OECD Economic Outlook

Tackling Uncertainty, Reviving Growth

June 2025

Volume 2025/1, No. 117

OECD ECONOMIC OUTLOOK

117

JUNE 2025

TACKLING UNCERTAINTY, REVIVING GROWTH

OECD

BETTER POLICIES FOR BETTER LIVES

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of the Member countries of the OECD.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Note by the Republic of Türkiye
The information in this document with reference to “Cyprus” relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Türkiye recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Türkiye shall preserve its position concerning the “Cyprus issue”.

Note by all the European Union Member States of the OECD and the European Union
The Republic of Cyprus is recognised by all members of the United Nations with the exception of Türkiye. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Please cite this publication as:
OECD (2025), *OECD Economic Outlook, Volume 2025 Issue 1: Tackling Uncertainty, Reviving Growth*, No. 117, OECD Publishing, Paris, https://doi.org/10.1787/83363382-en.

ISBN 978-92-64-34736-6 (print)
ISBN 978-92-64-87597-5 (PDF)
ISBN 978-92-64-68213-9 (HTML)

OECD Economic Outlook
ISSN 0474-5574 (print)
ISSN 1609-7408 (online)

Photo credits: Photo credits: Cover © Iberto Masnovo/Shutterstock.com.

Corrigenda to OECD publications may be found at: https://www.oecd.org/en/publications/support/corrigenda.html.

© OECD 2025

Attribution 4.0 International (CC BY 4.0)
This work is made available under the Creative Commons Attribution 4.0 International licence. By using this work, you accept to be bound by the terms of this licence (https://creativecommons.org/licenses/by/4.0/).
Attribution – you must cite the work.
Translations – you must cite the original work, identify changes to the original and add the following text: *In the event of any discrepancy between the original work and the translation, only the text of original work should be considered valid.*
Adaptations – you must cite the original work and add the following text: *This is an adaptation of an original work by the OECD. The opinions expressed and arguments employed in this adaptation should not be reported as representing the official views of the OECD or of its Member countries.*
Third-party material – the licence does not apply to third-party material in the work. If using such material, you are responsible for obtaining permission from the third party and for any claims of infringement.
You must not use the OECD logo, visual identity or cover image without express permission or suggest the OECD endorses your use of the work.
Any dispute arising under this licence shall be settled by arbitration in accordance with the Permanent Court of Arbitration (PCA) Arbitration Rules 2012. The seat of arbitration shall be Paris (France). The number of arbitrators shall be one.

Table of contents

Acknowledgements 7

Editorial Tackling uncertainty, reviving growth 9

1. General assessment of the macroeconomic situation 11
Introduction 11
Recent Developments 13
Projections 26
Risks 32
Policies 42
References 59
Annex 1.A. Policy and other assumptions underlying the projections 63

2. Reigniting investment for more resilient growth 65
Summary 65
A prolonged period of weak investment has weighed on potential output growth 65
Business investment has been held back by subdued demand, elevated uncertainty and structural factors 68
Housing investment has fallen short of demand, reducing affordability 83
Public investment has picked up but remains below pre-GFC levels 84
Public policy reforms can help reinvigorate investment 85
References 95
Annex 2.A. An investment accelerator model 100

3. Developments in individual OECD and selected non-member economies 103
Argentina 104
Australia 107
Austria 110
Belgium 113
Brazil 116
Bulgaria 120
Canada 123
Chile 127
China 130
Colombia 134
Costa Rica 137
Croatia 140
Czechia 143
Denmark 146

Estonia 149
Euro area 152
Finland 156
France 159
Germany 163
Greece 167
Hungary 170
Iceland 173
India 176
Indonesia 180
Ireland 184
Israel 187
Italy 190
Japan 194
Korea 198
Latvia 201
Lithuania 204
Luxembourg 207
Malaysia 210
Mexico 213
Netherlands 216
New Zealand 219
Norway 222
Peru 225
Philippines 228
Poland 231
Portugal 234
Romania 237
Slovak Republic 240
Slovenia 243
South Africa 246
Spain 249
Sweden 252
Switzerland 255
Thailand 258
Türkiye 261
United Kingdom 264
United States 268
Viet Nam 272

FIGURES

Figure 1.1. Global growth was holding up ahead of recent trade policy announcements 14
Figure 1.2. Recent trade policy announcements imply substantial change in effective tariffs 17
Figure 1.3. Direct exposure to US tariff increases 18
Figure 1.4. Direct and indirect trade effects 18
Figure 1.5. Recent economic indicators have weakened in several large economies 19
Figure 1.6. Near-term trade activity has been resilient 20
Figure 1.7. Financial conditions are tighter than at the end of 2024 21
Figure 1.8. Equity prices of companies sensitive to US tariffs have underperformed 22
Figure 1.9. Volatility has eased, but lower-rated corporate bond spreads remain elevated 23

Figure 1.10. Older workers have been an important source of increased labour supply 24
Figure 1.11. Inflation remains high with goods inflation having recently picked up 25
Figure 1.12. Inflation expectations have recently increased in some economies 26
Figure 1.13. Global growth is projected to weaken 27
Figure 1.14. The regional drivers of trade growth are changing 29
Figure 1.15. Current account balances will change only slowly 30
Figure 1.16. A more balanced labour market and stronger productivity growth should support disinflation 31
Figure 1.17. Inflation is projected to move further towards targets 31
Figure 1.18. Further trade cost increases and heightened uncertainty would harm growth 33
Figure 1.19. An increasing share of households in the United States and Canada are now expecting high inflation 34
Figure 1.20. Equity prices remain richly valued and many financial markets are increasingly concentrated 35
Figure 1.21. Expected corporate earnings continue to rise despite the widespread equity market decline in early April 36
Figure 1.22. Default risk premia have risen and bank performance has weakened 37
Figure 1.23. Global passive investing and use of derivatives by non-bank financial intermediaries have risen 39
Figure 1.24. Capital flows have been sensitive to exchange rate movements relative to the US dollar 40
Figure 1.25. Borrowing has become more challenging for lower income and riskier countries 41
Figure 1.26. Long-term real interest rates remain high but short-term real rates have declined 42
Figure 1.27. Policy rates are projected to decline further in most advanced economies 43
Figure 1.28. Real policy rates are projected to converge towards neutral levels 44
Figure 1.29. Public debt determinants in OECD countries 45
Figure 1.30. Substantial fiscal consolidation is projected in some high debt countries 46
Figure 1.31. Defence spending is increasing in advanced economies in Central and Eastern Europe 47
Figure 1.32. Ambitious military spending goals could force tough fiscal policy choices 49
Figure 1.33. Government spending patterns vary across OECD countries 51
Figure 1.34. Policy rates are projected to decline further in most emerging-market economies 52
Figure 1.35. Fiscal balances are expected to improve in most emerging-market economies 53
Figure 1.36. Opportunities exist to raise living standards by lowering trade barriers 54
Figure 1.37. Trade facilitation improvements lower trade costs 55
Figure 1.38. Improving services regulation would boost trade growth 56
Figure 1.39. Business investment gaps are large across OECD economies 57
Figure 1.40. The gap between financing costs and hurdle rates has increased 58
Figure 2.1. Weak capital accumulation has held back growth 66
Figure 2.2. Real investment remains below the pre-GFC and pre-pandemic trends in many economies 67
Figure 2.3. Net investment-to-GDP ratios have declined since the global financial crisis 68
Figure 2.4. Business investment has been weak across sectors 69
Figure 2.5. Business investment ‘gaps’ are large across OECD economies 70
Figure 2.6. The cost of capital has fallen and company valuations have held up 71
Figure 2.7. Strong corporate profitability has not translated into higher gross fixed capital investment 72
Figure 2.8. Uncertainty has increased, becoming a greater obstacle to investment 73
Figure 2.9. An uncertainty shock decreases business investment and GDP 74
Figure 2.10. Investment patterns have shifted towards the digital and knowledge-based economy 76
Figure 2.11. Tech firms lead the way in digital and knowledge investment growth 76
Figure 2.12. AI-related firms increasingly invest more than other firms 77
Figure 2.13. Declines in net business investment are driven by rising depreciation and weak non-digital tangible investment 78
Figure 2.14. Firms have used savings to accumulate financial assets and return funds to shareholders 79
Figure 2.15. The rate of return on corporate capital assets remains high 80
Figure 2.16. The gap between financing costs and hurdle rates has increased 80
Figure 2.17. Industry and product market concentration has increased 81
Figure 2.18. Markups have increased across OECD countries 82
Figure 2.19. Housing investment has not kept pace with demand, weakening affordability 84
Figure 2.20. Public investment was supportive in many countries during the aftermath of COVID-19 85
Figure 2.21. The major barriers to private investment can be influenced by government policy 86
Figure 2.22. Investment would benefit from further product market reforms 88
Figure 2.23. Restrictions on FDI are particularly pronounced in some emerging-market economies 90
Figure 2.24. Government involvement in venture capital deals varies greatly across countries 91
Figure 2.25. Government investment can have clear benefits for long-term growth 92
Figure 2.26. Effective corporate income tax rates vary strongly across assets and source of finance 94

TABLES

Table 1.1. Global GDP growth is projected to slow 13

Annex Table 2.A.1. Panel regression results for simple accelerator model 100
Annex Table 2.A.2. Panel regression results for extended accelerator model 101

BOXES

Box 1.1. The impact of US tariff policy changes will be significant 15
Box 1.2. The distribution of household inflation expectations 34
Box 1.3. Higher defence spending: economic and public finance implications 46
Box 2.1. Economic policy uncertainty and business investment in OECD countries 73
Box 2.2. Government investment and growth-enhancing structural outcomes 92
Box 2.3. Corporate income taxation and investment: impact and policy design considerations 94

Acknowledgements

This edition of the OECD Economic Outlook was produced by the OECD Economics Department. The global outlook and the overall report were prepared under the general supervision of Álvaro Pereira, Luiz de Mello, Alain de Serres, Isabell Koske, and Asa Johansson, and managed by Nigel Pain.

Chapter 1 was prepared in the Macroeconomic Policy and Research Division and supervised by Nigel Pain, with Ben Westmore, Catherine MacLeod and Álvaro Pina as principal authors; and Masatoshi Ando, Ben Conigrave, Patrice Ollivaud, Caroline Roulet, Elena Rusticelli and Srdan Tatomir providing substantive contributions.

Chapter 2 was supervised by Tomasz Kozluk, Nigel Pain and Filiz Unsal, with Dennis Dlugosch, Max Glanville, John Hooley, Fatih Ozturk and Ben Westmore as the principal authors and Takashi Miyahara providing substantive contributions.

Chapter 3 was prepared by the Country Studies Branch, with contributions from Müge Adalet McGowan, Paula Adamczyk, Geoff Barnard, Hansjörg Blöchliger, Martin Borowiecki, Tim Bulman, David Cashin, Boris Cournède, Lilas Demmou, Charles Dennery, Federica De Pace, Falilou Fall, Priscilla Fialho, Erik Frohm, Paula Garda, Federico Giovannelli, Daniela Glocker, Nicolas Gonne, Antoine Goujard, Robert Grundke, David Haugh, Philip Hemmings, Hyunjeong Hwang, Yosuke Jin, Andrew Keith, Nikki Kergozou, Caroline Klein, Michael Koelle, Kyongjun Kwak, Timo Leidecker, Alessandro Maravalle, Dimitris Mavridis, Margit Molnar, Hermes Morgavi, Ken Nibayashi, Alberto González Pandiella, Jon Pareliussen, Pierre Alain Pionnier, Claudia Ramirez Bulos, Adolfo Rodriguez Vargas, Oliver Röhn, Simone Romano, Katja Schmidt, Serdar Sengul, Cyrille Schwellnus, Patrizio Sicari, Zuzana Smidova, Emilia Soldani, Jan Strasky, Enes Sunel, Gilles Thirion, Tetsuya Yoshioka, and Volker Ziemann. The preparation of the country notes was supervised by Jens Arnold, Sebastian Barnes, Pierre Beynet, Aida Caldera Sanchez, Mame Fatou Diagne and Vincent Koen.

Overall coordination and key editorial and statistical support were provided by Isabelle Fakih and Jérôme Brézillon.

Statistical support was given by Damien Azzopardi, Corinne Chanteloup, Lutécia Daniel, Michela Gamba, Véronique Gindrey, Federico Giovannelli, Béatrice Guérard, Mauricio Hitschfeld, Eun Jung Kim, Seung-Hee Koh, Isabella Medina, Natia Mosiashvili, Axel Purwin, Monica Quinza Armenta, and Mafalda Trincão. Editorial support for the country notes was provided by Jean-Rémi Bertrand, Laura Fortin, Robin Houng Lee, Gemma Martinez, Sophie Jenkins and Sisse Nielsen.

Background analysis for the projections was provided by Thomas Chalaux and Yvan Guillemette. Database management was provided by the Smart Data and Digital Solutions Unit, with contributions from Esther Bolton, Steven Cassimon, Jeroen Meyer and Gil Parola.

An initial draft of the report was discussed by the OECD Economic Policy Committee. This report is published under the responsibility of the Secretary-General of the OECD.

Editorial

Tackling uncertainty, reviving growth

In the past few months, we have seen a significant increase in trade barriers as well as in economic and trade policy uncertainty. This sharp rise in uncertainty has negatively impacted business and consumer confidence and is set to hold back trade and investment.

In this challenging and uncertain environment, we have downgraded our growth projections. We are now forecasting that global growth will decline from 3.3% in 2024 to a modest 2.9% in 2025 and in 2026. Weakened economic prospects will be felt around the world, with almost no exception. Lower growth and less trade will hit incomes and slow job growth.

Although inflation has recently declined in most countries, service price inflation remains stubbornly sticky and goods price inflation has increased slightly in many countries due to rising food prices. Protectionism is adding to these inflationary pressures, and inflation expectations have risen substantially in several countries. And even though we are still forecasting that inflation will come down to central bank targets by 2026 in most countries, it will now take longer to reach those targets. In the countries more affected by tariffs, inflation might even rise first before coming down.

Risks have risen significantly too. There is the risk that protectionism and trade policy uncertainty will increase even further and that additional trade barriers might be introduced. According to our simulations, additional tariffs would further reduce global growth prospects and fuel inflation, dampening global growth even more.

Fiscal risks are also increasing. Public debt levels are already elevated in many advanced and emerging market economies and spending pressures are rising in areas such as defence, investing in the green transition and costs related to the ageing of our societies. Debt service costs are rising too, further increasing pressures on public finances. High debt levels and tighter financial conditions pose particular risks for developing countries, many of which have large debt refinancing needs in the near future. Historically elevated equity valuations also increase the vulnerability to negative shocks in financial markets.

In this context, policy has a crucial role to play to tackle uncertainty and boost growth. First and foremost, it is essential to avoid further trade fragmentation and trade barriers. Agreements to ease trade tensions and lower tariffs and other trade barriers will be instrumental to revive growth and investment and avoid rising prices. This is by far the most important policy priority.

Second, given the recent inflationary pressures, monetary policy should remain vigilant. Still, if trade tensions are not intensified and inflation expectations remain anchored, policy rates can be reduced if inflation is projected to decline or remain subdued.

Third, restoring fiscal discipline is key for countries to avoid fiscal sustainability problems and build buffers for future shocks. Given high debt levels and tremendous spending pressures, countries should ensure

that public debt is, indeed, on a sustainable path. Clear and credible medium-term fiscal plans are needed to show how countries intend to address pressures on public finances. Thus, reducing non-essential or inefficient expenditures by undertaking periodic spending reviews, targeting of policies, as well as raising revenues by reforming tax systems or broadening tax bases, are key policy instruments to help ensure fiscal sustainability.

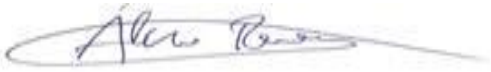
Finally, boosting investment will be instrumental to revive our economies and improve public finances. As we demonstrate in our special chapter, investment has been too low since the global financial crisis. Sluggish investment has lowered growth, productivity, and living standards. Business investment has fallen not only due to uncertainty and weakened demand, but also due to structural factors. This includes declining competitive pressures and financing frictions that have become more evident as a higher share of investment has been devoted to intangible assets (such as software, R&D, etc). At the same time, housing investment has been too feeble to avoid a substantial decline in housing affordability in many countries. And public investment has also been too weak for too long in many economies.

In this Outlook, we provide recommendations for countries to foster investment and growth, including reforms enhancing competition and cutting regulatory costs, increasing public investment in energy, digital and critical infrastructures, addressing skills shortages and skills mismatches, and speeding up construction permits and licenses, as well as easing zoning and planning restrictions and rental regulations, to spur housing supply.

All in all, in the current context, governments should work together to tackle uncertainty and pursue reforms to foster growth and jobs. Trade agreements to resolve existing tensions and lower or eliminate barriers should be accompanied by more efforts to enhance multilateral cooperation. Governments also need to tackle domestic challenges to boost growth and durably raise living standards, by fostering business and public investment and by pursuing productivity-enhancing structural reforms to improve the competitiveness of their economies.

Policy has a crucial role to play in these challenging and uncertain times.

3 June 2025



Álvaro Pereira

OECD Chief Economist

1. General assessment of the macroeconomic situation

Introduction

The global outlook is becoming increasingly challenging. Substantial increases in barriers to trade, tighter financial conditions, weaker business and consumer confidence and heightened policy uncertainty will all have marked adverse effects on growth prospects if they persist. Higher trade costs, especially in countries raising tariffs, will also push up inflation, although their impact will be offset partially by weaker commodity prices. Global GDP growth is projected to slow from 3.3% in 2024 to 2.9% this year and in 2026 (Table 1.1), on the technical assumption that tariff rates as of mid-May are sustained despite ongoing legal challenges. The slowdown is concentrated in the United States, Canada and Mexico, with China and other economies expected to see smaller downward adjustments. Growth through 2025 is expected to be especially weak, with global output rising by just over 2½ per cent over the year to the fourth quarter, and by only 1.1% in the United States. Global trade growth is likely to slow substantially over the next two years, after significant front-loading ahead of expected tariff increases, and uncertainty is expected to hold back business investment. Fiscal easing will provide support in a handful of economies notably in China and Germany, where higher defence and infrastructure spending in 2026 could generate a significant upturn, but policy is likely to be mildly restrictive in many other countries. Annual headline inflation in the G20 economies is collectively expected to moderate from 6.2% to 3.6% in 2025 and 3.2% in 2026, but the United States is an important exception, with annual inflation expected to rise to just under 4% by the end of 2025 and remain above target in 2026.

There are substantial risks to these projections, with the scale and duration of the expected downturn remaining highly uncertain. Further increases or swift changes in trade barriers, including through retaliatory actions, as well as more cautious behaviour by consumers and firms, or continued risk repricing in financial markets could all intensify the growth slowdown and trigger significant disruptions in highly interlinked cross-border supply chains. Rising inflation expectations by households could prolong inflationary pressures, especially in economies facing substantially higher trade costs or with still-tight labour markets, prompting more restrictive monetary policy and weakening growth prospects. Financial stability risks from still richly-valued and concentrated equity markets and high corporate financing needs could be triggered by additional risk repricing and amplified by forced asset sales by highly-leveraged non-bank financial intermediaries. On the upside, a reversal of the increase in trade barriers would support growth and reduce inflation, even if it did not immediately result in lower policy uncertainty. Steps to ease regulatory burdens, and an early resolution to conflicts in Europe and the Middle East, could also improve confidence and incentives to invest.

Against this backdrop, the key policy priorities are to ensure a lasting decline in trade tensions, policy uncertainty and inflation, establish a credible fiscal path to debt sustainability while providing temporary support to those vulnerable to economic shocks, and implement ambitious reforms to strengthen growth prospects and improve competitiveness.

- Countries need to find ways of working together within the global trading system and to make trade policy more predictable. Agreements to ease trade tensions or potentially lower existing trade barriers would be welcome, improve policy certainty and strengthen the prospects for investment and growth. Steps to lower tariffs, deepen trade agreements or reduce barriers to trade in services would also benefit productivity and living standards. Key areas where opportunities exist for services trade reforms include further improvements in trade facilitation, reductions in regulatory barriers that impede access to national markets, and initiatives to enhance the cross-border digital delivery of services.
- Central banks should remain vigilant given heightened uncertainty and the potential for initial increases in trade costs to push up wage and price pressures more generally. The balance of risks for central banks will vary across countries, with the downside effects of higher uncertainty and weaker exports likely to be the key influences on policy decisions in most countries, but upside inflationary pressures being a more pertinent concern in countries raising tariffs. Provided inflation expectations remain well anchored, and trade tensions do not intensify further, policy rate reductions should continue in economies in which underlying inflation is projected to moderate or remain subdued.
- Faced with multiple spending pressures, governments need to ensure long-term debt sustainability and maintain the ability to react to future shocks. Stronger efforts to contain and reallocate spending and enhance revenues, set within credible medium-term country-specific adjustment paths, will be essential for debt burdens to remain manageable and to conserve the resources required to address longer term spending challenges. Higher debt service costs and some pressing spending needs, such as plans to raise defence spending substantially, are already forcing hard choices in some countries about the pace and composition of fiscal adjustment and limiting room for budgetary manoeuvre. In the near term, the automatic fiscal stabilisers should be allowed to operate fully to help cushion the adverse impact of trade tensions and elevated uncertainty. Targeted and well-designed support measures may also be needed to help companies but should be only temporary, as structural policy solutions are key if the adverse effects on external competitiveness are likely to endure.
- Rising protectionism, geopolitical uncertainty and weak growth prospects reinforce the need for ambitious structural policy reforms that strengthen living standards and promote economic competitiveness. A strong focus should be placed on policies to revive business investment, innovation and labour productivity, particularly ones that have a limited near-term fiscal cost. Elevated policy uncertainty, declining business dynamism and perceived difficulties in funding future investment in intangible assets are factors that need to be addressed in many OECD economies to strengthen investment growth.

Table 1.1. Global GDP growth is projected to slow

	Average 2013-2019	2023	2024	2025	2026	2024 Q4	2025 Q4	2026 Q4
				Per cent				
Real GDP growth[1]								
World[2]	3.4	3.4	3.3	2.9	2.9	3.4	2.6	3.0
G20[2]	3.5	3.8	3.4	2.9	2.9	3.5	2.6	3.0
OECD[2]	2.3	1.8	1.8	1.4	1.5	1.9	1.1	1.7
United States	2.5	2.9	2.8	1.6	1.5	2.5	1.1	1.6
Euro area	1.9	0.5	0.8	1.0	1.2	1.2	0.7	1.7
Japan	0.8	1.4	0.2	0.7	0.4	1.4	0.1	0.4
Non-OECD[2]	4.4	4.7	4.5	4.1	3.9	4.6	3.8	4.0
China	6.8	5.4	5.0	4.7	4.3	5.2	4.3	4.5
India[3]	6.8	9.2	6.2	6.3	6.4			
Brazil	-0.4	3.2	3.4	2.1	1.6			
OECD unemployment rate[4]	6.5	4.8	4.9	5.0	4.9	4.9	5.0	4.9
Inflation[1]								
G20[2,5]	3.0	6.3	6.2	3.6	3.2	4.7	3.4	2.8
OECD[6]	1.7	7.1	5.1	4.1	3.2	4.3	4.1	2.8
United States[7]	1.3	3.8	2.5	3.2	2.8	2.5	3.9	2.1
Euro area[8]	0.9	5.4	2.4	2.2	2.0	2.2	2.1	2.0
Japan[9]	0.9	3.3	2.7	2.8	2.0	2.9	2.1	2.1
OECD fiscal balance[10]	-3.1	-4.6	-4.7	-4.6	-4.7			
World real trade growth[1]	3.3	1.2	3.8	2.8	2.2	4.0	2.0	2.8

1. Per cent; last three columns show the change over a year earlier.
2. Moving nominal GDP weights, using purchasing power parities.
3. Fiscal year.
4. Per cent of labour force.
5. Headline inflation.
6. Moving nominal private consumption weights, using purchasing power parities.
7. Personal consumption expenditures deflator.
8. Harmonised consumer price index.
9. National consumer price index.
10. Per cent of GDP.

Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/57dr8i

Recent Developments

Global growth has been resilient but trade policy changes raise new challenges

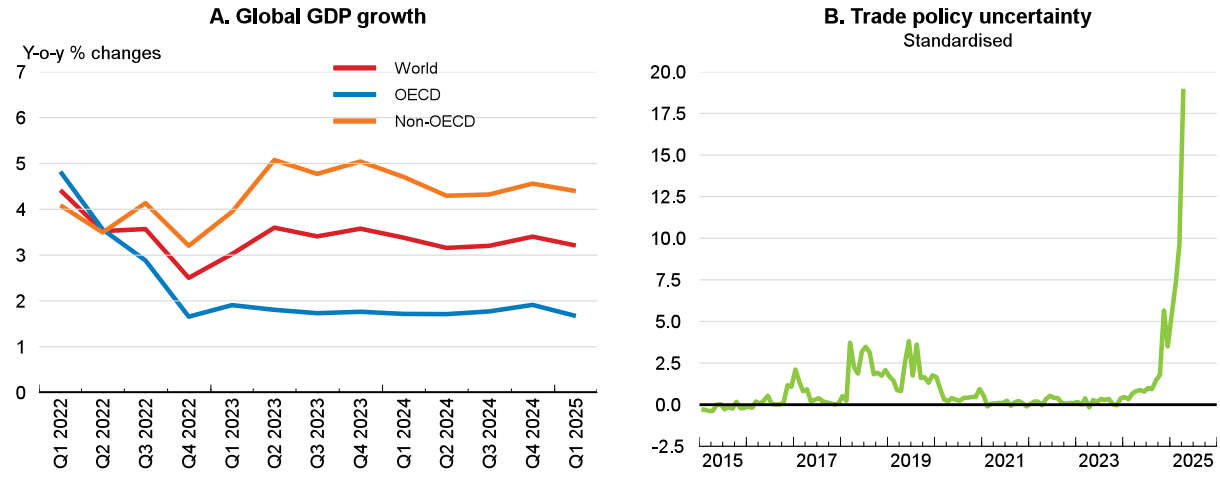
After finishing 2024 on a sound footing, global GDP growth eased in the first quarter of 2025 (Figure 1.1, Panel A). However, economic developments were obscured by some front-loading of purchases ahead of the introduction of announced tariff rate increases. In the advanced economies, economic growth turned negative in the United States and Japan, but this was largely due to a surge in goods imports, with indicators of domestic demand growth holding up in both economies. Real GDP also contracted in the first quarter in Korea and several European economies, including Portugal, Norway, Slovenia, Denmark and Hungary. In contrast, output growth strengthened in Germany and the United Kingdom, partly reflecting stronger export growth, and remained solid in Spain and Ireland.

Most emerging-market economies generally continued to expand at a solid pace in the first quarter of 2025. In China, growth slowed a little but remained resilient, supported by expansionary fiscal and monetary policy and rapid export growth. There were also ongoing expansions in India, Indonesia and several Latin American economies, including Chile and Colombia. In Mexico, output growth picked up, helped by an improvement in agricultural output following weather-related disruptions in late 2024.

The impact of recent increases in bilateral tariff rates between the United States and its trading partners is likely to be increasingly evident in global economic indicators. These policy changes have coincided with a marked increase in newspaper-based measures of trade policy uncertainty (Figure 1.1, Panel B). As of mid-May, the United States had raised the tariff rate on most merchandise imports from China by 30% points, with China raising its tariff rate on merchandise imports from the United States by 10% points. Both countries had bilateral tariff rates of about 21% at the start of the year (Bown, 2025). The new rates are significantly below the peak bilateral tariff rates announced in April, which exceeded 100%, but it remains possible that those higher rates could be reinstated later this year. In addition, tariffs have been announced on those United States imports from Canada and Mexico not compliant with the United States-Mexico-Canada Agreement, with Canada taking targeted retaliatory action in response. The United States has also imposed a default tariff increase of 10 percentage points on all other trading partners, with the possibility that many countries could face substantially higher tariffs from July 2025. Certain products have been excluded from these increases, including United States imports of automobiles and automobile parts and steel and aluminium products, which face a separate tariff of 25%. Ongoing legal challenges bring additional uncertainty on some of these tariff measures.

Taken together, the new tariffs introduced by the United States this year up to mid-May are estimated to have raised the (ex-ante) effective tariff rate on US merchandise imports to 15.4%, from just over 2% in 2024, taking it to the highest rate since 1938 (Box 1.1).[1] The US tariffs, together with retaliatory action by China, as well as more limited action by Canada, means that trade equivalent to over 2% of world GDP is now directly facing higher tariffs, pointing to much greater disruption than during the US-China trade tensions in 2018-19. If current applied tariffs are sustained, effective tariff rates are likely to fall over time, as trade in more heavily-tariffed goods is likely to slow.

Figure 1.1. Global growth was holding up ahead of recent trade policy announcements



Note: In Panel B, data are standardised from January 1960.
Source: OECD Economic Outlook 117 database; Data downloaded from https://www.matteoiacoviello.com/tpu.htm on 22 May 2025; and OECD calculations.

StatLink https://stat.link/cieo1r

[1] Effective tariff rates weight the rise in a given tariff line with the share those imports constitute; for the purposes of these calculations 2024 US Census Bureau data are used.

Higher bilateral tariff rates are a drag on global activity and add to trade costs, raising the price of covered imported final goods for consumers and intermediate inputs for businesses, particularly in countries where tariffs are imposed. The initial effect on prices is likely to be felt close to the time of the tariffs being implemented, with the full impacts on output growth taking longer to materialise. Tariffs raise revenues for the government imposing them, but may also create distortions. The use of these additional revenues will condition the size and distribution of the economic impacts. At the same time, the expected slowing in economic growth in countries imposing tariffs will reduce other tax revenues. The impacts of recent trade policy changes may be more pronounced given heightened policy uncertainty, with elevated caution by businesses and consumers further weighing on investment and consumption growth.[2] Taken together, higher tariffs and heightened uncertainty would be expected to weaken trade activity, although there is an upside risk in the very near term if exporters further bring forward trade to try and avoid the possibility of reciprocal or sectoral tariff rates being raised further in the next 2-3 months.

Box 1.1. The impact of US tariff policy changes will be significant

This box outlines the main tariff changes implemented by the United States, the impact on the effective tariff rates across countries and the goods trade that might be affected. The Box reflects the tariffs applied as of mid-May, despite some uncertainty pertaining to ongoing legal challenges.

The extent of recent tariff changes from the United States and China is significantly larger than the previous episode of US-China trade tensions in 2018, with new tariff increases covering a broader range of goods. Even though bilateral goods trade between the United States and China has declined as a share of their total trade since 2018, it still represented around 2.5% of world goods trade in 2023 according to the OECD Balanced International Merchandise Trade dataset. Taking into account zero-rated items as well as tariffs on United States imports from other countries, trade equivalent to 2.2% of world GDP will be affected by the new tariffs (Figure 1.2, Panel A). In 2024, according to US data, China accounted for 6.9% of the United States' merchandise exports, and 13.3% of US merchandise imports.

As a result of the combined trade policy changes introduced since January this year, the average effective tariff from the United States will rise to historically high levels, based on 2024 import patterns (Figure 1.2, Panel B). US imports of cars and car parts, and steel and aluminium products are now subject to an additional 25% tariff. In addition, tariffs have been raised on all countries by the United States, but with some sectoral and product exemptions. Collectively, the distribution of these tariff increases, as of mid-May, differs widely by country (Figure 1.2, Panel C).

- Announced tariff increases have been highest for China, at 30%.
- Canada and Mexico also face higher tariffs, but a different tariff regime. They do not qualify for the exemptions granted to other countries, but rather face tariffs of either 25% or 0%, depending on whether their merchandise exports to the United States are compliant with the United States Mexico Canada trade agreement (USMCA). On average, around one-half of their imports into the United States are thought to be USMCA-compliant at present, with compliance depending on the extent of local content and the filing of relevant rules-of-origin documentation.

[2] Heightened uncertainty will also reduce trade through a variety of channels, including through the effect on investment and raising the costs of inventories (Novy and Taylor, 2020; Limao and Maggi, 2015).

- The high proportion of cars and parts in total exports to the United States raises the effective rates faced by Mexico, as well as a number of Asian and European countries, including Japan, Korea, Germany and the Slovak Republic. For Canada, the impact of the higher effective rate on cars and car parts is offset by the 10% tariff applied on its energy exports to the United States.
- In contrast, some products currently remain exempt from tariffs, including pharmaceuticals, semi-conductors and other zero-rated items such as copper. This helps to lower considerably the effective US tariff on imports from countries such as Chile, Colombia, Ireland, Slovenia, and Switzerland.

The United States is an important export market for a number of countries, accounting for around 75% of goods exports for Mexico and Canada, 19% for Japan, 13% for China and 10% for Germany in 2023 (Figure 1.3). The importance of exports for overall activity also varies greatly by country. Exports to the United States are equivalent to over 20% of GDP in its North American trading partners, over 5% of GDP for many smaller open Asian economies and Korea, and between 3 and 4% of GDP for many European countries, including Germany and many of its key European supply chain partners. Exports from emerging-market economies such as China, India, South Africa and Türkiye represent a smaller share of their domestic output.

In value-added terms, the extent of direct exposure to the United States via exports is often smaller because of offsetting effects from intermediate inputs used in production for final exports. However, indirect exposures can also be significant due to integrated cross-border supply chains in Europe, Asia and the Americas. Data on the extent of such exposures is less timely, but highlight the comparatively high exposures of Mexico, Canada, Ireland, Korea and some other Latin American economies, such as Chile, Colombia and Costa Rica (Figure 1.4). Imports into the United States also include around 0.5% of US value-added that was previously exported from the United States. Combined sector exposures are likely to be largest for the wholesale and retail sector, as well as cars and other manufacturing industries such as ICT, machinery and electrical equipment.

In addition to weaker trade volumes, domestic price increases are likely to follow higher tariffs, although the exact magnitude is subject to some uncertainty. Around 10% of the consumer basket in the United States is imported, directly and indirectly, before taking into account food and energy (Barbiero and Stein, 2025). It is likely that most of the impact of tariff increases will be borne by consumers and businesses, as occurred in the United States in 2018/19 when US tariffs on Chinese imports rose (Fajgelbaum and Khandelwal, 2022; Amiti et al., 2020 and Cavallo et al., 2021). The extent of price increases faced by consumers will depend on whether retailers just raise prices to cover the higher dollar cost or whether they maintain their current price-cost margin. For example, if retailers just passed-through the additional costs of a 60% tariff increase on China and a 10% tariff rise on the rest of the world, consumer prices could be expected to rise by 1.4 percentage points. By contrast, if retailers maintained a constant margin of selling prices over purchasing costs, consumer prices could rise 2.2 percentage points (Barbiero and Stein, 2025).

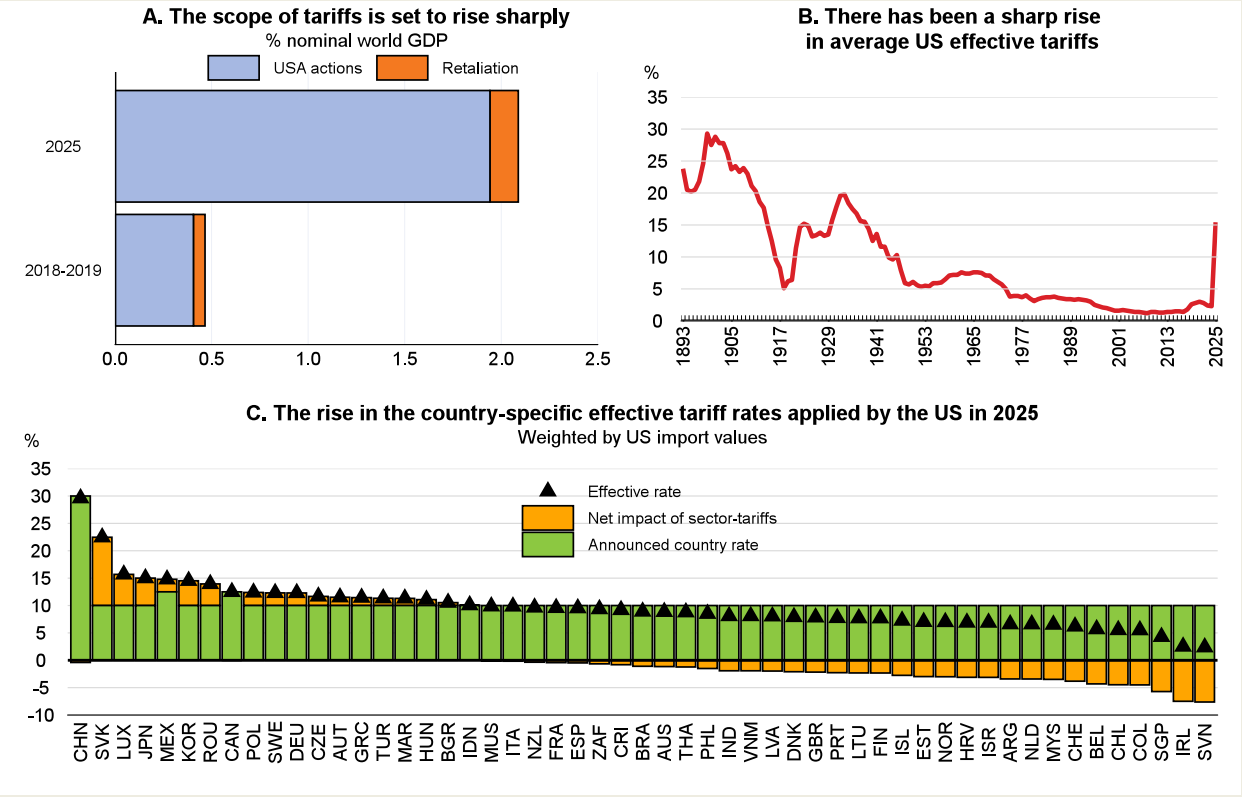
The eventual cost increases to consumers might further be mitigated by dollar appreciation, or if exporters or domestic producers lower their margins. However, experience from the 2018-2019 tariffs showed that even local producers who are not affected by imports may raise prices when most major competitors are being forced to raise costs, without fear of losing market share (Flaaen et al, 2020). There is also evidence that price increases tended to be rapid, often occurring within two to three months (Minton and Somale, 2025).

There are signs that a similar pattern may emerge this year. Minton and Somale (2025) estimate that US consumers already faced a 0.3 percentage point rise in core goods prices in March stemming from tariff increases on Chinese goods in February and March. Carvallo et al (2025) also find marked increases in US retailers' prices of goods imported from China. Survey evidence suggests that US firms which rely on

imported inputs tend to have markedly higher inflation expectations for 2025 than firms with low or no imported inputs (Edwards et al, 2025) and most importers expect to pass on cost increases over the next two years, in response to a range of tariff scenarios (Andrade et al., 2025).

In other countries, weaker economic activity in the United States may exert downward pressure on commodity prices and selling prices as exporters seek to aggressively expand into new markets. On the other hand, currency depreciation due to lower risk appetite and fears of further tariff action to protect industries may limit the extent of price discounting.

Figure 1.2. Recent trade policy announcements imply substantial change in effective tariffs

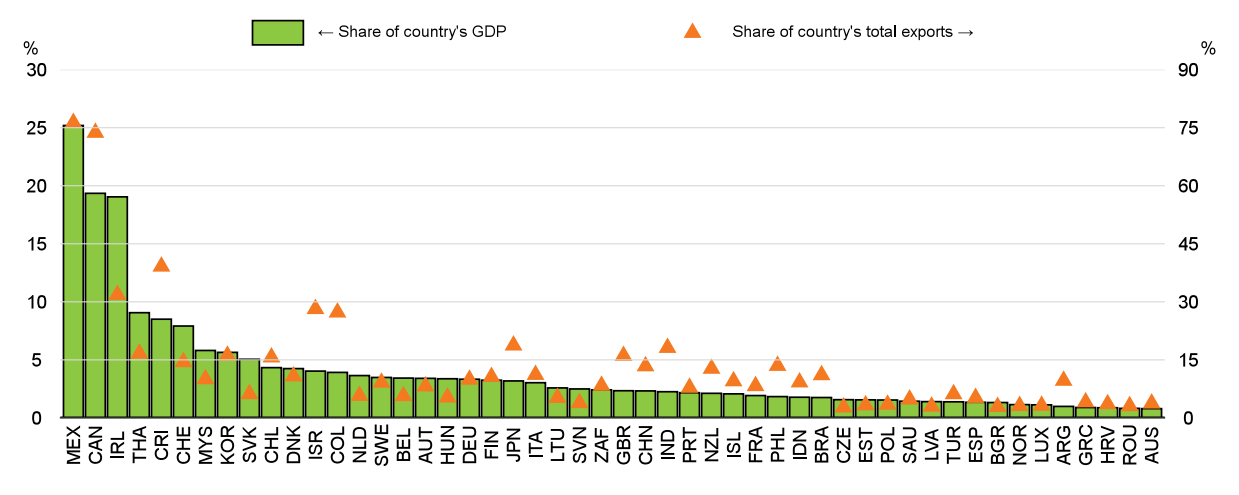


Note: Estimates based on trade policy announcements as of 14 May 2025. Panel A based on the USD value of affected imported US goods at the HS8 digit level, scaled by the share of nominal US goods imports as a share of nominal world GDP. Retaliation includes announced measures by Canada (USD 65bn) and China (all US exports), scaled by the share of nominal US goods imports as a share of nominal world GDP. Panel B based on the US International Trade Commission (USITC) estimate of the average effective tariffs until 2024. For 2025, the average tariff rate is calculated based on HS classifications of tariff-affected items matched to US Census Bureau data for 2024 import weights of product categories. Panel C excludes any estimate of the impact of the de minimis trade policy changes. The net sector-specific adjustment change includes a 25% tariff for listed cars and parts except for US-related content, provided that meets a minimum 20% (Canadian cars are assumed to have 25% US content, Mexico 20% and rest of world 0%, rounding results from the 2020 TiVA tables); a 25% tariff on steel and aluminium products; 0% tariff increases on any items listed in the official exclusions to the tariffs for all countries other than Canada and Mexico; and a 10% increase in tariff rates on all other goods for all countries, with the exception of Canada, Mexico and China. Mexico and Canada face a 25% tariff, except for energy and potash products from Canada which face a 10% tariff, and USMCA compliant goods which face a 0% tariff. Assuming 50% compliance, this equates to an effective tariff rate of 12.5% for all non-car goods. The United Kingdom is assumed to have a 10% tariff on cars based on the quota specified in the announced US-UK trade agreement, which accounted for 80% of the cars and parts exports, and 0% tariff on steel and aluminium. Data classifications are based on HS8 lists as published by the US administration. Weights are calculated based on 2024 US Census Bureau product level data for US imports, by country.
Source: OECD Balanced International Merchandise Trade (BIMTS); USITC; US Census Bureau; Canada Department of Finance; and OECD calculations.

StatLink https://stat.link/hvr5nc

Figure 1.3. Direct exposure to US tariff increases

Direct exports to the United States in 2023

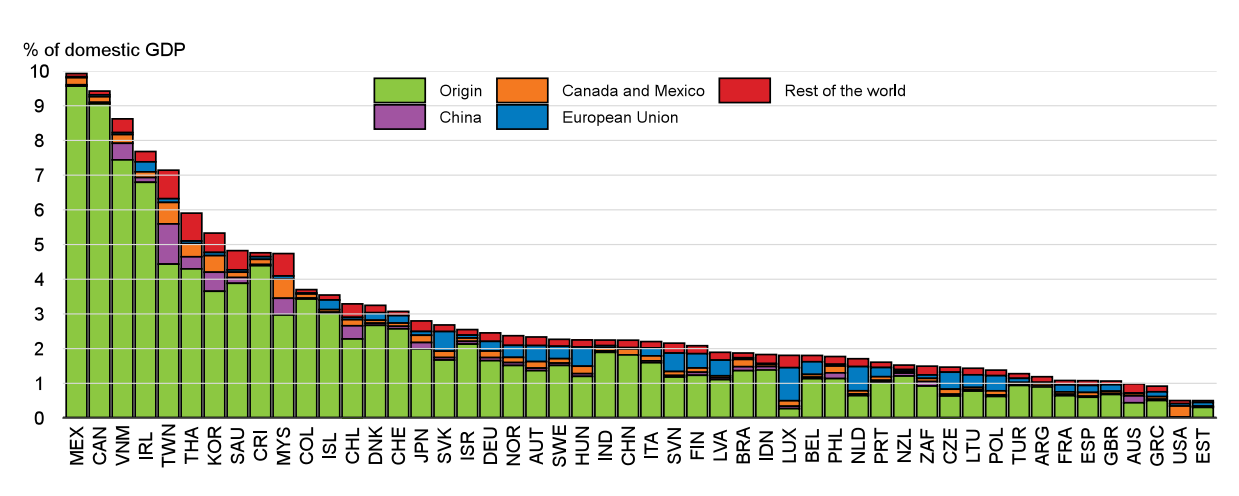


Note: Trade shares based on exports from the OECD Balanced International Merchandise Trade dataset for 2023.
Source: OECD Economic Outlook 117 database; OECD Balanced International Merchandise Trade (2023); and OECD calculations.

StatLink https://stat.link/kp2hy5

Figure 1.4. Direct and indirect trade effects

Value added in global exports to the United States in 2023



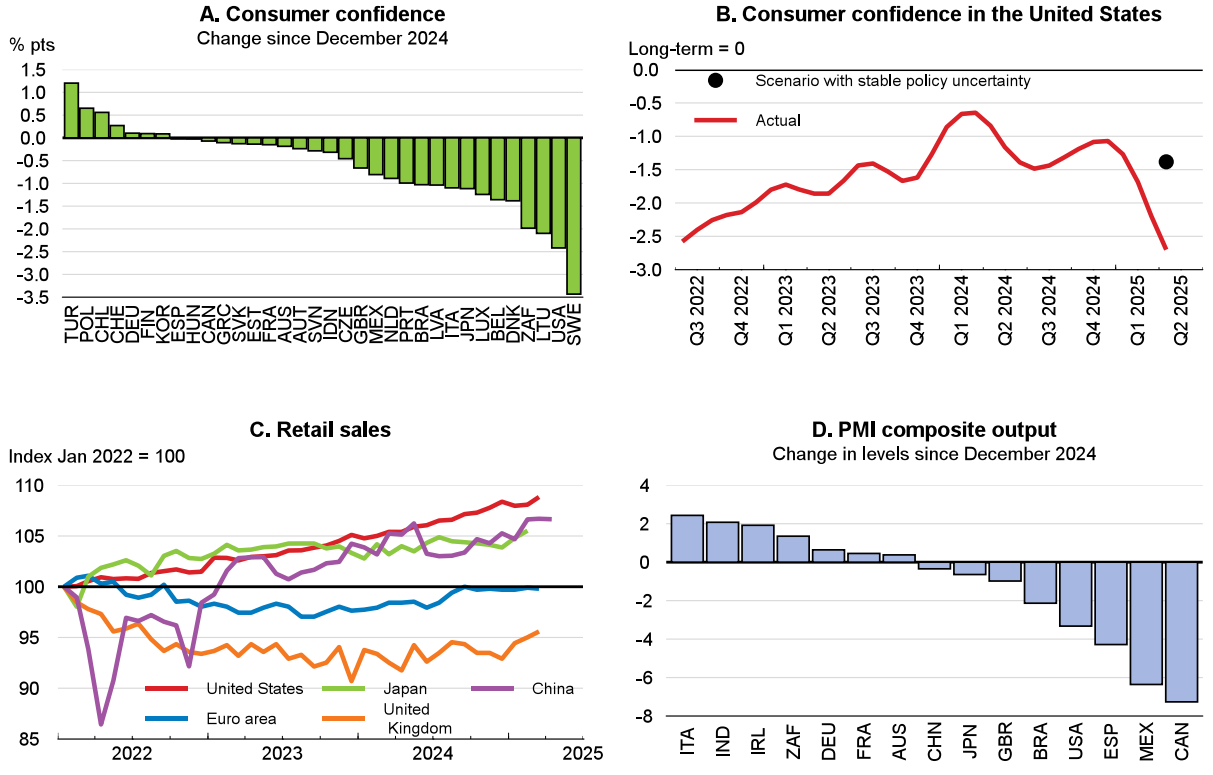
Note: TiVA data is available until 2020. The value-added in USD for 2023 is estimated by applying each countries' share of value-added in their gross exports to the United States in 2020 to the 2023 gross exports to the United States. The value-added is in non-service sectors ISIC4 A to C. Domestic GDP in current prices is converted to USD with market exchange rates.
Source: OECD Economic Outlook 117 database; OECD Trade in Value Added (TiVA) (Edition 2023); UN Comtrade; and OECD calculations.

StatLink https://stat.link/5x2ozt

Some recent economic indicators have weakened though tariff increases may be bringing forward activity

Many survey-based economic indicators have recently weakened. Consumer confidence was already below long-run average levels in most economies but has shown further notable declines in Sweden, the United States, Lithuania and South Africa in the early months of 2025 (Figure 1.5, Panel A). In contrast, confidence has recently picked up in Türkiye, Poland and Chile. Empirical estimates suggest that the sharp fall in consumer confidence in the United States is mostly attributable to the increase in policy uncertainty since December 2024 (Figure 1.5, Panel B). The pace of retail sales has eased since last year in the United States and the euro area but has displayed greater resilience in China (Figure 1.5, Panel C). Business surveys suggest a slowdown in Canada, Mexico, Spain and the United States since the start of 2025 (Figure 1.5, Panel D), with available measures suggesting wide dispersion in firms' expectations regarding the duration of tariffs. However, new orders for manufacturing goods remained strong in some euro area economies, including Germany and France, sustaining the pick-up seen since the start of the year. Some of the ongoing strength in manufacturing activity in these economies likely reflects a temporary surge in demand for tradeable goods given the perceived risk of higher tariff rates from July 2025.

Figure 1.5. Recent economic indicators have weakened in several large economies

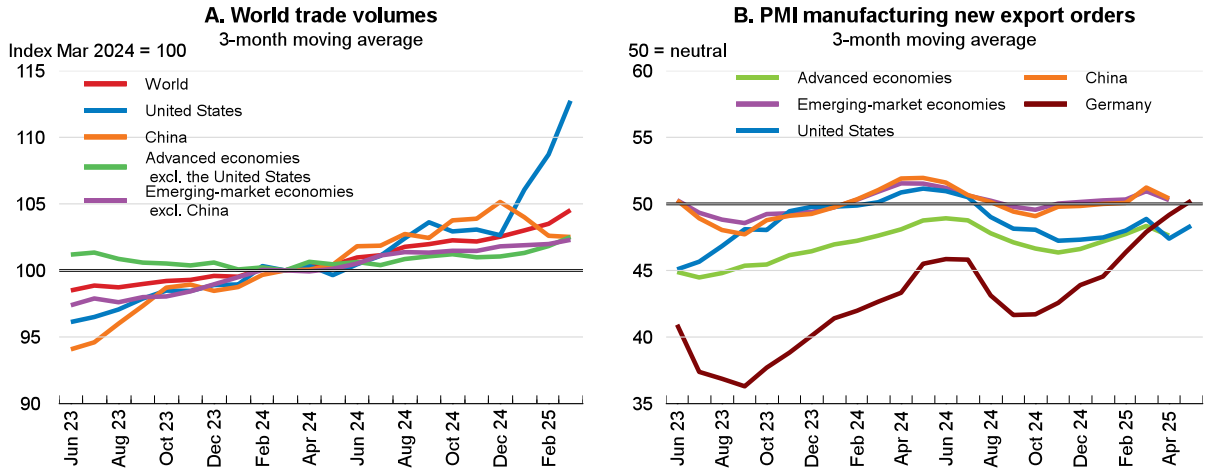


Note: In Panel A, the most recent data are for April 2025, except for Chile, Indonesia, Mexico and South Africa (March 2025), and Switzerland (February 2025). The latest information for Canada refers to the first quarter of 2025, and relates to 'Perceiving their financial situation is currently deteriorating'. The scenario in Panel B is based on the results from a cross-country model that regresses consumer confidence on developments in core, food and energy inflation, the unemployment rate, the share market index, house prices and the economic policy uncertainty index. The scenario assumes all else constant apart from economic policy uncertainty which remains at the level observed in December 2024. Panel D shows PMI manufacturing output for Mexico. The most recent data are for May 2025, except for Brazil, Canada, China, Ireland, Italy, Mexico, South Africa and Spain (April 2025).
Source: OECD Main Economic indicators database; Bank of Canada; S&P Global; and OECD calculations.

StatLink https://stat.link/yqop58

Merchandise trade volumes rose strongly in late 2024 and the first quarter of 2025, helped by front-loading, with some exporters bringing forward planned shipments to the United States ahead of expected tariff increases (Figure 1.6, Panel A). The surge in US imports has been most apparent in industrial supplies, including steel and aluminium, in late 2024, and pharmaceutical goods in the first quarter of 2025, and has been accompanied by rising inventory growth for manufacturers and many retailers. International air freight traffic also rose in March and April, likely due to front-loading. More broadly, global container traffic continued to expand in the first quarter of 2025 and survey measures of manufacturing export orders have improved steadily in the advanced economies, with a normalisation in Germany (Figure 1.6, Panel B). Nonetheless, some signs are emerging that weaker performance is expected. Global container prices in April were 40% lower than at the start of the year. Routes between Shanghai and the United States have been heavily affected, both by the introduction of tariffs, which precipitated sharp declines, and the recent reduction in US-China tariff rates, which resulted in a 30% rebound in container shipping rates since the announcement – although rates remain 30% lower than at the end of 2024.

Figure 1.6. Near-term trade activity has been resilient



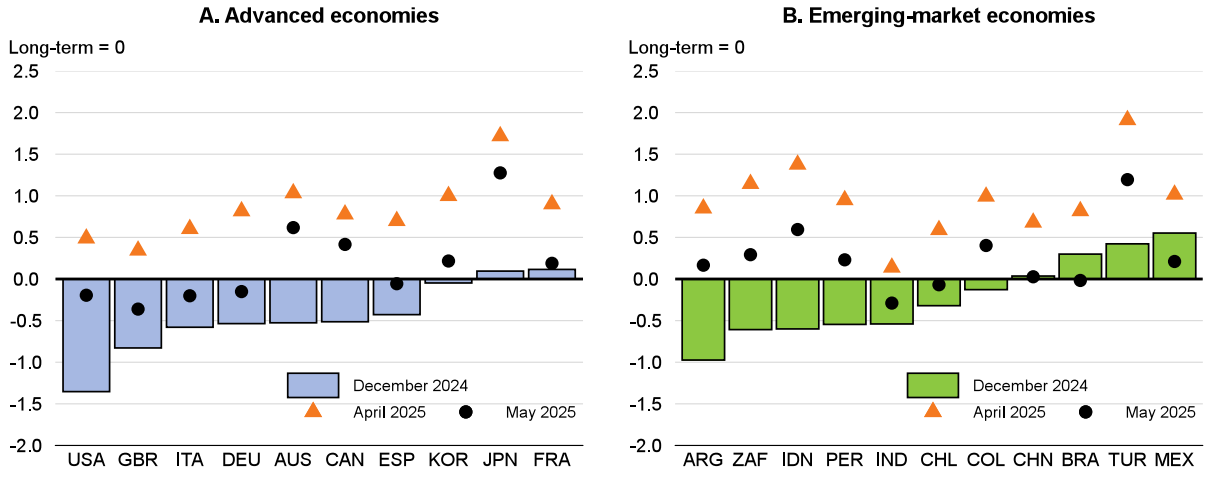
Note: Panel A refers to merchandise trade, average of exports and imports. Panel B includes May flash estimates for Germany and the United States.
Source: CPB Netherlands Bureau for Economic Policy Analysis; S&P Global; and OECD calculations.

StatLink https://stat.link/j3mb1t

Financial market volatility has subsided but higher risk aversion persists

After pronounced turbulence in April, financial markets have normalised, with a strong rebound in global equity prices, declining equity and bond market volatility and a broad stabilisation of sovereign bond yields. Nonetheless, financial market conditions remain tighter than in late 2024 (Figure 1.7), as market volatility remains elevated and signs of risk aversion persist in some market segments, including for lower-rated corporate bonds and global companies exposed to the US market. In contrast to typical episodes of risk repricing, the US dollar has depreciated since the start of April, with investors significantly reducing their exposure to US financial assets.

Figure 1.7. Financial conditions are tighter than at the end of 2024

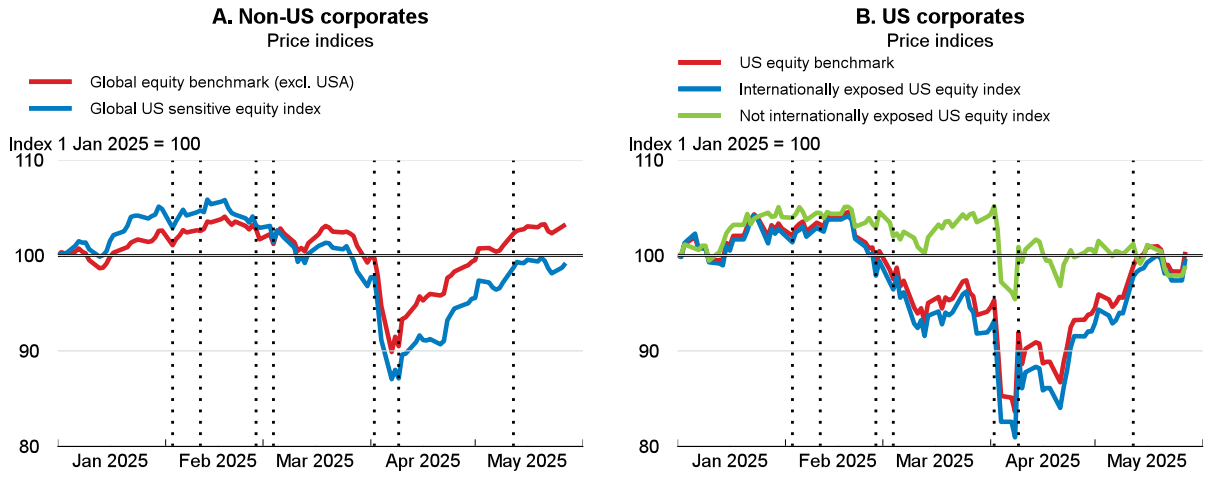


Note: The country financial condition indices, which are standardised around a long-term average, are obtained as the first principal component of a wide range of country-specific and global financial data series (15 country-specific indicators and 12 global indicators) including equities, interest rates, measures of volatility, sovereign and corporate bond spreads and exchange rates. Higher (lower) values of the FCI point to tighter (easier) financial conditions.
Source: OECD calculations.

Equity markets recovered in May, after experiencing a sharp decline across several advanced and emerging-market economies following the US announcement of larger-than-expected tariffs on all trading partners in early April. Equity market performance in 2025 has been strongest in Europe and in selected emerging-market economies, particularly Brazil and Mexico. In Japan and the United States, equity valuations have essentially caught up to their levels at end-December 2024. Equity risk premia have recently declined after moderate increases in the United States, the United Kingdom and in Europe, while asset valuations continue to remain stretched.

There are persisting signs of some differences across companies according to their potential exposure to tariff barriers. Since mid-February, the equity prices of companies more highly exposed to the US market have underperformed others (Figure 1.8, Panel A). The magnitude of the decline has varied across regions, with the largest impact in China and Asia-Pacific economies. European companies have been affected to a lesser extent. As the announced tariffs have been relatively broad, the negative effects have weighed on equity prices in most sectors. The equity prices of US companies with significant international exposure also initially underperformed their more domestically focused counterparts in March and April, particularly in consumer goods and industrial sectors (Figure 1.8, Panel B), although this has subsequently moderated as the perceived risk of widespread retaliatory trade policy measures by other countries on imports from the United States has eased.

Figure 1.8. Equity prices of companies sensitive to US tariffs have underperformed



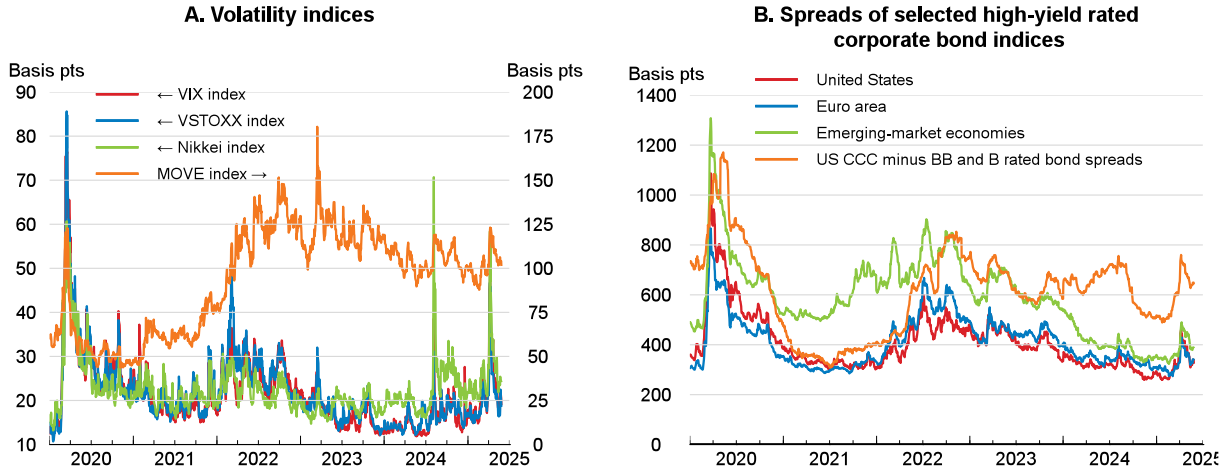
Note: Based on data up to 27 May 2025. Panel A displays two global non-financial corporate equity indices, excluding US companies. The first index reflects the stock performance of firms that are particularly sensitive to recent US policy changes, while the second represents the broader non-financial corporate equity market. Sensitive corporates are defined as ones with sales in the United States equal or exceeding 20% of their total sales. Panel B shows equity indices of internationally exposed and not internationally-exposed US non-financial corporates along with the broader non-financial corporate US equity benchmark. Internationally exposed US corporates are defined as those with international sales equal or exceeding 20% of their total sales. Corporates that are not internationally exposed have a ratio of international sales to total sales of 0%. The seven vertical dotted lines refer to five specific dates: 3 February 2025, the first trading day following the announcement of 25% US tariffs on all imports from Canada and Mexico and an additional 10% on imports on China; 11 February 2025, when a reinstatement of 25% US tariffs on all steel imports and a plan to increase tariffs on aluminium imports to 25% from March was announced; 27 February 2025, when an intention to implement a higher tariff on EU goods and introduce levies on other major trading partners was announced; 4 March 2025, when tariffs on Canada, Mexico, and China were partially implemented; 2 April 2025, when the US announced reciprocal tariffs that raised tariffs on most imports from all trading partners; 9 April 2025, when the US announced an increase of the US tariff rate on China to 145% and lowered reciprocal tariff rates on other partners for 90 days; and 12 May 2025, when the United States and China announced substantially lower tariffs, effective for an initial 90 days.
Source: OECD calculations.

Despite several episodes of volatility, long-term sovereign bond yields in most advanced economies currently stand at levels broadly similar to those recorded at the end of December 2024. After considerable fluctuations in April, yields have however increased in some advanced economies in recent weeks, notably in the United States where yields have been pushed up by a rising term premium amid concerns about policy uncertainty and public debt sustainability. In contrast, after a significant rise in March following the announcement of substantial additional expenditures on defence and infrastructure in Germany in the wake of the debt brake reform, long-term sovereign bond yields in the euro area have since declined, as investors have been seeking safe-haven assets. At the same time, policy rate cuts have continued in most advanced economies and some emerging-market economies, and markets continue to price in further rate reductions in most advanced economies.

Amid higher volatility in equity and currency markets, changes in sovereign bond yields in emerging-market economies have been relatively muted. Spreads on USD-denominated sovereign bonds have mostly reversed their increases in early April and are generally around their 2019 levels in major emerging-market economies. In Mexico, long-term yields have steadily declined over the year, reflecting the weaker economic outlook. In Brazil, long-term yields have also recently declined, partly due to expectations of easing inflationary pressures, but are still around end-2024 levels and relatively high. In Colombia as well as South Africa and Türkiye, bond yields have risen in 2025 and are, on average, now higher than in the 2010s. In contrast, bond yields in many Asian emerging-market economies are around or below the average levels observed during the previous decade. Chinese long-term bond yields have weakened in April, with the expansion of fiscal support offset by the higher trade tensions and monetary policy easing, and are close to record lows. Long-term bond yields in India and smaller open economies such as Malaysia and Thailand have fallen since early 2025.

Corporate credit spreads over risk-free rates have narrowed from their peak levels in 2025, but remain elevated, particularly for lower-rated corporate bonds (Figure 1.9, Panel B). This signals growing market concerns over riskier assets, especially in the United States. Spreads on corporate bonds and leveraged loans had previously been at low levels, encouraging strong issuance but also raising risks of a sharp repricing if downside risks materialised. Leveraged loan issuance in the first quarter of 2025 was 40% higher than a year earlier. However, issuance of high-yield corporate bonds of the lowest ratings has been muted in the United States since early April. This freeze poses risks for private equity firms that often depend on the junk bond market for funding acquisitions, as well as for banks providing short-term loans for such transactions before firms secure longer-term financing. Bank lending and deposit rates have declined broadly in line with policy rate reductions, with signs of improvement in credit demand. However, credit standards for loans to firms tightened slightly in the euro area in the first quarter of 2025, reflecting a rise in perceived risks about the economic outlook.

Figure 1.9. Volatility has eased, but lower-rated corporate bond spreads remain elevated

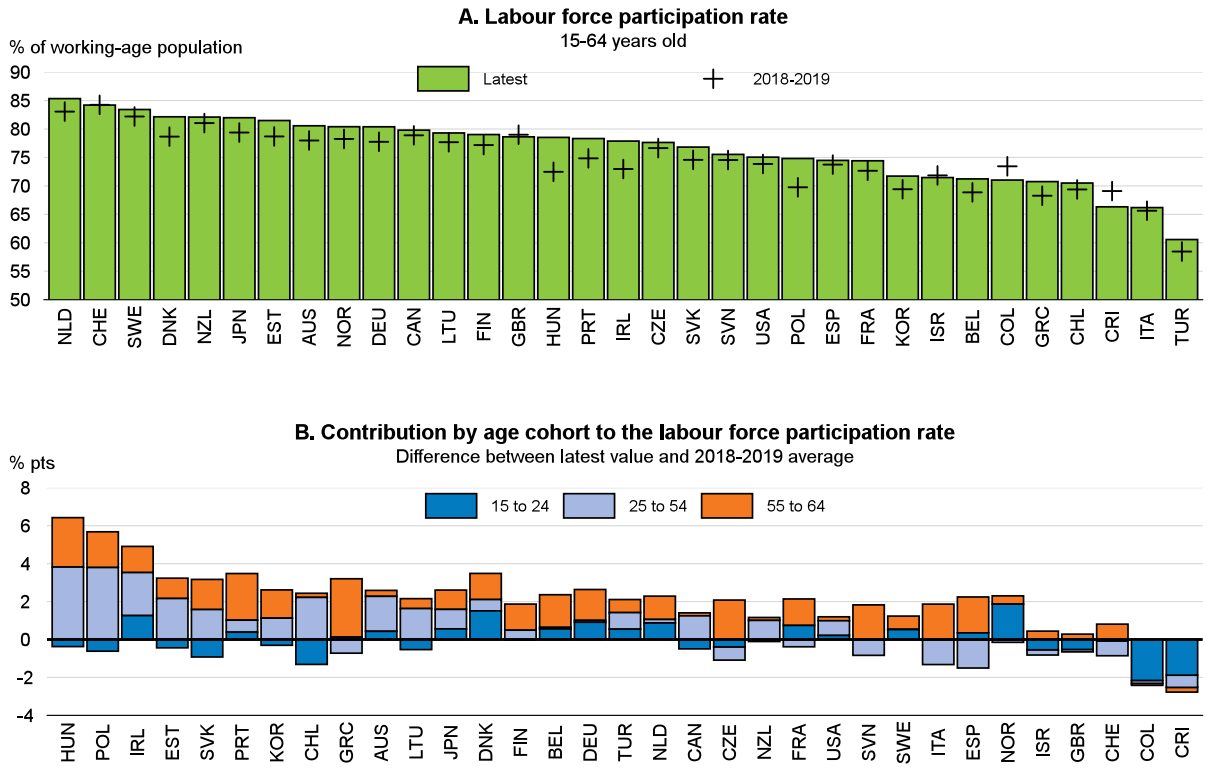


Note: Based on data up to 27 May 2025. In Panel A, the implied volatility as measured by the VIX index can be interpreted as the market expectation of risk (future volatility). The MOVE index is a yield curve weighted index of the normalised implied volatility on 1-month Treasury options which are weighted on the 2-, 5-, 10- and 30-year contracts. Panel B shows option-adjusted spreads (OAS), which measure the difference in yield between a high-yield rated bond with an embedded option (such as a callable bond) and a sovereign bond. The difference between OAS of CCC and BB to B rated US corporate bonds is shown. It indicates the risk premium for investors in high-risk versus lower-risk high-yield corporate bonds.
Source: Cboe Global markets; and OECD calculations.

Labour markets were easing but remained tight before new tariff measures

Employment conditions were already easing in many economies before the announcement of new trade policy measures, but labour markets generally remained in solid health. Median annualised employment growth in the final quarter of 2024 was 0.3% in the OECD, down from 0.8% in the first half of the year. Employment growth had also started to slow in some large non-OECD economies, including Brazil. Nonetheless, employment as a share of the working-age population was generally high compared with the pre-pandemic period, reflecting both relatively low unemployment and increased participation rates (Figure 1.10, Panel A). This was often enabled by older workers significantly increasing participation, such as in Czechia, Greece, Hungary, Italy, Poland, Portugal and Spain (Figure 1.10, Panel B). While the employment effects of the new tariffs and heightened policy uncertainty remain unclear, employment has fallen in recent months in some economies, including Canada and Japan. Employment conditions from business surveys have also eased notably, including in the United States, China, Canada, Mexico and India.

Figure 1.10. Older workers have been an important source of increased labour supply



Note: Latest value refers to 2025Q1 or 2024Q4 depending on availability.
Source: OECD Labour Market database; and OECD calculations.

