

Aida Caldera Sanchez\*  
Nigel Pain\*

## THE GLOBAL RECOVERY FROM COVID-19

*The COVID-19 pandemic has had a significant economic impact around the world, far larger than during the Global Financial Crisis of 2008-2009. By mid-2021, global Gross Domestic Product (GDP) surpassed its pre-pandemic level, but the recovery has lost momentum and remains very uneven, with strikingly different outcomes across countries, sectors and demographic groups. Given the uneven and incomplete global recovery, governments need to maintain supportive and flexible policies that can be adapted to economic developments and which improve the prospects for sustainable and inclusive growth.*

### La recuperación mundial a partir del COVID-19

*La pandemia de COVID-19 ha tenido un impacto económico significativo en todo el mundo, mucho mayor que durante la crisis financiera mundial de 2008-2009. A mediados de 2021, el Producto Interior Bruto (PIB) mundial superó su nivel previo a la pandemia, pero la recuperación ha perdido impulso y sigue siendo muy desigual, con resultados sorprendentemente diferentes entre países, sectores y grupos demográficos. Dada la recuperación mundial desigual e incompleta, los gobiernos deben mantener políticas de apoyo y flexibles que puedan adaptarse a la evolución económica y que mejoren las perspectivas de un crecimiento sostenible e inclusivo.*

**Keywords:** COVID-19, recovery, economic growth, monetary policy, fiscal policy.

**Palabras clave:** COVID-19, recuperación, crecimiento económico, política monetaria, política fiscal.

**JEL:** E0, E50, F0.

---

\* Head of Division, Economics Department, Organisation for Economic Co-operation and Development (OECD).

Contact: [aida.calderasanchez@oecd.org](mailto:aida.calderasanchez@oecd.org) and [nigel.pain@oecd.org](mailto:nigel.pain@oecd.org)

The views in this paper are those of the authors and should not be reported as representing the official views of the OECD or its member countries.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

Final version January 2022.

<https://doi.org/10.32796/ice.2022.924.7358>

## 1. The COVID-19 pandemic an unprecedented economic shock

*The COVID-19 pandemic is the largest global economic shock in decades.* The virus has had a significant economic impact around the world, far larger than during the Global Financial Crisis of 2008-2009. To contain the spread of the virus and save lives, most governments throughout the world initially imposed stringent containment measures. These measures slowed the spread of infection and dramatically reduced the death toll (OECD, 2020a), but led to a sharp contraction in household spending and investment, with many businesses required to close. As a result, the global economy experienced a sudden deep shock, unprecedented in modern times (Figure 1).

All countries were hit significantly, though to a different extent, reflecting differences in public health measures and the policy support provided. Output declined by over 20 % in the first half of 2020 in some major economies, including Spain, and by close to 10 % in the world as a whole. Consumer-facing service sectors, such as hotels and restaurants, arts and recreation and transportation were all particularly hard hit. Global trade collapsed in the first half of 2020, declining by over 17 %, and labour markets deteriorated significantly due to reductions in working hours, job losses and the enforced shutdown of businesses. Around the world, the burden of the crisis fell disproportionately on the poorest and most vulnerable.

The extent and timing of the pandemic shock differed across the major economies, with China—the epicentre of the initial outbreak—starting an early recovery in March 2020 even as activity in other economies began to contract sharply. Overall, the economic impact of the first wave of pandemic was relatively well contained in many AsiaPacific and Northern European economies, reflecting effective containment measures, including well-resourced test, track and isolate systems, and public familiarity with precautionary measures to protect against risks from transmissible diseases. In contrast,

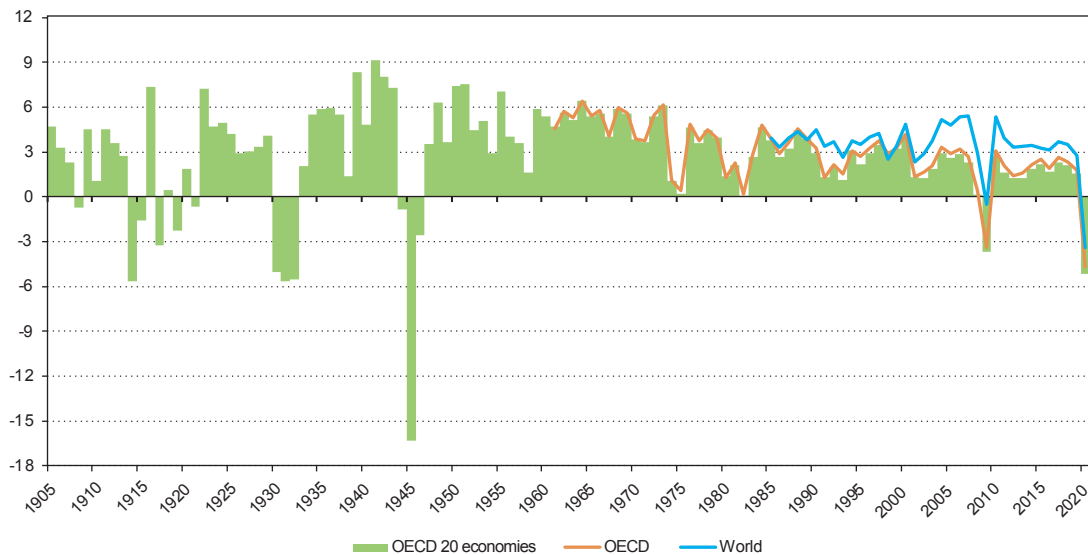
the measures required to control virus outbreaks in some other parts of Europe and other emerging-market economies lasted longer and involved much deeper declines in output.

*Without the prompt and effective policy support introduced in all economies to cushion the impact of the shock on household incomes and companies, output and employment would have been even weaker.* Most countries implemented short-term measures to buffer the socio-economic consequences of containment measures through fiscal, monetary and financial policy measures designed to bolster confidence, stabilise financial conditions, and support economic activity, jobs and household incomes during the crisis. Businesses and jobs were preserved by a range of measures including expanded liquidity and income support and tax deferrals for companies and short-time working schemes in many countries. Already by May 2020, job retention schemes supported about 50 million jobs across the OECD, about ten times as many as during the global financial crisis of 2008-2009. Central banks also acted at great speed and scale to cushion the economic effects of extended lockdowns to contain the spread of the virus, reducing policy interest rates where possible, expanding asset purchase programmes substantially and enhancing liquidity and swap lines.

As containment measures were relaxed or removed, activity and working time rebounded sharply in the third quarter of 2020, particularly in industrial sectors. However, the appearance of new variants of the virus and the rising case numbers subsequently forced many countries to impose again stringent public health measures, including renewed lockdowns and restrictions on mobility by the end of 2020. The overall economic impact was however much lower than seen during the first wave of the pandemic. Containment policies were more carefully targeted, focusing largely on service sectors with high levels of direct contact between consumers and producers. Businesses and consumers also adapted to changes in working arrangements and

FIGURE 1

**THE PANDEMIC GENERATED A LARGE GLOBAL RECESSION IN 2020**  
(Annual growth of GDP in constant 2015 prices and PPPs, %)



NOTE: The OECD 20 countries are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Italy, Japan, Mexico, the Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland, the United Kingdom, and the United States. Estimates of GDP in constant 2015 prices and PPPs are available from 1961; national data prior to 1961 are backcast using estimates of GDP in constant 2010 prices and PPPs.

