***Business at OECD* (BIAC)**

2020 Economic Policy Survey

"Views from the frontline"

Key findings

- Alongside the Covid-19 pandemic, our survey indicates a sharp deterioration of business confidence across countries, industries and services. While in 2019 only 16% of business federations perceived the business climate as weak or very weak, this share has now skyrocketed to a staggering 95%.
- The deterioration of the overall business climate is amplified by a collapse of international trade and investment. According to our survey, exports and investment are expected to sharply decrease across countries over the coming 12 months.
- Insufficient global demand is regarded as key factor behind the collapse of the trade and investment outlook. At the same time, supply side restrictions including tariff and non-tariff barriers, policy and regulatory uncertainty and enduring trade tensions significantly weigh in on trade performance.
- Most alarmingly, three out of four respondents expect the current crisis to have a more severe negative economic impact than the financial crisis and to be long-lasting, i.e. beyond 12 months. A swift rebound to pre-crisis output levels appears unlikely.
- The sectoral impact is likely to differ considerably, with all respondents identifying the hospitality industry as the sector expected to face the brunt of the fallout, followed by transport (65%), commerce (38%), media and culture (23%) and construction (20%).
- About half of surveyed business federations consider government response measures as largely appropriate in the short-term, while the other half regards the adopted measures as either too small or somewhat small.[1]
- Considering the importance of structural reforms to build resilience and trigger long-term growth, it is concerning to see that four out of five respondents regard policy reform intensity as only moderate or slow in their countries over the past 12 months.

Policy messages

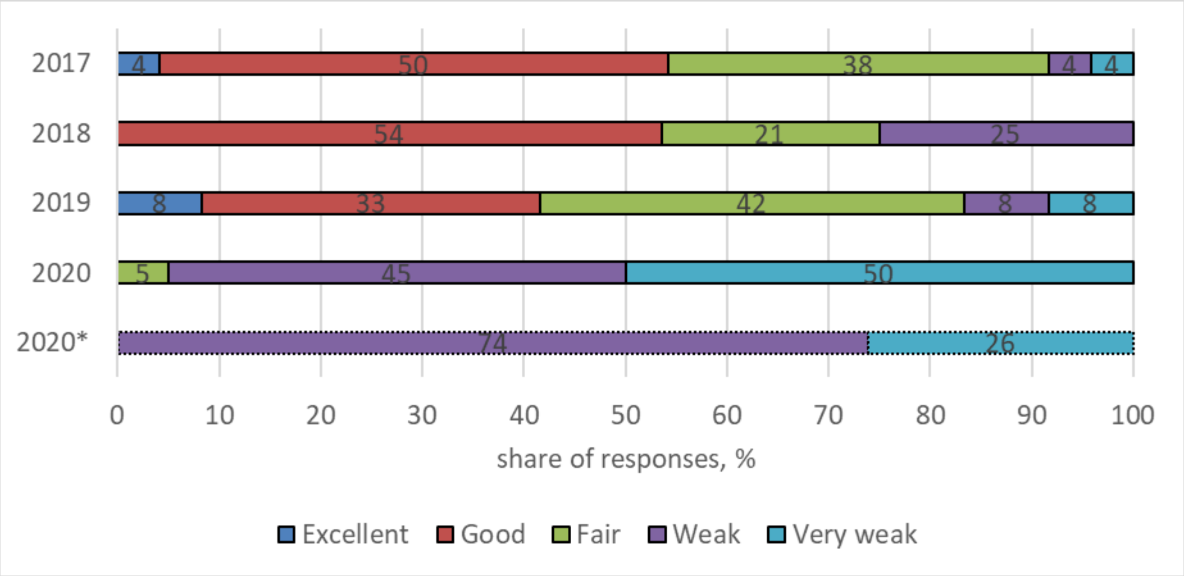
- Despite the strong public efforts to support businesses and workers during the crisis, we will see higher unemployment, increased rates of business bankruptcies, weaker public and private balance sheets, reduced investment spending, and increased calls for protectionism, compared to the period before the virus outbreak. In this context, effective recovery plans and international coordination and cooperation are vital to preserve our economies and societies and ensure that an open global market environment can continue to leverage growth and development.
- During the recovery phase, it remains critical to ensure that companies, and in particular SMEs who frequently hold cash buffers of just less than one month, have easy access to sufficient liquidity at adequate terms. In some countries, short-term additional measures are needed to address challenges related to liquidity, solvency, employment and governance.
- The 2008 financial crisis illustrated the risk that weak balance sheets and persistent uncertainty translate into sub-par investment. It is now key to use all available levers to strengthen public and support private investment, especially with a view on R&D and innovation, digitalization, infrastructure and transportation, education and health, which can not only play an important role in the recovery phase but can also help economies improve their 'preparedness' going forward.
- Regarding labor markets, reducing the tax wedge on labor, improving incentives for companies to hire and keep employees in work, as well as re-training the unemployed are key.
- Finally, building resilience must not be misused as a vehicle for protectionism and unilateral action, but should be based on structural reforms, improving public governance, cutting red tape and fostering greater international cooperation. The digital transition, public infrastructure, public sector efficiency, innovation policies and raising the effectiveness of R&D policies, as well as investments to maintain and create jobs and foster sustainable growth, while addressing global challenges such as climate change, are top reform priorities for 2020.

