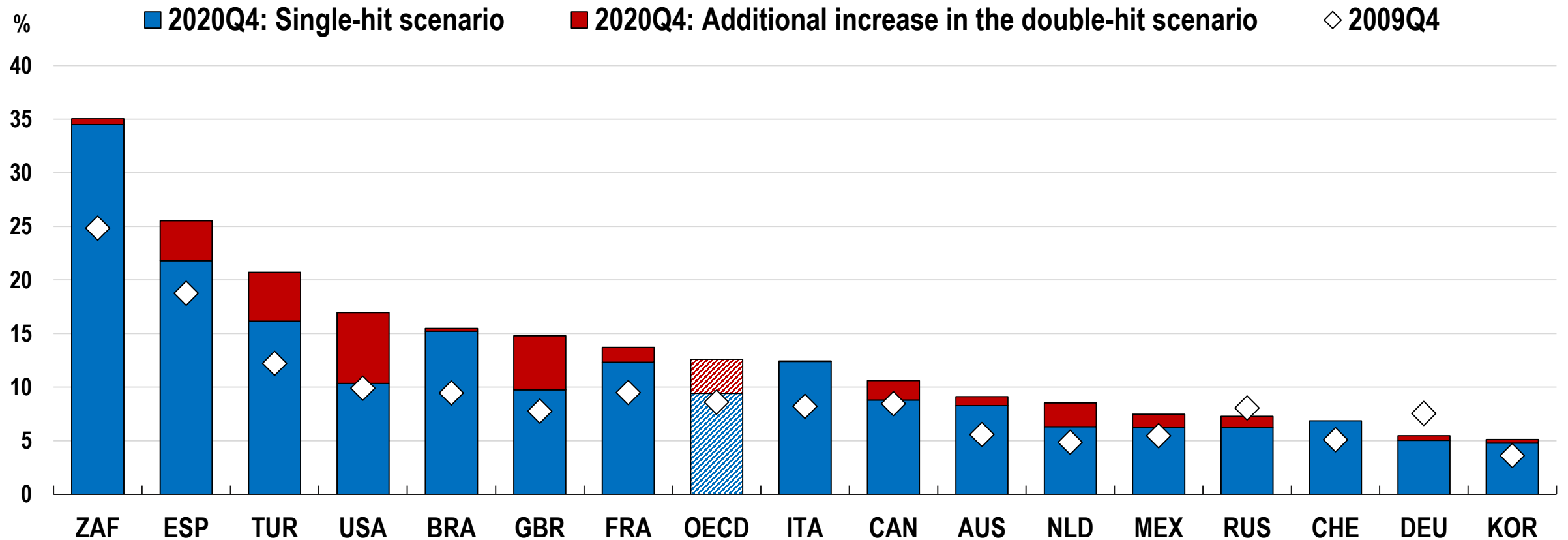
%, year-on-year

■ Single-hit scenario ■ Additional decline in the double-hit scenario



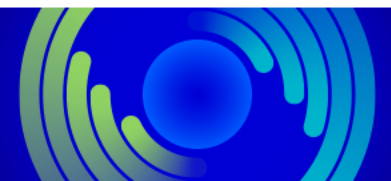
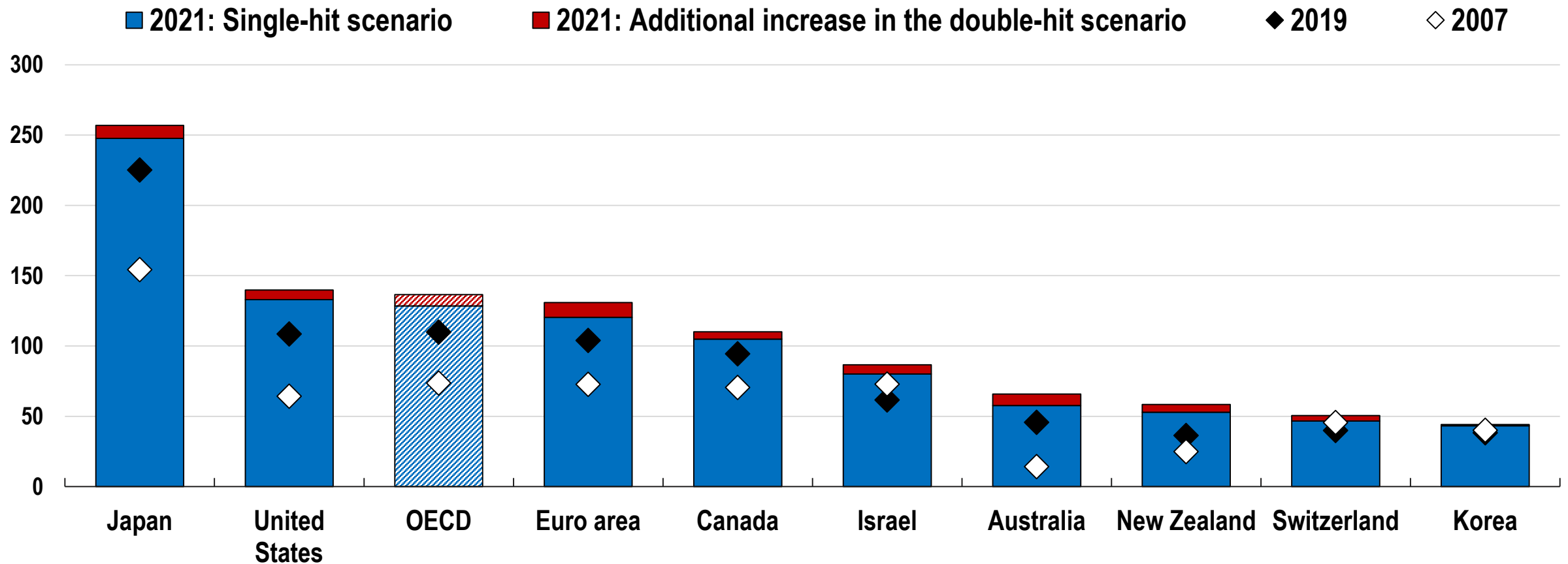
Unemployment rates will rise to high levels