SOURCE: OECD Economic Outlook database; Bergeaud *et al.* (2016); Maddison Project Database, version 2018; and OECD calculations.

sanitary restrictions, including through widespread use of teleworking. Global industrial production and trade in goods remained largely unaffected, supported by the strong demand for IT equipment and medical supplies, but hours worked again declined in some already hard-hit service sectors.

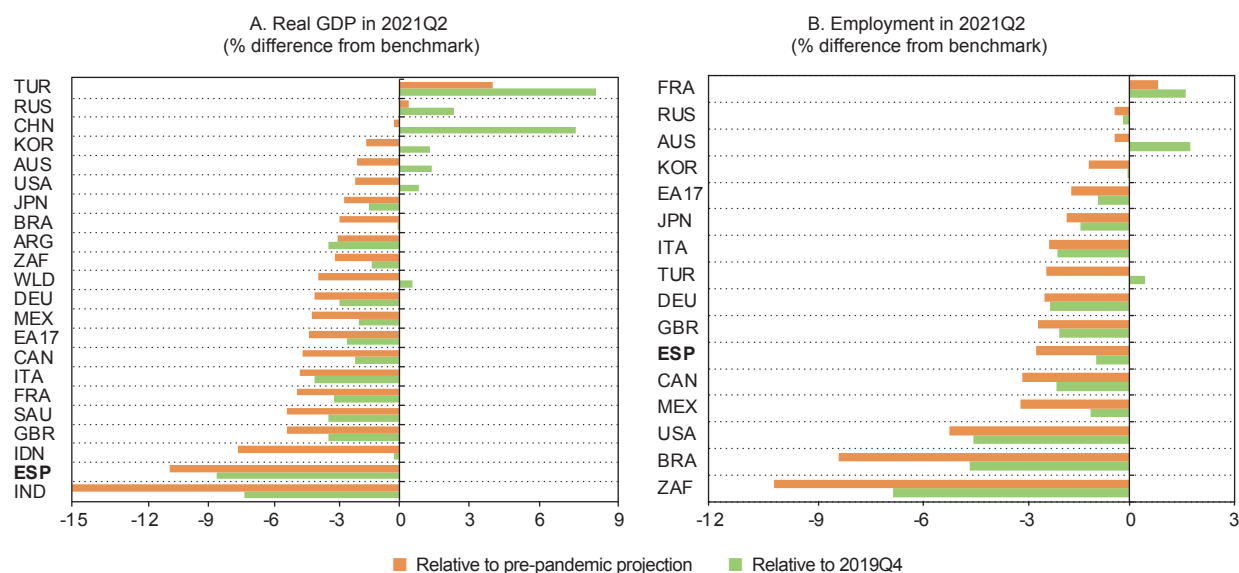
The remainder of this paper provides an assessment of the recovery through 2021 (Section 2), economic prospects for 2022-2023 (Section 3), and key health and macroeconomic policy priorities to support a full rebound from the pandemic (Section 4). Key structural policy priorities to enhance resilience and tackle longstanding challenges such as subdued growth, inequality, digitalisation and the need to shift to a low-carbon economy are considered in Section 5. A final short section concludes (Section 6).

## 2. Activity has rebounded, but the recovery is incomplete

*The development and gradual deployment of effective vaccines by the end of 2020 brought a pathway out of the crisis into sight.* Prospects for the global economy have improved considerably since then, but to a different extent across economies, reflecting differences in the capacity to provide continued policy support, sector specialisation, and the speed at which vaccination campaigns are proceeding. New more transmissible variants of the virus are continuing to emerge, requiring targeted restrictions on mobility and activity once more in many countries, particularly the ones with relatively low vaccination rates. Such restrictions have slowed the pace at which the most affected service sectors and tourism-dependent

FIGURE 2

## THE RECOVERY REMAINS UNEVEN WITH COUNTRIES FACING DIFFERENT CHALLENGES



SOURCE: OECD (2021a); and OECD calculations.

economies can rebound. In most advanced economies, the progressive rollout of vaccines and additional fiscal policy support has enabled the recovery to deepen and reduced the risks of sizeable long-term scarring from the pandemic. However, in many emerging-market and lower-income economies, the difficulties in obtaining and deploying vaccines and the more limited scope for policy support have brought considerable challenges.

*By mid-2021, global GDP surpassed its pre-pandemic level, but this is only the first step towards a complete recovery.* Output in mid-2021 was still 3½ per cent lower than projected before the pandemic, representing a real income shortfall of over USD 4½ trillion (in 2015 PPPs), the equivalent of around one year of global output growth in a normal year. Closing this gap is essential to avoid long-term scars from the pandemic via job and income losses.

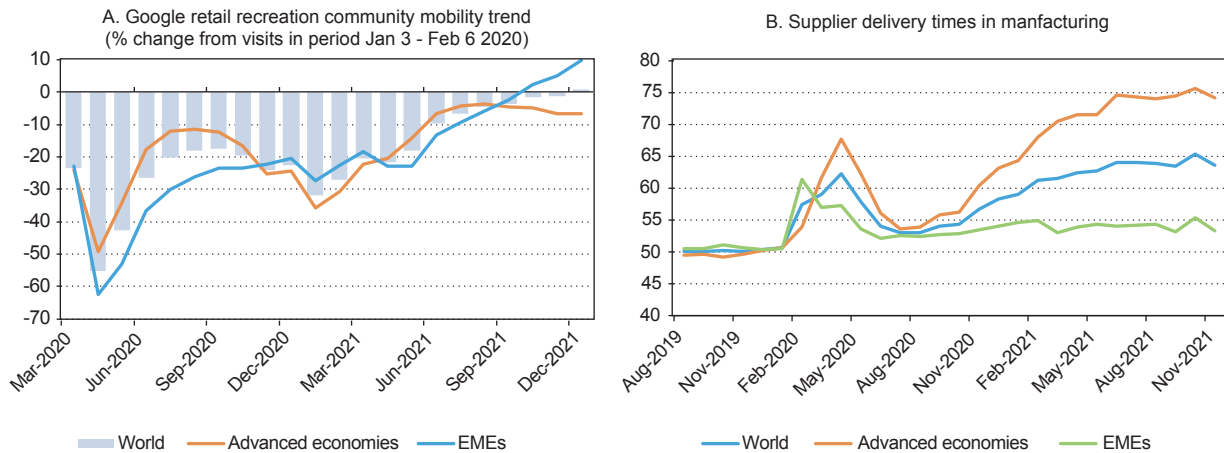
*The global recovery is thus becoming increasingly imbalanced.* Parts of the global economy are

rebounding quickly but others are at risk of being left behind, particularly lower-income countries where vaccination rates are low, and firms and employees in contact-intensive sectors where demand has yet to recover fully. These factors leave countries facing different policy challenges and make the outlook more uncertain. In some countries where output has already surpassed pre-pandemic levels, such as the United States, employment remains below pre-pandemic levels. In others, particularly in Europe, employment has been largely preserved, but output and total hours worked have not yet recovered fully (Figure 2). Rapid rebounds in activity have occurred in a few emerging-market economies, including China and Turkey, helped by strong fiscal and quasi-fiscal support, but in other countries, notably India, output remains far short of what was expected prior to the pandemic.