[1] Note that the cut-off date of the survey was 22 April.

1. THE OVERALL BUSINESS CLIMATE

Alongside the Covid-19 pandemic, we see a sharp deterioration of business confidence across countries, industries and services sectors. While in 2019 only 16% of business federations perceived the business climate as weak or very weak, this share has now risen to a staggering 95%.

Figure 1: Snapshot view of current business climate, 2017-20



Source: Business at OECD member federations; *GDP weighted share of responses

Highlights:

- The vast majority of survey respondents now rate the business climate in their countries as either weak or very weak (95% simple average; 99.9% GDP weighted average).
- This is a sharp deterioration compared to 2019, where only 16% of respondents perceived the business climate as weak or very weak, while 41% of respondents considered it as good or excellent. In 2018, 25% of respondents were concerned about the business climate in their economics. In 2017, the share was 8%.
- Our findings are in line with those of other domestic and international business and consumer confidence indicators, which depicted stark decreases since the outbreak of the Covid-19 pandemic.[2]

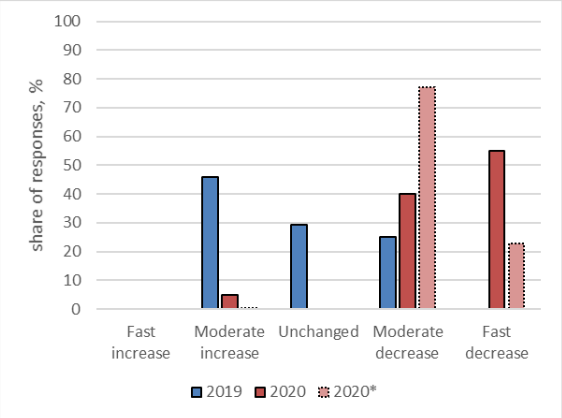
[2] For example, the European Commission's overall economic sentiment indicator fell by 28.8 points to 65.8 across the EU in April (and the outcome may have well been more severe than the data suggests, as its survey could not be carried out in Italy where the pandemic hit particularly severely). Markit's flash U.S. Composite Output Index hit with at 27.4 in April a new series low (from 40.9 in March), while in Japan the Jibun Bank Flash Composite PMI fell sharply from 26.2 in March to 27.8 in April.

2. EXPECTATIONS ON TRADE AND INVESTMENT

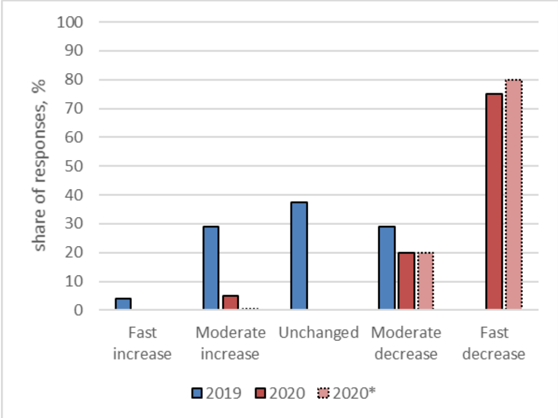
The deterioration of the overall business climate is amplified by a collapse of international trade and investment. According to our survey, exports and investment are expected to sharply decrease across countries over the coming 12 months.

Figure 2: Expectations for business investment and exports over the next 12 months, compared to the last 12 months, 2019-20

a) Exports



b) Investment



***Source: Business at OECD member federations;* *GDP weighted share of responses**

Highlights:

- Almost all respondents (95% simple average) expect exports and business investment to decline over the coming 12 months, compared to the same period of the previous year.

- The majority of respondents expect a sharp rather than a moderate decrease for both exports and investment: For exports, 55% of respondents expect a fast decrease and 40% a moderate decrease.[3] For investment, 75% expect a fast decrease, while 20% expect a moderate decrease.

- Again, this sharply contrasts with the results of the previous year, where only 25% of respondents expected moderately declining export growth and 29% moderately decreasing investment.