StatLink https://stat.link/zjyf1c

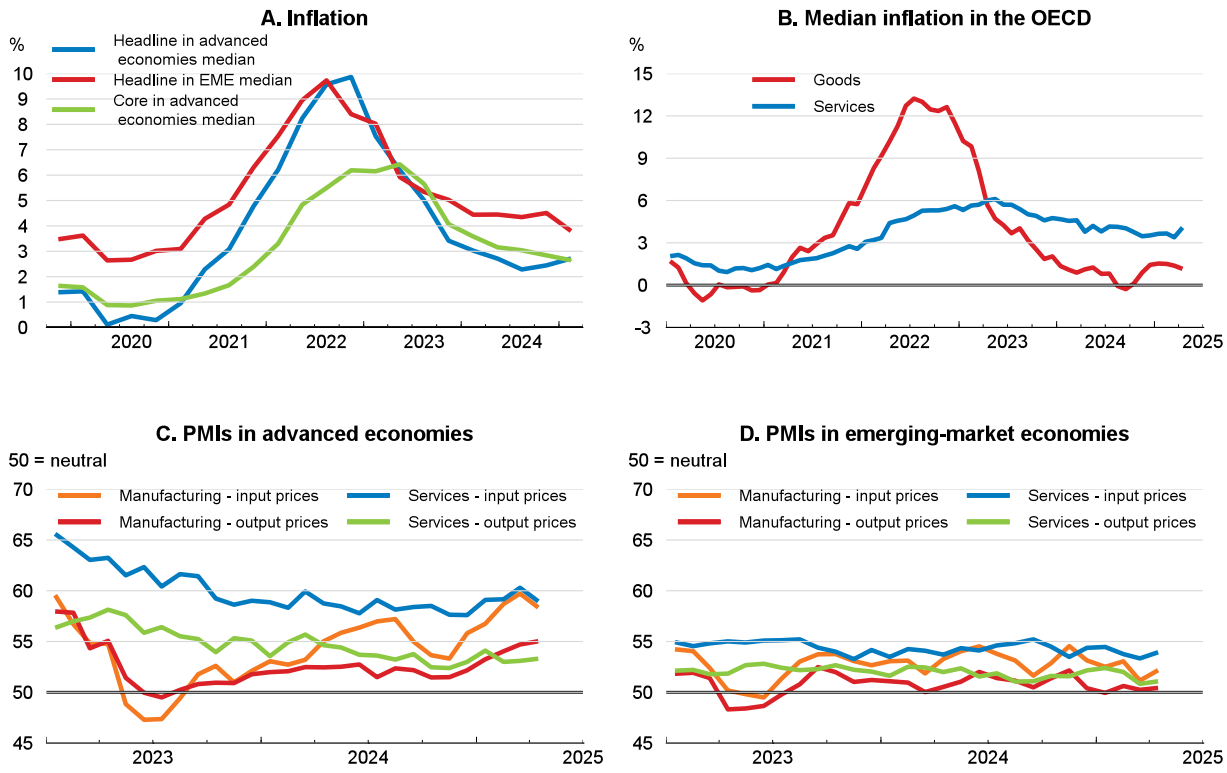
Nominal wage growth was moderating at the start of the year, but remained high in many regions compared to the pre-pandemic period. In most advanced economies, strong wage growth accompanied by limited productivity gains had kept unit labour cost growth above levels consistent with central bank inflation targets. Strong minimum wage increases were supporting ongoing wage momentum in some European economies, and robust base pay growth in Japan was accompanied by high winter bonus payments and a strong outcome in the annual wage negotiations for the 2025 financial year. Real wages were growing robustly at the end of 2024 and had returned to or surpassed pre-pandemic levels in most OECD countries following gradual disinflation. The imposition of new tariffs may result in stronger nominal wage demands as households respond to higher final goods prices. For example, around three quarters of respondents to the Canadian Survey of Consumer Expectations, undertaken in January and February 2025, expected their cost of living to increase because of the trade conflict.

Inflationary pressures have resurfaced in some economies

Inflationary pressures were still lingering in many economies early in 2025, with inflation often above target levels (Figure 1.11, Panel A). In the OECD, services price inflation remained elevated, largely due to stickiness in housing cost growth. At the same time, goods inflation had begun to rise, albeit from very low levels, primarily owing to stronger food price inflation (Figure 1.11, Panel B). The recent strengthening of food prices was most evident in Japan, the United States and the United Kingdom, as well as in some emerging-market economies like Costa Rica and Colombia. Overall, inflation developments in emerging-market economies have been more disparate. Despite having eased, annual headline inflation in Argentina and Türkiye was still tracking at double-digit rates, respectively, in early 2025. In contrast, inflation in China remained close to zero as of April.

Business surveys suggest manufacturing input and output prices have moved higher in advanced economies this year, particularly in Canada and the United States (Figure 1.11, Panels C and D). However, such measures do not suggest upward momentum in final services prices so far. Increased import tariffs are expected to induce an upward adjustment to price levels in the levying country. The persistence of the inflationary impact will depend on whether this is accompanied by higher nominal wage demands and increases in firm mark-ups. The magnitude of such second-round effects is likely to be more modest in economies with well-anchored inflation expectations.

Figure 1.11. Inflation remains high with goods inflation having recently picked up

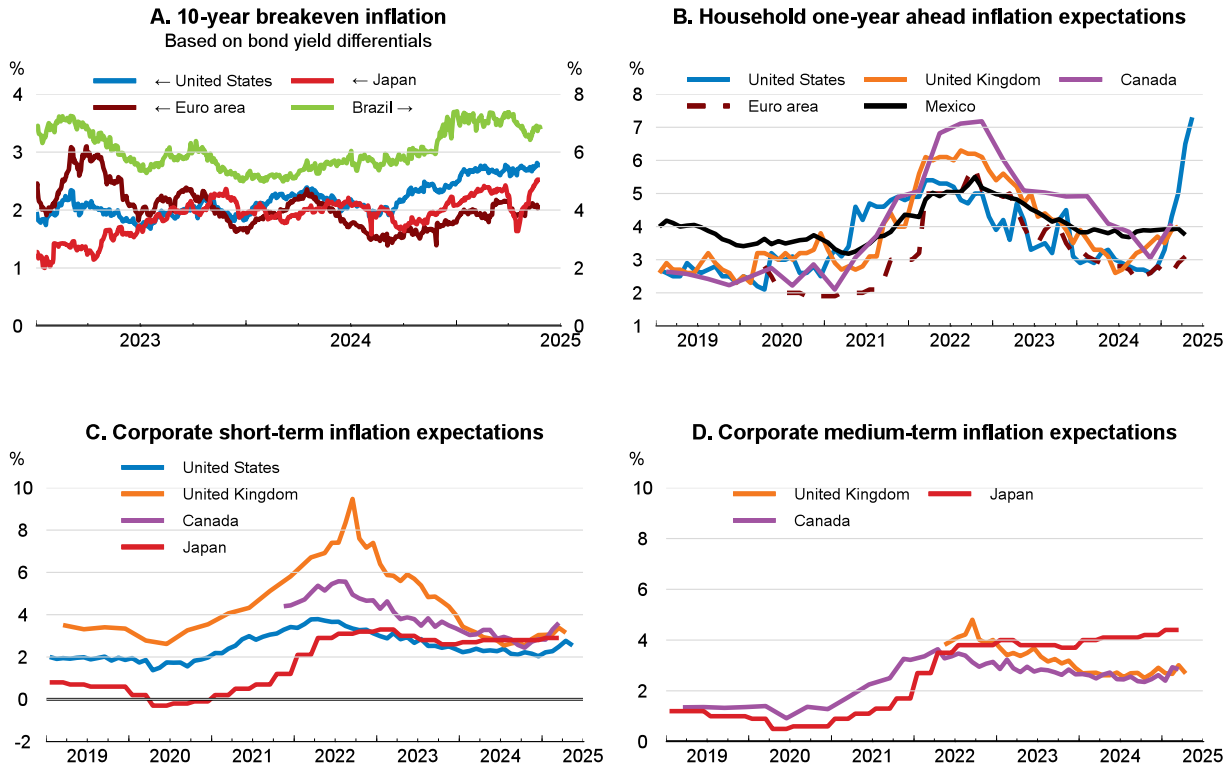


Source: OECD Economic Outlook 117 database; OECD Consumer Prices database; S&P Global; and OECD calculations.

StatLink https://stat.link/nelod7

Aggregate inflation expectations have moved higher in some economies. Financial market measures of 10-year breakeven inflation in major economies have not moved greatly, including in the United States (Figure 1.12, Panel A). However, short-run household inflation expectations have spiked in a few economies in recent months, most notably in the United States, but also in Canada and the United Kingdom (Figure 1.12, Panel B). This may partly reflect the recent inflation increase in items salient to household budgets, such as food, as well as the anticipated impact of higher tariffs on inflation. More granular data of both one-year-ahead and three-year-ahead inflation expectations highlight that the aggregate movements have reflected an increasing proportion of households expecting inflation to exceed 4% (see Box 1.2 below). Corporate inflation expectations have also increased in several advanced economies, including the United States, Canada, the United Kingdom and Japan (Figure 1.12, Panels C and D).

Figure 1.12. Inflation expectations have recently increased in some economies



Note: Based on data up to 27 May 2025. In Panel D, medium-term inflation expectations refer to 3-years ahead for Japan and the United Kingdom and 2-years ahead for Canada.
Source: Bank of Canada; Bank of Japan; Bank of England/Ipsos; Federal Reserve Bank of Atlanta; Banco de Mexico; European Central Bank; Bank of Korea; Office for National Statistics; University of Michigan; and OECD calculations.

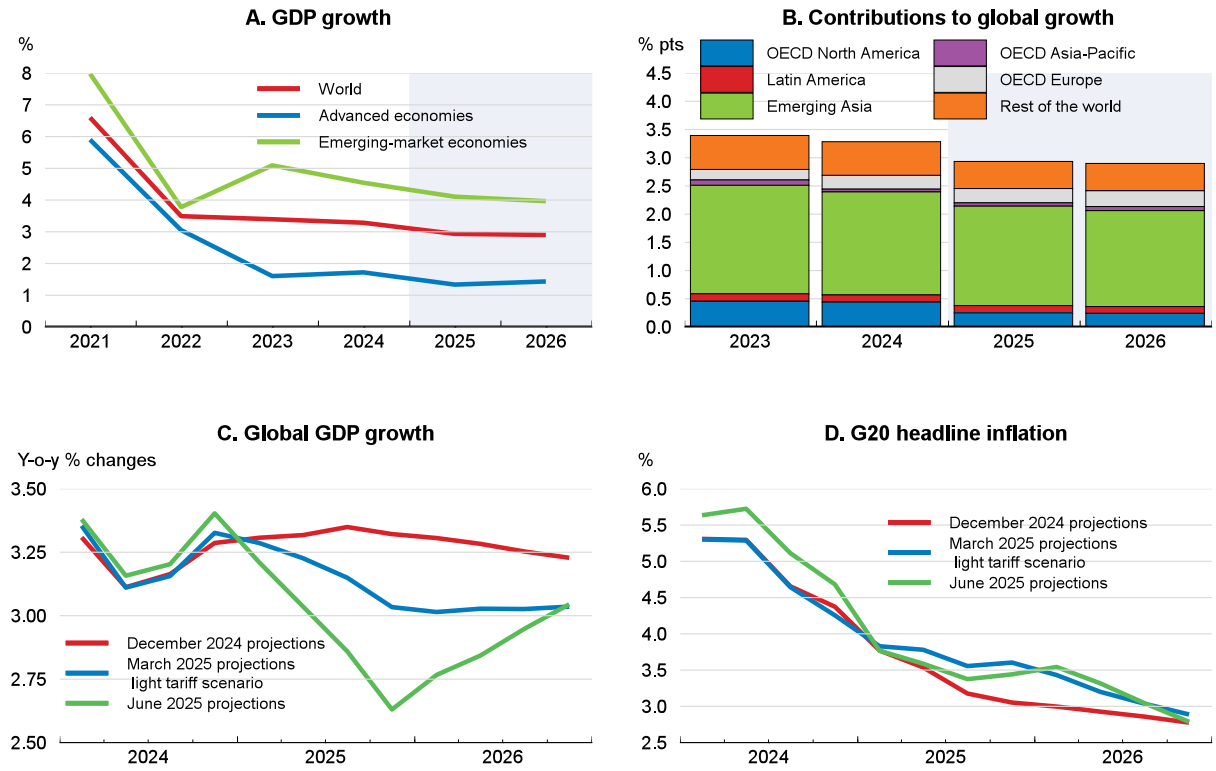
StatLink https://stat.link/lxz1mo

Projections

Global GDP growth is projected to slow from 3.3% in 2024, to 2.9% in 2025 and 2026 (Figure 1.13, Panel A; Table 1.1), with weakening economic prospects particularly evident in North America and some Asian economies, especially China (Figure 1.13, Panel B). On a Q4/Q4 basis, global growth is expected to slip to just 2.6% by the fourth quarter of 2025, from 3.4% in 2024, before recovering to 3% through 2026. These projections are based on a technical assumption that the bilateral tariff rates prevailing in mid-May persist through the rest of 2025 and 2026, despite ongoing legal challenges.

Higher bilateral tariff rates and elevated policy uncertainty are expected to weigh on growth in business investment and trade. At the same time, consumer spending is also projected to soften in most economies as fragile sentiment and lingering cost of living pressures are compounded by the impact of higher trade costs on final goods prices and, in some countries, weaker labour market developments. The revised global growth projections are weaker than in the December 2024 OECD Economic Outlook and also the version of the March 2025 OECD Interim Economic Outlook projections that adopted the most comparable technical assumptions related to trade barriers (the “light tariff scenario”; Figure 1.13, Panel C). Inflation in G20 countries is expected to moderate gradually through 2026, with the inflationary impact from higher trade barriers offset by lower oil prices over 2025-26 and softer growth (Figure 1.13, Panel D; Annex 1.A). The United States is a key exception, with annual headline and core inflation now projected to peak at around 3.9% and 4.0% respectively in the fourth quarter of 2025 and remain above target in 2026.

Figure 1.13. Global growth is projected to weaken



Note: In Panel B, Emerging Asia comprises China, India, Indonesia and the Dynamic Asian Economies (Hong Kong (China), Malaysia, the Philippines, Singapore, Chinese Taipei, Thailand and Viet Nam). Latin America comprises Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico and Peru. Contributions calculated using moving PPP shares of global GDP.
Source: OECD Economic Outlook 117 database; OECD Economic Outlook 116 database; OECD Interim Economic Outlook 117 database; and OECD calculations.

StatLink https://stat.link/4w3gms

Central banks in many OECD economies are assumed to further lower monetary policy rates to mitigate the severity of the slowdown in economic growth and employment conditions. However, policy rates are expected to remain unchanged in 2025 in the United States given the upside risks to inflation. Another exception is Japan, where persisting inflation is anticipated to warrant continued gradual policy interest rate increases. Fiscal policy is assumed to tighten modestly in most of the large OECD economies over 2025-26, with the sustainability of public debt a common concern, but less so in many of the smaller economies. However, Germany's reform of its fiscal rules and planned increase in defence and infrastructure spending are assumed to result in a sizeable stimulus in 2026, and much stronger public investment. In the United States, the assumed enactment of the One Big Beautiful Bill Act is also expected to result in some additional fiscal support in 2026. Most emerging-market economies are assumed to have a broadly neutral fiscal policy stance with some further monetary policy easing. China is an exception, with significant further fiscal expansion expected in 2025, with policy rates expected to be kept around currently low levels.

The prospects for individual major economies and regions are as follows:

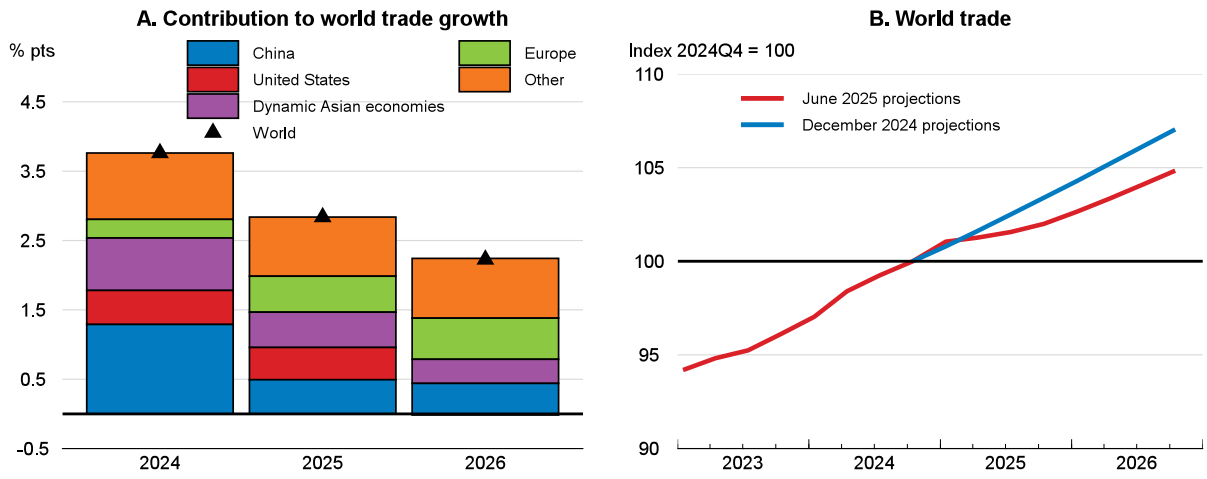
- In the United States, output growth is expected to slow significantly due to the substantially higher effective tariff rate on imports, combined with retaliatory measures from some trading partners, elevated policy uncertainty and softer real income growth. In addition, a further slowdown in net

immigration and reduction in the federal workforce are anticipated to moderate growth. On an annual basis, GDP growth is projected to weaken from 2.8% in 2024 to 1.6% in 2025 and 1.5% in 2026, with growth in the year to the fourth quarter of 2025 declining to just 1.1%. Similarly, new trade restrictions are anticipated to weigh on activity in Canada, with monetary policy assumed to provide only modest further support amid lingering inflation concerns. Canadian GDP growth is projected to fall from 1.5% in 2024 to 1.0% in 2025 and 1.1% in 2026. In both economies, a sizeable price level change is projected, with inflation anticipated to spike in mid-2025 before moderating towards target over time.

- The Japanese economy is expected to expand at a moderate pace, with private consumption growth supported by strong wage gains and business investment growth underpinned by healthy profits and government subsidies. Offsetting forces will be subdued external demand amid new trade restrictions and elevated trade policy uncertainty, with GDP growth projected to moderate from 0.7% in 2025 to 0.4% in 2026. In Korea, growth is projected to recover, with stronger real incomes and improving labour market conditions supporting household spending. After dipping from 2.1% in 2024 to 1.0% in 2025, GDP growth is projected to be 2.2% in 2026.
- Growth in the euro area is projected to remain modest at 1.0% in 2025, after 0.8% in 2024, before picking up to 1.2% in 2026, with increased trade frictions being offset by ongoing capital spending from NextGenerationEU funds, resilient labour markets and a recent easing of credit conditions. Additional cuts to monetary policy rates and the projected fiscal expansion in Germany are also expected to support growth, particularly next year. Modest increases in unemployment rates are expected to be accompanied by further moderation in wage growth. Price pressures are expected to abate further, with headline inflation in the euro area projected to be back around target in 2026. In the United Kingdom, growth is projected to be around estimated potential, at 1.3% in 2025 and 1.0% in 2026, as trade tensions and elevated uncertainty offset the positive impact from last autumn's budgetary measures on government consumption and investment.
- In China, after robust growth at the start of 2025, the tightening of bilateral tariff rates and the planned elimination of the *de minimis* exemption on imports to the United States, combined with retaliatory trade measures, will weaken output growth. However, this is expected to be partly offset by domestic fiscal stimulus focused on government subsidies for consumer goods and social transfers. Real GDP growth is projected to ease from 5.0% in 2024 to 4.7% in 2025 and 4.3% in 2026, with increased trade costs and recent increases in global food prices pushing inflation up from its currently low levels.
- India and Indonesia are projected to continue to experience strong and broadly stable economic growth. While easing monetary policy will aid ongoing expansions in both economies, higher tariffs in the United States, global trade policy uncertainty, and domestic fiscal policy uncertainty in Indonesia, will have an offsetting effect. In India, economic growth is projected to be 6.3% in FY2025-26 and 6.4% in FY2026-27, while the Indonesian economy is expected to grow by 4.7% in 2025 and 4.8% in 2026. Inflation in both economies is projected to remain largely benign, although past currency depreciation in Indonesia will feed through into higher domestic prices and push up inflation this year.
- Growth in Mexico is projected to slow further in 2025 as higher trade barriers are combined with subdued increases in public spending. However, monetary policy easing will be a supportive factor, with output growth projected to be 0.4% in 2025 and 1.1% in 2026. In Brazil, growth is also expected to slow from 3.4% in 2024 to 2.1% in 2025 and 1.6% in 2026, as restrictive monetary policy and new trade barriers are only partially offset by the positive impact of expansionary fiscal policy. Inflation is projected to remain high but to fall back into the central bank target range in the second half of 2026.

The substantial changes to trade policies up to mid-May, with a technical assumption that they persist through the remainder of 2025 and 2026 are a significant drag to world trade in goods and services. Global trade is now projected to grow by 2.8% in 2025 and 2.2% in 2026, 0.8 and 1.3 percentage points lower respectively than the projections in the December 2024 OECD Economic Outlook. Much of the decline reflects lower trade in the United States, China, and regional partners who are heavily integrated into their global supply chains (Figure 1.14, Panel A). In 2025, the introduction of US import tariffs and greater trade policy uncertainty will also weigh on Europe, but a pick-up in domestic growth in Germany in 2026 should fuel a recovery in intra-EU trade. The front-loading of exports to the United States in late 2024 and early 2025, together with a continued expansion of services trade, limit the overall decline in annual trade volume growth in 2025. Nonetheless, quarterly trade growth is expected to remain weak for some time and global trade volumes in the fourth quarter of 2026 are 2.1% lower than previously projected (Figure 1.14, Panel B). Many emerging-market economies, particularly commodity exporters, are expected to have much softer export growth as demand from both China and the United States is lower. However, some countries such as Argentina and Chile are relatively insulated, with half of their exports to the United States tariff exempt.

Figure 1.14. The regional drivers of trade growth are changing

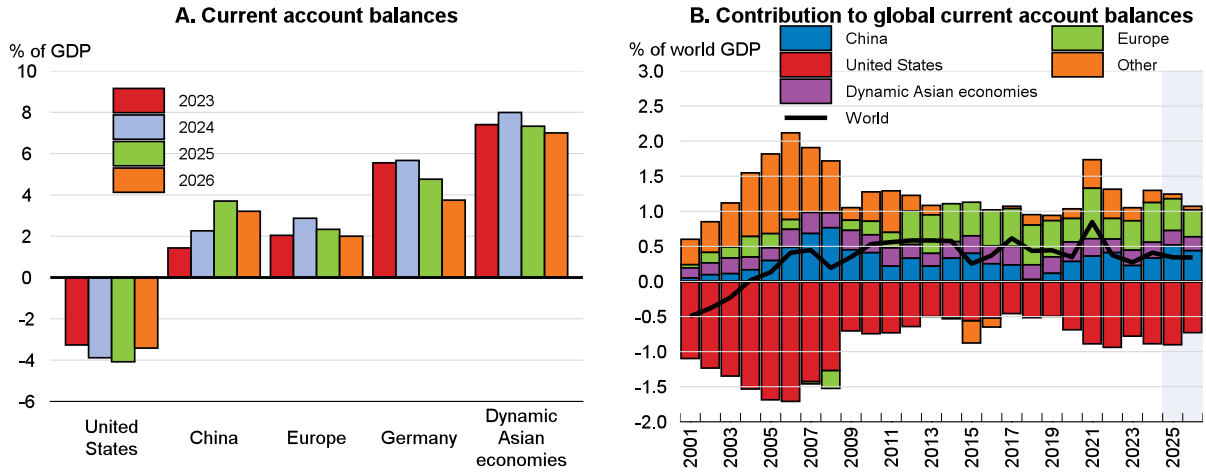


Note: 'Europe' refers to OECD Europe. The Dynamic Asian economies are Hong Kong (China), Malaysia, the Philippines, Singapore, Chinese Taipei, Thailand and Viet Nam.
Source: OECD Economic Outlook 117 database; and OECD calculations.

StatLink https://stat.link/9we63h

Despite the sizeable shifts in world trade volumes, changes in national current account balances are expected to be relatively limited (Figure 1.15, Panel A). Some key surplus countries such as China see a sharp slowdown in imports alongside exports, whilst in the United States weaker export growth limits the improvement in the overall current account that would have been generated by weaker import growth. One exception is Germany, where fiscal policy changes are expected to boost domestic demand and raise import growth even as export growth weakens due to trade policy changes; this results in a lower current account surplus. Overall, most countries' current account balances are a smaller share of world GDP than prior to the global financial crisis, and remain largely unchanged over 2025 and 2026 (Figure 1.15, Panel B).

Figure 1.15. Current account balances will change only slowly



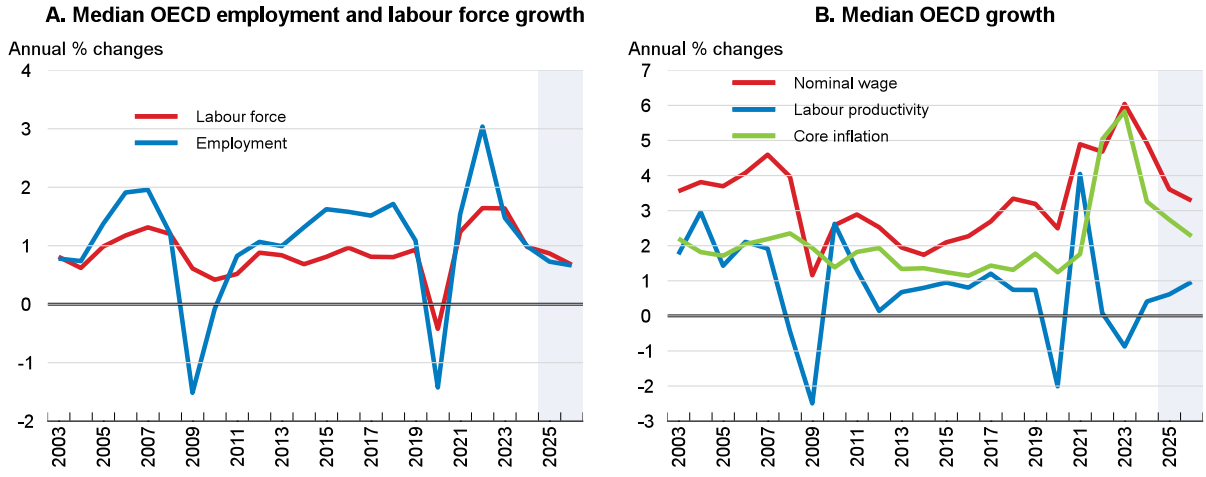
Note: Europe is OECD Europe. The Dynamic Asian economies are Hong Kong (China), Malaysia, the Philippines, Singapore, Chinese Taipei, Thailand and Viet Nam. The world current account balance does not necessarily equal zero because each country compiles its own national accounts with differences in definitions and sources.
Source: OECD Economic Outlook 117 database; and OECD calculations.

StatLink https://stat.link/eron8u

Employment growth in the OECD is expected to weaken, with the annual pace of employment gains in the median OECD country projected to be 0.7% over 2025-26, down from 1% in 2024 (Figure 1.16, Panel A). Employment growth is projected to be more resilient in some non-OECD emerging economies, such as India and South Africa, but to continue to slow in China as the ageing population further reduces labour supply. Labour force growth is also generally projected to ease from its recent fast pace, with migration inflows moderating in some economies. Consequently, the median unemployment rate across OECD economies is projected to remain broadly stable over the projection horizon. However, higher unemployment is projected in the United States as growth slows, with the unemployment rate rising towards 4½ per cent in the first half of 2026 before starting to moderate.

With demand and supply in labour markets in better balance, nominal wage growth is projected to continue to ease in most economies (Figure 1.16, Panel B). This will combine with a projected improvement in labour productivity growth to facilitate further easing in unit labour cost growth and, in turn, reduce inflationary pressures. Further declines in headline inflation are projected in most advanced and emerging-market economies where inflation is currently exceeding the central bank target (Figure 1.17). In addition to the United States, exceptions include South Africa, where inflation will be pushed up by an increase in value added tax and the narrowing output gap, and Brazil, where a recent upturn in services inflation will keep annual inflation high despite a projected fall in quarterly inflation throughout 2026. In the euro area, inflation will remain relatively elevated in a number of economies with tight labour markets, including Latvia, Lithuania, the Slovak Republic and Slovenia.

Figure 1.16. A more balanced labour market and stronger productivity growth should support disinflation

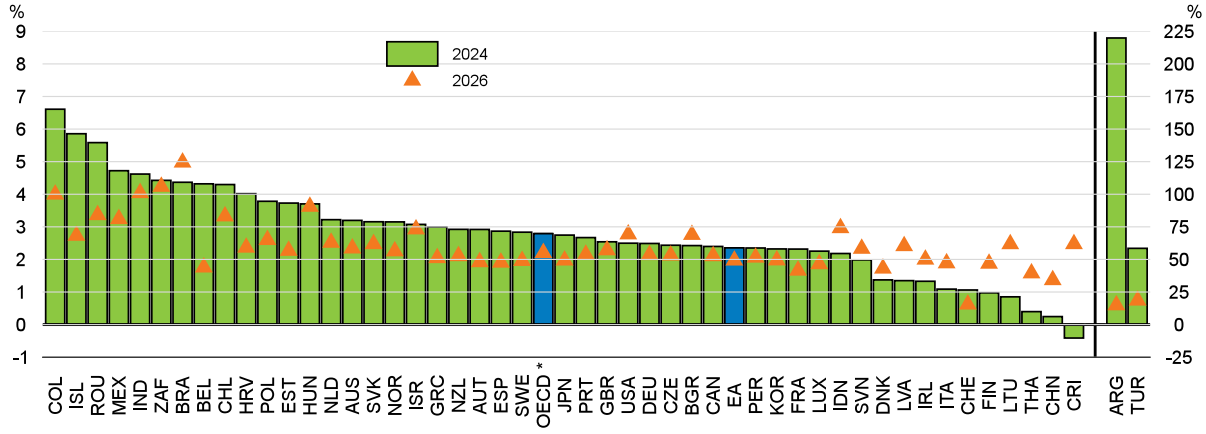


Note: In Panel B, median nominal wage growth does not include Chile, Colombia, Costa Rica and Türkiye due to a lack of available comparable data.
Source: OECD Economic Outlook 117 database; and OECD calculations.

StatLink https://stat.link/pq9oex

Figure 1.17. Inflation is projected to move further towards targets

Headline consumer price inflation



Note: Argentina and Türkiye are shown on the right-hand scale, all other countries on the left-hand scale. Personal consumption expenditure price index for the United States, harmonised index of consumer prices for the euro area aggregate, euro area member states and the United Kingdom, and national consumer price indices for all other countries. India projections are based on fiscal years, starting in April. OECD is computed as the median of member countries.
Source: OECD Economic Outlook 117 database; and OECD calculations.

StatLink https://stat.link/0x94gc

Risks

Growth could be hit by more restrictive trade policies, prolonged uncertainty and tighter financial conditions

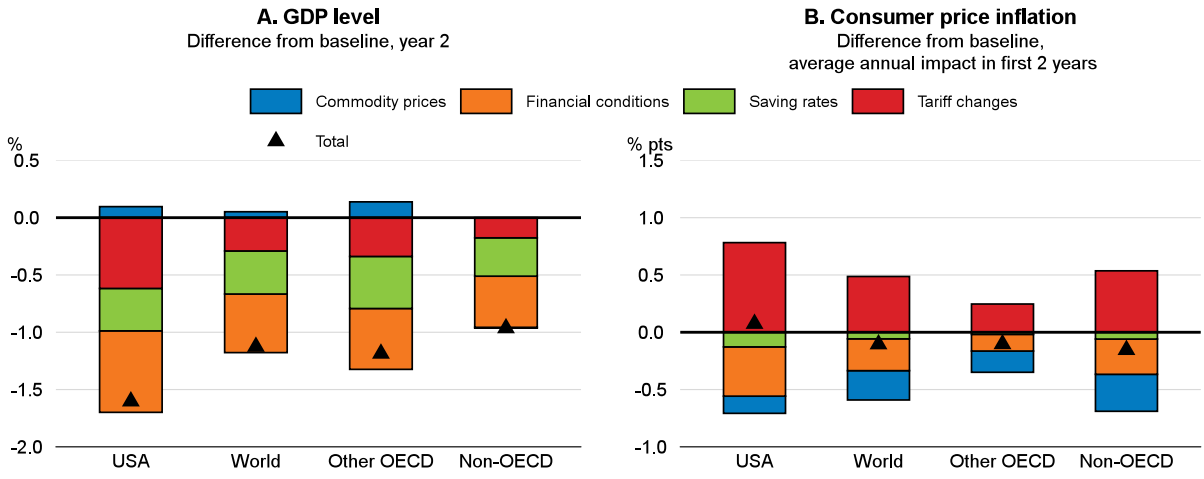
A key risk is that bilateral tariff rates are raised further on merchandise imports into the United States, potentially prompting retaliatory measures by trade partners. Such developments would be likely to intensify risk repricing in financial markets and prolong policy uncertainty. This would also sap confidence, add to the downward pressures on corporate and household spending around the world, and weaken global demand for many key commodities.

A set of illustrative simulations using the NiGEM global macroeconomic model in forward-looking mode highlights the different near-term effects that some of these developments might have (Figure 1.18):

- A scenario in which US bilateral tariff rates are raised further by an additional 10 percentage points on all countries could lower global output by just under 0.3% by the second year, with a larger fall of 0.6% in the United States. Inflation would also be higher, rising by an average 0.8 percentage points per annum in the United States in the first two years and by close to 0.5 percentage points per annum in the world. While the strongest effects are felt in the United States, weaker US import demand reduces export growth in all trading partners, and an appreciation in the dollar effective exchange rate of close to 4% mitigates the inflationary impact in the United States but raises import prices elsewhere.
- The initial shock to growth would be amplified if accompanied by a further deterioration in global equity markets and heightened risk premia due to greater uncertainty, and greater precautionary saving by consumers. In the illustrative scenario, equity prices are assumed to fall by 10%, investment risk premia increase by 50 basis points and household saving rates to rise by 1 percentage point, with these shocks lasting for two years. Collectively, the combined shocks could push global output down by around 1.2% by the second year, with larger declines in many advanced economies. The additional demand shocks are deflationary, reducing both consumer spending and investment, and so the impact of higher trade costs on inflation would be reduced, with the increase in global inflation slowing to an average 0.2 percentage points per annum over the first two years.
- Commodity prices are likely to be an additional shock absorber, with weaker global demand likely to push down prices, at least in the near term. This would help to support real incomes in commodity-importing economies and lower headline consumer price inflation. An illustrative decline of 10% in global oil and gas prices could reduce global inflation by an average 0.3 percentage points per annum in the first two years, with the largest declines in more energy-intensive non-OECD economies, and raise global output by around 0.1%. Combined with the other illustrative shocks, global inflation would be little changed overall, with global output falling by 1.1% by the second year of the shock.
- The balance of these different shocks if they were to occur would have implications for macroeconomic policies. In the illustrative initial trade policy shock, policy interest rates are raised in the United States to help mitigate potential second-round effects on inflation, with rates rising relative to baseline by around ¾ percentage points on average in the first two years. The appreciation of the dollar exchange rate helps to raise import prices in other countries, with policy interest rates rising modestly in most in response. In the full combined shock, policy interest rates decline in all economies, reflecting the overall deflationary nature of these shocks. Fiscal pressures would increase as a result of the combined shocks, with weaker activity initially reducing tax revenue and higher unemployment adding to spending costs. After two years, government debt-to GDP ratios are raised by around 2 percentage points in the typical advanced economy.

The impact of additional policy uncertainty could be even higher than shown in the illustrative scenario. Empirical estimates suggest that a one standard deviation shock to the economic policy uncertainty index is associated with a 1% cumulative decline in investment (see further discussion in Chapter 2). To put this in context, the economic policy uncertainty index for Canada rose by over 9 standard deviations between October 2024 and March 2025.

Figure 1.18. Further trade cost increases and heightened uncertainty would harm growth



Note: Simulated impact of an unanticipated increase of 10 percentage points in US tariffs on all non-commodity imports, a decline of 10% in equity prices in all countries, a rise of 50 basis points in global investment risk premia, a rise of 1 percentage point in household saving rates in all countries and a 10% decline in oil and natural gas prices. The tariff increases persist but the other shocks are assumed to fade gradually after two years.
Source: OECD calculations using the NiGEM macroeconomic model.

StatLink https://stat.link/y7updh

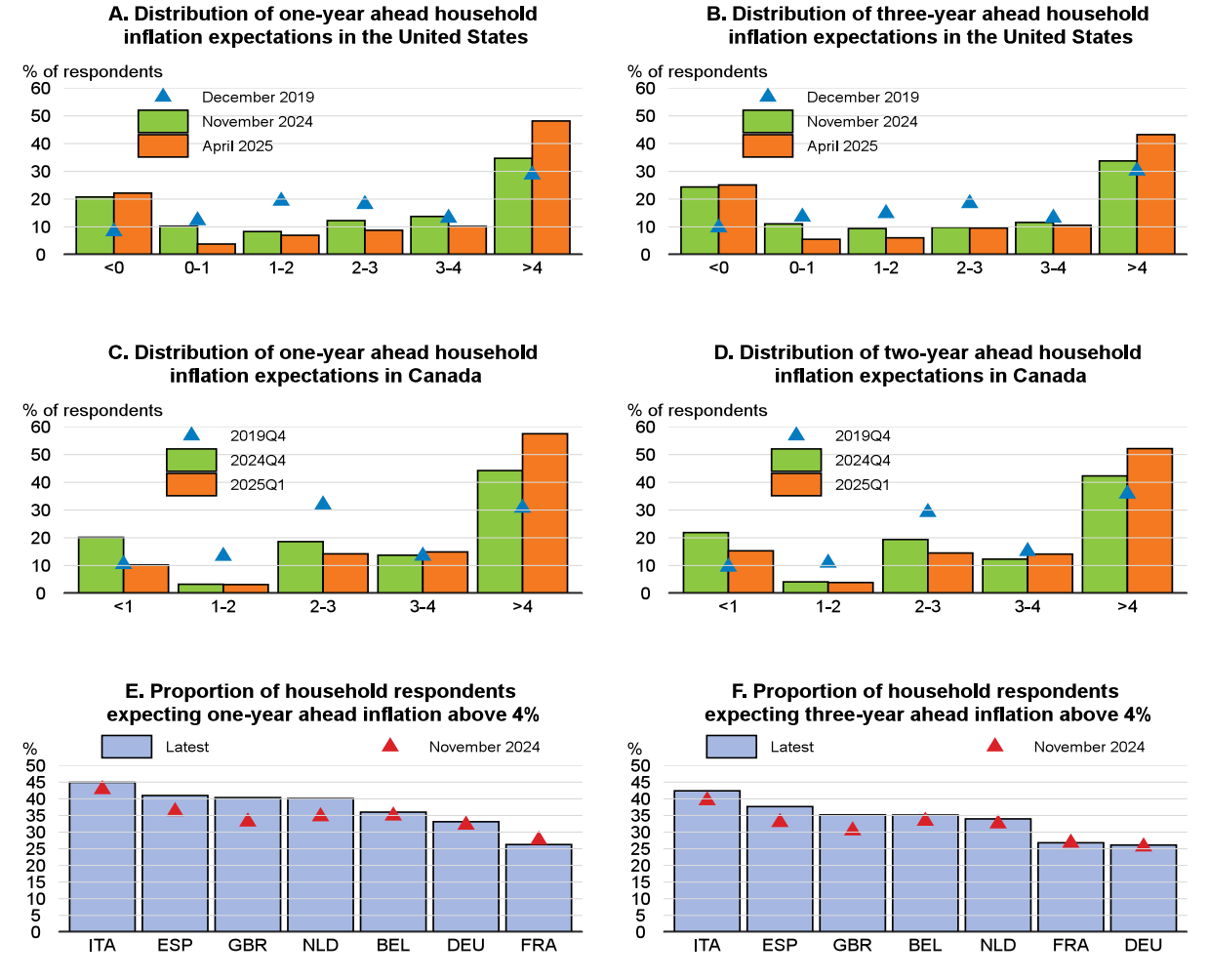
Inflation could be more persistent

An additional downside risk is that inflation remains stickier than otherwise anticipated. This could prompt more restrictive monetary policy, weakening growth prospects. Inflation remains above central bank targets in most OECD economies. In addition, the higher tariff rates imposed by the United States and China may result in higher-than-expected upward price adjustments for final goods in these economies, and higher costs that feed through to export prices. Any future effective exchange rate depreciation in other countries would also further raise import prices in these jurisdictions. As discussed above, another key risk is that tariff-induced price increases are accompanied by significant second round effects that cause further inflation persistence. Workers' responding to lower purchasing power by pushing for higher nominal wages could raise costs for firms that may be passed onto consumers in the form of higher prices. Attempts by companies to maintain their existing price-cost margins would also amplify the impact of the initial rise in import costs. Tight labour markets in many economies, combined with signs of rising consumer (Box 1.2) and corporate inflation expectations in some economies (Figure 1.12, Panel C), are factors that may elevate the probability of this risk occurring. Labour-intensive services sectors could experience particularly high inflation under such a scenario.

Box 1.2. The distribution of household inflation expectations

The distribution of inflation expectations provides information about the degree to which expectations are anchored to central bank inflation targets and how risks to inflation expectations are evolving through time. Recent moves upward in one-year ahead aggregate inflation expectations in the United States and Canada have been accompanied by a material increase in the proportion of respondents expecting inflation to exceed 4% in these economies. Around 48% of respondents in the United States in April 2025 expected inflation to be above that level, up from 35% in November 2024 (Figure 1.19, Panel A). In Canada, the proportion of respondents expecting inflation above 4% one-year ahead rose to 57% in the first quarter of 2025 from 44% in the fourth quarter of 2024 (Figure 1.19, Panel C). While there has also been an upward shift in the distribution of inflation expectations in some European economies, including Spain and the United Kingdom, this has not been the case in others, such as France, Italy, Germany and Belgium (Figure 1.19, Panel E and F).

Figure 1.19. An increasing share of households in the United States and Canada are now expecting high inflation



Note: In Panels E and F, "Latest" is March 2025 for all countries other than the United Kingdom (February 2025). In Panel F, data are for inflation expectations two-years ahead for the United Kingdom.
Source: Bank of Canada; Bank of England/Ipsos; European Central Bank; Federal Reserve Bank of New York; and OECD calculations.

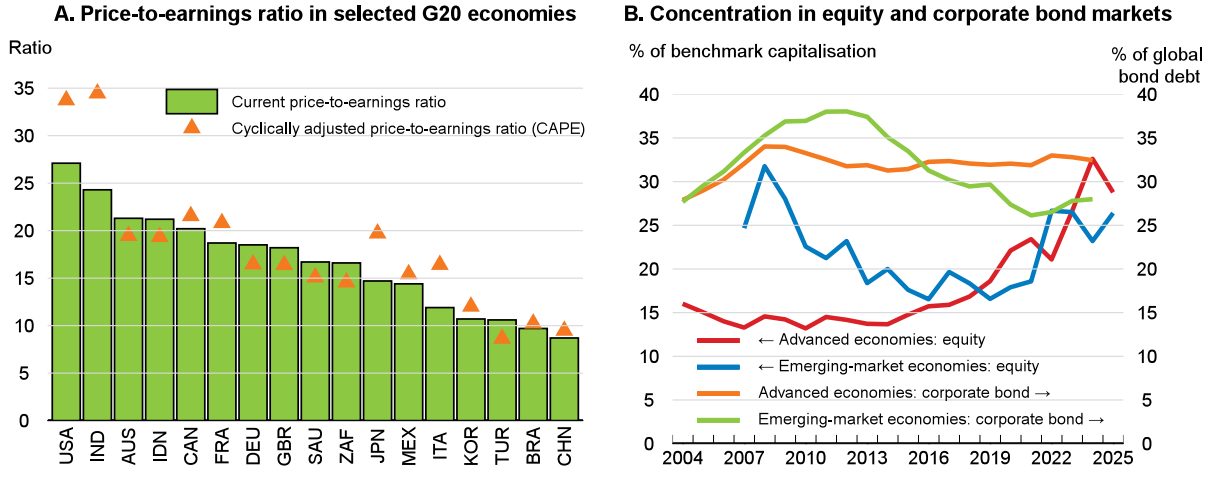
StatLink https://stat.link/e3hkrc

In comparison to the period immediately prior to the pandemic, the proportion of respondents in the United States and Canada expecting inflation to be at the inflation target has declined. This is also apparent when assessing the shifts in the distribution of expectations for inflation in the medium term (three-years ahead for the United States and two-years ahead for Canada; Figure 1.19, Panel B and D). There has also been a slight decline between late 2024 and early 2025 in the share of respondents expecting inflation to be at target.

Corporate financial strains may prompt further risk repricing and spillovers across financial institutions

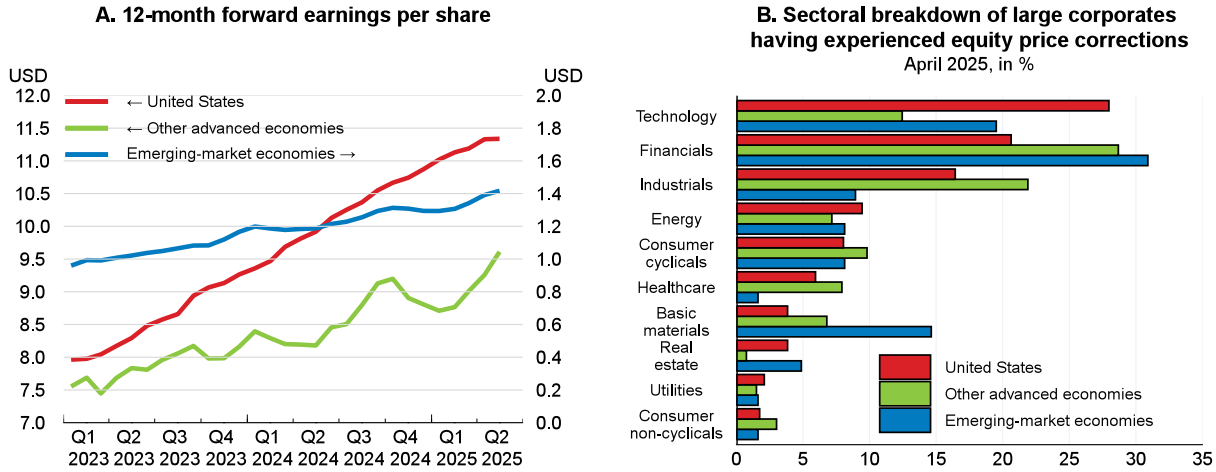
Risk repricing in financial markets could be even more extensive in the event of downside surprises to economic growth or a resurgence of inflation. This would heighten market volatility and increase risks to financial stability. Despite recent moderation, asset valuations remain elevated in the United States and a few other markets (Figure 1.20, Panel A), and equity benchmarks remain highly concentrated (Figure 1.20, Panel B). Across both advanced and emerging economies, earnings expectations have continued to grow (Figure 1.21, Panel A), although some signs have begun to appear recently that suggest expected earnings may have plateaued in the United States. Potential risks to corporate earnings include a greater-than-expected impact of higher trade costs on profitability, as well as a more extensive economic slowdown than projected (Figure 1.21, Panel B). If there is a downward adjustment to earnings expectations, there could be sizeable further equity market corrections.

Figure 1.20. Equity prices remain richly valued and many financial markets are increasingly concentrated



Note: Panel A shows price-to-earnings ratios in selected G20 economies. Based on data up to 27 May 2025. The current price-to-earnings ratio (PER) is calculated by dividing the share price by the trailing 12-month earnings per share (June 2024 to May 2025) for companies listed in the benchmark. The cyclically adjusted price-to-earnings ratio (CAPE) is calculated using 10-year average "cyclically-adjusted" earnings, expressed in April 2025 prices. A higher CAPE ratio compared to the PER indicates that stocks are richly valued. The concentration of equity benchmarks in Panel B is the share of the top 20 companies in the total market capitalisation of each equity benchmark for advanced and emerging-market economies. The concentration in corporate bond markets is based on the share of total issuance by the 100 top bond issuers each year. These are identified using the amount of long-term debt reported on their balance sheets.
Source: Bloomberg; OECD Capital Market Series dataset; and OECD calculations.

Figure 1.21. Expected corporate earnings continue to rise despite the widespread equity market decline in early April



Note: Panel A shows the 12-month forward earnings per share for non-financial corporates listed in selected equity benchmarks (weighted average by market capitalisation). Panel B presents the sectoral distribution of companies that experienced a decline of 10% or more in their equity prices between 31 March and 7 April 2025 (i.e., 286 in the United States, 265 in other advanced economies, and 124 in EMEs). These companies have been selected among the top 500 companies listed in selected equity benchmarks. For example, in the United States 28% of the companies with a correction were technology firms.
Source: OECD calculations.

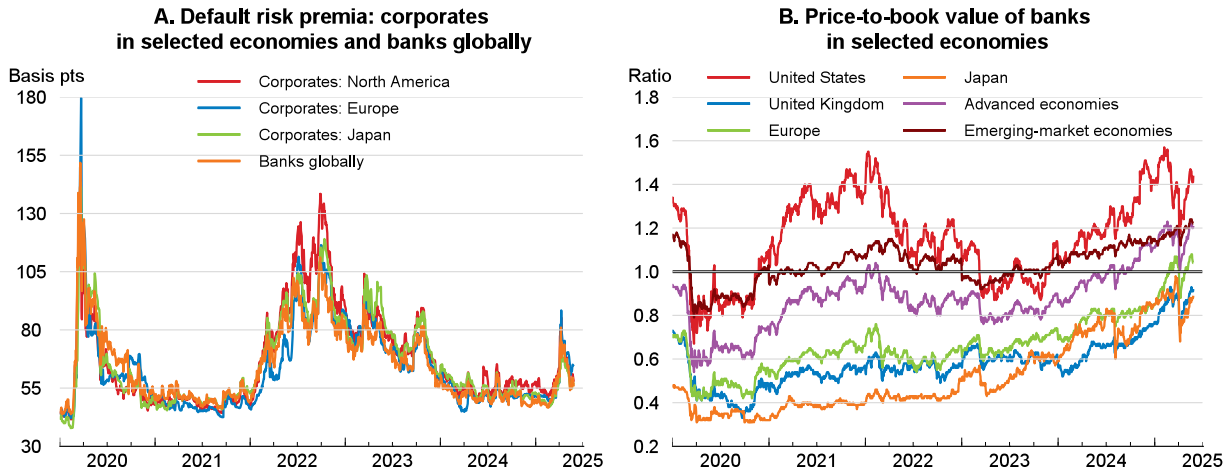
Elevated levels of marketable and non-marketable corporate debt,[3] with a large and growing share of non-investment-grade bonds and leveraged loans,[4] and high corporate refinancing needs in the near future pose risks to financial stability (OECD, 2024a; OECD, 2025a). The expected default risk premium for low-rated corporates has risen markedly in North America, Europe, and Asia since mid-February, and despite recent moderation remains above levels observed prior to the announcement of higher tariffs in the United States. (Figure 1.22, Panel A). Concerns that banks could face higher non-performing loans were reflected in the decline in their price-to-book value ratios in April 2025 (Figure 1.22, Panel B) and higher expected default risk premia at large banks around the world. Weaker corporate financial conditions, combined with high uncertainty induced by additional tariffs in the world trading system, could also raise financing costs and deter fixed investment.[5]

[3] Corporate debt (including both loans and bonds) in advanced economies declined to USD 54 trillion (94% of GDP) in 2024, down from a peak of USD 62 trillion (108% of GDP) in 2020. Corporate debt (broadly defined) in emerging economies remained elevated at USD 39 trillion (91% of GDP) in 2024, down from the record levels observed in 2020 (106% of GDP). Estimates are based on data on credit to the non-financial sector from the Bank for International Settlements.

[4] The share of high-yield bond issuance in total bond issuance by non-financial corporates increased from 16% in 2009 to 22% in 2023, and the average share of leveraged loans in the total syndicated loans of non-financial corporates increased from an average 38% between 2000 and 2012 to 43% between 2013 and 2024.

[5] The experience from the US-China 2018-19 trade tensions suggests that companies exposed to higher tariffs have lower investment, employment and productivity growth (Amiti et al, 2025; Chor and Li, 2021).

Figure 1.22. Default risk premia have risen and bank performance has weakened



Note: Based on data up to 27 May 2025. Panel A presents selected corporate credit default swap (CDS) indices, which serve as indicators of default risk premia. The North American index comprises the 100 most liquid entities with high-yield credit ratings traded in the CDS market. The European and Japanese indices consist of the 125 and 40 most liquid investment-grade entities, respectively, traded in the CDS market. The Bank CDS Index (weighted by market capitalisation) is constructed using the credit default swaps of the 34 most liquid large-cap banks globally. Panel B shows the price-to-book (P/B) ratios of banks included in bank equity benchmarks across selected economies. The P/B ratio compares a bank's current market capitalisation (i.e. its equity market value) to its accounting book value. A P/B ratio below 1.0 suggests that the market may be undervaluing the bank or that the bank may be slow in marking down impaired assets.
Source: Bloomberg; and OECD calculations.

A change in investors' risk appetite could trigger widespread sell-offs of corporate bonds, especially by non-bank financial institutions. Given the low liquidity of high-yield corporate debt, even limited shocks can generate large price corrections, with significant risks of fire sales. Over half of investment-grade corporate bonds are just above the threshold for high-yield status.[6] If these bonds are downgraded, institutional investors bound by rating-based regulatory requirements will be obliged to sell them. Sales pressures during a downturn could also be exacerbated by pro-cyclical behaviour, especially given relatively high investor concentration in major corporate bond markets (Li and Yu, 2022; Boermans and Veumeulen, 2016), and by redemptions at investment funds. Real estate investment funds are particularly vulnerable to these effects, given the illiquid nature of their assets and the persistently uncertain outlook for the commercial real estate market. Real estate investment trusts experienced a marked decline in performance in April, with the industrial and retail sectors being hit hardest.

The high price volatility of crypto-assets and the growing interconnectedness between non-bank financial intermediaries, banks and the crypto-asset market raise substantial risks to financial stability. The market capitalisation of crypto-assets has grown rapidly in recent years, reaching a historical peak of USD 3.7 trillion in mid-December 2024, up from USD 200 billion in January 2020. Subsequent sharp price falls until early April, partly reversed afterwards, suggest elevated valuations and a high sensitivity to repricing in other asset classes (IMF, 2025). The largest single component of the crypto-asset market is Bitcoin, which now represents over two-thirds of market capitalisation, supported by high inflows into Bitcoin exchange-traded products. Crypto-assets often remain less regulated than traditional financial instruments, and data gaps hinder financial stability assessment (Aerts et al. 2025). A particular concern is that price corrections in crypto-assets and potential losses of retail and institutional investors and leveraged investment funds could spill over into other parts of the financial sector and the wider economy amidst forced deleveraging in response to market losses (OECD, 2022a). For instance, redemptions of stablecoins, often

[6] At end-2023, 53% of all investment grade bond issuance by non-financial companies was rated BBB.

reserve-backed by short-term debt instruments, could under certain conditions trigger liquidity runs and pose significant disruption to short-term debt markets (OECD, 2022b).

Market concentration and leverage may amplify shocks

Higher volatility in equity prices amid concentrated markets remains a concern as there is a greater risk of idiosyncratic shocks spilling over and becoming systemic. The market value of equity and bond markets is often concentrated in a handful of individual stocks or bond issuers, raising the risk of large idiosyncratic sectoral or firm shocks spilling over and becoming systemic.[7] A sudden price decline or rise in bond yields could also be amplified by forced asset sales by leveraged and illiquid investment funds, particularly since a small number of funds account for a large share of total corporate bond investment fund assets (OECD, 2025a).[8]

The growth of passive investment funds (which track the returns of established market benchmarks) may contribute to increased market concentration and stronger co-movements in stock prices, potentially amplifying the impact of negative shocks. Continued inflows into passive funds often disproportionately increase the market capitalisation of the largest companies in equity benchmarks, further concentrating equity markets and heightening their vulnerability to idiosyncratic risks (ECB, 2024). Passive investment funds managed about USD 15 trillion (51.6% of total fund assets) in 2024, up from USD 2 trillion (19.7%) in 2012 (Figure 1.23, Panel A).[9]

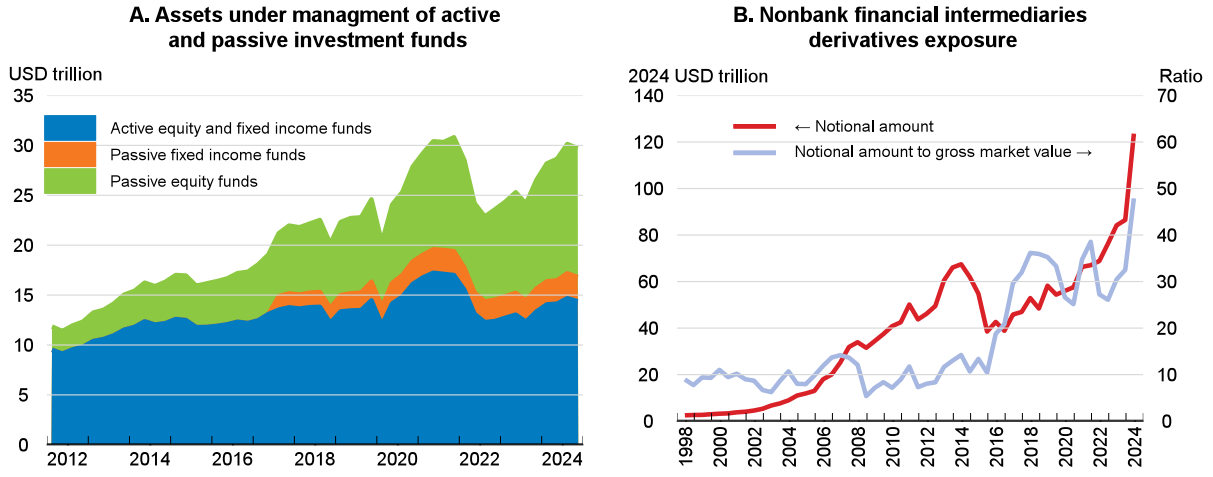
The rise in passive investing has also made the demand for individual stocks more inelastic, potentially leading to higher price volatility and lower liquidity (Haddad et al., 2021). As passive asset managers buy (sell) the whole basket of index constituents in response to fund inflows (outflows) and only adjust their portfolios in line with changes to the index composition, trading commonalities may increase among stocks, with stronger price co-movement. Greater price co-movement amid concentrated markets could threaten systemic stability by increasing the likelihood that many investors face losses simultaneously following firm or sector-specific shocks, triggering waves of redemptions from investment funds and synchronised sell-offs (ESRB, 2019; Chinco and Sammon, 2024; ECB, 2024; OECD, 2025a).

[7] Both current levels of concentration and developments over time in equity and corporate bond markets differ substantially across countries.

[8] The world's 100 largest corporate bond funds represent well over a third of global corporate bond assets.

[9] Based on aggregate investment fund assets data from Bloomberg. In 2024, the passive share is 59% for equity funds and 38% for fixed income funds.

Figure 1.23. Global passive investing and use of derivatives by non-bank financial intermediaries have risen



Note: Panel A displays total assets under management of investment funds (i.e. mutual and exchange traded funds) globally according to their active or passive investment strategies. Passive portfolio management is a strategy that tracks the returns of a market benchmark. By contrast, active investing aims to outperform a targeted benchmark through discretionary securities selection or trading in anticipation of market turning points. Panel B shows two proxies of leverage through the use of derivatives for non-bank financial intermediaries: the aggregate notional value of over-the-counter) derivative exposures and the ratio of notional amounts to gross market value of over-the-counter derivative exposures (FSB, 2023).
Source: Bloomberg; Bank for International Settlements; Financial Stability Board; and OECD calculations.

StatLink https://stat.link/yugqzi

The leveraged investment strategies and use of derivatives by some non-bank financial intermediaries could also amplify volatility (Figure 1.23, Panel B). The use of derivatives, particularly by speculative investment funds such as hedge funds, might enhance interconnectedness through complex intermediation chains. An unexpected rise in yields (or equity declines) can lead to rapid unwinding of leveraged trades, with forced selling in an illiquid market prompting further market weakness and margin calls (IOSCO, 2024; FSB, 2024). In early April 2025, following tariff announcements, hedge funds recorded the steepest margin calls since the onset of the pandemic.[10] Interconnections between banks and non-bank financial intermediaries could also lead to spillovers to the financial institutions that provide funding to investment funds when the latter face large outflows (OECD, 2024c; BIS, 2025).

Financial market volatility also raises risks in emerging-market economies

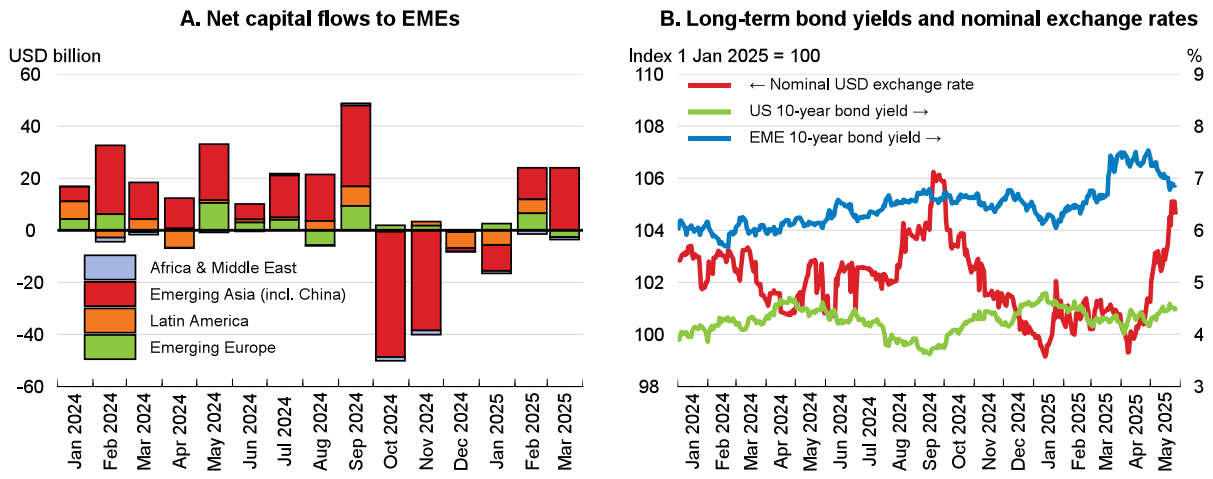
The risk of disruptive capital flows has risen in emerging-market economies. Between October 2024 and January 2025, capital flowed out of emerging-market economies (Figure 1.24, Panel A), partly driven by the relative strength of the US economy. However, this reversed in February and March as fears of a slowdown in the United States rose and the spread between emerging-market and US bond yields widened (Figure 1.24, Panel B). In most emerging-market economies, bilateral US dollar exchange rates have appreciated in 2025, especially since April, with a strong rise in the Brazilian real, the Mexican peso and the Taiwanese dollar, as investors reduced their exposure to US assets. Capital flows are likely to remain volatile as risks of sharp asset repricing and high uncertainty persist. For some emerging market economies, large and sudden capital inflows can lead to strong appreciation and may prove challenging

[10] Although volatility in equity and bond markets and trading volumes has been exceptionally high amid forced cash raising, market functioning has remained orderly (BoE, 2025).

to manage. However, many emerging market economies are at risk of experiencing capital outflows if relative economic prospects and global risk sentiment deteriorate, which could lead to depreciation pressures and higher financing costs.

Many emerging-market economies remain vulnerable to debt distress. Sovereign debt levels and borrowing costs have risen significantly in recent years. Government debt as a share of GDP is now higher than in 2019 in almost three quarters of emerging and developing economies (World Bank, 2025). In these circumstances, borrowing is likely to become more challenging. Around 40% of total outstanding high-risk government bonds at the end of 2024 will mature in 2025 and 2026 (Figure 1.25, Panel A), and approximately 20% of all bonds have been issued before 2021, when interest rates were lower (OECD, 2025a). Larger countries and those with a higher credit rating have more developed local bond markets and broader access to finance. In contrast, lower income and high-risk countries rely more on foreign currency borrowing and are susceptible to changes in exchange rates and in risk sentiment. Although low-income countries have less direct exposure to trade with the United States than middle-income countries (Figure 1.25, Panel B), half remain at high risk of distress or are in distress, as many advanced countries have recently reduced foreign aid.

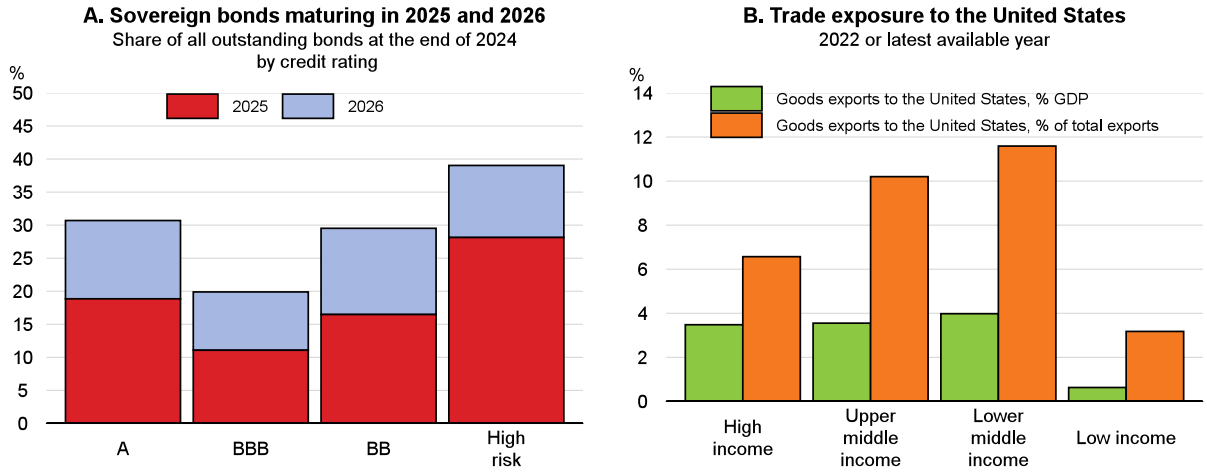
Figure 1.24. Capital flows have been sensitive to exchange rate movements relative to the US dollar



Note: Panel A shows the gross portfolio inflows data from the OECD Monthly Capital Flow dataset for 23 emerging-market economies grouped by four geographical areas. Panel B shows mean 10-year USD bond yields and the median level of the nominal USD exchange rate across seven major emerging-market economies (Brazil, China, India, Indonesia, Mexico, South Africa and Türkiye). Based on data up to 27 May 2025.
Source: OECD Monthly Capital Flow dataset; and OECD calculations.

StatLink https://stat.link/zu9pwe

Figure 1.25. Borrowing has become more challenging for lower income and riskier countries



Note: The data in Panel A cover a sample of nearly 8 700 bonds from 95 countries. The maturity composition is a weighted average based on the outstanding amounts of the corresponding debt within each credit rating category. Category 'A' includes all bonds rated A and above while the 'high-risk' category refers to all bonds rated below BB. The categories are based on aggregated credit ratings from different ratings agencies; see Annex 3.A in OECD (2025a) for the detailed methodology. Panel B shows exports of goods to the US as a share of all exports of goods and services and as a share of GDP. Income classifications are based on World Bank definitions, and the panel shows simple averages across countries in each income group.
Source: OECD (2025a); WTO; World Bank; and OECD calculations.

StatLink https://stat.link/w9m1kh

There are several possible sources of positive surprises

There are also various upside risks to the forecasts that would push economic growth higher if they were to occur. The baseline scenario assumes that the recent increases in bilateral tariff rates remain in place throughout 2025 and 2026 in all countries. A reversal of these restrictions, or steps towards a broader agreement to lower tariff barriers from current levels, would boost growth and reduce inflation relative to the baseline (see Figure 1.36 below).

Additional structural reforms that lower the economic costs of regulation could also promote stronger growth. In the United States, initiatives are underway to lighten the regulatory burden by eliminating measures that create significant costs for businesses and households without effectively addressing market failures. Agency heads are currently reviewing all regulations under their jurisdiction to identify those that should be rescinded (The White House, 2025). Faced with higher trade barriers, other countries may also be prompted to undertake growth-enhancing structural reforms that promote international competitiveness. New OECD analysis highlights that regulatory reforms in network sectors could produce significant economy-wide gains: if network sector regulations in more regulated countries converged to those in the least-regulated countries, economy-wide labour productivity could rise by 1.7% (Andrews et al., 2025). Similarly, further efforts to harmonise regulations across countries, including within the European Union, or between subnational jurisdictions, such as in Canada or Australia, could support stronger trade and productivity growth.

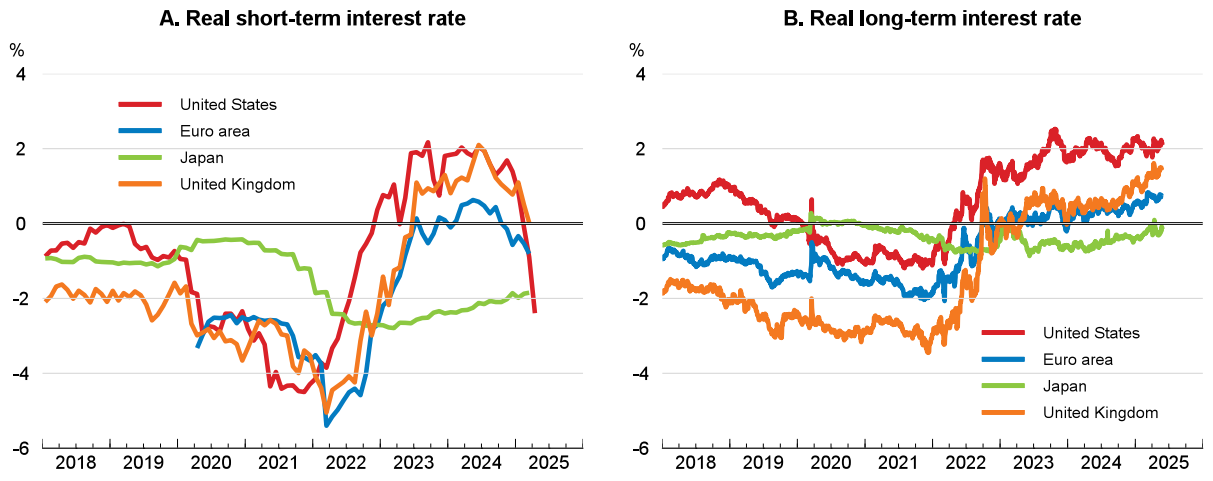
A peaceful resolution of conflicts in Europe and the Middle East could also reduce geopolitical uncertainty and improve confidence, providing a tailwind for spending and investment. Additional public defence spending could also have positive implications for growth, though this is not necessarily the case if financed by cutting other forms of government spending. There may also be an upside risk from the prospect of further declines in oil prices. Global oil supply is expected to outpace demand in the near term, owing both to weaker global demand growth and strong anticipated increases in oil production in several non-OPEC countries including the United States and Canada (IEA, 2025).

