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Written Statement to the International Monetary Fund Committee

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The Global Economic Outlook

1. **The deployment of COVID-19 vaccines, combined with continued strong macroeconomic policy support, has spurred a robust recovery of economic activity and employment in advanced economies, as well as China and some other emerging market economies.** By mid-2021, global GDP had surpassed its pre-pandemic level, although real income is over USD 4.5 trillion (in 2015 PPPs) less than it would have been in the absence of the pandemic.

2. **The recovery remains very uneven, with strikingly different outcomes across countries, sectors and demographic groups in terms of output and employment.** The spread of the more transmissible Delta variant is a particular threat for countries with low levels of vaccination and limited scope for policy support, including many emerging-market and developing economies. Consumer spending has recently slowed in many advanced economies, and new containment measures to contain the spread of the Delta variant, particularly in the Asia-Pacific region, have added to pressures on global supply chains and provoked price spikes. Notably, shortages in semiconductors caused by pandemic-related shutdowns in chip production and key ports have disrupted car production, and supplier delivery times and shipping costs have risen rapidly.

3. **Headline consumer price inflation has picked up around the world in recent months, pushed up by higher commodity prices, stronger consumer demand as economies reopen, supply-side constraints and the reversal of some sectoral price declines in the early months of the pandemic.** In many emerging-market economies, inflation has been driven up by energy and food, reflecting both strong price increases and the relatively high share of commodities in consumers' expenditure.

4. **Core inflation (excluding food and energy) has also risen, but in most advanced economies remains at a similar rate to that observed prior to the pandemic.** Recent price rises have been particularly marked for durable goods – especially cars -- where supply constraints have held output below demand, and in some recently reopened contact-intensive service sectors. Overall, however, services price inflation remains modest and below medium-term policy objectives for general inflation in many advanced economies.

5. **The global economic recovery is projected to continue but remain uneven.** Global GDP growth is projected to reach 5¾ per cent in 2021 and 4½ per cent in 2022. Near-term momentum has moderated in some countries due to the impact of the Delta variant and temporary supply constraints, but these factors are projected to unwind over time, with shortfalls in growth in the latter half of 2021 being made up through faster recoveries in 2022. Strong support from macroeconomic policies and accommodative financial conditions should continue to underpin demand in the advanced economies.

    - GDP growth in the United States, euro area, United Kingdom and Canada is projected to be above 5% in 2021 and around 4% or more in 2022.

- A steady recovery should also resume in Japan as infections abate and sanitary restrictions are lifted.

- Prospects in emerging-market and developing economies are more mixed: for example, while projected growth remains robust in China and India, some slowing is projected in a number of other economies in which policy interest rates have been raised to stabilise rising inflation expectations, including Brazil, Mexico and South Africa.

6. **The annual rate of consumer price inflation in the G20 economies is projected to peak by the fourth quarter of 2021, at around 4½ per cent, before slowly receding next year.** Inflation has risen particularly quickly in recent months in the United States, Canada and the United Kingdom, and even with some easing of price pressures through next year, average annual inflation in 2022 is projected to be around 2¾ to 3 per cent. Core consumer price inflation is projected to remain below the inflation target in the euro area and Japan, but will pick up as the recovery progresses. Amongst the major emerging-market economies, upside surprises have been sizeable in Argentina, Brazil, Mexico, Russia and Turkey, and are likely to persist for some time.

7. **The impact of rising commodity prices and shipping costs on inflation is projected to diminish as supply capacity expands and costs stabilise.** Base effects on annual inflation from price declines for some goods and services in 2020 will also fade. Underlying domestic cost pressures should generally remain moderate, with the recovery in labour markets from the pandemic still incomplete. Inflation is expected to settle at a level above the rates seen prior to the pandemic, which, while welcome in itself after many years of below-target inflation outcomes, also points to some risk of an upward drift beyond central bank targets.

8. **The distribution of risks is now better balanced than a year ago, but significant uncertainty remains.** On the upside, faster global progress in deploying effective vaccines would boost confidence and spending by consumers and companies and encourage a faster unwinding of the additional household savings accumulated since the outset of the pandemic. This could allow global GDP to grow by over 6¼ per cent in 2022, with global output returning to the path expected prior to the pandemic, and unemployment returning to pre-pandemic rates in the typical economy. At the same time, stronger demand would put upward pressures on inflation and potentially raise financial market expectations of an earlier start to monetary policy normalisation in the advanced economies, which could create difficulties for some emerging-market economies if the prospect of higher interest rates triggers shifts in capital flows. The major downside risk is that the speed of vaccine deployment, and the effectiveness of existing vaccines, will be insufficient to stop the transmission of variants of concern, resulting in a need for new or modified vaccines. In such circumstances, stricter containment measures might need to be re-employed, and output would remain weaker than the pre-crisis path for an extended period. World GDP growth could drop to under 3% in 2022, with unemployment rising further.

