



*Business at OECD (BIAC)*

# **2021 Economic Policy Survey**

*“No time for complacency”*



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## Key findings

- Members report a significant improvement in the business climate, compared to our last survey in spring 2020, in line with an improving outlook thanks to the gradual rollout of vaccines and ongoing public support. This is also reflected in a better outlook for exports and business investment as well as for financing conditions which remain broadly supportive as in 2020.
- At the same time, our survey results underline that the recovery pace is expected to be quite uneven across OECD member countries and sectors, with some countries expecting GDP to have already recovered by mid-2021, while others expect recovery only after the end of 2022. Overall, recovery of the labor market is expected to proceed at a slower pace than that of GDP as expectations for hiring and the unemployment rate highlight.
- While survey participants consider the size of public support programs as broadly appropriate, or in some cases slightly too large, they highlight that programs are not always well-designed. Areas for improvement include: better targeted and in some cases more time-limited support, swifter and less bureaucratic procedures for business access, and better alignment with longer-term objectives. Moreover, few respondents note that governments have developed adequate exit strategies of when to end support, while adequate strategies on how to deal with high debt burdens are still largely absent, too.
- As regards longer-term structural considerations, all participants expect to see a significant increase in insolvencies over the next two years, especially in the hospitality and tourism sectors. Participants also report some concern about a possible misallocation of resources as a result of emergency support measures and voice some concern about financial fragilities over the medium- to long-term. Participants are, however, currently not concerned about an overheating economy with large inflation surges.
- Considering the importance of structural reforms to build resilience and strengthen long-term growth, it is concerning to see that almost all respondents regard policy reform intensity in their countries as lackluster. The lack of political unity and the lack of political will or leadership are regarded as key obstacles to reform. In terms of reform priorities, we saw important shifts with the green transition, digital transition, human capital formation, efficiency of general taxation/tax structure, and data governance/data protection considered as the top 5 reform priorities for 2021 by our members.

## Policy messages

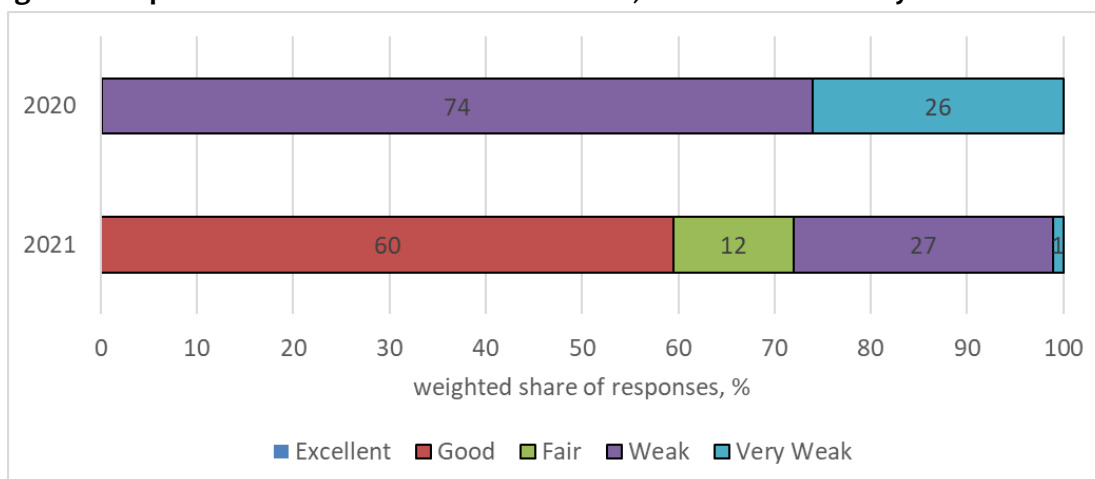
- While the short-term economic outlook is improving, our survey highlights the risks of an uneven recovery across OECD countries and of underlying structural issues holding back a long-term sustainable recovery. There is no time for complacency. The rapid production and global rollout of vaccines remains a top priority. Considering longer-term economic challenges such as high indebtedness, long-standing weak productivity growth and population ageing, pro-growth policies are needed which leverage private sector productivity and job creation.
- Expansionary monetary, fiscal and economic policies remain vital in most countries for some time until output gaps close and the recovery is firmly based on resurgent private consumption and investment. Support policies must be transitional, well targeted and non-bureaucratic, and exit strategies must be carefully designed to avoid cliff edge effects resulting in widespread insolvencies, in particular in SMEs.
- With the labor market recovery expected to lag behind the recovery of economic output, improved incentives for companies to hire and keep employees in work, including reductions of the tax wedge and re-training of the unemployed are key. Both high youth unemployment and the risk of high structural unemployment are of a particular concern, which should be addressed through targeted upskilling measures and programs such as apprenticeships, internships and work-based learning, with national circumstances to be taken into account.
- The pandemic has underlined the importance of keeping markets open for trade and investment and highlighted the need for a competitive business environment. A holistic policy response to this pandemic should thus include an evidence-based reduction in tariff and non-tariff barriers to stimulate the economy and efforts to maintain an open and conducive environment for private investment.
- Last but not least, it is critical to build long-term resilience, but this must not be misused as a vehicle for protectionism and unilateral action, but should be based on appropriate and targeted industrial policies coupled with structural reforms and fostering greater international cooperation.

## SECTION I: OVERALL ECONOMIC SITUATION AND OUTLOOK

### a) The Overall Business Climate

Compared to spring 2020, members report a significant improvement in the current business climate, which is in line with recent upgrades of major international economic forecasts, thanks to the gradual rollout of effective vaccines and ongoing support by governments.

