Canada

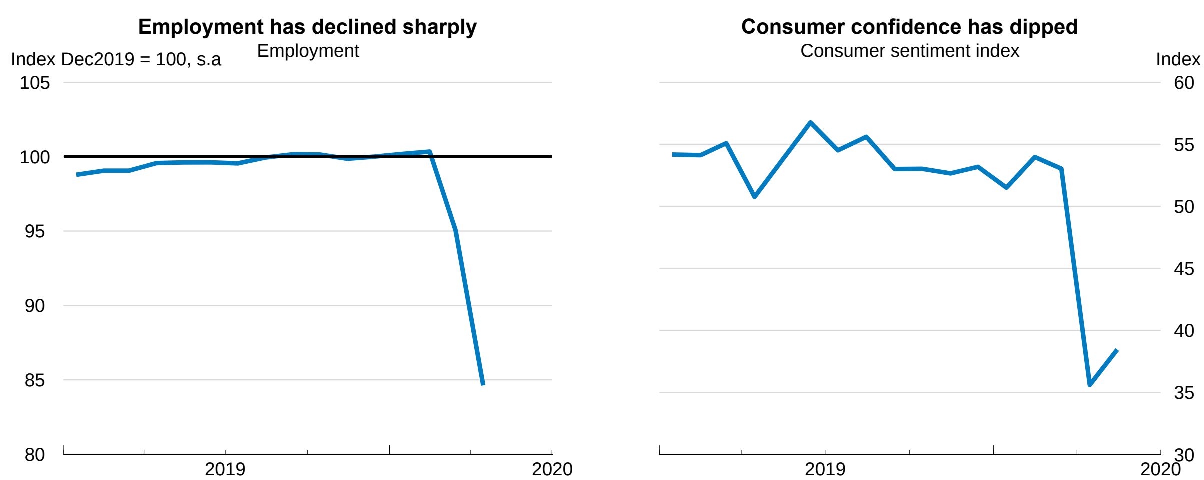
Annual output is projected to shrink by 9.4% in 2020 in the event of a second virus outbreak and related shutdown, and by 8% if recovery is uninterrupted. The rebound will not be dynamic enough for output to attain pre-COVID-19 levels by the end of 2021 under either scenario. Similarly, the rate of unemployment will still be elevated. Fiscal balances will deteriorate sharply from additional spending commitments and tax-revenue losses and then recover somewhat thanks to declining outlays in support payments and recovering incomes. Weak demand will push down consumer price inflation.

The central bank, along with federal, provincial and territorial governments, have responded quickly to the COVID-19 crisis, and a substantial range of monetary, fiscal and structural support is in place. Contingency plans for future outbreaks of COVID-19 are now needed. Policy also needs to ensure that measures already taken are effective, in particular the Canada Emergency Response Benefit (CERB) and Canada Emergency Wage Subsidy (CEWS) given the importance accorded to them. Gaps in support need to be dealt with as they appear, especially among vulnerable groups, including aboriginal communities. The oil sector shock should be used as an opportunity to accelerate green transition.

The lifting of containment measures is underway

Canada's first cases of COVID-19 appeared in mid-January, with substantial acceleration in cases from early March. However, Canada appears to have averted the scale of impact seen in some countries. The spread of the virus in care homes has been a key issue – around 17% of Canada's population is aged 65 years and over.

Canada 1



Source: Statistics Canada; and Refinitiv.

StatLink https://doi.org/10.1787/888934139100

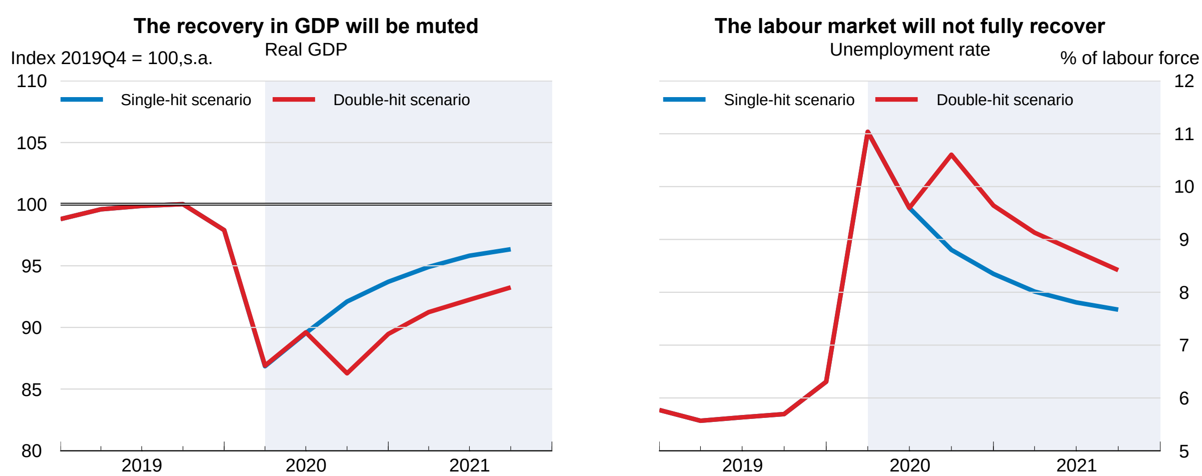
Canada: Demand, output and prices (double-hit scenario)