Policies

Tariff increases complicate monetary policy decisions

Policy interest rates have declined further in most advanced economies in recent months, with the notable exception of Japan, where policy accommodation continues to be gradually withdrawn. Central bank balance sheet reductions have also continued, though the United States has slowed down quantitative tightening and Canada has announced plans to bring it to an end. The monetary policy stance remains restrictive in most countries, with forward-looking long-term real interest rates well above pre-pandemic norms and having edged up slightly in recent months, especially in Europe (Figure 1.26, Panel B). In contrast, short-term real rates have fallen, particularly in the United States (Figure 1.26, Panel A) due to an increase in one-year ahead inflation expectations.

Figure 1.26. Long-term real interest rates remain high but short-term real rates have declined



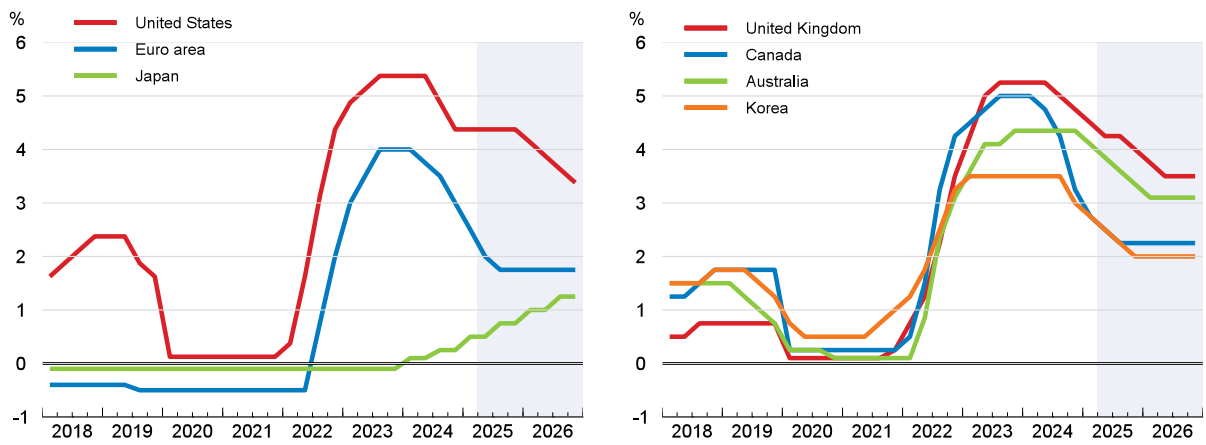
Note: Based on data up to 27 May 2025. In Panel A, the real short-term interest rates are calculated using nominal one-year government bond yields and one year-ahead inflation expectations by consumers in the United States, the euro area and the United Kingdom, and by corporates participating in the Tankan Survey in Japan. In Panel B, the real long-term interest rates show 10-year inflation-linked bond yields.
Source: Bank of England; Board of Governors of the Federal Reserve System; Bank of Japan; European Central Bank; University of Michigan; and OECD calculations.

Faced with heightened uncertainty and the likelihood that tariff increases will raise goods price inflation, central banks will need to remain vigilant to ensure that underlying inflation pressures are durably contained. A one-off rise in the relative price of tradeable goods is likely to be accommodated. However, a sequence of such changes, or signs that inflation expectations are rising and rekindling wage pressures in still-tight labour markets, would likely require higher policy rates than would otherwise be the case. Set against this, any associated decline in output would place some general downward pressure on inflation. The balance of these pressures may differ across countries. The downside effects of higher uncertainty and weaker exports are likely to be the main factors in many countries exporting to the United States, but countries raising tariffs will face pressures from sizeable price increases as well as those from softer growth.

Provided trade tensions do not intensify further and inflation expectations remain anchored, policy rate reductions can continue in economies where inflation is projected to moderate. Further moderation in nominal wage growth and continued progress in disinflation in services sectors will be critical factors that enable monetary policy easing to proceed smoothly. Under the projected outlook for inflation and GDP growth, policy rate reductions are expected to continue during 2025 and in some cases 2026 in all the major advanced economies other than Japan (Figure 1.27).

- In the United States, the federal funds rate is projected to remain unchanged through 2025, with rates then being lowered to 3¼-3½% by the end of 2026. Bond holdings are projected to decline further throughout 2025-26, albeit at a slower pace reflecting the lower monthly redemption cap for Treasury securities from April 2025.
- In the euro area, policy rate reductions are projected to continue this year, bringing the deposit facility rate to 1¾% by the third quarter of 2025. The decline in Eurosystem bond holdings is expected to continue broadly at the pace observed since early 2025, with no reinvestment of redemptions under either the asset purchase programme or the pandemic emergency purchase programme.
- In Japan, the policy rate is projected to increase gradually to 1¼% by the end of 2026, as core inflation stabilises around 2% and a negative output gap gradually closes. The government bond holdings of the Bank of Japan are expected to decline, as the bank's monthly purchases are reduced by about JPY 400 billion per quarter. Bank of Japan outstanding assets under the loan support programme are also expected to decrease, as new disbursements to stimulate bank lending are scheduled to end in June 2025, and no rollover is to be made after the beginning of 2026.
- Reductions in policy rates are projected to continue until the second half of 2025 in Canada and Korea, and until the first half of 2026 in Australia and the United Kingdom. Central bank bond holdings are assumed to decline further in Australia and the United Kingdom. In contrast, renewed asset purchases through term repos followed by outright purchases of treasury bills are expected in Canada, allowing the balance sheet size to eventually stabilise as a share of GDP.

Figure 1.27. Policy rates are projected to decline further in most advanced economies



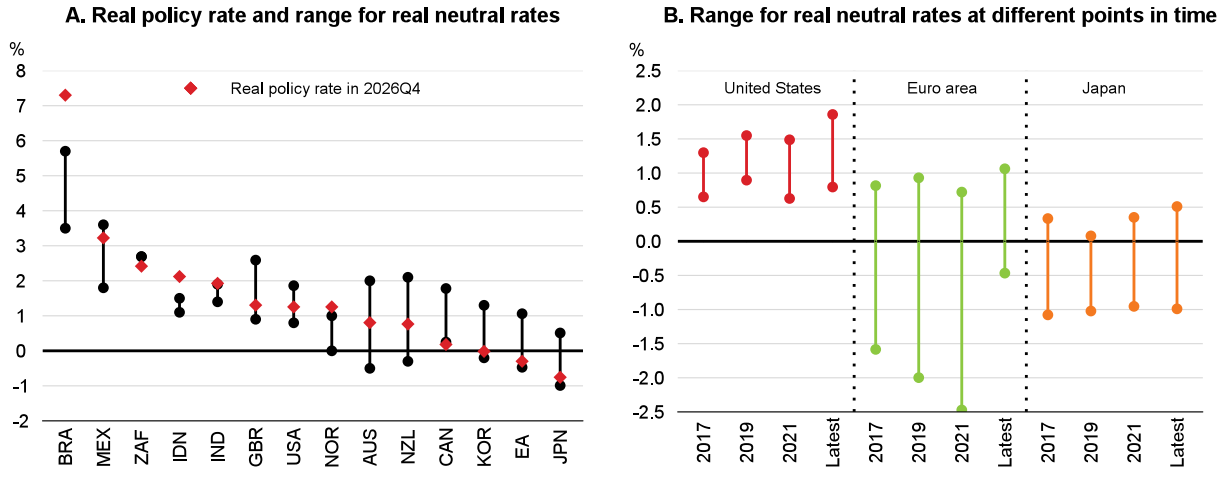
Note: The first panel shows the midpoint of the federal funds target range for the United States and the deposit facility rate for the euro area.
Source: OECD Economic Outlook 117 database; and OECD calculations.

StatLink https://stat.link/kbwrnf

By the end of 2026, real policy rates are generally projected to be within estimated ranges for real neutral rates (Figure 1.28, Panel A) – the real interest rate at which the policy stance is neither accommodative nor restrictive. Inflation is generally projected to be back or close to target at that time, and growing geopolitical fragmentation increases the odds that it eventually settles at target, rather than dropping below it, as in most of the decade following the global financial crisis. This would lead to sustained higher nominal policy rates than before the pandemic, increasing the room for monetary policy manoeuvre through conventional tools in the event of future downturns. Greater room for manoeuvre could also follow if the future neutral rate was to be higher than what current estimates suggest, for instance due to reforms to

strengthen productivity and investment, or a larger supply of public debt, to which pressures on public spending (discussed below) and quantitative tightening would contribute (Schnabel, 2025). There is some tentative evidence of a mild rise in neutral rate estimates in major jurisdictions over the past few years (Figure 1.28, Panel B).

Figure 1.28. Real policy rates are projected to converge towards neutral levels



Note: In Panel A, the projected real policy rate in 2026Q4 is calculated using the nominal policy rate deflated by annual core inflation over the year to 2026Q4 (except for India and Indonesia, where headline inflation is used). For each jurisdiction, the figure shows a range (min-max) of estimates for the real neutral rate, understood as a longer-run equilibrium real short-term interest rate. The minimum and maximum values come from the following estimates: the Holston-Laubach-Williams (HLW) model estimate (Federal Reserve Bank of New York, 2025) and the Lubik-Matthes (LM) model estimate (Federal Reserve Bank of Richmond, 2025) for 2024Q4 for the United States; the estimate from term structure models for 2024Q4 and the HLW model estimate for 2024Q3 (Brand et al., 2025) for the euro area; the estimate from term structure models and the HLW model estimate for 2023Q1 (Nakano et al., 2024) for Japan; the HLW model estimate for 2021Q4 (IMF, 2023a) and the LM model estimate for 2023Q3 (Lubik et al., 2024) for the United Kingdom; the lower bound of estimates in nominal terms by the Bank of Canada deflated with the 2% inflation target (Bank of Canada, 2025) and the HLW model estimate for 2024Q4 (Federal Reserve Bank of New York, 2025) for Canada; the range of the estimates for 2022 (Ellis, 2022) for Australia; the Laubach-Williams (LW) model estimate and the modified LM model estimate for 2024Q1 (Do et al., 2024) for Korea; the range of the estimates for 2024Q1 (Castaing et al., 2024) for New Zealand; the range of the estimates for 2024 (Norges Bank, 2024) for Norway; the range of the estimates for 2024Q2 (Banco Central do Brasil, 2024) for Brazil; the range of the long-run average estimates (Banco de Mexico, 2024) for Mexico; the range of the modified LW model estimates for 2024Q1 (Reserve Bank of India, 2024) for India; the range of the HLW model estimate for 2022Q2 and the yield curve model of Basdevant, Björksten, and Karagedikli for 2022Q4 (IMF, 2023b) for Indonesia; and the LW model estimate for 2024 (South African Reserve Bank, 2025) for South Africa. In Panel B, the estimates from the HLW model (Federal Reserve Bank of New York, 2025), LM model (Federal Reserve Bank of Richmond, 2025) and HLW model with convenience yield (Szoke et al., 2024) are considered for the United States. For the euro area and Japan, the estimates are from Brand et al. (2025) and Nakano et al. (2024), respectively. The latest range of estimates are the same as shown in Panel A for these three economies.
Source: OECD Economic Outlook 117 database; and OECD calculations.

StatLink https://stat.link/4ditfp

Larger debt burdens will bring forward important fiscal policy choices

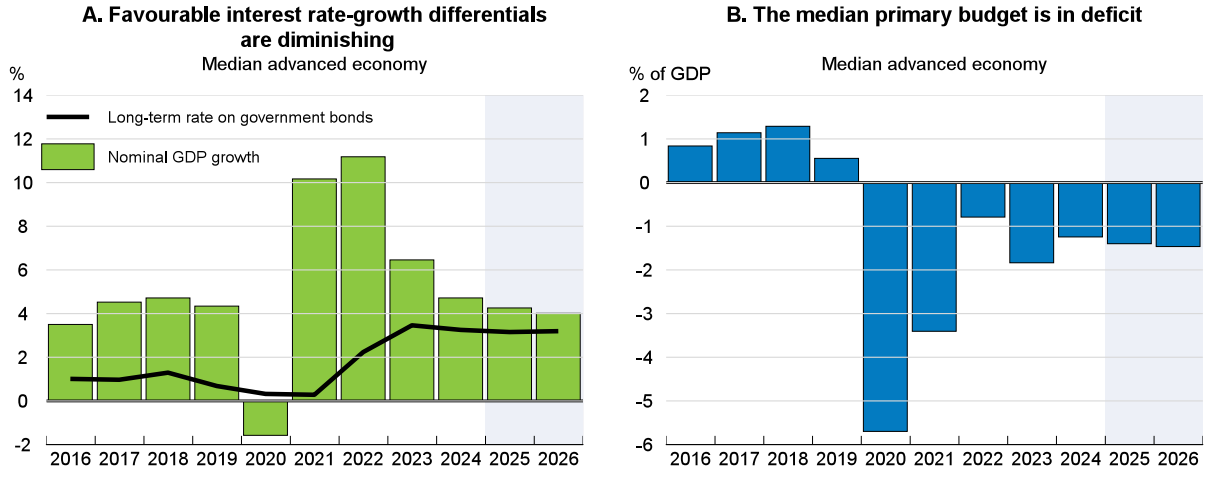
The fiscal projections for 2025-26 are conditional on announced government measures and OECD assessments of current plans (Annex 1.A). Underlying primary balances are expected to worsen, relative to potential GDP, in several advanced OECD economies in 2025. Improvements are projected the following year, yet only a couple of countries are planning substantial fiscal consolidation in 2026. The projected median change in underlying primary balances over the next two years is approximately zero.

- In the United States, the structural deficit will remain large with underlying primary spending exceeding revenues by 3.4% of GDP in 2026, and the aggregate general government budget deficit exceeding 8% of GDP. Higher tariff receipts will only partly offset revenues lost due to the extension of the 2017 Tax Cuts and Jobs Act, new tax reductions and weaker economic growth. Efficiency

measures, including shrinking the federal government workforce, will help slow growth in public expenditure; however, additional spending will reduce net budget savings.

- The euro area's underlying primary deficit is estimated to shrink by 0.3% of GDP between 2024 and 2026. Modest fiscal consolidation will occur this year, associated with the phase-out of energy crisis support, with little change in the fiscal stance projected for 2026. While high-debt countries including France and Italy are planning budget repair, other economies including Germany are expected to have a fiscal expansion in 2026, with increased spending to upgrade infrastructure and military capability (Box 1.3).
- Japan's underlying primary deficit is projected to narrow by 0.9% of potential GDP in the two years to 2026. The projection assumes no supplementary budgets are passed in financial years 2025 and 2026. A corporate tax rate increase in 2026 will help finance new spending. The government is planning to increase outlays on disaster preparedness in addition to expenditure on defence and support for families with children.
- Substantial fiscal policy tightening of 1% of potential GDP or more is projected over 2025-26 in Iceland, Israel, Korea, New Zealand and the United Kingdom. In contrast, fiscal expansions are projected in Denmark (2.8% of GDP), Norway (0.6% of GDP) and Sweden (0.3% of GDP) with all three Nordic countries raising defence spending. Australia's underlying primary deficit is expected to expand in the next two years, but little change is projected in Canada.

Figure 1.29. Public debt determinants in OECD countries



Note: Median values are shown in each year for advanced OECD economies.
Source: OECD Economic Outlook 117 database; and OECD calculations.

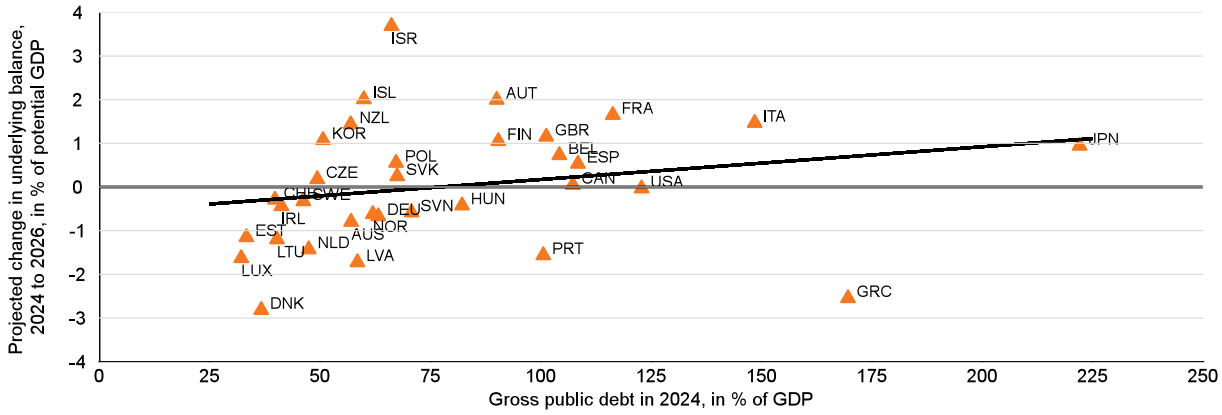
StatLink https://stat.link/rxcf0i

Near-term budget pressures from debt service costs and military spending will be compounded in the long run by persisting costs associated with climate mitigation and adaptation and population ageing. Sizeable primary deficits, elevated interest payments and lower growth (Figure 1.29) will keep public debt ratios high and rising in many OECD economies over 2025-26. For the group of OECD countries, the ratio of gross general government debt to GDP is projected to increase by 2.3 percentage points over the two years to the fourth quarter of 2026 (to 114% of GDP). Increases of 1.5 percentage points in the euro area and 5.9 percentage points in the United States are projected, while Japan's gross public debt ratio is forecast to decline. Where growth is strong enough to withstand additional fiscal headwinds, consolidation efforts should intensify in high-debt countries as monetary policy becomes less restrictive. Other advanced economies have the fiscal room for manoeuvre to increase public spending for some years while running down surpluses or borrowing to finance larger deficits. Amid heightened geopolitical tensions, many countries are fast-tracking defence investments to bolster national security (Box 1.3). Such spending will

add to debt burdens in some countries in the second half of this decade. In contrast, some heavily indebted countries – including France, Italy and the United Kingdom – are pressing ahead with budget repair to avoid the risk of abrupt and painful fiscal corrections later (Figure 1.30).

In the near term, governments may also face new calls for additional support in countries confronted with higher trade costs. A first line of defence is to allow automatic stabilisers to operate fully. Targeted, temporary and well-designed support measures (Hemmerlé et al., 2023) could, if necessary, help cushion the initial impact of liquidity shocks felt by companies. Protracted budgetary support to firms facing a lasting loss of external competitiveness should be avoided.

Figure 1.30. Substantial fiscal consolidation is projected in some high debt countries



Note: The graph plots projected changes in the underlying primary balance over 2024-26 and public debt ratios in 2024 for 33 advanced OECD economies. "Gross public debt" is gross general government financial liabilities.
Source: OECD Economic Outlook 117 database; and OECD calculations.

StatLink https://stat.link/gnjqiz

Box 1.3. Higher defence spending: economic and public finance implications

Defence spending has increased recently in many OECD countries after declining in the three decades following the end of the Cold War. This is evident in Europe, where military expenditure has outpaced growth in GDP since Russia invaded Ukraine in 2022, and also in Israel. Relative to the size of their economies, EU countries in Central and Eastern Europe have invested particularly heavily in their armed forces (Figure 1.31). Poland and the Baltic states have set ambitious goals for future spending, pledging to lift military expenditure to 5% of GDP in years to come. High targets for defence spending, often well above recent outlays, have also been declared in Czechia and the Nordic countries as well as in France and the United Kingdom (Figure 1.32, Panel A). In Germany, where defence spending increased from relatively low levels a few years ago to reach 1.9% of GDP in 2024, constitutional hurdles to higher spending have been removed (see below). While legislated measures leave major spending challenges to future governments in some countries, ongoing defence expenditure is trending higher, in Europe and also in several Asian OECD countries, notably Japan. In contrast, the United States does not have long-term plans to raise the GDP share of its military spending, which is already higher than in most other OECD countries.

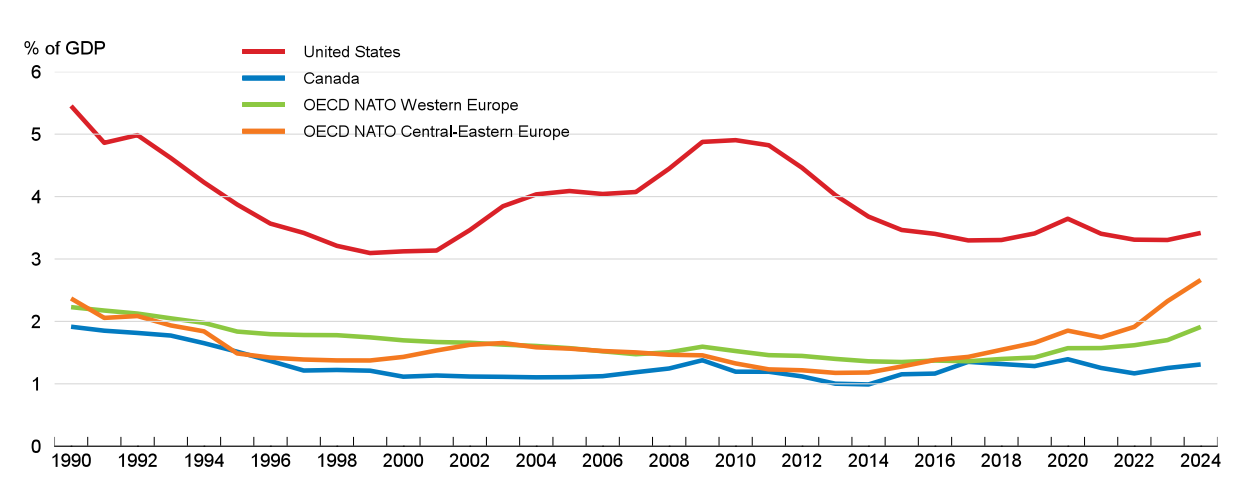
Few countries have released detailed information about their medium-term defence spending plans. However, major investments in equipment and infrastructure are considered necessary in many countries to address capability gaps. For instance, European Commission estimates suggest such investments by EU member states could be worth a total of EUR 500 billion over the next decade (1.1% of 2024 GDP).[1]

While defence investment has increased more rapidly than total defence spending in recent years, personnel costs – a major component of government consumption – typically still make up a larger share of OECD countries' total defence budgets (39% on average in 2023, compared with 24% for investment).[2]

Higher defence spending will add to budgetary pressures in many economies. In some, consolidation of other government outlays is expected to create room for higher defence expenditure. This is reflected in budget plans in Estonia, Finland, Latvia, Poland and the United Kingdom. Most of these countries also project budget support from higher revenues. However, few OECD countries have managed to finance large increases in defence outlays in recent years without running down fiscal surpluses or increasing budget deficits. This aligns with historical experience, as substantial additional government borrowing often accompanies the first phases of military build-ups before countries raise taxes (Marzian and Trebesch, 2025). Over the next two years, budget positions are expected to deteriorate in many countries planning higher public spending on defence.

Figure 1.31. Defence spending is increasing in advanced economies in Central and Eastern Europe

Defence expenditure



Note: OECD NATO Western Europe includes Belgium, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden and the United Kingdom. OECD NATO Central-Eastern Europe includes Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia. For both series, the graph shows unweighted averages for the economies in the group.
Source: SIPRI Military Expenditure database.

StatLink https://stat.link/lk7t1x

Fiscal rules are changing to accommodate higher defence spending. In Germany, constitutional reform has lifted constraints on borrowing for defence spending ahead of major investments over the coming years. Sweden has departed from a longstanding target of a budget surplus to shift to a balanced budget rule from 2027, enabling higher military expenditure. In parallel to national reforms, the European Commission has invited EU member states able to withstand additional fiscal pressure without threatening debt sustainability to make use of national escape clauses in the Stability and Growth Pact (European Commission, 2025a). Recognising Europe's "extraordinary" security challenge, national escape clauses – once activated by the Council – would allow deviations from medium-term budget plans of up to 1.5% of GDP over the next four years, with increased spending to go only on defence.[3] As at the end of April, 16 member states had decided to request the activation of the national escape clause.[4]

In countries with limited fiscal space, financial market pressure may curb defence-spending ambitions, even if escape clauses are activated and EU loans help fund defence investments.[5] This constraint may be relevant for countries already under the EU Excessive Deficit Procedure, a group that includes France,

Poland and Italy, respectively the Union's second, third and fourth biggest defence spenders in absolute terms based on data published by the Stockholm International Peace Research Institute (SIPRI, 2025). Sustaining higher military expenditure for a long period of time, or even permanently, could force higher-debt countries to confront hard policy trade-offs. While increased borrowing may enable governments to finance large military investments during a transition period, countries unable to sufficiently curb growth in non-military spending may ultimately have to consider raising tax burdens further (Figure 1.32, Panel B). A challenge in monitoring the use of escape clauses will be to ensure that other types of spending, for instance non-military foreign aid, are not reclassified as defence expenditure to circumvent fiscal rules.

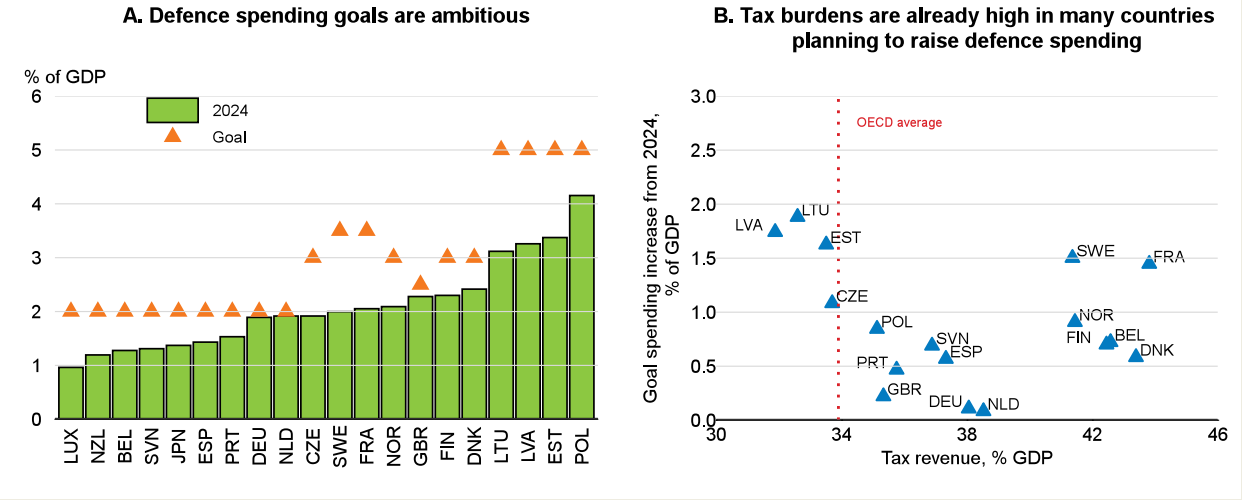
Gains to actual or potential growth could help offset the fiscal costs of defence spending but are uncertain and will vary from country to country. In the near term, higher government final expenditure on defence will contribute to demand, employment and incomes, especially if it is financed by borrowing. Some studies suggest fiscal multipliers from military expenditure could be relatively high in advanced economies, with little or no crowding out of private demand in some circumstances (Sheremirov and Spirovska, 2022). Larger near-term output effects are more likely in low-debt countries; when monetary policy accommodates higher government spending; and in countries with established local defence industries (such as France, Germany, Sweden and the United Kingdom).

Recent analyses of the possible economic impact of higher military expenditure in Europe have produced estimates ranging from a 0.5 to 1.5% boost to Europe-wide GDP for defence spending increases of 1.5% of GDP (Ilzetzki, 2025; European Commission, 2025b), with potentially larger effects for economies in recession and if monetary policy responses are limited (Ilzetzki, 2025). In some countries, such as Germany, there are possibilities for automotive manufacturers to produce defence equipment or for defence producers to repurpose factories, buy equipment or hire workers let go by ailing car producers. However, many countries contemplating higher military spending, including some EU member states, have few or no major local producers of military equipment. In the last four years, 64% of arms imports by European NATO states came from the United States (SIPRI, 2025).

The net output effects of defence spending might also differ by type of spending.[6] Defence infrastructure projects (for instance, building airfields, docks or storage facilities) or spending on equipment might be associated with relatively high multipliers if, in addition to increased public sector investment, they generate domestic private sector activity and jobs, and rely mainly on locally-sourced materials. Government spending on the armed forces (for instance, additions to military personnel) also contributes to domestic output – directly through public consumption and indirectly via household consumption – and is likely to have larger net effects in economies below full employment.[7]

Efficient procurement will be essential to support realised improvements in military capability and may help foster innovation spillovers. In Europe, coordinated purchasing between countries should be pursued alongside steps to improve competition and reduce fragmentation in the defence market (Wolff et al., 2025). To the extent that European countries are able to source defence equipment, inputs or services from each other, and stretched availability of supplies does not raise costs, regional multipliers from defence spending could exceed those in individual European countries. Provided inflationary effects are small, positive output effects could be larger, and distributed more broadly across countries, if closely connected economies simultaneously expand their defence spending. Efficient joint procurement could also enhance long-run cross-border spillovers from investment in defence research and development.[8] Historical experience suggests increased defence R&D could support higher private sector productivity (Ilzetzki, 2025), provided increased employment of skilled workers in defence does not exacerbate skills shortages in other industries. Should military spending reallocate labour and capital to less efficient uses, aggregate productivity could be lower (OECD, 2025c).

Figure 1.32. Ambitious military spending goals could force tough fiscal policy choices



Note: Goals refer to announced defence spending objectives, whether or not backed by concrete plans, timeframes or legislated measures. Where the goal is expressed as a range (for example, 5-6% of GDP), the bottom of the range is shown. For Germany, newly passed reforms exclude military spending above 1% of GDP from the calculation of the country's debt limit. In the coming years, German defence spending is expected to rise above the current 2% of GDP commitment, but the new government's full plans are not yet available. Tax revenue data are for 2023.

Source: Tax revenue data are from OECD Revenue Statistics. Defence spending data are from the SIPRI Military Expenditure Database. Defence spending goals are compiled from press releases or secondary sources: Brussels Times, Canadian Government, Danish Ministry of Defence, Dutch Ministry of Defence, Financial Times, Finnish Government, Le Monde, LSM, Luxembourg Government, Politico.eu, Reuters, Radio Prague International, Radio Sweden, Slovenian Government, UK Government.

StatLink https://stat.link/z2s5hu

1. See European Commission (2024), Opening remarks by President von der Leyen at the joint press conference with President Michel and Belgian President De Croo following the meeting of the European Council of 27 June 2024.

2. Calculated as an unweighted average of results for countries included in the OECD COFOG database.

3. Defence spending will be assessed based on COFOG definitions, which differ from those applied by NATO. The reference year will be 2021, the year before the emergency situation began. For countries subject to an Excessive Deficit Procedure (EDP), escape clause activation would allow deviations from the corrective path under the EDP.

4. The countries include Belgium, Bulgaria, Croatia, Czechia, Denmark, Estonia, Finland, Germany, Greece, Hungary, Latvia, Lithuania, Poland, Portugal, Slovakia and Slovenia (Council of the European Union, 2025).

5. The European Commission has proposed providing loans worth up to a total EUR 150 billion under an instrument called Security Action for Europe (SAFE), an option that could be attractive to countries unable to access market credit on terms as favourable as the Commission.

6. Relatively few studies of multipliers examine the effects of different types of government spending. Findings are mixed among empirical studies comparing multipliers for government investment and consumption. For example, Auerbach and Gorodnichenko (2012) find near-term output effects of US government investment (a multiplier over 2) that are higher than those for US government consumption (roughly 0.5). Boehm (2020), in a study of OECD countries, finds the opposite holds for short-lived investment spending shocks (ones substantially dissipating within two years) - government investment multipliers are found to be near zero, reflecting lower private investment, while government consumption multipliers are higher (around 0.8). The US study of Haug and Sznajderska (2024) finds that multipliers for government consumption and investment are not statistically significantly different (and around 0.5).

7. A recent study of Central and Eastern European countries finds relatively high multipliers on military personnel expenditures (exceeding unity two years after a spending shock), which is argued to reflect private consumption by military staff (Olejnik, 2023). As in some other papers, multipliers for military expenditures are found to be higher in recessions.

8. Steinwender, Van Reenen and Moretti (2019) study spillovers from defence to private sector R&D within and across countries.

With debt burdens already high in many countries, a step-up in fiscal pressure brings forward hard policy choices. Many of the costs of maintaining larger armed forces, mitigating climate change, adapting to warmer climates, and supporting older populations will coincide and persist for some time. These pressures will exacerbate structural budget imbalances that already exist. To keep public debt sustainable, and preserve buffers to respond to future shocks, countries should pursue fiscal reforms alongside other priorities.

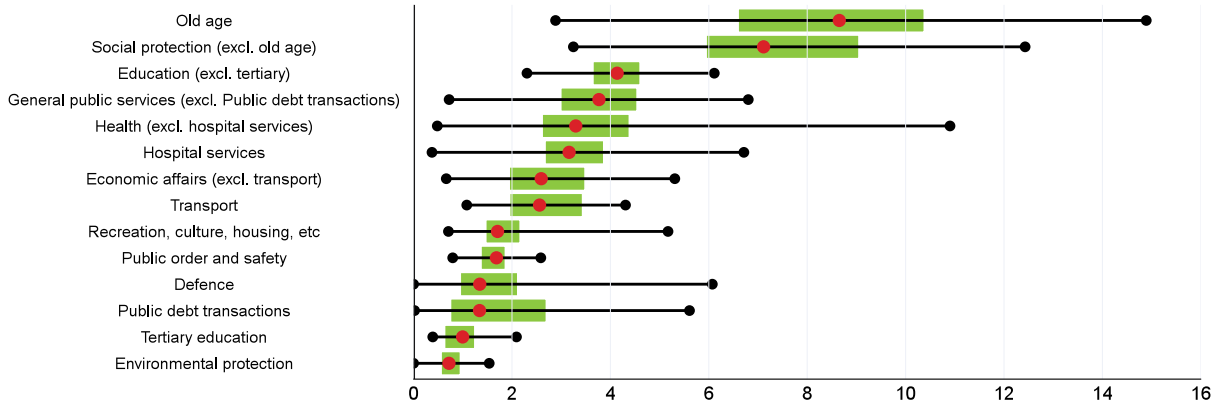
Many advanced economies are looking to curb public expenditure, with reductions in public investment, green infrastructure financing, foreign aid, basic research or cuts to government employment often treated as potential sources of savings. While improving the budget balance in the short run, measures of this sort may erode public service capacity, withdraw support from those most in need and set back long-term objectives, including the need for strong economic growth amid a transition to net zero emissions. Systematic and regular spending reviews and the adoption of new digital technologies could help to improve public sector efficiency while preserving essential public programmes, and limit harm to potential growth by reallocating resources efficiently as priorities shift. Effective targeting of social benefits and pension systems that encourage longer working lives could also help to contain spending (OECD, 2024b; OECD, 2024c). Countries differ markedly in the resources they devote to old age and other social protection expenditure (Figure 1.33), differences that are only partly explained by relative incomes and demographics (Barnes et al., 2025).

Many recently announced and ongoing tax reforms – including measures to broaden consumption tax bases by reducing distortive tax expenditures (Iceland), raise taxation of carbon emissions (Ireland, Portugal) and improve tax collection (Bulgaria, Greece) – could, if carried forward, strengthen structural budget positions while limiting costs to sustainable growth. Other current revenue raising measures, including tariff increases in the United States and direct tax measures in the United Kingdom could, however, be partially offset by adverse impacts on activity. Revenue-raising reforms should generally aim to shift tax systems over time towards less-distortive taxes with fewer exemptions, as it is difficult to alleviate debt burdens without strong economic growth (Pina et al., 2025). There is scope in several advanced economies to raise proportionally more revenue from consumption, environmental and property taxes while relying less heavily on taxing wages (OECD, 2024b; OECD, 2024c).

Medium-term planning is essential to preserve or free up resources for strategically important projects, many of which will weigh on the public finances. Such plans can help avoid excessive debt accumulation and reduce uncertainty about the conduct of fiscal policy. Fiscal rules remain important for the sound management of public finances, even if subject to deviations through escape clauses or other flexibility mechanisms – for instance, to support productive investment or higher defence spending (Box 1.3). Independent fiscal institutions can also play a useful role in assessing the impact of proposed policy changes, overseeing countries' return to quantitative budget limits, and communicating the need to keep justified departures temporary.

Figure 1.33. Government spending patterns vary across OECD countries

2023 or latest year available, per cent of GDP



Note: For each type of government spending, the graph shows the median for countries in the sample (red dots) and the interquartile range (green boxes). Horizontal lines show the sample range.
Source: Barnes et al. (2025); OECD COFOG data; and OECD calculations.

StatLink https://stat.link/o0hzwi

Emerging-market economies should strive to reduce inflation and fiscal deficits

Policy rate reductions have continued across many emerging-market economies in recent quarters and have started in India, where inflation pressures have gradually abated, creating greater scope for supporting the economy. However, rate reductions have slowed down or been halted since early 2025 in several countries, especially in Latin America, partly due to the persistence of inflation pressures or exchange rate developments. Amid strong growth and rising inflation in Brazil, the policy rate has been raised four times since December 2024 over concerns about a de-anchoring of inflation expectations. In Türkiye, after three consecutive policy rate reductions since December 2024, the policy rate was raised again in April to lower risks of a renewed rise in inflation pressures. Given low inflation, key policy interest rates and reserve requirements have been lowered further in China.

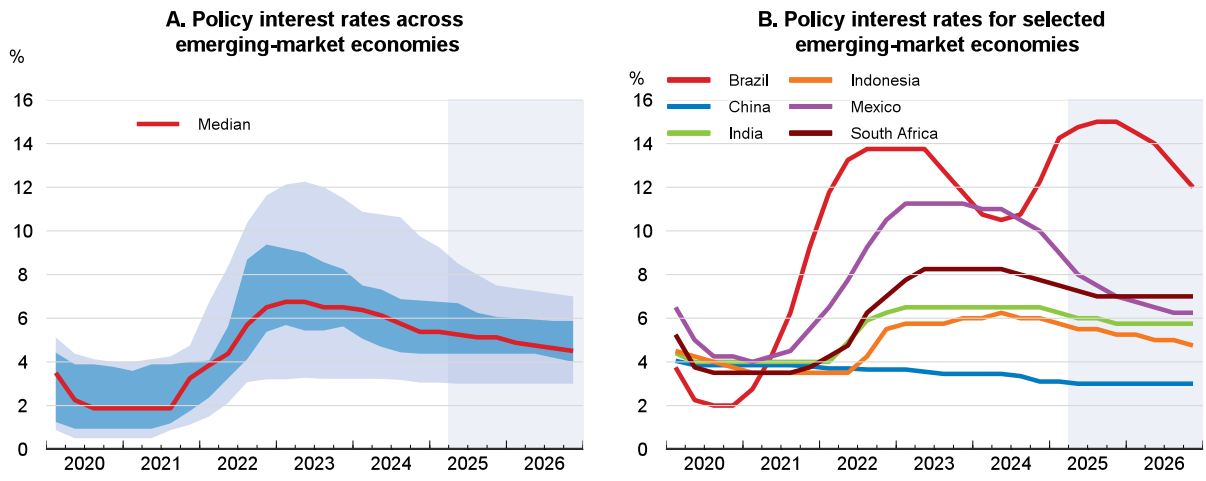
Scope still exists to lower policy rates in most emerging-market economies over the next 18 months, but policy decisions are likely to remain finely balanced. While the projected slowdown of global trade will tend to weaken economic activity, higher tariffs imposed by some countries are likely to put some upward pressure on producer costs worldwide, and higher policy uncertainty may heighten risk aversion in financial markets. Careful calibration of monetary policy will be essential to keep inflation expectations well anchored and to avoid disruptive capital outflows. If necessary, rate reductions may need to be slowed, or even reversed temporarily, to ensure price stability.

The expected pace of policy rate reductions is projected to vary across countries (Figure 1.34):

- China is expected to maintain an accommodative monetary stance to support activity as inflation is likely to remain low, despite some upward pressures from the additional tariffs on trade with the United States.

- In Colombia and Mexico, where policy rates remain elevated, reductions are expected to continue steadily until late 2026, with rates being lowered to 7% and 6.25%, respectively, still somewhat above or close to the upper bound of neutral level estimates. Further small rate reductions are also expected in Chile.
- In India, policy rate reductions are expected to cease by end-2025, while in Indonesia modest rate reductions are projected to continue until late 2026, with inflation projected to return to target and policy rates to broadly neutral levels. The policy rate is already close to neutral level estimates in South Africa where rate reductions are expected to cease by end-2025.
- In Türkiye, where inflation is projected to decline to around 15% by the end of 2026, policy rate reductions are expected to resume over 2025 and 2026.
- In Brazil, given persistent inflation pressures, policy rates are projected to increase further in the coming months to 15%, before a gradual reduction starting from early 2026.

Figure 1.34. Policy rates are projected to decline further in most emerging-market economies



Note: In Panel A, the emerging-market economies considered are Brazil, Chile, China, Colombia, Costa Rica, India, Indonesia, Malaysia, Mexico, Peru, the Philippines, Romania, Saudi Arabia, South Africa, Thailand, and Viet Nam. The blue area shows the 10th, 25th, 75th, and 90th percentiles of policy rates.
Source: OECD Economic Outlook 117 database; and OECD calculations.

StatLink https://stat.link/cd4rp3

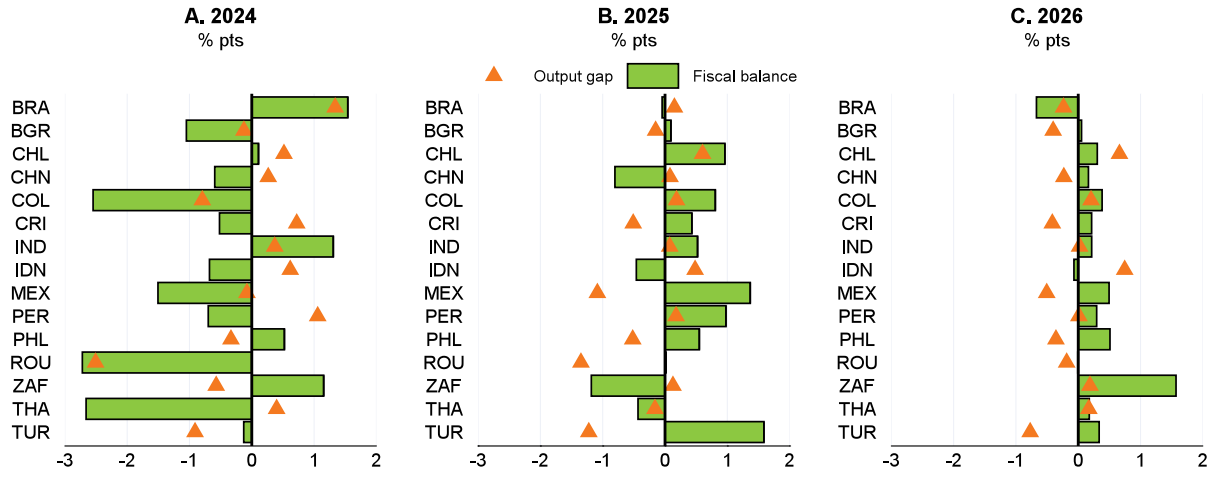
Recent fiscal developments have varied across emerging-market economies. In 2024, fiscal deficits were recorded in most emerging-market economies and rose in many of them (Figure 1.35, Panel A). The expansion of fiscal support in China and the new nationwide free school meal programme in Indonesia weighed on budget balances. In Colombia, the fiscal deficit increased as tax revenue falls outpaced spending cuts, and in Mexico as oil revenues fell. Fiscal balances also worsened in Bulgaria and Romania, due to continued spending pressures in social expenditure and public sector wages. In contrast, the Brazilian fiscal balance improved in 2024, partly due to one-off revenue measures. Budget balances also improved in India and South Africa.

Based on announced policy plans, fiscal balances are projected to improve in most emerging-market economies in 2025-26 despite slowing growth. Türkiye is expected to continue consolidating as higher consumption taxes increase revenue and public investment is reduced further. Fiscal deficits in Chile, Colombia, Costa Rica, Mexico and Peru are projected to narrow as governments restrain spending and boost tax revenues, although they are projected to fall short of their fiscal targets in Colombia and Peru. India is also expected to consolidate further, partly by streamlining subsidies. In contrast, the fiscal deficit in Brazil is projected to persist in 2025, as there is limited political appetite for raising additional tax revenue, and to worsen in 2026 as growth slows. Fiscal balances are generally expected to improve in most countries in 2026, but the pace of improvement is projected to be relatively modest (Figure 1.35, Panels B and C).

Emerging-market economies face a challenging environment. Amid rising debt and interest payments, they remain vulnerable to rapid shifts in risk sentiment and higher borrowing costs. They need to adjust to the changing global trade environment while preserving investor confidence and avoiding disorderly capital outflows. Countries should strive to meet fiscal consolidation targets, while ensuring that any support to help the economy adjust to changes in trade arrangements is targeted and temporary. In the medium to long-term, countries will need to reconcile fiscal sustainability with higher investment in human and physical capital, including for climate change mitigation and adaptation, and with steps to reinforce social safety nets. Addressing these trade-offs will require fiscal-structural reforms, such as enhancing spending efficiency, including by reducing untargeted subsidies, and improving revenue collection through curbing informality and broadening tax bases. Furthermore, strengthening fiscal institutions, such as fiscal rules and fiscal councils, might also lower financing costs and improve credibility (Alnafrah and Bogatov, 2025; Caldera Sanchez et al., 2024).

Figure 1.35. Fiscal balances are expected to improve in most emerging-market economies

Annual change in the ratio of the headline fiscal balance to GDP and in the output gap



Note: The chart is based on central government financial balances for Chile, Colombia, Costa Rica and Thailand, and general government financial balances for all other countries. For some countries data are based on national definitions. Positive changes correspond to improved financial balances or less spare capacity (for instance, smaller deficits or a smaller negative output gap).
Source: OECD Economic Outlook 117 database; and OECD calculations.

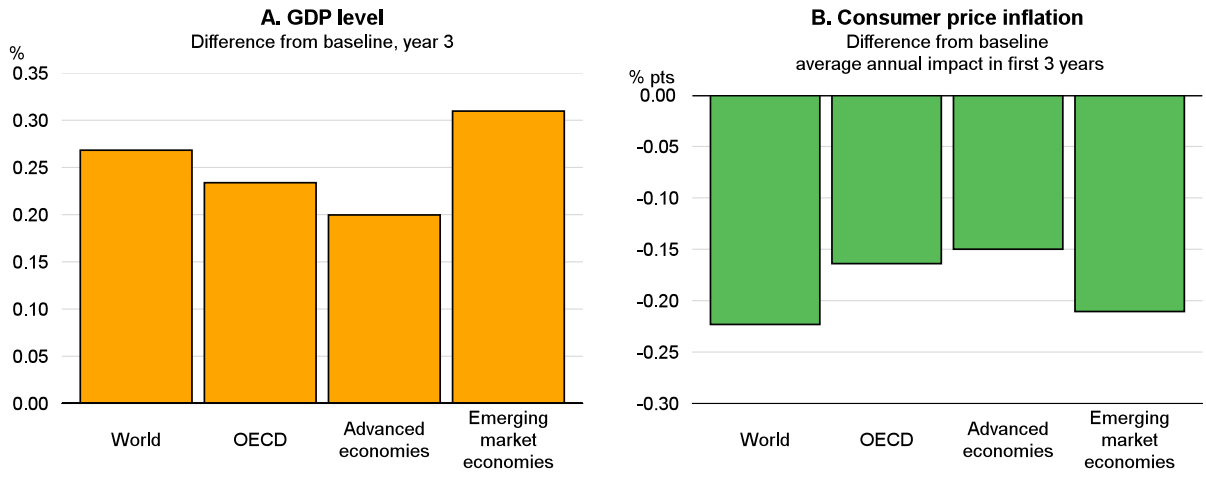
StatLink https://stat.link/2axzin

Structural policy reforms need to be enhanced to support trade and boost investment

Governments need to find ways of working together within the global trading system to reduce policy uncertainty and avoid a ratcheting up of retaliatory trade barriers between countries. Countries should also not lose sight of the opportunities for potential benefits from collectively agreeing to lower the current tariff and non-tariff barriers on goods and services. In an illustrative scenario in which all countries act to lower their average effective tariff rates by 1½ percentage points (relative to those assumed in the baseline projections), global output would be raised by close to 0.3% by the third year and global inflation reduced by close to ¼ percentage point on average in the first three years (Figure 1.36; OECD, 2025b).

Figure 1.36. Opportunities exist to raise living standards by lowering trade barriers

Simulation of a reduction of 1.5 percentage points in average effective tariff rates in all countries



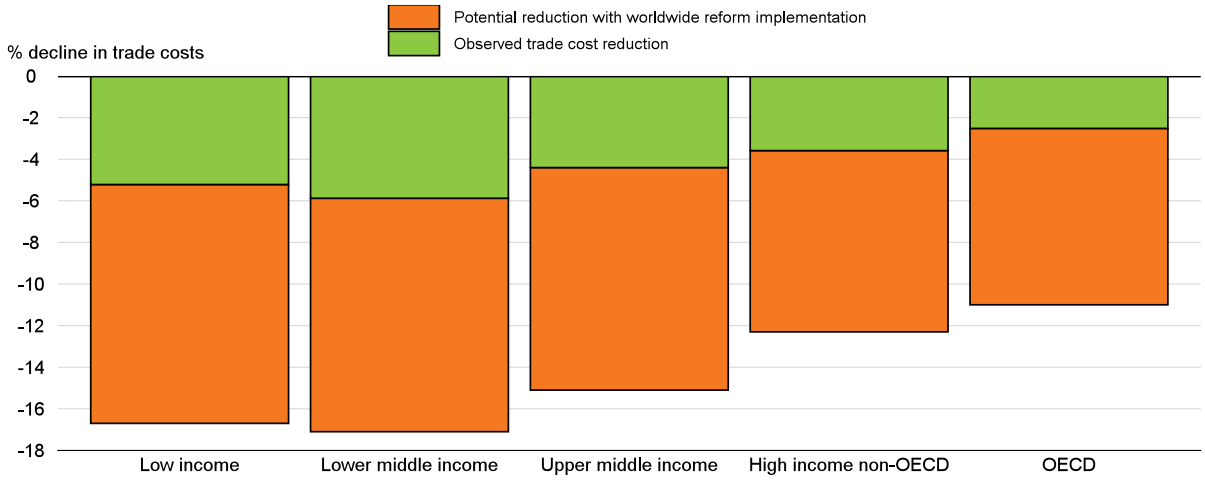
Note: Based on a reduction relative to the tariff rates assumed in the current baseline.
Source: OECD calculations using the NiGEM global macroeconomic model and the OECD METRO model.

StatLink https://stat.link/ci0d7h

Efforts to prevent further trade fragmentation should be coupled with reforms that strengthen the resilience of supply chains, including by encouraging firms to diversify both suppliers and buyers. Diversification would be aided by aligned regulatory standards on key intermediate production inputs between countries. This includes ongoing efforts to harmonise regulations between countries in the European Union. There is also additional scope to better align regulatory standards between sub-national jurisdictions. For example, in Canada, further eliminating differences in product and labour regulations and technical standards between provinces would better allow goods and services to flow to where they are most needed.

Reforming trade facilitation procedures could also reduce trade costs and support greater diversification and depth in trade. Many countries have recently improved such procedures, by enhancing cooperation between border agencies both domestically and across countries. OECD estimates suggest that trade costs have declined by up to 5% over the last decade due to improvements in the efficiency of border processes, with the strongest effects in lower-income and lower middle-income economies (OECD 2025d; Figure 1.37). Further ambitious reforms to border agency co-operation, efforts to enhance the implementation of regulatory frameworks for trade facilitation, and to automate and simplify procedures could reduce delays and compliance costs and improve supply chain efficiency, potentially reducing trade costs by up to a further 12 percentage points (OECD, 2025d). Such improvements would help to boost the ability of exporters to find new markets and deepen existing trade relationships.

Figure 1.37. Trade facilitation improvements lower trade costs



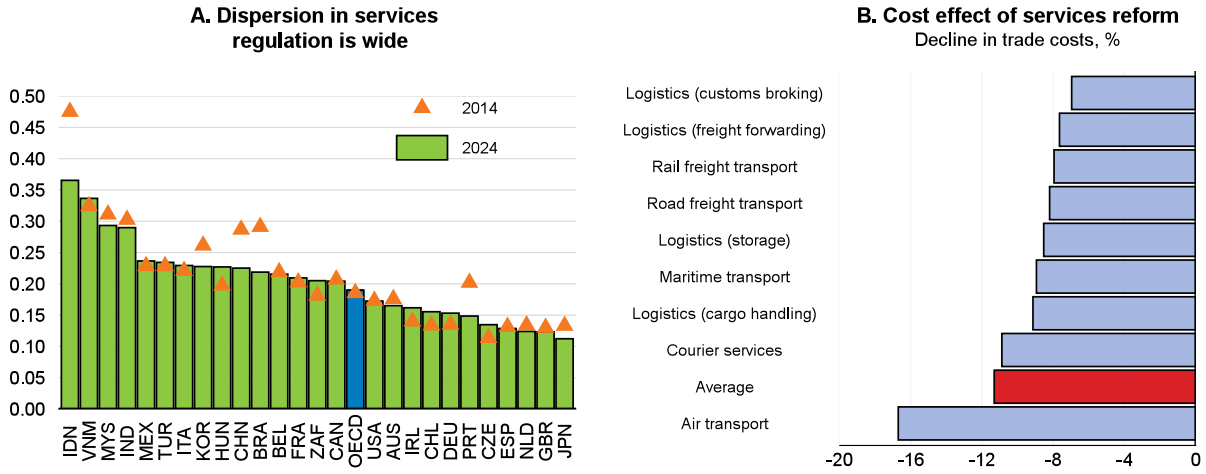
Note: The figure presents the trade cost implications of fully implementing trade facilitation reforms as measured by the OECD's Trade Facilitation Index, based on observed changes between 2012 and 2022, and hypothetical changes. Analysis using trade costs (manufacturing and agriculture) from the UNESCAP – World Bank database for the period 2012-22. Calculations based on methodology in Sorescu and Bollig (2022).
Source: OECD (2025d).

StatLink https://stat.link/rdza3c

Lower barriers to trade in services would also promote trade flows. The OECD Services Trade Restrictiveness Index highlights the continued challenges of regulatory fragmentation and uneven conditions in access to services markets across countries (Figure 1.38, Panel A). This creates an uneven playing field which hampers trade in services as well as goods, because many services, such as logistics, are also crucial for global trade in goods. The pace and magnitude of services sector reforms were moderate in 2024 compared to 2023, with higher restrictions in all 22 services sectors and meaningful trade liberalisation in only a handful of sectors (OECD, 2025e). Ambitious policy reforms reducing services trade restrictiveness, equivalent to closing half the distance between current and best practice, could result in trade costs falling by around 11% in services sectors (OECD, 2024d; Figure 1.38, Panel B), with additional productivity benefits for manufacturers using services. This would be a significant potential offset to higher tariffs.

Further efforts to support the digital delivery of services could also yield benefits. Raising digital connectivity between countries can support trade in goods as well as in services. However, digital services policy remains fragmented and increasingly restrictive. The OECD Digital Services Trade Restrictiveness Index shows that rising trade restrictions on digitally enabled services between 2014 and 2023 particularly affected access to communication infrastructure and connectivity (OECD, 2025e). Governments need to find an appropriate balance between safeguards and ensuring adequate competition in digital services. Trade tends to rise fastest when policies to lower trade facilitation costs are undertaken alongside significant improvements in the digital regulatory framework, highlighting the importance of carefully designed reforms to maximise the benefits for trade performance and competitiveness.

Figure 1.38. Improving services regulation would boost trade growth

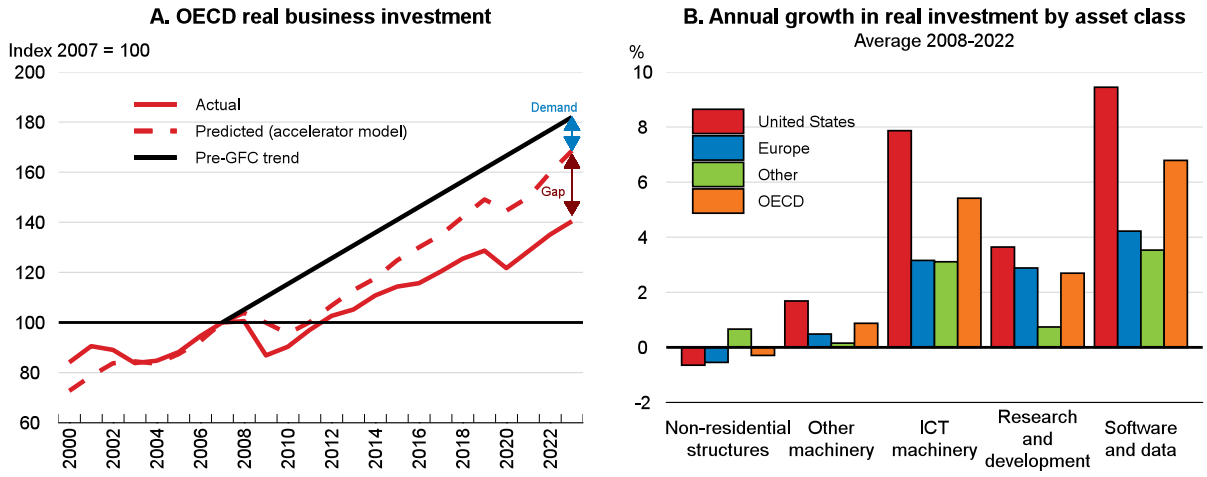


Note: Panel A shows the OECD Services Trade Restrictiveness Index (STRI). The STRI indices take values between zero and one, one being the most restrictive. The STRI database records measures on a most favoured nation (MFN) basis towards third countries. The indices are based on laws and regulations made public by 31 October 2024 and in force on 31 December 2024. The STRI regulatory database covers the 38 OECD Members, Brazil, China, India, Indonesia, Kazakhstan, Malaysia, Peru, the Philippines, Singapore, South Africa, Thailand, Russia, and Viet Nam. The OECD aggregate is a simple average of all OECD members. Panel B shows the implications for services trade costs if all countries close 50% of the gap in their Services Trade Restrictiveness Index (STRI) score with the best-performing countries. All estimates correspond to the median for 50 countries. Calculations based on the methodology in Benz and Jaax (2020).
Source: OECD (2025e); and OECD (2024d).

StatLink https://stat.link/3axqg6

Rising protectionism and weak growth prospects also reinforce the need for governments to promote productivity and improve living standards through undertaking ambitious structural policy reforms. As discussed in Chapter 2, a strong focus should be policies to promote business investment that supports innovation and stronger growth in labour productivity. Investment prospects are now being damaged by the significant rise in policy uncertainty and this follows a marked slowdown in the pace of business investment in many economies since the financial crisis (Figure 1.39, Panel A). Only a small portion of this investment slowdown can be explained by weaker demand growth. Firms across OECD economies have increasingly invested in digital assets (Figure 1.39, Panel B), but the impact on net investment rates has been more than offset by weaker growth in traditional forms of capital investment and higher depreciation. Housing and public investment have also slowed in many countries, contributing to deteriorating housing affordability and public infrastructure.

Figure 1.39. Business investment gaps are large across OECD economies



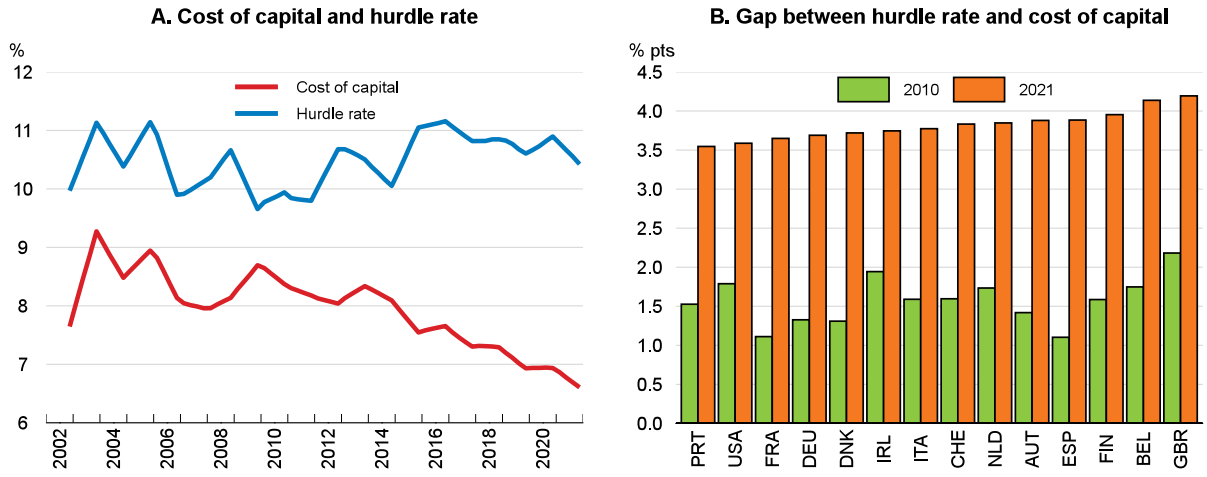
Note: In Panel A, the investment gap is calculated as the shortfall relative to predicted investment from a simple accelerator model that relates real business investment growth to its own lag and to current real output growth. Predicted real business investment is calculated from 2008 to 2023 as the fitted values from a model using actual growth rates of GDP and lagged investment. The overall shortfall in real business investment relative to the pre-GFC trend in 2023 is then decomposed into a part that is explained by the model, interpreted as demand (calculated as trend investment minus predicted investment) and an unexplained part, or "gap" (calculated as predicted investment minus actual investment, as a per cent of predicted investment). In Panel B, ICT machinery includes both computer hardware and telecommunications equipment. 'Other' includes Australia, Canada, Israel, Japan and the United Kingdom. OECD refers to the weighted average of 32 OECD countries for which data is available, with weights based on GDP PPP.
Source: OECD Economic Outlook 117 database; OECD National Accounts database; and OECD calculations.

StatLink https://stat.link/0b6hm1

Weakening business investment has reflected structural factors in many economies. Despite rising profits, firms have shied away from fixed capital investment in favour of accumulating financial assets and returning funds to shareholders (OECD, 2025a). Across the OECD, the corporate sector has moved from being a net borrower to a net lender on aggregate since the financial crisis. This has coincided with an increase in required rates of return on investment, with the gap between the hurdle rates that businesses apply to investment decisions and capital costs having widened across countries (Figure 1.40). Identifying the factors behind sticky hurdle rates is fundamental for policymakers aiming to revive business investment growth. Elevated uncertainty, declining business dynamism and perceived difficulties in funding future investment in intangible assets are all factors that have been identified as playing a role in OECD economies (see Chapter 2).

Against this backdrop, there are a range of structural policy reforms that can help revive business investment growth (see Chapters 2 and 3). Efforts to assuage policy uncertainty are key, as they would allow businesses to reduce the risk-premia they incorporate in hurdle rates. This is relevant across various policy dimensions, with specific approaches including conducting trade policy through a transparent and rules-based approach, outlining and implementing credible fiscal strategies, reducing complexity and improving transparency in regulatory policies and taking further credible steps to mitigate and adapt to climate change.

Figure 1.40. The gap between financing costs and hurdle rates has increased



Note: Predicted values for firms' perceived cost of capital and hurdle rates based on information provided during corporate earnings calls, investor conferences, and similar events. The description of data collection and computation can be found in Gormsen and Huber (2023). Panel A presents a time series representing the average of the countries listed in Panel B.
Source: Gormsen and Huber (2023).

StatLink https://stat.link/0tifmy

Policies that promote business dynamism would also incentivise firms to innovate and invest as they strive to stay ahead of competitors. In many nascent industries, such as artificial intelligence, measures are often needed to lower barriers to firm entry and guard against firms building monopolistic positions. Given signs of reduced business dynamism in OECD economies (Calligaris, et. al. 2024), efforts to reduce the costs of regulations to businesses are needed. For example, there is significant scope to lower barriers to firm entry in capital-intensive network sectors, with new OECD simulations suggesting that deregulation in more highly regulated economies towards the regulatory levels of their least regulated peers is associated with an increase in the potential capital stock of up to 1.5% (Andrews et. al. 2025). Many countries also still lack adequate rules guaranteeing the transparency and accountability of lobbying activities. This regulatory void can benefit incumbents and well-funded corporations, enabling them to shape rules and the implementation of these rules in their favour at the expense of new entrants. Less punishing insolvency regimes and less prescriptive land use regulations are other key policy areas for promoting business dynamism, through their influence in supporting entrepreneurship and the growth of new businesses. Ensuring the availability of skilled labour will also be important for the expansion of high potential firms, both through a focus on lifelong learning policies and structural reforms that lower frictions in labour markets, such as reducing the prevalence of unnecessary non-compete clauses.

Measures that facilitate better access to finance, especially for funding hard-to-collateralise intangible assets, can promote current investment spending by reducing the need for firms to save for future intangible investment spending. Improved depth of capital markets would support a more diverse range of funding options and promote competition between lenders. In Europe, making further progress on implementing the Savings and Investments Union will be important in this regard. Developing certain segments of capital markets that are more well-suited to funding intangibles than traditional banking systems may require some public financial support as well as regulatory changes. While remaining attuned to potential implications for financial stability, examples include adjusting regulatory restrictions on the investment activities of pension providers, public investment in venture capital markets and reducing administrative requirements on fintech lenders.

References

Aerts, S., A. Born, Z. Gati, U. Kochanska, C. Lambert, E. Reinhold and A. Van der Kraaij (2025), "Just another crypto boom? Mind the blind spots," Financial Stability Review, European Central Bank, May.

Alnafrah, I. and A. Bogatov (2025), "Comparative fiscal governance policy: evaluating the causal impact of fiscal councils on economic performance", Economic Systems, forthcoming.

Amiti, M., S. Redding, and D. Weinstein (2020) "Who's paying for the US tariffs? A longer-term perspective," AEA Papers and Proceedings, vol. 110, 541–46.

Amiti, M., M. Gomez, S. Kong, and D. Weinstein (2025), "Trade protection, stock-market returns, and welfare", NBER Working Paper, No. 28758.

Andrade, P., A. Dietrich, J. Leer, R. Schoenle, J. Tang, and E. Zakrajšek (2025), "Small and Medium-Sized Businesses' expectations concerning tariffs, costs and prices", Federal Reserve Bank of Boston Research Paper Series, Current Policy Perspectives Paper, No. 25-7.

Andrews, D. et al. (2025), "Regulation and growth: Lessons from nearly 50 years of product market reforms", OECD Economics Department Working Paper, forthcoming.

Auerbach, A. and Y. Gorodnichenko (2012), "Measuring the Output Responses to Fiscal Policy", American Economic Journal: Economic Policy, 4(2), 1-27.

Banco Central do Brasil (2024), Inflation Report, June.

Banco de Mexico (2024), Quarterly Report April–June 2024, August.

Barbierio, O. and H. Stein (2025) "The impact of tariffs on inflation", Current Policy Perspectives, 25-2, Federal Reserve Bank of Boston.

Barnes, S., B. Cournède and F. Hanmer (2025), "Searching for savings: what can be explained in government spending in OECD countries", OECD Economics Department Working Papers, forthcoming.

Bank of Canada (2025), Monetary Policy Report, April.

Benz, S. and A. Jaax (2020), "The costs of regulatory barriers to trade in services: New estimates of ad valorem tariff equivalents", OECD Trade Policy Papers, No. 238, OECD Publishing, Paris.

BIS (2025), BIS Quarterly Review, March, Bank for International Settlements.

BOE (2025), Record of the Financial Policy Committee meetings on 4 and 8 April 2025, Bank of England.

Boehm, C. (2020), "Government consumption and investment: Does the composition of purchases affect the multiplier?", Journal of Monetary Economics, 115, 80-93.

Boermans, M. and R. Veumeulen (2016), "Market concentration in the euro area bond markets - an application with granular sectoral securities holdings statistics", in Bank for International Settlements (ed.), *Combining Micro and Macro Data for Financial Stability Analysis*, Bank for International Settlements.

Bown, C. (2025) "US-China Trade War Tariffs: An Up-to-Date Chart", PIIE Charts, Pietersen Institute for International Economics.

Brand, C., N. Lisack, and F. Mazelis (2025), "Natural rate estimates for the euro area: insights, uncertainties and shortcomings", ECB Economic Bulletin, Issue1, European Central Bank.

Caldera Sánchez, A. et al (2024), "Independent fiscal institutions", OECD Economics Department Working Paper, No. 1789, OECD Publishing, Paris.

Calligaris, S. et al. (2024), Exploring the evolution and the state of competition in the EU, European Commission.

Castaing, A., et al. (2024), "Estimates of New Zealand's Nominal Neutral Interest Rate", Reserve Bank of New Zealand Bulletin, April.

Cavallo, A., P. Llamas, and F. Vazquez (2025), “Tracking the short-run price impact of US tariffs”, Working Paper, Harvard Business School, May 17 version.

Cavallo, A., Gopinath G., Neiman B. and J. Tang (2021), “Tariff pass-through at the border and at the store: evidence from US trade policy”, American Economic Review Insights, Vol. 3.

Chinco, A. and Sammon, M. (2024), “The passive ownership share is double what you think it is”, Journal of Financial Economics, 157.

Chor, D, and B Li (2021), “Illuminating the effects of the US-China tariff war on China’s economy”, NBER Working Paper, No. 29349.

Council of the European Union (2025), “Coordinated activation of the National Escape Clause”, press release of 30 April 2025.

Do, K., et al. (2024), “Exploring the natural interest rate in Korea: A multi-model approach”, Bank of Korea Working Paper No. 2024-13.

ECB (2024), Financial Stability Review, November, European Central Bank.

