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Release of the OECD Economic Outlook, May 2021

Growth forecasts lifted by Biden and vaccines – Yet, an uneven recovery on the back of job precariousness and wage restraints

Paris, 1 June 2021

Key findings

- Released on the occasion of the OECD Ministerial, the Economic Outlook ([May 2021](#)) upgrades global GDP growth forecasts for 2021, from 4% in December 2020 and 5.6% in March to 5.8% today. The main drivers of the recovery are the US fiscal stimulus and speeding up of vaccination campaigns in advanced economies.
- Yet, these figures mask very divergent economic projections between developed and emerging market economies, which face enormous challenges in vaccinating the population, while also having more limited fiscal and monetary space to cope with the crisis.
- While the global economy is expected to recover faster than envisaged, signals on the labour market remain distressing: by March 2021, there were 7.5 million more people unemployed across the OECD than before the crisis. A figure that would have been far higher if it was not for the massive job retention schemes adopted across most OECD countries.
- Yet, the OECD warns that “*many jobs remain precarious*”. Women, youth and low-income workers face the highest risk of losing their jobs, while countries that suffered higher unemployment levels already prior to the pandemic, will also be the ones to face the slowest recovery in employment after Covid-19. Therefore, the OECD concludes that “*there is still a lot of slack in labour markets, restraining wage growth*”.
- Inflation is on the rise but, according to the OECD, it is mostly explainable as a short-term phenomenon, due to past year’s deflationary pressures, a short-term mismatch between demand and supply, and rising transport costs. In the long run, inflation is expected to remain moderate, particularly because of stagnating wages in most economies. The OECD does not delve deeper into this matter, but it should ring an important alarm bell, hinting to the fact that workers will keep bearing the costs of the crisis in the years to come, as well as to the fragility of aggregate demand in the longer term.
- The Economic Outlook flags a number of risk in the non-financial corporate sector, from the high level of corporate debt, depressing investment, to the eroding

quality of outstanding debt and the risk of “zombification” for those non-viable firms that survive on public support measures.

- In terms of policy requirements, the OECD confirms the need for sustained fiscal and monetary support and expansionary structural reforms, such as public infrastructure investment.
- Specifically on jobs, the proposed solution in the Economic Outlook remains limited, centred on education and re-skilling policies. The publication does not mention the need to strengthen labour market institutions and the important role that collective bargaining has to play in the recovery.

Robust GDP forecasts, with important cross-country differences

The latest edition of the OECD Economic Outlook, launched on 31 May 2021, raises expectations for a stronger economic recovery than envisaged only [three months ago](#). According to the projections, global GDP will rebound by 5.8% in 2021 and 4.4% in 2022, returning by the end of next year to pre-pandemic levels (Table 1). Still, it will remain below the level that was expected before the pandemic hit.

The United States will lead the recovery among G7 economies, at a sustained 6.9% GDP growth rate in 2021, thanks to the generous fiscal packages approved by the Biden administration and their positive spillover effect on the global economy (accounting for 1% of global GDP growth). Among non-OECD countries, China (+8.5% in 2021) and India (+9.9% in 2021) are pulling G20 growth expectations. In the euro area, growth is expected around 4.5% in both 2021 and 2022, thanks to a resurgence in consumption, manufacturing and exports, and expecting a relatively quick unrolling of vaccination campaigns. Japan will witness a modest recovery, at 2.5% and 2% in 2021 and 2022, respectively, since strict public health measures remain in place.

Table 1. **Macroeconomic forecasts, 2021-22**
OECD area, unless noted otherwise

	Average 2013-2019	2019	2020	2021	2022	2020 Q4	2021 Q4	2022 Q4
	Per cent							
Real GDP growth¹								
World ²	3.3	2.7	-3.5	5.8	4.4	-0.9	4.4	3.4
G20 ²	3.5	2.8	-3.1	6.3	4.7	-0.4	5.0	3.4
OECD ²	2.2	1.6	-4.8	5.3	3.8	-2.9	5.1	2.4
United States	2.5	2.2	-3.5	6.9	3.6	-2.4	7.4	1.5
Euro area	1.8	1.3	-6.7	4.3	4.4	-4.7	4.6	2.9
Japan	0.8	0.0	-4.7	2.6	2.0	-1.0	1.4	1.2
Non-OECD ²	4.3	3.7	-2.3	6.2	4.9	0.9	3.8	4.2
China	6.8	6.0	2.3	8.5	5.8	5.7	5.9	5.2
India ³	6.8	4.0	-7.7	9.9	8.2			
Brazil	-0.3	1.4	-4.1	3.7	2.5			
Unemployment rate⁴	6.5	5.4	7.1	6.5	6.0	6.9	6.4	5.7
Inflation^{4,5}	1.7	1.9	1.5	2.7	2.4	1.4	3.1	2.4
Fiscal balance⁶	-3.2	-3.1	-10.8	-10.1	-6.0			
World real trade growth¹	3.4	1.3	-8.5	8.2	5.8	-4.7	6.4	4.8