Canada: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices CAD billion	Percentage changes, volume (2012 prices)				
GDP at market prices	2 025.5	3.2	2.0	1.7	-9.4	1.5
Private consumption	1 184.6	3.6	2.1	1.6	-10.6	1.5
Government consumption	426.3	2.3	3.0	2.1	1.1	2.3
Gross fixed capital formation	461.3	3.6	1.2	-0.4	-12.7	1.6
Final domestic demand	2 072.2	3.3	2.1	1.3	-8.6	1.7
Stockbuilding[1]	1.1	0.9	-0.2	0.1	-0.8	0.0
Total domestic demand	2 073.3	4.1	1.9	1.4	-9.3	1.7
Exports of goods and services	638.1	1.4	3.1	1.3	-8.5	5.6
Imports of goods and services	685.9	4.2	2.6	0.6	-8.5	5.4
Net exports[1]	- 47.8	-1.0	0.1	0.2	0.1	-0.1
Memorandum items						
GDP deflator	_	2.5	1.8	1.9	0.4	0.3
Consumer price index	_	1.6	2.2	2.0	0.8	0.7
Core consumer price index[2]	_	1.6	1.9	2.1	1.2	0.9
Unemployment rate (% of labour force)	_	6.3	5.8	5.7	9.4	9.0
General government financial balance (% of GDP)	_	-0.1	-0.4	-0.3	-9.2	-4.9
General government gross debt (% of GDP)	_	95.2	93.8	94.5	105.8	110.1
Current account balance (% of GDP)	_	-2.8	-2.5	-2.0	-3.1	-3.6

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137409

Canada 2



Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934139119

Canada: Demand, output and prices (single-hit scenario)

Canada: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices CAD billion	Percentage changes, volume (2012 prices)				
GDP at market prices	2 025.5	3.2	2.0	1.7	-8.0	3.9
Private consumption	1 184.6	3.6	2.1	1.6	-8.8	5.7
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Memorandum items						
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Core consumer price index[2]	_	1.6	1.9	2.1	1.2	1.3
Unemployment rate (% of labour force)	_	6.3	5.8	5.7	8.9	8.0
General government financial balance (% of GDP)	_	-0.1	-0.4	-0.3	-7.5	-2.6
General government gross debt (% of GDP)	_	95.2	93.8	94.5	103.7	104.8
Current account balance (% of GDP)	_	-2.8	-2.5	-2.0	-3.1	-4.2

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137428

The containment measures came into force from mid to late March. Provinces and territories, as well as the federal government, played a key role. States of emergency and other measures brought school closure, regulation on distancing, operational restrictions on various types of businesses, and strong public health advice for people to remain at home. Saskatchewan was the first province to announce a reopening plan (implementation began on 4 May) and reopening is now underway throughout the country.

The economy faces an additional shock from the low oil price

Similar to other commodity producers, the COVID-19 crisis is bringing two economic shocks, the direct impact from containment measures and an indirect impact via commodity markets. Low oil prices and weak demand have already prompted cuts in shale-oil production, and large declines in investment are likely. In currency and financial markets, the crisis initially prompted exchange rate depreciation of around 8% vis-à-vis the US dollar and the main stock market reference index, the S&P/TSX index, dropped by around one-third between late February and mid-March. Recovery from these initial market reactions has only been partial. The scale of the initial impact on output and employment is increasingly apparent. Real gross domestic product fell 7.2% between February and March, the survey-based rate of unemployment increased from 5.6% to 13.7% between February and May and household and business confidence indices have dipped sharply. However, there are indicators of economic recovery now that confinement measures have begun to ease. For example, Apple's Mobility Trends Reports indicate that driving and walking activity are now close to pre-crisis levels.