Edwards Z., L. Taylor and D. Weitz (2025), “How are tariffs affecting US firms?”, The CFO Survey Commentary, March, Federal Reserve Bank of Richmond.

Ellis, L. (2022), “The Neutral Rate: The Pole-star Casts Faint Light”, Keynote Address to Citi Australia & New Zealand Investment Conference, Reserve Bank of Australia.

ESRB (2019), “Can ETFs contribute to systemic risk?”, The European Systemic Risk Board, Reports of the Advisory Scientific Committee, June.

European Commission (2025a), “Commission unveils the White Paper for European Defence and the ReArm Europe Plan/Readiness 2030”, press release of 19 March 2025.

European Commission (2025b), “European Economic Forecast Spring 2025: Moderate growth amid global economic uncertainty”, Institutional Paper, 318.

Fajgelbaum, P. and A. Khandelwal (2022), “The economic impacts of the US-China trade war”, Annual Review of Economics, Vol. 14.

Federal Reserve Bank of New York (2025), Measuring the Natural Rate of Interest.

Federal Reserve Bank of Richmond (2025), Lubik-Matthes Natural Rate of Interest.

FSB (2023), The Financial Stability Implications of Leverage in Non-Bank Financial Intermediation, September, Financial Stability Board.

FSB (2024), “Leverage in Non-bank Financial Intermediation”, Consultation report, December, Financial Stability Board.

Flaaen, A., A. Hortaçsu and F. Tintelnot (2020) “The production relocation and price effects of US trade policy: The case of washing machines”, The American Economic Review, Vol. 110, No. 7, July.

Gormsen, N. and K. Huber (2023), “Corporate discount rates”, University of Chicago, Becker Friedman Institute for Economics Working Paper, No. 2023-81.

Haddad, V., P. Huebner, and E. Loualiche (2021), How Competitive is the Stock Market? Theory, Evidence from Portfolios, and Implications for the Rise of Passive Investing, Rochester, NY.

Haug, A. and A. Sznajderska (2024), “Government spending multipliers: Is there a difference between government consumption and investment purchases?”, Journal of Macroeconomics, 79.

Hemmerlé, Y. et al. (2023), “Aiming better: Government support for households and firms during the energy crisis”, OECD Economic Policy Papers, No. 32, OECD Publishing, Paris

IEA (2025), Oil Market Report, April 2025, International Energy Agency.

Ilzetzki, E. (2025), “Guns and Growth: The Economic Consequences of Defense Buildups”, Kiel Report, No. 2.

IMF (2023a), World Economic Outlook, Chapter 2, International Monetary Fund, April.

IMF (2023b), “Estimating the Neutral Real Interest Rate for Indonesia”, International Monetary Fund, June.

IMF (2025), Global Financial Stability Report, Chapter 1, International Monetary Fund, April.

IOSCO (2024), “Revised recommendations for liquidity risk management for collective investment schemes”, The Board of the International Organization of Securities Commissions, Consultation report, November.

Li, J. and H. Yu (2022), “Investor Concentration, Liquidity and Bond Price Dynamics”, mimeo.

Limão, N. and G. Maggi (2015) “Uncertainty and trade agreements” American Economic Journal: Microeconomics, Vol 7, No. 4, November.

Lubik, T.A., et al. (2024), “Stargazing: Estimating r* in Other Countries”, Federal Reserve Bank of Richmond Economic Brief, No. 24-10.

Marzian, J. and C. Trebesch (2025), “How to Finance Europe’s Military Buildup? Lessons from History”, Kiel Policy Brief, 184.

Minton, R., and M. Somale (2025). "Detecting tariff effects on consumer prices in real time," FEDS Notes, Washington: Board of Governors of the Federal Reserve System, 9 May.

Nakano, S., et al. (2024), “Recent developments in measuring the natural rate of interest”, Bank of Japan Working Paper Series, No. 24-E-12.

Norges Bank (2024), Monetary Policy Report, June.

Novy, D. and A. Taylor (2020) “Trade and uncertainty”, The Review of Economics and Statistics, 102 (4).

OECD (2022a), Why Decentralised Finance (DeFi) Matters and the Policy Implications, OECD Publishing, Paris.

OECD (2022b), “Institutionalisation of crypto-assets and DeFi–TradFi interconnectedness”, OECD Business and Finance Policy Papers, No. 1, OECD Publishing, Paris.

OECD (2024a), Global Debt Report 2024: Bond Markets in a High-Debt Environment, OECD Publishing, Paris.

OECD (2024b), OECD Economic Outlook, Volume 2024 Issue 1, OECD Publishing, Paris.

OECD (2024c), OECD Economic Outlook, Volume 2024 Issue 2, OECD Publishing, Paris.

OECD (2024d), OECD Services Trade Restrictiveness Index: Policy Trends up to 2024, OECD Publishing, Paris.

OECD (2025a), Global Debt Report 2025: Financing Growth in a Challenging Debt Market Environment, OECD Publishing, Paris.

OECD (2025b), OECD Economic Outlook, Interim Report, March 2025, OECD Publishing, Paris.

OECD (2025c), OECD Economic Surveys: Israel 2025, OECD Publishing, Paris.

OECD (2025d), OECD Trade Facilitation Indicators: Monitoring Policies up to 2025, OECD Publishing, Paris.

OECD (2025e), OECD Services Trade Restrictiveness Index: Policy Trends up to 2025, OECD Publishing, Paris.

Olejnik, L. (2023), “Short-run multiplier effects of military expenditures in NATO's Eastern Flank countries in 1999–2021”, Journal of Comparative Economics, 51(4), 1344-1355.

Pina, A., M. Hitschfeld, and T. Miyahara (2025), “Reducing public debt in OECD countries: macroeconomic conditions, fiscal consolidation and public finance composition”, OECD Economics Department Working Papers, forthcoming.

Reserve Bank of India (2024), “Updating Estimates of the Natural Rate of Interest for India with Post-Pandemic Evidence”, RBI Bulletin, July.

Schnabel, I. (2025), “No longer convenient? Safe asset abundance and r*”, Keynote speech at the Bank of England’s 2025 BEAR conference, February.

Sheremirov, V. and S. Spirovska (2022), “Fiscal multipliers in advanced and developing countries: Evidence from military spending”, Journal of Public Economics, 208.

SIPRI (2025), “Ukraine the world’s biggest arms importer; United States’ dominance of global arms exports grows as Russian exports continue to fall”, press release of 10 March 2025.

Sorescu, S. and C. Bollig (2022), “Trade facilitation reforms worldwide: State of play in 2022”, OECD Trade Policy Papers, No. 263, OECD Publishing, Paris.

South African Reserve Bank (2025), Monetary Policy Committee forecast report, March.

Steinwender, C., J. Van Reenan and E. Moretti (2019), “The Intellectual Spoils of War: How Government Spending on Defence Benefits the Private Sector”, VoxEU column, December 2019.

Szoke, B., I. Xavier, and F. Vazquez-Grande (2024), “Convenience Yield as a Driver of r*”, FEDS Notes, Board of Governors of the Federal Reserve System, September.

The White House (2025), Ensuring Lawful Governance and Implementing the President’s “Department of Government Efficiency” Deregulatory Initiative, February 19, 2025.

Wolff, G., Steinbach, A. and J. Zettelmeyer (2025), “The governance and funding of European rearmament”, Bruegel Policy Brief.

World Bank (2025), Global Economic Prospects, January 2025, World Bank, Washington D.C.

Annex 1.A. Policy and other assumptions underlying the projections

Fiscal policy settings for 2025-26 are based as closely as possible on legislated tax and spending provisions and are consistent with the growth, inflation and wage projections. Where government plans have been announced but not legislated, they are incorporated if it is deemed clear that they will be implemented in a shape close to that announced. It is assumed that EU countries generally adopt fiscal policy adjustments which are consistent with the reformed Stability and Growth Pact, apart from those member states where planned fiscal expansions are likely to require the activation of national escape clauses.

Projections for the EU countries account for spending financed by the NextGenerationEU (NGEU) grants and loans, based on expert judgments about the distribution of spending across years and different expenditure categories and informed by officially announced plans where available. NGEU grants are assumed to be budget neutral, and increase both capital tax and transfers receipts and government expenditure. In addition, positive net one-offs are added in order to reflect the discretionary stimulus associated with those grants, as measured by changes in underlying primary balances.

For monetary policy, the assumed path of policy interest rates and unconventional measures represents the most likely outcome, conditional upon the OECD projections of activity and inflation. This may differ from the stated path of the monetary authorities. In the euro area, 10-year sovereign spreads relative to Germany are assumed to remain constant over the projection period at levels close to those observed in the first half of May.

The projections assume unchanged exchange rates from those prevailing on 9 May 2025: one US dollar equals JPY 145.2, EUR 0.89 (or equivalently one euro equals USD 1.13) and 7.24 renminbi.

The price of a barrel of Brent crude oil is assumed to remain constant at USD 60 until the end of 2026. The TTF natural gas price is assumed to remain constant at EUR 35 MW/h until the end of 2026. Other commodity prices are assumed to be constant over the projection period at their average levels from April 2025.

A technical assumption is made that the tariffs being applied as of mid-May 2025 remain in place throughout 2025 and 2026. It is also assumed that some disruptions to shipping in the Red Sea persist through 2025 and 2026.

The cut-off date for information used in the projections is May 27, 2025.

OECD quarterly projections are on a seasonal and working-day-adjusted basis for selected key variables. This implies that differences between adjusted and unadjusted annual data may occur, though these in general are quite small. In some countries, official forecasts of annual figures do not include working-day adjustments. Even when official forecasts do adjust for working days, the size of the adjustment may in some cases differ from that used by the OECD.

2. Reigniting investment for more resilient growth

Summary

Weak investment has weighed on potential output growth since the global financial crisis (GFC), despite historically low financing costs and strong corporate profitability. Subdued aggregate demand and elevated uncertainty have dampened real business investment, but explain only around half of the investment shortfall since the GFC. In parallel, structural shifts, particularly the growing importance of digital assets and evolving corporate behaviour, have become more prominent. As economies have transitioned toward more digital and knowledge-intensive production – accelerated by the artificial intelligence (AI) revolution – businesses have increasingly allocated investment toward software, data, computing hardware, and research and development. Firms have also channelled a lower share of their retained earnings and borrowed funds into productive investment, while requiring persistently high rates of return, or 'hurdle rates'. These trends may be associated with underlying forces that restrain business investment and dynamism, including declining competitive pressures and the challenges in financing intangible investments. At the same time, residential investment has struggled to keep pace with strong housing demand, contributing to a steady erosion in affordability over the past few decades. Public investment – although showing some recent signs of recovery – has also been weak in many countries for an extended period.

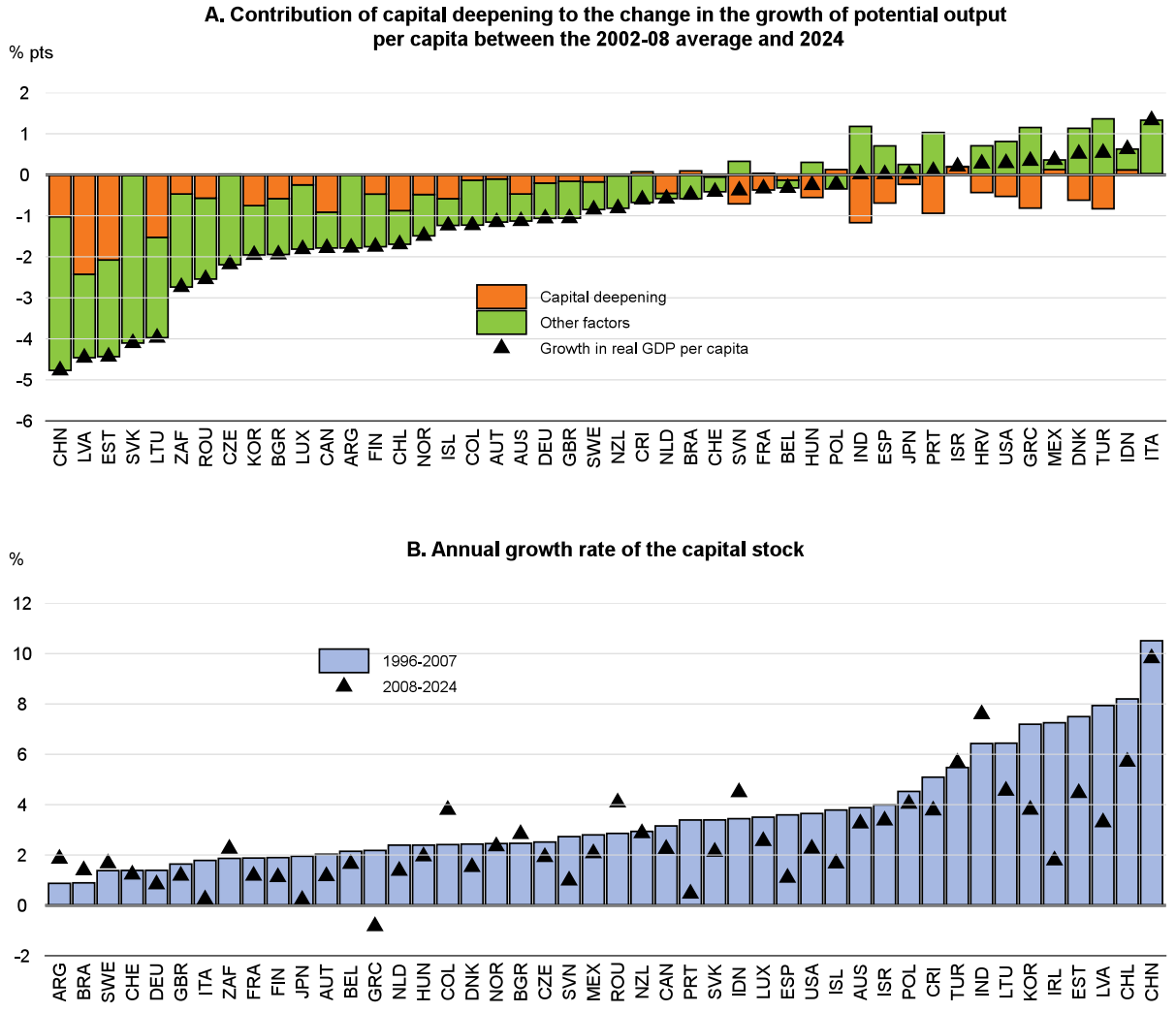
Against this backdrop, the chapter outlines policy approaches to support a revival in investment, including by reducing policy uncertainty, strengthening macroeconomic stability to support growth and advancing structural reforms to reinvigorate business dynamism. Policies that foster competition and improve access to finance are needed to unlock new investment opportunities and boost innovation in many countries. Reforms to ease land-use and planning restrictions and rental market regulations would help expand residential investment and improve affordability. Finally, high-quality public investment – particularly in energy security and green and digital infrastructure, research and development, health, and education – is needed in many economies and can help boost productivity and long-term economic growth.

A prolonged period of weak investment has weighed on potential output growth

Underlying growth prospects have weakened considerably over the past two decades, both in advanced and emerging-market economies. Weak growth in the capital stock has been an important factor behind the slowdown in potential output per capita growth in many countries, alongside a decline in multi-factor productivity (MFP) growth. Potential output per capita growth fell by 0.8 percentage points in the median advanced country and 0.9 percentage points in the median emerging-market economy between the 2002-2008 period and 2024. Weaker growth in capital per worker accounted for 0.5 percentage points of the decline in potential GDP per capita growth in the median advanced country, and 0.3 percentage points in the median emerging-market country. The slowdown in capital accumulation has weighed on potential growth across nearly all countries (Figure 2.1, Panel A), including those with relatively strong overall growth performance, such as India and China.

The aggregate slowdown in capital accumulation masks notable cross-country differences (Figure 2.1, Panel B). In the advanced economies, capital stock growth has been particularly weak in Japan, Italy, Greece and Portugal during the past 15 years. The United States has observed steadier growth, albeit still below levels observed in the period before the GFC. Capital stocks in emerging-market economies have grown slightly faster on average than in advanced economies, reflecting greater investment needs. Nevertheless, some major emerging-market economies, such as Brazil, Argentina and South Africa, have seen weak capital stock growth, while others, such as Chile, have experienced high growth rates, but still a marked slowdown in capital stock growth over the past two decades.

Figure 2.1. Weak capital accumulation has held back growth



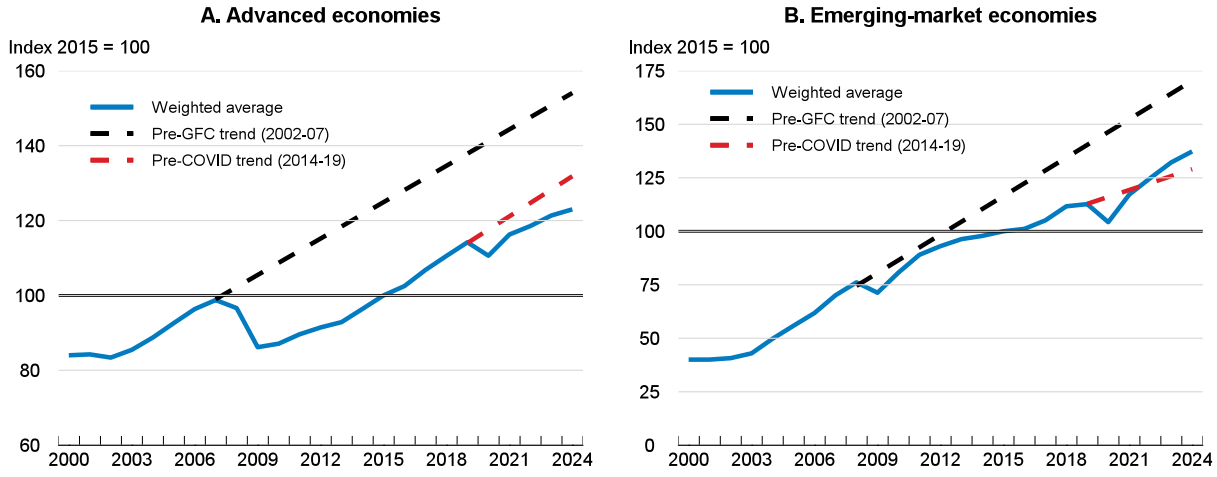
Note: Panel A: Other factors include changes in labour utilisation and multi-factor productivity. Capital deepening is the rate of change in the capital stock per worker. Panel B: annual average growth rate of the capital stock at constant prices.
Source: OECD Economic Outlook 117 database; and OECD calculations.

StatLink https://stat.link/guel8r

The slowdown in capital accumulation largely reflects the lasting impact of two major shocks – the GFC and the COVID-19 pandemic – which led to notable declines in real investment from which most economies have recovered only partially. Total real investment, which measures the volume of gross fixed capital formation across the economy, contracted sharply during the GFC as economic growth weakened and financing conditions tightened. The subsequent recovery was relatively modest. Investment declined again during the pandemic, rebounding only partially thereafter, with other events such as Russia's war of aggression in Ukraine and rising energy prices also weighing on capital formation. As a result, aggregate real investment volumes across advanced countries remained approximately 22% below their pre-GFC trend and 7% below the pre-COVID trend at end-2024 (Figure 2.2, Panel A). An investment shortfall is also evident in emerging markets, though it developed more gradually, as investment was less affected by the GFC than in advanced economies. Investment in emerging-market economies on average is estimated to be approximately 33% below the pre-GFC trend, although it is slightly above the pre-COVID trend due to recent robust growth in India and Indonesia (Figure 2.2, Panel B). This investment slowdown has been widespread across countries. Most have continued to see weak capital formation in recent years, with a few exceptions, such as the United States, India and Indonesia, where investment growth has been relatively strong.

Figure 2.2. Real investment remains below the pre-GFC and pre-pandemic trends in many economies

Real total investment



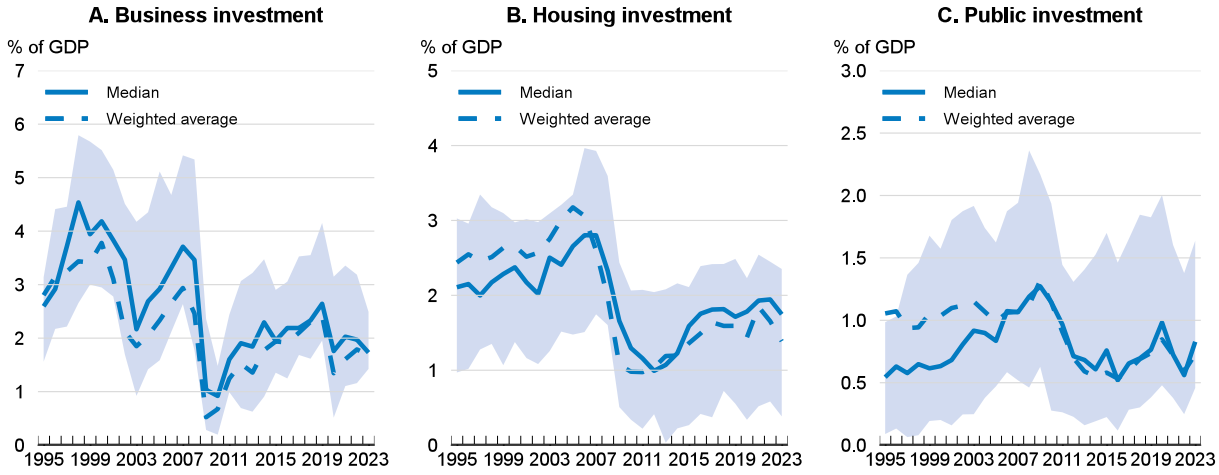
Note: Real investment across 33 advanced economies and 13 emerging-market economies (Argentina, Brazil, Bulgaria, Chile, Colombia, Costa Rica, India, Indonesia, Mexico, Romania, South Africa, Thailand, and Türkiye). Weighted average using GDP PPP weights in 2015. GFC denotes the global financial crisis.
Source: OECD Economic Outlook 117 database; and OECD calculations.

StatLink https://stat.link/i378g1

While the ratio of gross investment to GDP has risen in recent years in some countries, net investment - the addition to the capital stock after accounting for depreciation - remains weak across OECD countries. Since the pre-GFC period, average net investment rates across the OECD have declined by over 0.9 percentage points of GDP, from 2.5 to 1.6 per cent of GDP for the median country, with the fall in net investment strongest in the euro area. The overall decline in net investment has been primarily driven by the drop in business net investment - the largest share of total investment – though reductions in residential and public net investment have also contributed (Figure 2.3). The declines primarily reflect weakness in underlying investment volumes. The fall in prices of investment goods relative to overall prices played a significant role in the lower net investment-to-GDP ratios of the 1990s and early 2000s, but relative prices have since broadly stabilised in the post-GFC period.

Figure 2.3. Net investment-to-GDP ratios have declined since the global financial crisis

Net investment in OECD countries



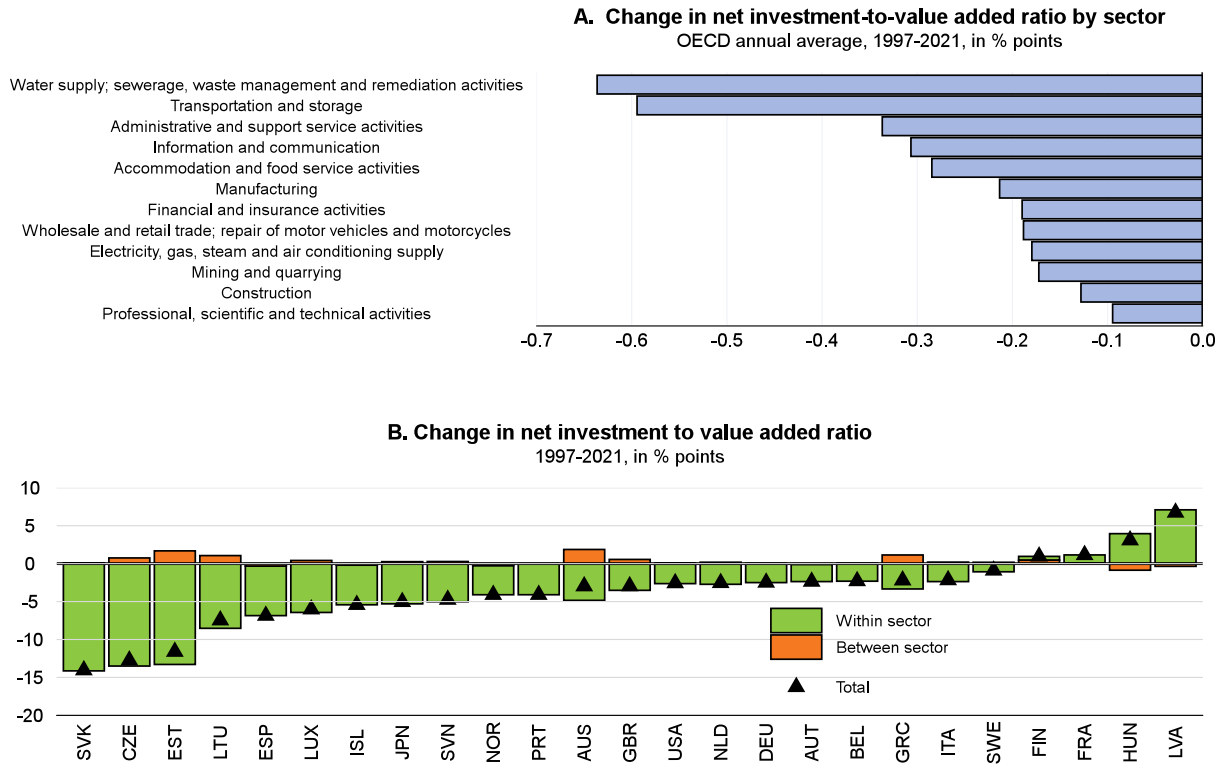
Note: Net investment-to-GDP is defined as the ratio of gross fixed capital formation minus the consumption of fixed capital in current prices, to nominal GDP. Business investment includes the combined investment of the non-financial and financial sectors, while public investment refers to the investment undertaken by the general government. Based on 32 OECD countries for which sectoral investment data are available. The shaded area shows the interquartile range.
Source: OECD National Accounts database; and OECD calculations.

StatLink https://stat.link/i0l8cf

Business investment has been held back by subdued demand, elevated uncertainty and structural factors

Business investment, which accounts for over 60% of total investment in the average OECD country, has remained comparatively weak in most economies for which data are available. Notable exceptions are the United States and France, where business investment has grown more robustly. The weakness has been widespread, affecting most sectors (Figure 2.4, Panel A) and both large and small firms (Hanappi, Millot and Turban, 2023). Changes in the sectoral composition – such as an increasing share of less investment-intensive sectors such as services and a declining share of more capital-intensive manufacturing – seem to have played only a limited role. Instead, the decline in investment has been largely driven by within-sector dynamics (Figure 2.4, Panel B).

Figure 2.4. Business investment has been weak across sectors



Note: In Panel A, the graph plots the coefficient β_s from the regression $i_{c,t}^s = \alpha_c^s + \beta^s \times t + \epsilon_{c,t}^s$ for each sector s, showing the average annual change in the net investment rate over the period 1997-2021, expressed in percentage points. This approach controls for country-specific time invariant factors. The sample covers the period from 1997 to 2021, and countries shown in Panel B, with the net investment ratio defined as gross fixed capital formation minus consumption of fixed capital, divided by value added, all in current prices. In Panel B, the graph presents a shift-share analysis for all countries with available data. This analysis decomposes changes in the investment rate into two components: a within-industry effect (reflecting investment changes within sector) and a between-industry effect (reflecting investment shifts in sectoral composition), following the methodology of Autor and Salomons (2018).
Source: OECD National Accounts database; and OECD calculations.

StatLink https://stat.link/uxm0f4

Aggregate demand accounts for part of the weakness but investment 'gaps' remain

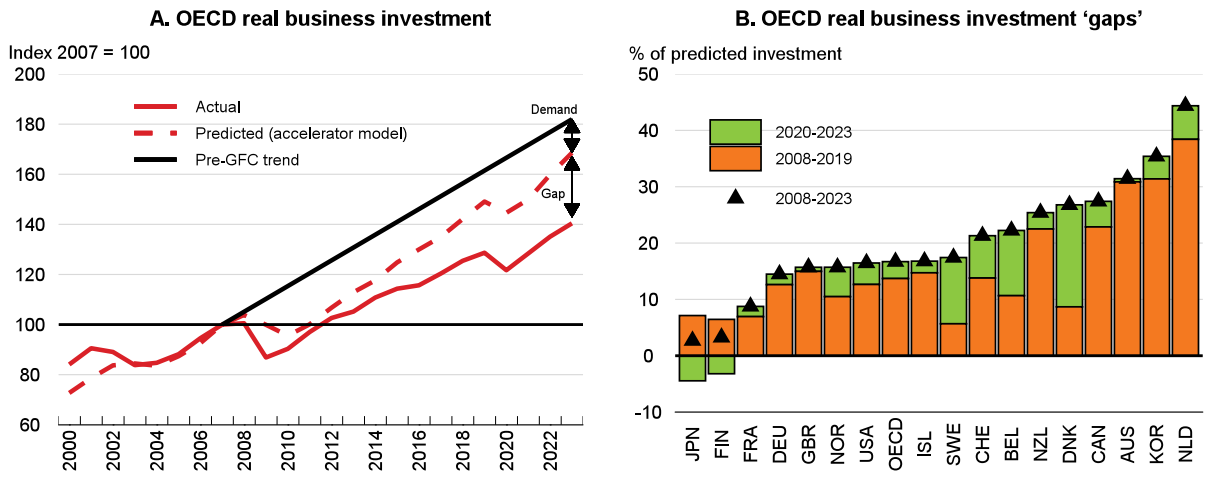
One key factor contributing to the weakness in business investment relative to earlier trends is more subdued growth in aggregate demand. In many countries, real output fell sharply following both the GFC and the pandemic, and recovered only partially relative to its pre-crisis trend. Corporate investment is closely linked to output growth, as stronger demand incentivises firms to expand capacity.

Empirical analysis based on an accelerator model suggests that weak aggregate demand is an important factor explaining business investment performance. Yet, it accounts for only around one-third of the overall shortfall in real business investment relative to the pre-GFC trend (Figure 2.5, Panel A) on average, for the 17 countries with available data. In contrast, the accelerator model suggests that business investment was broadly in line with output growth in the period leading up to the financial crisis. The remaining shortfall may be viewed as an investment 'gap', defined as the shortfall in investment not attributable to output developments. This investment 'gap' is around 17% of the predicted investment level on average and is even larger in some countries – exceeding 30% in Australia, Korea, and the Netherlands (Figure 2.5, Panel B).

Investment gaps have widened over time, pointing to the growing importance of non-demand factors in explaining weak investment. In the immediate wake of the GFC (2008-2011), the gap was small, suggesting that demand effects accounted for most of the investment weakness, although credit supply and debt overhangs may also have contributed. Between 2012 and 2019, the gap widened gradually, and from 2020 onward, the COVID-19 shock contributed to a further increase. On average, developments since 2020 account for roughly one-quarter of the unexplained slowdown in investment. The impact of the pandemic on the investment gap has been particularly sizeable in some countries, such as Belgium, Denmark and Sweden (Figure 2.5, Panel B).

Figure 2.5. Business investment 'gaps' are large across OECD economies

Decomposition of shortfalls in real business investment compared to pre-GFC trend



Note: The investment gap is calculated as the shortfall relative to predicted investment from a simple accelerator model that relates real business investment growth to its own lag and to current real output growth (Annex 2.A). Predicted real business investment is calculated from 2008 to 2023 as the fitted values from the model using actual growth rates of GDP and lagged investment. The overall shortfall in real business investment relative to the pre-GFC trend in 2023 is then decomposed into a part that is explained by the model, interpreted as demand (calculated as trend investment minus predicted investment) and an unexplained part, or 'gap' (calculated as predicted investment minus actual investment, as a per cent of predicted investment). The country sample includes 17 OECD countries for which data on real business investment are available. Panel A shows the results for the OECD aggregate, calculated as a weighted average of the countries in Panel B using GDP PPP weights. Panel B shows investment gaps in per cent of predicted investment, for countries with available data.
Source: OECD Economic Outlook 117 database; and OECD calculations.

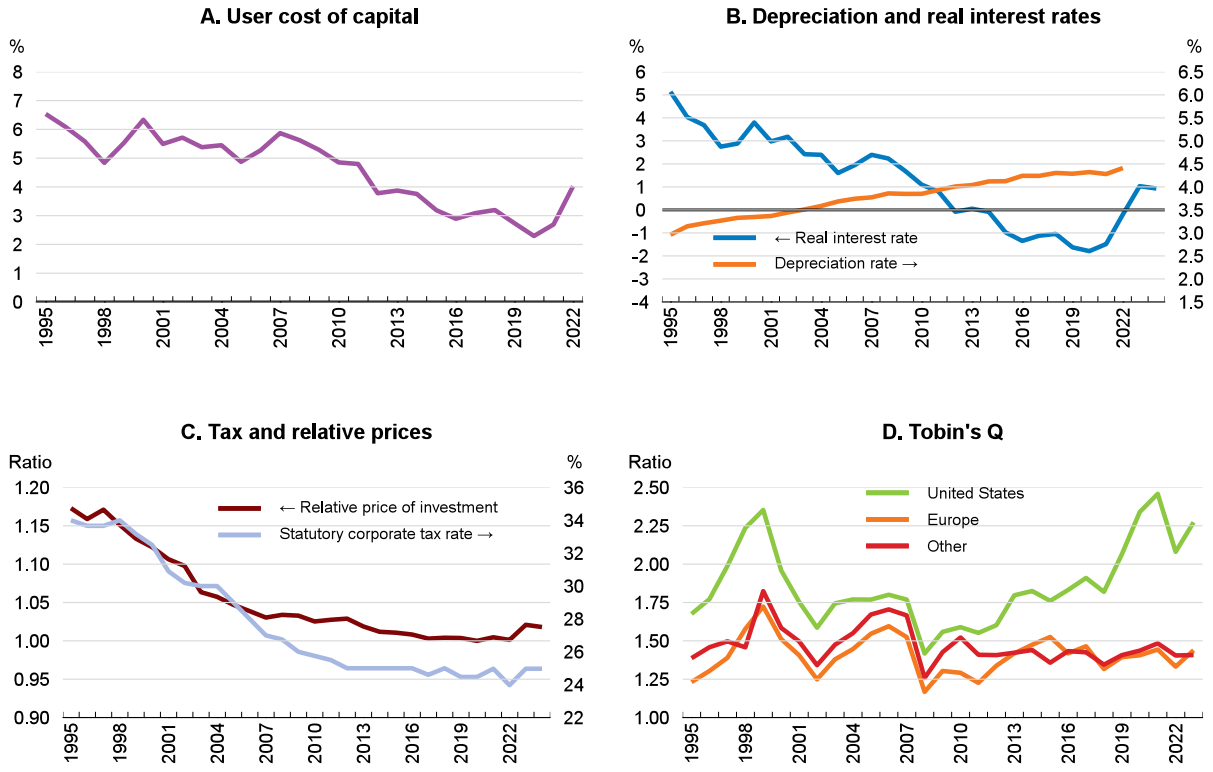
StatLink https://stat.link/vjcbw1

Investment 'gaps' cannot be fully explained by the cost of capital, company valuations and profitability

Business investment gaps have opened up despite a marked decline in the user cost of capital (UCC) across most economies. The UCC, which captures the cost of financing and maintaining capital –factoring in borrowing costs, relative prices, taxes, and depreciation – has trended downward steadily over the past few decades until the recent moves to tighten monetary policy (Figure 2.6, Panel A). Borrowing costs dropped to historically low levels following the monetary policy easing in response to the GFC, and while they have risen more recently, they remain well below long-term averages (Figure 2.6, Panel B). Effective corporate tax rates have also declined, with several OECD countries having reduced the main statutory rate (Figure 2.6, Panel C), and changes to tax provisions have further lowered the effective cost of capital in some countries. Simultaneously, the price of investment goods relative to overall output prices fell throughout the 1990s and early 2000s, largely due to sustained improvements in the quality and efficiency of ICT-related capital (Figure 2.6, Panel C).

At the same time, corporate valuations have remained favourable to higher investment. When the ratio of a firm's market valuation to the replacement cost of its assets (Tobin's Q) is above one, markets expect firms can earn returns on new investment that exceed investment costs. Firm-level data from listed companies in a subset of OECD countries indicate that Tobin's Q has remained above this threshold since the GFC. In the United States and some Scandinavian countries, valuations have risen strongly in recent years, whereas valuations have been flat or increased only gradually in most European and other advanced economies (Figure 2.6, Panel D).[1]

Figure 2.6. The cost of capital has fallen and company valuations have held up



Note: Panel A: The user cost of capital UCC is calculated using the relative price of investment, the real interest rate based on the 10-year government bond yield and 10-year ahead inflation expectations from professional forecasts, the depreciation rate, the statutory corporate tax rate and the share of debt in corporate liabilities (debt plus equity). Panel C: The relative price of investment is measured as the ratio of the investment and GDP deflators. Panel D: Tobin's Q is calculated as the sum of market capitalisation and liabilities, minus common equity, divided by total assets using Worldscope data. In Panels A, B and C, the country sample includes 15 OECD countries for which data are available (Australia, Belgium, Canada, Denmark, Finland, France, Germany, Japan, Korea, the Netherlands, New Zealand, Sweden, Switzerland, the United Kingdom, and the United States). Median values are shown. In Panel D, for Europe, the median is calculated using data from a subset of countries with larger stock markets, covering Austria, Belgium, Switzerland, Germany, Denmark, Spain, France, Italy, the Netherlands, and Sweden. The 'Other' category represents the median of Australia, Canada, the United Kingdom, and Japan.
Source: OECD Economic Outlook 117 database; OECD National accounts database; Oxford University Centre for Business Taxation Database; LSEG Worldscope Fundamentals; Consensus Economics; and OECD calculations.

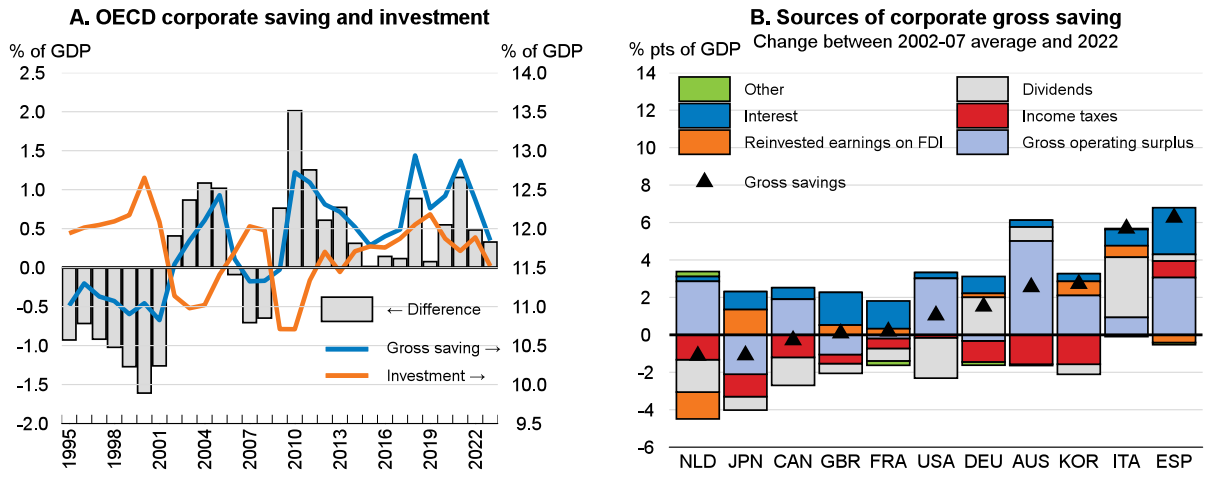
StatLink https://stat.link/bpkizw

[1] Differences in the valuation of firms in advanced economies and their US counterparts may be driven by several factors. These include the traditionally stronger institutional framework in the United States —including corporate governance standards and financial market infrastructure—greater market capacity to absorb global risks, and higher expectations for future investment returns (La Porta et al., 1998). The relative undervaluation of "brown" firms (those with higher carbon emissions) in other developed countries, compared to the United States, may also contribute to this premium (Doidge, Karolyi and Stulz, 2020).

Firms' profitability and cash resources also do not appear to have acted as constraints. Subdued corporate investment in advanced economies since the GFC has coincided with the corporate sector shifting from being a net borrower to net lender on aggregate (Figure 2.7, Panel A). Gross corporate savings as a share of GDP have increased in more than half of the OECD countries with available data, driven by stronger profits, proportionally lower tax payments, and lower interest expenditures, although this has been partially offset by higher dividends in some countries including the United States, Canada and the Netherlands (Figure 2.7, Panel B). Overall, the ratio of net investment to net sales has also declined, implying that higher sales have not been proportionally matched with higher investment.

Taken together, this suggests that capital costs, valuation signals and firms' profitability cannot explain the weakness in business investment. Moreover, proxy measures of the UCC, Tobin's Q and firms' profitability are not statistically significant when added to the accelerator model (see Annex 2.A), pointing instead to the growing importance of other determinants in explaining investment, particularly since 2012. These are likely to include heightened economic uncertainty and structural factors, such as changing investment patterns towards digital assets and evolving corporate behaviour.

Figure 2.7. Strong corporate profitability has not translated into higher gross fixed capital investment



Note: Panel A contains 33 OECD countries. It shows gross fixed capital formation and gross savings for the non-financial corporate sector as a per cent of nominal GDP, aggregated up to the OECD level. The difference between gross fixed capital investment and gross savings is approximately equal to net lending, but can vary depending on changes in inventories, other non-financial produced assets, and net capital transfers. In Panel B, the decomposition is based on the distribution of income account for the non-financial corporate sector within the System of National Accounts: Gross operating surplus = Gross saving + Net property income paid + Current taxes on income + Social transfers + Other transfers, where Net property income paid = Dividends - reinvested earnings on foreign direct investment + net interest paid + rents on land (for more information see (Chen, Loukas and Brent, 2017)).
Source: OECD National Accounts database; and OECD calculations.

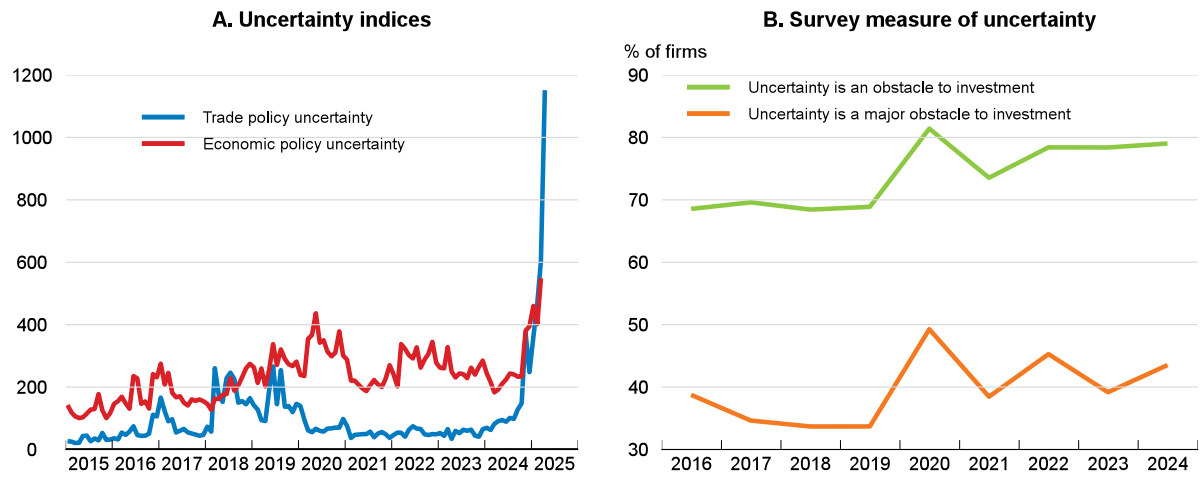
StatLink https://stat.link/e253dn

Elevated uncertainty is likely to have held back investment

Elevated uncertainty – both macroeconomic and policy related – is likely to have weighed on investment incentives and encouraged precautionary cash accumulation. Firms may hesitate to commit to long-term capital spending projects when the outlook for global demand, trade policy, or regulatory frameworks is unclear. Economic policy uncertainty indicators started to increase steadily around 2016, and trade policy uncertainty became elevated in the 2017-2020 period (Figure 2.8, Panel A). Empirical estimates (Box 2.1) suggest policy uncertainty may have accounted for approximately one-sixth of the overall investment shortfall relative to the pre-GFC trend (Figure 2.5, Panel A), and around one-quarter of the 'gap' across OECD countries (Figure 2.5, Panel B). Furthermore, recent survey evidence suggests that uncertainty is increasingly a major obstacle to investment for firms (Figure 2.8, Panel B).

More recently, measures of policy uncertainty have spiked due to heightened concerns about economic risks from tariffs on international trade. Estimates suggest that if these levels of high-uncertainty persist, the resulting decline in investment growth could lead to real investment being up to 1.4 percentage points lower by end-2026 (Box 2.1). In contrast, if policy uncertainty reverts to the average levels observed over the 2015-2019 period, investment could be 1.8 percentage points higher by end-2026 compared to a baseline where economic policy uncertainty remains at current levels.

Figure 2.8. Uncertainty has increased, becoming a greater obstacle to investment



Note: For Panel A, the Economic Policy Uncertainty (EPU) is based on Baker, Bloom and Davis (2016) and the Trade Policy Uncertainty (TPU) index is from Caldara et al (2019). The EPU index is a nominal GDP-weighted average of national EPU for 21 countries: Australia, Brazil, Canada, Chile, China, Colombia, France, Germany, Greece, India, Ireland, Italy, Japan, Korea, Mexico, Netherlands, Russia, Spain, Sweden, the United Kingdom and the United States. The TPU index is based on automated text searches of the electronic archives of seven newspapers. Panel B shows the share of firms responding positively to the survey question Q.38 in the European Investment Bank EIB) Investment Survey: 'Thinking about your investment activities, to what extent is each of the following an obstacle? Is it a major obstacle, a minor obstacle or not an obstacle at all?', the average score is shown for EU countries and the United States.
Source: www.policyuncertainty.com; European Investment Bank (EIB) Investment Survey; and OECD calculations.

StatLink https://stat.link/r0uiw6

Box 2.1. Economic policy uncertainty and business investment in OECD countries

Policy uncertainty has increased sharply in recent months across OECD countries. Elevated uncertainty can be a drag on business investment as firms often delay or scale back capital spending when future conditions are unclear. Earlier studies have found that the increase in US economic policy uncertainty in the 2005-2012 period was associated with a peak decline of 6% in US gross fixed investment (Baker, Bloom and Davis, 2016). Focusing on trade policy uncertainty, an increase equivalent to that observed during the 2018 period of higher tariffs has been found to be associated with a decline in private investment of 1-2% (Caldara et al., 2019).

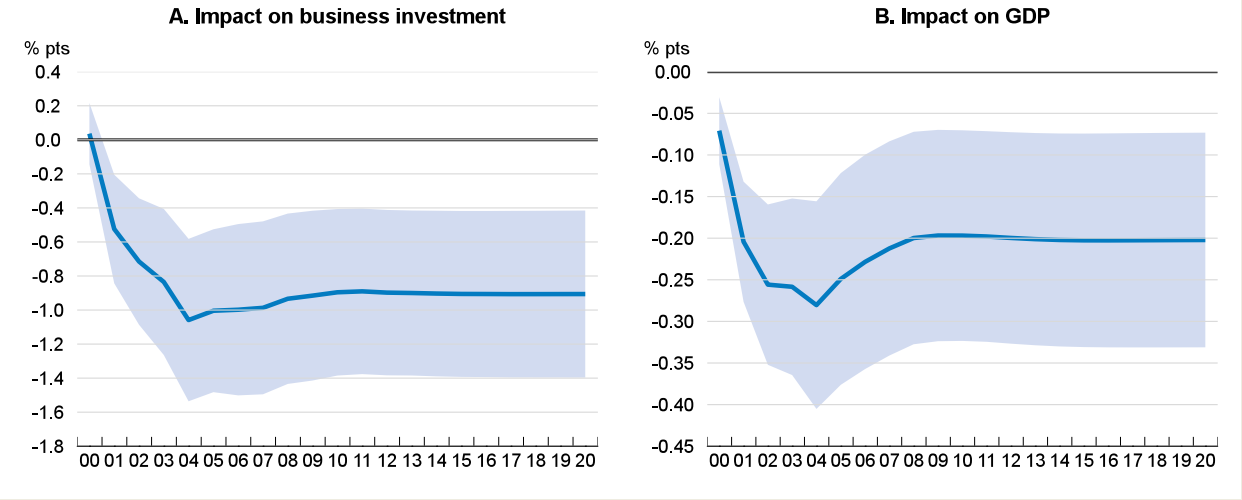
The impact of policy uncertainty on investment in OECD economies is quantified using a panel Vector Autoregression (VAR) model with quarterly data. The model includes real business investment, GDP, the GDP deflator, short-term interest rates and a measure of economic uncertainty, the Economic Policy Uncertainty (EPU) index, developed by Baker, Bloom and Davis (2016), capturing both country-specific and global shocks. Results suggest that a one standard deviation increase in economic policy uncertainty reduces business investment growth by around 1 percentage point after one year, with the impact peaking after four quarters (Figure 2.9). This suggests that the increase in uncertainty during recent years may have reduced

annual investment growth by 0.4 percentage points on average across OECD countries, accounting for approximately one-quarter of the investment 'gap' shown in Figure 2.5.

To illustrate the potential future implications, two scenarios are considered:

- Lower economic policy uncertainty would lift investment growth. In a "confidence rebound scenario" where uncertainty declines from its value at the end of 2024 to the average levels over the 2015-2019 period by end-2025, the associated cumulative gain in business investment would be around 1.8 percentage points by end-2026 as compared to a baseline where economic policy uncertainty remains at current levels.
- However, if current levels of high uncertainty persist and only decline towards their 2024 average, the resulting decline in investment growth could lead to real investment being 1.4 percentage points lower by end-2026.

Figure 2.9. An uncertainty shock decreases business investment and GDP



Note: Panels show the impact of a one standard deviation increase in economic policy uncertainty on business investment (Panel A) and GDP (Panel B). Grey shaded areas depict 90% confidence bands. The results are based on a panel VAR model for nine OECD countries with available data on business investment and economic policy uncertainty (Australia, Canada, Germany, France, Japan, Korea, Sweden, the United Kingdom and the United States). The panel VAR specification features four lags of growth rates of GDP, GDP deflator, business investment, economic policy uncertainty (Baker, Bloom and Davis, 2016), the first difference of short-term interest rates and a linear trend. The model is estimated at quarterly frequency over 1997Q1 to 2024Q4. The identification of the structural shock to economic policy uncertainty rests on a Cholesky triangularisation of the variance-covariance matrix of the reduced-form residuals. The uncertainty shock is ordered first, implying that it affects all other variables at time t.

Source: OECD Economic Outlook 117 database; and OECD calculations.

StatLink https://stat.link/xdm32e

Weaker business investment has coincided with structural shifts in the composition of investment, corporate behaviour and market dynamism

Weak demand and elevated uncertainty together appear to account for around half of the cumulative shortfall in real business investment relative to the pre-GFC trend. The remaining weakness is likely to be related to broader structural changes within the economy. As economies transition toward more digital and knowledge-intensive production – accelerated by the artificial intelligence (AI) revolution – investment has increasingly shifted toward intangibles, especially digital assets. At the same time, firms have channelled a lower share of their retained earnings and borrowed funds into productive investment, while maintaining persistently high required rates of return, or 'hurdle rates'. Both these trends are likely to be associated with underlying factors that dampen investment, including declining competitive pressures and the rise of dominant firms, particularly in the digital sector, and difficulties in financing intangible investments.

Investment in digital and knowledge-based assets has increased

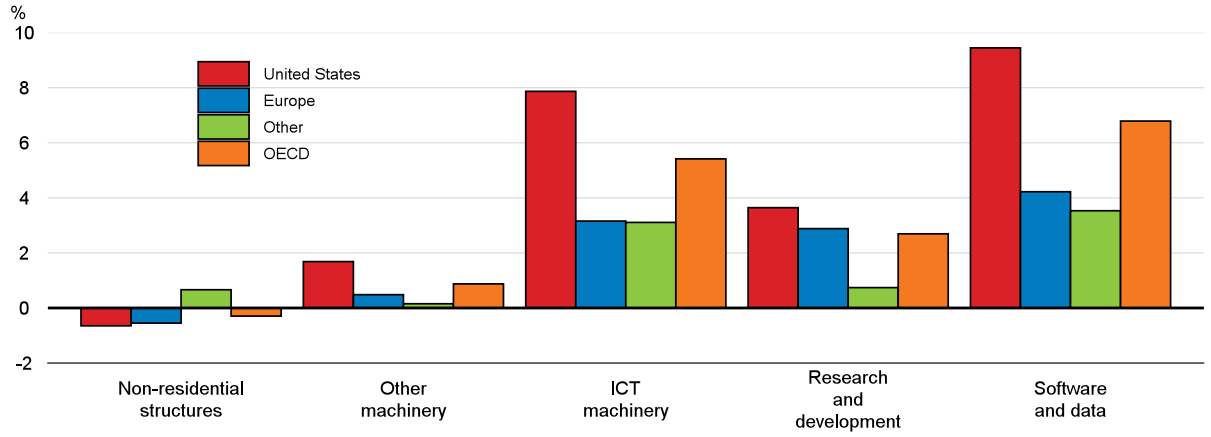
The transition towards a more digital and knowledge-intensive economy in recent years has had a significant impact on the composition of business investment. Investment has been channelled into knowledge-based intangible assets, such as software, data, and research and development (R&D), and complementary tangible investments, such as ICT hardware, including servers, networking equipment, and cloud infrastructure (André and Gal, 2024). Together, these assets are an important driver of firm productivity and innovation (Corrado et al., 2021).

Real investment in digital and knowledge assets has outpaced other asset classes across most advanced economies (Figure 2.10). Real investment in software has increased three-fold since 2008 on average in OECD economies, while investment in ICT hardware and R&D has grown by around 100% and 45%, respectively, over the same period, compared to aggregate growth of 12% for machinery and a 7% decline in investment in structures. Digital investment has expanded particularly rapidly in countries such as the United States and France, which have also seen strong growth in overall investment. In contrast, several countries, including Germany, have witnessed more modest increases. Investment has expanded particularly rapidly in tech-related firms (Figure 2.11). Firm-level data also show that AI-related companies invest in physical capital at nearly twice the rate of other firms, with their R&D investment rates more than three times higher (Figure 2.12).

At the same time, firms appear to not be undertaking all the available profitable marginal investments that lower costs of finance should encourage. The average pre-tax rate of return on corporate capital assets has remained high in many economies in recent years, after dropping during the GFC and pandemic (Figure 2.15, Panel A). There is also evidence that required returns on investment have increased, since the gap between hurdle rates – the minimum expected return a firm requires to proceed with an investment – and capital costs has widened (Figure 2.16, Panels A and B) (OECD, 2015; Shah, Bunn and Melolinna, 2024). While rising policy uncertainty may have contributed to higher risk premia and thus higher hurdle rates, the scale of the increase points to additional underlying structural factors.

Figure 2.10. Investment patterns have shifted towards the digital and knowledge-based economy

Average annual growth in real gross investment by asset class, 2008-2022

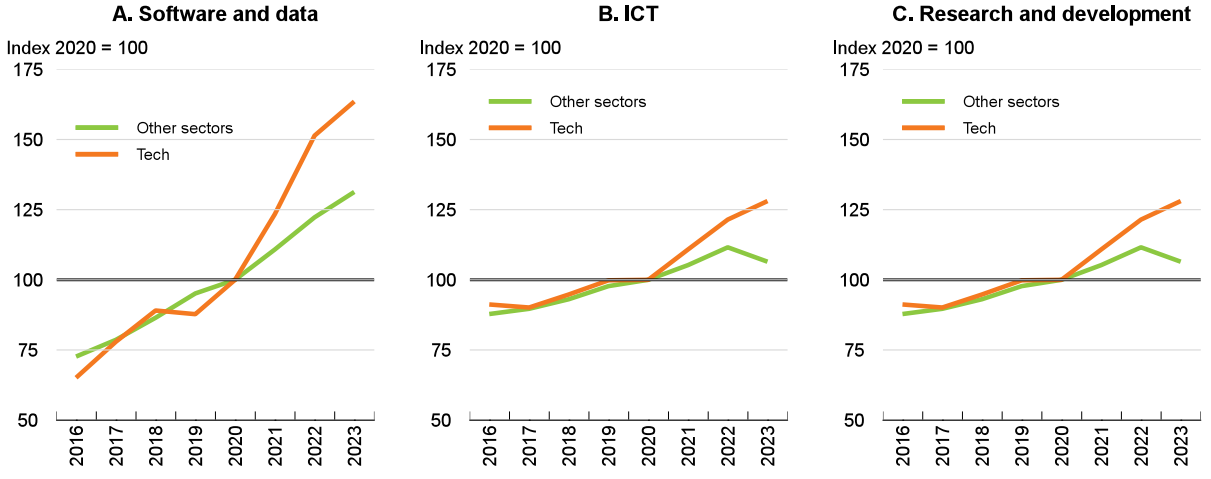


Note: ICT machinery includes both computer hardware and telecommunications equipment. 'Other' includes Australia, Canada, Israel, Japan and the United Kingdom. OECD refers to the weighted average of 32 OECD countries for which data are available.
Source: OECD National Accounts database; and OECD calculations.

StatLink https://stat.link/k680qu

Figure 2.11. Tech firms lead the way in digital and knowledge investment growth

Digital and knowledge-related real investment in tech vs non-tech sectors, median of OECD countries

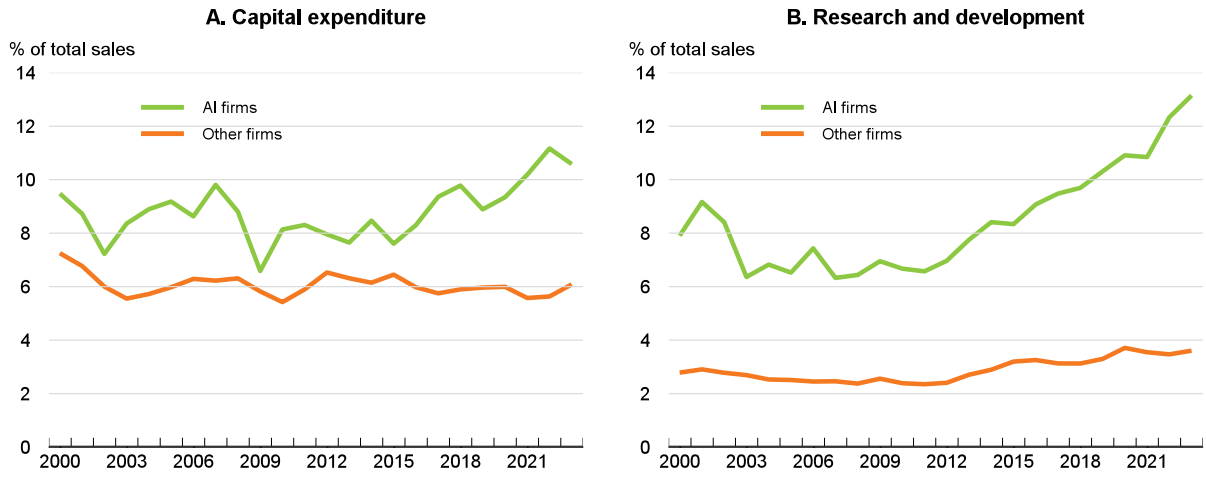


Note: The tech sector corresponds to Sector J (services related to information and communication) in the national accounts NACE Rev. 2 classification. The sample includes countries for which sector-asset data are available until 2023, covering Australia, Austria, Canada, France, Japan, the Netherlands, the United Kingdom and the United States.
Source: OECD National Accounts database; and OECD calculations.

StatLink https://stat.link/q13knt

Figure 2.12. AI-related firms increasingly invest more than other firms

Gross investment-to-sales ratio

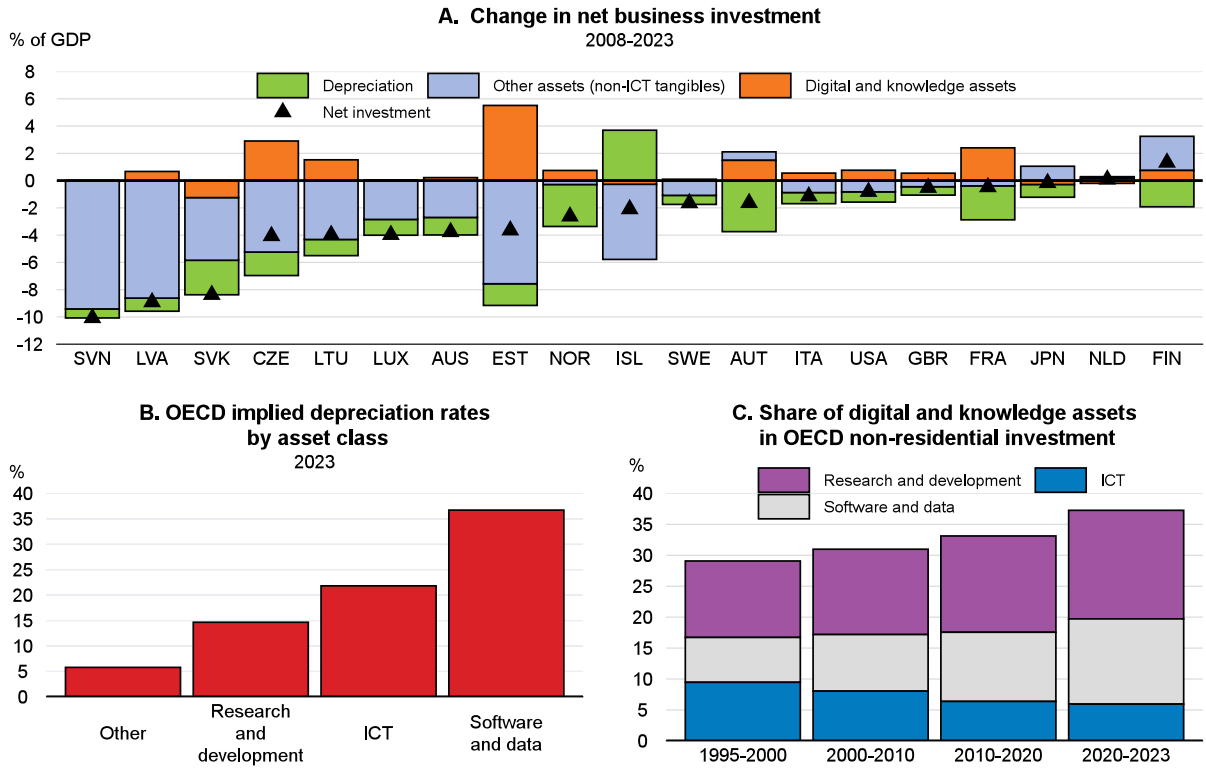


Note: Gross investment-to-sales ratio is in current prices. AI firms are identified based on the companies covered by the Xtrackers Global AI and Big Data ETF (ISIN: IE00BGV5VN51) – a financial product that seeks to track the Nasdaq Global AI and Big Data stock market index. The index is designed to track the performance of companies that are most active in filing patents relating to Deep Learning, Natural Language Processing, Image Recognition, Speech Recognition & Chatbots, Cloud computing, Cyber Security, and Big Data. The constituents were derived as of end of March 2025. Stock markets covered include Canada, China, Finland, France, Germany, Hong Kong (China), Israel, Japan, Korea, Chinese Taipei, the United Kingdom, and the United States. There are some known issues around the measurement of R&D in company accounts which are examined in forthcoming OECD work (OECD, 2025a).
Source: LSEG Worldscope Fundamentals; and OECD calculations.

The relatively stronger growth of digital and knowledge-based investment has not been sufficient to offset the impact of rising depreciation and weak tangible investment. Thus, net business investment as a share of GDP has declined across most OECD countries, despite a notable rise in digital and R&D investment (Figure 2.3). This decline reflects sluggish growth in traditional tangible investment categories — such as infrastructure and machinery — which still account for the largest share of business investment, alongside the higher depreciation rates for digital and knowledge-based capital (Figure 2.13, Panels A and B). On average, digital and knowledge-based assets now make up just over 35% of total capital formation, in current prices, up from around 28% at the turn of the century (Figure 2.13, Panel C).[2] As investment has shifted toward these faster-depreciating assets, the overall depreciation or 'scrapping' rate has risen.

[2] Despite ongoing enhancements to the National Accounts, some types of intangible assets are still not captured in business investment statistics, such as organisational and marketing capital. Some attempts have been made to measure these newer types of intangibles, suggesting that around half of intangible investments are not captured in official national accounts (Corrado et al., 2021).

Figure 2.13. Declines in net business investment are driven by rising depreciation and weak non-digital tangible investment



Note: Panel A: Net business investment-to-GDP ratio in current prices. The sample includes 19 OECD countries where a full asset breakdown of investment is available. 2023 data or latest available. Panels B and C cover private and public non-residential investment. Panel B: "Other" refers to non-ICT machinery and non-residential structures and buildings. ICT includes ICT equipment, which is the sum of computer hardware and telecommunications equipment. For each asset type, the implied depreciation rates are calculated using data for the net capital stock and gross fixed capital formation, both in real terms. Panel C: investment by asset as a share of non-residential investment, expressed in nominal terms.
Source: OECD national accounts; and OECD calculations.

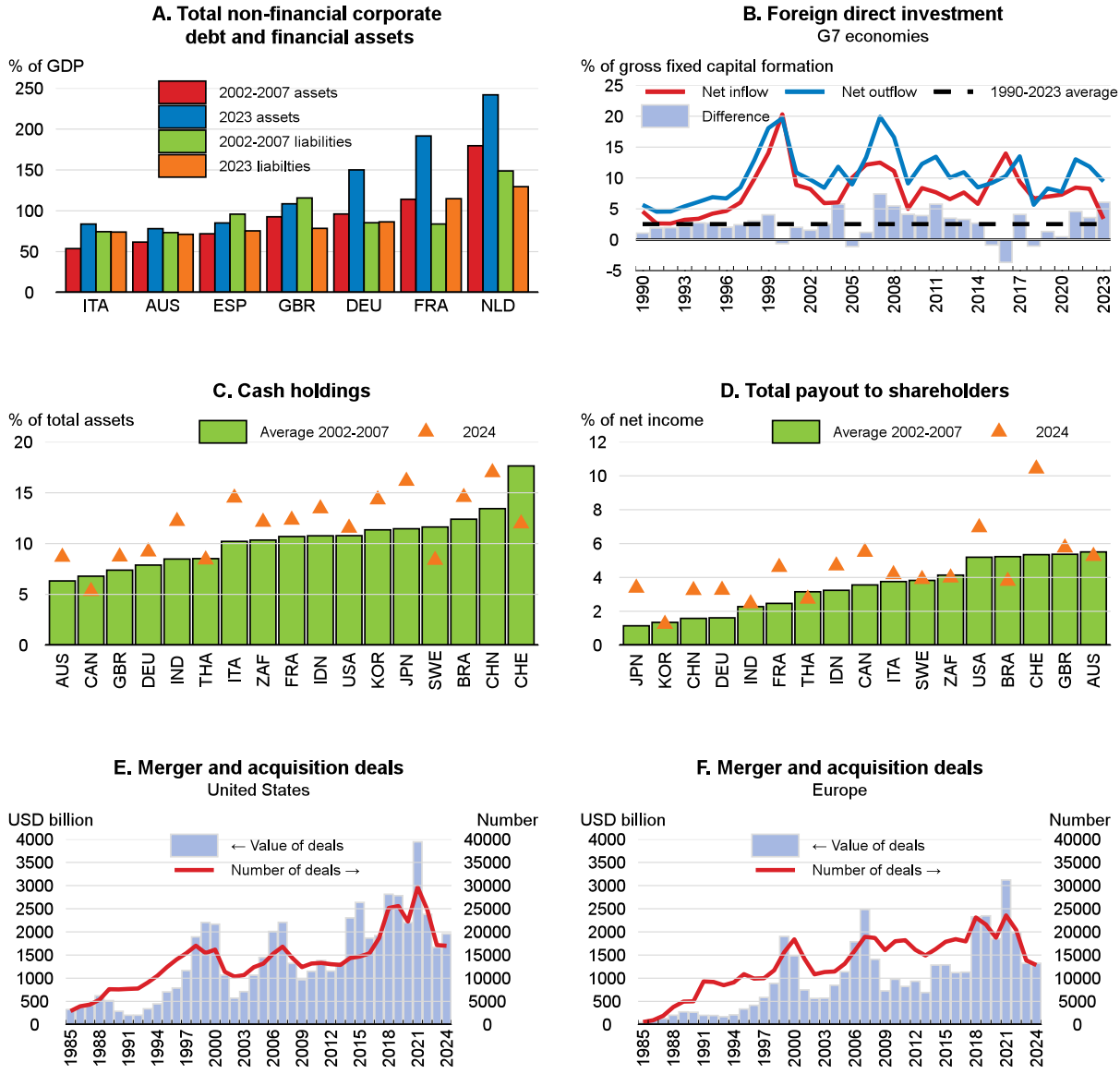
StatLink https://stat.link/k83o0q

Corporate behaviour has shifted towards greater cash accumulation, higher shareholder payouts and rising required returns

Instead of investing in fixed assets, firms have increasingly allocated savings toward accumulating financial assets or distributed earnings to investors through dividends and share buybacks. The increase in corporate net financial asset positions has been predominantly associated with the accumulation of financial assets rather than reductions in debt (Figure 2.14, Panel A). Firm-level data suggest that rising corporate gross operating surpluses have been associated with increased cash holdings and higher shareholder payouts, mainly through dividends (Figure 2.14, Panels C and D). In the United States, Canada, Switzerland, and the United Kingdom, share buybacks have also contributed significantly to this trend.[3] Concurrently, the number and value of corporate mergers and acquisitions remained elevated during much of the post-GFC period, particularly in the United States and Europe, indicating that financial resources were utilised to acquire existing capital assets from other companies, rather than to expand the overall capital stock through internal investments (Figure 2.14, Panels E and F). Another possible use of corporate savings would be to invest in other countries, but there is little sign of this in outward foreign direct investment flows from the major economies, other than in Japan (Figure 2.14, Panel B).

[3] The low cost of borrowing may also have incentivised firms to undertake non-investment financial activities such as leveraged buybacks and debt refinancing. See Chapter 2 of the Global Debt Report 2025, (OECD, 2025b).