2020 Unemployment rate projections



Public debt will jump

Estimated government gross financial liabilities *% of GDP*



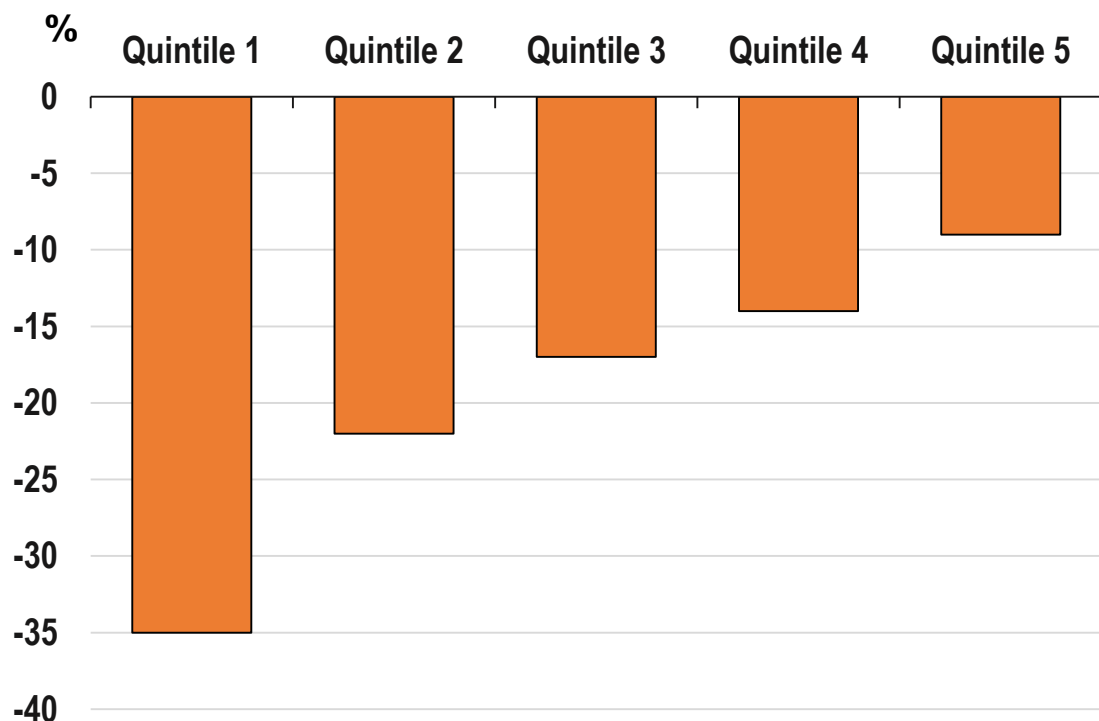
RISKS



Vulnerable workers risk facing a greater impact

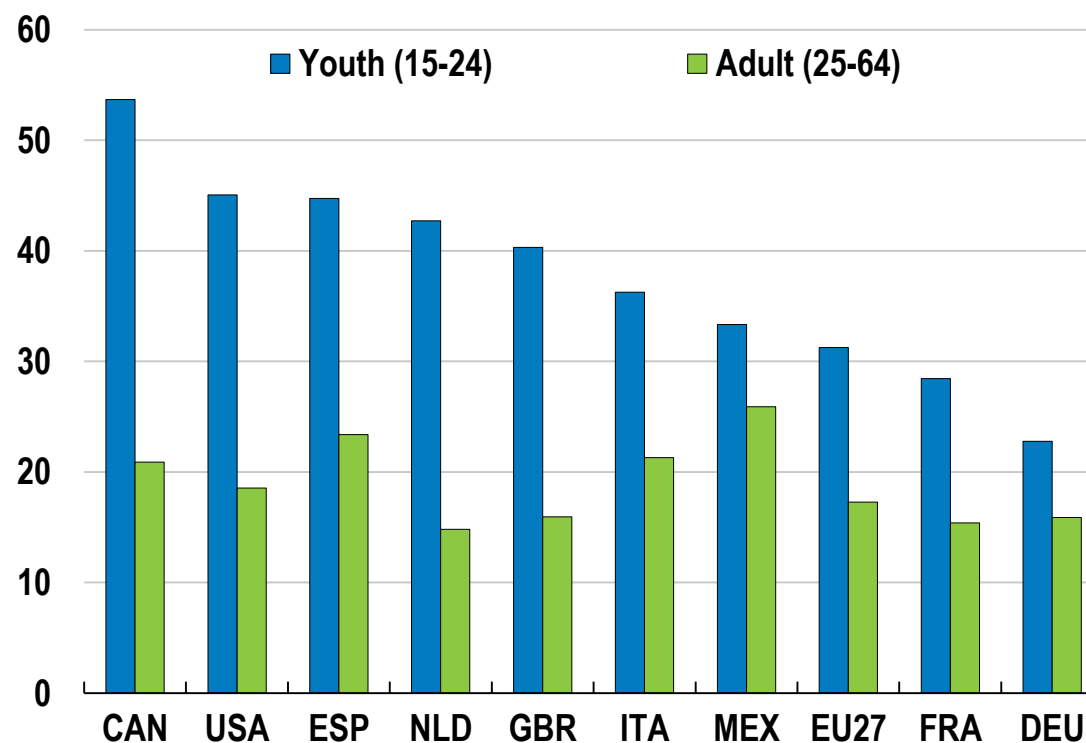
Larger employment declines for low-paid workers