The policy response has been rapid and substantial

Canada has taken many measures to head off macroeconomic destabilisation, bolster demand and support households and businesses. The Bank of Canada has lowered its policy rate by 150 basis points, to 0.25%. It has also supported liquidity through a reduction in the Domestic Stability Buffer Requirement and through more favourable conditions in the term repo market. Balance-sheet operations have been used to support the markets for government and mortgage bonds. The Bank has similarly supported markets that are important for the financing of provincial-government and small and medium-sized businesses.

Federal government measures are accounting for most of the fiscal support in terms of dollar value. Federal government spending and tax measures that have a direct budgetary impact are estimated at CAD 153 billion (equivalent to around 7% of GDP). The Canada Emergency Response Benefit (CERB) for workers losing income due to COVID-19 and the Canada Emergency Wage Subsidy (CEWS) for employers are expected to account for most of the fiscal outlay. CERB, operational since early April, provides a payment of CAD 500 per week for up to 16 weeks. CEWS, operational since mid-April, provides a wage-bill subsidy of up to 75% to employers for up to three months, and will be paid retroactively to mid-March. Other federal government support includes tax deferrals, increased support for families through tax credits and child benefits, as well as loan guarantees and co-lending programmes for business. Provincial governments have provided supplementary safety nets for households. For instance, Ontario's measures include an emergency assistance benefit and Alberta introduced a one-off payment to those in isolation. There is also provincial assistance for employees. For instance, Quebec's response includes a temporary aid programme for those not covered by other schemes. Business support includes payment deferral of provincially administered taxes (for instance, Ontario, Alberta and British Columbia) and deferrals on utility bills (for instance, British Columbia).

Recovery in output and employment will take time

For the projections, it is estimated that confinement measures, when they were fully operating, shut down around 20% of economic activity. Reduced activity in service sectors, such as wholesale and retail trade and the food and accommodation sector, accounted for most of the output reduction. Shutdown in the transport equipment sector of manufacturing also played a role, reflecting decisions by major automobile producers to halt production temporarily.

Increased transfers to households and businesses and reduced tax bills, along with monetary and liquidity support, will limit the depth of economic downturn. Nevertheless, the initial recession is deep; sharp falls in household consumption spending, business investment and external demand have taken place. The wage subsidy scheme will help limit employment losses, but unemployment will increase substantially. Consumer-price inflation is expected to be dented by the downturn. Recovery from the recession will be sluggish, especially if there are further outbreaks of the virus and related shutdowns. Neither output nor employment levels will have returned to pre-crisis levels by the end of the projection period, especially in the double-hit scenario. The fiscal balance will weaken substantially in 2020, especially in the case of a second shutdown. Around 40% of the deficit increase will be due to revenue losses. Balances will partially recover in 2021 due to rebound in tax revenues and the termination of temporary support measures.

Risks will remain elevated. As underscored by the double-hit scenario, there is a possibility of further COVID-19 outbreaks. For Canada, the future path of oil price and demand is also a key source of uncertainty and risk. And, as elsewhere, there is considerable uncertainty on how quickly some services sectors will revive. Canada's economic recovery from the COVID-19 crisis will also depend substantially on developments in the United States, including pandemic and economic risk factors, given the close economic ties between the two countries. In financial markets, while a liquidity crisis has been averted so far, risks remain. The crisis has heightened vulnerabilities in the corporate bond market and risks from high levels of household debt through mortgage borrowing.

Economic policy now needs to nurture job creation and the recovery

Policymakers need to ensure contingency planning for renewed outbreaks of COVID-19. Given the substantial support underway, policy should also ensure that the measures already taken are working as intended. Given the rapid implementation of programmes such as CERB and CEWS, there are, for instance, risks of issues in application processing and undesirable side-effects. Policy should also focus on addressing any gaps in support that may emerge; social and economic problems among vulnerable groups, such as aboriginal communities, will be likely made greater by the increase in unemployment. For business policy, the oil sector shock potentially provides opportunity to accelerate green transition through measures that help the reallocation of resources in the regions and sectors most affected by the decline in oil-related activity. Meanwhile, business policy also needs to plan an appropriately timed unwinding of support measures as conditions improve. In particular, prolonged wage subsidy may hold back recovery if it delays the resumption of business operations.

Although the long-term structural economic impacts from COVID-19 are uncertain, preliminary policy work is warranted. As elsewhere, COVID-19's legacy is likely to bring lasting shifts in the structure of economic activity, suggesting greater need for retraining programmes to help displaced workers, working patterns, and travel for business and leisure.