Figure 2.14. Firms have used savings to accumulate financial assets and return funds to shareholders



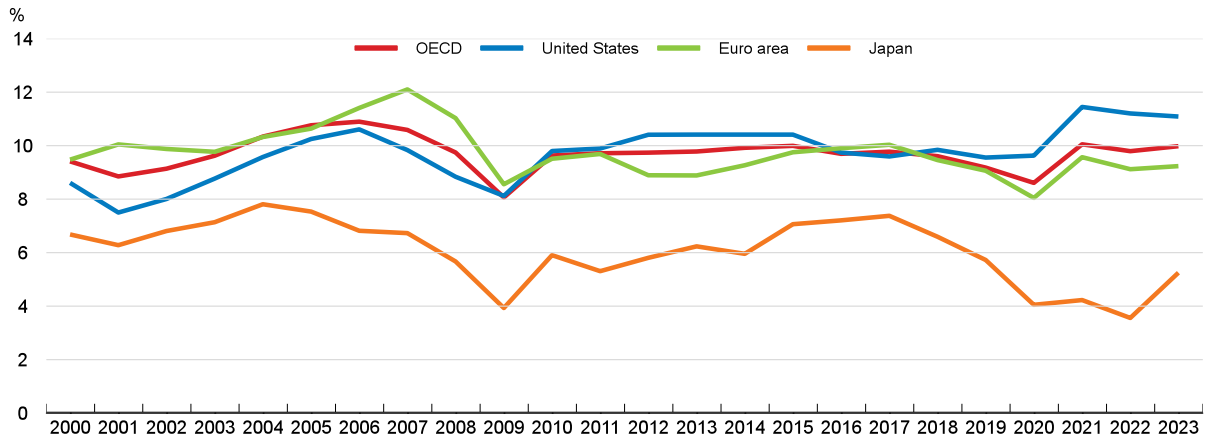
Note: In Panel A, debt is proxied by total financial liabilities less equity, from consolidated financial balance sheets. Panel B displays the weighted average of net FDI inflows and net FDI outflows as a share of gross fixed capital formation for G7 countries, with weights based on GDP at PPPs. Data in Panels C and D are based on the listed firms covered in the Worldscope database. The sample includes countries with at least 150 firms in each year since 2000 and with at least three consecutive years of non-missing observations for sales, common equity, and total assets. Indicators shown in Panel C and D are calculated at the country-year level, based on cumulated values across all firms in each country and year. The 2002-2007 average is calculated based on the country-level indicators. Cash holdings is the sum of cash and short-term investments. Total payout is the sum of dividend and share repurchase payments. Firm-level data for each country are cleaned by dropping the extreme 0.5% of values. For Switzerland and India, 2024 data are from 2023.

Source: OECD National Accounts database; World Bank data for FDI; LSEG Worldscope Fundamentals; Institute for mergers and acquisitions and alliances; and OECD calculations.

StatLink https://stat.link/2zielw

Figure 2.15. The rate of return on corporate capital assets remains high

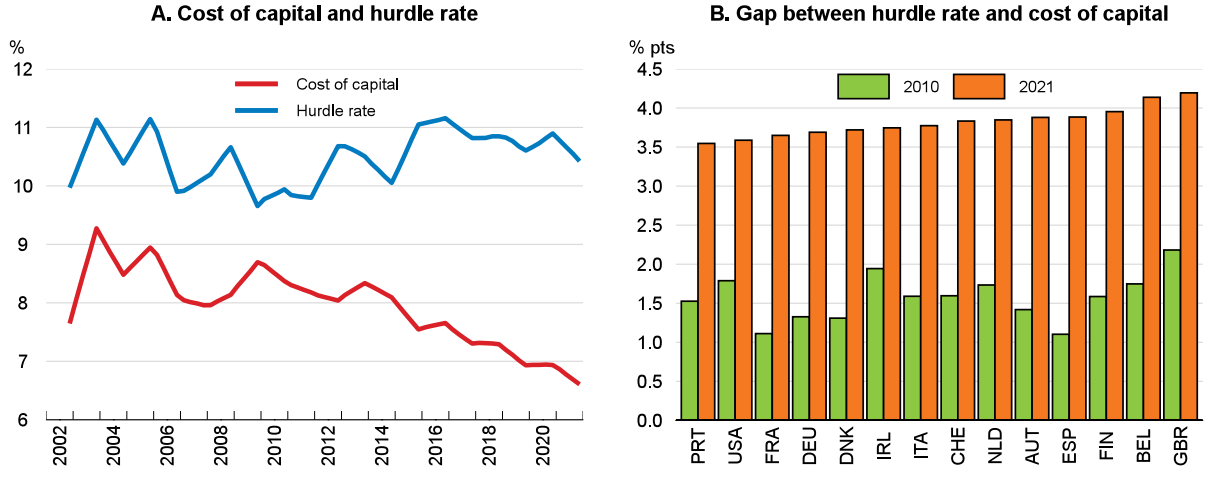
Rate of return on corporate fixed assets



Note: The return on capital is calculated as the corporate gross operating surplus less consumption of fixed capital relative to net fixed assets where available. Euro area refers to the weighted average of 13 euro area countries. OECD refers to the weighted average of 23 countries.
Source: OECD National Accounts database; and OECD calculations.

StatLink https://stat.link/8bu6tr

Figure 2.16. The gap between financing costs and hurdle rates has increased



Note: Predicted values for firms' perceived cost of capital and hurdle rates based on information provided during corporate earnings calls, investor conferences, and similar events. The description of data collection and computation can be found in Gormsen and Huber (2023). Panel A is based on an average of the countries listed in Panel B.
Source: Gormsen and Huber (2023).

StatLink https://stat.link/1jgaxn

Shifts in the composition of investment and corporate behaviour have coincided with rising market concentration, higher markups and difficulties in accessing finance

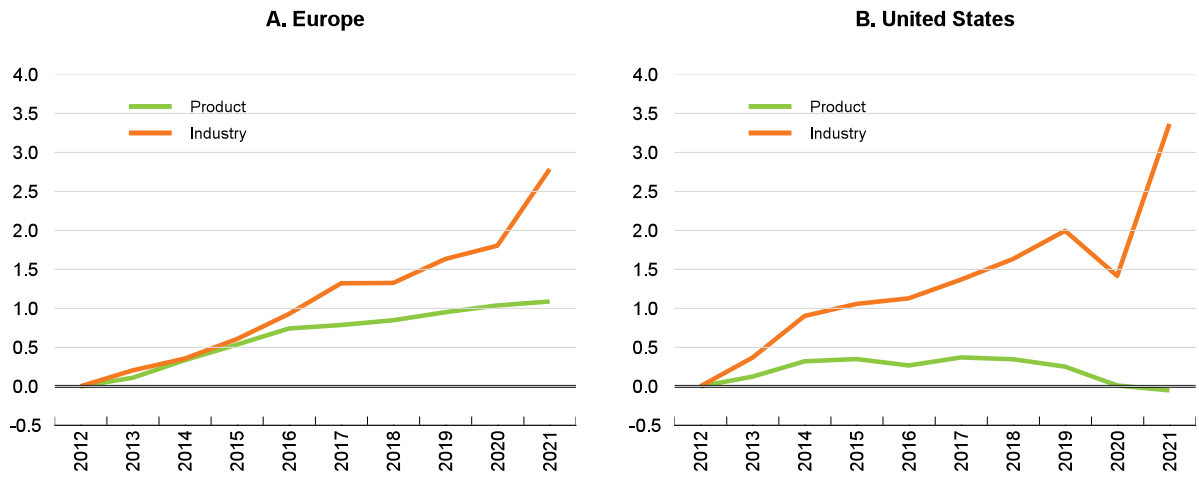
Market concentration has risen and business dynamism declined across advanced economies. These developments are increasingly linked to weak investment (Calligaris et al., 2024). Measures of industry concentration have risen in Europe and the United States, while product market concentration has also increased in European economies (Figure 2.17). At the same time, data from listed firms show a notable increase in markups – measured as the ratio of total revenue to the cost of goods sold – across most

advanced economies, with Italy being a notable exception (Figure 2.18).[4] Among emerging-market economies, markups have increased in India and South Africa but eased slightly in Brazil, Chile, Indonesia and Mexico. Net investment rates among listed firms have declined in all countries apart from Korea over the same period.

In parallel with rising market concentration, business investment has also become increasingly concentrated among a small group of highly profitable "superstar" firms (Autor, 2020). This trend is closely linked to shifts in the composition of investment, as the greater scalability of intangible assets tends to boost returns for a limited number of firms, reinforcing "winner-takes-most" dynamics (Haksel and Westlake, 2018). The rise in overall market power appears particularly pronounced in the digital sector (Nicoletti, Vitale and Abate, 2023). These dynamics are further reinforced by growing concentration in institutional ownership. The widespread use of passive investment vehicles and consolidation in the asset management sector mean that many competing firms now share common large shareholders (Schmalz, 2017). Ownership concentration can weaken incentives for competition and has been associated with lower corporate investment (Gutiérrez and Philippon, 2018; Azar, Schmalz and Tecu, 2018).

Figure 2.17. Industry and product market concentration has increased

Concentration trends in industries and product markets

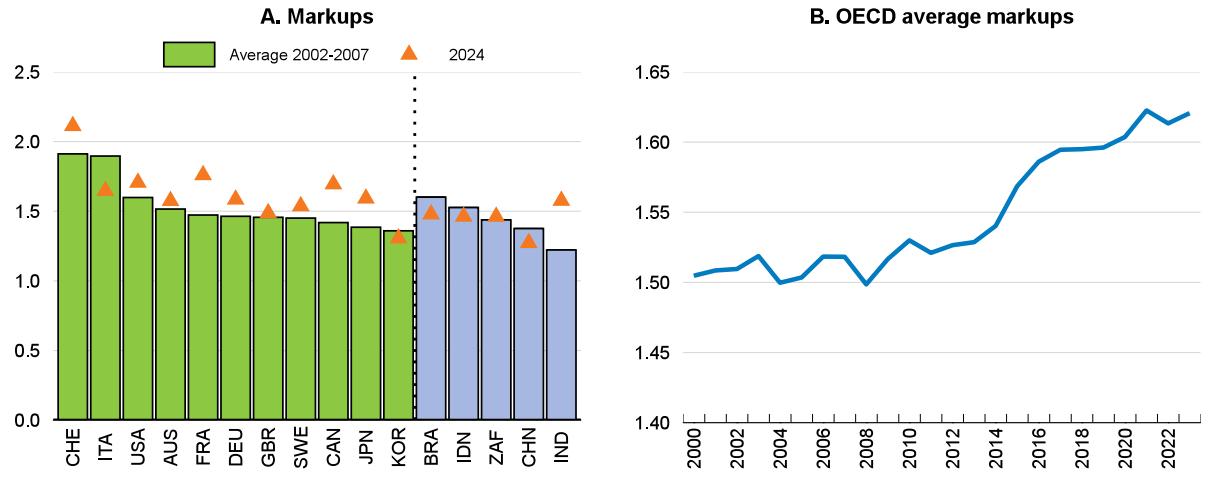


Note: The chart is taken from (Calligaris et al., 2025) and shows the unweighted average across industry- or product- country combinations of the cumulative growth of market concentration. The concentration measure used is the top four concentration ratio in product/industry s and country c at time t, which captures the sales of the biggest four firms relative to total market sales, in each year. The products included are those available in the Euromonitor data, while the industries are those that correspond to these products. For Panel A, the countries included in the sample are Austria, Belgium, Bulgaria, Croatia, Czechia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, the Netherlands, Poland, Portugal, Romania, the Slovak Republic, Slovenia, Spain, Sweden and the United Kingdom. The data cover 2012-21.
Source: Calligaris et al. (2025).

StatLink https://stat.link/02dq7t

[4] This measure is a proxy for actual markups (the ratio of price to marginal cost), since the cost of goods sold includes a share of fixed costs and may differ from marginal cost.

Figure 2.18. Markups have increased across OECD countries



Note: Indicators are calculated at the country-year level, based on cumulated values across all firms in each country and year. The 2002-2007 average is calculated based on the country-level indicators. The markup is the ratio of revenues to the cost of goods sold. Firm-level data for each country is cleaned by dropping the extreme 0.5% of values.
Source: LSEG Worldscope Fundamentals; and OECD calculations.

Increased market concentration can suppress investment through several channels. One is that dominant firms may restrict output and raise prices rather than invest in expanding capacity, particularly when competitive pressure is limited (Gutiérrez and Philippon, 2017). Another mechanism is that only large 'superstar' firms have the financial resources, managerial capability, and know-how to make large-scale investments with uncertain payback periods, effectively crowding out investment by smaller, less productive, or new firms (Crouzet and Eberly, 2019). Firm-level data suggests that large firms account for a higher share of investment relative to their output, although the gap has not increased over time (Hanappi, Millot and Turban, 2023). In reality, the relationship between market power and investment is likely to be nuanced, and firm specific. For example, firms may first achieve market power through innovation and efficiency, gaining scale through network effects and intangible synergies. Over time, however, some may shift their focus from innovation and fixed capital investment toward rent-seeking strategies, such as regulatory capture and lobbying, to preserve their dominant position (Akcigit and Ates, 2021).

The availability of finance is a second key channel connecting the observed rise in intangible assets and precautionary corporate behaviour such as cash accumulation and high hurdle rates. Investment in software, data, and R&D as well as other intangibles, is harder to finance through bank loans, as these assets are more difficult to value and hence use as collateral. As a result, firms may need to self-finance these assets through retained earnings and higher cash holdings to reduce dependence on external financing (Demmou, Stefanescu, and Arquie, 2019), reducing available resources for investment. These constraints can be particularly binding for smaller firms and those operating in bank-based financial systems with less developed capital markets.

Taken together, increased market concentration and financing challenges for intangibles provide additional plausible explanations for the persistent weakness in business investment. The relative importance of these factors likely varies across countries, sectors, and firms. Other factors may also have played a role. Rising investment costs – including limited land availability, planning delays, regulatory burdens, and implementation capacity constraints – can also deter firms from launching new projects. Moreover, the growing tendency of firms to prioritise shareholder payouts over reinvestment may reflect increasing financialisation (Gutiérrez and Philippon, 2017) and incentives such as shareholder pressure to shift corporate strategy toward maximising short-term financial returns at the expense of long-term productive investment.

Other structural trends – such as ageing populations and labour shortages - may also have restrained business investment, particularly in advanced economies. When firms anticipate slower growth in the working-age population, they may revise down expected demand for goods and services, reducing the need to expand productive capacity. This may more than offset any stimulative effects on investment from the downward pressure on real interest rates associated with higher savings in ageing populations — although this effect may also wane as retirees dissave (Eggertsson, Mehrotra and Robbins, 2019). Meanwhile, persistent skill shortages have emerged in some countries and sectors (OECD, 2024a), with over 50% of EU and US firms identifying the scarcity of skilled staff as a major obstacle to investment (Figure 2.21 Panel B). If firms are unable to find the necessary skills to implement, operate or maintain new capital – and fully reap their benefits -, they may postpone investment projects, particularly high-skill, high-tech investments that require complementary human capital, such as ICT and green technology.[5]

Housing investment has fallen short of demand, reducing affordability

Residential housing investment accounts for around a fifth of total of total investment across OECD countries and has also slowed in recent decades (Figure 2.19, Panel A). Following a period of strong housing investment in some economies prior to the GFC, the subsequent tightening in credit conditions, household deleveraging, and the marked downturn in many housing markets contributed to a dramatic fall in residential investment during 2008-09.[6] Although growth in housing investment eventually recovered, the past decade has seen a further steady decline. This was interrupted only briefly by a spike in activity following the pandemic in the context of low interest rates, increased demand for larger living spaces and government support measures. Real housing investment has contracted in recent years and continued to do so in most OECD countries over the year to the fourth quarter of 2024.

A structural shortfall in housing investment relative to demand has contributed to rising house prices. Several factors have fuelled housing demand, including urbanisation, population growth, rising incomes, increased immigration, a shift toward smaller households, and greater access to mortgage credit (OECD, 2021). The supply-demand imbalance is a key reason why house prices and rents in many OECD countries have risen significantly faster than both inflation and household incomes over time, eroding affordability. These pressures are particularly acute in major cities and economically dynamic regions, where growth in demand for housing has far outpaced supply. Consequently, housing costs have absorbed an increasing share of household budgets, often at the expense of other essential spending categories such as food and transport (Figure 2.19, Panel B). Between 2000 and 2023, the share of consumption spent on housing rose by an average of close to three percentage points, reaching 17% in the median OECD country.

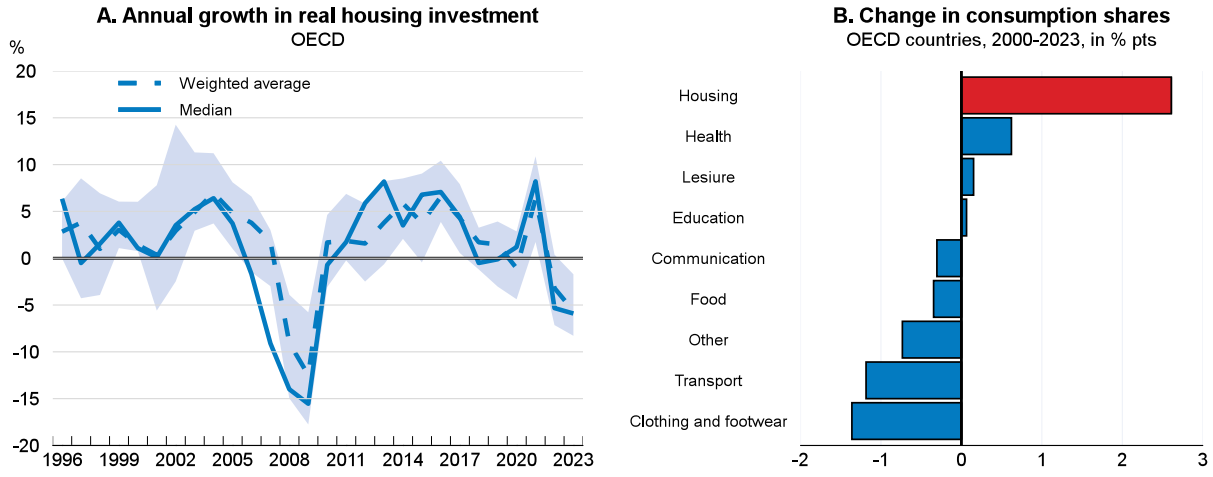
The low responsiveness of housing supply to growing demand reflects a range of structural and regulatory constraints (OECD, 2021). The time required for planning and construction means supply adjustments are sticky, allowing price pressures to build up. In addition, rising construction and renovation costs (OECD, 2023), partly driven by stricter energy efficiency and environmental sustainability standards, have added to overall investment costs. Demand has been particularly concentrated in job-rich urban areas, where geographical limitations and regulatory restrictions, including land-use and zoning rules, are most restrictive (Cournède, De Pace and Ziemann, 2020). Other factors, such as rental market regulations, landlord-tenant laws, and labour shortages also affect the efficient functioning of housing markets and the construction sector, potentially discouraging investment in both the construction and maintenance

[5] In other instances, companies in industries facing major shortages may choose to automate parts of their production instead, leading to increased investment in tangible capital (Dorville, Filippucci and Marcolin, forthcoming).

[6] In some countries, housing investment growth prior to the GFC was excessive, with residential investment rising well above historical averages and exceeding 8% of GDP, including Spain and Ireland and reflected in surges in mortgage credit and household debt-to-GDP ratios.

of dwellings. In addition, persistently low productivity growth in the housing construction sector—often attributed to regulatory factors—may further undermine cost-efficiency and scalability (D'Amico et al., 2024).

Figure 2.19. Housing investment has not kept pace with demand, weakening affordability



Note: Panel A: Real gross fixed capital investment in residential housing, weighted average of 17 OECD countries. The shaded area shows the interquartile range. Panel B: Consumption expenditures are broken down by the classification of individual consumption according to purpose.
Source: OECD Economic Outlook 117 database; OECD National Accounts database; and OECD calculations.

StatLink https://stat.link/mzgpkh

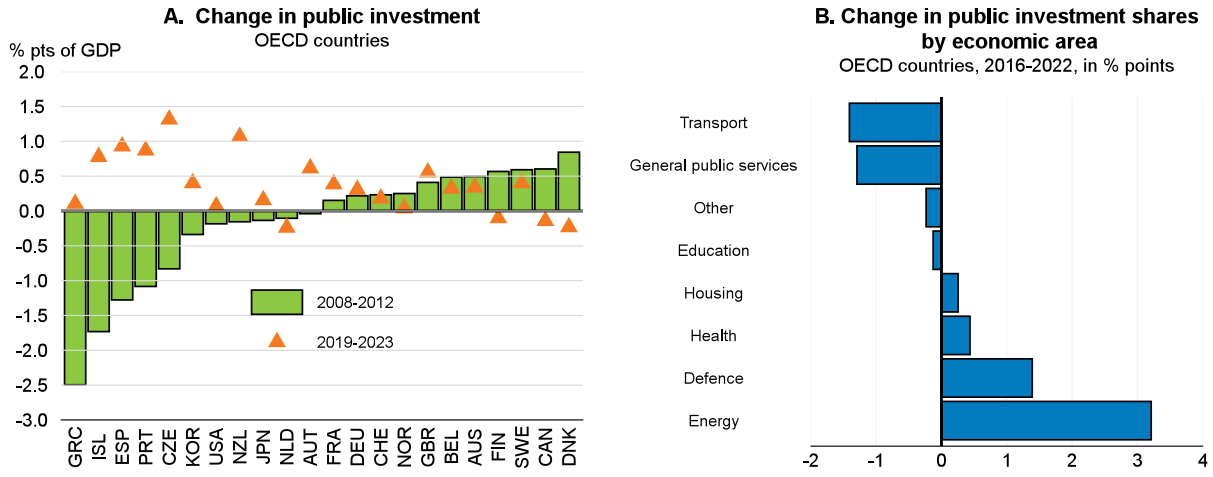
Public investment has picked up but remains below pre-GFC levels

Public investment – accounting for around one sixth of total investment across OECD countries – declined significantly in many economies in the aftermath of the GFC. The decline was largely due to fiscal consolidation efforts, particularly in euro area countries that faced acute sovereign debt pressures (OECD, 2015). In contrast, the policy response to the pandemic was different, with many governments raising public investment to support the recovery (Figure 2.20, Panel A). This was especially evident in the European Union, where initiatives such as the NextGenerationEU funds have played a central role in boosting investment. A substantial share of these recovery packages was directed towards investment in renewable energy, energy efficiency, and sustainable transport infrastructure to support demand and progress toward long-term climate goals.

Despite the recent upturn in some countries, critical public investment needs remain. Net public investment – after accounting for the depreciation of the existing capital stock – remains below pre-GFC levels (Figure 2.3, Panel C), raising concerns about deteriorating infrastructure in some countries and sectors. The stock of public capital relative to GDP has stagnated or declined over the past decade in many countries. Marked sectoral differences have emerged: while the share of public investment has increased in areas such as energy, defence, and healthcare, other sectors such as transport have declined (Figure 2.20, Panel B). Such declines can lead to quality shortfalls. The perceived quality of transport infrastructure declined in countries such as the United States and the United Kingdom, for example, in the years prior to the pandemic (World Economic Forum, 2019), while declines in education performance were signalled by PISA (Programme for International Student Assessment) scores declining across many OECD countries between 2018 and 2022. Moreover, insufficient public investment may also constrain private investment, as inadequate transportation, energy or digital infrastructure can limit firms' growth and investment opportunities.

Recent announcements of further increases in defence spending – particularly among European countries in response to heightened geopolitical tensions – are expected to result in some increase in public spending. However, the overall boost to public investment may be modest, as only around 20% of defence spending tends to be allocated to capital investment (see Chapter 1).

Figure 2.20. Public investment was supportive in many countries during the aftermath of COVID-19



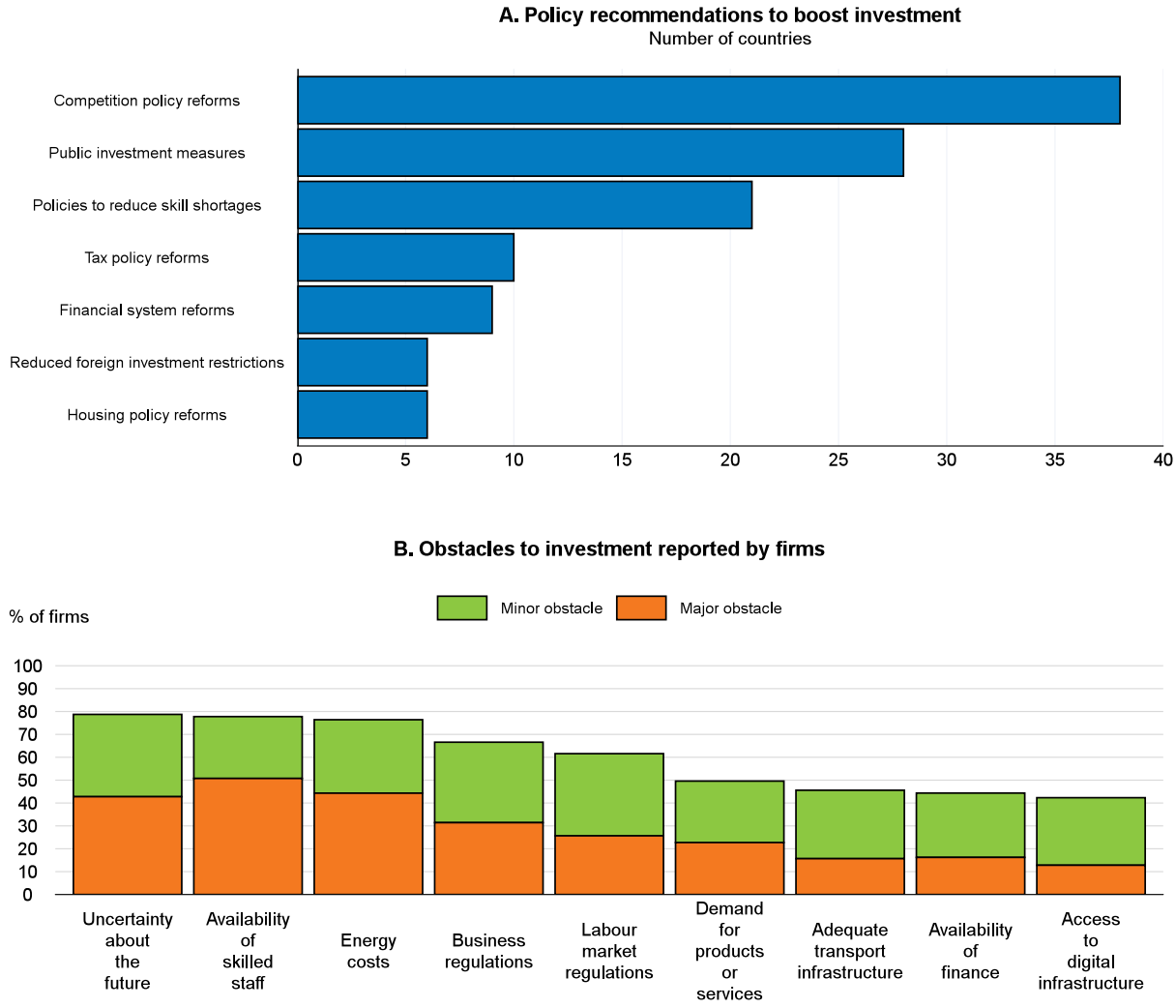
Note: Panel A shows the four-year change in the public investment-to-GDP ratio following the global financial crisis (GFC) and the COVID-19 pandemic. For the GFC, the change is the difference between the ratio in 2012 and the average ratio over 2006–2008. For the pandemic, the change is the difference between the ratio in 2023 and the average ratio over 2017–2019. Panel B shows the percentage point change in public investment shares (public investment in each category in per cent of total public investment) between 2016 and 2022 (the latest data point available in the COFOG dataset for a broad range of countries).
Source: OECD National Accounts; OECD COFOG database, and OECD calculations.

StatLink https://stat.link/4l2j5z

Public policy reforms can help reinvigorate investment

Public policies help shape the factors identified above as underpinning recent investment trends. Clear and predictable measures that incentivise business investment are particularly important, given business investment has been the main component behind the weakness in net aggregate investment across countries. Key messages from the analysis above are the importance of reducing policy uncertainty, promoting competition and business dynamism and alleviating financing constraints for intangible investment. These are consistent with many of the country-specific policy recommendations for boosting investment in Chapter 3 and summarised in Panel A of Figure 2.21, and would help overcome some of the key obstacles to investment commonly cited by businesses (Figure 2.21, Panel B). Outside of the business sector, there is scope to boost housing investment in some countries through regulatory reforms that include the easing of land-use restrictions and rental market regulations. In addition, high-quality public investment – particularly in green and digital infrastructure, research and development, health, and education – is needed in many economies and can boost potential output growth, especially if it crowds-in private investment spending.

Figure 2.21. The major barriers to private investment can be influenced by government policy



Note: Panel A, policy recommendations are taken from the Economic Outlook 117 country notes (see Chapter 3) for 54 countries. The figure shows the number of countries with policy recommendations to boost investment in each given category. Panel B is based on responses to the question: 'Thinking about your investment activities, to what extent is each of the following an obstacle? Is it a major obstacle, a minor obstacle or not an obstacle at all?' from the European Investment Bank Investment Survey 2024 from responding United States and European firms.
Source: OECD Economic Outlook 117 database; European Investment Bank, EIB Investment Survey 2024: European Union overview; and OECD calculations.

StatLink https://stat.link/vnz762

Reducing policy uncertainty would support stronger investment growth

Clear and predictable public policy is needed to assuage economic policy uncertainty and help rejuvenate investment growth, as highlighted in Box 1. While the predominant factor behind the recent rise in economic policy uncertainty in advanced economies has been higher trade policy uncertainty, available measures also show increased uncertainty since early 2024 in categories related to fiscal, regulatory and climate policies. As such, improving the general clarity and predictability of economic policies in all areas of government could underpin stronger investment rates. This is a policy recommendation contained in many of the country notes in Chapter 3, including for the United States, Hungary, Korea and Türkiye. One potential channel is that reduced uncertainty could prompt businesses to reduce the risk-premia

incorporated in the hurdle rates used for investment decisions (European Investment Bank, 2024). Specific approaches to reduce policy uncertainty may include:

- Conducting trade policy through a transparent and rules-based system with efforts made by governments to avoid introducing sudden policy changes that are unpredictable for businesses and consumers. Working together within the global trading system to find ways of addressing concerns with current trading arrangements could also help governments provide certainty about the future.
- Reducing fiscal policy uncertainty by legislating and implementing credible medium-term strategies for achieving sustainable public finances amid rising fiscal pressures (e.g. from population ageing, climate change and defence spending). Strengthening fiscal frameworks by reinforcing transparent, rules-based approaches – while ensuring that fiscal rules are designed with well-defined, credible escape clauses – can help maintain policy credibility while preserving flexibility in the face of major shocks. Implementing stable and predictable tax rules, combined with clear dispute resolution mechanisms, can also help mitigate uncertainty (Box 2.3).
- Reducing complexity and improving transparency around domestic structural policy changes in areas such as regulation of product and labour markets, migration policy and the financial system. Undertaking robust and transparent regulatory impact assessments would help give investors greater certainty. In addition, efforts to build a strong consensus around structural reforms by working with key stakeholders will support their longevity.
- Affirming ongoing international commitments to mitigate climate change and outlining the policy approach to achieving climate commitments. At the same time, implementing well-designed adaptation measures that minimise the potential economic cost of future disruptions from climate change would provide greater certainty about the future operating environment.

Various framework conditions shape the incentives to invest

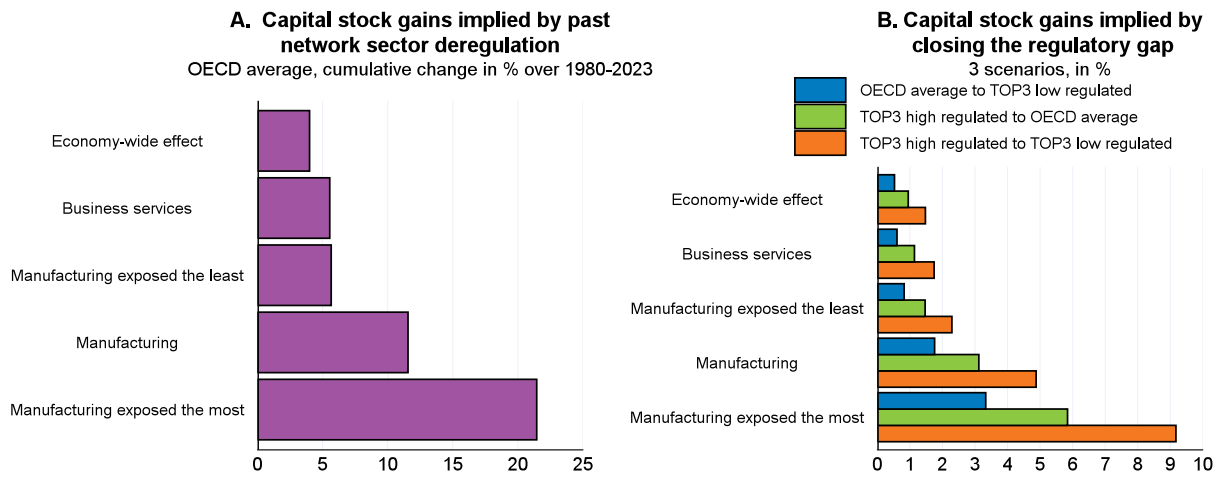
Policies and institutional arrangements shape the incentives of firms to invest, their ability to attract the required resources to do so and overall economic stability. Sound macroeconomic policies and a healthy financial system are the foundation of strong and resilient investment growth. Monetary policy should focus on achieving low and stable inflation and any additional statutory objectives. In some emerging market and developing economies, additional efforts to entrench credible monetary policy frameworks could provide greater monetary policy certainty and help anchor inflation expectations. In addition, macroprudential policy tools should be developed and deployed where necessary to guard against the build-up of systemic financial risks that might become the basis for future financial shocks and impede access to finance.

Structural reforms can promote business dynamism and encourage firms to sharpen their focus on innovating and investing to stay ahead of competitors. Reducing the cost of regulations to businesses, both through reforming *de jure* regulations and implementing them in a way that does not unnecessarily raise costs, promotes firm entry and the ability of successful firms to expand. This can help mitigate trends towards rising market concentration, including in markets based around new intangible assets such as artificial intelligence technologies. Country-specific policy recommendations to promote investment by improving aspects of competition policy are made in the majority of country notes in Chapter 3 (Figure 2.21, Panel A). In emerging-market economies, clear and predictable regulatory frameworks can also reassure foreign investors about the operating environment.

While, in theory, more restrictive domestic regulations could simply encourage firms to invest abroad, this is only an option for a subset of firms in certain sectors, with foreign investment more likely to be determined by a need to enter foreign markets, or acquire resources, or link to research or financial centres. Indeed, the available evidence does not support the notion that foreign investment is a substitute for domestic investment (Desai et al., 2005; Goldbach et al., 2019), with the importance of a wide variety of structural policies for domestic investment growth empirically well established (Égert, 2021).

New OECD estimates indicate that reducing product market regulation in network industries is associated with an increase in the capital stock in downstream business sectors. Policy experiments suggest that network sector deregulation between 1980 and 2023 could have raised the capital stock by around 4% in the average OECD economy, with gains reaching 10% in manufacturing and 5% in business services (Figure 2.22, Panel A). Looking ahead, bringing regulations in more highly-regulated economies towards the regulatory levels of their least-regulated peers could raise the economy-wide capital stock by up to 1.5%, with notably larger impacts for the manufacturing sector (Figure 2.22, Panel B). The effective design and implementation of product market regulations can also be hampered by the influence of lobbying activities. Reforms that improve the transparency and accountability of lobbying could address this and weaken the potential for regulations to be captured by incumbent firms and fuel rising market concentration (OECD, 2024b).

Figure 2.22. Investment would benefit from further product market reforms



Note: Panel A estimates are based on Dynamic Ordinary Least Squares regression results of how upstream regulation in network sectors, captured by the OECD's REGIMPACT indicator, affects the capital stock (see Andrews et al. 2025 for further details). Panel B shows the potential capital stock gains from three reform scenarios that are based on measures of barriers to entry in network sectors in 2023: (1) convergence of the three most regulated OECD countries to the regulatory levels of the three least regulated (in orange); (2) convergence of the most regulated countries to the OECD average (in green); and (3) convergence of the OECD average to the benchmark set by the three least regulated countries (in blue).
Source: Andrews et al. (2025).

StatLink https://stat.link/9hswyg

Well-functioning insolvency frameworks promote business dynamism by encouraging firms to invest and resources to be efficiently allocated from weaker exiting businesses to higher performing ones. At the same time, overly stringent bankruptcy regimes can deter risk-taking, weighing on innovation and bias firms' choice of capital structure towards tangible investments at the expense of intangibles (Garcia-Posada and Mora-Sanguinetti, 2014). This is highlighted by OECD analysis showing that the economic gains from lowering barriers to efficient corporate restructuring increase with a sector's intangible asset intensity (André and Demmou, 2022). Many countries have undertaken important reforms to insolvency frameworks over the past decade. Between 2016 and 2022, there was particularly notable progress in Europe and Canada (André and Demmou, 2022). Nonetheless, there remains scope for additional regulatory efforts in most countries to streamline insolvency processes, refine restructuring tools and improve the treatment of failed entrepreneurs.

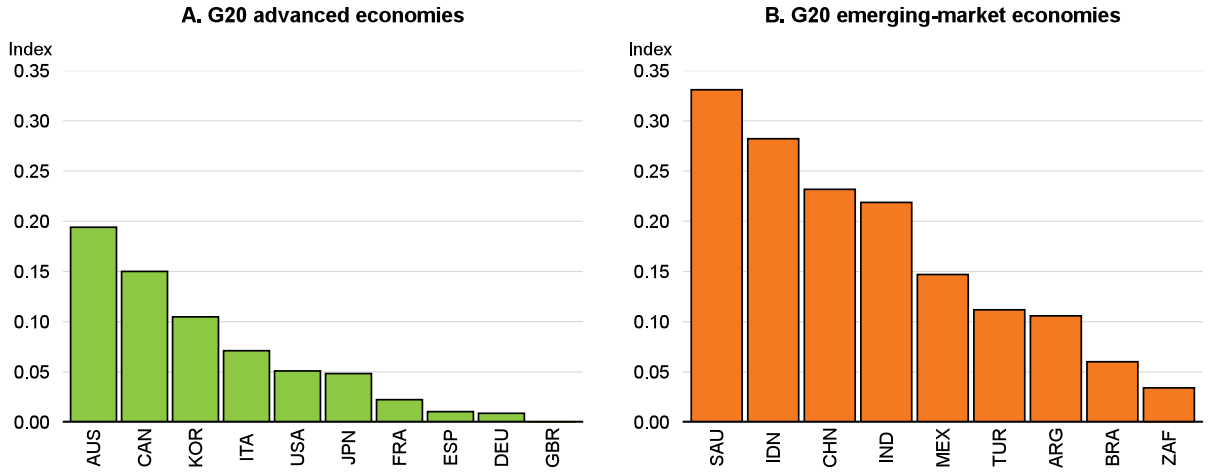
The stringency and complexity of land use regulations influence business dynamism and housing investment by determining the activities that can be undertaken in a certain location. More stringent and complex land use provisions can be a barrier to firm entry and moderate investment in physical assets in some sectors such as retail trade, as well as dwelling investment. Reducing complexity and introducing greater flexibility in zoning systems, including by being less prescriptive about the specific activities that can be undertaken on a parcel of land, can enable firm entry and growth, as well as the ability of the economy to adapt to ongoing structural change. Based on the country notes in Chapter 3, such recommendations appear to be particularly relevant in Australia, Austria, Croatia and Sweden. Sub-national governments are often responsible for land use regulations and the implementation of planning approvals. Ensuring these administrations have sufficient fiscal incentives to reduce the complexity of regulations and streamline approvals can be important. An example is Switzerland, where local government finances are heavily reliant on property taxation and there is significant flexibility afforded to authorities to set the applicable tax rates. Efforts to harmonise regulations across sub-national jurisdictions and minimise responsibility overlaps could also reduce the cost of business investment, as well as promote spending on the housing stock. Indeed, a high degree of decentralisation of land-use decisions and responsibility overlaps are empirically associated with high rigidity of housing supply (Bétin and Ziemann, 2019).

As discussed earlier, overly strict rental market regulations have inhibited housing investment in some countries. Regulations such as rent controls and landlord-tenant rules can provide protections for renters but may also reduce incentives to invest in rental housing due to lower rental revenues and the greater difficulty of selling properties (Kholodilin and Kohl, 2020). For instance, rent controls in San Francisco are estimated to have reduced housing supply by as much as 15% (Diamond, McQuade and Qian, 2019). OECD work has found that the house price elasticity of residential construction is considerably lower where there is stringent rental market regulation (Cavalleri, Cournède and Özsöğüt, 2019).

Minimising regulatory barriers to foreign direct investment (FDI) can help facilitate the best allocation of global investment and enhance competition. Capital spending may increase in both source and destination countries when vertical FDI is involved, leading to the buildup of global value chains. Nonetheless, as measured by the OECD FDI regulatory restrictiveness index, policy restrictions on inward FDI are high in some economies, especially in emerging-market economies (Figure 2.23). This may have contributed to the modest FDI inflows observed in recent years (Figure 2.14, Panel B). A renewed drive to ease or eliminate FDI policy barriers could support such inflows and capital spending in destination countries. According to the country-specific recommendations in Chapter 3, such a policy approach may be particularly relevant in Costa Rica, Indonesia, the Philippines and Viet Nam, as well as in some advanced economies such as Korea, New Zealand and Switzerland.

Figure 2.23. Restrictions on FDI are particularly pronounced in some emerging-market economies

OECD FDI Restrictiveness Index – Scores, 2023



Source: OECD FDI Restrictiveness Index database.

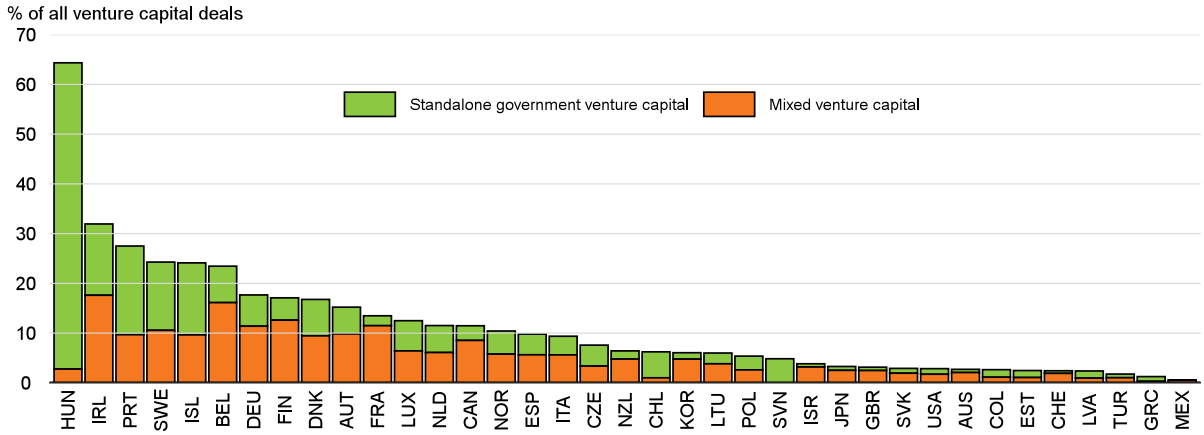
StatLink https://stat.link/qkigsw

Policies that reduce financing frictions for intangible investment can alleviate the need for firms to retain cash resources to self-finance future intangible investment projects. It may also help enable young and small firms to undertake investment projects, promoting competitive pressures in more concentrated markets. Financial frictions can be especially acute in bank-based financial systems for firms without traditional forms of collateral. Such firms include those with a high proportion of knowledge-based assets and start-ups with limited credit history. Improving the depth of capital markets would support a more diverse range of funding options and promote competition between lenders, thus improving access to finance for new firm entrants and intangible investments. In Europe, making further progress on implementing the Savings and Investments Union will be important in this regard. Reforms that improve access to credit are also relevant in emerging-market economies including Brazil and India (Chapter 3).

Developing certain segments of capital markets may require some public financial support and regulatory actions, provided they do not endanger financial stability. Possible examples include adjusting regulatory restrictions on the investment activities of pension providers, reducing administrative requirements on fintech lenders and equity crowdfunding platforms, reforms that enable “open finance”, and public investment in venture capital markets. The latter may be particularly well-suited to funding investments by innovative firms with non-standard risk profiles (Calvino, Criscuolo and Menon, 2015). Government involvement in venture capital deals has been particularly notable in Hungary but has also played a role in many other European economies (Figure 2.24). There can be synergies between promoting venture capital and efforts undertaken in some countries to develop specific public equity markets for smaller and innovative firms (for example, KOSDAQ in Korea, Mothers Exchange in Japan and SME growth markets in the European Union). These exchanges typically have simplified listing and disclosure requirements and can provide an appealing exit option for venture capital investors once successful firms expand (Carvajal and Dider, 2024). Further developing market-based finance could also ease access to finance in emerging-market economies but would often benefit from complementary reforms that promote macro-financial stability and access to digital financial technologies (Banerjee, Mehrotra and Zampolli, 2024).

Figure 2.24. Government involvement in venture capital deals varies greatly across countries

Share of government venture capital deals, 2020-2022



Note: Government venture capital deals expressed as a share of total venture capital deals for OECD Member countries for the period 2000-2022. Standalone Government VC are deals where only GovVC investors participate, Mixed VC are co-investment funds where both government and private VC investors take part. The Government VC investment for Israel includes investments made in Israeli companies by TDJ Pitango Ventures (a Polish GovVC entity).
Source: Berger, Dechezleprêtre and Fadic, 2024.

StatLink https://stat.link/y3opx8

The availability of workers with skills that match business needs can both encourage capital investment and maximise its productivity payoff. This can be aided by structural reforms that lower frictions in the labour market, such as reducing the prevalence of unnecessary non-compete clauses (Andrews and Garnero, 2025). Developing a workforce with skills that evolve with underlying structural changes in the economy can also be an important enabling factor for new capital investment, as skills demands are evolving rapidly with population ageing, the digital and green transitions (OECD, 2024a). More broadly, recent OECD estimates suggest that around one-sixth of the productivity slowdown in OECD countries since the mid-2000s can be accounted for by a weakening in human capital accumulation (Andrews et al., 2024). A key need is for effective government efforts to promote investment in lifelong learning. Policy reform priorities include ensuring strong foundational skills that form the basis for further learning, the availability of high-quality adult training programmes, and encouraging participation in education by adapting programs and qualification requirements, including for those currently in the workforce.

High-quality public investment is needed in priority areas

Public capital spending can play a key role in supporting aggregate investment, especially when economies are operating at less than full capacity. Where fiscal space allows, public investment can provide an immediate boost to economic activity by stimulating demand and employment, particularly in sectors with strong multiplier effects (Mourougane et al., 2016). In the longer term, high-quality public investment can crowd-in private investment, foster innovation, and raise human capital (Box 2.2), thereby boosting potential output growth.

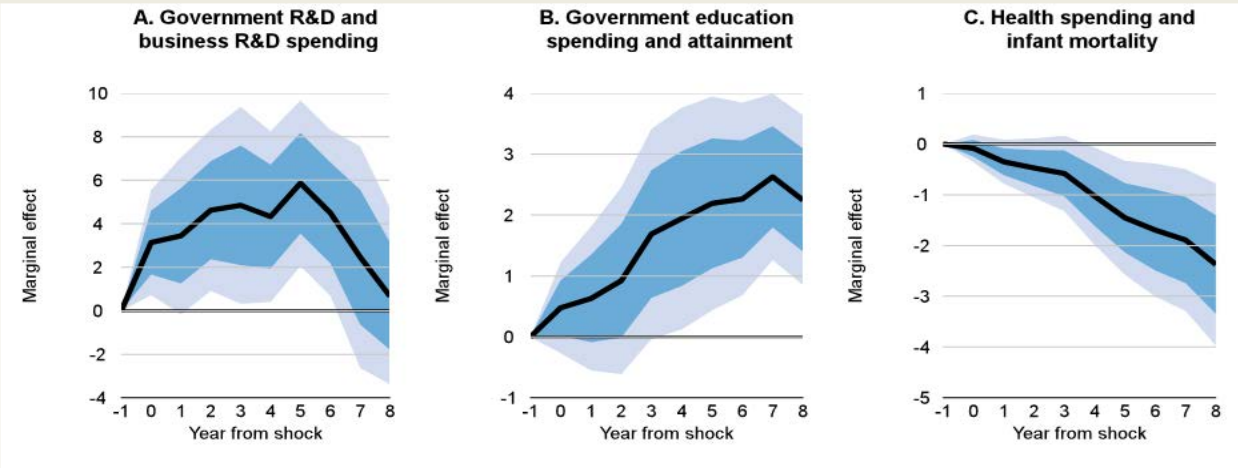
However, public investment can also crowd out private spending—especially in contexts where it increases borrowing costs for firms, either by heightening concerns over debt sustainability, or if it substitutes private investment rather than complements it. Anchoring public investment within a credible medium-term budgetary framework can enhance policy predictability, support prioritisation and sequencing, and strengthen fiscal sustainability (OECD, 2019). Robust public investment management frameworks are essential to ensure the efficiency of public capital spending and its complementarity with private investment. Close coordination with subnational governments is often required, particularly for infrastructure projects with regional development objectives.

Box 2.2. Government investment and growth-enhancing structural outcomes

What is the role of public investment in building human capital and fostering innovation? As governments aim to strengthen long-term growth and resilience – particularly in a context of constrained fiscal space – it is crucial that public spending is effectively targeted to areas that yield the greatest returns.

This box examines the growth-enhancing effects of government investment in three key areas: research and development (R&D), education, and health. OECD work has long highlighted the importance of investment in these areas for raising potential output growth (Fournier and Johansson, 2016). Public R&D contributes to the economy's knowledge base and can catalyse private sector innovation. Investment in education strengthens human capital by improving workforce skills, while spending on health supports a productive workforce.[1]

Figure 2.25. Government investment can have clear benefits for long-term growth



Note: Cumulative impulse responses of a shock to government investment on a productivity channel. The dependent variable is in log differences, multiplied by 100, hence the impulse response functions can be interpreted as cumulative growth rates. The set of controls includes lags of the dependent variable, GDP per capita, GDP growth, the output gap and the fiscal balance (all lagged). Regressions include country and time fixed effects and are estimated with OLS. Confidence bands are shown at the 90% and 68% levels.
Source: OECD calculations.

StatLink https://stat.link/9snv6t

To quantify the effects of government investment on key growth channels, a framework developed in recent literature on public debt is applied.[2] Historical 'spending surges' – defined as increases of at least 10% and lasting three years or more – are identified in a panel of OECD countries from 1970 to 2019. This surge-based approach mitigates measurement challenges in fiscal data and improves identification by focusing on large, discrete shifts in spending more likely to be related to policy decisions. The dynamic effects of these surges on structural outcome variables closely linked to long-run growth are estimated using the local projection method (Jordà, 2005).

The results suggest that spending surges are associated with meaningful improvements in growth-related outcomes. A sustained increase in government R&D spending increases private R&D expenditure by approximately 6% on average, 5 years after the shock (Figure 2.25). Surges in education spending are associated with a 2½ per cent rise in educational attainment, while increases in health spending reduce infant mortality by 2½ per cent.[3] These effects tend to emerge gradually, underscoring the long-term nature of returns to public investment in these areas.

1. A broad definition of investment is used—covering physical capital and current spending—to reflect that operational expenditures (e.g. salaries of scientists, teachers, and doctors, as well as lab, classroom, and hospital resources) directly contribute to innovation and human capital formation.

2. Based on the forthcoming OECD Working Paper: 'Government Spending and Growth Enhancing Structural Outcomes.'

3. Infant mortality is used in the regressions since it is less subject to influence from confounding factors, but it is strongly correlated with other measures of mortality and life expectancy.

Public investment can help enable the green and digital transitions, potentially crowding-in private investment. There remain significant investment needs in response to climate change. Global financing needs for climate mitigation are estimated at USD 5 trillion a year until 2030 (IMF, 2023). Investment needs for adaptation are also estimated to be large, though lower than for mitigation. Country-specific policy recommendations for increased climate-related public investment are highlighted in Chapter 3 for many advanced economies, as well as Malaysia. To complement public spending, other policy instruments – including pricing of climate-related externalities, information provision and regulations – can help more closely align private incentives with social benefits for climate mitigation and adaptation activities. Targeted public investment in basic research, through grants or publicly conducted R&D, can also catalyse private innovation in fields such as clean energy and climate technologies. Similarly, public investment can help support and encourage private investment in digital infrastructure. Efficient, reliable, and widely accessible digital infrastructure is essential to unlocking the full economic benefits of digitalisation, and public investment is often needed to extend coverage to rural areas or finance costly infrastructure projects with high positive externalities.

Tax policy reforms can promote stronger private investment growth

Tax policy settings also influence the conditions for private investment. While the recent decline in the user cost of capital has not been accompanied by strong aggregate investment growth in many economies, certain tax policy changes may be effective in incentivising investment spending. Low corporate tax rates on a broad corporate tax base can support investment by limiting the complexity of the tax system for businesses and distortions between different kinds of taxpayers. However, targeted measures such as relatively generous capital allowances or reduced non-profit taxes may be a more cost-effective way to support investment spending than general reductions in the statutory corporate tax rate (Box 2.3). Carefully designed tax incentives can also help address market failures in areas such as R&D spending and clean technology adoption (González Cabral et al., 2023; Dressler and Warwick, 2025). Temporary tax breaks, such as a short-lived acceleration in depreciation deductions, can also have powerful effects by advancing capital spending (Eichfelder and Scheider, 2014). However, such measures can be associated with deadweight costs and lower spending after the tax measure expires. In general, tax incentives may also be less effective in raising investment among firms with minimal profits (for example, small firms and start-ups), where these incentives do not have provisions, such as allowing firms to carry-forward tax benefits, or tax credits to be refunded for firms without a tax liability.

Tax measures that favour the accumulation of debt over equity can have negative consequences for financial stability by incentivising excessive debt accumulation and can have adverse implications for investment activity (Égert, 2021; Blundell-Wignall and Roulet, 2013). Incentives to favour debt financing may also inhibit the funding of intangible investments given that the underlying characteristics of these assets (uncertain returns, non-rivalry and low redeploy ability; Demmou and Franco, 2021) pose challenges in providing them as collateral against loans. However, this effect may be offset somewhat in tax systems that allow expensing of intangible investments.

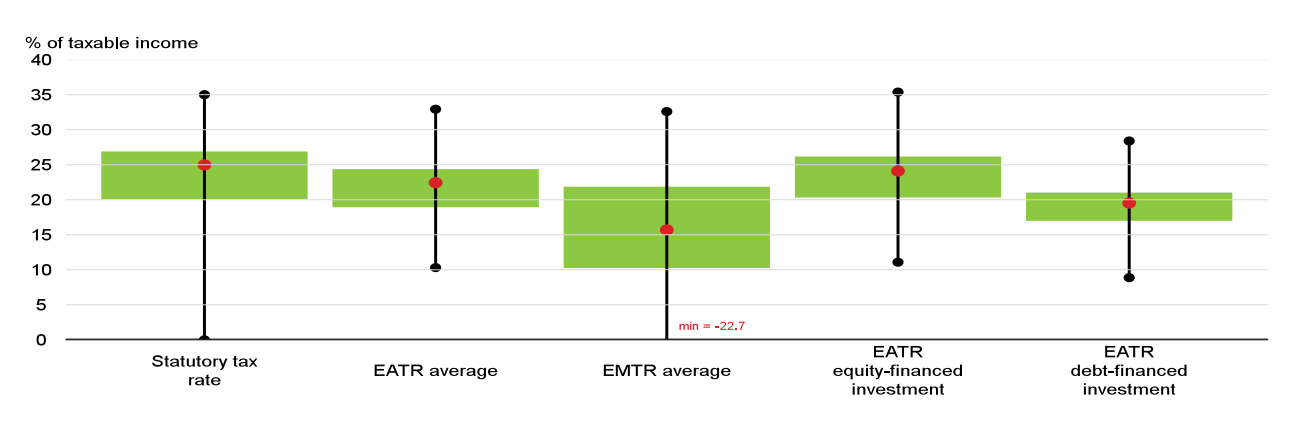
Box 2.3. Corporate income taxation and investment: impact and policy design considerations

Corporate income taxation (CIT) is usually considered to be a key policy instrument for influencing business investment decisions. Since the seminal work of Hall and Jorgenson (1967), a large body of empirical research has found a negative relationship between CIT rates and investment (see e.g. Feld and Heckemeyer, 2011; Vartia, 2008; Schwellnus and Arnold 2008; Zwick and Mahon, 2017). Higher CIT rates reduce the after-tax returns on investment, thereby reducing the number of economically viable investment projects. Higher CIT rates also can negatively affect firms' cash flow, which reduces liquidity and can limit investment for firms facing financial constraints.

The overall effect of CIT on investment also depends on the design of the CIT system beyond headline rates, including depreciation rules, tax allowances (such as accelerated depreciation), tax credits, CIT exemptions and reduced tax rates. Forward-looking effective tax rates, calculated based on hypothetical investment projects, can help gauge the impact of different design features of the tax system over the lifetime of an investment (Devereux and Griffith, 2003; Hanappi, 2018; González Cabral, Appelt and Hanappi, 2021; Celani, Dressler and Hanappi, 2022). The effective average tax rate (EATR) measures the average tax rate on investment projects earning positive profits or economic rents, while the effective marginal tax rate (EMTR) reflects the tax burden on a marginal investment project that just breaks even. Figure 2.26 also shows that these rates vary across sources of finance (and they can also vary according to asset classes, project profitability and firm size), highlighting the distortions in many CIT systems.

Figure 2.26. Effective corporate income tax rates vary strongly across assets and source of finance

Distribution of statutory versus effective CIT rates across OECD countries, percentage of taxable income, 2023



Note: The distribution (minimum, maximum, median and interquartile range) of CIT rates across OECD countries. It compares statutory tax rates with synthetic tax policy indicators calculated on the basis of a prospective, hypothetical investment project. Unlike backward-looking effective tax rates, they do not incorporate any information about firms' actual tax payments. Further details of the model and assumptions are contained in OECD Corporate Tax Statistics and Hanappi (2018).
Source: OECD Corporate Tax Statistics 2024 (OECD, 2024c).

StatLink https://stat.link/75qr38

The impact of corporate taxation on investment: heterogeneity across firms and tax design

Recent research suggests that the potential for corporate tax policy to support business investment varies across firms. Large, profitable multinationals — especially those with significant intangible assets, market power or profit-shifting opportunities — have become less sensitive to corporate tax changes in a single country over time, particularly since the global financial crisis (Hanappi and Whyman, 2023; Hanappi, Millot and Turban, 2023; Zwick and Mahon, 2017). Since a small number of large multinational firms account for a substantial share of total investment, this may reduce the aggregate investment response to tax policy changes.

Moreover, evidence suggests that investment responses vary significantly depending on tax policy design. Increases in effective taxation through non-profit taxes (i.e. business taxes levied on bases other than corporate income, such as real estate or wealth) tend to have a stronger negative effect on investment than CIT. Reforms that affect the tax base, such as expanding capital allowances, can be more effective in supporting investment compared to statutory tax rate (STR) cuts (Hanappi, Millot and Turban, 2023). Studies indeed show increased investment in response to the provision of accelerated depreciation, immediate expensing, enhanced allowances and tax credits (Maffini, Xing and Devereux, 2019; Chodorow-Reich et al., 2024; Ohrn, 2019). However, care should be taken when using these allowances, as a CIT base that is too narrow can undermine revenue and introduce distortions. Reducing the debt bias in the CIT system can also reduce economic distortions and support financial stability (De Mooij and Hebous, 2018; Feld, Heckemeyer and Overesch, 2013).

Alongside tax design, tax certainty is an essential condition for fostering business investment. Stable and predictable tax rules, combined with clear dispute resolution mechanisms, can reduce investment risk and support economic growth. In an increasingly globalised tax environment, both national policy choices and international cooperation can play a critical role in ensuring certainty.

Enhancing the investment impact of CIT policy: potential options for reform

Careful CIT design can enhance investment outcomes. Reforms could include:

- Eliminating or reducing non-profit taxes, which tend to distort investment more than profit-based taxes.
- Prioritise the use of more generous capital allowances and other tax-base measures, which often lead to stronger investment responses.
- Limit tax incentives to areas with clear policy goals and strong governance arrangements, and where clear positive externalities warrant an incentive, such as for R&D or green investments.
- Focus on expenditure-based tax incentives over income-based incentives. Support tax certainty through clear and predictable tax rules, clear eligibility criteria for tax incentives, and collaborative and consistent approach to tax administration, including internationally (OECD, 2024d).

References

Akcigit, U. and S. Ates (2021), “Ten Facts on Declining Business Dynamism and Lessons from Endogenous Growth Theory”, American Economic Journal, Vol. 13.

André, C. and L. Demmou (2022), “Enhancing insolvency frameworks to support economic renewal”, OECD Economics Department Working Papers 1738.

André, C. and P. Gal (2024), “Reviving productivity growth: A review of policies”, OECD Economics Department Working Papers, No. 1822, OECD Publishing, Paris, https://doi.org/10.1787/61244acd-en.

Andrews, D., B. Égert, C. Castle, C. de La Maisonneuve (2025), “Regulation and growth: Lessons from nearly 50 years of product market reforms”, OECD Economics Department Working Paper, forthcoming.

Andrews, D. and A. Garnero (2025), "Five facts on non-compete and related clauses in OECD countries", OECD Economics Department Working Papers, No. 1833, OECD Publishing, Paris,

Andrews, D., B. Égert, C. de La Maisonneuve (2024), “From decline to revival: Policies to unlock human capital and productivity”, OECD Economics Department Working Papers, No. 1827, OECD Publishing, Paris.

Autor, D., D. Dorn, L. F. Katz, C. Patterson and J. Van Reenen. (2020), “The fall of the labor share and the rise of superstar firms”, The Quarterly Journal of Economics, Vol. 135.

Autor, D. and A. Salomons (2018), “Is automation labor share-displacing? Productivity growth, employment, and the labour share”, Brookings Papers on Economic Activity, Vol. 1, pp. 1-87.

Azar, J., M. Schmalz and I. Tecu (2018), “Anticompetitive effects of common ownership”, The Journal of Finance, Vol. 73/4.

Baker, S., N. Bloom and S. Davis (2016), “Measuring economic policy uncertainty”, The Quarterly Journal of Economics, Vol. 131/4.

Banerjee, R., A. Mehrotra and F. Zampolli (2024), “Keeping the momentum: how finance can continue to support growth in EMEs”, BIS Papers No 148.

Berger, M., A. Dechezleprêtre and M. Fadic (2024), “What is the role of Government Venture Capital for innovation-driven entrepreneurship?”, OECD Science, Technology and Industry Working Papers, No. 2024/10, OECD Publishing, Paris,

Bétin, M. and V. Ziemann (2019), “How responsive are housing markets in the OECD? Regional level estimates”, OECD Economics Department Working Papers, No. 1590.

Blundell-Wignall, A. and C. Roulet (2013), “Long-term investment, the cost of capital and the dividend and buyback puzzle”, OECD Journal: Financial Market, OECD Publishing, Vol. 2013(1), pp. 39-52.

Caldara, D., M. Iacoviello, P. Molligo, A. Prestipino and A. Raffo (2019), “The economic effects of trade policy uncertainty”, International Finance Discussion Paper No. 1256, Washington: Board of Governors of the Federal Reserve System.

Calligaris, S., C. Criscuolo, J. De Lyon, A. Greppi and O. Pallanch (2025), “Concentration and business dynamics in product markets”, OECD Science, Technology and Industry Working Papers, No. 2025/04, OECD Publishing, Paris

Calligaris, S., C. Criscuolo, J. De Lyon, A. Greppi, O. Pallanch and M. Chaves (2024), “Industry concentration in Europe: Trends and methodological insights”, OECD Science, Technology and Industry Working Papers, No. 2024/06, OECD Publishing, Paris.

Calvino, F., C. Criscuolo and C. Menon (2015), “Cross-country evidence on start-up dynamics”, OECD Science, Technology and Industry Working Papers, No. 2015/6, OECD Publishing, Paris.

Carvajal, A. and T. Dider (2024), “Boosting SME finance for growth : The case for more effective support policies”, World Bank Report 42213, The World Bank Group.

Cavalleri, M., B. Cournède and E. Özsöğüt (2019), “How responsive are housing markets in the OECD? National level estimates”, ECD Economics Department Working Papers, No. 1589,.

Celani, A., L. Dressler and T. Hanappi (2022), “Assessing tax relief from targeted investment tax incentives through corporate effective tax rates: Methodology and initial findings for seven Sub-Saharan African countries”, OECD Taxation Working Papers, No. 58, OECD Publishing, Paris,.

Chen, P., K. Loukas and N. Brent (2017), “The global rise of corporate saving”, Journal of Monetary Economics, Vol. 89, pp. 1-19.

Chodorow-Reich, G. et al. (2024), Tax Policy and Investment in a Global Economy, National Bureau of Economic Research, Cambridge, MA.

Corrado, C. et al. (2021), “New evidence on intangibles, diffusion and productivity”, OECD Science, Technology and Industry Working Papers, No. 2021/10, OECD Publishing, Paris.

Cournède, B., F. De Pace and V. Ziemann (2020), “The Future of Housing: Policy Scenarios”, Economics Department Working Papers, Vol. No. 1624.

Crouzet, N. and J. Eberly (2019), “Understanding Weak Capital Investment: The Role of Market Concentration and Intangibles”, NBER Working Paper 25869.

D'Amico, L., Glaeser, E. L., Gyourko, J., Kerr, W. R., & Ponzetto, G. A. M. (2024), “Why Has Construction Productivity Stagnated? The Role of Land-Use Regulation“, NBER Working Paper No. 33188.

De Mooij, R. and S. Hebous (2018), “Curbing corporate debt bias: Do limitations to interest deductibility work?”, Journal of Banking & Finance, Vol. 96, pp. 368-378.

Demmou, L. and G. Franco (2021), “Mind the financing gap: Enhancing the contribution of intangible assets to productivity”, OECD Economics Department Working Papers, No. 1681.

Demmou, L., I. Stefanescu and A. Arquie (2019), “Productivity growth and finance: The role of intangible assets - a sector level analysis”, OECD Economics Department Working Papers, No. 1547, OECD Publishing, Paris.

Desai, M. A., Foley, C. F., & Hines, J. R. (2005). Foreign direct investment and the domestic capital stock. American Economic Review, 95(2), 33–38.

Devereux, M. and R. Griffith (2003), “Evaluating Tax Policy for Location Decisions”, International Tax and Public Finance, Vol. 10/2, pp. 107-126.

Diamond, R., T. McQuade and F. Qian (2019), “The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco”, American Economic Review, Vol. 109/9, pp. 3365-94.

Doidge, C., G. Karolyi and R. Stulz (2020), “The U.S. equity valuation premium, globalization, and climate change risks”, NBER Working Paper No. 27588.

Dorville, Y., F. Filippucci and L. Marcolin (forthcoming), “All hands on deck! Do structural trends affect labour shortages and mismatch?”, OECD Productivity Working Papers.

Dressler, L. and R. Warwick (2025), “Corporate income tax, investment, and the Net-Zero Transition: Issues for consideration”, OECD Taxation Working Papers, No. 73, OECD Publishing, Paris.

Égert, B. (2021), “Investment in OECD Countries: A Primer”, CESifo Working Paper No. 9136.

Eggertsson, G., N. Mehrotra and J. Robbins (2019), “A model of secular stagnation: Theory and quantitative evaluation.”, American Economic Review, Vol. 109/6.

Eichfelder, S. and K. Scheider (2014), “Tax Incentives and Business Investment: Evidence from German Bonus Depreciation”, CESifo Working Paper Series 4805, CESifo.

European Investment Bank (2024), “European Investment Bank Survey 2024: European Union Overview”.

Feld, L. and J. Heckemeyer (2011), “FDI and taxation: a meta study”, Journal of Economic Surveys, Vol. 25/2, pp. 233-272.

Feld, L., J. Heckemeyer and M. Overesch (2013), “Capital structure choice and company taxation: A meta-study”, Journal of Banking & Finance, Vol. 37/8, pp. 2850-2866.

Fournier, J. and Å. Johansson (2016), “The effect of the size and the mix of public spending on growth and inequality”, OECD Economics Department Working Papers, No. 1344, OECD Publishing, Paris.

Garcia-Posada, M. and J. Mora-Sanguinetti (2014), “Are there alternatives to bankruptcy? A study of small business distress in Spain”, Journal of the Spanish Economic Association, Vol. 5/2.

Goldbach, S., A. J. Nagengast, E. Steinmüller and G. Wamser (2019), "The effect of investing abroad on investment at home: On the role of technology, tax savings, and internal capital markets", Journal of International Economics, Vol. 116, No. C, pp. 58-73.

González Cabral, A., S. Appelt and T. Hanappi (2021), “Corporate effective tax rates for R&D: The case of expenditure-based R&D tax incentives”, OECD Taxation Working Papers, No. 54, OECD Publishing, Paris.

González Cabral, A. et al. (2023), “Effective tax rates for R&D intangibles”, OECD Taxation Working Papers, No. 63, OECD Publishing, Paris.

Gormsen, N. and K. Huber (2023), "Corporate Discount Rates", University of Chicago, Becker Friedman Institute for Economics Working Paper No. 2023-81.

Gutiérrez, G. and T. Philippon (2018), "Ownership, Concentration, and Investment", AEA Papers and Proceedings, Vol. 108.

Gutiérrez, G. and T. Philippon (2017), "Investment-less growth: An empirical investigation", Brookings Papers on Economic Activity.

Haksel, J. and S. Westlake (2018), Capitalism without capital: The rise of the intangible economy, Princeton University Press.

Hall, R. and D. Jorgenson (1967), "Tax policy and investment behavior", American Economic Review, Vol. 57/3, pp. 391-414.

Hanappi, T. (2018), "Corporate effective tax rates: model description and results from 36 OECD and Non-OECD Countries", OECD Taxation Working Papers, No. 38, OECD Publishing, Paris.