Employment declines April vs February 2020, United States



More youth work in the hardest-hit sectors

Share of youth and adults employed in the hardest-hit sectors, 2019



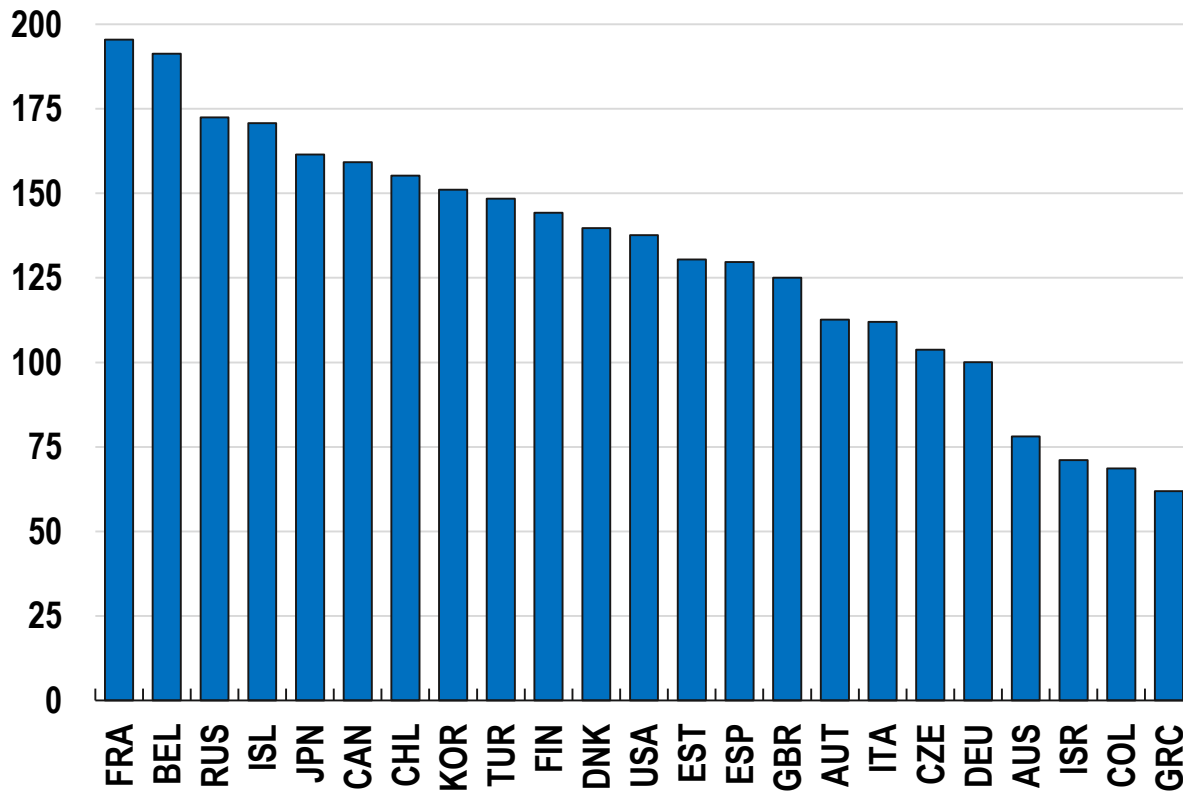
Note: LHS: Preliminary decline in employment for workers in different initial wage quintiles between February 2020 and 11 April 2020. Data are weighted such that the sample matches aggregate employment by 2-digit NAICS across business size. RHS: Hardest-hit sectors include: wholesale and retail trade, accommodation and food service activities and arts, entertainment and recreation for European countries and the United States; retail and wholesale trade, information culture and recreation and accommodation and food services for Canada; and restaurants and accommodation services and commerce for Mexico. The figure shows that, for example, in Canada 54% of youth work in the hardest-hit sectors.

Source: Cajner et al. (2020); Eurostat; monthly Basic Current Population Survey (CPS) for the US; the monthly Labour Force Survey (LFS) for Canada; quarterly Encuesta Nacional de Ocupación y Empleo (ENOE) for Mexico; and OECD estimates.