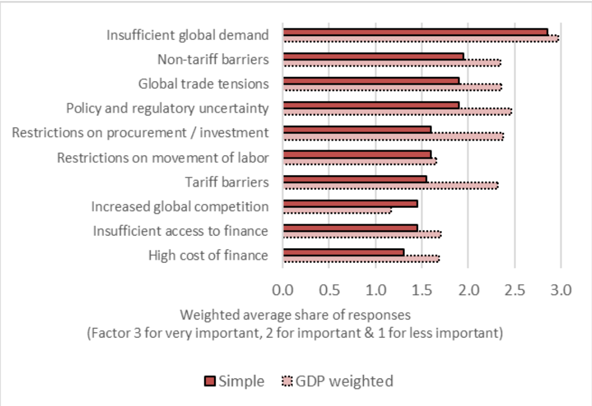
[3] Looking at the GDP weighted average the results are slightly different, with about 23% expecting a fast decrease, while roughly 77% of respondents expect a moderate decrease in exports over the coming 12 months.

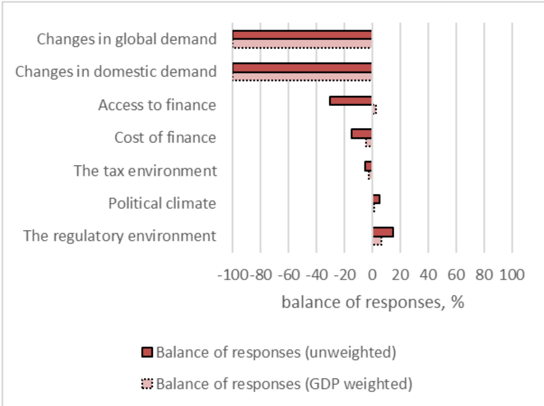
3. DRIVERS OF TRADE AND INVESTMENT PERFORMANCE

Insufficient global demand is regarded as key factor behind the collapse of the trade and investment outlook. At the same time, supply side restrictions including tariff and non-tariff barriers, policy and regulatory uncertainty and enduring trade tensions significantly weigh in on trade performance.

Figure 3: Expected impact of different factors on the outlook for business investment & key factors constraining the outlook for companies' exports

a) Exports ***b) Investment***





Source: Business at OECD member federations

Highlights:

- Based on our survey, insufficient global demand is cited as the key reason behind the severe expected weakening in the global export and investment outlook.
- For investment, also insufficient domestic demand is seen as a key factor constraining the outlook, while non-tariff barriers, lingering global trade tensions and significant policy and regulatory uncertainties are other important factors behind the expected declines in exports.
- For further details on our trade and investment response in relation to Covid-19, please see our recently published statements on [Trade] and [Investment].

4. OVERALL ECONOMIC IMPACT OF COVID-19

Most alarmingly, business federations expect the economic impact of the crisis to be long-lasting – this is beyond 12 months – and to have a more severe negative impact on countries' economies compared to the 2008 financial crisis. Consequently, the majority of respondents do not expect a swift rebound to pre-crisis output levels.

Figure 4: Expectation of economic impact of COVID-19 on respondents' countries, compared to the 2008 financial crisis

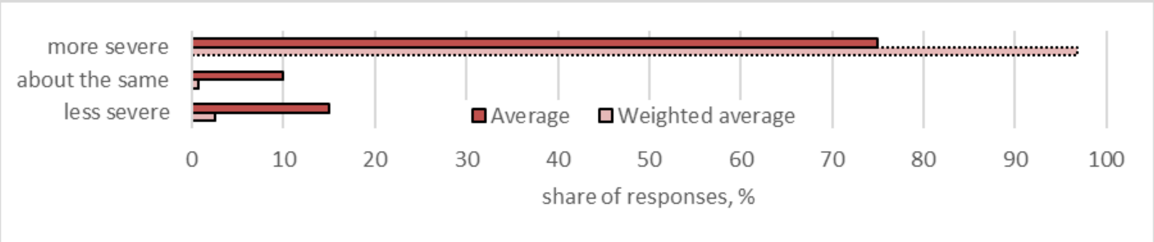


Figure 5: Duration of expected negative economic impact of COVID-19 on economies

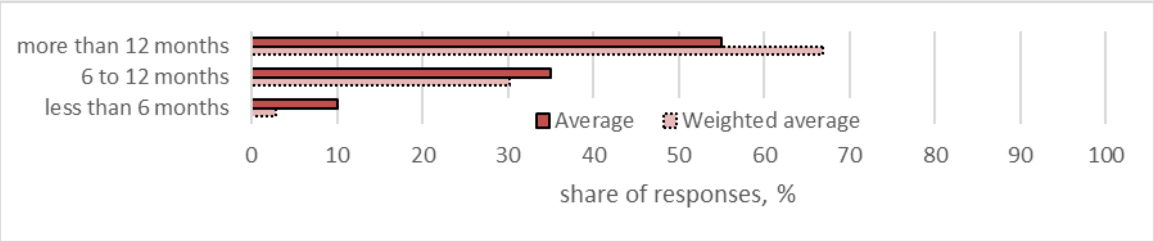
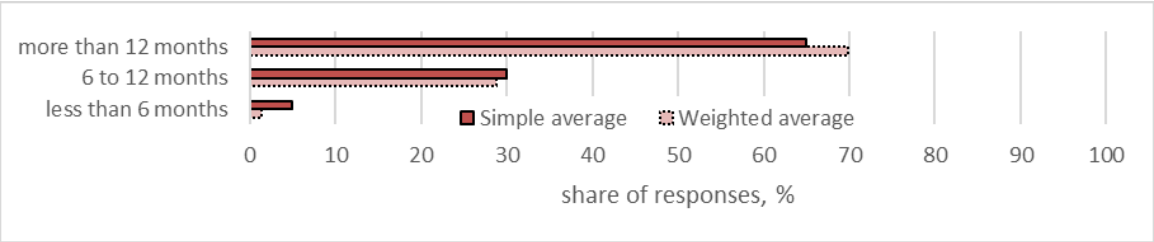