Hanappi, T., V. Millot and S. Turban (2023), "How does corporate taxation affect business investment? Evidence from aggregate and firm-level data", OECD Economics Department Working Papers, No. 1765.

Hanappi, T. and D. Whyman (2023), "Tax and investment by multinational enterprises", OECD Taxation Working Papers, No. 64, OECD Publishing, Paris.

IMF (2023), Emerging Economies Need Much More Private Financing for Climate Transition, IMF Blog, October 2023, https://www.imf.org/en/Blogs/Articles/2023/10/02/emerging-economies-need-much-more-private-financing-for-climate-transition.

Jordà, Ò. (2005), "Estimation and inference of impulse responses by local projections", American Economic Review, Vol. 95/1, pp. 161-182.

Kholodilin, K. and S. Kohl (2020), "Does social policy through rent controls inhibit new construction? Some Answers from Long-Run Historical Evidence", DIW Berlin Discussion Paper No. 1839.

Maffini, G., J. Xing and M. Devereux (2019), "The impact of investment incentives: evidence from UK corporation tax returns", American Economic Journal: Economic Policy, Vol. 11/3, pp. 361-389.

Mourougane, A. et al. (2016), "Can an increase in public investment sustainably lift economic growth?", OECD Economics Department Working Papers No. 1351, OECD Publishing, Paris.

Nicolleti, G., C. Vitale and C. Abate (2023), "Competition, regulation and growth in a digitized world: Dealing with emerging competition issues in digital markets", OECD Economics Department Working Papers, No. 1752, OECD Publishing, Paris.

OECD (2025a), "Estimating corporate investment in Artificial Intelligence", OECD Directorate for Financial and Enterprise Affairs Working Papers, forthcoming.

OECD (2025b), *Global Debt Report 2025*, OECD Publishing, Paris.

OECD (2024a), *OECD Economic Outlook*, Volume 2024 Issue 2, OECD Publishing, Paris.

OECD (2024b), *Product Market Regulation: Key takeaways from the 2023-2024 PMR indicators*. OECD Publishing, Paris.

OECD (2024c), *Corporate Tax Statistics 2024*, OECD Publishing, Paris.

OECD (2024d), *2024 Progress Report on Tax Co-operation for the 21st Century: OECD Report for the G7 Finance Ministers and Central Bank Governors*, OECD Publishing, Paris.

OECD (2023), "Confronting the cost-of-living and housing crisis in cities ", OECD Regional Development Papers, OECD Publishing, Paris.

OECD (2021), *Brick by Brick: Building Better Housing Policies*, OECD Publishing, Paris.

OECD (2019), "Budgeting and public expenditures in OECD countries 2019", OECD Publishing, Paris.

OECD (2015), “Lifting investment for higher sustainable growth”, OECD Economic Outlook, Vol. 97, OECD Publishing, Paris.

Ohrn, E. (2019), “The effect of tax incentives on U.S. manufacturing: Evidence from state accelerated depreciation policies”, Journal of Public Economics, Vol. 180, p. 104084.

Schmalz, M. (2017), “Common Ownership and Competition: Facts, Misconceptions, and What to Do”, Directorate for Financial and Enterprise Affairs Competition Committee: Hearing on Common Ownership by institutional investors and its impact on competition, https://one.oecd.org/document/DAF/COMP/WD%282017%2993/en/pdf.

Schwellnus, C. and J. Arnold (2008), “Do corporate taxes reduce productivity and investment at the firm level?: Cross-country evidence from the Amadeus dataset”, OECD Economics Department Working Papers, No. 641, OECD Publishing, Paris.

Shah, K., P. Bunn and M. Melolinna (2024), “High hurdles: evidence on corporate investment hurdle rates in the UK”, Bank of England Bank Underground Blog.

Vartia, L. (2008), “How do taxes affect investment and productivity?: An industry-level analysis of OECD countries”, OECD Economics Department Working Papers, No. 656, OECD Publishing, Paris.

World Economic Forum (2019), The Global Competitiveness Report, https://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf.

Zwick, E. and J. Mahon (2017), “Tax policy and heterogeneous investment behavior”, American Economic Review, Vol. 107/1, pp. 217-248.

Annex 2.A. An investment accelerator model

To help assess the extent to which cyclical fluctuations have contributed to the observed dynamics in business investment since the global financial crisis (GFC) and the pandemic, a reduced-form investment model is estimated. This relates real business investment growth to its own lag as well as to current real output growth. The model is estimated for the 17 OECD countries for which data on real business investment are available. This empirical framework aims to capture the short-term response of investment to output fluctuations, shedding light on the role of demand-side factors in shaping investment patterns over recent cycles. The results are presented in Table 2.A.1.

Annex Table 2.A.1. Panel regression results for simple accelerator model

Dependent variable: Annual real business investment growth

	(1)
Δ Output	1.2646***
	(0.179)
Δ Investment (t-1)	0.6065***
	(0.039)
Country FE	Yes
Observations	1824
R-squared	0.616

Note: Variables are real business investment and real GDP. The model is estimated on quarterly data from 1980Q1 to 2008Q2 for 17 OECD countries (Australia, Belgium, Canada, Denmark, Finland, France, Germany, Iceland, Japan, Korea, Netherlands, Norway, New Zealand, Sweden, Switzerland, United Kingdom, United States).
Source: OECD Economic Outlook 117 database; and OECD calculations.

An extended model is subsequently estimated that incorporates the standard determinants of investment implied by neo-classical frameworks, while also allowing for the role of time-varying capital depreciation rates, real equity prices (which may reflect corporate balance sheet conditions and elements of Tobin's Q), and capacity utilisation, proxied by the output gap (with a prior that a more negative output gap reduces the need to undertake new investment). The model is estimated using an unbalanced panel comprising 13 OECD economies, with quarterly data from 1993Q1 to 2022Q3, subject to data availability. All variables enter the model in logarithmic form, except for the output gap. In line with Pelgrin et al. (2002), the user cost of capital is introduced as log(1+UCC). Country-specific effects are controlled for using a least squares dummy variable estimator. The estimation results are presented in Table 2.A.2.

Annex Table 2.A.2. Panel regression results for extended accelerator model

Dependent variable: Quarterly real business investment growth

	(1)
Δ Output	1.3966***
	(0.112)
Δ UCC	-0.3014
	(0.218)
Gap (t-1)	0.0038**
	(0.002)
Δ Depreciation	0.3638*
	(0.196)
Share price (t-1)	0.0292
	(0.017)
Investment (t-1)	-0.3973*
	(0.187)
Output (t-1)	0.5055*
	(0.251)
UCC (t-1)	-0.1551
	(0.153)
Country FE	Yes
Observations	1560
R-squared	0.301

Note: Investment is real business fixed investment (log); Output is real GDP (log); Gap is output gap (in per cent); UCC is a proxy for the user cost of capital (product of the relative price of investment goods and the sum of real interest rate and depreciation rate; log(1+UCC)); Share price is equity price index deflated by GDP deflator (log). Robust standard errors are clustered by country.
Source: OECD Economic Outlook 117 database; and Authors' calculations.

3. Developments in individual OECD and selected non-member economies

Argentina

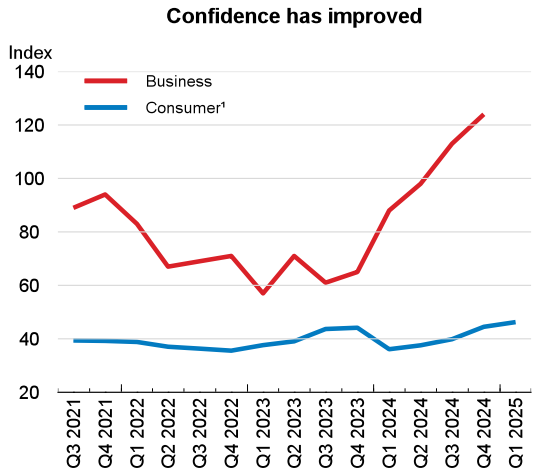
GDP growth is projected to be robust, at 5.2% in 2025 and 4.3% in 2026. Private consumption and investment will continue to recover, sustained by higher real disposable incomes, more favourable financing conditions and an improving business environment. The recent removal of capital restrictions will support further improvements in economic sentiment and investment. Inflation will continue to decline, albeit at a slower pace. Amid rising imports, the current account will deteriorate.

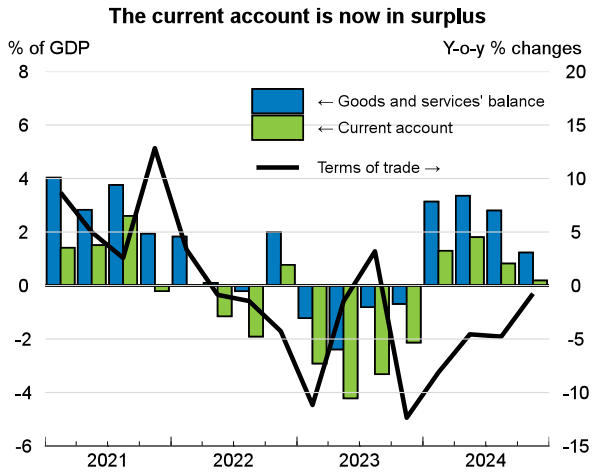
Monetary policy will need to remain tight to maintain inflation on a firmly downward path. Fiscal policy should build on the recent successful adjustment with more sustainable consolidation measures, to maintain strong fiscal outcomes. This includes phasing out subsidies, and raising public-sector efficiency, while replacing distortionary taxes by broader income and consumption tax bases. Recent efforts to reduce the regulatory burden will boost productivity and should continue, complemented by stronger incentives for the formalisation of workers and firms.

A strong economic recovery is underway

After a strong contraction in the first half of 2024, activity bounced back to growth of more than 18% in annualised terms in the third quarter and over 5% in the last quarter of 2024. The recovery was driven by private investment, consumption, and exports. Short-term indicators point towards further improvement. Credit to the private sector is recovering. Consumer confidence and business sentiment have improved. Annual inflation has fallen from 211% at the end of 2023 to 47% in April 2025. Unemployment was 6.4% in the fourth quarter of 2024, down from a peak of 7.7% in early 2024. Real wages have already surpassed their October 2023 level.

Argentina





1. Average of the monthly values of each quarter.
Source: Centro de Investigación en Finanzas (CIF) de la Universidad Torcuato Di Tella; Vistage; and OECD Economic Outlook 117 database.

StatLink https://stat.link/gvwre1

Argentina: Demand, output and prices

Argentina	2021	2022	2023	2024	2025	2026
	Current prices ARS billion	Percentage changes, volume (2004 prices)				
GDP at market prices	46 219.1	5.3	-1.6	-1.7	5.2	4.3
Private consumption	29 096.4	9.4	1.0	-4.2	6.2	3.8
Government consumption	7 356.1	3.0	1.5	-3.2	1.6	0.6
Gross fixed capital formation	7 991.6	11.2	-2.0	-17.4	21.7	14.9
Final domestic demand	44 444.1	8.6	0.6	-6.6	7.9	5.2
Stockbuilding[1]	363.1	-0.4	-0.1	-1.9	-0.4	0.0
Total domestic demand	44 807.2	8.3	0.4	-8.5	8.4	6.7
Exports of goods and services	8 350.3	4.6	-7.5	23.2	11.2	6.4
Imports of goods and services	6 938.4	17.8	1.7	-10.6	23.9	14.5
Net exports[1]	1 411.9	-1.8	-1.5	4.4	-1.3	-1.0
Memorandum items						
GDP deflator	_	69.9	135.4	207.9	51.7	32.7
Consumer price index[2]	_	72.4	133.5	219.9	36.6	14.9
Current account balance (% of GDP)	_	-0.5	-3.0	0.9	0.0	-0.8

1. Contributions to changes in real GDP, actual amount in the first column.
2. Based on yearly averages.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/wkv96u

There was a current account surplus of 0.9% of GDP in 2024, after a 3.0% deficit in 2023. New gas production is helping to reduce energy import dependence, and the sector now generates trade surpluses. Exports to the United States account for only about 9% of Argentina's total exports, or around 1% of GDP, and have not been significantly affected by US tariff increases so far. Argentina's own import tariffs and non-tariff trade barriers have been reduced in 2024 and further reductions are expected in 2025.

Macroeconomic policies have become more restrictive

An impressive fiscal adjustment has been achieved, resulting in a headline fiscal surplus of 0.3% of GDP in 2024. The government remains committed to achieving a positive primary balance in 2025, consistent with a balanced headline budget. Monetary policy has also helped the ongoing stabilisation by putting an end to excess money creation. The real benchmark interest rate has become positive and is expected to remain so. A new exchange rate regime has been announced, with the exchange rate floating within bands that will widen by 1% per month. A recent agreement with the IMF will provide additional funding and help to rebuild currency reserves. The removal of currency restrictions has improved confidence and investment incentives.

The economy is set for a robust recovery, but important challenges still lie ahead

The economic recovery is expected to continue, with GDP growth of 5.2% in 2025 and 4.3% in 2026, driven by higher private consumption and investment. Private investment will gain further momentum as currency and capital controls have been lifted. Real wages will continue improving as inflation declines, supporting private consumption. Export growth will slow compared to 2024. Exports have been affected by the recent real appreciation of the currency. Imports will continue their strong recovery, sustained by higher purchasing power and lower import barriers. Headline inflation is projected to slowly continue its downward path, falling to 37% in 2025 and 15% in 2026, sustained by lower import costs, balanced public accounts and positive real interest rates. Higher international interest rates could make it more difficult to accumulate international reserves. Higher US tariffs could result in lower export growth, but export prospects in the agricultural and livestock sector could potentially benefit from changing trade patterns.

Further efforts are necessary to sustainably improve the fiscal position

Sustaining better fiscal outcomes will require deeper reforms of taxes and expenditures. Expanding the personal income tax base could raise revenues in a progressive way and would allow distortionary and inefficient taxes that hinder investment to be reduced. Eliminating VAT exemptions could generate additional revenues. Despite recent progress, trade barriers remain high and lower import barriers on intermediate and capital goods could boost investment and export competitiveness. Regulatory processes have been simplified, but entry barriers in services sectors could be reduced further.

Australia

After a period of weak activity, GDP growth will reach 1.8% in 2025 and 2.2% in 2026. The strong recent immigration-driven growth in employment and the labour force will subside, leaving unemployment little changed at low levels. Inflation will remain close to target, averaging 2.3% in both 2025 and 2026. Australia has limited direct exposure to US tariff changes but is at risk from any marked slowdown in China, especially via its effect on commodity prices.

Monetary policy tightening in 2022-24 squeezed disposable incomes and restrained demand, facilitating a return of inflation to target. The easing that began recently should continue in the coming quarters as long as inflation remains subdued. The main fiscal priorities relate to the longer term, addressing demographic and climate challenges and improving the efficiency of the tax system. A range of policy actions, including easing zoning restrictions, is needed to strengthen competition and productivity, as well as to raise housing investment to reverse the long-standing decline in housing affordability.

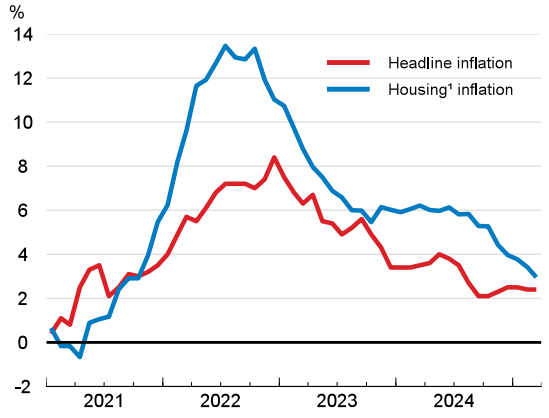
Public consumption has helped to avoid a hard landing but global trade tensions are hitting sentiment

The growth of private domestic demand – especially consumption and housing investment – was weak in 2024, in part reflecting the cumulative effect of the rise in interest rates since 2022. This weakness was, however, largely offset by strong growth in government consumption. Activity indicators for early 2025, including household spending, suggest that the improved but still moderate private consumption growth seen in late 2024 has continued. Both business and consumer sentiment have worsened recently, however, likely reflecting the elevated uncertainty arising from global trade tensions. The disinflation that began in late 2022 has continued, with headline inflation at or below the mid-point of the target range since September 2024, although the central bank's preferred measure of core inflation remains above target. Disinflation has been achieved with little deterioration in labour market conditions, with employment continuing to grow strongly – driven by high net immigration over the past three years – and unemployment remaining low. The strength of employment was facilitated by subdued wage growth, while vacancies have fallen back to their pre-pandemic trend path.

Sluggish external demand for Australia's main export commodities yielded lower export prices and near-stagnant volumes over the past year. The resulting fall in export receipts contrasted with a 5% increase in imports, pushing the current account deficit up to 1.9% of GDP in 2024. Australia's exposure to US tariff increases is limited given that exports to the United States represent only about 5% of total exports. The impact of global trade tensions on the Australian economy is more likely to come via the depressing effect of higher tariffs and policy uncertainty on investment worldwide, manifested in part by lower prices for iron ore, coal and natural gas.

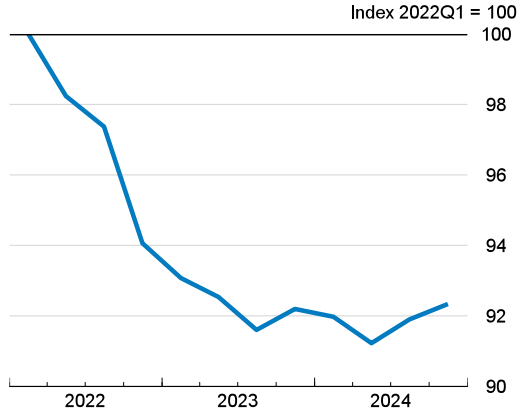
Australia

Housing has held up disinflation but is now easing



The slump in disposable incomes has bottomed out

Real household diposable income per capita



1. Housing includes rents and new dwelling purchase by owner-occupiers.
Source: Australian Bureau of Statistics; and OECD Economic Outlook 117 database.

StatLink https://stat.link/3n0ebg

Australia: Demand, output and prices

Australia	2021	2022	2023	2024	2025	2026
	Current prices AUD billion	Percentage changes, volume (2022/2023 prices)				
GDP at market prices	2 202.7	4.1	2.0	1.1	1.8	2.2
Private consumption	1 089.8	7.3	2.4	0.6	1.5	2.3
Government consumption	488.2	5.1	1.9	4.7	2.8	2.1
Gross fixed capital formation	509.6	2.1	5.1	2.2	1.8	2.4
Final domestic demand	2 087.6	5.5	2.9	1.9	1.9	2.3
Stockbuilding¹	6.2	0.6	-0.9	0.1	0.1	0.0
Total domestic demand	2 093.8	6.1	1.9	2.1	2.0	2.3
Exports of goods and services	519.8	2.6	6.9	1.0	2.4	3.1
Imports of goods and services	410.9	13.7	6.8	5.5	2.1	3.3
Net exports¹	108.9	-1.9	0.4	-1.0	0.1	0.0
Memorandum items						
GDP deflator	_	8.3	3.5	2.7	2.2	2.2
Consumer price index	_	6.7	5.6	3.2	2.3	2.3
Core inflation index²	_	5.9	5.8	3.3	2.5	2.3
Unemployment rate (% of labour force)	_	3.7	3.7	4.0	4.1	4.3
Household saving ratio, net (% of disposable income)	_	8.0	2.6	3.4	4.7	5.8
General government financial balance (% of GDP)	_	-1.7	-0.8	-2.7	-4.0	-3.9
General government gross debt (% of GDP)	_	55.0	55.7	57.1	59.9	62.5
Current account balance (% of GDP)	_	0.3	-0.3	-1.9	-2.0	-2.2

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 117 database.

StatLink https://stat.link/cxfag4

Monetary easing will continue while fiscal policy is becoming less expansionary

The central bank made an initial 25 basis point cut in the policy rate in February and another in May, and with inflation expected to remain close to target while output growth is below potential and labour market conditions are softening, a further two 25 basis point cuts are expected this year and another in 2026. Federal and state budgets for the 2024-25 and 2025-26 fiscal years imply a widening of the general government deficit by 1.3 percentage points of GDP in calendar year 2025, after an increase of 1.9 percentage points in 2024, before the deficit stabilises at just under 4% of GDP in 2026. This would mean an upward drift in the ratio of public debt to GDP, but net debt to GDP would remain modest, reaching only 6.6% in 2026.

Growth should be close to potential in 2025-26 barring adverse external shocks

Given renewed, if modest, real wage growth and a recovery in real disposable household income as interest rates decline, private consumption growth is expected to pick up this year and next, more than offsetting a slowdown in public consumption growth. Some interest-rate-sensitive investment, such as housing, is expected to rebound in 2025, but other investment will be hindered by elevated global policy uncertainty, leaving overall fixed investment growth little changed from 2024. Final domestic demand growth in 2025 is projected to be around 2%, as in 2024, but with export and import volume growth projected to be similar in 2025, the drag on GDP from net exports seen in 2024 eases, allowing GDP growth to pick up from 1.1% in 2024 to 1.8% in 2025. A further improvement in private consumption and investment in 2026 is projected to push GDP growth up to 2.2% in 2026, roughly in line with potential. The main sources of risk to the projections are external, especially any negative developments relating to import demand in China, by far Australia's largest export market and the largest consumer of the main Australian export commodities.

Policies should be geared to maintaining macroeconomic balance while addressing structural weaknesses

The expected continued easing of monetary policy is warranted barring shocks pushing inflation back up and/or causing expectations to become de-anchored, but the difficult external context may demand nimbleness on the central bank's part. The widening of the fiscal deficit in 2024-25 and the further budgeted increase in 2025-26 are justifiable given the weakness of private demand, but governments should look to save any windfalls relative to current plans. Consolidation is needed over the medium term, given the fiscal pressures on the horizon, including population ageing and costs associated with the transition to net zero. Key structural policy priorities are to address the housing affordability crisis by boosting supply and to accelerate progress toward net zero carbon emissions, especially in transport and industry. The revitalisation of competition policy heralded by two agreements between federal and state governments signed in 2024 should also help to reverse the longstanding decline in trend productivity growth, including by boosting business investment via streamlined regulation at all levels of government. This should be complemented by other policies to strengthen investment, including improved incentives for housebuilding, especially for social housing, and public investment to improve electricity grid connections.

Austria

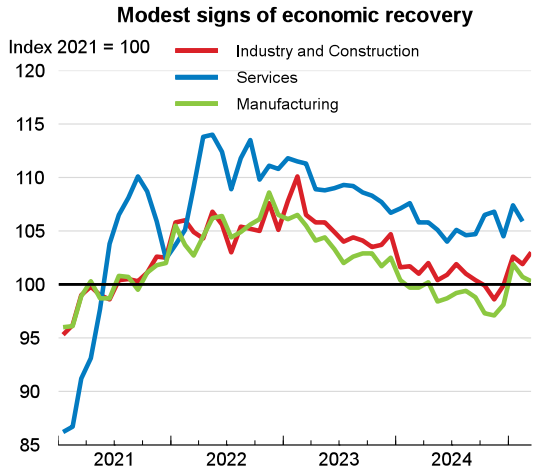
The economy is projected to begin recovering from a prolonged recession, with output declining by 0.3% in 2025, but growing modestly by 1% in 2026. A gradual pickup in household consumption and private investment, supported by lower interest rates and a resilient labour market, will help drive the recovery. Inflation is expected to decline towards 2% by end-2026. Progressive fiscal consolidation may constrain demand growth. A slowdown in activity in Europe or deepening of structural challenges may hold back the recovery, while more persistent wage increases could further impair competitiveness and sustain higher inflation.

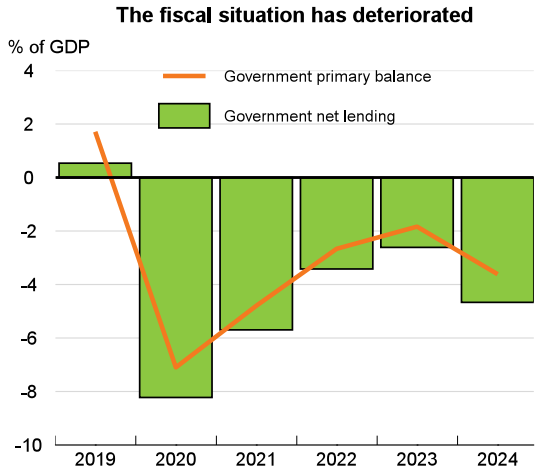
Fiscal plans should progressively reduce the budget deficit in the years ahead, bringing it below 3% of GDP. Leveraging EU funds would help cushion the impact of a restrictive fiscal policy stance while strengthening economic resilience through the structural adjustment of industries heavily affected by rising energy costs. Increasing labour force participation among women and older workers as planned, along with shifting taxation away from labour, would promote more inclusive growth and support the sustainability of the public finances. Plans to expand broadband should include easing regulations relating to infrastructure deployment alongside innovative policy instruments and incentives.

The economy has continued to contract, albeit at a slower pace

Economic activity rose by 0.2% in the first quarter of 2025, signalling a modest recovery after having declined for three consecutive quarters and, in particular, by 0.4% in 2024Q4. Output growth was primarily driven by industrial production (up 0.6%, q-o-q in real terms), services (up 0.8%) and exports (up 1.4%). Inflation rose to 3.3% in April from 3.1% in March.

Austria





Source: Statistics Austria; and OECD Economic Outlook 117 database.

StatLink https://stat.link/gmh6z3

Austria: Demand, output and prices

Austria	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices*	406.1	5.4	-0.9	-1.3	-0.3	1.0
Private consumption	201.3	5.2	-0.3	0.1	0.6	1.4
Government consumption	88.6	-0.5	1.2	1.6	1.4	1.0
Gross fixed capital formation	105.5	0.3	-3.1	-3.6	0.0	1.5
Final domestic demand	395.4	2.6	-0.7	-0.5	0.6	1.3
Stockbuilding[1]	6.6	1.3	-3.0	-1.0	0.3	0.0
Total domestic demand	402.0	3.9	-3.7	-1.5	1.0	1.4
Exports of goods and services	227.7	10.1	-0.5	-4.3	-0.9	2.0
Imports of goods and services	223.7	7.1	-4.5	-5.0	0.7	1.6
Net exports[1]	4.0	1.7	2.5	0.3	-0.9	0.3
Memorandum items						
GDP deflator	_	4.8	6.6	3.0	2.5	2.2
Harmonised index of consumer prices	_	8.6	7.7	2.9	3.0	1.9
Harmonised index of core inflation[2]	_	5.1	7.3	3.9	2.9	2.2
Unemployment rate (% of labour force)	_	4.7	5.1	5.2	5.2	5.2
Household saving ratio, net (% of disposable income)	_	8.8	8.7	11.7	12.3	12.9
General government financial balance (% of GDP)	_	-3.4	-2.6	-4.7	-4.4	-4.2
General government gross debt (% of GDP)	_	85.1	87.0	90.1	93.0	94.9
General government debt, Maastricht definition[3] (% of GDP)	_	78.3	78.4	81.8	84.7	86.6
Current account balance (% of GDP)	_	-0.9	1.3	2.4	1.8	1.5

* Based on seasonal and working-day adjusted quarterly data; may differ from official non-working-day adjusted annual data.
1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/g7qnu8

Austria is a highly open economy, and around two-thirds of trade occurs within the European Union where it is closely integrated into regional value chains. Weak trade performance in recent years reflects sectoral challenges in key products, such as machinery and vehicles, processed goods, chemical products, and other manufactured goods. While direct exposure to increases in US tariffs on EU goods is modest, there are indirect effects through weaker demand in European markets as a whole, notably Germany. Gas and electricity connections to other European countries are being upgraded rapidly, which will improve energy security and may help to lower prices, including for energy-intensive sectors.

Fiscal consolidation is planned

In 2024, the budget deficit reached an unexpectedly high level of 4.7% of GDP, driven by higher-than-expected wage increases and spending at sub-federal level, and breached the 3% of GDP threshold of the EU rules. The new government has introduced a seven-year budget consolidation plan. In the short run, spending cuts are scheduled to amount to approximately EUR 6.3 billion in 2025 (1.3% of GDP) and EUR 8.7 billion in 2026 (1.9% of GDP). The spending reductions are primarily targeted at reducing pensions, family support and environmental subsidies and implementing across-the-board cuts in all ministerial departments. The plans also incorporate targeted tax increases on banks, tobacco products, gambling, real estate transactions and foundations, but tax relief for SMEs, as well as incentives for additional performance and investments in social welfare and economic growth.

The economy is set to begin recovering

Economic activity is projected to contract by 0.3% in 2025, before growing by a modest 1.0% in 2026. Household consumption is expected to rebound gradually as real wages continue rising following previous inflation adjustments. With falling interest rates, private investment should begin to recover in the second half of 2025, although at a subdued pace given uncertainty and structural challenges. Trade growth will be relatively modest given wider regional developments, but will be supported in 2026 by higher government spending in Germany. Inflation is expected to decline steadily over the remainder of 2025 and 2026. Risks to these projections are skewed to the downside. Heightened trade tensions affecting Germany and an extended crisis in the automotive and other industrial sectors could further undermine economic prospects. More persistent wage increases could further hamper competitiveness. The fiscal consolidation plan may exert a stronger-than-expected dampening effect on economic activity, potentially resulting in a prolonged period of sluggish growth.

Fiscal consolidation is needed and structural reforms would help sustain the recovery

The medium-term consolidation strategy aims to reduce the fiscal deficit gradually until 2031 but phasing it in more progressively in the initial two years would limit the near-term impact on economic growth. Sustaining the consolidation path will be challenging given that population aging is projected to add fiscal pressure of around 2% of GDP by 2030, on top of rising interest payments and climate and defence spending. Reforms aimed at reducing regulatory barriers such as cutting red tape and lowering entry barriers in targeted sectors, in particular, professional services, would boost competitiveness and business investment. Similarly, addressing regulatory bottlenecks in housing, by easing land-use regulations, could improve housing supply and stimulate construction investment. Accelerating public investment plans to expand communications networks and high-speed connectivity, and easing related regulatory constraints, would foster digitalization and support long-term economic growth. Policies to increase female labour market participation – such as the planned expansion in child and long-term care facilities – and measures to raise the effective retirement age would help mitigate the impact of a declining working-age population.

Belgium

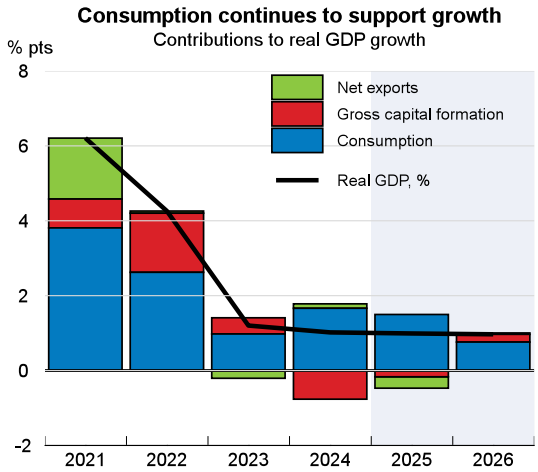
Economic activity is projected to continue to expand at a modest pace, with GDP growth stable at 1.0% in 2025 and 2026. Household consumption remains the primary driver of economic activity but is expected to slow as real income growth moderates. Investment is set to decelerate following robust growth in 2023 and 2024, primarily due to heightened uncertainty surrounding international trade developments. Export growth continues to be subdued, reflecting weakening competitiveness and sluggish external demand. Disinflation is expected to continue, pushing inflation below 2% in 2026.

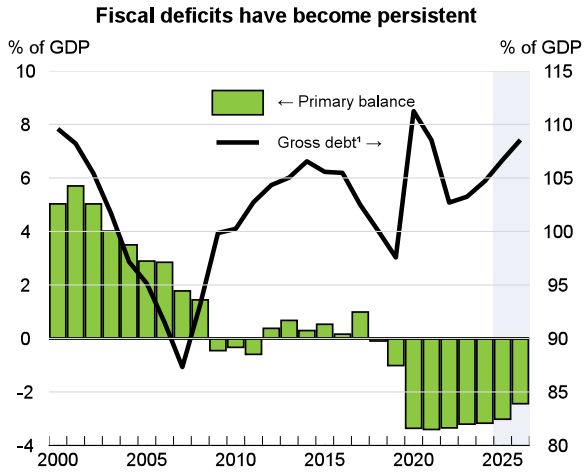
The fiscal deficit remains substantial, and meaningful fiscal consolidation efforts will only resume in 2026, leaving Belgium unlikely to meet European Union fiscal targets for both 2025 and 2026. The existing tax structure disproportionately relies on labour taxes, negatively affecting employment. Implementing comprehensive tax reforms to broaden the tax base, reduce distortions, and address disincentives to work could significantly enhance potential economic growth. Additionally, reducing administrative burdens, particularly for small businesses, could further stimulate investment.

Growth has moderated

Private consumption strengthened during the second half of 2024, buoyed by robust real disposable income growth in preceding years, but slowed markedly at the beginning of 2025. Public consumption followed a similar pattern. Other growth drivers have been less dynamic. Private investment has been weak, constrained by sluggish exports and subdued residential construction, although both rebounded in early 2025, pushing quarterly GDP growth to 0.4% (non-annualised) in the first quarter of 2025. Export performance has been consistently poor, resulting in the current account returning to a deficit. Changes in US tariff policies and the uncertain international environment have led to sharp falls in business and investor confidence since the end of 2024. Although the labour market remained resilient into early 2025, employment growth slowed significantly compared to previous years. Disinflation trends have persisted, with core inflation easing to 2.3% in April 2025. Headline inflation also declined to just above 3%, down from over 5% in the summer of 2024, driven in part by base effects from earlier increases in tobacco and energy prices.

Belgium





1. Maastricht definition.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/ic0tn2

Belgium: Demand, output and prices

Belgium	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2020 prices)				
GDP at market prices	506.0	4.3	1.2	1.0	1.0	1.0
Private consumption	252.6	3.6	0.6	2.0	1.9	0.8
Government consumption	120.3	3.4	2.9	2.6	2.1	1.4
Gross fixed capital formation	121.0	1.7	3.5	1.4	0.8	0.8
Final domestic demand	493.9	3.1	1.8	2.0	1.7	1.0
Stockbuilding[1]	2.7	1.2	-0.4	-1.1	-0.3	0.0
Total domestic demand	496.6	4.3	1.4	0.9	1.3	1.0
Exports of goods and services	453.5	5.8	-7.1	-3.4	-0.5	1.1
Imports of goods and services	444.1	5.8	-6.8	-3.5	-0.1	1.0
Net exports[1]	9.5	0.1	-0.2	0.1	-0.3	0.0
Memorandum items						
GDP deflator	_	6.8	4.5	1.9	2.0	1.9
Harmonised index of consumer prices	_	10.3	2.3	4.3	2.9	1.8
Harmonised index of core inflation[2]	_	4.0	6.0	3.4	1.8	1.9
Unemployment rate (% of labour force)	_	5.6	5.5	5.7	5.9	6.1
Household saving ratio, net (% of disposable income)	_	6.0	7.7	6.4	6.5	6.2
General government financial balance (% of GDP)	_	-3.6	-4.1	-4.5	-4.7	-4.5
General government gross debt (% of GDP)	_	102.4	105.0	104.3	106.2	108.1
General government debt, Maastricht definition[3] (% of GDP)	_	102.7	103.2	104.7	106.7	108.6
Current account balance (% of GDP)	_	-1.3	-0.7	-0.9	-0.2	0.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/cgfrpw

Belgium, one of the OECD's most open economies, remains highly vulnerable to escalating global trade tensions. While its direct bilateral trade exposure to the new US tariffs on EU goods is limited – with exports to the United States primarily exempt goods like pharmaceuticals and chemicals – its exports would suffer from an ensuing slowdown of its main European partners.

Fiscal consolidation is slow

Automatic indexation bolstered household purchasing power during the post-pandemic inflation surge but also exacerbated fiscal deficits and weakened competitiveness. The transition to a new government has contributed to further delays in advancing fiscal consolidation efforts. Despite an anticipated reduction in the structural primary deficit to 2.4% of potential GDP by 2026 (down from 3.2% in 2024), achieving the EU fiscal targets will likely remain unattainable. The overall fiscal deficit is expected to deteriorate further in 2025 before slightly decreasing to 4.5% in 2026, the same level as in 2024.

Rising uncertainty will weigh on growth prospects

Economic growth is expected to remain below potential. The investment recovery will continue to face headwinds from elevated global trade uncertainty, although residential investment is expected to improve gradually from low levels. Wage growth moderation aimed at restoring competitiveness will result in slower private consumption growth. Export activity will remain weak due to softer external demand, keeping the current account broadly balanced. Consumer prices are expected to decelerate, with core inflation falling below 2% in both 2025 and 2026. Increased European defence expenditures, notably from Germany, may provide a modest boost to exports. Conversely, Belgium might face increased import penetration from China, a risk further aggravated by recent losses in competitiveness.

Bold reforms are needed to address domestic challenges

Effective fiscal consolidation should prioritise enhancing spending efficiency in healthcare and pension systems alongside comprehensive tax reform to shift taxation away from labour towards broader, less distortionary bases. A credible medium-term fiscal strategy featuring multiannual budgeting frameworks and binding expenditure rules at federal and regional levels is essential. Labour market policies should progressively phase out work disincentives and incentivise prolonged employment. Long-term economic growth would benefit significantly from regulatory simplification and expanded access to lifelong learning. Achieving climate objectives will require stronger incentives for energy efficiency and renewable energy investments. Reducing administrative burdens on small and innovative businesses would further support investment and economic dynamism.

Brazil

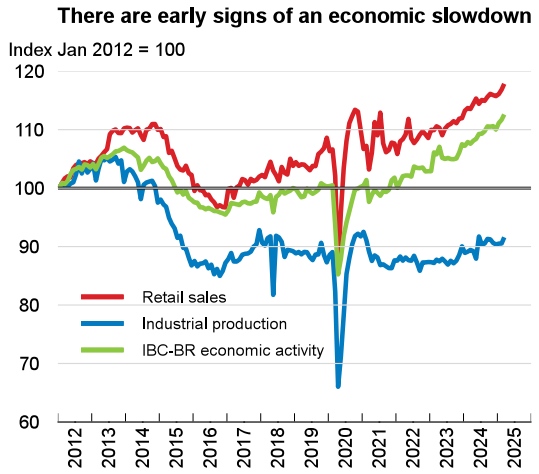
Real GDP is projected to expand by 2.1% in 2025 and 1.6% in 2026. Household consumption will continue to be the principal driver of growth, even if slowing, bolstered by robust wage increases. Private investment experienced a marked pickup in 2024 and is expected to remain buoyant despite easing gradually. Export momentum is projected to improve modestly, albeit against a backdrop of significant exposure to demand from China. Inflation is projected to remain above the 3% target throughout both 2025 and 2026, driven predominantly by the services sector.

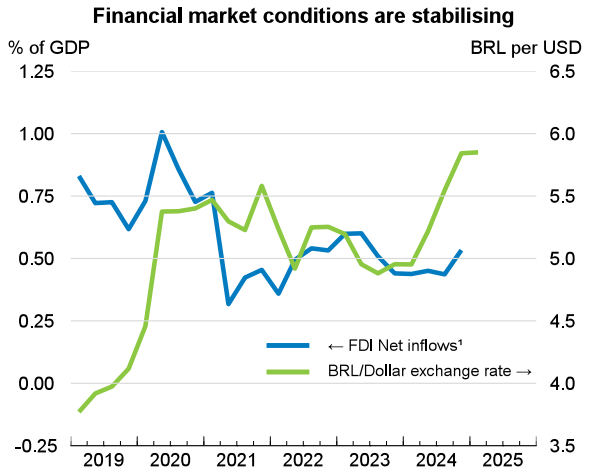
Fiscal policy is expected to remain slightly expansionary in 2025. A proposed income tax reform, designed to be tax-neutral, is unlikely to generate additional fiscal space to accommodate rising spending pressures. Social expenditures are set to continue to rise, putting further pressure on the public finances. A tight monetary policy stance is projected to continue for some time. Lowering market entry and exit barriers, easing regulations, boosting infrastructure investments and fostering competition have significant potential to boost productivity and growth.

Economic activity is slowing down

Despite robust GDP growth of 3.4% in 2024, early signs of an economic slowdown emerged toward the end of the year. Domestic demand weakened, driven by a decline in household consumption coupled with lower investment, as heightened uncertainty, rising policy rates, and persistent inflation undermined both business and consumer confidence. Industrial production remains subdued, but after five consecutive months of stagnation, it grew by 1.2% in March. Retail sales have moderated after a 4.7% annual increase in 2024. Conversely, the services sector maintained its strong momentum in early 2025, propelled by the information and communications sector. In agriculture, the 2025 harvest is projected to be much stronger than in 2024, which was affected by a drought. Although unemployment edged up slightly to 6.8% in February from its historic low in November, the labour market remains resilient, as evidenced by record-high formal-sector employment and earnings.

Brazil 1





1. Moving average.
Source: CEIC; Banco Central do Brasil; OECD Economic Outlook 117 database; and OECD calculations.

StatLink https://stat.link/g0fv89

Brazil: Demand, output and prices

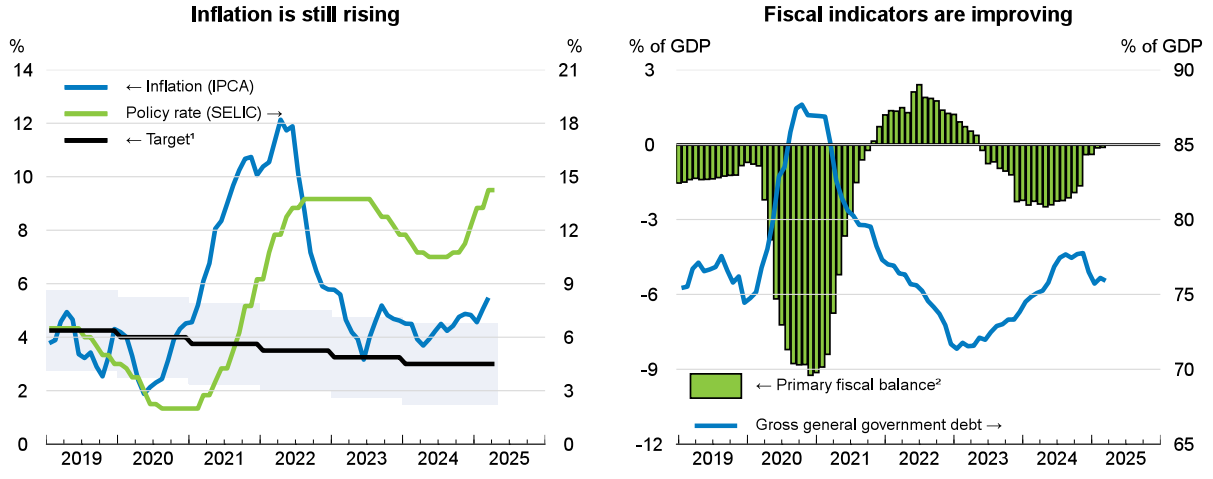
Brazil	2021	2022	2023	2024	2025	2026
	Current prices BRL billion	Percentage changes, volume (2000 prices)				
GDP at market prices	9 012.1	3.0	3.2	3.4	2.1	1.6
Private consumption	5 530.6	4.1	3.3	4.8	1.5	1.9
Government consumption	1 671.5	2.1	3.8	1.9	2.0	1.4
Gross fixed capital formation	1 614.8	1.0	-2.9	7.2	2.8	1.5
Final domestic demand	8 816.9	3.2	2.3	4.6	1.8	1.7
Stockbuilding[1]	144.6	-0.9	-0.9	0.5	0.9	0.0
Total domestic demand	8 961.4	2.2	1.3	5.1	2.7	1.7
Exports of goods and services	1 722.2	6.2	8.9	2.1	-0.3	1.8
Imports of goods and services	1 671.5	1.5	-1.1	13.2	3.4	2.3
Net exports[1]	50.7	0.9	2.0	-1.7	-0.6	-0.1
Memorandum items						
GDP deflator	_	8.6	5.2	3.8	7.0	5.7
Consumer price index	_	9.3	4.6	4.4	5.7	5.0
Private consumption deflator	_	10.4	4.9	3.8	6.7	6.1
Government financial balance[2] (% of GDP)	_	-4.0	-7.7	-6.2	-6.2	-6.9
Government gross debt[2] (% of GDP)	_	71.7	73.8	76.5	78.2	82.2
Current account balance (% of GDP)	_	-2.2	-1.3	-2.8	-2.6	-2.5

1. Contributions to changes in real GDP, actual amount in the first column.
2. Data refer to general government.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/dw4l8e

Inflation rose to 5.5% in April. This increase was driven primarily by higher costs of electricity, food, and beverages, in addition to persistent price pressures in services. Core inflation also rose, and inflation expectations remain persistently above the target for 2025. Exports to the United States represent 12% of total exports, but less than 2% of GDP. Manufactured goods account for over 78% of shipments to the United States and are subject to the 10% additional tariff while steel, aluminium and auto parts are affected by a larger tariff increase to 25% and an elimination of quotas and exemptions. Brazil may benefit from higher demand for commodities and agrifood by third countries, especially China.

Brazil 2



1. The shaded area corresponds to the inflation tolerance band.
2. Flows accumulated in 12 months.
Source: OECD Economic Outlook 117 database; and Banco Central do Brasil.

StatLink https://stat.link/o6vnfl

A challenging macroeconomic policy mix

The Central Bank has continued its monetary tightening cycle, raising the policy rate four times since November, from 11.25% to 14.75% in May 2025. This tightening is intended to address price pressures from a positive output gap, a tight labour market with robust wage growth, an ongoing fiscal expansion, and a depreciating currency, all of which are driving inflation expectations higher. Despite heightened policy uncertainty, the projections include further rate increases, bringing the policy rate to 15% towards the end of 2025, before a gradual reduction to 12% by the end of 2026 as inflationary pressures ease.

Fiscal policy is expected to remain modestly expansionary, posing challenges for meeting the primary balance target. Under the current fiscal rule, the government is required to achieve a balanced primary budget in 2025 and a primary surplus of 0.25% of GDP in 2026. However, persistent spending pressures from social benefits and strict minimum spending requirements for healthcare and education, pose significant challenges for meeting these targets. Moreover, slower economic activity is likely to constrain government revenue growth. This financing gap may end up being bridged by one-off measures, such as increased dividend and royalty receipts, or by broad-based expenditure freezes. Additionally, interest payments, currently estimated at around 8% of GDP, will continue to follow rising interest rates, increasing the growth of gross public debt.

Growth is set to ease

Economic growth is projected to ease from 3.4% in 2024 to 2.1% in 2025, and 1.6% in 2026. The moderation is largely driven by a slowdown in domestic demand. Household consumption is expected to soften as higher inflation and weaker consumer confidence take their toll. After a strong rebound in 2024, private investment will likely become weaker over 2025 and 2026 due to softening external demand and the impact of higher interest rates. On the supply side, the manufacturing sector faces challenges from rising tariffs in the United States, which remains the primary destination for Brazilian manufacturing exports. Annual inflation is forecast at 5.7% in 2025 before easing slightly to 5.0% in 2026. This reflects quarterly inflation gradually converging toward the target, reaching around 4% in the final quarter of 2026, although intermittent upticks from trade and tariff shocks remain possible.

The projections are subject to several risks. Fiscal slippage could dampen investment and erode confidence. Inflation risks are slightly tilted to the upside as persistent financial market tensions and further currency depreciation could intensify price pressures. Moreover, any additional deterioration of confidence in the fiscal outlook would likely extend the current episode of unanchored inflation expectations and require higher interest rates for longer, further undermining the economic outlook.

Consolidating public spending while expanding infrastructure investment

Fiscal consolidation is essential to put public debt on a declining trajectory. Reforming automatic spending rules, particularly those concerning education and healthcare, would allow greater flexibility to address priority challenges, and adjusting the indexation formula for public pensions and social benefits would reduce the burden of these benefits on the public finances. Stringent regulations and high administrative burdens on goods and services markets hinder competition and hamper the entry of new firms, thus dampening productivity growth and investment. Although recent measures have trimmed unnecessary bureaucracy, further reductions in regulatory burdens and licensing requirements remain critical. Easing entry restrictions in professional services, including abolishing exclusive rights for certain ancillary tasks, could reduce the cost of doing business, thereby boosting competition and enhancing productivity. Moreover, enhanced access to foreign markets and deeper integration into global value chains can be achieved by lowering existing trade barriers. Public spending on infrastructure could become more effective by addressing shortcomings in planning and project execution, as more than 30% of public

infrastructure projects are interrupted either temporarily or permanently. Expanding technical assistance to subnational governments, which frequently face capacity constraints for infrastructure project preparation and procurement, would significantly enhance the planning and delivery of such investments. Finally, unlocking additional private financing sources is crucial for bridging infrastructure gaps in the medium term. A comprehensive reassessment of current risk-sharing mechanisms and a concerted effort to minimise policy risks and judicial uncertainty could improve the framework conditions for private infrastructure investments.

Bulgaria

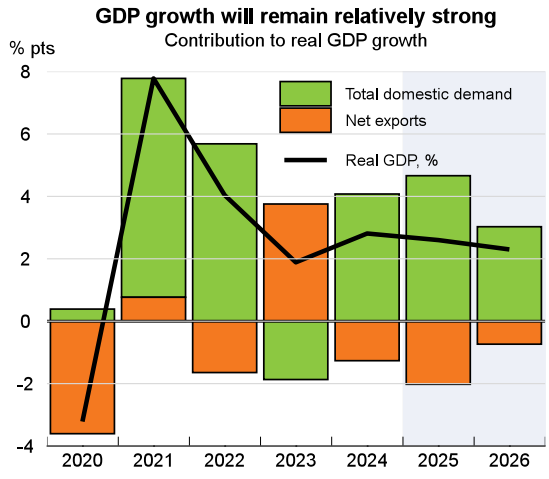
GDP is expected to increase by 2.6% in 2025 and 2.3% in 2026 driven by household consumption growth, supported by ongoing high income and credit growth, and higher government investment with the rollout of EU funds. Exports will grow slowly reflecting weaker growth in other EU economies. Headline inflation has been rising and wage pressures remain elevated. Sustained wage growth risks hindering the moderation of inflation.

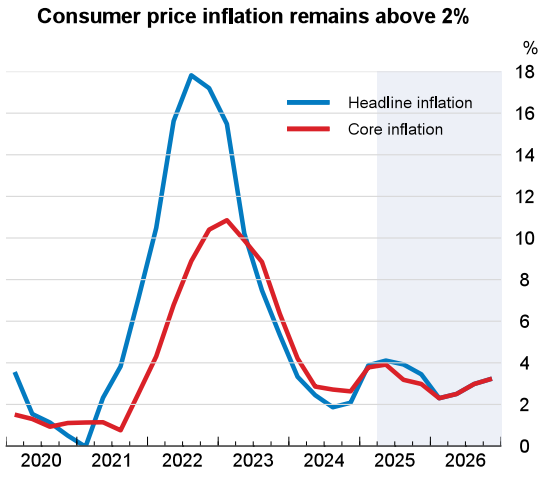
Interest rates have followed those in the euro area, under the currency board, but transmission to the Bulgarian economy is slow and incomplete, contributing to a household credit boom. Further macroprudential measures should be deployed. Bulgaria has requested an assessment of its readiness to join the euro area, which is assumed to occur in January 2026. The fiscal deficit is set to remain consistent with the 3% of GDP threshold. A more business-friendly administrative environment would help to boost investment, while more effective activation policies and measures to tackle informality would help to make better use of Bulgaria's labour force.

Growth has been driven by consumption

GDP increased by 2.8% in 2024 with strong household consumption driven by wage increases, credit growth and higher government transfers. Both public and private investment have been weak due to political uncertainty and low absorption and delay of EU funds. Industrial activity fell below its pre-pandemic levels in the first three months of 2025 reflecting continued declines in mining and energy production. Manufacturing output continued its downward trend, though it remained slightly above pre-pandemic levels. Services and construction activity also remained above pre-pandemic levels. Overall, in the first quarter of 2025, GDP increased by 0.6% (non-annualised). Annual headline inflation increased to 3.5% in April 2025 from 2.4% in April 2024. Unemployment has been declining in tandem with the pick-up in economic activity.

Bulgaria





Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/2y1d6l

Bulgaria: Demand, output and prices

Bulgaria	2021	2022	2023	2024	2025	2026
	Current prices BGN billion	Percentage changes, volume (2020 prices)				
GDP at market prices	139.6	4.0	1.9	2.8	2.6	2.3
Private consumption	80.9	3.9	1.4	4.2	3.9	3.0
Government consumption	26.4	8.0	1.1	4.6	4.0	3.9
Gross fixed capital formation	22.7	6.5	10.2	-1.1	2.6	2.5
Final domestic demand	130.0	5.2	2.9	3.3	3.7	3.1
Stockbuilding[1]	6.2	0.8	-4.6	1.0	1.1	0.0
Total domestic demand	136.1	5.6	-2.0	4.3	4.7	3.0
Exports of goods and services	86.3	12.1	0.0	-0.8	0.4	1.6
Imports of goods and services	82.8	15.3	-5.5	1.3	4.2	3.1
Net exports[1]	3.5	-1.6	3.8	-1.3	-2.0	-0.7
Memorandum items						
GDP deflator	_	15.9	8.0	6.5	8.5	7.7
Consumer price index	_	15.3	9.5	2.4	3.8	2.8
Core consumer price index[2]	_	7.6	8.9	3.1	3.5	2.8
Unemployment rate (% of labour force)	_	4.1	4.3	4.2	4.1	4.0
Household saving ratio, net (% of disposable income)	_	-7.9	-2.6	1.8	1.7	1.8
General government financial balance (% of GDP)	_	-3.0	-2.0	-3.0	-2.9	-2.9
General government gross debt (% of GDP)	_	32.0	32.2	33.0	33.9	34.8
General government debt, Maastricht definition[3] (% of GDP)	_	22.5	22.9	24.1	25.0	25.9
Current account balance (% of GDP)	_	-2.7	-0.9	-1.8	-2.2	-2.5

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/4620yr

Export growth has been held back by weak demand in key EU markets, particularly Germany. Imports recovered more than expected in 2024, supported by domestic consumption, and outpaced exports, weighing on the current account balance. Recent changes in global trade policies and higher US tariffs on imports of goods from the EU will have a modest impact on trade, GDP growth and inflation, largely through spillover effects from weaker EU demand as direct trade linkages with the United States are weak.

Interest rates will stay low, while the budget deficit will remain at 3% of GDP

Interest rate developments will continue to broadly follow euro area monetary policy given the currency board regime. However, transmission of monetary policy to domestic deposit and lending rates has been slow and incomplete due to high liquidity and stiff competition in the banking sector, leading to lending rates that are below euro area norms and strong domestic credit growth. Bulgaria requested a convergence report assessing its readiness for euro adoption in January 2026. Fiscal policy is set to meet the 3% of GDP EU ceiling for the budget deficit. The government may need to make spending adjustments relative to the budget if efforts to boost VAT revenue collection fall short, given planned strong spending in public sector salaries, minimum wages, pensions and social benefits.

GDP growth will remain relatively strong

Growth is projected to remain strong at 2.6% in 2025 and 2.3% in 2026. Private consumption will continue to be boosted by low unemployment, ongoing positive gains in real incomes and domestic credit growth. The rollout of currently blocked EU funds and an improved implementation of existing EU projects are

expected to increase public sector investment. Export growth will be more subdued due to challenges in key export markets, while imports will be strong, driven by consumption and investment growth, increasing the current account deficit. Inflation is set to increase to 3.8% in 2025, following strong readings at the beginning of 2025 due to higher food prices, excise and VAT rates as well as household utility prices. Higher minimum wages coupled with persistent labour shortages will keep wage pressures elevated. Strong wage growth due to minimum wage and pensions indexation mechanisms risks high and persistent inflation while lower revenue collection relative to budget expectations risks widening the budget deficit.

More prudent fiscal policy and a business-friendly investment climate are needed

A modest fiscal consolidation is warranted to help moderate domestic demand and price pressures, and manage long-term spending pressures from ageing, climate and security needs. Reforming the current minimum wage and pension indexation mechanisms to slow the pace of growth in labour costs and government spending would support price stability. A more business-friendly investment climate with lower cost of doing business and reducing perceptions of corruption would attract more capital, domestic and foreign. Bringing more people into the workforce, alongside improvements in labour quality, would strengthen investor confidence in the availability of skilled workers and the effective utilisation of their investment. Improving digital and road infrastructure would enhance the prospective return on investment.

Canada

GDP growth is projected to weaken from 1.5% in 2024 to 1.0% in 2025 and 1.1% in 2026 due to trade tensions with the United States. Exports and business investment are expected to decline in 2025, while deteriorating employment prospects are expected to weigh on household consumption. Headline inflation will rise slightly, as the impact of higher tariffs on consumer prices is partially offset by lower energy prices due to the removal of the fuel charge. Core inflation will increase for a period before falling back towards 2% next year. Uncertainty about tariff levels and the impact on the Canadian economy remains high.

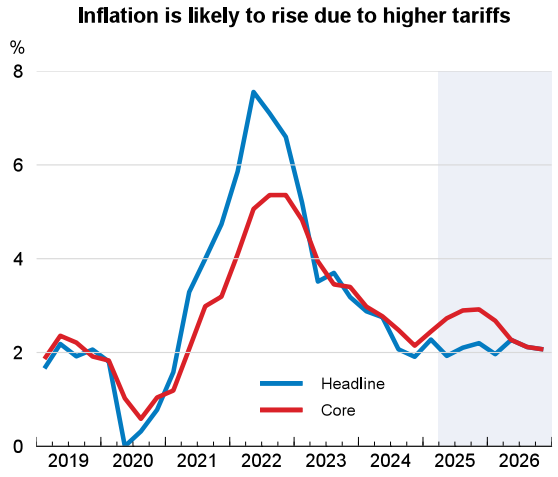
The Bank of Canada has reduced interest rates to 2.75%, with further modest cuts expected this year. However, inflationary pressures from higher tariffs will require a more cautious approach to lowering interest rates. Increased government spending, particularly on housing affordability and new social programmes, has recently worsened the general government balance, although it had previously been in surplus. A key policy priority remains the need to enhance Canada's weak productivity performance by removing internal barriers to trade and labour mobility, and by strengthening investment and innovation.

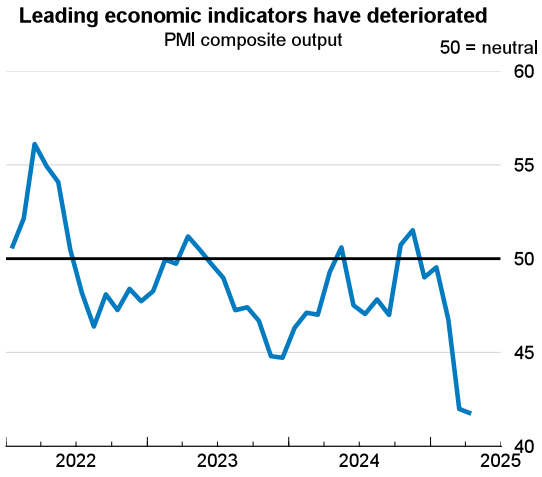
GDP growth was robust in early 2025, but the outlook has deteriorated

Real GDP grew robustly by 0.6% in the last quarter of 2024. Private consumption benefited from the temporary reductions in the goods and services tax (GST) and harmonised sales tax (HST) on qualifying goods. Housing investment continued to recover, and business investment rebounded after a previous quarterly decline. Leading indicators show that economic momentum continued into early 2025, with GDP growing by 0.4% in the first quarter of 2025 according to the flash estimate. However, the outlook has worsened since then due to rising trade tensions with the United States. Business and consumer sentiment have deteriorated, and policy uncertainty has increased. The labour market showed renewed signs of weakening in April, with the unemployment rate rising to 6.9%. Consumer price inflation eased to 1.7% in April, down from 2.3% in March, driven by lower energy prices following the removal of the federal fuel charge and the decline in oil prices. Core inflation increased to 2.6% in April, after 2.4% in March.

Since February 2025, trade tensions and increased tariffs on imports to the United States heavily weigh on Canada's external perspectives, given the interlinkages of the two economies. The heightened uncertainty about tariff levels also burdens long-term spending and investment decisions. For Canada, the tariffs include a 25% tariff on goods and a 10% tariff on energy and potash for imports into the United States that do not fall under the United States-Mexico-Canada Agreement (USMCA). The projections assume that about 50% of imports do not fall under the agreement. Additionally, they incorporate the 25% tariff rate on steel and aluminium products and the 25% tariff rate on non-US content in USMCA-compliant automobiles. They also account for the counter measures announced by the Canadian government. The broader rise in US tariffs will also dampen external demand. The increased volatility of financial conditions will also adversely impact the near-term outlook.

Canada 1





Source: OECD Economic Outlook 117 database; and S&P Global.

StatLink https://stat.link/3ezk42

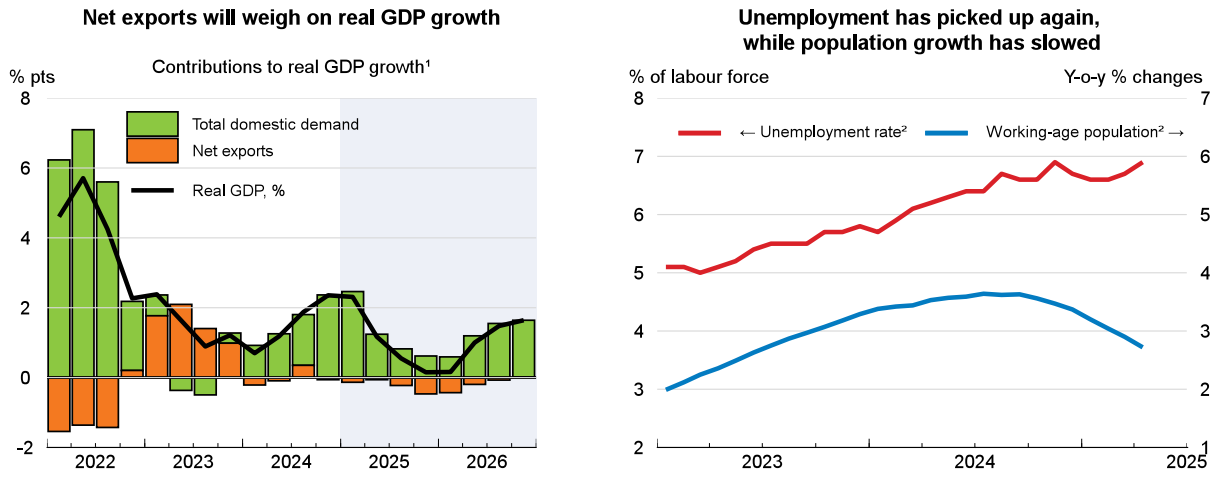
Canada: Demand, output and prices

Canada	2021	2022	2023	2024	2025	2026
	Current prices CAD billion	Percentage changes, volume (2017 prices)				
GDP at market prices	2 535.8	4.2	1.5	1.5	1.0	1.1
Private consumption	1 373.5	5.5	1.9	2.4	1.9	0.9
Government consumption	543.0	3.2	2.2	3.2	2.3	1.9
Gross fixed capital formation	603.3	-1.2	-1.6	0.1	1.6	1.3
Final domestic demand	2 519.7	3.3	1.1	2.0	1.9	1.2
Stockbuilding[1]	13.5	1.9	-1.1	-0.5	-0.7	0.0
Total domestic demand	2 533.2	5.2	0.0	1.5	1.3	1.2
Exports of goods and services	790.5	4.2	5.0	0.6	-0.3	-0.2
Imports of goods and services	787.9	7.5	0.3	0.6	0.4	0.3
Net exports[1]	2.6	-1.0	1.6	0.0	-0.2	-0.2
Memorandum items						
GDP deflator	_	7.9	1.4	3.0	2.5	2.0
Consumer price index	_	6.8	3.9	2.4	2.1	2.1
Core consumer price index[2]	_	5.0	3.9	2.6	2.7	2.3
Unemployment rate (% of labour force)	_	5.3	5.4	6.4	7.1	7.3
Household saving ratio, net (% of disposable income)	_	3.9	3.6	5.9	6.5	6.3
General government financial balance (% of GDP)	_	0.6	0.1	-2.1	-1.9	-1.7
General government gross debt (% of GDP)	_	98.8	104.0	107.3	107.2	107.1
Current account balance (% of GDP)	_	-0.3	-0.6	-0.5	-0.8	-1.0

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 117 database.

StatLink https://stat.link/56h87o

Canada 2



1. Year-on-year growth rates.
2. Refers to population aged 15 years and over.
Source: OECD Economic Outlook 117 database; and Statistics Canada.

StatLink https://stat.link/5obnjx

Monetary policy has eased, and fiscal policy will be supportive in 2025

The Bank of Canada began to lower interest rates in June 2024, with a total decline of 225 basis points as of mid-April 2025, bringing the policy rate to 2.75%. The projection includes a further 50 basis point reduction in the rate during 2025. The central bank will need to carefully balance the opposing impacts on inflation from tariffs: upward pressure from higher import prices and downward pressure from lower demand. Quantitative tightening, i.e. net asset sales, ended in March. The transmission of lower policy rates to lending rates has progressed, and its impact on the real economy is expected to become more apparent in 2026, as other uncertainty factors wane.

The general government budget balance has shifted from a small surplus of 0.1% of GDP in 2023 to a deficit of 2.1% of GDP in 2024, driven by a one-off compensation payment of about 0.7% of GDP, higher interest payments and increased discretionary spending, particularly on new social programmes and affordable housing. The headline deficit is set to improve in 2025, while the underlying primary balance will slightly weaken. The removal of the federal fuel charge on April 1 will have a broadly neutral budgetary impact, as its revenues were principally recycled back to households and businesses through the "Canada Carbon Rebate". For 2026, a further improvement in the headline balance is assumed, helped by mild fiscal tightening.

GDP growth is expected to slow due to trade tensions

After still robust GDP growth in the first quarter of 2025, GDP growth is expected to drop in the second quarter due to sharply falling exports to the United States due to higher tariffs. Household consumption and business investment will also be affected negatively by trade disruptions and high uncertainty. Housing investment is anticipated to remain broadly flat in the first half of 2025, weighed down by elevated uncertainty. Imports are expected to decline less than exports, resulting in a negative net export contribution to GDP growth in 2025. Labour market conditions will further deteriorate in 2025. In 2026, GDP is projected to slowly recover as the economy adjusts to the new tariff environment. Lower interest rates will support business investment and household consumption as uncertainty declines. However,

slower population growth will moderate aggregate consumption growth. Consumer price inflation is expected to be pushed upwards by higher tariffs, which will increase import prices. However, starting April 1, this will be partly counterbalanced by lower energy prices resulting from the removal of the federal fuel charge. Core inflation is anticipated to increase more sharply in 2025 before gradually declining in the course of 2026.

Substantial risks remain, reflecting the highly uncertain situation. Externally, there are risks regarding additional tariffs on Canadian imports to the United States and the potential lifting of the USMCA exemption. Conversely, tariff reductions for Canada could improve economic prospects. US tariffs on other countries could rise or remain at their current levels after the current 90-day suspension period, affecting external demand. There is also significant uncertainty regarding how tariffs will pass through to the Canadian economy, given the magnitude of the tariffs and the strong interconnectedness of North American supply chains. Domestically, new reform measures by the incoming government present upside risks to GDP, while stronger-than-anticipated spillover effects from trade tensions to domestic financial conditions could pose downside risks.

Reforms could strengthen productivity and internal markets

Trade tensions have highlighted Canada's dependence on the US economy. While the United States remains an important trading partner, Canada should continue to diversify its export markets. Furthermore, Canada can enhance its productivity performance and strengthen internal markets. High regulatory barriers on interprovincial trade should be reduced by expanding the scope of the Canadian Free Trade Agreement. A Canada-wide recognition of foreign credentials could improve labour mobility for immigrants. There is also room to strengthen innovation and competition. Existing R&D tax incentives should be streamlined for both smaller and larger companies and include more direct support. The competitive environment for digital and telecommunication businesses could be further strengthened. The government could also increase investment in infrastructure. Finally, the removal of the federal fuel charge will necessitate a reassessment of Canada’s carbon emissions reduction strategy.

Chile

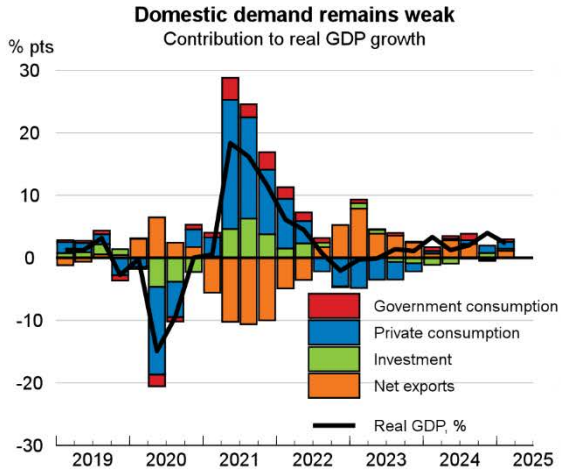
Output is projected to grow by 2.4% in 2025 and in 2026. Household consumption will benefit from rising real wages and job creation, while investment will be supported by reduced credit costs and improved business confidence. Export growth is projected to remain solid, despite ongoing global trade uncertainties. A broader expansion of global tariffs could affect Chile's exports. Inflation is projected to gradually fall to 3.3% in 2026.

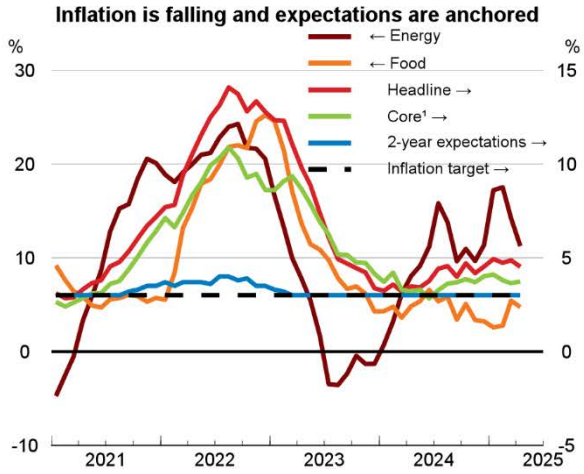
Monetary policy is expected to gradually converge to a neutral stance as inflation stays on a declining path. Fiscal policy will remain prudent, guided by the fiscal rule, and focused on keeping debt sustainable while supporting targeted investment and social spending. Advancing structural reforms to simplify regulations, improve permit procedures, and boost skills and innovation will be essential to lift investment and productivity growth.