Chile

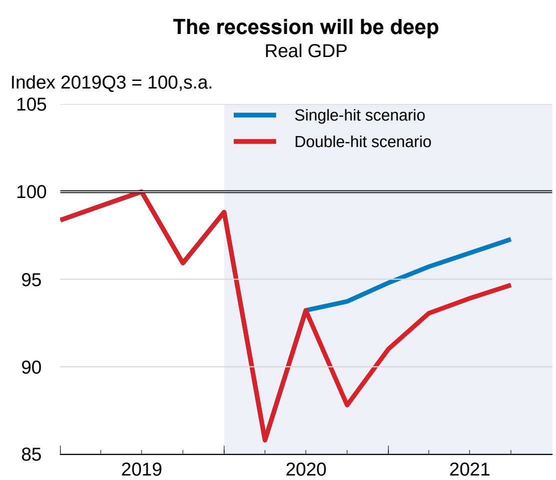
After the social protests of late 2019, the COVID-19 outbreak and the drop in commodity prices will push the economy into its deepest recession since 1982. If a second outbreak occurs later in the year, GDP will decrease by 7% and will start rebounding only in 2021. Should the current pandemic subside, a recovery led by consumption will start in the third quarter of 2020, even though GDP will still fall by 5.6% in 2020. Trade will remain depressed by a sluggish global recovery.

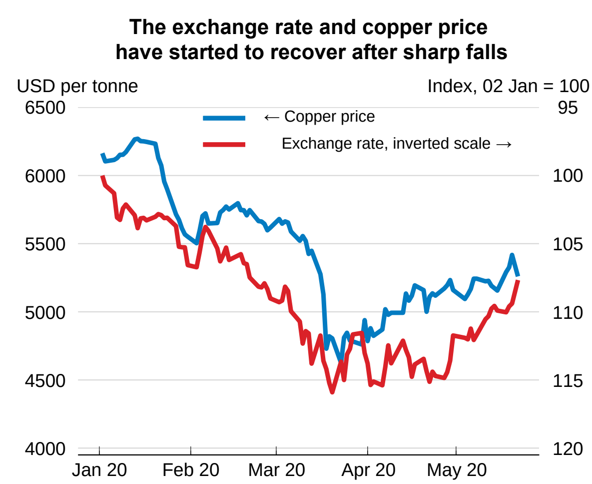
The authorities have introduced swift and unprecedented fiscal and monetary stimulus packages to mitigate the impact of COVID-19 by ensuring resources for the health sector, supporting household incomes and preserving jobs and working capital, especially for SMEs. Monetary measures should be stepped up if necessary to provide liquidity to uphold domestic demand and business activities. Existing fiscal space could be used for further support to SMEs and additional targeted transfers to the most vulnerable families to spur an inclusive recovery and avoid long-lasting adverse effects on jobs, poverty and inequality.

Chile reacted early to contain the spread of COVID-19

The COVID-19 pandemic reached Chile in March 2020. The spread of the virus has been uneven across the country, with the Metropolitan Region of Santiago accounting for more than 50% of total infections. Chile is continuously increasing its capacity for special care units with respiratory support and is able to perform more than 15 thousand tests per day.

Chile





Source: OECD Economic Outlook 107 database; Central Bank of Chile; and Refinitiv.

StatLink https://doi.org/10.1787/888934139138

Chile: Demand, output and prices (double-hit scenario)

Chile: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices CLP billion	Percentage changes, volume (2013 prices)				
GDP at market prices	169 537.4	1.4	4.0	1.0	-7.1	1.9
Private consumption	107 485.1	3.4	3.7	1.1	-16.5	-0.9
Government consumption	23 361.9	4.6	4.3	0.0	8.1	4.4
Gross fixed capital formation	38 544.7	-3.1	4.8	4.3	-15.0	-0.9
Final domestic demand	169 391.7	2.1	4.0	1.6	-12.5	0.1
Stockbuilding[1]	- 887.1	0.8	0.7	-0.5	0.3	0.0
Total domestic demand	168 504.5	3.0	4.8	1.2	-12.1	0.1
Exports of goods and services	47 722.4	-1.5	5.1	-2.2	1.9	4.4
Imports of goods and services	46 689.6	4.6	7.9	-2.3	-17.7	-1.5
Net exports[1]	1 032.8	-1.7	-0.7	0.0	5.6	1.8
Memorandum items						
GDP deflator	_	4.6	2.3	2.7	3.2	2.6
Consumer price index	_	2.2	2.4	2.6	3.6	3.1
Private consumption deflator	_	2.6	2.6	1.9	2.7	3.1
Unemployment rate (% of labour force)	_	7.0	7.4	7.2	10.1	11.0
Central government financial balance (% of GDP)	_	-2.8	-1.6	-1.8	-8.2	-3.2
Current account balance (% of GDP)	_	-2.3	-3.6	-3.9	0.5	2.7

1. Contributions to changes in real GDP, actual amount in the first column.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137447

On 18 March, Chile entered a 90-day state of emergency, the second time in the past five months, the first having occurred following the social protests of October 2019. All schools and universities have been closed since 16 March and winter holidays were brought forward. All borders are closed and entry by air is restricted to returning nationals and residents. A national curfew is in force until further notice, while lockdown measures and the closure of non-essential businesses are affecting all districts of the Gran Santiago area as of 15 May, and other particularly impacted areas.