1. Percentage changes; last three columns show the change over a year earlier.

2. Moving nominal GDP weights, using purchasing power parities.

3. Fiscal year.

4. Per cent of labour force.

5. Private consumption deflator.

6. Per cent of GDP.

Source: OECD Economic Outlook 109 database.

As far as advanced countries are concerned, the major driver is the effective unrolling of national vaccination campaigns, which is allowing for a quicker re-opening of economic activities. On the contrary, emerging market economies still face considerable downside risks, due to limited access to vaccines, low capacity to deploy them and consequent risks of further Covid-19 outbreaks.

Uncertainty keeps characterising economic recovery

There are a number of factors that can affect current projections. On the negative side, the threat posed by virus mutations could render immunisation difficult even in countries with positive vaccination records, forcing new containment measures and, consequently, slowing down the economic recovery.

On the bright side, a surge in household consumption is to be expected, after the spike in savings during 2020 that reflected the high uncertainty (precautionary savings) and the limitation in consumption opportunities due to lockdown measures. In case of a strong rebound of consumption expenditure, advanced countries could witness an even larger than forecasted GDP recovery. On the other hand, this comes with risks for emerging markets, if it translates into higher inflation and a change in interest rate policy, leading to potential financial shocks in emerging financial markets.

A recovery on the back of job precariousness and wage restraints

Despite the positive news on the economic front, the labour market remains particularly fragile. By March 2021, there were 7.5 million more people unemployed across the OECD than before the crisis, with a spike in inactivity rates and a fall in aggregate employment. If it were not for the massive job retention measures, such as short-time work schemes and wage subsidies, the impact would have been much worse.

According to the Economic Outlook, *“women, youth and low-income workers have been particularly exposed to the risk of job losses during the pandemic”* (p. 20). Even in countries where strong protection schemes have been deployed during the crisis, *“many jobs remain precarious”* (p. 20), with total hours worked in several sectors at below pre-pandemic levels. Therefore, the OECD concludes that *“there is still a lot of slack in labour markets, restraining wage growth”* (p. 9).

In the coming eighteen months, a gradual recovery in employment conditions is expected, with a cumulative 1% fall in the OECD unemployment rate, from 7.1% in 2020 to 6% in 2022. This, however, will remain above pre-pandemic levels, containing wage growth in the coming period. Employment creation will be particularly strong in the United States, following the American Rescue Plan, at 3.5% of employment rate growth and 1.5% fall in the unemployment rate, already by the first quarter of 2022. The euro area and Japan will witness more modest surges in employment, largely because of stronger job protection schemes implemented during the crisis.

Despite the improvements, employment rates will remain below pre-pandemic levels at least in the medium term. Furthermore, countries that had already higher unemployment

levels before the crisis hit will also be those that will take longer time to recover, exacerbating cross-country employment gaps further.

Inflation is accelerating, but the trend is not expected to persist

Inflation has been surging faster than expected, according to most projections. Yet, the Economic Outlook expects the phenomenon to be of temporary nature, mostly caused by a quicker recovery in demand than supply and increased oil and transport costs. Limited wage pressures are among the main reasons why such surge in prices will be temporary only. According to the OECD, *“there is still a lot of slack in labour markets, restraining wage growth. [...] As long as inflation expectations remain well anchored and wage growth remains subdued, we are confident that central banks will remain vigilant but look through these temporary price rises”* (pp. 10-11). The OECD does not delve deeper into this matter, but it should ring an important alarm bell, hinting to the fact that workers will keep bearing the costs of the crisis in the years to come, as well as to the fragility of aggregate demand in the longer term.