Growth remains resilient despite global risks

Activity has strengthened since mid-2024, with annual seasonally adjusted GDP growth reaching 2.4% in the first quarter of 2025. The March monthly economic indicator points to continued expansion and an upward revision in growth in early 2025, driven mainly by non-mining components. Industrial output is recovering, helped by solid external demand and recovering business sentiment. Headline inflation has edged up recently, to 4.5% in April, reflecting the adjustment of electricity tariffs after a multi-year freeze, to align prices more closely with actual generation and distribution costs, and higher energy costs. Core inflation, however, has continued its downward trend, falling steadily to 3.7% in April 2025. The impact of the rise in energy prices on inflation is expected to be temporary. Two-year ahead inflation expectations remain firmly anchored around the central bank's 3% target. Real wages are rising again and employment is growing, although the pace of job creation remains uneven across sectors.

Chile





1. Consumer price index excluding energy and food.
Source: Central Bank of Chile; and INE.

StatLink https://stat.link/qmyouj

Chile: Demand, output and prices

Chile	2021	2022	2023	2024	2025	2026
	Current prices CLP billion	Percentage changes, volume (2018 prices)				
GDP at market prices*	239 416.5	2.2	0.6	2.4	2.4	2.4
Private consumption	148 569.9	1.6	-4.8	1.0	2.3	1.5
Government consumption	35 095.4	6.7	2.4	3.2	3.9	1.3
Gross fixed capital formation	55 674.7	4.9	0.3	-1.8	2.2	2.7
Final domestic demand	239 340.0	3.1	-2.5	0.6	2.5	1.8
Stockbuilding[1]	1 879.2	-0.6	-1.1	0.5	0.0	0.3
Total domestic demand	241 219.2	2.5	-3.6	1.1	2.6	2.1
Exports of goods and services	76 507.6	0.9	0.5	6.2	7.1	3.3
Imports of goods and services	78 310.3	1.9	-10.6	1.9	8.2	2.3
Net exports[1]	-1 802.7	-0.3	4.4	1.3	-0.1	0.4
Memorandum items						
GDP deflator	_	7.6	6.6	7.7	5.1	3.9
Consumer price index	_	11.6	7.6	4.3	4.5	3.3
Private consumption deflator	_	10.7	7.3	5.2	3.9	3.8
Unemployment rate (% of labour force)	_	7.9	8.7	8.5	8.2	7.4
Central government financial balance (% of GDP)	_	1.1	-2.4	-2.3	-1.3	-1.0
Central government gross debt (% of GDP)	_	37.9	39.4	40.9	40.6	40.9
Current account balance (% of GDP)	_	-8.7	-3.0	-1.8	-1.4	-0.8

* Based on seasonal and working-day adjusted quarterly data; may differ from official non-working-day adjusted annual data.
1. Contributions to changes in real GDP, actual amount in the first column.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/nbvae4

External conditions are mixed. China's improved outlook has sustained demand for Chilean commodities, reinforcing export revenues. Tourism inflows have recovered, benefiting retail and services. However, global uncertainty has intensified due to new tariff increases in the United States, Chile's second-largest trading partner. The United States accounts for just 16% of Chilean exports of goods, with 45% of those shipments – including copper, other minerals, and wood products – currently exempt from US tariffs.

Monetary policy will be broadly neutral alongside fiscal consolidation

The monetary policy stance is expected to converge towards the estimated neutral rate of 4%, following a pause in the easing cycle, and the output gap is narrow. Gradual rate cuts are expected in 2025 by the central bank, with policy rates falling to 4¼ per cent in the latter half of 2026. On the fiscal side, policy is assumed to remain prudent in 2025 and 2026, in line with the government's commitment to the fiscal rule. The government announced additional fiscal consolidation measures in the first quarter of 2025, totalling about 0.6% of GDP, mainly through administrative spending cuts. The primary balance is projected to improve gradually, with debt stabilising over the projection period. Revenue raising measures including a new mining royalty are set to support revenues and help finance key programmes over the projection period.

Growth will hold up amid trade uncertainty

GDP is projected to grow by 2.4% in 2025 and 2026, supported by rising real incomes, recovering consumer sentiment and investment. Business confidence has improved, and while global financial tightening remains a risk, domestic financial conditions have been easing, supporting the investment outlook. Despite improving real wages, private consumption will remain moderate, with elevated

uncertainty and uneven job creation weighing on sentiment. Rising trade tensions, particularly involving the US and China, are expected to weaken growth in key export markets. Headline inflation is set to converge to 3% by the end of 2026, reflecting waning supply shocks, anchored expectations and contained wage pressures. Core inflation will continue declining, helped by prudent monetary policy and a stable exchange rate. Volatile energy and commodity prices and weather-related disruptions may cause temporary inflation fluctuations. Risks to the outlook include a sharper slowdown in global demand for copper, potentially triggered by weaker activity in China. Global uncertainty, if prolonged, could weigh on sentiment and investment. On the upside, faster progress in large mining projects and stronger household real wage growth may boost domestic demand more than expected. While financial spillovers remain contained for now, increased global market volatility could tighten financing conditions.

Streamlined regulation would improve the investment climate

Ensuring macroeconomic stability and public debt sustainability requires balancing fiscal consolidation with efforts to boost long-term growth. In addition to prudent budget management, continued progress in reducing regulatory barriers and fostering competition is essential, including through simplified procedures that lower entry barriers for new firms across sectors. Advancing the permit reform, currently underway, will simplify, standardise and speed up the issuance of multiple sectoral permits to boost investment while maintaining environmental safeguards. Promoting green and resilient infrastructure requires significant investment while fostering innovation, particularly in clean technologies.

China

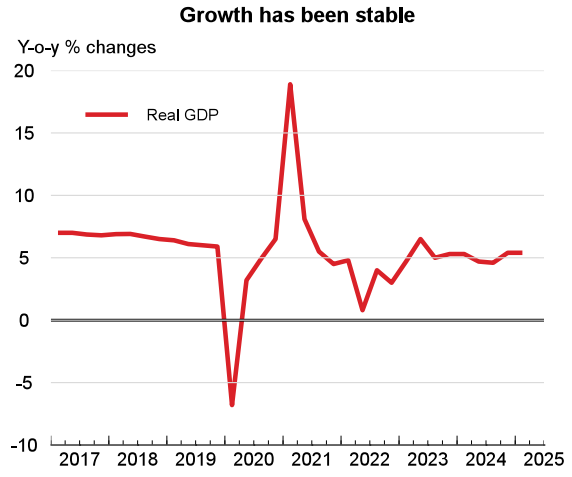
Economic growth will slow to 4.7% in 2025 and weaken further in 2026 to 4.3%. Consumption is being dampened by still high precautionary savings as a scarring effect of the pandemic, and the real estate correction but will be supported by the continuing trade-in programme in 2025. Investment in the real estate sector will continue to contract, but business investment will be buttressed in 2025 by the trade-in programme for enterprises. Infrastructure investment will be stable. Exports will be curbed by the newly imposed tariffs on trade with the United States, while imports will fall due to continued localisation of production. Consumer price inflation will remain low, and producer prices will continue to fall.

Fiscal policy will become more supportive with a sizeable stimulus approved to finance the trade-in programme and social transfers, unprecedented in recent decades. Some major state-owned banks will be recapitalised to enable them to expand lending. Monetary policy will provide liquidity as needed. Easing prudential measures surrounding mortgage lending will support housing demand. Liberalisation in several services, including healthcare and childcare, and reforms to wage setting mechanisms to support higher wages will boost efficiency and potentially consumption. The social security system should be revamped to reduce precautionary savings and support consumption in a sustainable manner. Administrative monopolies as well as illegal fees should be abolished to unleash private sector potential.

Growth has been stable despite the trade conflict

Annual growth was broadly stable at 5.4% in the first quarter of 2025. Consumption has been supported by the expansion of the trade-in programme, now including smartphones in addition to home electronics. Manufacturing investment has remained stable, supported by strong industrial production, and infrastructure growth has been strong. Investment in real estate, however, continues to fall, as excess supply needs to be worked off. Declining food prices have kept inflation below zero. The producer price index has continued to fall.

China 1



1. In nominal terms (CNY).
Source: CEIC.

StatLink https://stat.link/qeloa7

China: Demand, output and prices

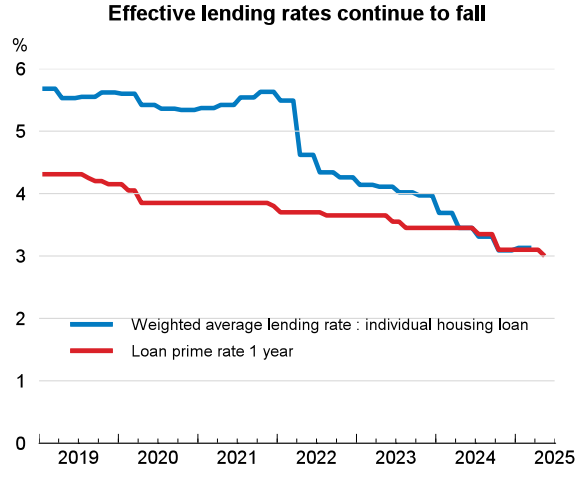
China	2021	2022	2023	2024	2025	2026
	Current prices CNY trillion	Percentage changes, volume (2015 prices)				
GDP at market prices	117.4	3.1	5.4	5.0	4.7	4.3
Total domestic demand	114.4	3.0	6.2	2.7	3.4	4.7
Exports of goods and services	22.9	-3.8	4.0	16.8	7.2	2.9
Imports of goods and services	20.0	-6.5	8.7	5.0	0.0	4.5
Net exports[1]	3.0	0.3	-0.5	2.4	1.5	0.0
Memorandum items						
GDP deflator	_	2.0	-0.5	-0.7	-0.1	0.8
Consumer price index	_	1.9	0.3	0.2	-0.1	1.4
General government financial balance[2] (% of GDP)	_	-7.2	-5.9	-6.5	-7.3	-7.1
Headline government financial balance[3] (% of GDP)	_	-2.8	-3.3	-3.5	-4.0	-4.0
Current account balance (% of GDP)	_	2.4	1.4	2.3	3.7	3.2

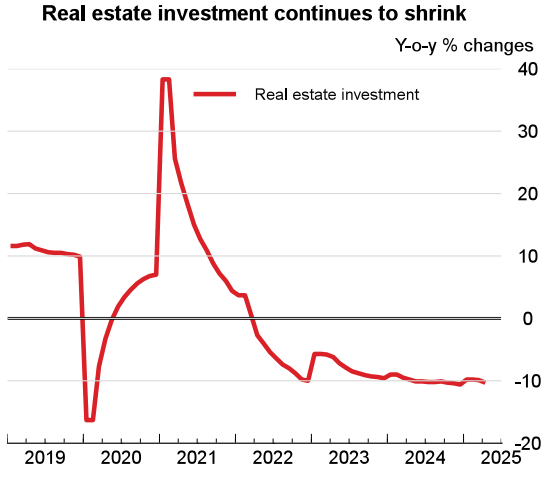
1. Contributions to changes in real GDP, actual amount in the first column.
2. Encompasses the balances of all four budget accounts (general account, government managed funds, social security funds and the state-owned capital management account).
3. The headline fiscal balance is the official balance defined as the difference between revenues and outlays. Revenues include: general budget revenue, revenue from the central stabilisation fund and sub-national budget adjustment. Outlays include: general budget spending, replenishment of the central stabilisation fund and repayment of principal on sub-national debt.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/xb24hj

Exports have grown at a solid pace but now face higher tariffs on shipments to the United States, which accounted for 13.5% of direct Chinese merchandise exports in 2024. The tariffs will disproportionately affect private companies, including foreign ones, as they are the major exporters. While exports have been boosted by front-loading since late 2024, imports have fallen. China's retaliatory tariffs will affect imports from the United States. New and existing external restrictions on trade in specific products and investment will further impede Chinese trade with the United States and contribute to risks of supply-chain disruption in the longer term.

China 2





Source: CEIC.

StatLink https://stat.link/nme7b8

Fiscal stimulus is being stepped up and monetary policy remains supportive

Fiscal policy has become more supportive in 2025 with the official budget deficit (which is the deficit on the major budget account out of the four accounts) planned to increase by one percentage point of GDP this year, a move unseen in the recent decade. Spending on social policies and transfers will increase, including on public health services, subsidies for citizen health insurance, raising the minimum citizen pension, child subsidies and making childcare services available countrywide. These policies, alongside the extension and expansion of the trade-in programme to include smartphones in addition to home appliances, will mostly benefit low-income groups, who have a higher propensity to consume. In addition, liberalisation of health, elderly care, childcare and household services will support consumption. A new wage-setting mechanism will help raise annual wage growth. Use by local governments of special bonds will be more flexible, boosting infrastructure spending. The debt burden of heavily indebted local governments is being alleviated and some consumption taxes are being assigned to the local level, although the core imbalance between revenue assignments and spending responsibilities at sub-national government levels has yet to be addressed, and local governments continue to face financial pressure from lower real estate prices. Fiscal policy is assumed to be broadly neutral in 2026.

Monetary policy rates will remain low, and the authorities are ready to lower them or the reserve requirement ratio further if needed. There was a 10 basis point cut in the loan prime rates, the seven-day reverse repo rate and the interest rates for the standing lending facility as well as a 50 basis point cut in the reserve requirement ratio in May. Banks have started a new round of deposit rate cuts. Special treasury bonds are being issued to recapitalise some of the major state-controlled banks so that they can step up their lending to support the private sector. Prudential easing measures adopted in late 2024 will continue to support housing demand, including for second-hand housing.

Growth will be held back by higher trade barriers

Growth is expected to slow in 2025 and weaken further in 2026 due to higher trade barriers and the continuing adjustment in the real estate sector. The higher level of tariffs on trade with the United States will contribute to lower exports and imports, with the impact in 2025 mitigated by the front-loading of trade. The impact on trade will further be mitigated by lower administrative burdens on firms, the full VAT refund on exports, the critical nature of some trade and through increased trade to other markets. However, it will be dampened by weaker demand in China's export markets due to higher uncertainty. Consumption will be supported by higher incomes and increased social spending. Inflation will remain low, despite a small boost form higher import prices.

Risks to growth are tilted to the downside. While an easing of trade restrictions between China and the United States would improve the outlook, any further increase of trade restrictions internationally or a slowdown in other economies would slow export growth and industrial activity. The small boost to social transfers cannot replace social security reforms and may keep uncertainty and precautionary savings high. Potential further credit events may disrupt the orderly adjustment process in the real estate sector. Excessive relaxation of demand-side restrictions in the property sector could result in stronger growth, but also in a further build-up of imbalances and sharper adjustment in the future. Delaying addressing the funding gap at sub-national government levels may lead to further accumulation of implicit debt and costly resolution later. Fiscal expansion coupled with more stringent measures to raise spending efficiency may lift the impact of the spending and result in higher growth. Excessive subsidies to import-dependent high-technology sectors that face high tariffs and other restrictions could temporarily boost those industries but would waste scarce fiscal resources and potentially lead to excess capacity. Reducing the mortgage burden and targeting low-income groups with transfers may result in somewhat higher consumption.

Structural reforms could hold up growth in the medium term

While China's potential growth is slowing due to population ageing, there is ample room for structural reforms to keep growth at a reasonably strong level in the medium term. At the current juncture, a range of measures are being explored to mitigate the impact of US tariffs: VAT refund on exports, tariff cuts on other countries and lowering the administrative burden on enterprises and abolishing illegal fees, as there is little room to cut profit margins due to cut-throat competition in many manufacturing industries. In services, where markups are much higher, strengthening the Fair Competition Review Mechanism and abolishing local protectionism should be pursued. New social transfers will boost consumption, but bolder social security reforms are needed. Unemployment insurance coverage needs to be extended to all, and pensions should provide at least a minimum standard of living to all eligible people. Furthermore, the list of treatments and medicines covered by health insurance needs to be widened so that health costs do not push people into poverty.

Colombia

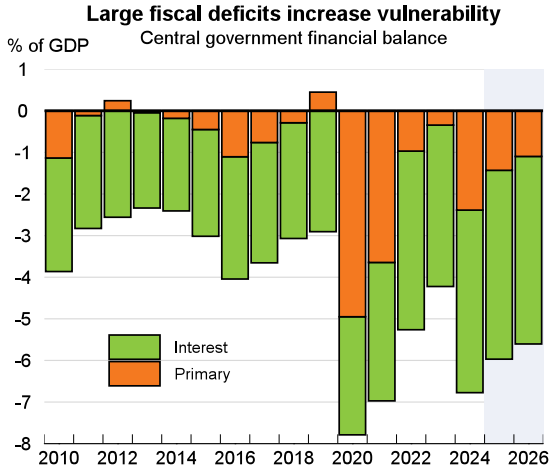
Growth will recover to 2.5% this year and 2.6% in 2026. Investment will continue growing as it recovers from a historical fall and as financial conditions ease, though uncertainty and a weak housing market will keep it subdued. Consumption and exports will moderate due to US tariffs and a global economic slowdown. The decline in inflation, temporarily interrupted in early 2025, will resume but inflation will stay above the 3% target throughout 2026.

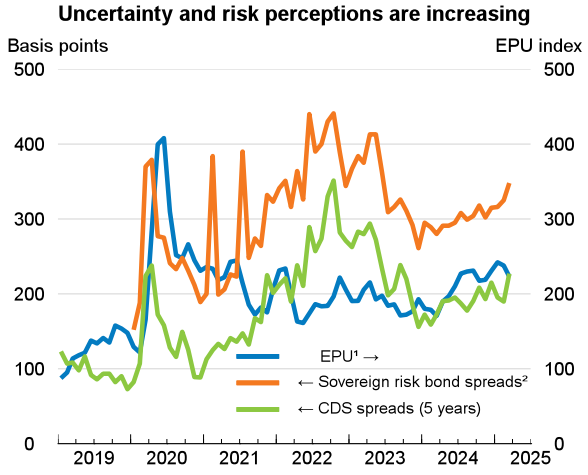
Monetary policy should continue its data-dependent, prudent easing cycle to ensure durable disinflation towards target. The fiscal deficit is projected to remain high in 2025 and 2026, requiring additional fiscal consolidation to abide by fiscal rules, debt stabilisation, and a reduction of high debt servicing costs due to large risk premia. In the medium term, reducing budget rigidities and a comprehensive tax reform are needed to rebuild fiscal space. Easing administrative burdens and improving infrastructure would help revitalise productivity and investment growth.

Growth sustains its momentum

In 2024, growth averaged 1.6% year-on-year but picked up to 3.7% (saar) in the final quarter. This momentum was largely sustained in the first quarter of 2025. Investment continued to recover from its sharp fall in 2023 and remained a main driver of growth. Soft indicators give mixed messages, with business sentiment fluctuating around its slightly upward 12-month trend but consumer sentiment softening since February. The labour market remains strong, with unemployment at 9.1% in March. Inflation has hovered around 5.2% since November, although core inflation continued to fall. With a slower-than-expected path of disinflation, inflation expectations for end-2025 have increased, from 3.9% in October to 4.8% in May.

Colombia





1. EPU data represent 3-month moving averages and incorporate the domestic press coverage.
2. ICE BofA emerging markets USD-issued sovereign bond option-adjusted spreads are the yield difference over US Treasuries, in basis points. Embedded options are provisions included with some fixed-income securities that allow the investor or the issuer to do specific actions, such as calling back the issue. The OAS helps investors compare a fixed-income security's cash flows to reference rates while also valuing embedded options against general market volatility.
Source: OECD Economic Outlook 117 database; Bank of Spain; and OECD calculations.

StatLink https://stat.link/t136xf

Colombia: Demand, output and prices

Colombia	2021	2022	2023	2024	2025	2026
	Current prices COP trillion	Percentage changes, volume (2015 prices)				
GDP at market prices	1 192.6	7.3	0.7	1.6	2.5	2.6
Private consumption	867.1	10.8	0.4	1.6	3.7	1.9
Government consumption	191.4	1.0	1.6	0.7	3.3	2.0
Gross fixed capital formation	226.5	11.5	-12.7	3.2	1.8	8.9
Final domestic demand	1 284.9	9.5	-1.8	1.7	3.4	3.0
Stockbuilding[1]	- 0.9	0.9	-0.7	0.3	0.6	-0.1
Total domestic demand	1 284.1	10.3	-2.5	2.0	3.5	2.8
Exports of goods and services	193.2	12.5	3.1	2.5	0.8	2.2
Imports of goods and services	284.6	24.0	-9.9	4.4	7.4	3.3
Net exports[1]	- 91.4	-3.7	3.4	-0.5	-1.4	-0.4
Memorandum items						
GDP deflator	_	14.9	7.0	6.0	5.8	4.0
Consumer price index	_	10.2	11.7	6.6	4.7	4.0
Core inflation index[2]	_	6.4	9.8	6.1	4.5	3.9
Unemployment rate (% of labour force)	_	11.2	10.2	10.2	9.1	8.9
Central government financial balance (% of GDP)	_	-5.3	-4.2	-6.8	-6.0	-5.6
Central government gross debt (% of GDP)	_	60.8	56.3	59.5	60.8	62.6
Current account balance (% of GDP)	_	-6.0	-2.3	-1.8	-2.6	-2.6

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding primary food, utilities and fuels.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/xdbt91

The United States is Colombia's main trading partner accounting for 28% of goods exports, the majority (60%) of which are minerals and oil products that continue to be exempt from tariffs, resulting in an effective US tariff rate on imports from Colombia of around 5%. Colombia has maintained its tariffs from the bilateral free trade agreement with the United States. The peso depreciated strongly (around 5%) in April but largely recovered in May. Lower oil prices will suppress exports and budget revenues, increasing pressures on an already tight fiscal position.

Fiscal deficits and monetary policy rates will remain higher for longer

The fiscal position has deteriorated sharply in 2024, with a 6.8% headline deficit and a 2.4% primary deficit. Deficits are projected to stay high at 6% in 2025 and 5.6% in 2026 based on current spending plans and medium-term revenues estimates. The government assumes a short-term increase in tax revenue of 2.4% of GDP from unidentified measures. Unless there is evidence that tax collection significantly exceeds its current level, spending cuts of at least 0.9% of GDP are needed to comply with the fiscal rule in 2025. The central bank paused its monetary easing cycle in the first quarter when inflation stabilised but resumed it with a 25 basis points cut in April. With a continuation of the cautious, data-dependent easing cycle, the policy rate is projected to decline to 7% by the end of 2026.

Growth will be moderate, but with increasing downside risks

The economy will grow at moderate rates of 2.5% in 2025 and 2.6% in 2026. Investment will continue its recovery from a fall to below 17% of GDP, but uncertainty and a housing market downturn will prevent a full return to the pre-pandemic investment rate of 21%. Uncertainty will similarly subdue private consumption in 2025. With growth close to potential, unemployment will stay around its current level. Import

growth will remain strong, driven by investment goods, but exports will moderate, given the high exposure to the United States and the global economic slowdown. Inflation will gradually slow to 4.5% year-on-year by late 2025 and 3.8% by the end of 2026. Strong remittances and reinvested profits will keep the current account deficit contained. Risks are tilted to the downside. Uncertainty has already put downward pressure on the exchange rate in recent weeks, which could intensify, adding to inflationary pressures. Larger fiscal deficits and a failure to comply with the fiscal rule would further increase risk premia and already high sovereign interest payments and dampen investor confidence.

Fiscal discipline would help mitigate uncertainty

Cuts to planned expenditure are required to intensify fiscal consolidation, comply with the fiscal rule, and ensure debt sustainability. Diesel subsidies could be removed, following earlier commendable measures for petrol, and social spending could be better targeted. Spending reviews could help identify further room for raising spending efficiency. A comprehensive tax reform, involving reductions in tax expenditures, a shift from corporate to personal income taxes, tackling tax evasion, and reducing budget rigidities, would also help increase fiscal space. Measures to restore investment and revitalise productivity growth include lowering administrative burdens on businesses, improving transport infrastructure, building subnational government capacities, and strengthening macroeconomic governance, transparency, and policy certainty.

Costa Rica

GDP growth will slow to 3.1% in 2025 and 2026, after 4.3% in 2024. Domestic demand will drive growth, while external demand will deteriorate following the introduction of a 10% tariff on Costa Rican goods exports to the United States, its main trading partner. Private consumption will remain solid due to incremental increases in disposable income and employment creation. Inflation is gradually rising towards the 3% target and will reach 1.8% in 2025 and 2.5% in 2026, as the gradual improvement in domestic conditions leads to a slow increase in domestic inflationary pressures.

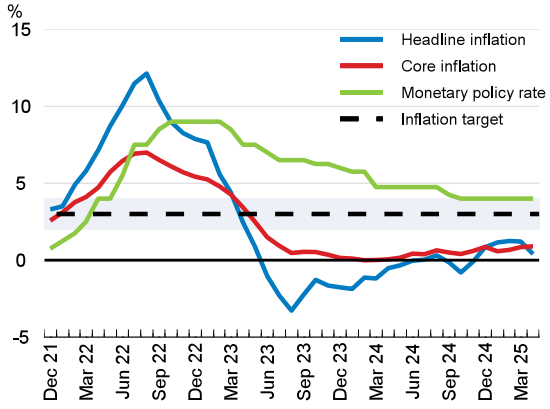
The fiscal situation has improved but ensuring fiscal sustainability requires the strict implementation of the fiscal rule to contain public spending, along with spending reviews to improve public spending efficiency and expansion of tax bases. The monetary policy rate will remain stable as inflation is gradually approaching the target rate. Continuing to expand trade opportunities via trade agreements that open new markets would help diversify Costa Rica's concentrated export markets.

Growth remains solid amid low inflation

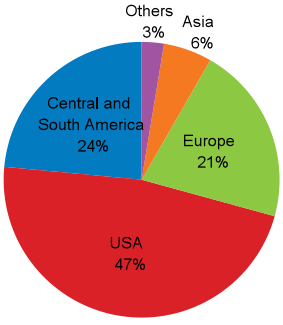
Strong net exports and domestic demand boosted GDP growth in the second half of 2024. Household consumption was supported by robust credit consumption growth (8.8% year-on-year in November 2024) and the increase in real wages (5.6% year-on-year in March 2025) and employment (2.5% year-on-year in March 2024). Investment also benefited from strong FDI inflows growing by 14% over the year in December. Economic activity remains robust, with the Monthly Index of Economic Activity increasing by 3.6% (year-on-year) in March 2025, driven by both traditional (utilities, transport) and special regime sectors (manufacturing). Headline inflation continues rising slowly and reached 0.4% (year-on-year) in April 2025. Core inflation is positive but low, at 0.9% in April.

Costa Rica

Headline inflation remains below the tolerance band range[1]



Costa Rica's goods export markets are concentrated
Goods exports by destination, % of total goods exports, 2024



1. The horizontal dashed black line indicates the target inflation rate of monetary policy, and the shaded area the tolerance band around the target (2-4%). Headline and core indicate, respectively, the headline consumer price inflation rate and the core consumer price inflation rate. The core consumer price inflation rate measures consumer price inflation excluding food and energy components.
Source: Banco Central de Costa Rica.

StatLink https://stat.link/i3sdhv

Costa Rica: Demand, output and prices

Costa Rica	2021	2022	2023	2024	2025	2026
	Current prices CRC trillion	Percentage changes, volume (2017 prices)				
GDP at market prices	40.3	4.6	5.1	4.3	3.1	3.1
Private consumption	25.5	2.6	5.0	4.0	3.1	3.6
Government consumption	6.7	2.4	0.1	0.7	1.0	1.1
Gross fixed capital formation	6.8	1.5	8.6	4.3	1.7	3.6
Final domestic demand	39.0	2.3	4.9	3.5	2.5	3.2
Stockbuilding[1]	0.7	-1.5	-1.6	0.7	0.2	0.0
Total domestic demand	39.7	0.8	3.1	4.3	3.2	3.2
Exports of goods and services	14.6	18.5	10.0	5.8	3.4	2.8
Imports of goods and services	14.0	8.1	5.2	6.0	4.0	3.2
Net exports[1]	0.6	3.8	2.2	0.4	0.1	0.1
Memorandum items						
GDP deflator	_	6.3	-0.1	0.0	0.9	2.5
Consumer price index	_	8.3	0.5	-0.4	1.8	2.5
Core inflation index[2]	_	4.2	1.0	0.0	0.7	2.5
Unemployment rate (% of labour force)	_	12.2	8.9	7.4	7.7	8.0
Central government financial balance (% of GDP)	_	-2.5	-3.3	-3.8	-3.3	-3.1
Central government gross debt (% of GDP)	_	63.0	61.1	59.8	59.8	59.4
Current account balance (% of GDP)	_	-3.2	-1.4	-1.4	-2.1	-2.0

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 117 database.

StatLink https://stat.link/xb31un

Since April 2025 a 10% tariff applies to Costa Rica's goods exports to the United States, which account for around 16% of total exports and 47% of goods exports. Services (tourism and business services) and semiconductors, a sizable part of Costa Rican exports to the United States, are excluded from the tariff. Perceived country risk, as measured by the Emerging Market Bond Index spread, averaged 2.1% in early May 2025, slightly above the 10-year historical low of around 2% in the first quarter of 2025.

Monetary policy will maintain a neutral stance as fiscal policy remains prudent

The monetary policy rate is expected to remain at 4% over the projection period, as inflation gradually increases towards the target rate of 3%, and in line with the neutral interest rate (estimated between 1% and 1.9%). The central government primary surplus is projected to remain positive (1.3% of GDP in both 2025 and 2026), as the fiscal rule constrains current expenditure growth. The central government budget deficit is projected to reach 3.3% of GDP in 2025 and 3.1% in 2026, reflecting large public debt servicing costs of around 4.7% of GDP in 2025 and 4.5% in 2026. Public debt is expected to continue falling to 59.4% of GDP by end-2026.

Trade tensions will slow growth

GDP growth will slow to 3.1% in 2025 and 2026. Export growth will weaken in 2025 due to the US tariff on merchandise imports from Costa Rica and is expected to remain subdued in 2026, reflecting moderate global demand and higher trade costs. Private investment will soften in 2025 as increased economic policy uncertainty will negatively affect foreign direct investment inflows and public investment remains muted due to a lack of fiscal space. Private consumption will moderate as greater uncertainty negatively affects

spending decisions and softens employment growth. Risks to the outlook are tilted to the downside. Increasing violence and criminality may impact negatively tourism and FDI inflows. The high degree of dollarisation of Costa Rica's economy, with credit in dollars on the rise recently and two thirds of the dollarised debt unhedged, exposes the country to external funding and exchange rate risks, notably against the US dollar. Escalation of geopolitical or trade tensions might provoke trade disruptions and further reduce external demand. On the upside, renewed efforts to deepen trade integration might strengthen net exports.

Persevering with reforms will help ensure fiscal sustainability and support investment

The fiscal outlook has improved but the fiscal rule should continue to be strictly implemented to limit public spending and further reduce fiscal sustainability risks. Spending reviews should be introduced and tax bases expanded to increase public spending efficiency and create fiscal space. Continuing efforts to open new markets for exports via trade agreements would help export diversification. Eliminating restrictions and caps on private sector participation in electricity generation and retail supply and removing barriers to foreign investment in the electricity sector would help attract investment required for meeting the increasing demand in electricity. Reorientating vocational training towards highly demanded skills (digital and technical) and increasing the number of STEM graduates would support investment, create better jobs and enhance growth.

Croatia

GDP is projected to grow by 2.9% in 2025 and 2.7% in 2026. Private consumption growth will moderate as real income growth slows. High uncertainty and moderation in the absorption of EU Structural and Recovery and Resilience Funds will weigh on investment growth. Export growth will be affected by the weakening of foreign demand due to rising trade restrictions. Risks are related to an escalation in trade tensions, mainly through weakening demand from key European trading partners.

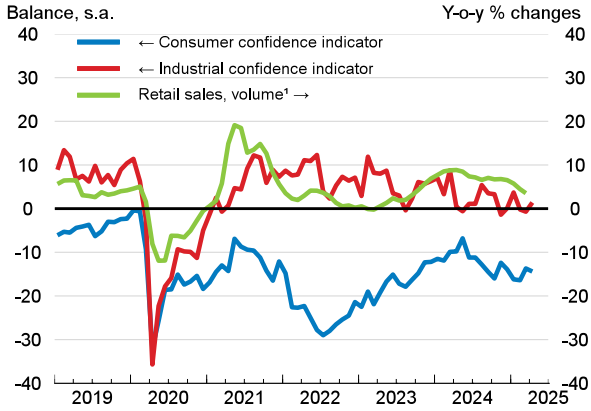
Fiscal prudence is needed to support disinflation and rebuild fiscal buffers to prepare for the challenges of population ageing, the green transition and higher defence spending. Efforts to enhance the regulatory framework and judicial efficacy are needed to support investment amid high uncertainty. Policies to upskill and reskill the workforce would help alleviate skill shortages and support productivity growth.

Economic growth is moderating

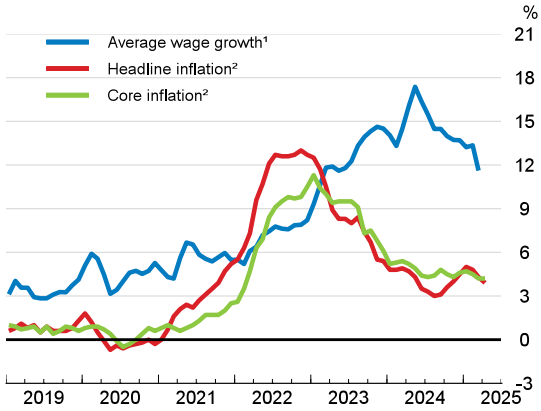
GDP growth was strong in the last quarter of 2024, but high frequency indicators point to a moderation in the beginning of 2025. Consumer confidence remains subdued, and retail sales growth has continued to slow in early 2025, partly reflecting consumer boycotts of supermarkets and retailers over high food prices in January and February. Harmonised headline consumer price and core inflation moderated to 3.9% and 4.2% in April, respectively, but remain high. The labour market has started to cool. The unemployment rate has remained constant since November, at a historical low of 4.6%, but vacancies have decreased. Nominal wage growth is declining but remains strong.

Croatia

Economic confidence and retail sales are weakening



Inflation and wage growth are declining but remain elevated



1. 3-month moving average.
2. Headline inflation refers to the harmonised index of consumer prices, core inflation refers to the harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: Central Bureau of Statistics; and Eurostat.

StatLink https://stat.link/n6x0r7

Croatia: Demand, output and prices

Croatia	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2021 prices)				
GDP at market prices	58.3	7.3	3.3	3.9	2.9	2.7
Private consumption	33.8	6.9	3.0	5.6	3.3	2.5
Government consumption	13.5	2.2	7.1	7.0	4.6	2.0
Gross fixed capital formation	12.2	10.4	10.1	9.9	4.0	3.6
Final domestic demand	59.5	6.6	5.3	6.9	3.7	2.6
Stockbuilding[1]	0.5	1.1	-3.9	-0.5	-0.8	0.0
Total domestic demand	60.0	7.5	1.9	6.3	3.0	2.7
Exports of goods and services	29.0	27.0	-2.9	0.9	3.4	1.9
Imports of goods and services	30.6	26.5	-5.3	5.3	4.6	2.0
Net exports[1]	- 1.6	-0.5	1.7	-2.5	-0.7	-0.1
Memorandum items						
GDP deflator	_	8.0	11.7	5.5	3.6	2.7
Harmonised index of consumer prices	_	10.7	8.4	4.0	4.0	2.4
Harmonised index of core inflation[2]	_	7.6	8.8	4.8	3.7	2.4
Unemployment rate (% of labour force)	_	6.8	6.1	5.0	4.8	4.9
Household saving ratio, net (% of disposable income)	_	2.0	6.4	10.1	10.1	9.5
General government financial balance (% of GDP)	_	0.1	-0.8	-2.4	-2.6	-2.4
General government gross debt (% of GDP)	_	89.3	81.7	79.0	78.2	77.7
General government debt, Maastricht definition[3] (% of GDP)	_	68.5	61.8	57.6	56.7	56.3
Current account balance (% of GDP)	_	-3.5	0.4	-1.2	-1.1	-1.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/18zrxs

Economic sentiment deteriorated in the industry sector at the beginning of 2025. Export order books are subdued, suggesting weaker foreign demand and increasing uncertainty over international trade. Croatia's direct trade exposure to the United States is limited, but the country will nevertheless be affected by the recently increased trade tariffs on EU goods through weaker external demand from key European partners. Growth in tourism continues to moderate due to high prices. Easier financial conditions in the euro area have passed through to borrowing costs, and bank lending to the private sector is strong.

The fiscal stance will remain expansionary

The government deficit increased substantially from 0.8% of GDP in 2023 to 2.4% of GDP in 2024. The fiscal stance is expected to remain expansionary in 2025. Public sector wages were further increased in 2025 and a new aid package worth EUR 296 million (0.4% of GDP) was approved in early 2025 to support households and small and medium-sized firms, including an extension of energy price caps until September 2025, one-off payments to pensioners and vulnerable groups, and support for farmers and students. Reduced VAT rates on energy were extended into 2025 and the list of food items subject to price caps was expanded amid high inflation. Mild fiscal consolidation is projected for 2026 as energy support and one-off measures are set to be phased out. The central bank plans to introduce new macroprudential measures (debt-service-to-income and loan-to-value limits) to reduce risks related to fast household borrowing from July 2025.

Growth is set to moderate

Private consumption growth will slow as wage growth weakens. Investment will also slow amid high uncertainty, and some moderation of the absorption of EU Recovery and Resilience funds from high levels in recent years. Trade restrictions will weigh on exports mainly via weaker demand from European trading partners. Weakening demand will support a gradual decline in inflation, which will reach 2.4% by end-2026. Risks are tilted to the downside. Escalating trade tensions could further dampen demand from European trading partners. Expansionary fiscal policy and higher-than-expected wage growth may slow disinflation.

Prudent macroeconomic policies and structural reforms are needed

Support to households affected by high energy and food prices should be better targeted to avoid fiscal policy further fuelling inflation. Enhancing the regulatory framework, including by clarifying responsibilities across government levels in land-use planning, creating a one-stop shop for land rights procedures, and promoting out-of-court dispute resolution, would reduce uncertainty and encourage investment. Efforts to increase labour force participation by older and younger workers, and to attract foreign workers, combined with effective upskilling and reskilling reforms, would help alleviate skill shortages and support productivity growth.

Czechia

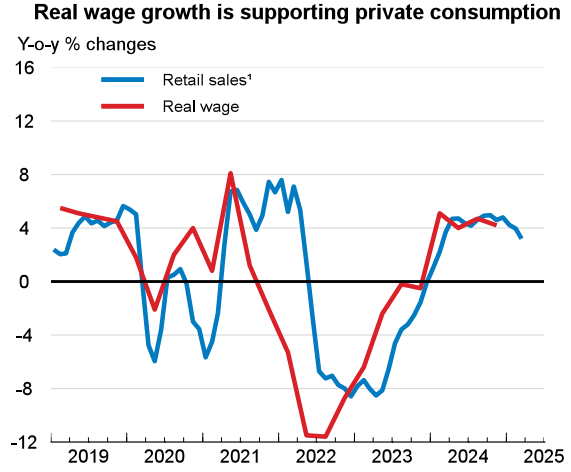
GDP growth is set to pick up from 1% in 2024 to 1.9% in 2025 and 2.2% in 2026. The ongoing recovery in households' real disposable income will support robust consumer demand. High trade policy uncertainty and trade restrictions, especially in the automotive sector, are weighing on investment and exports. The fiscal expansion in Germany and stronger use of EU funds will support faster growth in 2026. Headline inflation is projected to fall back gradually to the 2% target. Risks are tilted to the downside, related to a further escalation of trade tensions that could lead to lower growth.

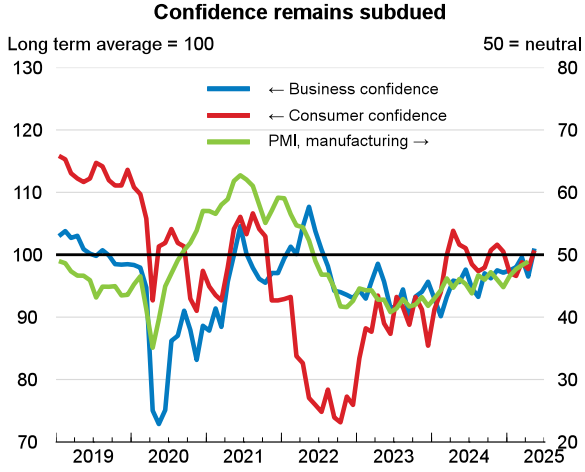
Given high uncertainty, monetary policy needs to remain vigilant. If inflationary pressures subside durably, the central bank should further ease policy interest rates. A broadly neutral fiscal stance is appropriate in the short-term, while spending efficiency needs to be improved in the medium-term to accommodate higher spending for defence, an ageing population and the green transition. Further developing the capital market and streamlining regulations to facilitate the entry and scaling up of firms can boost investment and business dynamism.

Household consumption is driving growth

GDP growth continued to expand robustly in the first quarter of 2025, by 0.5% compared to the previous quarter, helped by a strong recovery in household consumption. High frequency indicators point to some moderation of growth in the near term. Retail sales growth remained solid in March but economic sentiment declined markedly in April. The manufacturing purchasing managers index continued to recover from a subdued level in April but export orders declined. Falling interest rates supported a pick-up in loan growth to the private sector in the first quarter of 2025. Consumer price inflation eased to 1.8% in April 2025 as food price inflation abated, but service price inflation remained elevated at close to 5%. The labour market remains tight, with employment growth concentrated in the services sector. Labour shortages are contributing to continued strong wage growth.

Czechia





1. 3-month moving average.
Source: Czech Statistical Office; and S&P Global.

StatLink https://stat.link/mgp5ur

Czechia: Demand, output and prices

Czechia	2021	2022	2023	2024	2025	2026
	Current prices CZK billion	Percentage changes, volume (2020 prices)				
GDP at market prices	6 306.1	2.9	0.1	1.0	1.9	2.2
Private consumption	2 979.5	0.5	-2.7	2.1	3.1	2.8
Government consumption	1 318.7	0.4	3.4	3.3	2.1	1.3
Gross fixed capital formation	1 654.3	6.3	2.7	-1.4	-0.6	2.7
Final domestic demand	5 952.5	2.1	0.1	1.3	1.9	2.5
Stockbuilding[1]	119.4	1.2	-2.7	-0.9	0.8	0.0
Total domestic demand	6 071.9	3.3	-2.6	0.4	2.7	2.5
Exports of goods and services	4 446.9	5.2	3.1	1.5	1.0	2.2
Imports of goods and services	4 212.7	6.0	-0.6	0.7	2.0	2.6
Net exports[1]	234.2	-0.3	2.7	0.6	-0.6	-0.1
Memorandum items						
GDP deflator	_	8.7	8.1	4.0	2.2	2.0
Consumer price index	_	15.1	10.7	2.4	2.4	2.1
Core inflation index[2]	_	12.2	7.7	4.0	2.8	2.2
Unemployment rate (% of labour force)	_	2.2	2.6	2.6	2.7	2.6
Household saving ratio, net (% of disposable income)	_	11.5	13.1	12.2	11.4	9.6
General government financial balance (% of GDP)	_	-3.1	-3.8	-2.2	-2.2	-1.9
General government gross debt (% of GDP)	_	45.9	48.6	49.4	50.5	51.1
General government debt, Maastricht definition[3] (% of GDP)	_	42.5	42.4	43.6	44.6	45.3
Current account balance (% of GDP)	_	-4.7	-0.1	1.8	0.9	0.8

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/9d0kw1

The slow recovery in foreign demand, especially from Germany, has weighed on export growth. While direct trade exposure to the United States is limited, with goods exports to the United States accounting for around 3% of total exports in 2024, the recent increase in US tariffs will affect the economy via European manufacturing supply chains, especially for automotive parts. The koruna exchange rate has been relatively stable vis-à-vis the euro since the beginning of 2025.

Monetary policy is slightly restrictive and fiscal policy is neutral in 2025

The central bank lowered its policy rate from 7% to 3.5% between December 2023 and May 2025. Monetary policy is projected to remain slightly restrictive in 2025 and broadly neutral in 2026, with the policy rate declining to 3%. The fiscal position has improved significantly, with the budget deficit falling from 3.8% of GDP in 2023 to 2.2% of GDP in 2024, helped by the phasing out of energy support measures and the implementation of a consolidation package. In line with the fiscal-structural plan the projections assume a neutral fiscal stance in 2025 and a moderately restrictive stance in 2026.

Growth is set to pick up but uncertainty is high

Robust private consumption growth supported by gains in real disposable income will be the main driver of growth in 2025. High trade policy uncertainty will weigh on investment growth this year but a stronger drawing of EU funds will support a pick-up in 2026. Export growth will be subdued due to the increase in trade restrictions, particularly in the automotive sector, which are offset only partly by the fiscal expansion

in Germany in 2026. Stronger productivity growth will mitigate labour cost growth and help ease inflation, which should fall back to target in 2026. Risks are tilted to the downside. A further escalation of trade and geopolitical tensions could depress confidence and foreign demand and lead to a resurgence of supply chain disruptions.

Managing uncertainty through prudent macroeconomic policy

Monetary policy needs to remain vigilant given the high uncertainty about future trade policy and the effects on prices, exchange rates and demand. If inflationary pressures durably subside, the central bank should further ease monetary restrictiveness. In this environment, the neutral fiscal stance in 2025 is broadly appropriate and automatic stabilisers should be allowed to work freely if downside risks materialise. In the medium-term, spending efficiency needs to improve to accommodate spending pressures related to military spending, population ageing and the green transition. For example, building capacity to regularly conduct spending reviews can help identify saving potential without harming outcomes but requires better access to data. Recent reforms to improve the overall sustainability of the pension system should be fully implemented. Further developing the capital market and streamlining regulations to facilitate the entry and scaling up of firms can boost investment and business dynamism.

Denmark

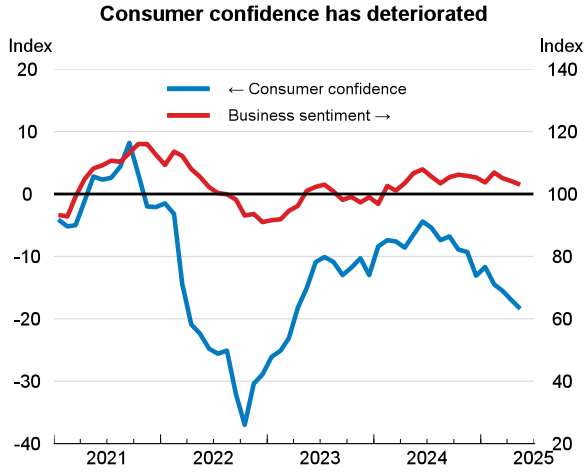
After a rebound to 3.7% in 2024, GDP growth is projected to moderate to 3.0% in 2025 and 1.5% in 2026. Rising household real disposable income will sustain consumption and housing investment. Export growth will be supported by the pharmaceutical sector and the reopening of gas fields but will nevertheless slow amid softer foreign demand. Business investment will lose momentum due to high uncertainty about the global trade outlook. Inflation is projected to decline from 1.9% in 2025 to 1.7% in 2026 as capacity pressures ease and wage growth moderates. Risks are to the downside, as further trade restrictions could hit key export sectors.

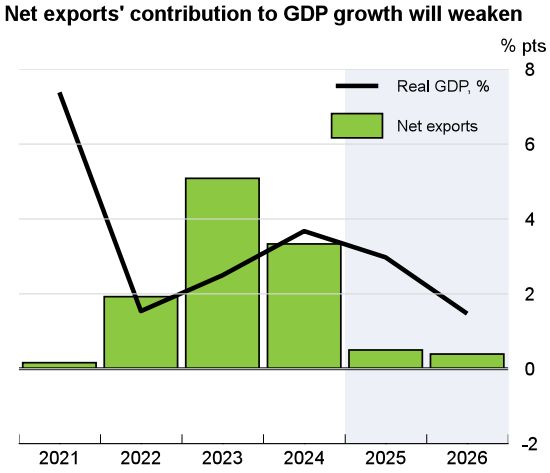
The central bank is projected to gradually lower policy rates, matching the expected easing of euro area rates. Fiscal policy is expected to be expansionary in 2025 and 2026, while maintaining fiscal space to respond to potential adverse economic shocks. Sustained public support to innovation and knowledge diffusion is needed to safeguard investment and competitiveness and facilitate the green and digital transitions amid rising uncertainty and risks.

GDP growth has become more balanced

GDP contracted by 0.5% in the first quarter of the year, mostly due to a fall in volatile pharmaceutical exports. Output recovered in non-pharmaceutical sectors and investment in building and construction rebounded. Available indicators suggest a softening of manufacturing activity in early 2025, with low demand identified by firms as the main production constraint. Labour market tightness remains elevated relative to historical norms but has eased. While household purchasing power has improved as employment and real wages have continued to grow; falling consumer confidence has restrained consumption appetite. Housing, energy and food prices have moderated; and headline and core inflation have fallen to around 1.5%. Wage growth has remained aligned with collective agreements and recent negotiations suggest it should slow to around 3.5% per year. House prices have recovered and now exceed their 2022 peak amid lower interest rates.

Denmark





Source: OECD Economic Outlook 117 database; and Danmarks Statistik.

StatLink https://stat.link/eubp3y

Denmark: Demand, output and prices

Denmark	2021	2022	2023	2024	2025	2026
	Current prices DKK billion	Percentage changes, volume (2020 prices)				
GDP at market prices	2 567.5	1.5	2.5	3.7	3.0	1.5
Private consumption	1 187.9	-2.1	1.4	0.9	1.1	1.6
Government consumption	613.5	-2.5	0.2	1.4	4.7	0.6
Gross fixed capital formation	578.3	2.8	-6.6	2.7	4.1	0.6
Final domestic demand	2 379.7	-1.0	-0.9	1.5	2.8	1.1
Stockbuilding[1]	27.7	0.6	-1.7	-1.0	0.1	0.1
Total domestic demand	2 407.4	-0.2	-2.7	0.7	3.1	1.2
Exports of goods and services	1 510.4	7.2	10.4	7.5	4.1	2.1
Imports of goods and services	1 350.2	4.4	3.7	3.0	4.0	1.8
Net exports[1]	160.1	1.9	5.1	3.3	0.5	0.4
Memorandum items						
GDP deflator	_	9.1	-3.8	1.8	2.3	1.8
Consumer price index	_	7.7	3.3	1.4	1.9	1.7
Core inflation index[2]	_	4.0	4.3	1.4	1.5	1.7
Unemployment rate (% of labour force)	_	4.5	5.2	6.3	6.8	6.8
Household saving ratio, net (% of disposable income)	_	3.5	3.0	2.1	2.8	2.6
General government financial balance (% of GDP)	_	3.4	3.3	4.5	2.4	1.8
General government gross debt (% of GDP)	_	40.1	39.8	36.7	34.0	32.1
General government debt, Maastricht definition[3] (% of GDP)	_	34.1	33.6	31.1	28.4	26.4
Current account balance (% of GDP)	_	11.7	9.8	13.0	12.5	12.2

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/kepl71

Denmark's direct exposure to recent changes in US tariffs is modest but the few large firms driving growth in recent years are deeply integrated in global value chains and serve the US market. The impact of tariffs on the pharmaceutical sector is limited, as pharmaceutical exports are currently exempt from tariffs and there is substantial production in the United States. The slowdown in international trade flows will affect the maritime transport sector, already challenged by supply overcapacity. The outlook for the wind energy industry has been clouded by increasing investment costs and changes in US energy policy. Denmark is also dependent on prospects for demand in the euro area.

Monetary and fiscal policies will be supportive

The Danish central bank will follow anticipated rate cuts by the European Central Bank as part of the currency peg arrangement. Lower interest rates will support demand for credit. Stronger than expected labour market outcomes and exceptional revenues from corporate and pension taxes have led to another upward revision of the government balance in 2024. Rising spending on defence with the "Acceleration Fund" in 2025 and 2026 (0.8% of GDP) and personal income tax cuts (0.2% of GDP by 2026) will contribute to reducing the budget surplus. The fiscal impulse is projected to be expansionary in 2025 and 2026, at over 2% of GDP, but additional spending on defence and falling tax revenues from firms operating abroad will have only a limited impact on the domestic economy.

Weaker trade and high uncertainty will weigh on GDP growth

GDP growth is projected to slow following the robust expansion since 2022. Exports will lose momentum due to slowing foreign demand, lowering the current account surplus. High uncertainty will weigh on business investment. Tensions on the labour market will ease and employment growth will stabilise. Private consumption will pick up gradually and housing investment will continue to recover, supported by real wage growth and tax reductions. After the rebound in early 2025 due to rising energy and food prices, headline inflation is expected to level off at 1.7% in 2026 in line with moderate labour cost growth and reduced capacity pressures. Economic prospects significantly rely on a few large firms, increasing the level of risks to the outlook. An introduction of tariffs on pharmaceuticals or transport services would further challenge key Danish firms. Stronger-than-expected growth in European main trading partners, following fiscal policy easing in Germany, could boost exports and help restore confidence.

Policies should adapt to uncertain economic developments

As fiscal space is large, with low public debt and a fiscal surplus, further fiscal policy easing could be envisaged if a further deterioration of the global trade outlook significantly hits the domestic economy. Efforts should concentrate on promoting productive investment for the green and digital transition. Reducing administrative burdens on firms, addressing skills shortages in strategic fields, including STEM, and streamlining processes to establish collaborations between businesses and universities would improve the business environment, stimulating investment and innovation capacities and maintaining high competitiveness. Clarifying government plans for the expansion of renewable energy and further accelerating network infrastructure developments would reduce uncertainty for investors in the energy sector.

Estonia

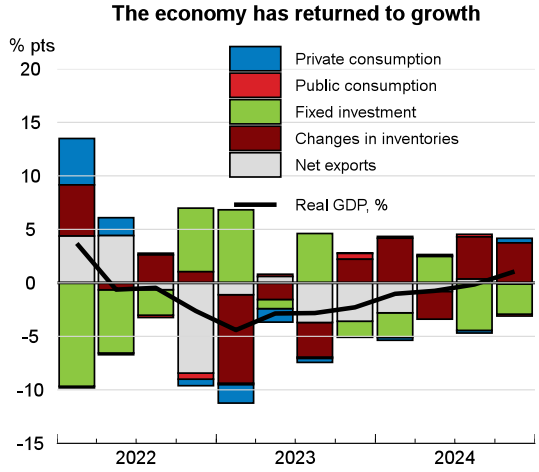
The economy will continue to recover with growth of 1.5% in 2025 and 2% in 2026, despite weaker external demand growth and ongoing tax increases. The recovery will be driven by consumption growth and higher public investment supported by EU funds. Inflation will pick up again in 2025 due to a VAT rise in July but moderate subsequently. Stronger spillovers from global trade developments and geopolitical tensions in the region pose downside risks.

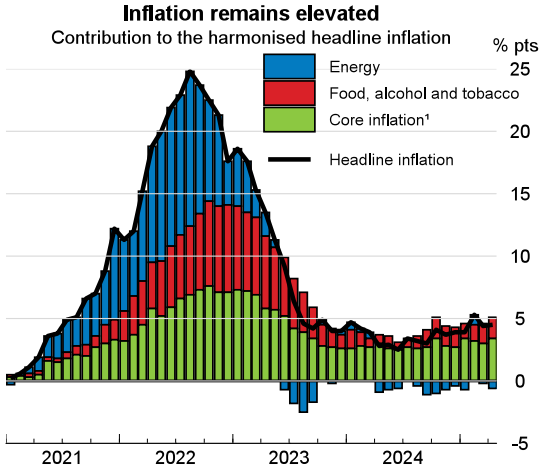
The slowing pace of tax increases is appropriate given unfolding global uncertainties, although medium-term fiscal pressures will need to be addressed. Investment in railway connections and electricity grid upgrades should be implemented without delay, as they can help boost the recovery and strengthen Estonia's security. Increasing uptake of adult learning to drive the digital transition beyond ICT sector could help to improve competitiveness.

Growth has resumed, despite headwinds

The Estonian economy returned to growth in the middle of 2024, following two years of recession, with the upturn driven by trade and consumption. Although part of the growth in consumer spending was due to year-end car purchases in anticipation of a new vehicle tax this year, households have benefitted from a recovery in real incomes and lower interest rates. Preliminary estimates suggest GDP rose by 1.2% over the year to the first quarter of 2025, confirming the recovery despite growing headwinds. Inflation remained elevated at 4.4% in April, largely due to tax increases, higher prices for services and a pick-up in food prices. The unemployment rate remains high, while employment in manufacturing has started to increase. Business confidence indicators point to an improving outlook and consumer confidence has started to improve but remains subdued.

Estonia





1. Excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 117 database; and Eurostat.

StatLink https://stat.link/vtl804

Estonia: Demand, output and prices

Estonia	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2020 prices)				
GDP at market prices	31.4	0.0	-3.1	-0.2	1.5	2.0
Private consumption	15.8	2.7	-1.6	0.0	1.8	1.9
Government consumption	6.3	-1.4	0.7	0.4	0.2	1.4
Gross fixed capital formation	9.1	-10.3	8.7	-6.7	-0.6	6.5
Final domestic demand	31.2	-2.0	1.7	-1.6	0.8	3.0
Stockbuilding[1]	0.6	1.7	-3.3	1.2	2.0	0.0
Total domestic demand	31.8	-0.6	-1.7	-0.6	2.9	3.0
Exports of goods and services	25.0	5.1	-9.0	-1.1	2.3	2.1
Imports of goods and services	25.4	5.1	-6.6	-0.1	3.2	3.4
Net exports[1]	- 0.4	-0.1	-1.9	-0.8	-0.6	-1.0
Memorandum items						
GDP deflator	_	15.9	8.2	3.6	2.7	1.0
Harmonised index of consumer prices	_	19.4	9.1	3.7	4.2	2.3
Harmonised index of core inflation[2]	_	10.3	8.7	5.1	4.0	2.2
Unemployment rate (% of labour force)	_	5.6	6.4	7.5	7.8	7.6
Household saving ratio, net (% of disposable income)	_	-1.6	-0.3	-1.3	0.4	4.2
General government financial balance (% of GDP)	_	-1.1	-3.1	-1.5	-1.5	-3.0
General government gross debt (% of GDP)	_	26.9	29.6	33.4	32.6	35.4
General government debt, Maastricht definition[3] (% of GDP)	_	19.1	20.2	23.6	22.8	25.7
Current account balance (% of GDP)	_	-4.3	-2.2	-1.5	-2.3	-2.9

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/a1iu36

Estonia has successfully managed to cut trade links with Russia, including in the supply of wood manufacturing and its electricity grid, enhancing energy security. Trade growth has been sluggish due to the weakness in key export markets in the Nordic region, particularly in construction and manufacturing. Estonia's direct exposure to trade with the United States is modest, although indirect linkages due to demand from the European market are more significant.

The budget deficit has narrowed but will deteriorate again

Falling interest rates will support the nascent recovery, but ongoing tax increases will weigh on household consumption. Last year, the budget deficit narrowed to 1.5% of GDP and will remain at a similar level this year. Increases in value added tax (VAT) and excise duties under way will weigh on consumption and temporarily raise headline inflation in the middle of the year. Next year, fiscal policy will ease significantly, and the budget deficit will deteriorate to 3% of GDP, with defence spending set to reach 5 % of GDP from 3.4% of GDP in 2024 and an increase in personal income tax allowance, despite further increases in the rates of personal and corporate income taxes. EU structural funds, targeted at the green and digital transitions of the economy, should strengthen public investment and provide funding for upskilling opportunities and energy-saving measures.

The recovery will gather pace

The Estonian economy will continue to expand, with GDP growth reaching 1.5% this year and 2% in 2026. It will be supported by monetary policy easing in the euro area and a pick-up in demand from the Nordic trading partners, as well as by public investment. Much of the defence expenditure increase will be spent on equipment purchases from abroad. Increased uncertainty stemming from both Russia's war of aggression against Ukraine and global trade tensions will continue to keep business investment muted. Inflation will temporarily rise in the second half of the year because of tax increases but decline thereafter to 2.3% in 2026. The recovery could be derailed by a worsening of spillovers from global trade developments and geopolitical tensions in the region. More persistent inflationary pressures and wage demands are upside risks to inflation.

Reforms are needed to ensure sustainable financing of new spending and enhance competitiveness

Given high global uncertainties, the planned more gradual pace of tax increases seems appropriate. The distributional impact of the increased tax burden should be carefully assessed. Higher defence expenditures and spending pressures from an ageing population will eventually require new sources of revenue, which could come for instance from an annual tax on property. Ongoing expenditure reviews should continue. Public investment projects such as international railway connections and electricity grid upgrades can help strengthen Estonia's security and should be implemented without delay. To advance the digital transition among businesses beyond the ICT sector and contribute to improving competitiveness, it will be important to increase the uptake of adult learning.

Euro area

GDP growth is projected to strengthen to 1% in 2025 and 1.2% in 2026 as foreign demand recovers. Private consumption will be supported by sustained growth of real disposable incomes. Private investment will be constrained by high uncertainty but will benefit from improved financing conditions; public investment will be supported by the Recovery and Resilience Facility funds. Wage growth is projected to ease gradually, helping core inflation to return to 2% by the second half of 2025.

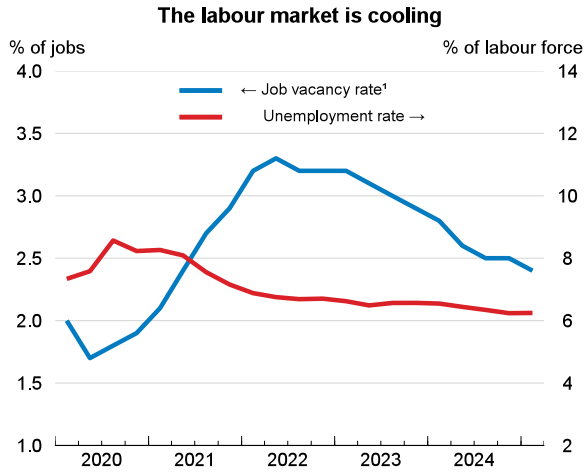
Fiscal policy will tighten in 2025 and remain broadly neutral in 2026, as countries make use of the national escape clauses under the new fiscal rules. Although defence spending is set to rise and debt financing could be required in the short term, prudent fiscal policy is needed to ensure medium-term fiscal sustainability. Monetary policy should remain prudent to ensure that inflation is durably reduced to target. Reducing regulatory burdens on labour mobility would help alleviate labour shortages, while progress on financial integration could boost cross-border financial flows, lifting private investment. The economy remains resilient amid increasing global uncertainty.

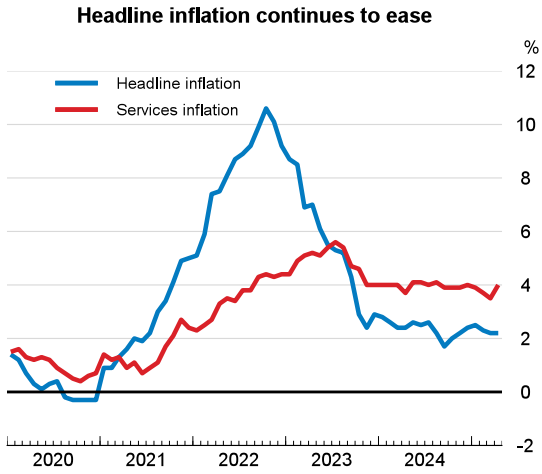
The economy remains resilient amid high uncertainty

GDP grew by 0.3% quarter on quarter in the first quarter of 2025. Recent indicators suggested some rebound in the economy, but the composite PMI declined in May, reflecting weakening in services and only modestly improving activity in manufacturing. Headline inflation stood at 2.2% in April, unchanged from March. Core inflation increased to 2.7% in April, from 2.4% in March, partly driven by the timing of Easter, but market and survey-based inflation expectations have remained broadly stable at the 2% target since December 2024. Services inflation also increased in April, to 4% in annual terms, up from 3.5% in March. The labour market is gradually normalising, with both employment growth and nominal wage growth slowing in the fourth quarter of 2024. At the same time, the euro area seasonally adjusted unemployment rate remained low at 6.2% in March. Financial conditions continue to be mildly restrictive, with the corporate demand for loans decreasing, but a continuing rebound in housing loans and other lending to households. The number of bankruptcies fell slightly in the fourth quarter of 2024, from a high level in the first half of the year.

Benign energy prices and increasing exports of chemicals and manufactured goods brought the goods trade surplus to EUR 44 billion or 0.3% of euro area GDP in March. Exports were affected by front-loading amid growing trade frictions and elevated geopolitical tensions. At the same time, the balance of services trade remained positive, and the current account surplus for the last 12 months increased to 2.9% of GDP in March. Energy commodity prices have decreased, but the recovery from the recent energy price shock has been uneven, with output and profits of energy-intensive firms decreasing. The US has introduced a 10% tariff on imports of EU goods, with a 25% tariff on imports of steel and aluminium and cars and car parts. The EU postponed its countermeasures for 90 days in April. In support of Ukraine, EU countries have extended temporary protection to more than 4 million Ukrainian refugees until March 2026, helping to reduce labour shortages in certain sectors. The EU has disbursed almost EUR 20 billion (0.1% of euro area GDP) from the EUR 50 billion Ukraine Facility and approved an additional loan of up to EUR 35 billion (0.2% of euro area GDP), financed by proceeds from frozen Russian assets.

Euro area 1





1. The job vacancy rate measures the proportion of total posts that are vacant, expressed as the ratio of the number of job vacancies to the number of occupied posts plus the number of job vacancies.
Source: Eurostat Job vacancy statistics database; OECD Economic Outlook 117 database; and Eurostat Harmonised index of consumer prices (HICP) database.

StatLink https://stat.link/6eqbv2

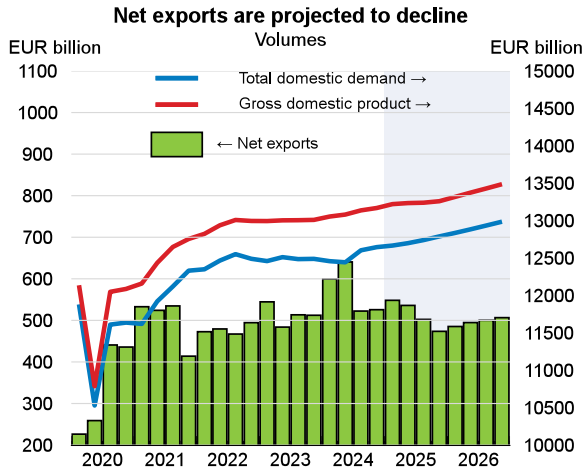
Euro area: Demand, output and prices

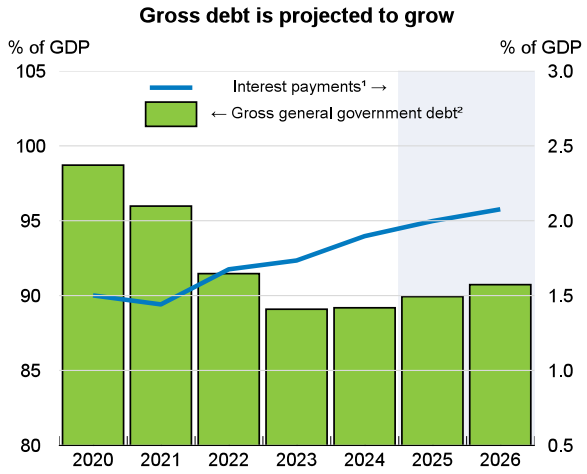
Euro area	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2021 prices)				
GDP at market prices	12 499.4	3.5	0.5	0.8	1.0	1.2
Private consumption	6 394.1	5.0	0.6	1.0	1.2	1.2
Government consumption	2 763.7	1.1	1.4	2.5	1.3	1.1
Gross fixed capital formation	2 707.9	2.0	1.8	-1.8	1.9	2.5
Final domestic demand	11 865.7	3.4	1.0	0.7	1.4	1.5
Stockbuilding¹	132.3	0.5	-0.8	-0.3	0.1	0.0
Total domestic demand	11 998.0	3.9	0.2	0.4	1.5	1.5
Net exports¹	501.4	-0.2	0.3	0.5	-0.4	-0.1
Memorandum items						
GDP deflator	_	5.1	5.9	2.9	2.3	2.0
Harmonised index of consumer prices	_	8.4	5.4	2.4	2.2	2.0
Harmonised index of core inflation²	_	4.0	4.9	2.8	2.2	2.0
Unemployment rate (% of labour force)	_	6.8	6.6	6.4	6.4	6.2
Household saving ratio, net (% of disposable income)	_	7.0	7.7	8.7	9.0	8.7
General government financial balance (% of GDP)	_	-3.5	-3.6	-3.1	-3.1	-3.2
General government gross debt (% of GDP)	_	94.7	94.8	94.0	94.7	95.4
General government debt, Maastricht definition³ (% of GDP)	_	91.5	89.1	89.2	89.9	90.7
Current account balance (% of GDP)	_	1.1	2.7	3.6	3.1	2.8

Note: Aggregation based on euro area countries that are members of the OECD, and on seasonally-adjusted and calendar-days-adjusted basis.
1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/j5khq3

Euro area 2





1. Gross general government interest payments.
2. Maastricht definition.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/maqz6b

Macroeconomic policy is to become less restrictive

The aggregate euro area fiscal stance is projected to tighten by about ¼% of GDP in 2025 and remain broadly unchanged in 2026. The fiscal measures to stem the effects of the energy crisis have been withdrawn, while spending under the NextGenerationEU (NGEU) programme could provide support of about 1% of GDP in 2025 and 2026. Russia's war of aggression against Ukraine has triggered additional military spending and the EU fiscal rules were relaxed by allowing the coordinated use of national escape clauses for up to 1.5% of GDP per year for defence purposes, enabling additional spending of about EUR 650 billion (4.3% of euro area GDP) over the next four years. In addition, the Security Action for Europe (SAFE) instrument will allow EU countries to borrow up to EUR 150 billion to facilitate the increase in defence spending.

The European Central Bank's monetary policy stance has become less restrictive, as the deposit facility rate has been cut by a cumulative 175 basis points since June 2024, to 2.25% in April 2025. The policy rate is projected to decrease further, reaching 1.75% in the latter part of 2025. While the interest rate cuts will support aggregate demand, the overall policy stance is projected to remain cautious for some time to durably reduce inflation to the 2% target. The short-term inflationary pressures stem from labour shortages and additional public expenditure under the NGEU programme, estimated to total 2.5% of GDP by end-2026.