*Shortages have emerged in key parts of the global economy, including shipping and port capacity,*

FIGURE 3

## SUPPLY-SIDE BOTTLENECKS HAVE EMERGED ALONGSIDE THE RECOVERY IN GLOBAL ACTIVITY



NOTE: Data in Panel A are location-based indicators of mobility and aggregated using PPP weights. Data in Panel B are given by: 100 – Manufacturing Suppliers' Delivery Time PMI. Higher values indicate that a balance of firms are reporting longer delivery times.

SOURCE: Google LLC, *Google COVID-19 Community Mobility Reports*, <https://www.google.com/covid19/mobility>; Markit; and OECD calculations.

*semi-conductors and labour markets.* The strong surge in global demand and activity as many economies were reopened simultaneously (Figure 3, Panel A), and a shift in the composition of consumer spending from services to goods has outstripped the more hesitant recovery in production capacity in some sectors. This has resulted in long delays in supplier delivery times (Figure 3, Panel B) and a sharp decline in inventory levels, particularly in advanced economies, and significantly disrupted production in key sectors such as car manufacturing (Guilloux-Nefussi & Rusticelli, 2021).

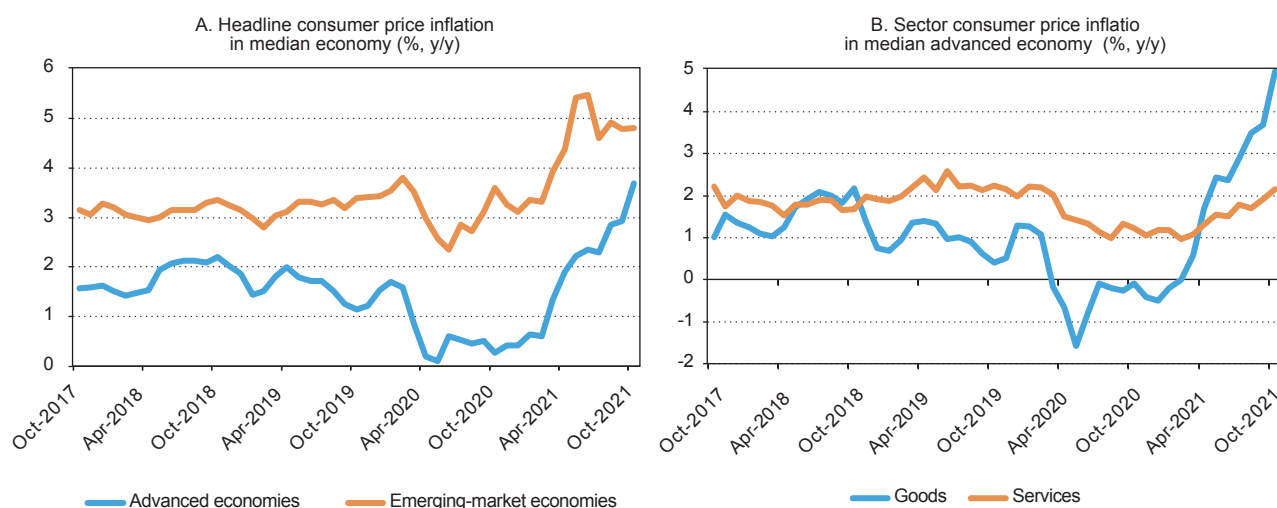
*Many companies are also experiencing difficulties in finding suitable workers, despite the less-than-complete recovery in hours worked and employment.* Survey indicators of labour shortages are above pre-pandemic levels in many countries and the number of unfilled vacancies has risen sharply. This reflects a variety of different factors. The pandemic has changed the composition and location of activities, the mix of

skills required, and matching efficiency. Labour force participation also remains below pre-pandemic levels in some countries, including the United States. Reflecting withdrawals from the labour force through early retirement or for COVID-19-related reasons. Shortages have also emerged in sectors such as agriculture, construction and hospitality that are normally reliant on sizeable cross-border inflows into the labour force. Permanent migration to OECD economies declined by around 30 % in 2020, and temporary labour migration also fell sharply.

*COVID-19 related and other supply disruptions have helped to push up energy commodity prices over the past year.* Oil prices more than doubled between June 2020 and late November 2021, and coal and natural gas price increases rose by around 8 times and 18 times respectively at their peaks in early October. The common factors in the surge in the prices of different energy commodities are restricted supply and the resurgence of demand as economies progressively reopened

FIGURE 4

## HEADLINE INFLATION HAS RISEN BUT IS MAINLY CONCENTRATED IN GOODS



SOURCE: OECD Consumer Price database; Statistics Bureau, Japan; and OECD calculations.

(Fernández Alvarez & Molnar, 2021). Beyond those basic shared features, however, there has been a range of specificities for the different commodities and particular markets.

Consumer price inflation has risen sharply around the world in 2021, pushed up by higher commodity prices, supply-side constraints, stronger consumer demand and the reversal of some sectoral price declines in the early months of the pandemic. Annual headline inflation and, to a lesser extent, core consumer price inflation have risen markedly in most countries over the past year (Figure 4, Panel A). Among large advanced economies, this is particularly the case for the United States, as well as, to a lesser extent, the United Kingdom, Germany and Canada. In many emerging-market economies, notably Turkey, Russia, Brazil and Mexico, inflation has significantly increased, pushed by high energy and food prices reflecting both strong food and energy price increases, supply-chain disruptions and, in some cases, currency depreciations. This has already prompted many

central banks in emerging-market economies to tighten monetary policy, even at a relatively early stage of their recovery, although Turkey is a notable exception.

Core inflation (excluding food and energy) in the median advanced economy remains close to or below central bank targets, at 2.2 % in October. Recent price rises have been particularly marked for durable goods—especially cars—where supply constraints are having a strong effect, and in some recently reopened contact-intensive service sectors. Overall, however, services price inflation remains modest and close to or below medium-term policy objectives for general inflation in many economies (Figure 4, Panel B).