Figure 6: Expected duration of return to pre-COVID-19 output levels, assuming that the spread of COVID-19 has been successfully reduced and containment lifted by June



Source: Business at OECD member federations

Highlights:

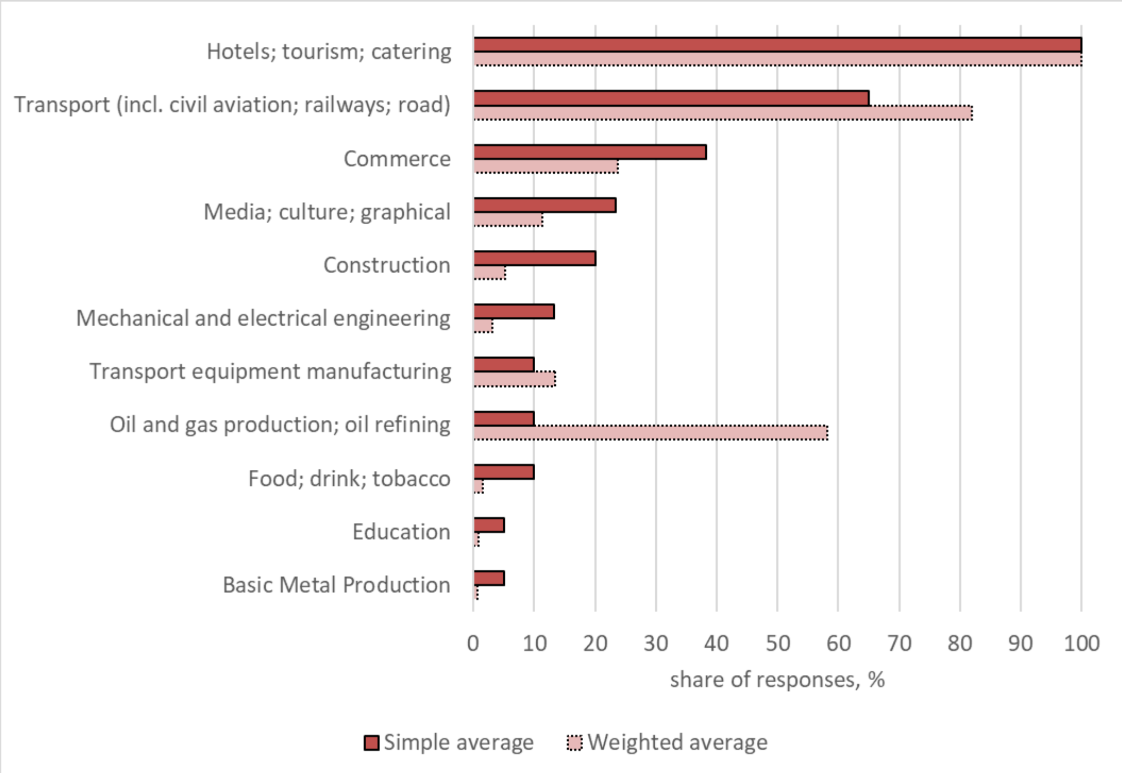
- Three out of four respondents expect the economic impact of the Covid-19 crisis to be more severe than that of the 2008 financial crisis (this figure rises to even 97% in weighted terms), while 10% expect the economic impact to be of similar size and 15% expect it to be less severe.

- A slight majority (55%) of respondents expect the negative economic impact to be long-lasting, i.e. beyond 12 months, while only 10% expect the fallout to be less than 6 months. In line with this, about two-thirds of respondents expect that it may take beyond 12 months for economies to return to pre-crisis output levels should containment be lifted by June.

5. OVERALL ECONOMIC IMPACT OF COVID-19 ON SECTORS

The pandemic and measures to slow the spread of the virus – lockdowns, widespread closures, and social distancing – are expected to have a strongly different economic impact across sectors. The hospitality industry is expected to be most negatively affected, followed by the transport sector and commerce.