Firms' high leverage is a source of vulnerability

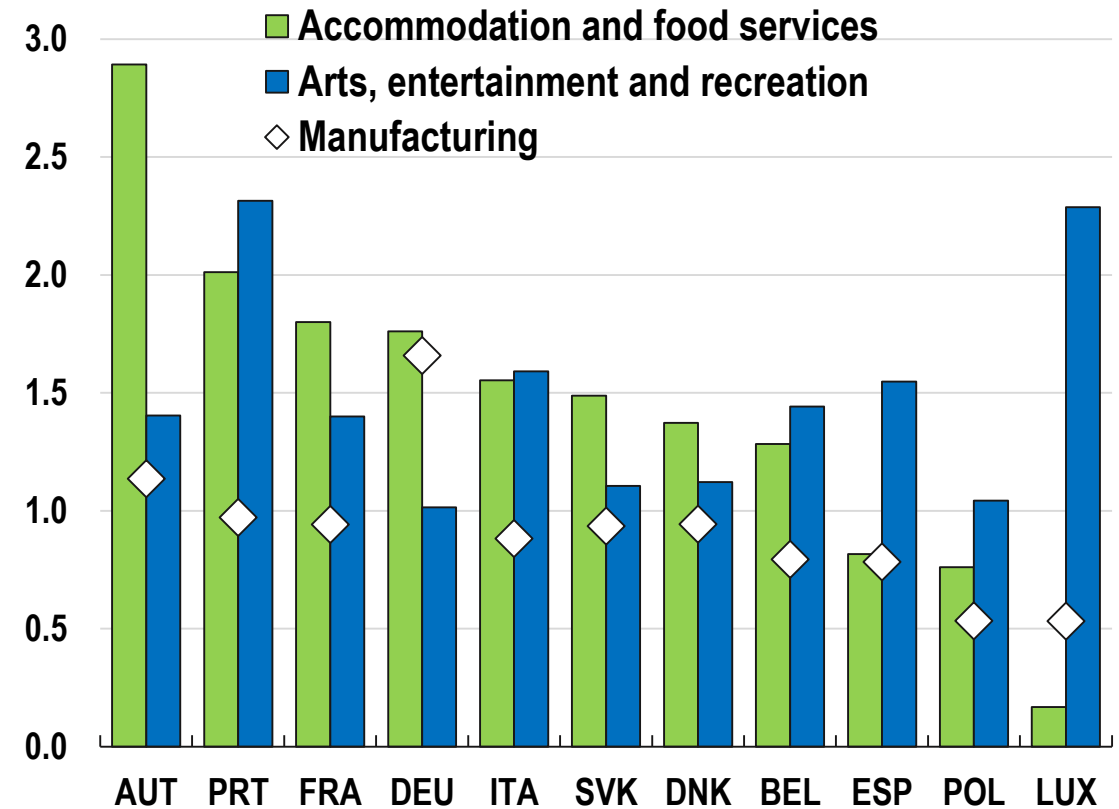
Debt of non-financial corporations

% of GDP, 2019 or latest available

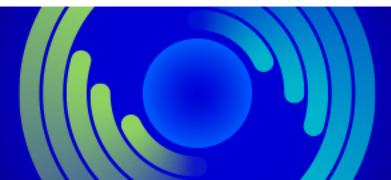
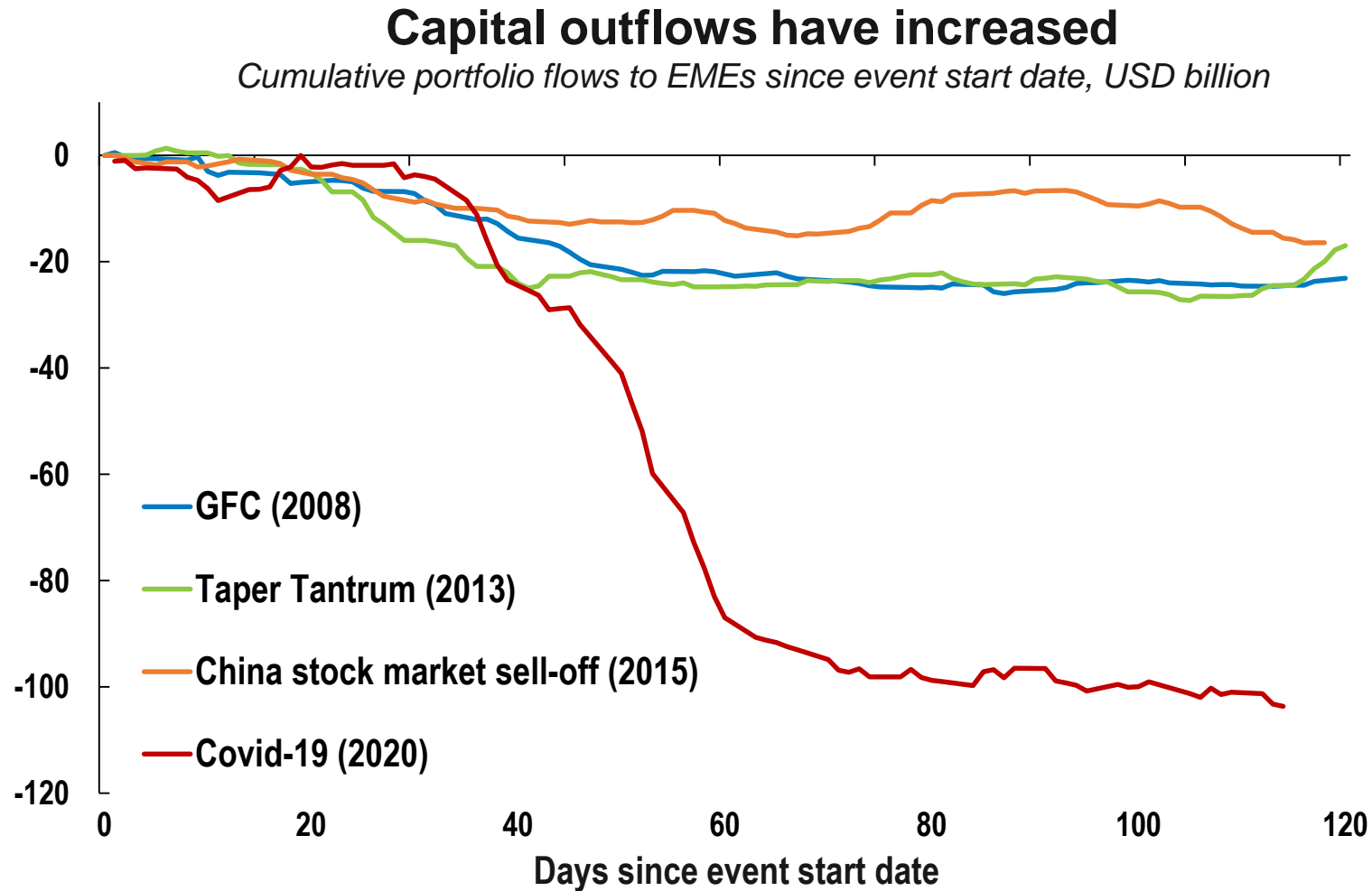


Firms in hard-hit sectors are indebted

Debt-to-equity ratio, 2018 or latest available



Emerging markets are susceptible to financial volatility



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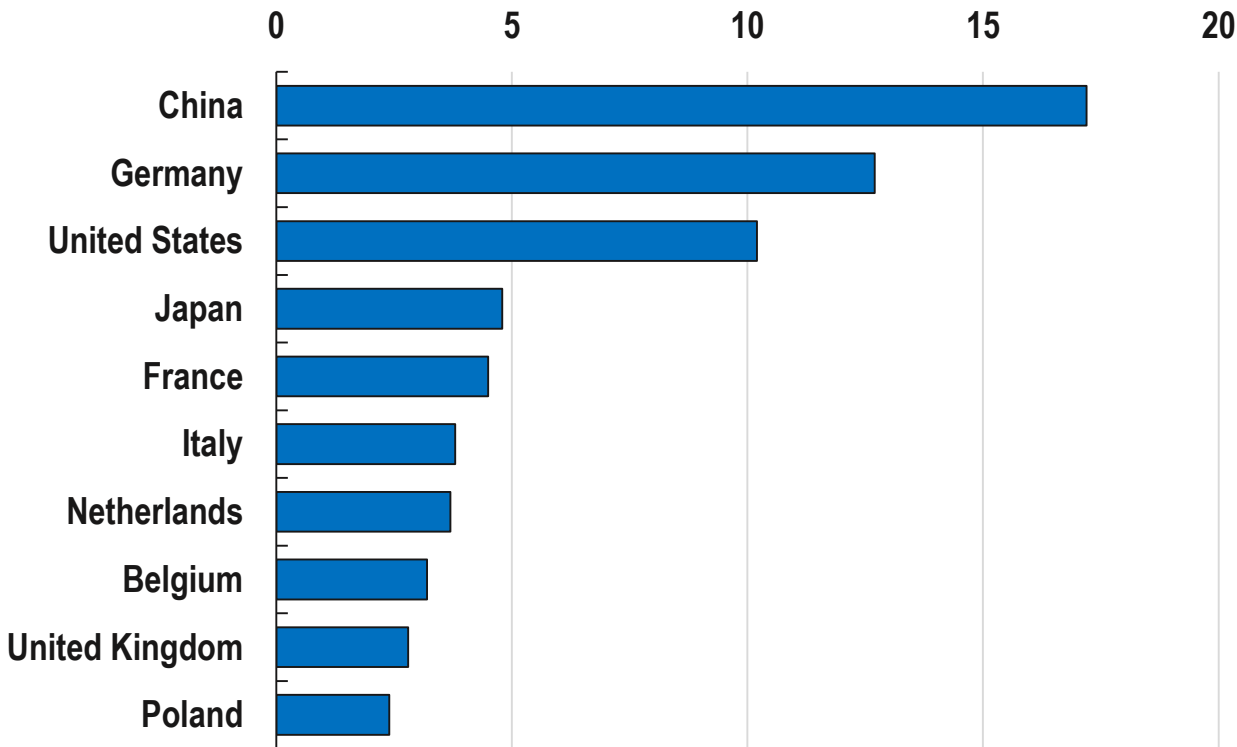
POLICY IMPLICATIONS