Risks in the non-financial corporate sector

The Economic Outlook warns about three major risks in the private business sector: the high level of corporate debt is depressing investment, particularly in sectors that were severely hit by the crisis (energy, consumer services and transportation); the level of corporate debt increased rapidly, while the quality of outstanding debt contemporary fell, with 30% of the pending non-financial corporate debt stock rated as “speculative” and another 40% at the barely investible BBB rating level; finally, the risk of “zombification” of non-viable firms that survive only thanks to generous fiscal support programmes introduced by governments during the crisis.

Policy requirements

Despite the growth prospects, the OECD maintains its rightful stance in support of prolonged monetary and fiscal support, in the face of persisting risks and labour market uncertainties. As declared in the Economic Outlook, *“fiscal and monetary policy support should be maintained while there is still labour market slack and limited signs of sustained price pressures. The premature and abrupt withdrawal of support should be avoided whilst economies are still fragile and growth remains hindered by containment measures and the pace of vaccinations”* (p. 48).

In particular, there is a need to increase vaccine production capacity in the short term, as well as distribute vaccines to emerging market economies. Tighter global co-ordination and co-operation is necessary in order to achieve this objective.

Monetary policy ought to remain accommodative for the time being, in order to support fiscal efforts in most advanced countries. Recent inflation spikes might lead to a rise in interest rates, particularly by the Federal Reserve, if prolonged in time. This could represent a serious downfall risk for emerging economies.

Public debt levels in advanced countries do not represent an immediate concern, as long as economic growth is secured. Yet, the Economic Outlook introduces consideration for

the post-crisis period, suggesting a review of government expenditure frameworks and tax systems, to reflect emerging priorities such as the environment and the digital economy.

In terms of structural reforms, the Economic Outlook highlights the need to carefully plan the type of intervention in order to underpin the recovery, starting with fiscally expansionary measures, such as *“public infrastructure investments in digital networks, transportation and energy, [that] can help support demand, improve productivity and be an important source of new jobs for displaced workers”* (p. 55). Next to it, income support to lower-income households and activation and skill acquisition policies are advised.

A difficult balance will have to be found between continued support to firms and households in distress during the crisis, and the need to smoothly “guide” the recovery in terms of green, digital and inclusive policies, avoiding crystallising the economy.

Conclusion

Despite first encouraging signs of economic recovery, the current edition of the Economic Outlook maintains a reasonable and accommodative stance towards public intervention, fiscal and monetary policy, highlighting the risks of removing public support too soon. When it comes to structural reforms, it clearly affirms that the priority should not be market liberalisation (which remains a favoured instrument for the OECD), but fiscally expansionary measures, such as investment in public infrastructure.

Yet, when it comes to the labour market, the Economic Outlook maintains a traditional and narrow set of recommendations, mostly centred on the need to skill and train workers. In the face of surging unemployment and stagnating wages, it fails to mention the role of stronger labour market institutions and collective bargaining to strengthen the recovery and reinforce consumption and aggregate demand, as well as pushing companies to compete in terms of capital investments in productivity rather than labour cost.

Publication des Perspectives économiques de l'OCDE, mai 2021

Des prévisions de croissance relevées par Biden et les vaccins - Mais une reprise inégale due à la précarité de l'emploi et aux restrictions salariales

