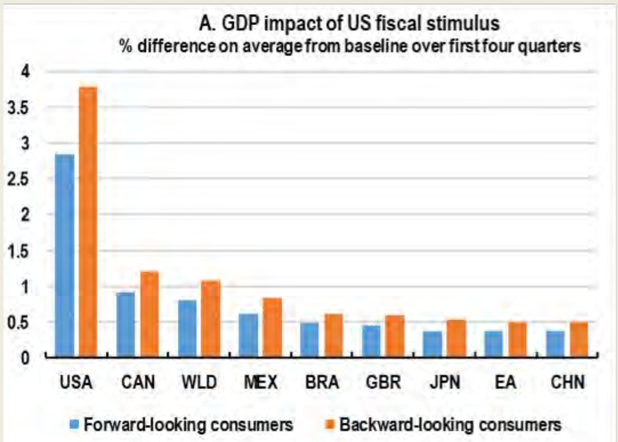
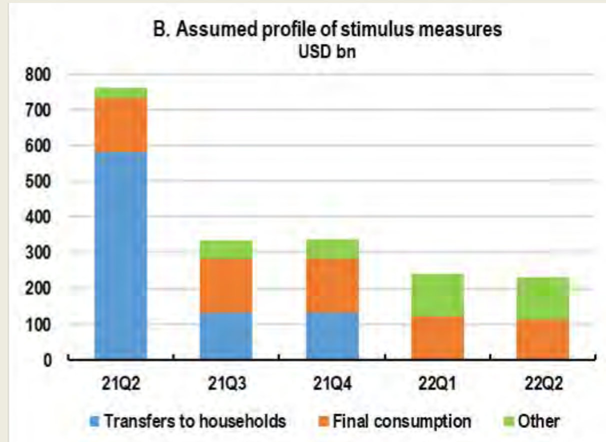
Figure 7. The GDP impact of the stimulus will be sizeable





Note: The profile of the stimulus shown in Panel B is illustrative.
Source: OECD calculations using the NiGEM macroeconomic model.

These simulations assume that two-fifths of the overall stimulus takes effect in the second quarter of 2021, largely via higher government transfer payments, with the remainder spread over the following year (Figure 7, Panel B). Policy interest rates remain unchanged in the United States and other advanced economies until mid-2022, but are endogenous in the emerging-market economies. The simulations do not incorporate a rise in the Federal minimum wage.

The largest near-term impact of the US fiscal package arises if consumers are more sensitive to current income developments, and thus immediately benefit from the stimulus payments. In contrast, consumers more focused on the lifetime income path of incomes and the potential budgetary offset from higher tax payments in the future, may spend less of the stimulus. In either case, there are substantial near-term gains to output, but the lasting impact of the new package on output, and on inflation, after 2022 is likely to be modest. This reflects the temporary nature of the additional spending. The overall budgetary cost is lower than the size of the stimulus, with higher nominal activity offsetting around one-quarter of the initial discretionary stimulus measures, but the government debt-to-GDP ratio is raised by 6 percentage points by 2023.

An improving global outlook with persisting divergence

The successful development and gradual deployment of effective vaccines has improved prospects for a durable recovery significantly, provided steps are taken to ensure that such vaccines are deployed fully throughout the world. It will take some time before production can be raised sufficiently and vaccines distributed, and risks remain from potential mutations of the virus that are resistant to current vaccines. Vaccination campaigns are proceeding at different rates around the world (Figure 8), and the scale of policy support and sectoral specialisation differ considerably across economies. The evolution of the virus is uncertain, and targeted restrictions on mobility and activity may still be implemented in event of new outbreaks. Such restrictions would check the pace at which the most affected service sectors and tourism-dependent economies can rebound.

Global economic prospects have improved, with global GDP growth now projected to strengthen to 5½ per cent in 2021 and 4% in 2022. The currently projected rebound in global GDP is faster than in the December 2020 OECD Economic Outlook, reflecting the impetus provided by stronger economic activity in the latter half of 2020, increasing evidence of the efficacy of COVID-19 vaccines, and the demand stimulus from additional policy support put in place in many countries this year, particularly the United States (Figure 9).