Figure 1: Snapshot view of current business climate, 2020 and 2021 surveys



Source: Business at OECD member federations

#### Highlights:

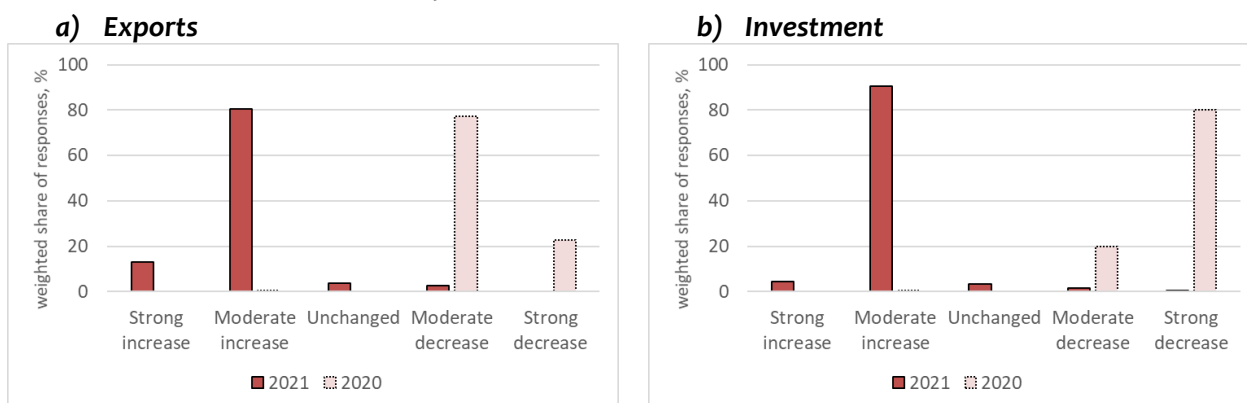
- Our survey results point to a strong improvement of the overall business climate in spring 2021, compared to spring 2020.
- While in our 2020 survey all respondents considered the business environment as either “weak” or “very weak”, this share now dropped to a weighted average of 28%. A GDP weighted average of 60% of respondents now regard the business environment as “good” and 12% as “fair”, with no country rating it as “excellent”.
- Our findings are in line with those of other domestic and international business and consumer confidence indicators, which depicted strong increases in economic sentiment after severe drops in April 2020.<sup>1</sup>

<sup>1</sup> For example, the European Commission’s overall economic sentiment indicator increase to 99.9 points in March 2021, from 91.1 points in January and 67.1 points in April 2020. Strong increases have also been observed in Markit’s Flash U.S. Composite Output Index and for Japan in the Jibun Bank Flash Composite PMI.

## b) Expectations on Trade and Investment

The improvement of the overall business climate is also reflected in an improved outlook for exports and business investments. According to our survey, exports and investment are expected to moderately increase across countries over the coming 12 months.

Figure 2: Expectations for exports and business investment over the next 12 months, compared to the last 12 months, 2020 and 2021 surveys



Source: Business at OECD member federations

### Highlights:

- A clear majority of respondents expect exports and business investment to moderately increase over the coming 12 months, compared to the same period of the previous year (weighted average of 81% and 91%, respectively).
- For exports, a weighted share of 13% expects strong increases, while this stands at 4% for investment. Only a very minor fraction expects decreases (3% and less).
- Again, this sharply contrasts with the results of the previous year, where virtually all respondents expected moderate to strong declines in exports and business investment.

## c) Expectations on Economic Recovery

While some economies are expected to have already recovered by mid-2021, the pace of recovery is more uneven for other OECD member countries, with a small share of respondents expecting their countries to only recover after the end of 2022. The overall recovery of the labor market is expected to proceed at a slightly slower pace than that for GDP as expectations for hiring and the unemployment rate highlight.

Figure 3: Expected duration until GDP returns to pre-COVID-19 levels

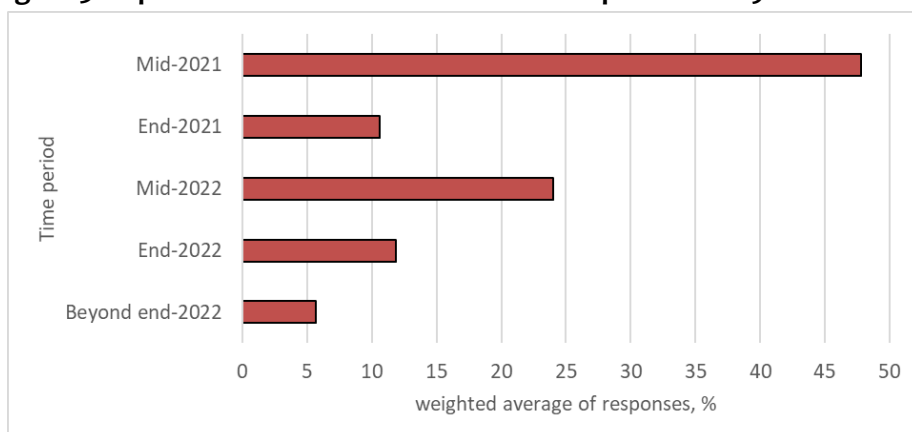
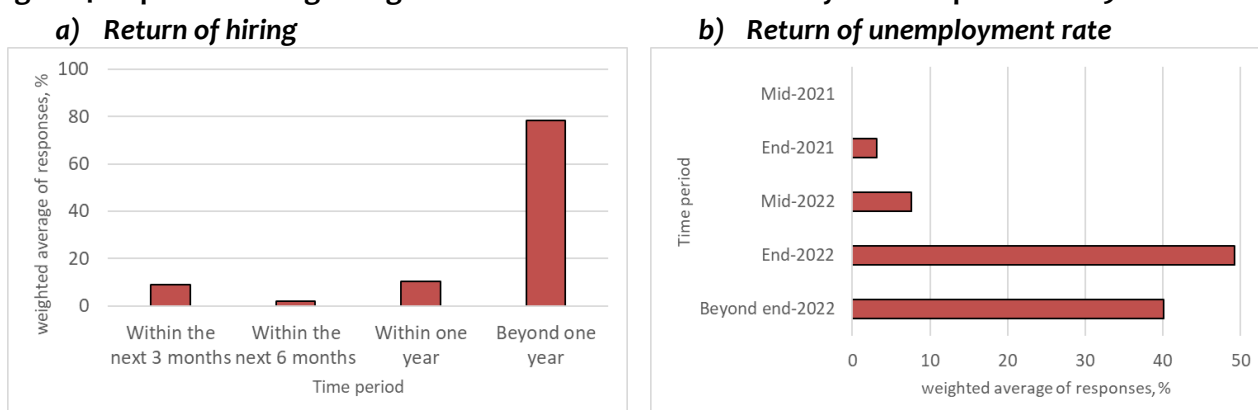