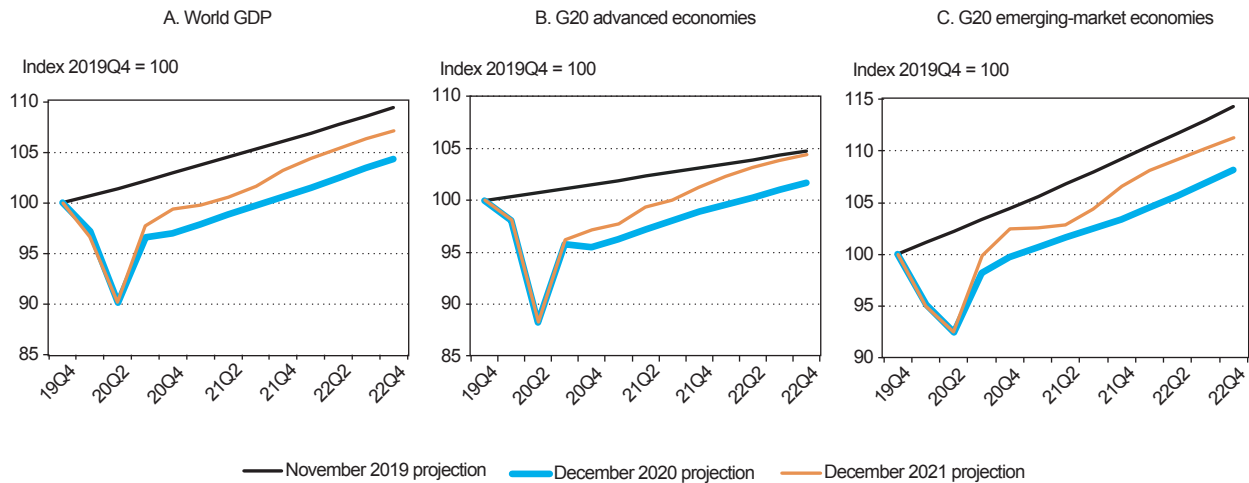
### 3. The gradual but uneven recovery is set to continue

The global economic recovery is projected to continue in the December 2021 OECD Economic Outlook, with world GDP growth of 5.6 % in 2021 and 4½ per cent



FIGURE 5

## A STEADY BUT UNEVEN RECOVERY IS SET TO CONTINUE



SOURCE: OECD (2021a).

in 2022 and 3¼ per cent in 2023 (OECD, 2021a; Figure 5). Enhanced global vaccination efforts, which are assumed to allow a full withdrawal of restrictions on cross-border activities by the end of 2022, supportive macroeconomic policies, accommodative financial conditions, improvements in confidence and labour market conditions, and lower household saving should all enhance demand and offset headwinds from the gradual unwinding of pandemic-related fiscal support measures. As demand patterns normalise, production capacity expands and more people return to the labour force, supply-side constraints and shortages should wane gradually through 2022-2023, helping to alleviate inflation pressures.

*Nonetheless, the recovery is expected to remain uneven.* In the near-term, vaccination campaigns are proceeding at different rates around the world, and the scale of macroeconomic policy support and the ability to reopen contact-intensive activities differs considerably across economies. This will affect the

prospects for a full recovery in all countries. New COVID-19 outbreaks are continuing to occur in some parts of the world, including in many European economies since November, extending some supply constraints and contributing to the loss of momentum visible in many high-frequency economic indicators in the latter part of 2021.

Most advanced economies are projected to return to their pre-pandemic output path by 2023 (Figure 5), albeit with greater debt than before the pandemic and with challenges from still-subdued underlying growth potential. In the euro area, the strong output recovery is expected to continue in 2022 and 2023, with GDP growth of 4¼ per cent and 2½ per cent respectively, although the renewed rise in COVID-19 infections will exert a near-term drag. The area-wide fiscal stance is projected to tighten modestly as emergency support to firms and households fades, but domestic demand should be buoyed by strong private consumption as household saving ratios decline to more normal levels

and the positive impact on investment from the *Next Generation EU* grants. This will be particularly beneficial for the economies hardest-hit by the pandemic.

A full recovery is also anticipated in a handful of emerging-market economies, but in most output seems likely to fall short of pre-pandemic expectations, particularly in lower-income countries, leaving sizeable long-term income scars from the crisis. The output shortfall from the pre-pandemic path at the end of 2022 in the median G20 emerging-market economy is projected to be twice that in the median G20 advanced economy (Figure 5), and particularly high in India. Growth in China was sustained into 2021 by strong exports, but is moderating due to the slowdown in investment in real estate and infrastructure and more frequent disruptions to power supply. Commodity exporters, including many Latin American countries, are benefitting from high export prices and strong global demand for goods. However, household real incomes are being hit by higher energy and food prices, and risks of further virus outbreaks remain high in many countries where vaccination rates are low. Scope to provide substantial policy support in some countries is also limited, with inflation rising and concerns remaining about fiscal sustainability.

*Headline consumer price inflation is projected to peak in the majority of advanced and emerging-market economies by the first quarter of 2022, before moderating gradually.* The impact of large increases in commodity prices, energy costs, supply shortages and higher transportation costs is expected to ease gradually through 2022-2023. In the OECD economies as a whole, annual consumer price inflation is projected to fall to around 3½ per cent by the end of 2022, from close to 5 % at the end of 2021, and ease to 3 % in 2023. Inflation is projected to remain above 2 % in the United States, the United Kingdom and Canada, prompting some gradual tightening of monetary policy. In the euro area, inflation is projected to settle between 1¾-2 per cent by 2023. Amongst the major emerging-market economies, upside inflation surprises have

been sizeable in Argentina, Brazil, Mexico, Russia and Turkey, and are likely to persist for some time. Economy-wide labour cost pressures are projected to remain moderate, despite signs of labour shortages in some sectors, with the recovery in labour markets from the pandemic not yet complete. Short-term household inflation expectations have risen, but longer-term market-based inflation expectations and private sector wage expectations generally remain moderate.

*These projections for output growth and inflation are subject to significant risks, which are tilted to the downside.* New COVID-19 variants may continue to appear, especially if the speed of vaccine deployment or the effectiveness of existing vaccines wanes, hitting growth prospects and adding to supply shortages. Persisting or deepening problems in the real estate sector and with power supply in China would also slow global growth, with particularly strong effects on commodity exporters and other Asian economies. Inflation could also remain elevated for longer than anticipated, through persisting supply pressures or a stronger and sustained surge in energy costs. In turn, this could trigger financial market repricing in anticipation of stronger monetary policy reactions. Such repricing could expose financial vulnerabilities from high debt and stretched asset valuations, and hamper the recovery in many emerging-market and lower-income economies. On the upside, faster vaccine deployment or a more substantial unwinding of the household savings and corporate cash holdings accumulated during the pandemic would boost growth further, although this could add to inflation pressures unless productive capacity is sufficiently enhanced.

#### **4. Continued policy support is required to ensure a complete and durable global recovery**

Given the uneven and incomplete global recovery, governments need to maintain supportive policies that can be adapted to economic developments and which



improve the prospects for sustainable and inclusive growth.

### **Enhancing global vaccination efforts remains a key priority**

A key multilateral priority is to provide all the resources necessary to deploy effective vaccinations as quickly as possible throughout the world to save lives, preserve incomes and bring the virus under control. The recovery will remain precarious and uncertain in all countries until this is achieved. Failure to vaccinate more globally raises the risk that further new, more transmissible variants continue to appear, with containment measures having to be reintroduced. Stronger international efforts are in particular needed to accelerate vaccination in low-income countries. These include vaccine supply and assistance to help overcome domestic logistical hurdles to vaccine deployment. Effective multilateral action is also required to share knowledge, medical and financial resources, and avoid harmful bans to trade. Such bans would be self-defeating given the strong cross-border linkages in supply chains for vaccines and healthcare products.