Figure 7: Expectation on industry sectors most negatively affected by the crisis (3 selected)



Source: Business at OECD member federations
****only those sectors are displayed which were selected by at least one survey respondent***
***** under category "others" "small suppliers for car industry" was selected once (not displayed)***

Highlights:

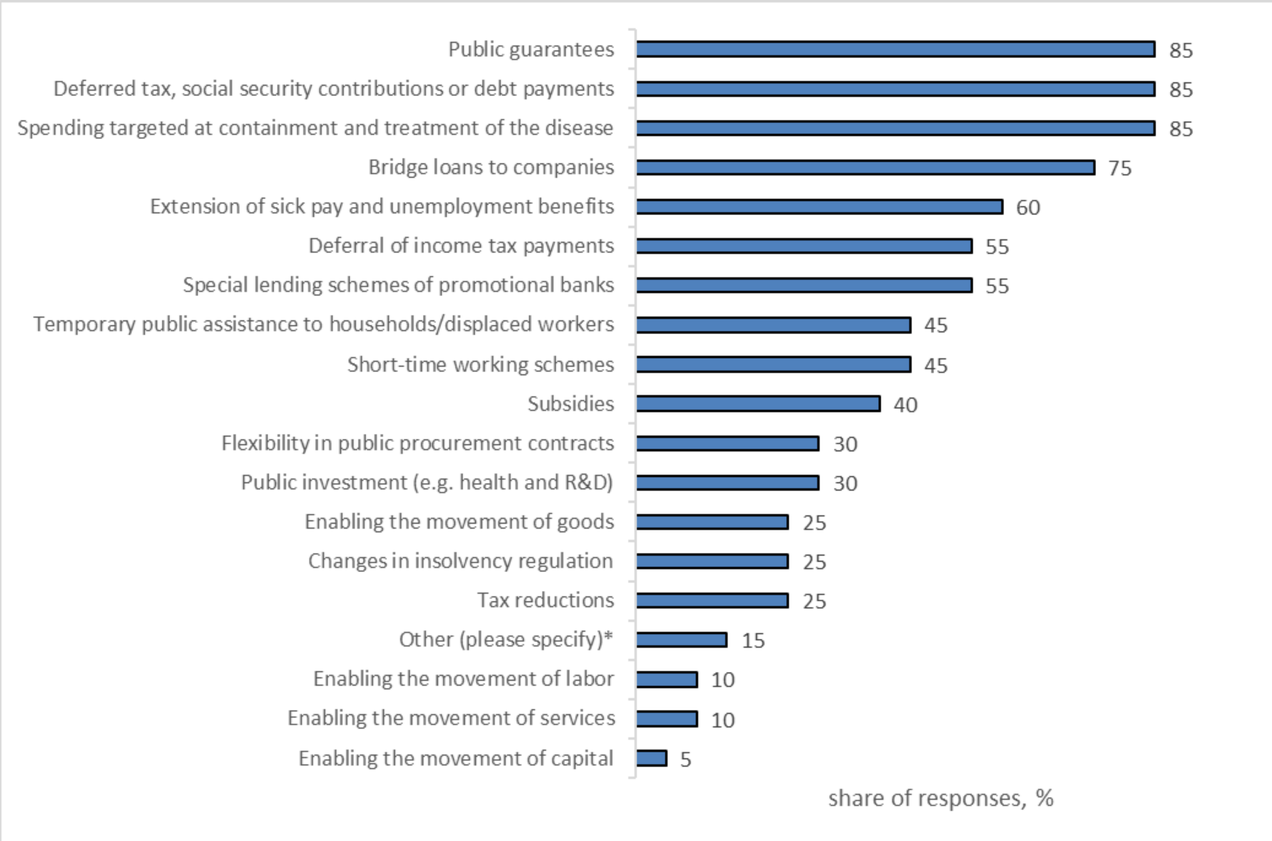
- Asked for the three sectors they believe to be most severely impacted by the crisis, all respondents identified the hospitality industry (hotels, restaurants, catering) as the sector that is expected to be most negatively affected.

- This is followed by transport (65% of respondents), commerce (38%), media and culture (23%) and construction (20%) as sectors which are also expected to be particularly severely impacted by the crisis.

6. ADOPTED POLICY MEASURES TO SUPPORT THE ECONOMY

In view of the widespread measures to slow the spread of the virus across countries – lockdowns, widespread closures, and social distancing –, maintaining the socio-economic fabric of our society should be a top policy priority. In this regard, a particular policy focus on providing adequate liquidity for business, and keeping employees in work has been critical.