Figure 4: Expectations regarding duration of labor market recovery to reach pre-COVID-19 levels



Source: Business at OECD member federations

### Highlights:

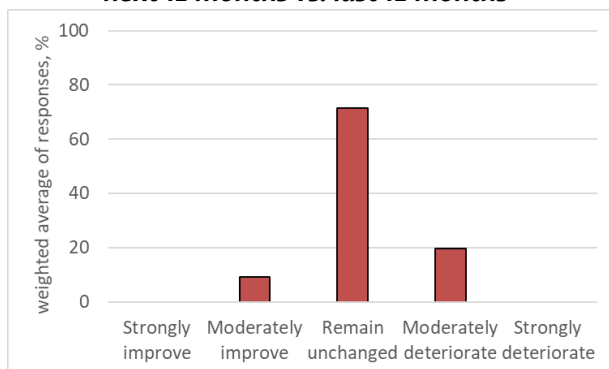
- While a weighted share of 48% of respondents expects GDP to have returned to pre-COVID-19 levels already by mid-2021, the picture is more diverse for the other half. A weighted share of 11% expects their economy to have recovered by end-2021, 24% by mid-2022, 12% by end-2022 and 6% only beyond that date.
- Hiring is not expected to return to pre-crisis levels within the next year by the majority of respondents (weighted share of 78%). Similarly, the unemployment rate is expected to return to pre-COVID-19 levels in most economies only by the end of 2022 (49%) or beyond that date (40%).

## d) Expectations on Financing Conditions

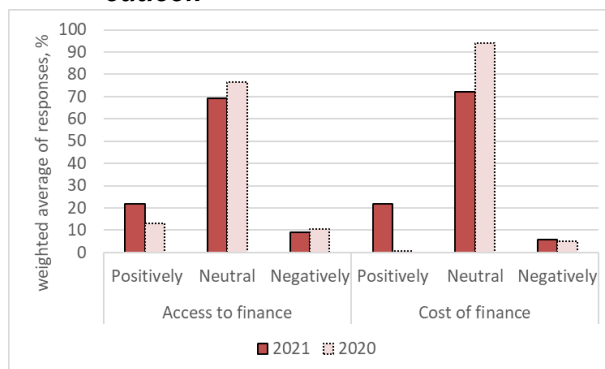
Rapid and strong responses by central banks, alongside government business support programs, have supported financial market conditions since the early stage of the crisis. Over the coming 12 months, financing conditions are expected to remain unchanged in most OECD countries, thus neither providing a significant additional boost nor drag on the private investment outlook compared to the previous year.

Figure 5: Expectations on financing conditions for non-financial companies

a) Change in financing conditions over the next 12 months vs. last 12 months



b) Impact of factors on private investment outlook



Source: Business at OECD member federations

### Highlights:

- Our survey points to no significant change in the financing conditions over the next 12 months, compared to the last 12 months, with a weighted average of 71% of respondents expecting the financing conditions to remain unchanged. In turn, 9% expect a moderate improvement and 20% a moderate deterioration.
- In line with this, a weighted average of 69% and 72% of members expect access to finance and cost of finance, respectively, to have a neutral impact on business investment over the coming 12 months.

## SECTION II: COVID-19 POLICY RESPONSES

### a) Evaluation of Size and Design of Public Support Programs

While survey respondents are overall not concerned that public support measures are insufficient at present – if anything they are considered slightly too large – respondents worry more about the design of such measures. Notably, support measures could be improved by better targeting and in some cases by limiting their duration. In terms of business access, there appears merit to make support measures less bureaucratic and speed up administrative procedures. Also, support measures are generally not regarded as adequately supporting longer-term objectives (e.g. fostering infrastructure, digitalization, decarbonization, and health sector resilience).