### **Macroeconomic policies need to remain flexible**

Macroeconomic policy support continues to be needed while the near-term outlook is uncertain and the recovery is far from complete, with the mix of policies dependent on economic developments in each country. Clear guidance from policymakers is required about the expected path towards medium term objectives, and the likely sequencing of future policy changes, to help anchor expectations, maintain investor confidence and ensure adequate support for the economy.

Monetary policy is still very accommodative in the major advanced economies, which is appropriate given that recovery is still uneven and incomplete. Clear communication is needed about the horizon and extent to which any overshooting of inflation will be

tolerated, together with guidance about the planned timing and sequencing of eventual moves towards policy normalisation. If the recovery proceeds as projected, sequential moves to gradually moderate support appear appropriate over the next two years in the major advanced economies, initially by phasing out emergency support measures and tapering asset purchases, and subsequently through higher policy interest rates and balance sheet reduction. Policy interest rates have already been raised in some smaller open advanced economies to help dampen inflation pressures. Further increases may be necessary to ensure price stability as yields rise in the major advanced economies. Macroprudential policy should also be deployed where necessary to mitigate financial market risks, especially in housing markets.

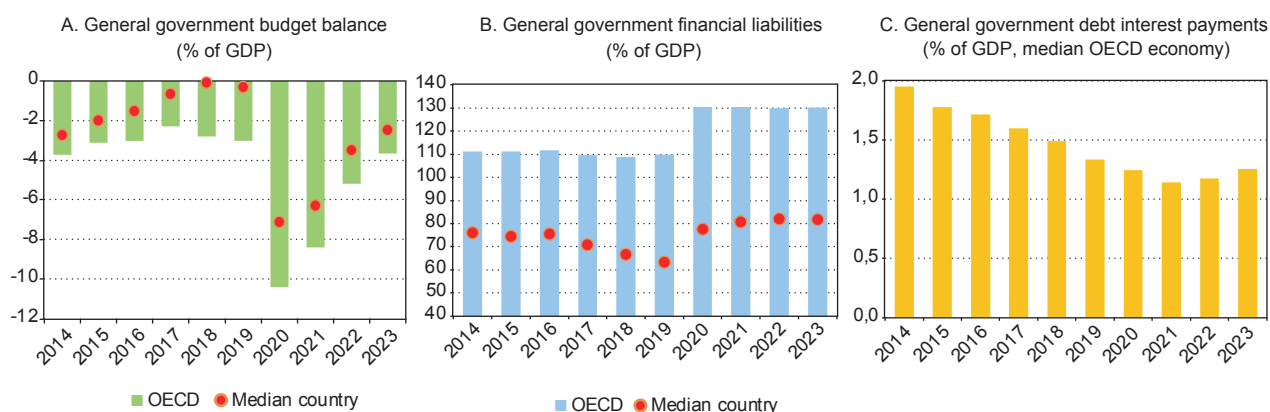
In the United States, the December 2021 *OECD Economic Outlook* projections incorporate a projected 150 basis point rise in policy interest rates in the latter half of 2022 and 2023. In the euro area, where underlying inflation pressures remain more moderate, the ECB is projected to reduce net asset purchases gradually through 2022-2023, but keep policy rates unchanged. The projected pace of mild policy normalisation over 2022-2023 implies a continued accommodative stance to support the recovery. Central banks should be ready to tighten policy more rapidly if the recovery is faster than expected or if signs of more broad-based or durable inflation pressures emerge.

Steps towards monetary policy normalisation should be well communicated and state-dependent, guided by financial conditions, sustained improvements in labour markets, signs of durable inflation pressures and the support being provided by fiscal policy. In the absence of clear guidance, a risk is that moves to slow asset purchases and initial increases in policy rates trigger significant repricing in financial markets by changing expectations of the timing of future changes in interest rates.

The monetary policy stance has already been tightened substantially in some major emerging-market

FIGURE 6

## DEBT SERVICING COSTS REMAIN LOW DESPITE HIGHER DEFICITS AND DEBT



NOTE: Median of OECD member countries for which projections are made.

SOURCE: OECD (2021a); and OECD calculations.

economies over the past year, amidst rising inflationary pressures. Higher long-term interest rates in the advanced economies may also restrict the room for policy manoeuvre. In countries with strong macroeconomic policy frameworks and a broad local investor base, only a modest rise in policy interest rates may be required provided inflation expectations remain well anchored. In others, further policy rate increases may be required to ensure stability and mitigate against potential adverse spillovers from financial market risks and currency depreciation.

Fiscal policy support should remain flexible and contingent on the state of the recovery. The strong fiscal stimulus implemented in 2020 and 2021, including in the United States and the euro area, continues to provide impetus for the recovery by supporting demand, preserving incomes, and ensuring ample spending on healthcare and vaccinations. Quantifying the full effects of this stimulus is challenging given the wide range of direct and indirect policy support provided. Nonetheless, recent studies highlight the extent to which it prevented a significantly deeper output decline

in 2020, with emergency support measures being relatively important at times of stringent containment measures, and the multipliers from spending to stimulate demand being higher once such containment measures were relaxed (Auerbach *et al.*, 2020, 2021; Gourinchas *et al.*, 2021; Deb *et al.*, 2021).

An abrupt withdrawal of policy support should be avoided whilst the near-term outlook is still uncertain. The removal of pandemic-related support will need to be gradual to minimise contractionary impacts on activity and preserve space to sustain higher levels of public investment.

Any moderation in fiscal spending in 2022 should come from contingent reductions in crisis-related spending as the economy strengthens and vaccination coverage expands, rather than substantial discretionary consolidation measures. Debt service burdens remain low, helped by the space provided by accommodative monetary policy, despite high deficits and rising debt levels (Figure 6). This provides room, while interest rates remain low, for additional fiscal support where needed to ensure a full and durable recovery.

Credible frameworks that provide clear guidance about the medium-term path towards sustainability, and the needed adjustment of fiscal policy to meet the challenges of the energy transition and future spending pressures, would help to maintain confidence and enhance the transparency of budgetary choices.

As the recovery progresses, the focus for policy should increasingly move towards improving the prospects for sustainable and equitable growth by changing the composition of public spending and taxation, including through additional public investment in health, digital and low-carbon infrastructure, and steps to increase the effective price of carbon emissions.

The fiscal situation varies considerably among emerging-market economies and developing countries, but many face difficult trade-offs between supporting incomes, providing adequate resources for the deployment of vaccines, and ensuring debt sustainability. Robust policy frameworks, improved revenue collection, and the reorientation of spending towards health and social priorities would help to maintain investor confidence and strengthen efforts to reduce the pandemic-related surge in poverty. Longer government debt maturities would also help to reduce the impact of any fluctuations in interest rates. International support for vaccinations and a stronger global safety net would help to bolster confidence in these economies.