Figure 8: Specific economic policy measures taken to support domestic economies due to COVID



Source: Business at OECD member federations; *Under category "others": credit moratorium, income loss compensation for quarantined employees, targeted employment support program

Highlights:

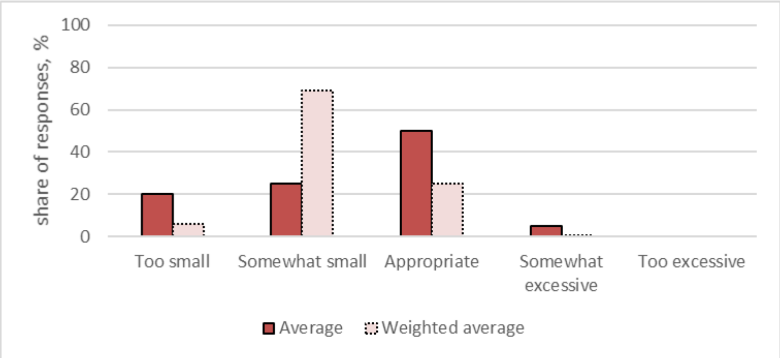
- According to our member survey, the most prevalent specific economic policy measures to support domestic economies due to the Covid-19 crisis include "public guarantees"; "deferred tax, social security contributions or debt payments"; "spending aimed at containing and treating the disease" (all 85%), followed by "bridge loans to companies" (75%) and the "extension of sick pay and unemployment benefits" (60%).

- Notably, cross-border measures that enable the movement of capital, labour or services are largely absent.

7. ADDITIONAL POLICY MEASURES SUGGESTED TO SUPPORT THE ECONOMY (SHORT-TERM)

While about half of surveyed business federations deem the specific economic policy measures taken to support economies in the short-term as largely appropriate in size, the other half considers the measures as either too small or somewhat small and call for additional measures to address in particular liquidity, solvency, employment and governance issues.

Figure 9: Specific economic policy measures taken to support domestic economies due to COVID



Source: Business at OECD member federations

Figure 10: Additional measures suggested to address the short-term impact of the crisis

1	Loans and aid for medium sized companies
2	Lengthen liquidity measures
3	Further measures to ensure adequate liquidity at reasonable cost for businesses
4	Deferred tax, social security contributions or debt payments where additional measures are needed
5	Making it possible for businesses to deduct loss of current year from the profits of previous years and as a result receive tax reimbursement from the government
6	Rationalization of tax advance payments so that they are not computed on 2019 profitability
7	More support for company fixed costs
8	Reductions of labour taxation
9	Employment subsidies
10	Increase flexibility in labour law
11	Direct payments to companies discouraging furloughing workers/government support for partial furloughs
12	A revamp of insolvency framework (in particular to support SMEs)
13	Increase transparency and certainty of the policy process
14	Extend exceptions to (cross-border) travel restrictions (e.g. for service engineers who must install, repair or maintain specific machines, devices, while respecting strict hygienic rules

Source: Business at OECD member federations

Highlights:

- 50% of survey respondents consider the short-term economic policy measures taken by governments as appropriate (25% weighted average), while 25% regard them as somewhat small (69% weighted), 20% as too small (6% weighted) and only 5% as somewhat too large (1% weighted).

8. KEY POLICY MEASURES SUGGESTED TO SUPPORT THE ECONOMY (LONGER-TERM)

Despite the strong efforts of governments and international institutions to support businesses and workers during this crisis, we will face higher unemployment, increased rates of business bankruptcies, weaker public and private balance sheets, reduced investment spending and increased protectionist pressures. In this context, effective recovery plans and international coordination and cooperation are vital to controlling the virus whilst preserving our economies and societies, as well as building resilience against future shocks.

Figure 11: Key measures highlighted to support the economy once in recovery phase

1	Ensure access to liquidity at competitive terms
2	Transform public guarantees into capital injections
3	Investment in health, education, R&D and innovation and infrastructure
4	Roll out a comprehensive public investment plan to use PPPs to advance key national and regional infrastructure projects
5	Flexibility in public procurement contracts (e.g. waiving of delay penalty)
6	Reduce the tax wedge on labor & reduce taxes on energy, production and digital services
7	Enhance flexibility of labour markets to increase resilience of economy
8	Improving incentives to work, incentives to invest and hire employees
9	(Re)-training of unemployed
10	Structural reforms to improve competitiveness
11	Free movement of goods, labor and capital
12	Streamlining of various government agencies and processes to gain permits, lessen bureaucracy

Source: Business at OECD member federations

Highlights:

- During the recovery phase, it remains critical to ensure that companies, and in particular SMEs who frequently hold cash buffers of just less than one month, have access to sufficient liquidity at adequate terms. Where appropriate, it is worth considering transforming public guarantees into capital injections to strengthen equity.

- As we have seen during the 2007-8 financial crisis, there is a risk that weak balance sheets and persistent uncertainty translate into sub-par investment. It is therefore key to use all available levers to strengthen public and support private investment, especially with a view on R&D and innovation, digitalization, infrastructure and transportation, education and health. A comprehensive public investment plan to use PPPs to advance key national and regional infrastructure projects is warranted.