Figure 6: Assessment of sufficiency of public support measures at present

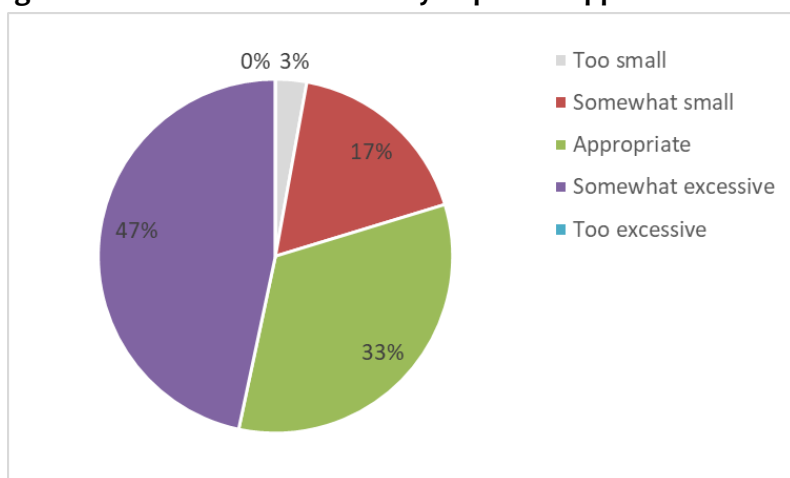
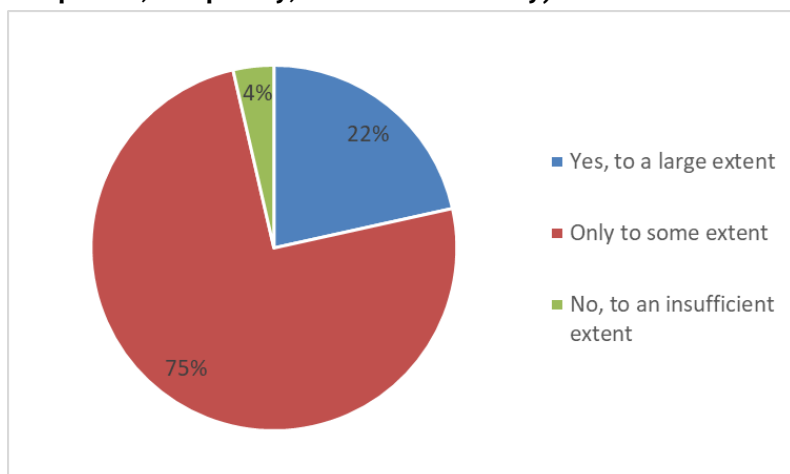
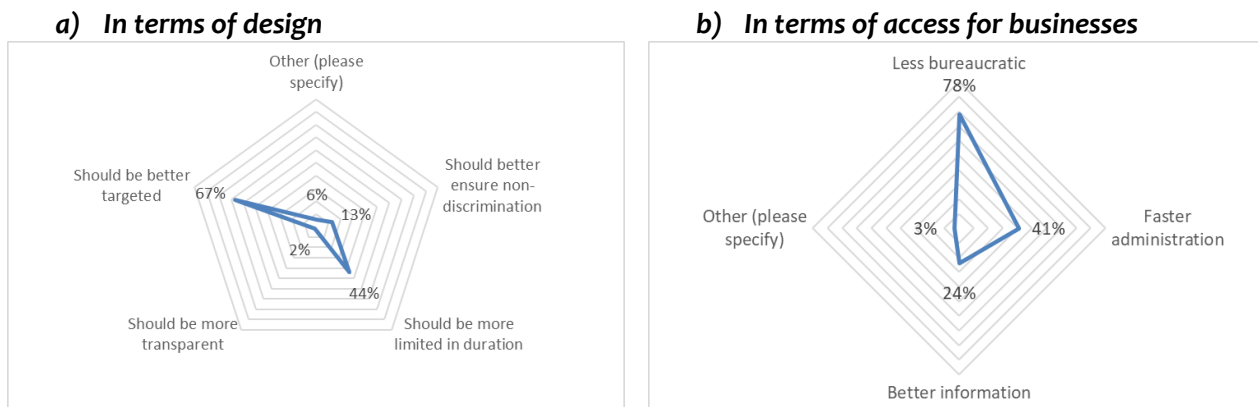


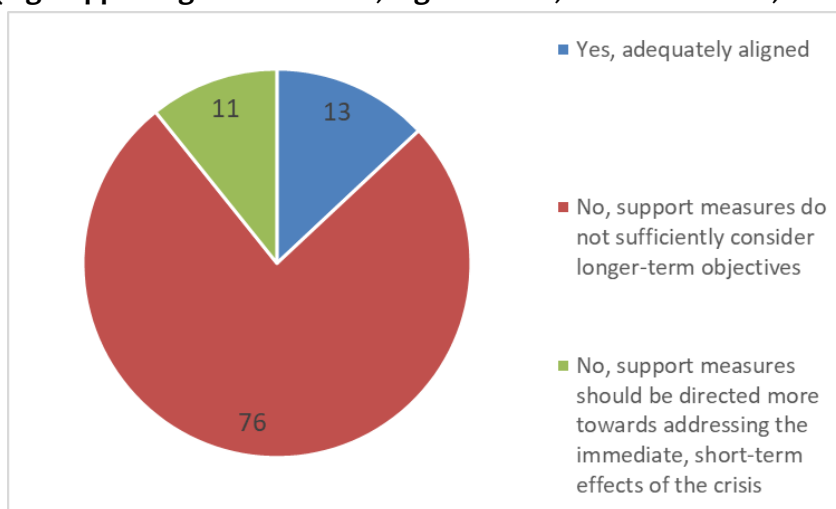
Figure 7: Assessment of whether public support measures are considered well-designed (i.e. targeted, transparent, temporary, non-discriminatory)



**Figure 8: Suggestions of how public support measures could be improved**



**Figure 9: Assessment of adequate alignment of current support measures with longer-term objectives (e.g. supporting infrastructure, digitalization, decarbonization, health sector resilience)**



Source: Business at OECD member federations

**Highlights:**

- Survey participants are overall not concerned about support measures being insufficient in size, with a weighted average of 47% even regarding support measures as slightly excessive, while 33% note that they consider them appropriate.
- However, the design of support measures could be improved as indicated by a weighted average of 75% of participants, which consider support measures as “only to some extent” well-designed. Notably, 67% indicate that support measures should be better targeted and 44% point out such measures should be more limited in duration. In terms of access for businesses, respondents would welcome measures that are less bureaucratic (78%) and have faster administrative procedures (41%).
- Finally, only a weighted share of 13% of respondents regards current support measures as adequately aligned with longer-term objectives (e.g. supporting infrastructure development, digitalization, decarbonization, and health sector resilience), while 76% state that support measures do not sufficiently consider such longer-term objectives.