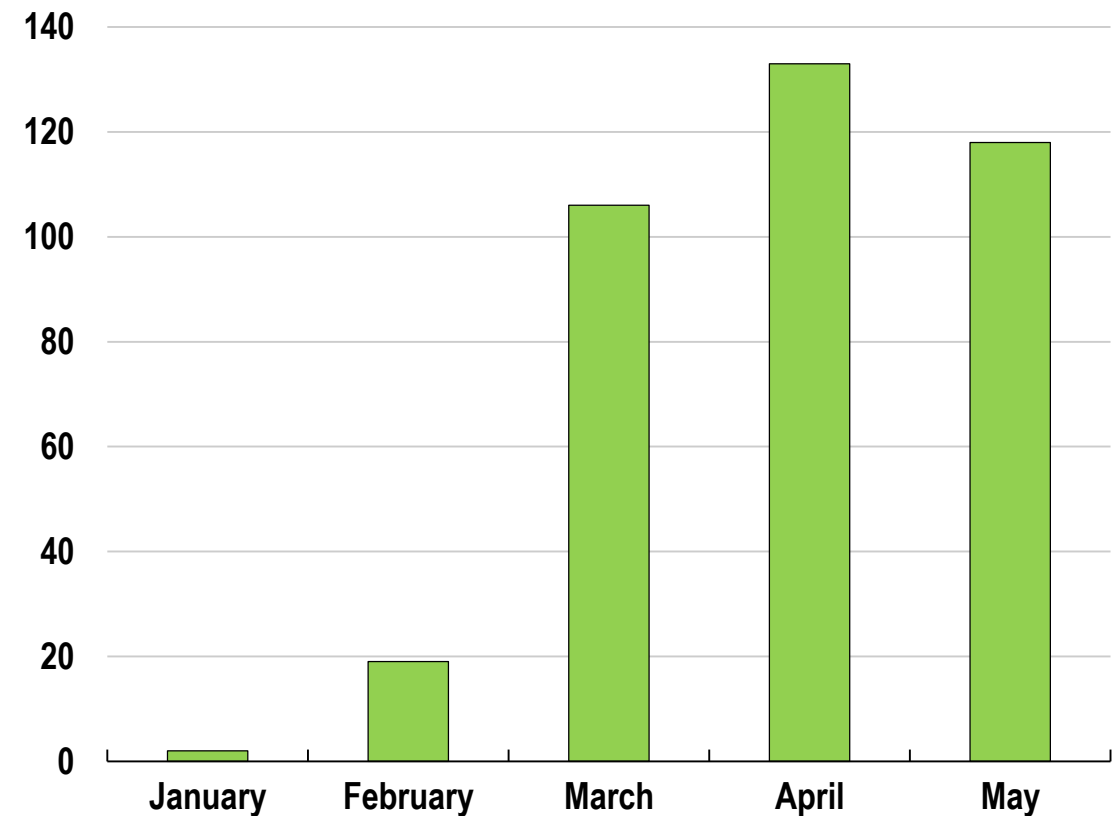
Trade, not protectionism, to fight the virus

Share of top 10 exporters of personal protective products

% of world exports



The number of export controls on medical goods has increased in 2020

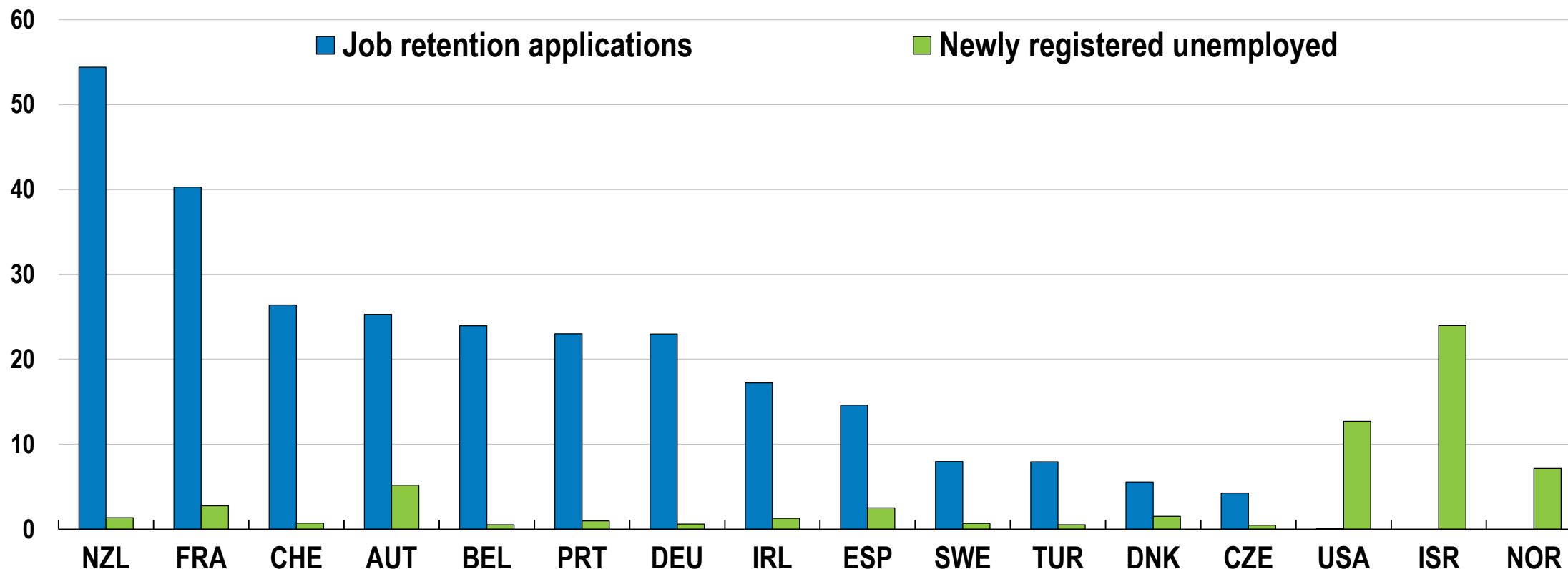


Note: LHS: Personal protective products include hand soap and sanitizer, face masks, and protective spectacles. RHS: The figure represents the monthly cumulative number of export restrictions implemented by countries across the world less the number of restrictions removed each month. The decline in May reflects the fact that the number of restrictions to be removed by the end of the month is higher than the number of new controls implemented as of June 5. No data are available prior to January 2020.
Source: World Trade Organisation; Global Trade Alert, *21st Century Tracking of Pandemic-Era Trade Policies in Food and Medical Products*; and OECD calculations.

Help workers transition to new jobs

Registered unemployment and applications for participation in job retention schemes