- With regards to labour markets, reducing the tax wedge on labor, improving incentives for companies to hire and workers to work, as well as the re-training of the unemployed (not least in view of the likely accelerated digital transformation) are key.

- Finally, building resilience should not be misused as a vehicle for protectionism and unilateral action, but rather consistent in much needed structural reforms, improving public governance processes, cutting red tape and fostering greater international cooperation that avoids duplication and cross-border inconsistencies.

9. 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 four out of five respondents regard policy reform intensity in their countries as only moderate or slow. Moreover, weighted results show that across all large economies reform intensity was lacklustre. The lack of political will or leadership is regarded as key obstacle to reform.

Figure 13: Policy reform intensity over the past twelve months

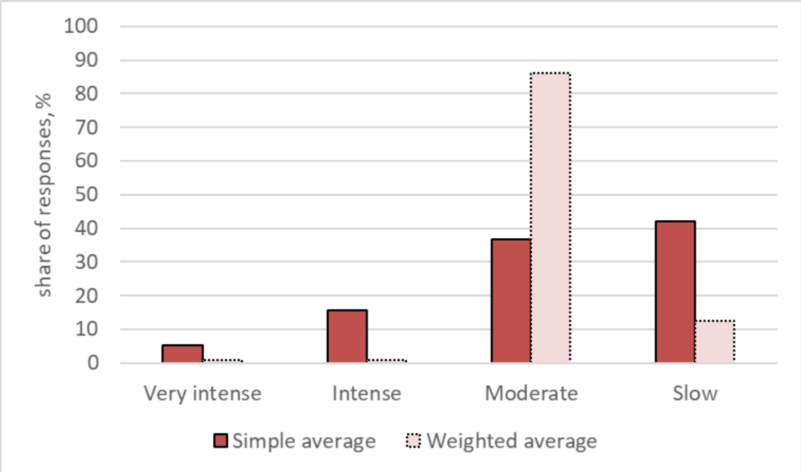
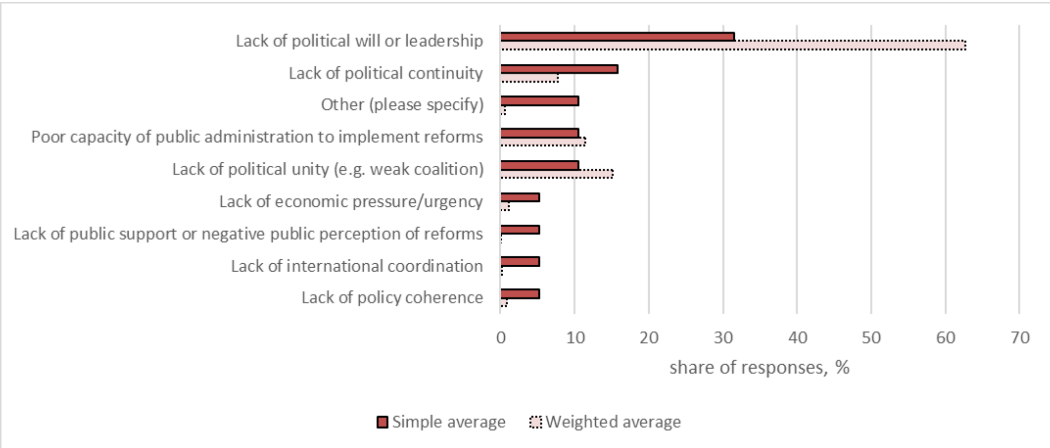


Figure 14: Biggest obstacle to successful pro-growth reforms



Source: Business at OECD member federations; *mentioned as "others": The level of evidence based policy making needs to be enhanced even though it has improved significantly over the past; lack of will by trade unions for reforms on the wage bargaining process