## b) Outlook for Policy Support Programs and Exit

While emergency liquidity provision and incentive lending schemes are expected to decrease over the coming 12 months, few respondents note that governments have developed adequate exit strategies and business involvement. Moreover, the development of adequate strategies by governments on how to deal with high debt burdens is still perceived as largely absent.

Figure 10: Expected change of emergency liquidity provisions and incentive lending schemes over the next 12 months, compared to the last 12 months

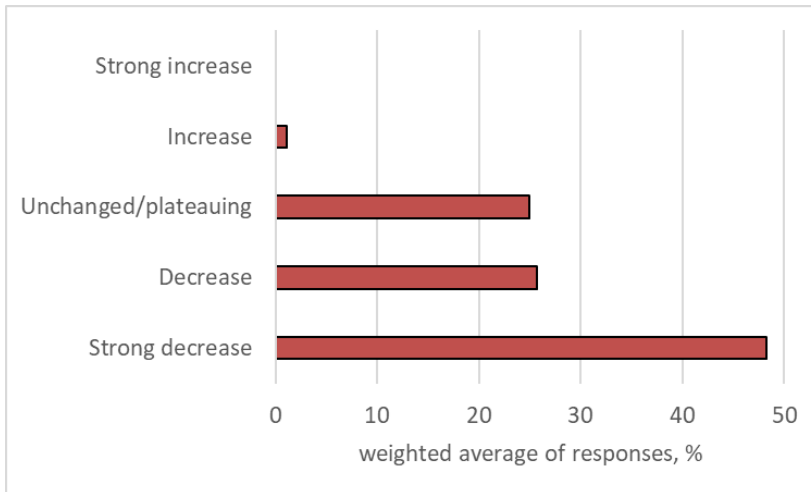
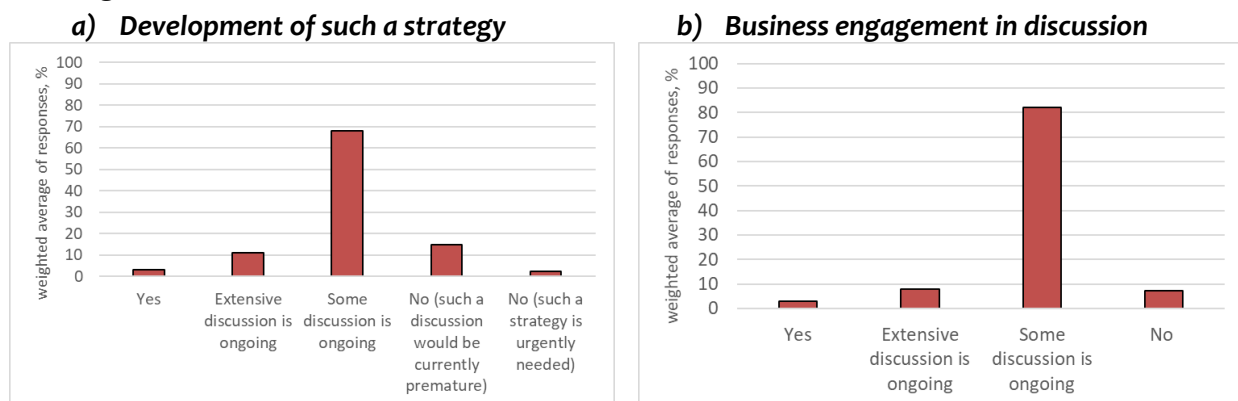
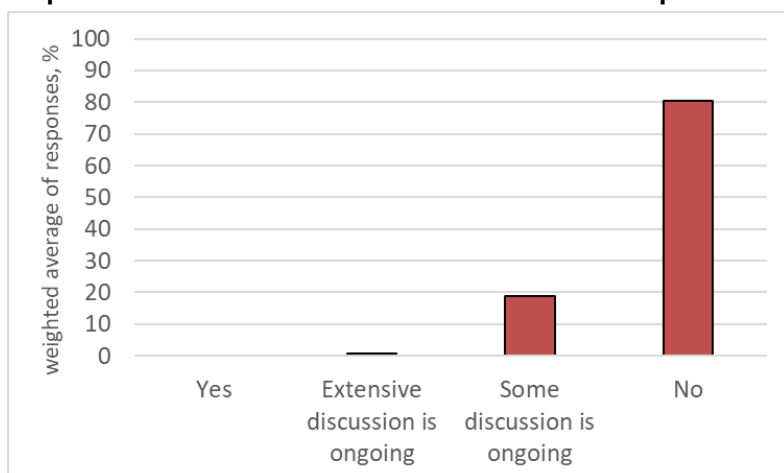


Figure 11: Adequate exit strategy by governments of how to scale back and eventually end support once this stage is reached



**Figure 12: Development of adequate strategy by governments of how to deal with high domestic public and private sector indebtedness after the immediate phase of the crisis**



Source: *Business at OECD member federations*

### Highlights:

- Emergency liquidity provisions and incentive lending schemes are largely expected to decrease (weighted share of 26%) and strongly decrease (48%), while a share of 25% expects a plateauing.
- At the same time, governments are reported to not yet have developed adequate exit strategies. A weighted share of 68% notes that at least some discussion is ongoing, but only 11% that extensive discussion is ongoing and 3% that strategies exist. Only a share of 15% states that such discussion would currently be premature. A similar pattern is visible for business engagement in the development of exit strategies where a share of 82% report that only some discussion is ongoing.
- Finally, the survey results show that governments have not yet developed adequate strategies of how to deal with elevated public and private sector debt after the immediate phase of the crisis (a weighted share of 81% notes that this is not the case and 19% that some discussion is ongoing).