Conclusions principales

- Dans ses Perspectives économiques ([mai 2021](#)), l'OCDE revoit à la hausse ses prévisions de PIB mondial pour 2021, passant de 5,6 % [en mars](#) à 5,8 % aujourd'hui. C'est un chiffre considérable, surtout si l'on tient compte du fait que fin 2020, les projections de croissance de l'OCDE pour 2021 se situaient encore autour de 4 %. Les principaux moteurs de la reprise sont la relance budgétaire américaine et l'accélération des campagnes de vaccination dans les économies avancées.
- Pourtant, ces chiffres masquent des projections économiques très divergentes entre les économies développées et les économies de marché émergentes, qui doivent relever d'énormes défis pour vacciner la population, tout en disposant d'une marge de manœuvre budgétaire et monétaire plus limitée pour faire face à la crise.
- Alors que l'économie mondiale devrait se redresser plus rapidement que prévu, les signaux sur le marché du travail restent alarmants : en mars 2021, il y avait 7,5 millions de chômeurs de plus dans l'OCDE qu'avant la crise. Les femmes, les jeunes et les travailleurs à faible revenu sont les plus exposés au risque de perdre leur emploi, tandis que les pays qui connaissaient déjà des niveaux de chômage plus élevés avant la pandémie seront également ceux qui connaîtront la reprise de l'emploi la plus lente après Covid-19. Pourtant, la solution proposée dans les Perspectives économiques reste très limitée, centrée sur les politiques d'éducation et de requalification. La publication ne mentionne pas la nécessité de renforcer les institutions du marché du travail et le rôle important que la négociation collective doit jouer dans la reprise.
- L'inflation est en hausse, mais selon l'OCDE, il s'agit principalement d'un phénomène à court terme, dû aux pressions déflationnistes de l'année dernière, à une inadéquation à court terme entre la demande et l'offre, et à la hausse des coûts de transport. À long terme, l'inflation devrait rester modérée, notamment en raison de la stagnation des salaires dans la plupart des économies. L'OCDE n'approfondit pas cette question, mais elle devrait tirer une importante sonnette d'alarme, faisant allusion au fait que les travailleurs continueront à supporter les coûts de la crise dans les années à venir, ainsi qu'à la fragilité de la demande globale à plus long terme.
- Les Perspectives économiques signalent un certain nombre de risques dans le secteur des entreprises non financières, depuis le niveau élevé de l'endettement des entreprises, qui déprime l'investissement, jusqu'à l'érosion de la qualité de l'encours de la dette et le risque de "zombification" pour les entreprises non viables qui survivent grâce aux mesures de soutien public.
- En termes d'exigences politiques, l'OCDE confirme la nécessité d'un soutien budgétaire et monétaire soutenu et de réformes structurelles expansionnistes, telles que l'investissement dans les infrastructures publiques.

Publicación de las Perspectivas Económicas de la OCDE, mayo de 2021 Biden y las vacunas elevan las previsiones de crecimiento - Sin embargo, una recuperación desigual por la precariedad del empleo y la contención salarial

Principales conclusiones

- Las Perspectivas Económicas de la OCDE ([mayo de 2021](#)) mejoran sus previsiones de PIB mundial para 2021, pasando del 5,6% [en marzo](#) al 5,8% actual. Se trata de una cifra considerable, sobre todo si se tiene en cuenta que a finales de 2020 las previsiones de crecimiento de la OCDE para 2021 aún se situaban en torno al 4%. Los principales motores de la recuperación son el estímulo fiscal estadounidense y la aceleración de las campañas de vacunación en las economías avanzadas.
- Sin embargo, estas cifras enmascaran proyecciones económicas muy divergentes entre las economías desarrolladas y las de mercados emergentes, que se enfrentan a enormes retos para vacunar a la población, al tiempo que disponen de un espacio fiscal y monetario más limitado para hacer frente a la crisis.
- Aunque se espera que la economía mundial se recupere más rápido de lo previsto, las señales en el mercado laboral siguen siendo angustiosas: en marzo de 2021, había 7,5 millones más de personas desempleadas en toda la OCDE que antes de la crisis. Las mujeres, los jóvenes y los trabajadores de bajos ingresos son los que corren mayor riesgo de perder sus puestos de trabajo, mientras que los países que ya sufrían mayores niveles de desempleo antes de la pandemia serán también los que se enfrenten a una recuperación más lenta del empleo después de Covid-19. Sin embargo, la solución propuesta en las Perspectivas Económicas sigue siendo muy limitada, centrada en las políticas de educación y recualificación. La publicación no menciona la necesidad de reforzar las instituciones del mercado laboral ni el importante papel que debe desempeñar la negociación colectiva en la recuperación.
- La inflación está en aumento, pero según la OCDE se puede explicar sobre todo como un fenómeno a corto plazo, debido a las presiones deflacionistas del año pasado, a un desajuste a corto plazo entre la demanda y la oferta y al aumento de los costes del transporte. A largo plazo, se espera que la inflación siga siendo moderada, sobre todo por el estancamiento de los salarios en la mayoría de las economías. La OCDE no profundiza en este asunto, pero debería dar una importante señal de alarma, aludiendo al hecho de que los trabajadores seguirán soportando los costes de la crisis en los próximos años, así como a la fragilidad de la demanda agregada a largo plazo.
- Las Perspectivas Económicas señalan una serie de riesgos en el sector empresarial no financiero, desde el alto nivel de deuda empresarial, que deprime la inversión, hasta la erosión de la calidad de la deuda pendiente y el riesgo de "zombificación" de las empresas no viables que sobreviven gracias a las medidas de apoyo público.
- En cuanto a las necesidades políticas, la OCDE confirma la necesidad de un apoyo fiscal y monetario sostenido y de reformas estructurales expansivas, como la inversión en infraestructuras públicas.