Early March to end of April 2020, or latest available, % of labour force

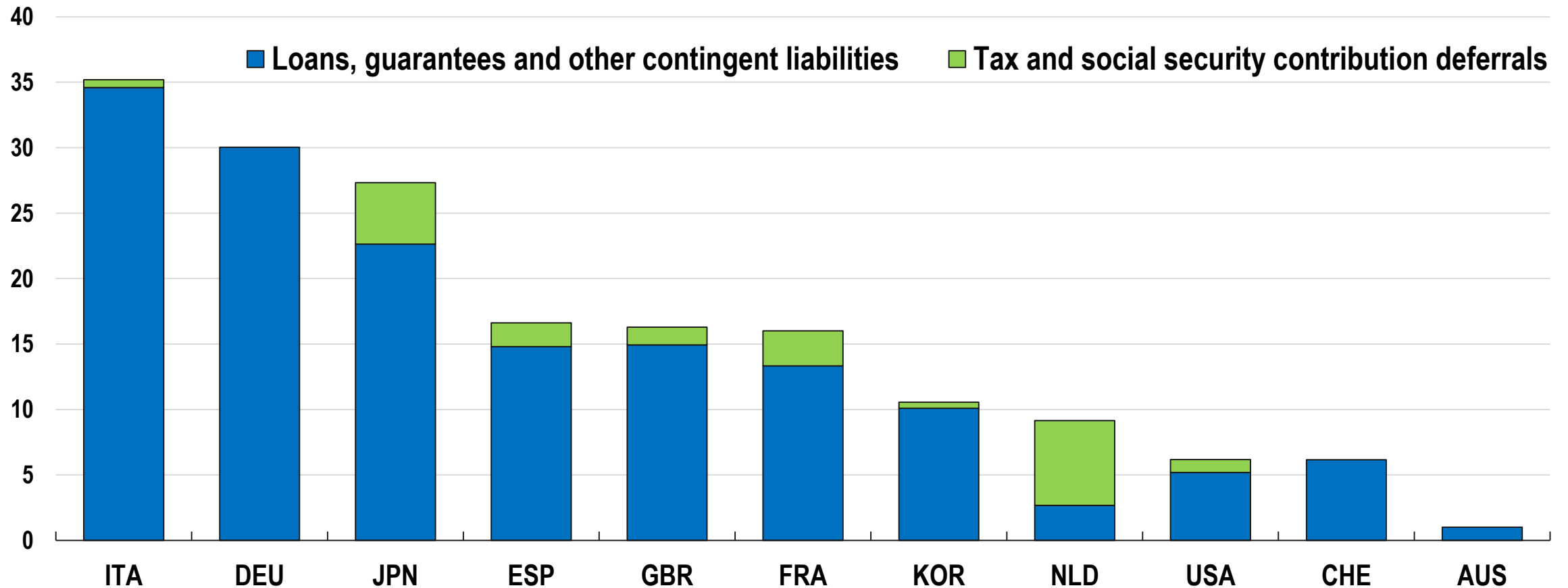


Note: The change in registered unemployment refers to the difference between early March 2020 and the end of April as a fraction of the total labour force. Job retention applications refers to the workforce covered by applications to national job retention schemes since early March and until end of April, or closest available date. Job retention schemes include short-time work, temporary lay-off or "furlough" and wage subsidy schemes. Actual take-up may be lower than the number of applications as only a subset of applying firms actually take up short-time work. Registered unemployment data are not seasonally adjusted, except for the United States. Registered unemployment includes workers on unpaid leave in Israel and on temporary layoffs in Norway. Extended unemployment insurance refers to COVID-19 Pandemic Unemployment Payment in Ireland and Pandemic Unemployment Assistance in the United States. Source: OECD calculations based on national statistics, as in OECD Economic Outlook 107.

Keep viable firms in business

Official estimates of indirect financial support

% GDP

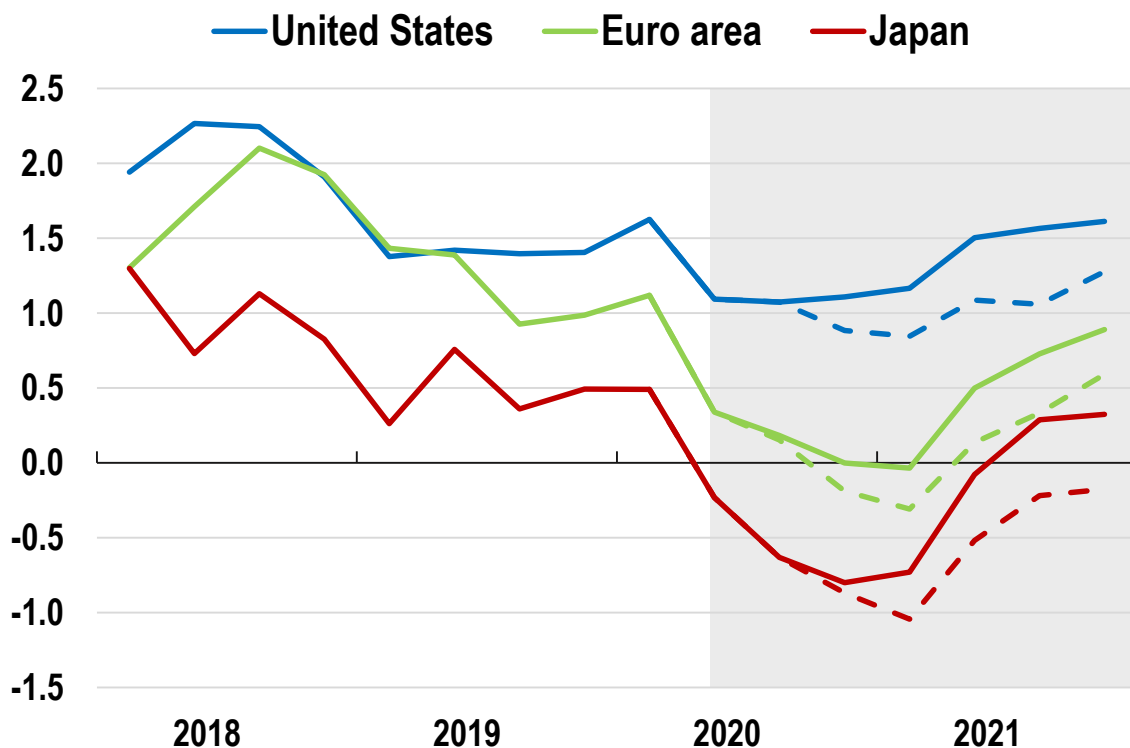


Note: For country-specific notes see the Annex. Shows official estimates, when available, of indirect financial help included in emergency packages announced by governments in response to the Covid-19 crisis, as of 4 June. In many cases, estimates are highly uncertain due to an unknown duration of the crisis and take-up of various programmes by the private sector, and may not be comparable across countries.
Source: OECD calculations based on official estimates.