## c) Longer-Term Structural Considerations and Expectations

When it comes to longer-term structural considerations, all participants expect to see a significant increase in business insolvencies over the coming two years, with the hospitality sector and tourism being most affected. Furthermore, participants report some concern about a possible misallocation of both labor and capital as a result of emergency support measures. Still, productivity growth is expected to receive some boost coming out of the crisis, for example due to a potentially accelerated closure of non-viable businesses, sector reallocation, and/or a greater use of digital technologies. Finally, there is some concern about financial fragilities over the medium- to long-term, while participants are currently not concerned about an overheating economy with large inflation surges.

Figure 13: Assessment to which extent the COVID-19 crisis so far led to increases in state ownership in businesses across OECD countries

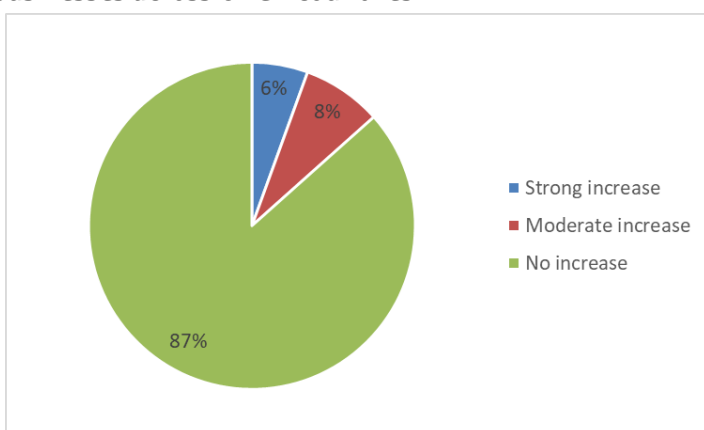
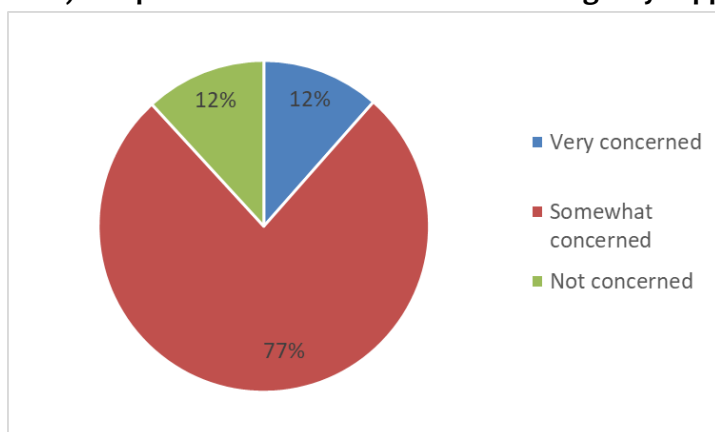
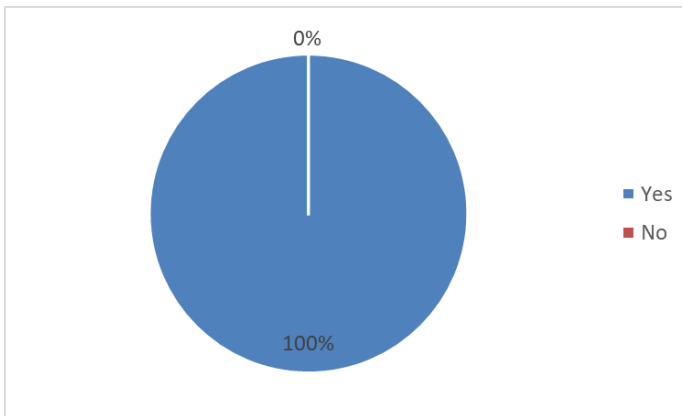


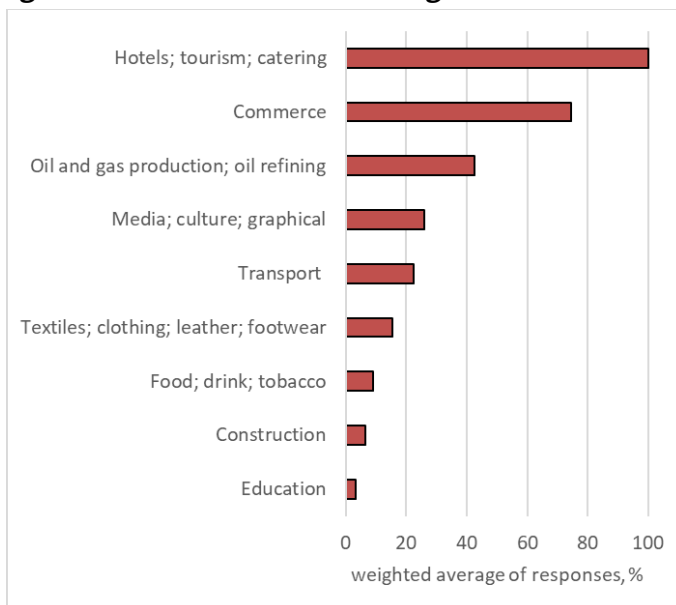
Figure 14: Degree of concern about a possible longer-term misallocation of resources (i.e. capital and labor) as a possible side effect of current emergency support measures



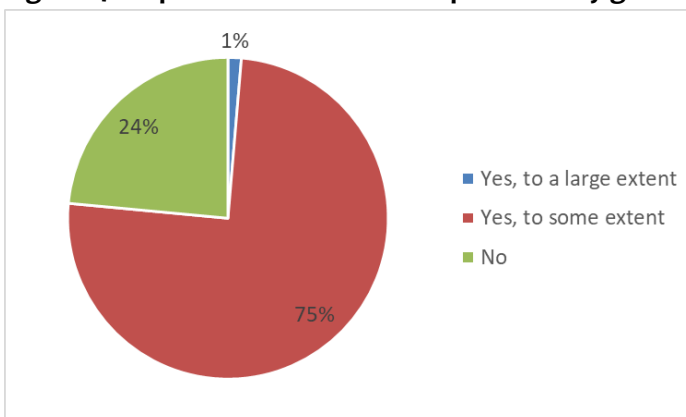
**Figure 15: Expectations regarding significant increases in business insolvencies over the coming two years, compared to the pre-crisis average**