In the longer-term higher debt will need to be addressed in most economies to ensure sufficient fiscal space to deal with future crises and longer-term challenges related to population ageing, rising healthcare costs and climate change. Higher economic growth and inflation would lower the debt-to-GDP ratio. Governments should also implement structural reforms to boost potential growth (OECD, 2019). Establishing budget processes that strengthen incentives for prudent long-term planning and provide comprehensive information about public finances would help shape budget decisions and debt sustainability. Establishing, or reinforcing, independent fiscal councils and creating long-term fiscal targets could also be helpful in this respect.

## 5. The COVID-19 pandemic may magnify longstanding pre-pandemic challenges

The pandemic has provoked a deep recession but also potentially lasting structural changes. Even prior to COVID-19, most countries were undergoing a number of major and potentially disruptive transitions related to digitalisation, population ageing, and decarbonisation although to different extents and at different paces. Many economies were facing a combination of slow economic growth, widening inequalities of income and/or wealth and access to opportunities, and increasing environmental challenges (OECD, 2020b). The COVID-19 shock may well magnify some of these longstanding pre-pandemic challenges, but also provides an opportunity to address them through enhanced and well-targeted structural reform efforts.

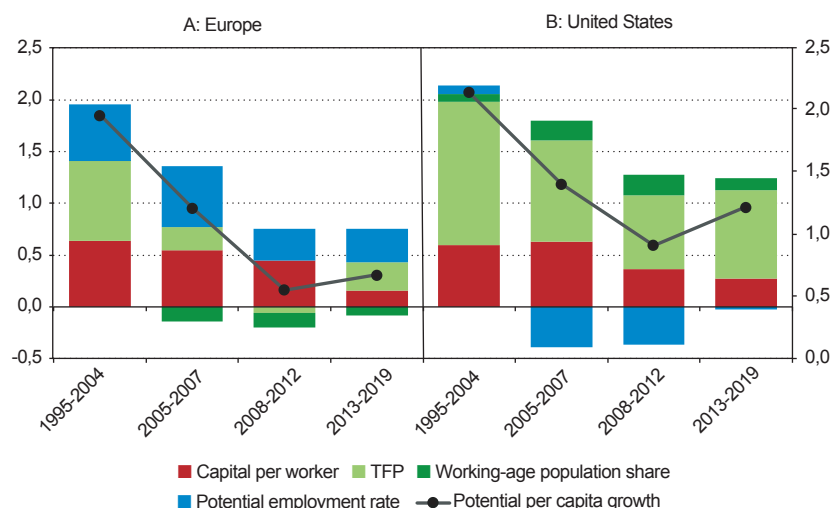
The sequencing of reforms will be particularly important to help the economic recovery gain traction. Measures with a fiscal dimension, such as planned public infrastructure investments in digital networks, transportation and energy, can help support demand, improve productivity and be an important source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

### Digitalisation has accelerated

Potential output growth had already declined significantly in OECD countries prior to COVID-19, driven by a marked slowdown in trend labour productivity growth (Figure 7). This partly reflected the adverse effects of uncertainty on capital deepening as well as increased market concentration, declining business dynamism and increasing productivity gaps between

FIGURE 7

### PRODUCTIVITY GROWTH HAD SLOWED PRIOR TO COVID-19 (Contributions to growth in potential output per capita, % pts)



NOTE: This figure decomposes growth in potential output per capita into the respective contributions (in percentage points) of its four key components based on a Cobb Douglas production function. 'Europe' only includes European countries with data available since 1995. These countries are Austria, Belgium, Finland, France, Germany, Greece, Italy, the Netherlands, Portugal and Spain.

SOURCE: OECD Economic Outlook Database.

top and bottom firms (Andrews *et al.*, 2016). Preliminary evidence suggests that potential output growth has declined in most economies, albeit to different extents, since the onset of the pandemic (OECD, 2021b).

The pandemic has seen significant changes across sectors and has accelerated digitalisation. In-person services, such as hospitality and travel, arts and recreation may emerge permanently smaller from the pandemic as consumer preferences evolve. A lasting shift towards remote working, reduced business travel and the increasing digital delivery of services, including the shift towards e-Commerce could also change business organisation, skills requirements, and the mix of jobs available and their locations. Digitalisation has accelerated amongst businesses, with firms adopting new digital tools for teleworking and smart working solutions (e.g. video

conferencing or access to cloud computing services). Use of online platforms has risen everywhere, but typically the most in countries with higher levels of economic and technological development, fewer restrictions on infrastructure access and connectivity, and better digital skills. Existing digital divides have been accentuated, with many lower income workers unable to telework, and SMEs continuing to lag behind larger firms in the adoption of more advanced digital technologies.

Effective and well-targeted policies are required to accelerate the digital transformation of public and private sector activities and 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, reducing barriers to market

entry, enhancing acquisition of digital skills, and ensuring secure online payments and data privacy, are all reforms that would help to foster the digital transformation. Investment in complementary intangible assets such as technical and managerial skills could also strengthen the productivity gains from digitalisation (Sorbe *et al.*, 2019).

Policies to facilitate the reallocation of resources between different sectors and activities are important, although the extent of reallocation required after the pandemic remains uncertain. In the face of these shocks, resources are not reallocated immediately or without costs. For example, workers may not have the right skills for new jobs, or be able to move to where new jobs are on offer. Supporting workers with appropriate training and re-training opportunities can ease the reallocation process. Targeting training courses to individuals and delivering them in a flexible manner, including through online teaching tools is particularly important to allow training to be combined with parttime work and irregular work schedules. Active labour market programmes (ALMPs), including employment services to help job search and placement can help displaced workers return to work (Cournède *et al.*, 2016). This may require additional resources for private and public providers of employment services to deal with the surge in jobseekers but also reforms to ensure that a greater part of their services can be delivered digitally (OECD, 2020c).

Reforms to spur business dynamism by strengthening competition and opening up product markets are also essential to spur productivity-enhancing reallocation, encourage new entrants, and help reduce the longstanding gaps between the best performing firms and others. Key steps include streamlining permits and licensing barriers, ensuring that product markets are open to foreign producers and investors (via trade and foreign investment), lower regulatory barriers in services and network sectors, and bankruptcy laws that do not overly penalise failure (OECD, 2021c; Andrews *et al.*, 2013).

### **An opportunity to accelerate the transition to more sustainable economies**

A durable, job-rich and productivity-enhancing recovery does not have to come at the cost of environmental sustainability. Governments have the opportunity to accelerate existing national plans towards a low-emissions economy and to meet national, and when applicable, international environmental targets.

A clear roadmap for the alignment of long-term price signals with environmental and climate policy objectives, including through carbon pricing and lower fossil fuel subsidies, would reduce environmental policy uncertainty and thereby lower a significant obstacle to the necessary innovation and investment in clean technologies. Well-designed infrastructure investment projects, including expanded and modernised electricity grids and spending on renewables (coordinated across countries where relevant), and projects with shorter payback periods, such as more energy-efficient buildings and appliances, can also serve the twin objectives of closing employment gaps and achieving climate-related goals.