9. **Inflation could surprise on the upside if inflation expectations shift upwards, or if wage pressures intensify.** Inflation expectations generally remain moderate outside of the United States, but persistent supply shortages could push current inflation and expectations up further. While there is so far little sign of increased inflation expectations feeding into wage pressures, labour shortages in certain sectors have been reflected in large wage increases in particular industries and occupations. Notably, sizeable increases in wages have been occurring in some contact-intensive sectors that have reopened in the United States, such as leisure and hospitality. Survey indicators in North America and Europe point to labour shortages, especially for small businesses and sectors dependent on seasonal and cross-border workers, suggesting additional upward wage pressure if labour supply fails to rebound fully.

Policy Requirements

10. **The rapid production and deployment of vaccines throughout the world remains the top policy priority.** This will both save lives and preserve incomes. The recovery will remain precarious and uncertain in all countries until this is achieved. Failure to ensure the global suppression of the virus raises the risk that further new, more-transmissible variants continue to appear, necessitating the reintroduction of containment measures.

11. **Stronger international efforts are needed to provide low-income countries with the resources needed to vaccinate their populations for their own and global benefits.** Such efforts 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.

12. **Given continued uncertainty about the profile of the recovery and with labour markets having not yet fully recovered, macroeconomic policy support continues to be needed, with the mix of policies contingent on economic developments in each country.** Where the recovery in labour markets is well advanced and vaccination efforts are almost complete, the focus should be increasingly on medium-term objectives, rather than emergency policy support. In other countries, where the recovery or the pace of vaccinations is less advanced and containment measures are still being deployed, targeted policy support remains needed to help support demand and the incomes of workers and companies in contact-intensive sectors.

13. **Clear guidance from policymakers is required about the expected path towards medium-term objectives and the likely sequencing of future policy changes.** This will help anchor expectations, maintain investor confidence and ensure adequate support for the economy. In the case of fiscal policy, credible frameworks that provide clear guidance about the medium-term path towards sustainability, and the likely policy changes along that path, would help to maintain confidence and enhance the transparency of budgetary choices. As regards monetary policy, temporary overshooting of headline inflation because of temporary factors should continue to be tolerated by central banks in the major advanced economies provided underlying price increases are contained and inflation expectations remain well anchored. Nonetheless, clear communication is needed about the horizon and extent to which any such overshooting will be tolerated, together with guidance about the planned timing and sequencing of eventual moves towards policy normalisation.

14. **Key steps towards eventual monetary policy normalisation should be sequential.** Removal of emergency measures to ensure well-functioning financial markets, as has already begun, is the first step, with an eventual stabilisation of central bank balance sheets (by limiting asset purchases to the reinvestment of the proceeds from maturing assets), and subsequently increases in policy interest rates. Such steps should be well communicated and state-dependent. In the absence of clear guidance, a key risk is that moves to reduce asset purchases and initial increases in policy rates trigger significant dislocation in financial markets as expectations of the timing of future policy tightening shift abruptly.

15. **Any upturn in interest rates in the advanced economies would further restrict the room for manoeuvre in many emerging-market economies.** This is particularly the case for countries facing strong upward pressure on inflation from commodity price increases and currency depreciation. In countries with strong macroeconomic policy frameworks and a broad local investor base, accommodative monetary policy can be maintained, 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.

16. **Fiscal policy support should remain flexible and contingent on the state of the economy.** The strong fiscal stimulus being implemented this year, 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. An abrupt withdrawal of policy support should be avoided whilst the near-term outlook remains uncertain, with any moderation in fiscal spending in 2022 coming from reductions in crisis related spending as the economy strengthens, rather than substantial discretionary consolidation measures. Despite high public debt levels, debt service burdens remain low, providing room for sustained fiscal support to ensure a full and durable recovery.

17. **As the recovery progresses, the focus for policy should increasingly move towards improving the prospects for sustainable and equitable growth.** This includes additional public investment in health, digital and low-carbon infrastructure and changes in the composition of taxation. Policy actions to ensure debt sustainability should be a priority only once the recovery is well advanced and labour market conditions have returned to pre-pandemic levels.