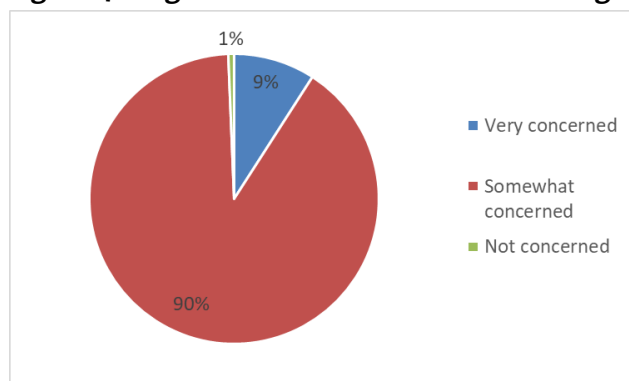
**Figure 16: Sectors where the strongest increase in insolvencies is expected (selected 3)**



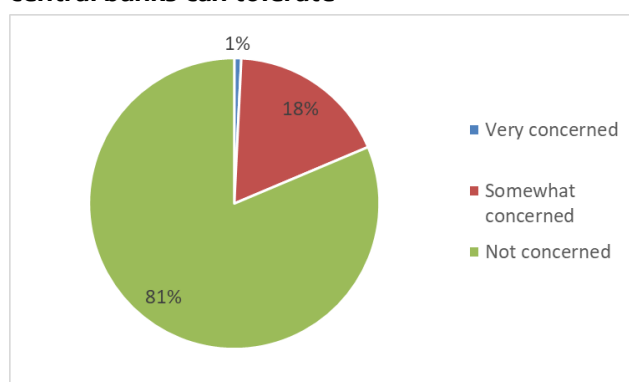
**Figure 17: Expectations on whether productivity growth will receive a boost coming out of the crisis**



**Figure 17: Degree of concern about financial fragilities as a medium- to long-term side effect of the crisis**



**Figure 18: Degree of concern about an overheating economy, leading to inflation surges above the rate central banks can tolerate**



Source: Business at OECD member federations

### Highlights:

- While governments strongly intervened from the very beginning of the crisis, survey respondents do not report that this led to significant increases in state ownership in companies across OECD countries (weighted average of 87% of respondents report no increase). There is, however, some concern about a possible longer-term misallocation of resources (i.e. capital and labor) as a possible side effect of current emergency support measures (weighted share of 77%).
- All respondents expect significant increases in business insolvencies over the coming two years. The sectors expected to be most affected are hotels, tourism, catering (100%), followed by commerce (74%), oil and gas (43%), media and culture (26%) and transport (22%).
- Productivity growth is expected to see a slight increase coming out of the crisis (75%), for example through a potentially accelerated closure of non-viable businesses, sector reallocation, and/or a greater use of digital technologies. A weighted share of 24% of respondents expects no change to productivity growth, while only 1% expects a significant boost.
- Participants report some concern about financial fragilities as a medium- to long-term side effect of the crisis (90%), while a weighted share of 9% is very concerned. Finally, when it comes to the prospect of an overheating economy, including large inflation surges above rates central banks would be willing to tolerate, members largely report no concern at this stage (81%, with 18% reporting some concern).

## SECTION III: STRUCTURAL REFORM PRIORITIES

### a) Reform Intensity and Obstacles pre-Covid-19

Considering the importance of structural reforms to build resilience and strengthen long-term growth, it is concerning to see that almost all respondents regard policy reform intensity in their countries as lackluster. The lack of political unity and the lack of political will or leadership are regarded as key obstacles to reform.

Figure 19: Policy reform intensity over the past twelve months

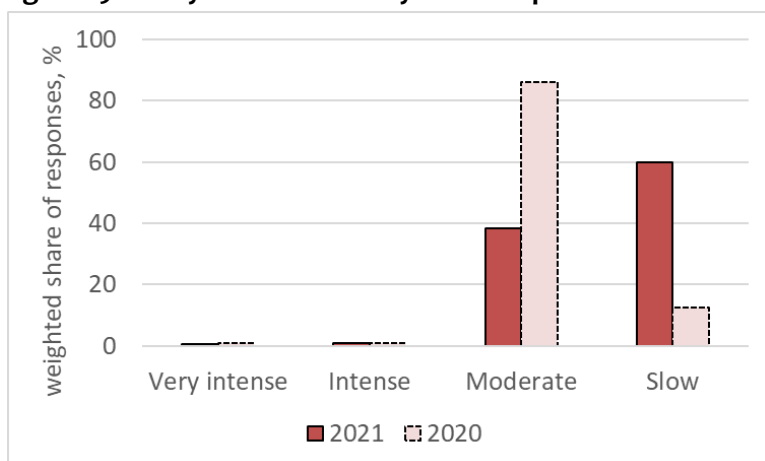
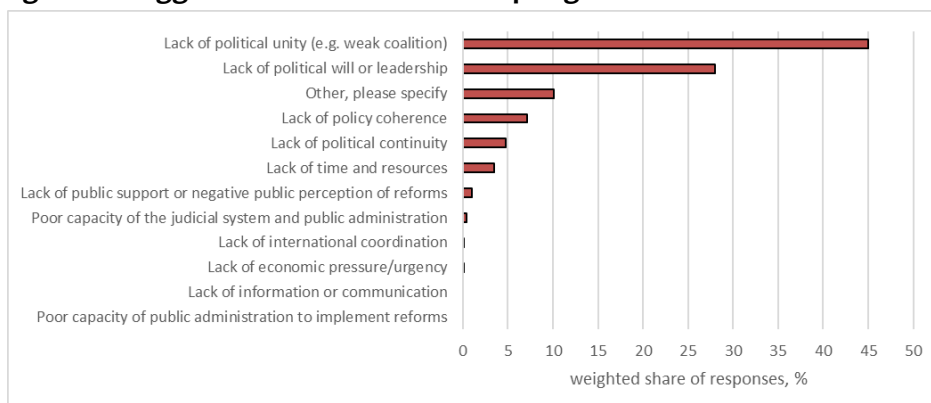


Figure 20: Biggest obstacle to successful pro-growth reforms



Source: Business at OECD member federations; \*Mentioned as "others": lack of entrepreneurship driving innovation.