Conditions allow monetary and fiscal policies to remain supportive

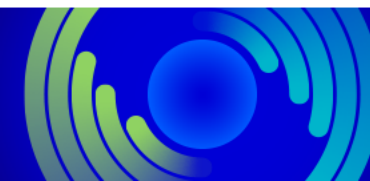
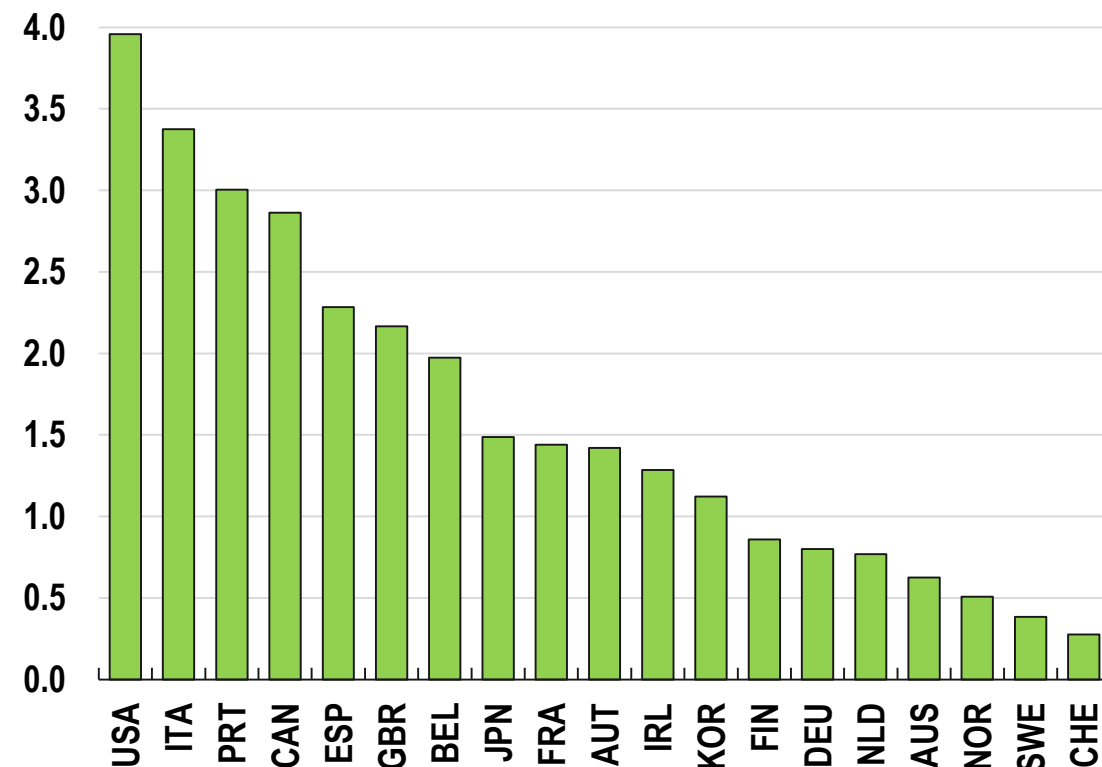
Inflation is expected to stay subdued

Year-on-year % changes,
solid (dashed) lines show single (double)-hit scenarios



Government debt servicing payments are low

% of nominal GDP, 2019



Key policy messages

Focus on health

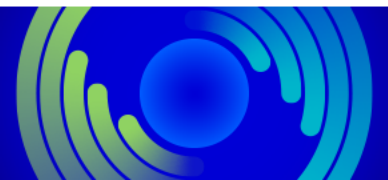
- Strengthen **health care systems** and build the **supply of medical equipment**
- Use **test, track, trace and isolate and distancing strategies** to limit virus outbreaks
- Ensure **global cooperation** to develop, manufacture and distribute **vaccines/treatments** worldwide

Support the transition

- Support **job transitions** but **strengthen income protection**
- Facilitate rapid **firm restructuring** and **help firms digitalise, especially SMEs**
- Maintain **liquidity support** and stand ready to **address renewed financial turmoil**

Plan the recovery

- **Enable more resilient supply chains** and **promote a green transition**
- **Keep fiscal and monetary policies supportive**
- Public finances: **invest and focus on progressivity and fairness**



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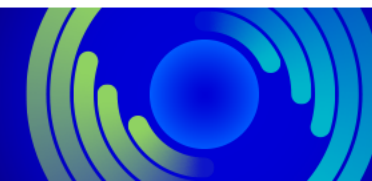
ANNEX



Economic Outlook projections

G20 GDP growth % year-on-year

	2019	Single-hit scenario		Double-hit scenario		2019	Single-hit scenario		Double-hit scenario		
		2020	2021	2020	2021		2020	2021	2020	2021	
World	2.7	-6.0	5.2	-7.6	2.8	G20	2.9	-5.7	5.5	-7.3	3.1
Australia	1.8	-5.0	4.1	-6.3	1.0	Argentina	-2.2	-8.3	4.1	-10.1	1.7
Canada	1.7	-8.0	3.9	-9.4	1.5	Brazil	1.1	-7.4	4.2	-9.1	2.4
Euro area	1.3	-9.1	6.5	-11.5	3.5	China	6.1	-2.6	6.8	-3.7	4.5
Germany	0.6	-6.6	5.8	-8.8	1.7	India¹	4.2	-3.7	7.9	-7.3	8.1
France	1.5	-11.4	7.7	-14.1	5.2	Indonesia	5.0	-2.8	5.2	-3.9	2.6
Italy	0.3	-11.3	7.7	-14.0	5.3	Mexico	-0.1	-7.5	3.0	-8.6	2.0
Japan	0.7	-6.0	2.1	-7.3	-0.5	Russia	1.4	-8.0	6.0	-10.0	4.9
Korea	2.0	-1.2	3.1	-2.5	1.4	Saudi Arabia	0.4	-6.6	3.8	-8.3	1.5
United Kingdom	1.4	-11.5	9.0	-14.0	5.0	South Africa	0.2	-7.5	2.5	-8.2	0.6
United States	2.3	-7.3	4.1	-8.5	1.9	Turkey	0.9	-4.8	4.3	-8.1	2.0



Economic Outlook projections

GDP growth % year-on-year

Single-hit scenario

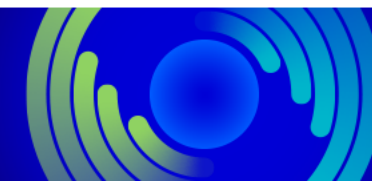
Double-hit scenario

Single-hit scenario

Double-hit scenario

	2019	2020	2021	2020	2021
Austria	1.5	-6.2	4.0	-7.5	3.2
Belgium	1.4	-8.9	6.4	-11.2	3.4
Chile	1.0	-5.6	3.4	-7.1	1.9
Colombia	3.3	-6.1	4.3	-7.9	2.8
Costa Rica	2.1	-4.1	2.7	-4.9	1.5
Czech Republic	2.5	-9.6	7.1	-13.2	1.7
Denmark	2.4	-5.8	3.7	-7.1	0.9
Estonia	4.4	-8.4	4.3	-10.0	1.6
Finland	0.9	-7.9	3.7	-9.2	2.4
Greece	1.9	-8.0	4.5	-9.8	2.3
Hungary	4.9	-8.0	4.6	-10.0	1.5
Iceland	1.9	-9.9	4.6	-11.2	3.0
Ireland	5.5	-6.8	4.8	-8.7	-0.2
Israel	3.5	-6.2	5.7	-8.3	2.6