Regulatory, innovation and financial policies are also essential to facilitate the environmental transformation, through the design of standards, the development of new financial instruments for long-term low-carbon projects, and support for the development and diffusion of new technologies. All such steps would need to be accompanied by a package of compensating measures to mitigate the adverse impact on poorer households, affected regions and small businesses, and to help displaced workers acquire new skills and take advantage of new employment opportunities.

### **Inequalities have been exacerbated**

COVID-19 has also exposed and exacerbated inequalities between countries just as it has within countries (G20, 2020; OECD, 2020d). The income and job losses are particularly stark for low-pay workers,

FIGURE 8

### THE RECOVERY IN LABOUR MARKETS REMAINS VERY UNEVEN (Total hours worked, percentage change from 2019Q4)



NOTE: Contact-intensive sectors are ones with high social interactions between consumers and producers. These include retail and wholesale trade, accommodation and food services, transportation and storage, arts and entertainment, and other personal services. Lower-contact sectors are all remaining sectors.

SOURCE: Bureau of Economic Analysis; Statistics Canada; Australian Bureau of Statistics; Eurostat; Office for National Statistics; and OECD calculations.

workers in non-standard jobs (*i.e.* the self-employed and those in temporary or part-time dependent employment) and workers in the informal economy that often lack adequate social protection coverage. In most countries, women and youth have been more heavily affected than men and older workers. Workers in lower-paid and contact-intensive sectors were the most affected by the shutdowns at the height of the pandemic, and continue to be relatively heavily affected (Figure 8). There is also a risk that the toll on poorer and vulnerable groups is high. Disruption to schooling caused by COVID-19 could have long-lasting impacts both on average productivity and on inequality. In 2020, 1.5 billion students in 188 countries were locked out of their schools at some point. An inclusive, sustainable and durable economic recovery will depend upon policies to improve access to opportunity for these groups.

One priority is to ensure that support continues to go to the poorest households, especially as assistance is

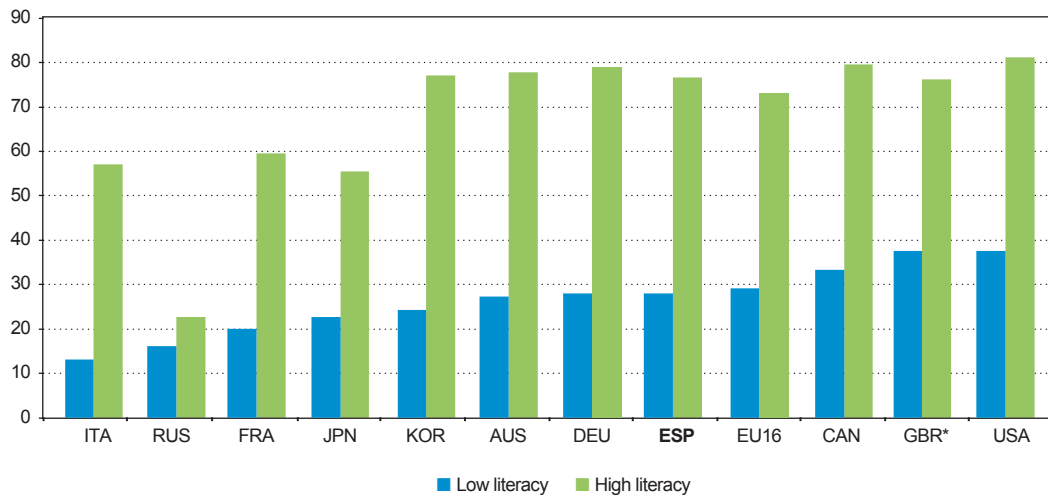
withdrawn and becomes more targeted. Policy support needs to focus on low-wage, low-skilled and informal workers, who often do not have sufficient digital skills, participate less in training (Figure 9) and do not have access to high-speed internet to tap new job vacancies or to telework. Substantial additional investments are needed in active labour market programmes, including employment services to help jobseekers find a job, and enhanced vocational education and training are required to create new opportunities for displaced workers, lower-skilled workers, and those still on reduced working hours. Participation in training while on reduced working hours, which has been encouraged in a number of OECD economies, can help workers improve the viability of their current job or improve the prospect of finding a new job.

Scarring risks are particularly acute for vulnerable groups (*e.g.* young people, women, minorities and migrants) highlighting the importance of training



FIGURE 9

### LOW-SKILLED ADULTS PARTICIPATE LESS IN TRAINING (% of adults involved in adult education or training)



NOTE: \* GBR is for England only. Low literacy refers to level 1 or below (adults are at most able to read short texts) and high literacy refers to level 4/5, where adults are able to at least perform multiple-step operations to integrate, interpret, or synthesise information from complex or lengthy continuous, non-continuous, mixed, or multiple type texts, as defined in the OECD Survey of Adult Skills (PIAAC). Adults refers to 25-65 year olds. Training refers to both formal and non-formal training.

SOURCE: OECD Survey of Adult Skills (PIAAC); and OECD calculations.

and labour market policies to prevent increases in inequality as well as to increase productivity and economic growth. Already before the pandemic, many young people struggled to gain a foothold in the labour market (Carcillo *et al.*, 2015; OECD, 2016). To support young people to complete their education, countries will need to deepen teachers' professional development and aid their effective use of technology to enable them to more effectively support disadvantaged students. In developing countries in particular, but also in advanced economies, students from poorer households often have limited access to technology and internet access, which may impede them from receiving adequate education. Some countries are introducing subsidies to help firms expand their apprenticeship and in-firm training programmes. Rapid and proactive outreach programs by public employment service (PES), in collaboration with

schools and youth organisations, and via social-media campaigns are important to connect with young people, as these often are not in contact with these institutions or are unaware of existing options.

## 6. Conclusions

After an unprecedented and sudden negative shock, a gradual but imbalanced global economic recovery is underway, helped by government and central bank support and by progress in vaccination. Global GDP is now above its pre-pandemic level, but many economies and people are falling behind, with countries emerging from the crisis facing different challenges. Large differences in vaccination rates between countries are adding to the unevenness of the recovery, and stronger and more persistent inflation pressures have emerged

in many economies at an unusually early stage of the economic cycle. In this uncertain environment, policy makers will have to continue to be flexible and policies should be contingent on economic developments.

The most likely outcome is for a continued global recovery, with GDP growth gradually moderating as spare resources are used up. Continued vaccination efforts, a normalisation of demand patterns, new production capacity and the return of more people to the labour force should ease supply-side constraints through 2022-2023, helping to keep inflation pressures in check. Nonetheless, significant risks remain, particularly from the risks of continued virus outbreaks and prolonged supply disruptions.

Thus, as set out in the December 2021 *OECD Economic Outlook*, a key global policy priority is to ensure that all resources necessary are used to deploy effective vaccinations as quickly as possible throughout the world to save lives, preserve incomes, enable borders to reopen safely and help alleviate some supply constraints. Stronger international efforts are needed to provide low-income countries with the resources needed to vaccinate their populations for their own and global benefits.