18. **The international community can improve the equity and sustainability of the global tax system by swiftly concluding the proposed global agreement on the challenges for corporate taxation arising from digitalisation.** The two-pillar package – the outcome of negotiations coordinated by the OECD for much of the last decade – aims to ensure that large Multinational Enterprises (MNEs) pay tax where they operate and earn profits, while adding much-needed certainty and stability to the international tax system. The global minimum corporate income tax under Pillar Two – with a minimum rate of at least 15% – is estimated to generate around USD 150 billion in additional global tax revenues annually. Additional benefits will also arise from the stabilisation of the international tax system and increased tax certainty for taxpayers and tax administrations.

19. **Macroeconomic policy support needs to be accompanied by effective and well-targeted reforms to enhance resilience, help deal with the legacies of the pandemic, and strengthen the prospects for sustainable and inclusive growth.** In virtually all economies, the pandemic provoked a deep recession and major structural changes. It remains unknown how long-lasting the effects will be, but the shocks have underlined the importance of policies to facilitate the reallocation of resources between activities.

20. **The need to accommodate the shifts in activity arising from the pandemic at minimum cost, and address the potential long-term costs from the disruption to schooling during the pandemic, adds to the pre-COVID-19 challenges requiring structural policy action.** Many OECD economies were characterised by high and often growing inequalities of income, opportunities and wealth, and all were faced with a host of challenges arising from the digitalisation of the economy and the need to address the threat of climate change. Governments need to seize the opportunity at a time when macroeconomic policies are supportive and demand is rising quickly to accelerate reforms. This will ensure that the extraordinary support mobilised to combat the current crisis, including plans to boost public investment, also advances longer term objectives.

21. **A key priority is to support people by maintaining adequate income support for those most in need whilst enhancing reforms that improve labour market opportunities, alleviate skill shortages and foster reallocation.** Many countries face particularly important challenges in reforming their labour markets. Nearly two-fifths of the recommendations made by the OECD in its 2021 *Going for Growth* report are for reforms to improve the functioning of labour markets and improve job prospects. Substantial additional investments are needed in activation, and enhanced vocational education and training to boost skills and create new opportunities for displaced workers, lower-skilled workers, youth and those still on reduced working hours. Targeting training courses to individuals and delivering them in a flexible manner, including through online teaching tools can help to allow training to be combined with part time work and irregular work schedules.

22. **The substantial fiscal resources being mobilised to support the economy during the pandemic can also be redirected to the digital and low-carbon transformations as the need for emergency income support diminishes.** Improving broadband connectivity, helping firms develop online business models and enhancing digital skills are all areas in which further reforms would accelerate the adoption of digital 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.

23. **Climate change and the degradation of our environment are the defining challenges of this generation and require an all-hands-on-deck approach.** Global carbon dioxide (CO_2) emissions must decline by 45% (compared to 2010 levels) by 2030 and reach at least net-zero globally by 2050 to hold the increase in global average temperature to 1.5°C above pre-industrial levels. The OECD's comprehensive organisation-wide approach to supporting climate action highlights the importance of policies to enhance innovation and investment while retaining a strong focus on inclusiveness and public acceptability. Effective action also requires an enhanced focus on monitoring, indicators and accountability, as set out in the OECD's new International Programme for Action on Climate (IPAC). The OECD has also proposed the development of an internationally comparable approach to carbon pricing, building on the experience of the OECD-G20 Inclusive Framework for the taxation of the digital economy.

24. **During the OECD's 2021 Ministerial Council Meeting on 5-6 October, OECD Members met for discussions around the theme "Shared Values: Building a Green and Inclusive Future",** under the chairmanship of the United States and the vice-chairmanship of the Republic of Korea and Luxembourg.

25. **Ministers welcomed a number of new OECD tools and standards that will help optimise the strength and quality of the recovery from COVID-19, including:**

- an Indicator Dashboard to Guide a Strong, Resilient, Green and Inclusive Post-COVID-19 Recovery;

- the IPAC Preliminary Dashboard;
- a Policy Framework for Gender-sensitive Public Governance; and
- a Report on the implementation of the Recommendation on Integrated Mental Health, Skills and Work Policy.

26. **They also adopted:**

- the OECD's 60th Anniversary Vision Statement;
- the OECD's Global Relations Strategy;
- a Recommendation on Enhancing Access to and Sharing of Data;
- a Recommendation on Transparency and Procedural Fairness in Competition Law Enforcement;
- a Recommendation for Agile Regulatory Governance to Harness Innovation; and
- the 2021 OECD Ministerial Council Statement.