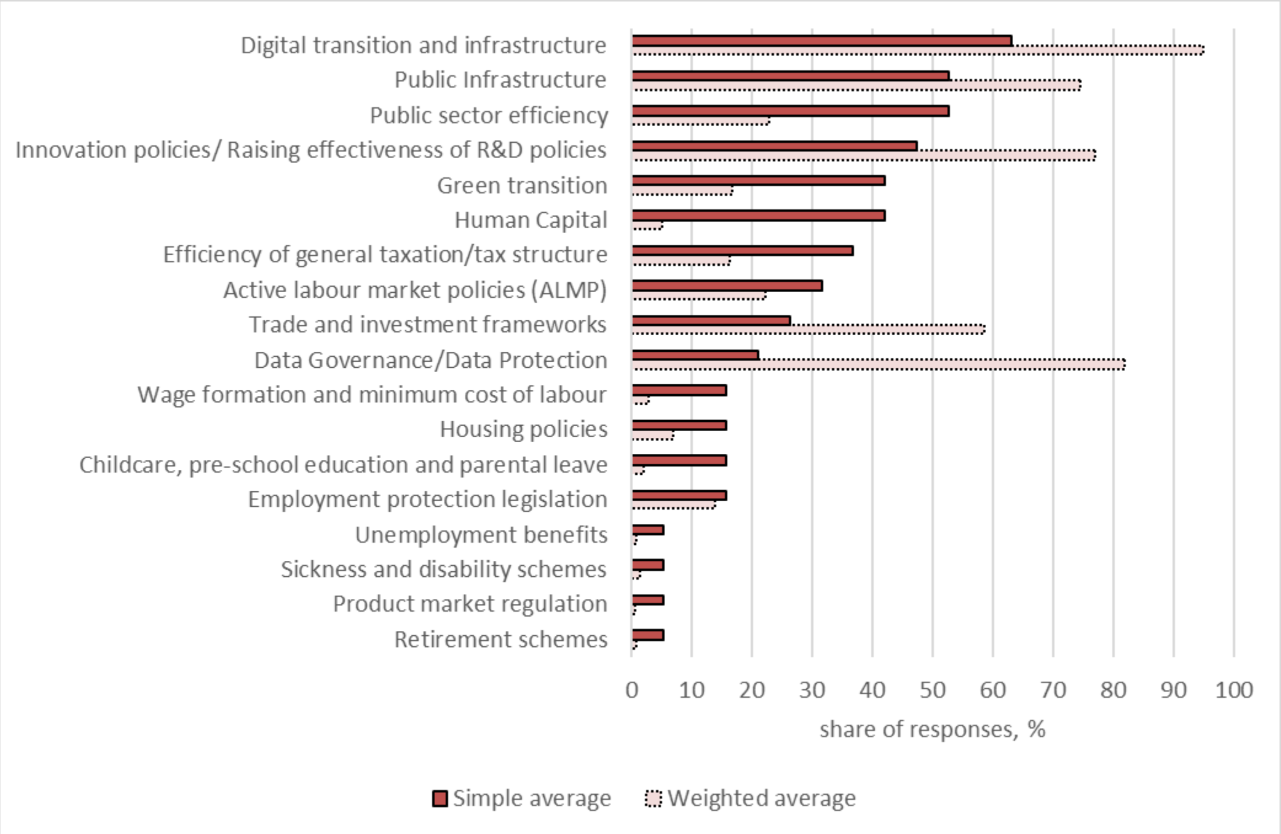
Highlights:

- 79% of respondents regard policy reform intensities in their respective countries as either moderate or weak (98% for the GDP weighted average), while 16% consider reform momentum to be intense and 5% very intense. The lack of political will or leadership is regarded as the main obstacle to pro-growth reform (32% simple and 63% weighted average), with also the lack of political continuity and unity being cited as key obstacles.

10. STRUCTURAL REFORM PRIORITIES

The digital transition and infrastructure, public infrastructure in general, public sector efficiency, innovation policies and raising the effectiveness of R&D policies, as well as the green transition are considered as the top 5 reform priorities for 2020, while as a weighted share trade and investment frameworks and data governance and protection are also considered of critical importance.

Figure 12: Top structural reform priorities for 2020 (selected 5)



Source: Business at OECD member federations

Highlights:

- The "digital transformation" is regarded as the key reform priority for 2020 with 63% in simple and 95% in weighted terms, underlining the important role digital technologies are playing during the current Covid-19 pandemic. Similarly, on a weighted scale "data governance and protection" is also considered of very high relevance (82%).

- This is followed by "public infrastructure" and "public sector efficiency" (both 53%), "innovation policies and raising the effectiveness of R&D policies" (47%), as well as the "green transition" (42%).

Methodological note

Timeline

Our survey was launched in early April 2020 and concluded between 2 and 22 April. This synthesis report was prepared in May 2020. Given the rapid evolution of the crisis and significant cross-country variation, it cannot be excluded that the different timings of member responses influenced aggregate results.

Respondents

20 national business and employer organizations, representing 73% 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 and simple 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 five main parts:

I. Views on the overall business climate
II. Views on the outlook for international trade and investment
III. Views on the impact and policy measures with regards to COVID-19
IV. Views on key risks to global economic growth
V. Views on top structural reform priorities and countries' reform efforts

Contact

If you would be interested to receive further information, please contact *Business at OECD* Policy Manager, Frederik Lange (Lange@biac.org)

Business at OECD **(BIAC)**
13-15 Chaussée De La Muette
75016 Paris
France
contact@biac.org | @BusinessAtOECD | www.businessatoecd.org

Established in 1962, *Business at OECD* stands for policies that enable businesses of all sizes to contribute to growth, economic development, and societal prosperity. Through *Business at OECD*, national businesses and employers' federations representing over 7 million companies provide and receive expertise via our participation with the OECD and governments promoting competitive economies and better business.