At the national level, macroeconomic policy support continues to be needed where the near-term outlook is still uncertain and labour markets have not yet recovered, with the mix of policies dependent on economic developments in each country. Clear guidance from policymakers about the expected path towards medium-term objectives and the likely sequencing of future policy changes would help to anchor expectations, maintain investor confidence and ensure adequate support for the economy.

As the focus of policy continues to switch from rescue to recovery, effective and well-targeted reforms are needed to enhance resilience, help deal with the legacies of the pandemic, and tackle longstanding structural challenges such as digitalisation and the need to lower carbon emissions sustainably. Continued income support for the poorest households, enhancing activation and skill

acquisition, and strengthening economic dynamism by tackling barriers to market entry, will maintain demand, improve labour market opportunities and help to foster productivity-enhancing reallocation. Environmental policy challenges differ across countries, but credible commitments to low-emission targets, early signals about the future trajectory of carbon prices and other measures to reduce emissions, and greater public sector support for innovation and investment will be of critical importance everywhere.

COVID-19 has reiterated the importance of looking beyond the short term and preventing, as well as building resilience against adverse shocks, including environmental emergencies. Priority should be on public investments in health, digitalisation, lowering emissions and training as well as providing adequate incentives (e.g. via pricing, regulation or taxes) for firms and households to invest in building resilience and sustainability with respect to incomes, health, environment or supply chains.

## Bibliographic references

- Andrews, D. & Criscuolo, C. (2013). Knowledge-Based Capital, Innovation and Resource Allocation. *OECD, Economics Department Working Papers No. 1046*. OECD Publishing, Paris. <https://dx.doi.org/10.1787/5k46bj546kzs-en>
- Andrews, D., Criscuolo, C. & Gal, P. N. (2016). The Best versus the Rest: The Global Productivity Slowdown, Divergence across Firms and the Role of Public Policy. *OECD, Productivity Working Papers No. 05*. OECD Publishing, Paris. <https://dx.doi.org/10.1787/63629cc9-en>
- Auerbach, A. J., Gorodnichenko, Y., McCrory, P. B. & Mruphy, D. (2020). Fiscal Multipliers in the COVID19 Recession. *Berkeley University*, First draft - 2020-12-01. <https://www.berkeley.edu/>
- Auerbach, A. J., Gorodnichenko, Y., McCrory, P. B. & Mruphy, D. (2021). Fiscal Multipliers in the COVID19 Recession. *Berkeley University*, WorkingDraft - 2021-09-26. <https://www.berkeley.edu/>
- Bergeaud, A., Cetto, G. & Lecat, R. (2016). Productivity trends in advanced countries between 1890 and 2012. *Review of Income and Wealth*, 62(3), 420-444.
- Carcillo, S., Fernández, R., Königs, S. & Minea, A. (2015). NEET Youth in the Aftermath of the Crisis: Challenges and

- Policies. *OECD Social, Employment and Migration Working Papers* No. 164. OECD Publishing, Paris. <https://dx.doi.org/10.1787/5js6363503f6-en>
- Cournède, B., Denk, O. & Garda, P. (2016). Effects of Flexibility-Enhancing Reforms on Employment Transitions. *OECD, Economics Department Working Papers* No. 1348. OECD Publishing, Paris. <https://dx.doi.org/10.1787/bd8e4c1f-en>
- Deb, P., Furceri, D., Ostry, J. D., Tawk, N. & Yang, N. (2021). The Effects of Fiscal Measures During COVID-19. *IMF, Working Paper* No. 262.
- Fernández Alvarez, C. & Molnar, G. (2021). What is behind soaring energy prices and what happens next? *IEA, Commentary*. <https://www.iea.org/commentaries/what-is-behind-soaring-energy-prices-and-what-happens-next>
- G20. (2020). Access to Opportunities for All Menu of Policy Options.
- Gourinchas, P. O., Kalemli-Özcan, S., Penciakova, V. & Sander, N. (2021). Fiscal Policy in the Age of COVID: Does it 'Get in all the Cracks?' *NBER, Working Paper* No. 29293.
- Guilloux-Nefussi, S. & Rusticelli, E. (2021). Supply-side disruptions are dragging down the automotive sector. *OECD Ecoscope blog*.
- OECD, Organisation for Economic Co-operation and Development. (2016). The NEET challenge: What can be done for jobless and disengaged youth? In OECD, *Society at a Glance 2016: OECD Social Indicators* (pp. 13-68). OECD Publishing. [https://dx.doi.org/10.1787/soc\\_glance-2016-4-en](https://dx.doi.org/10.1787/soc_glance-2016-4-en)
- OECD, Organisation for Economic Co-operation and Development. (2019). *Economic Policy Reforms 2019: Going for Growth*. <https://dx.doi.org/10.1787/aec5b059-en>
- OECD, Organisation for Economic Co-operation and Development. (2020a). *OECD Economic Outlook, Volume 2020 Issue 1*, No. 107. OECD Publishing, Paris. <http://dx.doi.org/10.1787/0d1d1e2e-en>
- OECD, Organisation for Economic Co-operation and Development. (2020b). *New horizons: Structural policies for a strong recovery and a sustainable, inclusive and resilient future*. OECD Publishing, Paris.
- OECD, Organisation for Economic Co-operation and Development. (2020c). Public employment services in the frontline for employees, jobseekers and employers. *OECD, Policy Responses to Coronavirus (COVID-19)*. <https://www.oecd.org/coronavirus/policy-responses/public-employment-services-in-the-frontline-for-employees-jobseekers-and-employers-c986ff92/>
- OECD, Organisation for Economic Co-operation and Development. (2020d). Distributional risks associated with non-standard work: Stylised facts and policy considerations. *OECD, Policy Responses to Coronavirus (COVID-19)*. [https://read.oecd-ilibrary.org/view/?ref=134\\_134518-2bfush541w&title=Distributional-risks-associated-with-/](https://read.oecd-ilibrary.org/view/?ref=134_134518-2bfush541w&title=Distributional-risks-associated-with-/)
- OECD, Organisation for Economic Co-operation and Development. (2021a). *OECD Economic Outlook, Volume 2021 Issue 2*, No. 110. OECD Publishing, Paris. <https://doi.org/10.1787/66c5ac2c-en>
- OECD, Organisation for Economic Co-operation and Development. (2021b). *OECD Economic Outlook, Volume 2021 Issue 1*, No. 109. OECD Publishing, Paris. <https://doi.org/10.1787/edfbca02-en>
- OECD, Organisation for Economic Co-operation and Development. (2021c). *Economic Policy Reforms 2021: Going for Growth: Shaping a Vibrant Recovery*. OECD Publishing, Paris. <https://doi.org/10.1787/3c796721-en>
- Sorbe, S., Gal, P., Nicoletti, G. & Timiliotis, C. (2019). Digital dividend: Policies to harness the productivity potential of digital technologies. *OECD, Economic Policy Paper* No. 26. OECD Publishing, Paris.