The economy is visibly hit

Containment measures affect around one-fifth of the economy. Hotels and restaurants, which represent 2.3% of GDP, have shut down. Transportation, representing 5% of GDP, and retail sales are operating at 50-60% of their capacities, threatening employment in these sectors. Export shipments have collapsed, in particular of fruits, vegetables, salmon and forest products. However, the mining sector has been resilient, reporting delays and logistical issues but no interruption in orders; mining output in volume terms increased by 0.8% year-on-year in March. Recent movements in domestic financial markets broadly reflect the volatility in international financial markets. The Chilean peso depreciated sharply by 10 points at the start of the crisis, but has subsequently been one of the emerging-market currencies that has most appreciated relative to the US dollar. Additionally, metal prices have collapsed, especially for copper, despite some recovery in prices more recently. The impact of lower copper prices is partly mitigated by the steeper fall in oil prices, given that the country is a net oil importer.

Chile: Demand, output and prices (single-hit scenario)

Chile: single-hit scenario	2016	2017	2018	2019	2020	2021
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Private consumption deflator	_	2.6	2.6	1.9	2.8	3.1
Unemployment rate (% of labour force)	_	7.0	7.4	7.2	9.5	8.7
Central government financial balance (% of GDP)	_	-2.8	-1.6	-1.8	-8.0	-3.1
Current account balance (% of GDP)	_	-2.3	-3.6	-3.9	0.1	1.3

1. Contributions to changes in real GDP, actual amount in the first column.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137466

The policy response has been large and timely

Given ample fiscal space, a large temporary fiscal package was passed in March (4.7% of GDP) and another one in April (2% of GDP) to support affected workers and provide liquidity and working capital to companies, particularly SMEs. A mechanism to protect labour income was introduced, allowing for the temporary suspension of the contractual relationship when teleworking is not possible. Moreover, at the end of March, the central bank cut its interest rate to 0.5%, extended its peso and USD liquidity programme through repo operations and swaps, and announced a new conditional financing facility in which banks have access up to a total of USD 4.8bn in 4-year loans at the policy rate (0.5%), with an additional USD 19.2bn as a function of additional credit to more stressed segments. The window for dollar sales that was opened in November 2019 after the social events was also extended. These unprecedented measures should mitigate the destruction of jobs and capital during a time when a large part of the economy has come to a halt.

The hit to growth will be strong and long-lasting

Following the crisis triggered by the major social protests at the end of 2019, the fight against the COVID-19 outbreak will push the economy into recession in 2020. Should there be a resurgence in infections towards the end of 2020, output is expected to drop by 7% in 2020. The sharp contraction will be driven by a slowdown in exports, as copper prices drop and global and regional value chains are disrupted, the negative impact of containment measures on consumption and jobs, and the uncertainty surrounding households' income. The effects of the pandemic in the United States and China will significantly affect

Chile since these two economies account for almost a half of total exports and foreign investment. The labour market should however be quite resilient – as was the case during the social unrest – with some moderate increase in unemployment and informal employment. The economy is expected to rebound in 2021, but in the event of a second outbreak, the level of output at the end of 2021 will be 6% lower than before the social events of end-2019.

Policies priorities to support the recovery

COVID-19 infections may strike again, either directly or indirectly through the effect on other economies, so the authorities must stand ready to react, if needed. Until an effective treatment or a vaccine are available, the immediate priorities should be to increase capacity for extensive testing, tracking and tracing, and the provision of health care treatment for all patients, regardless of whether they are insured or not. Providing support to healthcare workers and enhancing the provision of medical and protective equipment for all the population are also important to cushion the shock of a second outbreak and save human lives. Credible institutions and sustainable fiscal policy have put the economy in a favourable position before entering the social crisis and the virus outbreak, which leaves room for further fiscal and monetary policies to support the economy, if needed. Fiscal measures to help firms and in particular SMEs are warranted, such as the further deferral or cancellation of corporate and VAT tax payments and the increase of the conditional financial facility and liquidity credit line, and transfers to the most vulnerable families - including non-conditional cash transfers, tax deferrals and reductions, food baskets or suspension of payments of basic utilities.