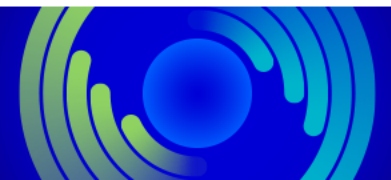
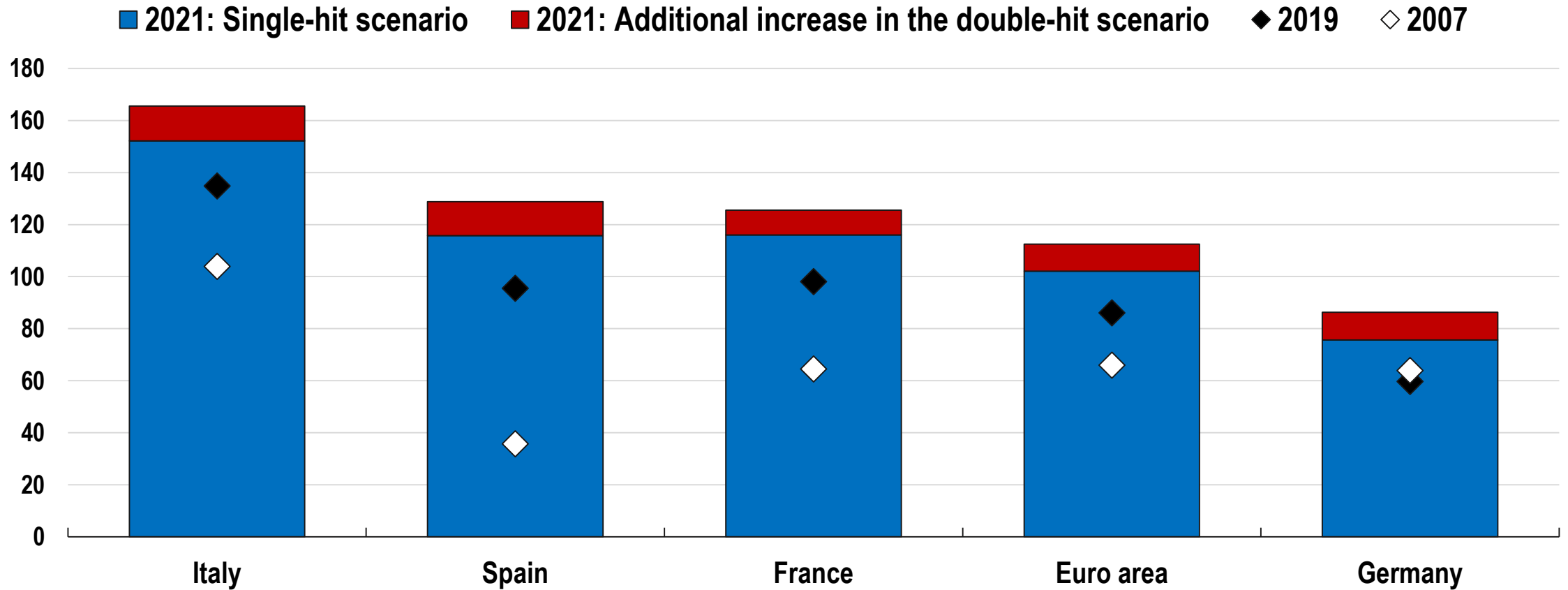
	2019	2020	2021	2020	2021
Latvia	2.2	-8.1	6.3	-10.2	2.0
Lithuania	3.9	-8.1	6.4	-10.4	3.4
Luxembourg	2.3	-6.5	3.9	-7.7	0.2
Netherlands	1.8	-8.0	6.6	-10.0	3.4
New Zealand	2.2	-8.9	6.6	-10.0	3.6
Norway	1.2	-6.0	4.7	-7.5	1.3
Poland	4.1	-7.4	4.8	-9.5	2.4
Portugal	2.2	-9.4	6.3	-11.3	4.8
Slovak Republic	2.4	-9.3	6.4	-11.1	2.1
Slovenia	2.4	-7.8	4.5	-9.1	1.5
Spain	2.0	-11.1	7.5	-14.4	5.0
Sweden	1.2	-6.7	1.7	-7.8	0.4
Switzerland	1.0	-7.7	5.7	-10.0	2.3



Public debt will jump

General government gross public debt

% of GDP, Maastricht definition



Country-specific notes for official estimates of indirect financial help to the economy

AUS: Tax deferrals have been announced, but not quantified.

CHE: Measures also include tax deferrals as part of the second CHF 32bn support package, but these have not been quantified.

DEU: State loans and credit guarantees include EUR 100 bn (2.9% of GDP) for recapitalisation of larger companies and important start-ups by an economic stabilisation fund and an extension of the limit on available credit guarantees by the state-owned development bank KfW of EUR 357 bn (10.4% of GDP). On 6th April, another immediate loan scheme for SMEs via KfW was announced, but at the moment there is no official estimate of its size. The estimate of the volume of announced tax deferrals is not available.

ESP: Measures to support credit consist of EUR 104 bn in state guarantees, and includes EUR 80 bn of private capital.

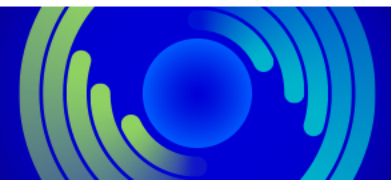
GBR: Contingent liabilities include over GBP 330 billion (14.9% of GDP) of state loans and guarantees for struggling businesses, through the Coronavirus Corporate Financing Facility (CCFF) and the Coronavirus Business Interruption Loan Scheme (CBILS).

ITA: State loans and credit guarantees include the expected multiplication effect on the credit market. Extra liquidity will be provided by the moratorium on debt repayment and debt interest payments until end-September on an approximated volume of firm loans of EUR 220 bn; the moratorium on mortgage payments for vulnerable households. Estimates for these measures are not available. Estimates of tax deferrals measures are not available.

KOR: Estimates include announced off-budget measures worth WON 75 trillion (about 3.9% of GDP), among which contingent liabilities worth WON 48.5 trillion (2.5% of GDP) used to create funds aimed at stabilising financial markets (corporate bond market stabilisation fund, short-term monetary market stabilisation fund, stock market stabilisation fund and a primary collateralised bond obligations scheme) and a Special Purpose Vehicle for the purchase of corporate debt of WON 10 trillion (0.5% of GDP).

NLD: Tax deferral measures are reported as the mid-point of an estimated range of EUR 45-60 billion.

USA: Tax referral represent the fiscal cost incurred in 2020 as estimated by the Joint Committee on Taxation (JCT). Under the Paycheck Protection Program (around USD 659 bln), loans to small business (<500 employees) can turn into grant (loan forgiveness) if they are used for spending in qualified costs (labour costs); loan forgiveness will be diminished in case of reduction of the number of employees.



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