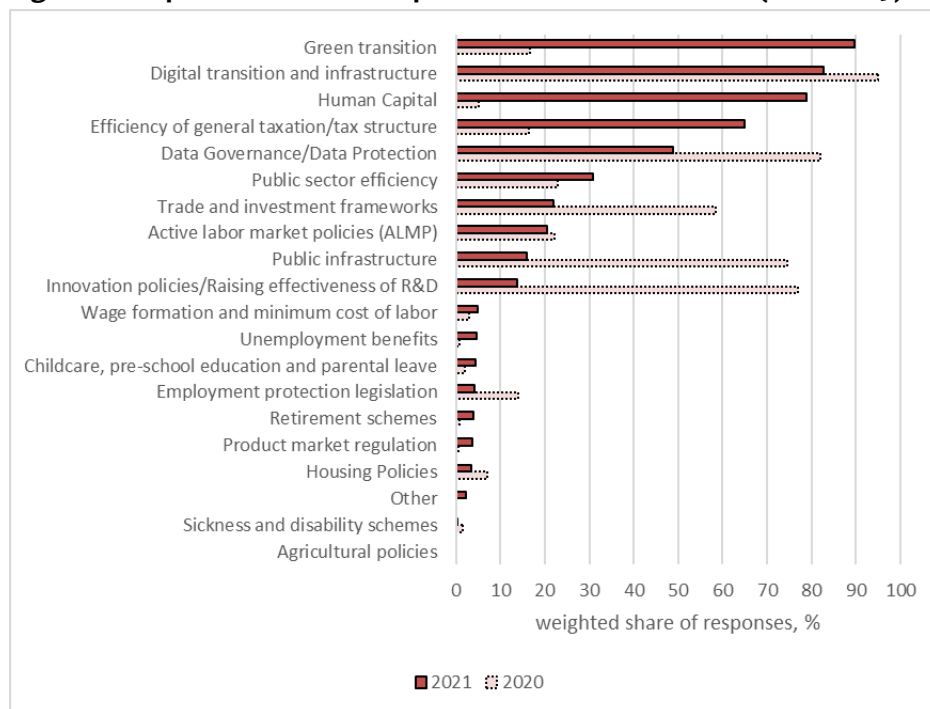
#### Highlights:

- Similarly to last year, the vast majority of respondents regards policy reform intensities in their respective countries as either moderate or slow (weighted average of 99%). Between these two, the share of respondents who regards reform intensity as slow increased from 12% in 2020 to 60% in 2021.
- The lack of political unity is regarded as the main obstacle to pro-growth reform (45% weighted average), with also the lack of political will or leadership being cited as a key obstacle (28%).

## b) Reform Priorities

The green transition, digital transition, human capital formation, efficiency of general taxation/tax structure, and data governance/data protection are considered as the top 5 reform priorities for 2021. While the digital transition and governance/data protection were already regarded as top priorities in 2020, the other three emerged as new key priority areas for reform.

Figure 21: Top structural reform priorities for 2020 and 2021 (selected 5)



Source: Business at OECD member federations. \*Mentioned as "others": Improving regulatory policy mechanisms and making regulation less burdensome, inefficient and inconsistent; addressing corruption; and optimizing health infrastructure.

### Highlights:

- The “green transition” has emerged as the key reform priority for 2021, with a weighted share of 90%, up from 17% in 2020. Next is the “digital transition”, which is also regarded as a key reform priority (83%), underlining the important role digital technologies are playing during the current Covid-19 pandemic.
- These are followed by “human capital” (79%), “efficiency of general taxation/tax structure” (65%), and “data governance/data protection” (49%) as the remaining top 5 reform priorities for 2021.

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## **Methodological note**

### **Timeline**

Our survey was launched end March 2021 and concluded between 23 March and 16 April. This synthesis report was prepared in May 2021. Given the rapid evolution of the economic and health situation and significant cross-country variation, it cannot be excluded that the different timings of member responses influence aggregate results.

### **Respondents**

28 national business and employer organizations, representing 94% of all OECD countries' GDP, participated in the survey on a voluntary basis. Only one response per organization, and per country, was accepted. Each participating business and employer organization represents thousands of companies across several economic sectors in their respective countries.

In responding to the survey, it was expected that the individual respondents (typically chief economist or senior leadership) would aim for well-balanced and representative responses based on the economic situation in their country.

### **Confidentiality**

In order to encourage respondents to freely put forth their respective views and priorities, it was decided to fully ensure the confidentiality of their responses by only communicating aggregate results (through weighted averages). For the purposes of this synthesis report, the names of participating organizations and their responses have been anonymized.

### **Survey Structure**

The survey was structured into three main parts:

- I. Views on the overall economic situation and outlook
- II. Assessment of the key policy measures with regards to COVID-19
- III. Views on top structural reform priorities and countries' reform efforts

### **Contact**

If you would be interested in further information, please contact *Business at OECD* Principal Economist, Frederik Lange ([Lange@biac.org](mailto:Lange@biac.org))







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