Economic growth will strengthen as domestic demand picks up

Growth is projected to strengthen, supported by easing financial conditions and lower energy prices. The labour market will remain tight, with labour shortages in some occupations and historically low unemployment slowing down wage growth normalisation. Growing real disposable incomes will support consumption, albeit at a slowing rate as disinflation comes to an end. Elevated uncertainty related to trade tensions will weigh on private investment, but public investment will be supported by spending under the NGEU programme. Headline inflation is projected to moderate further, as labour cost pressures gradually dissipate. Core inflation is also projected to decline, returning to the level consistent with the ECB inflation target by mid-2026.

Risks to the projections are tilted to the downside. Worsening trade tensions, such as an increase in US reciprocal tariffs and possible EU countermeasures, would weigh on external demand, while the tariffs already in place could trigger unfavourable trade diversion flows towards the euro area. Trade retaliation measures by the EU could add to inflationary pressures. Financial stability risks continue to exist in the euro area, with pockets of financial vulnerabilities in the commercial real estate and nonbanking financial sector. On the upside, a stronger use of accumulated household savings could strengthen private consumption. In addition, a durable reduction of geopolitical uncertainty and trade tensions could hasten disinflation and help lift external demand.

Structural reforms are needed to complement prudent macroeconomic policies

The investment needs associated with defence, energy security and decarbonisation are considerable. While defence spending is set to rise, it should not be financed by debt issuance in the long term. Reprioritisation of fiscal spending and prudent fiscal policy will be needed to rebuild fiscal buffers and address other spending pressures, such as population ageing. Effective disbursement of the NGEU funds will help expand medium-term productive capacity but it is associated with short-term inflationary risks that need to be monitored at the EU level. The new EU fiscal rules encourage structural reforms and safeguards for medium-term fiscal sustainability, but the impending activation of the national escape clauses may further delay reduction of existing excessive deficits. To ensure a level playing field and effective use of public funds, state-aid rules should not be relaxed further. The monetary policy stance should not be eased prematurely and macroprudential instruments should be used to address potential financial sector vulnerabilities. Furthermore, labour shortages could be alleviated by attracting high-skilled non-EU workers and by reducing regulatory and administrative burdens on intra-EU mobility. Finally, progress on the Capital Markets Union and the banking union could help boost cross-border financial flows, lifting private investment.

Finland

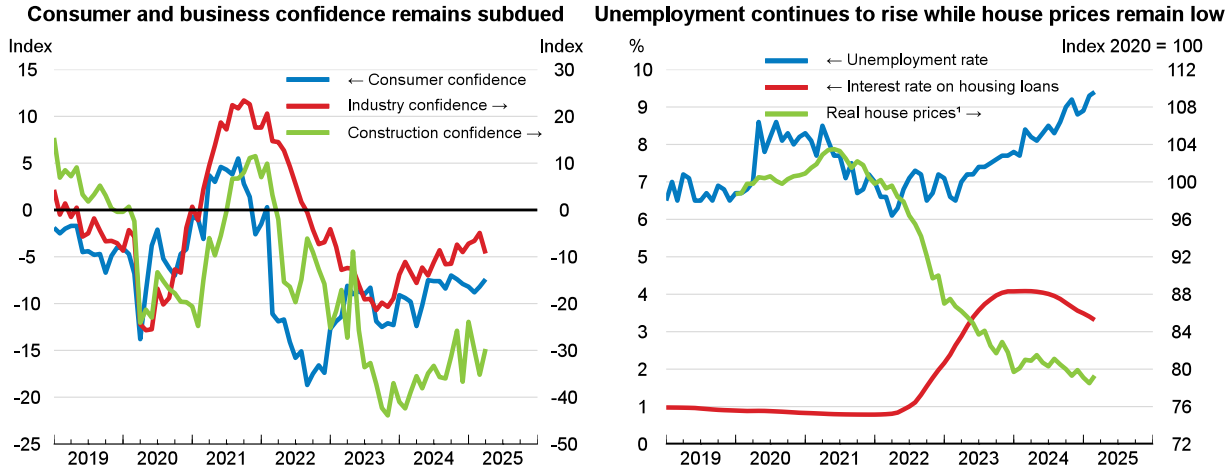
The Finnish economy is set to grow by 0.7% in 2025 and 1.1% in 2026 after contracting by 0.1% in 2024. Lower interest rates will support private consumption and investment, notwithstanding subdued confidence. Inflation is projected to remain modest, as lower energy prices and weak activity offset pressures from rising import costs. Imports should recover gradually, while export growth will be dampened by trade restrictions and lower global growth. Unemployment will remain elevated in 2025 before gradually declining. Russian hybrid warfare, including infrastructure sabotage and cyber-attacks, and escalating trade barriers continue to be key risks.

Fiscal consolidation remains essential to place public debt on a downward path, amid rising pressures from population ageing and growing defence and security needs. Priorities include improving the efficiency of spending, particularly in health, and further normalising reduced VAT rates once the recovery is firmly underway. Boosting private R&D investment, expanding the pool of high-skilled workers through a more effective allocation of study places and better integration of foreign talent, as well as enhancing investment in renewable energy, will be key to strengthen innovation and investment and revive productivity.

Weak confidence and high unemployment continue to weigh on the recovery

Economic activity is gradually recovering. GDP grew in the first three quarters of 2024 but stalled in the fourth quarter, mainly due to sluggish private consumption and investment, before rising by an estimated 0.1% in the first quarter of 2025. Consumer and business confidence remain below long-term averages, particularly in construction. The unemployment rate stood at 9.5% in March, up from 8.4% a year earlier, reflecting continued weakness in construction and job losses in the public sector. Both headline and core inflation have picked up somewhat in 2025, although lower energy prices and subdued domestic demand are helping to contain underlying inflationary pressures. Wage growth moderated in 2024 after strong gains in 2023, but nominal earnings still outpaced inflation. House prices have stabilised after earlier declines, while falling interest rates are reducing household mortgage expenses.

Finland



1. Real price index of old dwellings in housing companies.
Source: European Commission; Bank of Finland; and Statistics Finland.

StatLink https://stat.link/pd85ey

Finland: Demand, output and prices

Finland	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	248.8	0.8	-0.9	-0.1	0.7	1.1
Private consumption	125.3	0.9	0.0	-0.1	0.0	1.7
Government consumption	61.7	-0.6	3.4	0.7	0.1	0.1
Gross fixed capital formation	60.7	1.5	-7.4	-7.1	-0.2	3.9
Final domestic demand	247.7	0.7	-1.0	-1.5	0.0	1.8
Stockbuilding[1,2]	0.9	2.0	-3.0	0.6	0.0	0.0
Total domestic demand	248.6	2.8	-4.0	-0.8	0.0	1.7
Exports of goods and services	99.3	4.4	0.2	0.1	0.6	-0.7
Imports of goods and services	99.2	9.3	-6.7	-2.4	-0.2	0.9
Net exports[1]	0.1	-1.9	3.3	1.1	0.3	-0.7
Memorandum items						
GDP deflator	_	6.2	3.5	1.4	1.6	1.9
Harmonised index of consumer prices	_	7.2	4.3	1.0	1.8	1.9
Harmonised index of core inflation[3]	_	3.6	4.1	2.2	2.5	2.0
Unemployment rate (% of labour force)	_	6.8	7.3	8.4	9.1	8.7
Household saving ratio, net (% of disposable income)	_	1.5	2.0	2.8	4.1	4.3
General government financial balance (% of GDP)	_	-0.2	-3.0	-4.4	-3.7	-3.2
General government gross debt (% of GDP)	_	81.4	85.6	90.4	93.7	96.3
General government debt, Maastricht definition[4] (% of GDP)	_	74.0	77.5	82.1	85.4	88.0
Current account balance (% of GDP)	_	-2.4	-0.4	0.1	-0.2	-0.9

1. Contributions to changes in real GDP, actual amount in the first column.
2. Including statistical discrepancy.
3. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
4. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/i06vky

External headwinds and geopolitical risks overshadow the outlook. Weak demand in key trading partners has dampened exports, while escalating trade restrictions, including the 10% US import tariffs on EU goods and increasing geoeconomic fractures have heightened uncertainty. Russia's war of aggression against Ukraine continues to weigh on regional stability and the economic recovery. Russian hybrid warfare threats, including cyberattacks and infrastructure sabotage, have undermined business sentiment.

The fiscal stance needs to tighten more

Fiscal policy is set to tighten gradually in 2025, following an expansionary stance in 2024, with consolidation of a bit over ½ per cent of GDP. The fiscal deficit widened to 4.4% of GDP in 2024, driven by rising pension costs and spending pressures from health and defence, which were only partly offset by higher revenue from the increase in the standard VAT rate in September. Most wellbeing services counties, which assumed responsibility for social welfare and healthcare from municipalities in 2023, continue to record deficits despite efforts to reduce staffing. Ongoing consolidation, including spending cuts in social welfare programmes, is projected to reduce the deficit to 3.7% this year. The General Government Fiscal Plan for 2026–29 announced in April will slow the pace of consolidation. The plan includes cuts to personal and corporate income tax rates and a rise in defence spending, from 2.4% of GDP in 2024 to 3% by 2029, part of which will be implemented only after the 2026 projection horizon. Abstracting from the uncertain dynamic effects of tax cuts, these measures widen the fiscal gap by around 1.7% of GDP. With European Central Bank policy rates gradually declining, retail interest rates in Finland have been adjusting swiftly, given the high share of variable-rate mortgages, which will help drive a moderate recovery.

A modest recovery is expected but is surrounded by elevated external risks

Growth is projected to recover gradually, with GDP rising by 0.7% in 2025 and 1.1% in 2026, following two consecutive years of contraction. Lower interest rates, rising real wages and stabilising house prices are expected to support private consumption. Investment is also set to recover gradually, although heightened uncertainty, persistent weakness in construction and elevated unemployment may continue to weigh on domestic demand. Exports are projected to slow due to increasing trade restrictions and weak trading partner growth. Inflation is expected to remain moderate, at around 2% in 2025 and 2026, as rising import costs are partly offset by lower energy prices. The recovery is fragile and risks to the outlook remain tilted to the downside. A further escalation of global trade tensions could weaken export performance and delay investment. The persistent geopolitical rift with Russia may dampen confidence and foreign investment. On the upside, positive spillovers from stronger-than-expected investment in the green industrial transition or higher-than-anticipated large-scale defence and industrial orders, such as for steel and icebreakers, could lift growth above current projections.

Facilitating investment and expanding the skilled workforce are key to boosting productivity

Stepping up fiscal consolidation is key to reversing the rise in public debt and rebuilding fiscal buffers in the face of population ageing and growing security needs. Improving the efficiency of public spending, particularly in the health sector and wellbeing services counties, remains essential for achieving debt sustainability. Further normalising reduced VAT rates as the recovery gains traction would help broaden the tax base and raise revenue. Strengthening investment through government support, such as R&D tax credits, and improving regulatory predictability, especially in renewable energy, forestry and clean technologies, will spur Finland's green industrial transition, where the country holds vast potential. Additionally, expanding the supply of high-skilled labour through better allocation of higher education places, faster completion rates, and more effective attraction and integration of foreign talent would also help boost innovation, investment and productivity.

France

After growing below potential in 2023-24, at 1.1%, GDP growth is set to slow further to 0.6% in 2025 due to heightened economic policy uncertainty, before gradually recovering to 0.9% in 2026. Private consumption will become the main growth engine in 2025, as exports will suffer from increased trade tensions and investment will be held back by increased uncertainty. The recovery in 2026 is set to be supported by stronger investment and steady consumer spending. Inflation is expected to fall to 1.2% in 2025, driven by cuts in electricity tariffs, before edging up to 1.7% in 2026.

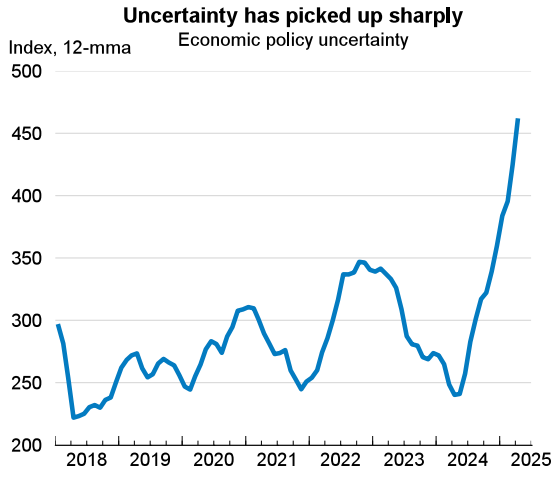
The fiscal deficit is expected to narrow gradually to 5.4% and 5% in 2025 and 2026, respectively, from 5.8% of GDP in 2024. As the associated fiscal effort, of 1% of GDP in 2025, would be the largest in over a decade, there is a significant risk of fiscal slippages. Weaker-than-expected growth and rising defence spending would also make it harder to reach fiscal targets. Public debt is projected to remain high at nearly 120% of GDP in 2026. Stabilisation will require continued deficit reduction and growth-enhancing reforms. To unlock greater investment, structural reforms should prioritise digital uptake, simplifying regulations in the services sector and better targeting of innovation support towards innovative small and medium-sized enterprises.

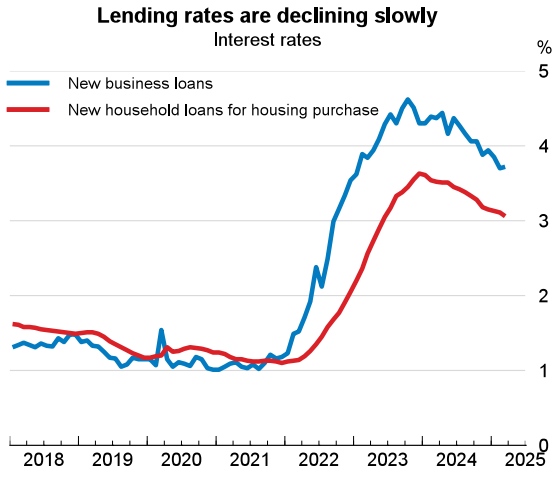
Activity has slowed amidst rising policy uncertainty

Economic activity grew by 1.1% in 2024, reflecting a degree of resilience amid a challenging policy environment, heightened uncertainty after a government no-confidence vote, and a mild output fall in the fourth quarter that reduced the 2025 carry-over. GDP rebounded moderately in the first quarter of 2025, driven primarily by inventory accumulation, while private consumption stagnated and both investment and net exports both declined. However, business investment has stabilised since two quarters, after nearly five consecutive quarters of decline. Indicators remain gloomy though. Business confidence has remained below its long-term average since August 2024, while household confidence hit its lowest since the Russia's war of aggression against Ukraine began. The labour market has worsened, with employment falling by 0.3% in the fourth quarter of 2024. Inflation decreased faster than expected at the end of 2024 and early 2025, reaching 0.9% year-on-year in April, helped by lower regulated tariffs on electricity in February. Core inflation continues to be higher than headline inflation.

Business uncertainty has risen due to the lack of clarity around the tariffs imposed by the United States and potential retaliation by other major economies. France's direct exposure to higher US tariffs on EU goods is relatively limited, with the US accounting for 5% of exports and 5.3% of imports of goods. However, France remains highly vulnerable to a broader slowdown in global demand, especially in Europe, which is the destination for 55% of its exports.

France 1





Source: www.policyuncertainty.com; and Banque de France.

StatLink https://stat.link/ei8kl0

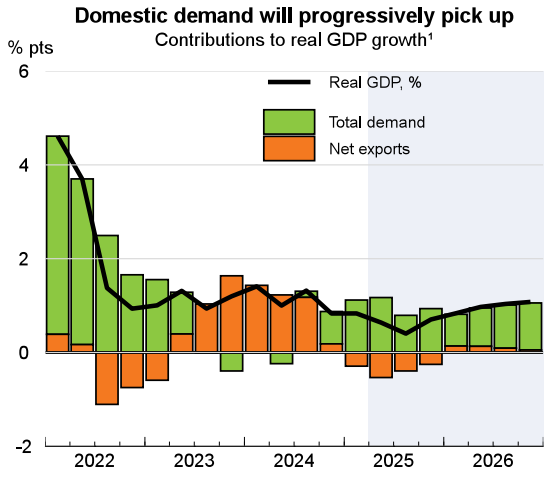
France: Demand, output and prices

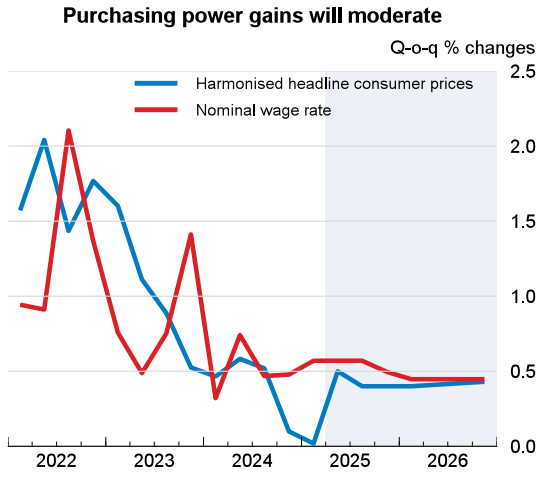
France	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2020 prices)				
GDP at market prices	2 505.6	2.6	1.1	1.1	0.6	0.9
Private consumption	1 324.9	3.2	0.9	0.9	0.9	1.1
Government consumption	625.0	2.6	0.8	1.7	0.6	0.1
Gross fixed capital formation	587.6	0.1	0.7	-1.4	-0.5	0.8
Final domestic demand	2 537.4	2.3	0.9	0.6	0.5	0.8
Stockbuilding[1]	- 2.0	0.6	-0.4	-0.5	0.5	0.0
Total domestic demand	2 535.4	2.9	0.5	0.1	1.0	0.8
Exports of goods and services	782.7	8.4	2.4	1.6	-0.1	1.4
Imports of goods and services	812.6	9.1	0.7	-1.2	1.0	1.0
Net exports[1]	- 29.9	-0.3	0.6	1.0	-0.4	0.1
Memorandum items						
GDP deflator	_	3.2	5.3	2.3	1.7	1.5
Harmonised index of consumer prices	_	5.9	5.7	2.3	1.2	1.7
Harmonised index of core inflation[2]	_	3.4	4.0	2.3	1.6	1.7
Unemployment rate[3] (% of labour force)	_	7.3	7.4	7.4	7.8	7.6
Household saving ratio, gross (% of disposable income)	_	16.5	16.5	17.7	17.6	17.5
General government financial balance (% of GDP)	_	-4.7	-5.4	-5.8	-5.4	-5.0
General government gross debt (% of GDP)	_	115.5	116.4	116.4	120.0	123.1
General government debt, Maastricht definition[4] (% of GDP)	_	111.4	109.8	113.0	116.7	119.7
Current account balance (% of GDP)	_	-1.2	-1.0	0.4	-0.2	-0.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. National unemployment rate, includes overseas departments.
4. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/pahto7

France 2





1. Year-on-year growth rates.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/spxefh

Credit conditions will improve while fiscal policy will tighten

The fiscal deficit is projected to have been 5.8% of GDP in 2024, slightly lower than earlier expectations. The government is targeting a reduction to 5.4% of GDP in 2025, requiring a 1% improvement in the structural primary balance, with additional measures beyond the current Budget. If fully implemented, this would be the strongest improvement since 2010. A consolidation effort in line with the government's announcements is incorporated in the projections. Most of the consolidation will come from higher taxes, including exceptional taxes on high-income earners and large profitable firms, as well as on air travel and high-emitting vehicles. On the spending side, measures include a slowdown in municipal spending, cuts in central government spending, lower subsidies for low-wage workers, reductions in sick leave benefits and a tightening of unemployment benefits. No detailed consolidation plan has been set for 2026; an effort of 0.7% of GDP is assumed, though rising defence spending may hinder this.

Since mid-2024, European Central Bank policy interest rate cuts have eased lending conditions, gradually supporting business and housing investment. However, private sector debt repayments remain high because of fixed-rate loans from the earlier high-interest period. The interest rate on new housing loans (excluding renegotiations) declined to 3.2% in March, the lowest level since May 2023, while new loan rates to businesses fell to 3.76%, 95 basis points lower than a year ago. The sovereign spread between France and Germany also narrowed to 68 basis points in May, almost 20 basis points below its December 2024 peak amid political turmoil. Nevertheless, it remains elevated relative to its long-term average, reflecting ongoing concerns over debt and economic policy uncertainty.

High economic policy uncertainty will delay the rebound in growth

Economic growth is expected to slow significantly in 2025, with the output gap widening throughout the next two years, driven by heightened uncertainty and rising trade tensions. The contribution of exports to growth will weaken. Private consumption will be supported by disinflation, transfers indexed on past inflation and a lower saving rate—though real income gains will be tempered by a slowing in wage catch-

up compared to 2024 and higher taxes on income. Unemployment is expected to rise with the slowdown in growth. The social assistance (RSA) reform requiring beneficiaries to register with public employment services and actively search for a job will add upward pressure on the unemployment rate while tighter low-wage subsidies may also reduce the employability of this group. Business investment will remain subdued over 2025 and will only gradually recover towards the end of the year, given weak trade prospects and policy uncertainty. Residential investment is expected to turn positive from mid-2025, following a progressive rise in building permits since the last quarter of 2024. Ahead of municipal elections, public investment is expected to rise in 2025, albeit at a slower pace. Inflation is expected to ease further in 2025, as economic activity slows and tariffs on US imports only have a limited impact due to France's low exposure to the US market. The gap between headline and core inflation is expected to narrow as energy prices stabilise and services inflation eases.

Risks are tilted to the downside. Higher tariffs on French exports and those of its key partners, especially in Europe, could weaken growth further. Retaliatory trade measures could push inflation higher. A softer stance on fiscal consolidation would support growth but push up the public debt ratio, raising bond yields and crowding out private investment. The risk of renewed policy turmoil later this year – due to the absence of a clear majority in the National Assembly – and the resulting uncertainty over fiscal policy may further constrain firms' investment decisions.

Stabilising debt and raising potential output call for broad-based reforms

Sticking to fiscal consolidation plans is essential for France to stabilise and reduce public debt. While efforts so far have focused on tax increases, achieving medium-term fiscal targets will require a broader strategy, including spending cuts, shifting the tax structure toward less distortive taxes and implementing structural reforms to boost potential growth. Greater support for the labour market participation of older workers should focus on lifelong learning, especially investment in digital skills. Accelerating investment in digital technologies, especially among SMEs, requires boosting fibre adoption by clarifying tariffs and service offers, and by lowering installation costs. The innovation ecosystem is strong and dynamic but incentives for research and development should be more directed towards SMEs with high potential for breakthrough innovation. Further streamlining administrative procedures, easing regulatory barriers to market entry and simplifying regulations in key service sectors would stimulate competition and attract new capital.

Germany

The economy is projected to grow by 0.4% in 2025 and 1.2% in 2026. Private consumption will increase due to low inflation, rising nominal wages and decreasing domestic policy uncertainty following the formation of a new government. High trade policy uncertainty will hamper investment in export-oriented manufacturing but, overall, private investment will pick up, supported by high corporate savings, declining interest rates and lower domestic policy uncertainty. Public investment in defence and infrastructure will rise strongly due to the increased flexibility in the fiscal rules and large investment needs. Rising US tariffs will weigh on foreign demand.

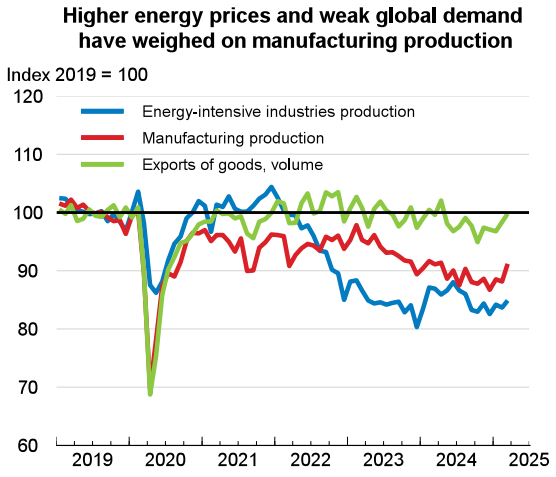
Ensuring medium-term fiscal sustainability requires improved public spending efficiency, reallocation of spending and broadening the tax base, while addressing rising spending pressures due to rapid population ageing. Continuing to reduce the administrative burden, digitalise the public administration and improve infrastructure implementation capacity, particularly at the municipal level, is needed to support the pick-up in public and private investment. To avoid rising inflationary pressures due to the significant demand shock from fiscal easing, it is key to reduce barriers to firm entry and growth and address skilled labour shortages.

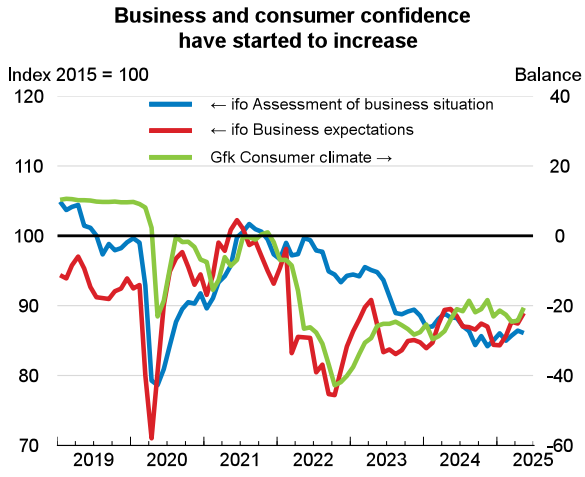
Weak external demand and high uncertainty have weighed on economic activity

Real GDP increased by 1.7% at a seasonally adjusted annual rate (saar) in the first quarter of 2025, mainly driven by private consumption and investment. Energy prices remain higher than before the war in Ukraine, particularly affecting output in energy-intensive industries. Monthly manufacturing production increased by 3% in March and was 0.2% below the level a year earlier. Despite an increase of real wages by 3.1% in 2024, the recovery of private consumption has been slow due to high domestic policy uncertainty. However, since the federal elections in February and a reform of the fiscal rules in March, policy uncertainty has declined. The ifo business expectations indicator has increased since March, despite higher trade policy uncertainty. Retail sale volumes decreased in March by 0.2% but stood 2.2% above the previous year's level. Annual headline inflation declined to 2.2 % in April from 2.3% in March, mainly driven by declining energy prices. However, core inflation remains sticky, at 3.1% in April, due to strong services price inflation of 4.5% driven by strong nominal wage gains. Although labour markets have cooled, they remain robust with low unemployment and high vacancies still signalling strong labour shortages.

Rising trade protection and increasing competition from China in key export markets have weighed on export volumes, which strongly declined in the second half of 2024. However, in March 2025, nominal exports were 2.3% above the level observed one year earlier, helped by rising export prices and a structural shift in manufacturing towards higher value-added products. The recent rise in uncertainty about future US trade policy also led to a front-loading of exports in the first quarter of 2025. Higher US tariffs will strongly affect manufacturing firms as about 10% of total goods exports are shipped to the United States.

Germany 1





Source: Federal Statistical Office; Bundesbank; ifo business surveys; and GfK.

StatLink https://stat.link/5zku0v

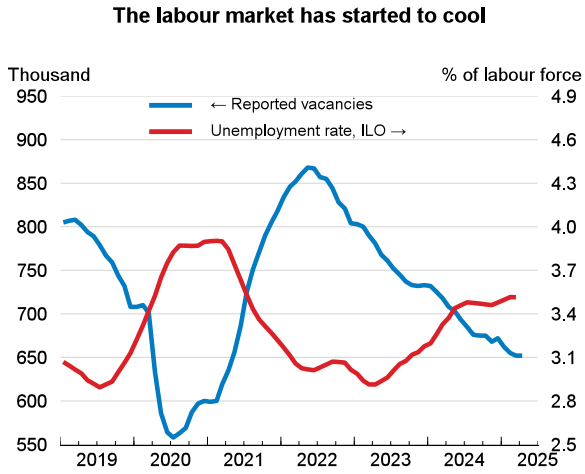
Germany: Demand, output and prices

Germany	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2020 prices)				
GDP at market prices	3 667.3	1.4	-0.1	-0.2	0.4	1.2
Private consumption	1 837.5	5.6	-0.2	0.2	0.9	1.0
Government consumption	820.2	0.1	-0.1	3.2	1.2	1.5
Gross fixed capital formation	774.6	0.0	-0.7	-2.5	2.3	4.5
Final domestic demand	3 432.2	3.0	-0.3	0.3	1.3	1.9
Stockbuilding[1]	48.2	-0.1	0.0	0.0	0.0	0.0
Total domestic demand	3 480.4	3.0	-0.2	0.3	1.2	1.9
Exports of goods and services	1 558.8	3.2	0.2	-1.7	-0.3	0.6
Imports of goods and services	1 371.9	7.1	-0.3	-0.6	1.7	2.1
Net exports[1]	186.9	-1.3	0.2	-0.5	-0.8	-0.6
Memorandum items						
GDP without working day adjustments	3676.3	1.4	-0.3	-0.2	0.3	1.5
GDP deflator	_	6.1	6.1	3.1	2.4	2.1
Harmonised index of consumer prices	_	8.7	6.0	2.5	2.4	2.1
Harmonised index of core inflation[2]	_	3.9	5.1	3.2	2.7	2.4
Unemployment rate (% of labour force)	_	3.1	3.0	3.4	3.6	3.5
Household saving ratio, net (% of disposable income)	_	10.3	10.4	11.2	10.8	10.6
General government financial balance (% of GDP)	_	-2.2	-2.5	-2.7	-2.7	-3.3
General government gross debt (% of GDP)	_	64.7	63.8	63.2	64.2	65.5
General government debt, Maastricht definition[3] (% of GDP)	_	65.1	62.9	62.4	63.4	64.6
Current account balance (% of GDP)	_	3.9	5.6	5.7	4.8	3.7

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/glc2o9

Germany 2



1. Harmonised index of consumer prices.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: Federal Statistical Office; and Eurostat.

StatLink https://stat.link/1qpxgz

Defence spending and infrastructure investment are set to increase strongly

The fiscal stance will tighten by 0.3% of GDP in 2025 and expand by 0.9% of GDP in 2026. Due to the fall of the previous coalition government and failure to conclude negotiations on the 2025 budget, a provisional budget for 2025 extends nominal spending levels from 2024 to 2025. However, a recent reform of the national fiscal rules will allow for raising investments in defence and infrastructure in the next few years. Additional spending exceeding 1% of GDP in the areas of defence, civil protection, intelligence services, protection of IT systems, and support for states attacked in violation of international law will be exempted from the fiscal rules. A special infrastructure fund will provide up to EUR 500 bn or about 12% of GDP for additional investment in infrastructure and the green transformation over the next 12 years. Moreover, the structural deficit ceiling for sub-national governments will be raised from 0% to 0.35% of GDP, and EUR 100 billion from the new infrastructure fund will be allocated to fund local public investment. The effects of this reform on public investment are expected to start materialising only in 2026 as the approval of the 2025 and 2026 budget and detailed investment plans as well as infrastructure planning and procurement procedures will take time.

Negotiations to form a new coalition government have been successful. The policy plans laid out in the coalition treaty emphasise the need to strengthen defence and internal security, address the large infrastructure backlog, revive the stagnating economy, modernise and digitalise the public administration, and address skilled labour shortages. It is planned to raise depreciation allowances for equipment investment, reduce the electricity tax and network charges, raise subsidies for energy-intensive firms, and support the car industry by increasing subsidies for electric vehicles and the commuter allowance. Labour supply incentives are planned to be raised by exempting additional income from working extra-hours, wage premia if switching from part-time to full time work, and earnings of workers above the statutory retirement age from labour taxes.

The recovery will be driven by domestic demand

GDP will grow by 0.4% in 2025 and 1.2% in 2026. Private consumption will increase due to low inflation, rising nominal wages and declining domestic policy uncertainty. High trade policy uncertainty will hamper investment in export-oriented manufacturing but, overall, private investment will pick up, supported by high corporate savings, declining interest rates and decreasing domestic policy uncertainty, including on the financing of measures to support firms during the green transition. Public investment in defence and infrastructure will rise strongly due to the increased flexibility in the fiscal rules and large investment needs. Rising US tariffs will weigh on export demand. Headline inflation will converge towards 2% in 2026, but core inflation will be sticky, reflecting the impact of wage gains amidst skilled labour shortages and rising public investment and domestic demand.

A further escalation in trade policy tensions would weigh on GDP, as the manufacturing sector is strongly integrated in global supply chains and the United States is the main export market. If public procurement and infrastructure planning and approval procedures are not accelerated, the implementation of public investment projects will be delayed, reducing GDP growth in 2026. Moreover, if structural reforms to support the supply side of the economy are not implemented, the significant demand shock from increased public investment may lead to strongly rising inflationary pressures.

Structural reforms should complement the reform of fiscal rules

Further simplification and harmonisation of public procurement, infrastructure planning and approval procedures should be combined with improvements to the capacity of public administration, particularly at the local level. This will ensure a quick and efficient implementation of public investment projects. To avoid rising inflationary pressures, it is key to combine the reform of the fiscal rules with structural reforms. Reducing high administrative burdens and regulatory barriers to entry and growth of firms, particularly in construction and services, is key to strengthen competition and revive business dynamism, investment and innovation. This will require accelerating the digitalization of the public administration, including by setting mandatory common IT standards, and expanding efforts to review, simplify and harmonise existing regulations and administrative procedures across levels of government. Occupational entry regulations and licensing requirements to open a business should be reduced to strengthen competition. Shifting the tax burden away from labour towards capital income and wealth, for example by reducing inheritance tax exemptions for business assets, would help improve labour supply incentives. Reducing fiscal incentives for early retirement would improve work incentives for older workers and help to stabilise pension spending amidst rising fiscal pressures due to ageing. To address skilled labour shortages, it is key to expand training opportunities for workers and the unemployed, including support for completing formal VET degrees.

Greece

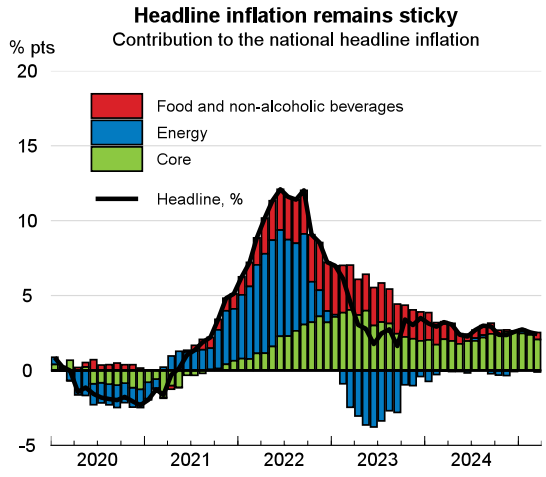
GDP growth is projected to remain resilient at 2.0% in 2025 and 2.1% in 2026. Disbursements of EU Recovery and Resilience Funds will strengthen investment, and minimum wage increases will support a pick-up in consumption, as exports slow alongside external demand. Headline inflation will ease to 2.0% in 2026, helped by lower oil prices, despite rising trade costs and persistent services inflation. Implementation delays of EU funds, excessive wage growth or renewed extreme weather events could dampen the outlook.

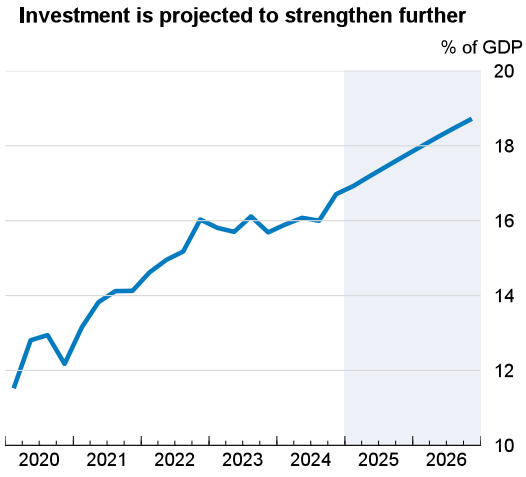
Sizeable primary fiscal surpluses are projected in 2025 and in 2026, at 2.1% and 2.2% of GDP respectively, underpinned by improved tax compliance. Keeping public debt on a firmly declining path should remain a priority, as ageing costs and investment needs add to future spending pressures. Maintaining the reform momentum to improve the business environment and ease high labour shortages would support investment growth. Continuing efforts to reduce tax evasion and limit tax expenditures would raise revenues, while making room to reduce the labour tax on low-wage earners, and encouraging further employment gains.

The economy remains strong

The economy grew by 0.9% in the fourth quarter of 2024, driven by investment. Business expectations in manufacturing and service sectors have softened but continued to point towards expansion in April 2025. Employment rose by 0.5% in the year to March 2025, while nominal wages grew by 5.4% in the year to the fourth quarter of 2024, with labour shortages remaining historically high. Annual headline inflation remained elevated at 2.6% in April 2025 and core inflation stood at 3.8%, driven by services price inflation.

Greece





Source: OECD Consumer Prices database; and OECD Economic Outlook 117 database.

StatLink https://stat.link/gfec8k

Greece: Demand, output and prices

Greece	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2020 prices)				
GDP at market prices	184.6	5.7	2.3	2.3	2.0	2.1
Private consumption	126.3	8.6	1.8	2.1	1.2	1.7
Government consumption	39.8	0.1	2.6	-4.1	1.2	0.8
Gross fixed capital formation	25.5	16.4	6.6	4.5	9.3	8.1
Final domestic demand	191.6	7.9	2.6	1.3	2.4	2.6
Stockbuilding[1,2]	6.8	0.2	-0.8	3.2	0.9	0.0
Total domestic demand	198.4	7.9	1.5	4.2	3.2	2.5
Exports of goods and services	74.3	6.6	1.9	1.0	2.0	1.5
Imports of goods and services	88.1	11.0	0.9	5.5	0.9	2.6
Net exports[1]	- 13.8	-2.6	0.4	-2.2	0.4	-0.6
Memorandum items						
GDP deflator	_	6.5	5.9	3.2	4.0	2.1
Harmonised index of consumer prices	_	9.3	4.2	3.0	2.5	2.0
Harmonised index of core inflation[3]	_	4.6	5.3	3.6	3.6	2.2
Unemployment rate (% of labour force)	_	12.4	11.1	10.1	9.4	9.1
General government financial balance[4] (% of GDP)	_	-2.5	-1.4	1.3	0.0	-0.2
General government gross debt (% of GDP)	_	192.5	180.7	169.6	161.2	155.9
General government debt, Maastricht definition[5] (% of GDP)	_	177.0	163.9	153.6	145.2	139.8
Current account balance[6] (% of GDP)	_	-10.0	-6.6	-6.5	-5.1	-5.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Including statistical discrepancy.
3. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
4. National Accounts basis. Data also include Eurosystem profits on Greek government bonds remitted back to Greece, and the estimated government support to financial institutions and privatisation proceeds.
5. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
6. On settlement basis.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/mwqjen

Business lending has continued to grow in recent months. Lending to non-financial corporations from August 2024 to March 2025 was 14% higher than a year earlier. Interest rates for new loans to households and firms fell from 5.7% in August 2024 to 4.3% in March 2025. The trade deficit widened in 2024, with import growth outpacing exports amidst moderate growth in tourism. Travel receipts over the second half of 2024 were 1.8% higher than a year earlier, down from high growth rates in previous years, and exports of goods in the fourth quarter of 2024 were 3.3% lower compared than a year earlier. Trade links with the United States are limited, but new US tariffs will also weigh on exports by lowering demand from trading partners such as Germany.

Fiscal policy will remain supportive

The fiscal stance will remain supportive, as disbursements of Recovery and Resilience grants and loans are projected to rise from 1.8% of GDP in 2024 to 3.6% in 2026. Stronger tax revenues, bolstered by enhanced tax collection measures, are projected to support sustained primary surpluses and create room for additional spending. A primary surplus of 2.1% of GDP in 2025 and 2.2% in 2026 will contribute to a further decline in the debt-to-GDP ratio to 140% in 2026 (Maastricht definition). New fiscal measures for 2025 include a reduction in social security contributions by 1 percentage point (0.2% of 2024 GDP) and permanent increases of incomes for pensioners (0.2% of GDP) and public servants (0.1% of GDP). The minimum wage increased by 6% in April 2025 and is planned to be raised cumulatively by 8% between

April 2025 and April 2027. Public sector wages, which were frozen, are being raised to align with the rising minimum wage.

Growth will remain resilient

GDP growth is projected to remain resilient at 2.0% in 2025 and 2.1% in 2026. Rising disposable income will support a pick-up in consumption. Investment growth, supported by growing disbursements of Recovery and Resilience Funds, will remain robust despite heightened international uncertainty. Rising labour shortages will moderate employment growth while supporting rising wages. New US tariffs and easing external demand, notably from EU trading partners, will slow export growth. Headline inflation is projected to return slowly towards 2.0% in 2026 amidst persistent core inflation. Implementation delays of the Recovery and Resilience Plan “Greece 2.0” could put the planned investment growth at risk. If wage growth were to persistently outpace productivity gains, this could weaken exports further. Extreme weather events, such as the 2023 floods in Thessaly, could also weigh on domestic demand.

Strengthening investment further is a key challenge

The still high public debt level poses risks in the medium-term, while population ageing and climate change add to future domestic spending pressures. Low productivity continues to hold back competitiveness and living standards. Boosting investment will be key to strengthening growth while maintaining public debt on a firmly declining path. This will require an easing of remaining regulatory burdens and improvements in workers’ skills. Formalising and accelerating the review of existing business regulations while ensuring an effective consultation of stakeholders on new legislation would help continue recent success with making the regulatory framework more business friendly. Strengthening vocational training, rebalancing labour market policies towards training and counselling for unemployed workers and ensuring high training quality would reduce skill mismatches. Further reducing tax evasion and limiting tax expenditures – notably reduced VAT rates, which mostly benefit wealthy households – would raise revenue, making room for targeted social contribution cuts to strengthen work incentives.

Hungary

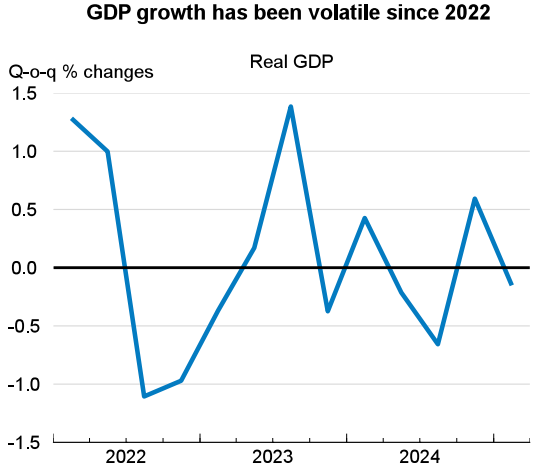
After growing by 0.5% in 2024, GDP is projected to increase by 0.9% in 2025 and 2.4% in 2026. Private consumption, supported by real wage growth, will be the main engine of growth, especially in 2025. Following a significant decline in 2024, investment is expected to increase gradually but will remain hampered by weak economic prospects and trade policy uncertainty. Exports are projected to pick-up in line with demand from Hungary's main trading partners, but growth in the euro area, particularly Germany, is a key risk for the economy.

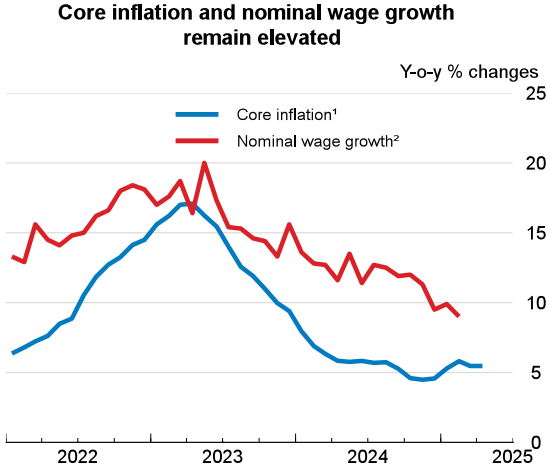
Monetary policy easing is expected to continue, but at a moderate pace to ensure that inflation reverts back to target. While necessary to prepare for rising ageing-related spending needs, fiscal consolidation is weakening. Better financing conditions, lower trade policy uncertainty and full implementation of recent public integrity reforms will be key to support a rebound in investment. Reforming the insolvency framework would facilitate capital reallocation towards productive investments. Improving regulations in energy, transport and professional services would encourage business creation.

Economic activity is weak

Economic growth has been volatile since 2023, with alternating quarters of positive and negative GDP growth. In 2024 as a whole, GDP growth was only 0.5% and GDP declined by 0.2% in the first quarter of 2025. While strong real wage growth supported private consumption, there was a strong decline in investment due to low business confidence, low capacity utilisation and tight financing conditions as monetary policy remained restrictive to fight remaining inflationary pressures. Headline inflation ticked up to 5.6% in February 2025 due higher food and energy prices. It was still 4.2% in April and core inflation remains above 5%. Despite subdued economic activity, the labour market is robust. Unemployment declined to 4.2% in March 2025 and job vacancies are high.

Hungary





1. National consumer price index excluding food and energy.
2. Data refer to average gross earnings of full-time employees in the private sector.
Source: OECD National Accounts database; OECD Consumer Prices database; and Hungarian Central Statistical Office.

StatLink https://stat.link/8vyrm6

Hungary: Demand, output and prices

Hungary	2021	2022	2023	2024	2025	2026
	Current prices HUF billion	Percentage changes, volume (2021 prices)				
GDP at market prices	55 560.5	4.3	-0.8	0.5	0.9	2.4
Private consumption	26 761.3	6.9	-1.0	5.1	5.4	3.9
Government consumption	11 552.0	3.2	3.3	-4.6	0.6	0.9
Gross fixed capital formation	15 144.2	0.7	-7.7	-11.1	-3.0	5.4
Final domestic demand	53 457.5	4.2	-2.1	-1.4	2.3	3.6
Stockbuilding[1]	2 041.0	0.2	-3.6	1.2	-0.2	0.0
Total domestic demand	55 498.4	4.2	-5.1	-0.1	2.2	3.6
Exports of goods and services	44 126.5	10.7	1.7	-3.0	-0.4	2.4
Imports of goods and services	44 064.5	10.7	-3.4	-4.0	1.2	4.1
Net exports[1]	62.0	0.0	4.8	0.6	-1.2	-1.1
Memorandum items						
GDP deflator	_	14.2	15.2	7.3	6.5	4.0
Consumer price index	_	14.6	17.1	3.7	4.9	3.6
Core inflation index[2]	_	10.2	13.8	5.7	5.2	3.6
Unemployment rate (% of labour force)	_	3.6	4.1	4.5	4.3	3.9
Household saving ratio, net (% of disposable income)	_	11.8	14.4	15.5	12.8	12.2
General government financial balance (% of GDP)	_	-6.2	-6.7	-4.9	-4.2	-4.0
General government gross debt (% of GDP)	_	77.5	81.9	82.2	81.7	82.1
General government debt, Maastricht definition[3] (% of GDP)	_	73.9	73.0	73.5	73.5	74.4
Current account balance (% of GDP)	_	-8.6	0.3	2.2	1.6	0.5

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/h9bemy

While only 5% of Hungarian exports are directly shipped to the United States, Hungarian firms are integrated into global value chains which ultimately serve the US market, especially in the automotive sector. Higher US tariffs on EU goods will thus indirectly weigh on Hungary through reduced activity in the European Union and Germany, representing 65% and 21% of total Hungarian exports, respectively.

Monetary policy is expected to continue easing at a moderate pace and the fiscal stance to weaken in 2026

Given persistent services inflation and exchange rate weakening, the central bank has kept its policy rate at 6.5% since September 2024. Looking ahead, it is expected to implement gradual and small policy rate cuts to ensure that inflation reverts back to the 3% target. The policy rate is projected to settle around 5.5% by the end of 2026. The headline fiscal deficit is expected to narrow from 4.9% of GDP in 2024 to 4.2% in 2025 and 4.0% in 2026, which is still higher than before the pandemic. Abstracting from business cycle developments and interest payments, the fiscal stance is projected to be neutral in 2025 and to weaken in 2026, after two years of significant fiscal consolidation.

Growth is expected to strengthen, mainly supported by private consumption

GDP growth is expected to increase gradually to 0.9% in 2025 and 2.4% in 2026. Private consumption will be supported by strong real wage growth, especially in 2025, and the household saving rate returning to its long-run level after a significant increase since the pandemic. Inflation is projected to be slightly above 3% by the end of 2026. Investment is expected to rebound progressively but will be hampered by low business confidence, low capacity utilisation, and significant trade policy uncertainty. Exports are projected to pick up but will remain closely connected to external demand from Hungary's main trading partners, especially Germany. Economic activity in these countries is a key risk to the outlook. The availability of new manufacturing capacity, especially in the automotive sector, may provide a further boost to Hungarian exports over 2025-26, but industrial capacity utilisation is currently low and the potential of the new factories will be fully exploited only if external demand picks up significantly.

Structural reforms would improve fiscal sustainability and long-term growth

Reforming public pensions would limit the increase in ageing-related spending, which is projected to exceed 5 percentage points of GDP by 2070 under current legislation. Beyond possible options to tighten eligibility conditions and adjust benefit levels, financing future pensions will require additional fiscal space, which calls for consolidation. As a share of GDP, investment remains higher than the EU average but has significantly weakened in recent years. Better financing conditions, reduced trade policy uncertainty, and fully implementing recent reforms to promote public integrity and bolster investor confidence will be key to reverse this trend. Improving the insolvency framework would also facilitate the reallocation of capital across firms and the financing of productive investments. Improved regulations in the energy, transport, professional services and telecommunication sectors would strengthen competition and support the entry of new firms and investments in these sectors.

Iceland

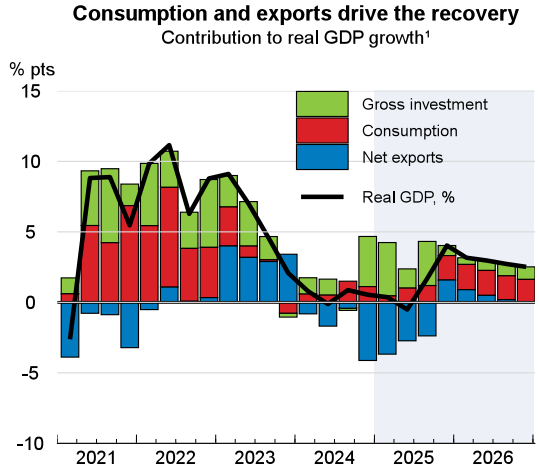
GDP growth is set to recover to 1.4% in 2025 and 2.8% in 2026, driven by household consumption and the rebound of exports. Business investment will be strong in 2025 but weaken in 2026 as several projects will end. Unemployment will edge up, but the labour market remains tight. Major risks include a violent volcanic eruption and further tariff escalation affecting Iceland's main export goods.

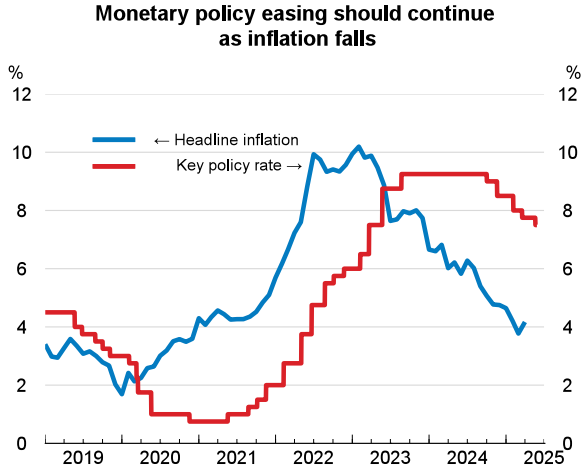
In May, the central bank cut the policy rate to 7.5%, the fifth cut since monetary easing started in October 2024. Inflation has fallen to around 4% and is expected to reach the target by the second half of 2026. The new government has committed to a tight fiscal stance over the next two years, which will help underpin disinflation and build up fiscal space. Reforming the fiscal framework and business regulation will help increase stability and sustainability of the public finances and foster productivity, investment and growth.

Economic growth has likely bottomed out

Economic growth has slowed against the backdrop of tight monetary policy but seems to have passed its low point. Household consumption is expanding gradually, driven by growing real wages following the 2024 agreements and rising consumer confidence. The wage agreements of 2024 imply wage increases of over 6% per year including wage drift. Business investment has begun to recover from the downturn in the second half of 2024 as financial conditions eased. Despite slowing population growth, investment in housing remains substantial, supported by rising incomes. Exports have rebounded, particularly in the fisheries sector, which benefits from increased catch quotas. The unemployment rate has risen slightly from around 3.5% at the end of 2024. Volcanic activity on the Reykjanes peninsula has had minimal impact over the past six months. Various inflation measures have declined sharply, but annual headline inflation, at 4.2% in April, is still well above the 2.5% target.

Iceland





1. Year-on-year growth rates. The sum of components may deviate from observed GDP growth because of balancing items, chain-linking procedures and direct/indirect seasonal adjustment methods.
Source: OECD Economic Outlook 117 database; Statistics Iceland; and central bank of Iceland.

StatLink https://stat.link/dhs8an

Iceland: Demand, output and prices

Iceland	2021	2022	2023	2024	2025	2026
	Current prices ISK billion	Percentage changes, volume (2015 prices)				
GDP at market prices	3 272.5	9.0	5.6	0.5	1.4	2.8
Private consumption	1 687.1	8.3	0.5	0.6	1.4	2.6
Government consumption	896.6	2.3	1.8	2.5	1.6	1.8
Gross fixed capital formation	747.9	16.1	4.3	7.5	8.5	2.6
Final domestic demand	3 331.6	8.5	1.8	2.8	3.3	2.4
Stockbuilding[1]	4.7	-0.1	0.6	-0.4	0.0	0.0
Total domestic demand	3 336.2	8.4	2.6	2.4	3.3	2.4
Exports of goods and services	1 222.4	22.1	6.3	-1.2	4.7	1.7
Imports of goods and services	1 286.1	20.1	-1.0	2.7	8.8	0.7
Net exports[1]	- 63.7	0.3	3.3	-1.7	-1.8	0.4
Memorandum items						
GDP deflator	_	8.9	5.8	5.9	4.1	2.6
Consumer price index	_	8.3	8.7	5.9	3.5	2.7
Core inflation index[2]	_	7.8	8.4	6.1	3.4	2.8
Unemployment rate (% of labour force)	_	3.7	3.3	3.5	4.0	4.3
General government financial balance (% of GDP)	_	-3.9	-2.2	-3.4	-2.9	-2.0
General government gross debt[3]	_	63.3	62.4	60.0	53.4	51.6
Current account balance (% of GDP)	_	-2.6	0.6	-2.6	-4.0	-2.7

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
3. Includes unfunded liabilities of government employee pension plans.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/khqruf

Following a sharp increase of imports, notably of computer equipment for new data centres, the current account balance and the net export contribution to growth have turned negative. Icelandic goods are subject to a general 10% US import tariff. The additional increase in US tariffs on aluminium imports from 10% to 25% in March has had little effect so far, as Iceland does not export aluminium to the United States.

Monetary policy is easing, while fiscal policy remains contractionary

The central bank began easing monetary policy in early autumn 2024 and has cut the key interest rate to 7.5% by May 2025. It is projected to be lowered further throughout 2025 and more gradually thereafter, to around 5% by end-2026. The trade-weighted exchange rate has appreciated since early 2025, largely due to a weaker USD. Fiscal policy, as indicated by the underlying primary balance, will be tightened further by approximately 1.4% of GDP in 2025 and 0.6% in 2026. These measures will help alleviate inflationary pressures and build fiscal space. Gross public debt will decline further as the government-owned Housing Financing Fund is wound down.

The economy is set to recover gradually

The economy is projected to grow by 1.4% in 2025 and 2.8% in 2026. Private consumption will expand, driven by real wage increases. Residential investment will remain robust, supported by improving financial conditions and sustained housing demand. Business investment is projected to grow as confidence rises and financial conditions continue to ease. Export growth will be broad-based but moderate as foreign tourism will expand modestly, while aluminium production remains largely unaffected by higher tariffs with smelters operating at full capacity. The unemployment rate will rise to above 4% in 2025 and stabilise thereafter. Inflation is expected to continue to decline in the face of still tight macroeconomic policies but

to stay above target until mid-2026. However, it could exceed expectations if import prices, especially for food and oil, begin to rise again. Escalating trade tensions could strangle goods exports and dent tourism if disposable incomes decline in the countries raising tariffs. Volcanic activity on the Reykjanes peninsula and near the capital area could cause further infrastructure damage and require additional public relief spending.

Reforming the fiscal framework would strengthen public finances

Replacing the current budget balance rule with a structural spending rule could mitigate pro-cyclical fiscal policy, enhancing the stability and sustainability of public finances. The introduction of resource taxes, including the planned reform of fishing fees and the implementation of a new visitor tax, will support the sustainable management of natural resources. Eliminating exemptions in the value-added tax, particularly by reinstating the standard VAT rate on tourism services, will reduce distortions within the tax system. Lowering barriers to market entry will encourage investment. Easing the licensing and permit system for various professions and accelerating further the recognition of foreign diplomas will help to boost productivity and alleviate labour shortages.

India

Real GDP is projected to grow by 6.3% in fiscal year 2025-26 and 6.4% in 2026-27. Private consumption will gradually strengthen, driven by rising real incomes that are helped by moderate inflation, recent tax cuts and a strengthening of the labour market. Investment will be supported by declining interest rates and substantial public capital spending, but higher US tariffs will weigh on exports. Inflation will remain contained at around 4% as economic activity grows around trend. A less benign monsoon season or higher global commodity prices could drive up food prices and inflation.

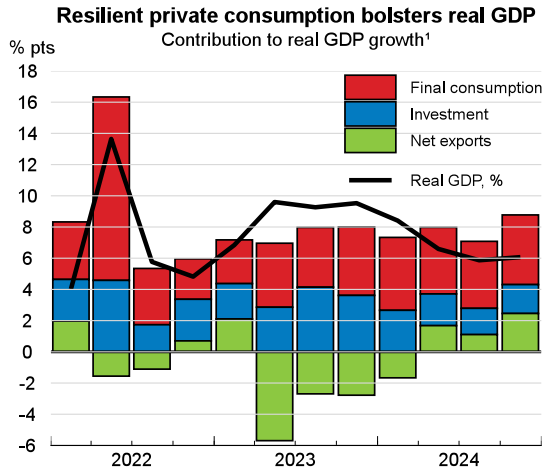
The Union Budget for the fiscal year 2025–26 foresees a moderate fiscal consolidation, aiming to reduce the headline budget deficit from 4.8% of GDP in fiscal year 2024-25 to 4.4% in 2025-26. With inflation firmly within the target range, monetary policy is gradually expected to become more accommodative. Better targeting of energy and fertiliser subsidies, and an overhaul of tax expenditures, could enhance spending efficiency and free resources for other policy priorities. Improving logistics efficiency, upgrading digital infrastructure, and enhancing policy predictability, particularly in tax administration, could bolster private investment.

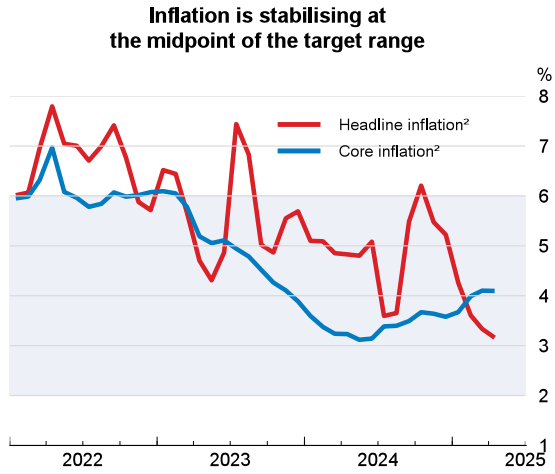
Domestic demand supports activity

Real GDP expanded by 6.2% year-on-year in the third quarter of FY2024-25, supported by robust domestic demand and strong investment. High-frequency indicators suggest that economic activity remained solid in the fourth quarter. Industrial production rose by 3.7% year-on-year in the first four months of 2025, with the manufacturing sector regaining strength. India's current account deficit widened in the first three quarters of FY2024-25, due to a persistent merchandise trade deficit that was only partially offset by strong services exports. More recent data suggest a slight improvement in the trade balance. The labour market was resilient in 2024 with the labour force participation rate increasing to 45.1% and employment continuing to rise. Survey data from early 2025 show optimism in the labour market, especially in sectors such as information technology, retail, and finance.

Monetary conditions remain restrictive, despite policy rate cuts in February and April. Headline inflation eased to 3.2% in April 2025 and is now within the central bank's target range of 4% ± 2%, largely due to a substantial moderation in food inflation, which accounts for nearly half of the CPI basket, and declining energy prices. Easing food prices reflect a strong autumn harvest, and government interventions, such as export restrictions. As a major oil importer, India has benefited from lower global crude oil prices in recent months, which reduced domestic fuel costs and helped contain input costs in energy-intensive sectors such as transport, manufacturing, and agriculture. While core inflation remains slightly above 4%, wage growth remains moderate. High merchandise export exposure to the United States, which is India's largest export market, increases the vulnerability of private investment to shifts in trade policy. Tariff increases and broader trade tensions may damp investor sentiment, particularly in export-oriented sectors such as chemicals, textiles, and electronics. However, the overall GDP effects will be limited by the moderate share of exports in GDP, with merchandise exports towards the United States accounting for only 2.1% of GDP.

India 1





1. Year-on-year growth rates. The sum of components may deviate from observed GDP growth because of balancing items, chain-linking procedures and direct/indirect seasonal adjustment methods.
2. Year-on-year growth rates. The shaded area corresponds to the central bank's inflation tolerance band.
Source: OECD Economic Outlook 117 database; and RBI.

StatLink https://stat.link/kfz5uv

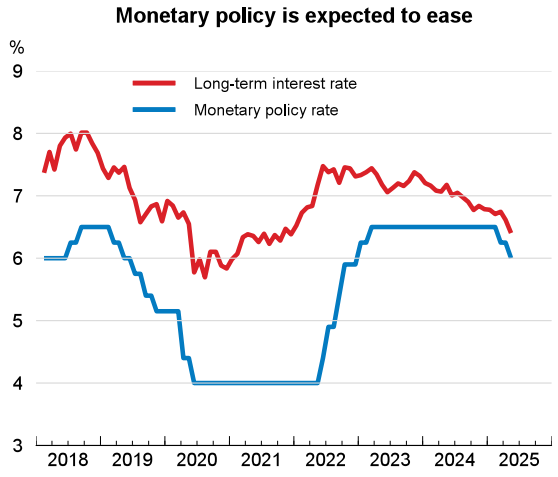
India: Demand, output and prices

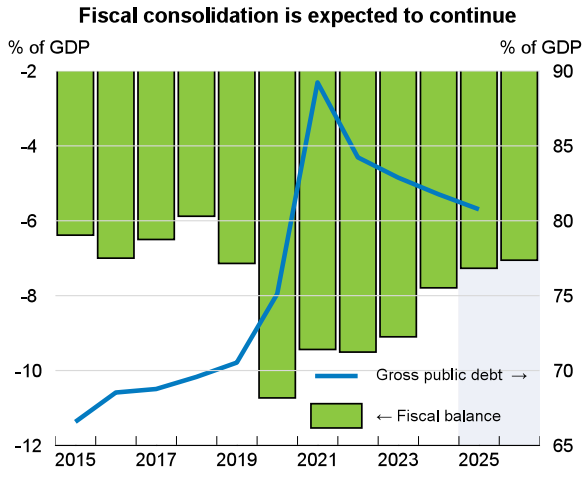
India	2021	2022	2023	2024	2025	2026
	Current prices INR trillion	Percentage changes, volume (2011/2012 prices)				
GDP at market prices	236.0	7.6	9.2	6.2	6.3	6.4
Private consumption	143.8	7.5	5.6	6.5	6.5	6.7
Government consumption	24.7	4.3	8.1	4.2	6.3	4.3
Gross fixed capital formation	69.8	8.4	8.8	6.1	6.5	8.5
Final domestic demand	238.3	7.4	6.8	6.2	6.5	7.0
Stockbuilding[1,2]	3.8	0.3	0.7	0.0	0.0	0.0
Total domestic demand	242.2	7.3	11.9	4.4	5.2	7.0
Exports of goods and services	50.5	10.3	2.2	6.4	6.0	3.1
Imports of goods and services	56.7	8.9	13.8	-0.9	1.1	6.0
Net exports[1]	- 6.2	0.2	-2.8	1.6	1.0	-0.6
Memorandum items						
GDP deflator	_	5.9	2.6	2.7	2.3	3.7
Consumer price index	_	6.7	5.4	4.6	4.1	4.0
General government financial balance[3] (% of GDP)	_	-8.8	-8.8	-7.5	-7.1	-7.1
Current account balance (% of GDP)	_	-2.0	-0.7	-1.0	-0.1	-0.1

Note: Data refer to fiscal years starting in April.
1. Contributions to changes in real GDP, actual amount in the first column.
2. Actual amount in first column includes statistical discrepancies and valuables.
3. Gross fiscal balance for central and state governments.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/7a49ey

India 2





Source: OECD Economic Outlook 117 database; and RBI.

StatLink https://stat.link/1e0bsf

Monetary policy is expected to ease amid rising public investment

The Reserve Bank of India (RBI) began its current easing cycle in February 2025, followed by a second policy rate cut in April. Despite the cumulative 50 basis point reduction, which lowered the policy rate from 6.5% to 6.0%, financial conditions remain tight. Monetary policy is expected to ease further over FY2025–26 as headline inflation remains within the target range over 2025 due to the moderation of food and energy prices, which make up a large share of the consumer price index. Low global commodity prices and a broadly balanced output gap are helping to contain demand-side pressures. In addition, the credibility of the RBI's inflation-targeting framework continues to anchor inflation expectations. With headline inflation expected to remain within the target range in the following years and inflation expectations projected to remain anchored, there is scope for the central bank to reduce the policy rate towards a more neutral level. A further 25-basis point cut is expected by the end of 2025.

The central government is expected to pursue fiscal consolidation, bringing the budget deficit from 4.8% of GDP in FY 2024-25 to 4.4% in FY 2025-26, with local governments projected to adopt a similar stance. The adjustment relies primarily on higher revenues. Although the recently approved Union Budget includes income tax cuts for middle-income households, overall tax revenues are projected to increase by 0.3% of GDP, partly reflecting the positive impact of tax code simplification and digitalisation on compliance. On the expenditure side, total spending is set to decline by 0.1% of GDP, largely reflecting reduced subsidies. Public capital expenditure and defence spending are maintained at their current levels as a share of GDP.

Private demand will drive growth amid emerging external headwinds

Real GDP is projected to grow by 6.3% in FY2025-26 and 6.4% in FY2026-27. Private consumption is supported by rising real incomes and lower personal income taxes. Investment will remain strong, bolstered by easing financial conditions. However, export growth is expected to slow due to weaker global demand, the impact of higher tariffs and heightened trade policy uncertainty. Headline inflation is projected to average 4.1% in FY2025-26 and 4.0% in FY2026-27. Inflation expectations remain well anchored, and wage pressures are expected to remain contained with the economy projected to grow around potential, suggesting limited demand-driven inflation pressures.

The balance of risks is tilted to the downside. The summer monsoon is projected to be normal. A less benign monsoon would reduce agricultural output and rural incomes, push up food prices, and weigh on GDP. The agricultural sector accounts for over 15% of GDP and employs a large share of the population. Additionally, the risk of increased trade tensions, including the imposition of higher US tariffs on Indian exports, could dampen external demand and harm export-oriented sectors such as textiles, chemicals, and pharmaceuticals. Trade tensions may also discourage private investment in tradable sectors. Stronger-than-expected remittances and investment inflows, coupled with robust infrastructure implementation, could lift growth above current projections.

Fiscal prudence and reforms are important to sustain growth

Phasing out tax expenditures, rationalising subsidies, and expanding tax bases would improve the quality and sustainability of public finances, creating room for expanding social protection, higher public investment, and active labour market policies. Emphasis should be placed on policies that raise labour force participation, especially among women. Although female employment has increased markedly, from 17.5% in FY2017–18 to 31.7% in FY2023–24, strengthening women's access to formal jobs will require coordinated reforms in childcare availability, safe and affordable transportation, skill-building, and enforcement of workplace protections. India has scope to accelerate trade liberalisation, simplify customs procedures, and reduce tariffs. Further reforms are needed to improve the efficiency of logistics networks, upgrade digital infrastructure, and reduce regulatory uncertainty, especially in tax administration. Enhancing the availability and accessibility of long-term finance, including through deepening capital markets and improving credit access for SMEs, would further strengthen the investment climate.

Indonesia

Real GDP is projected to grow by 4.7% in 2025 and 4.8% in 2026. Low inflation and easing financial conditions will spur private consumption and investment. However, uncertainty about domestic fiscal policy will temper these gains, while export growth is expected to slow amid global trade tensions. Inflation is projected to pick up to 2.3% in 2025 and 3% in 2026, as the recent depreciation of the currency gradually feeds into domestic prices. The current account deficit is expected to widen modestly, but a further decline in commodity prices could exacerbate this by driving down export revenues.

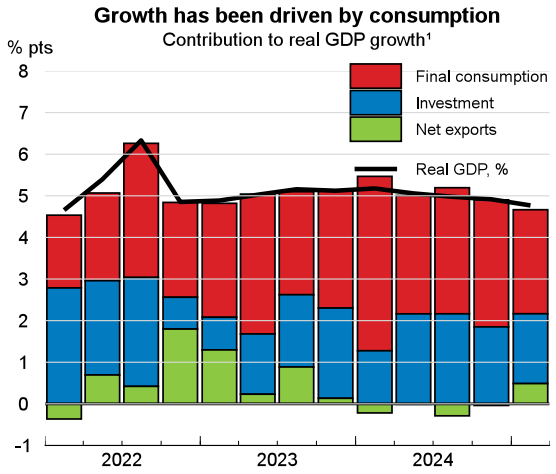
Monetary policy is expected to continue to ease over 2025 and 2026, as inflationary pressures remain contained amid soft growth. Fiscal policy is projected to be broadly neutral in 2025, as increased spending on a free meals programme and additional public investment through the new sovereign wealth fund ("Danantara") will be financed by spending cuts elsewhere. Reducing regulatory barriers to foreign investment and raising the efficiency of public spending through improved targeting of social benefits to vulnerable households are key medium-term policy priorities. Reducing informality would help improve social protection and raise tax revenues.

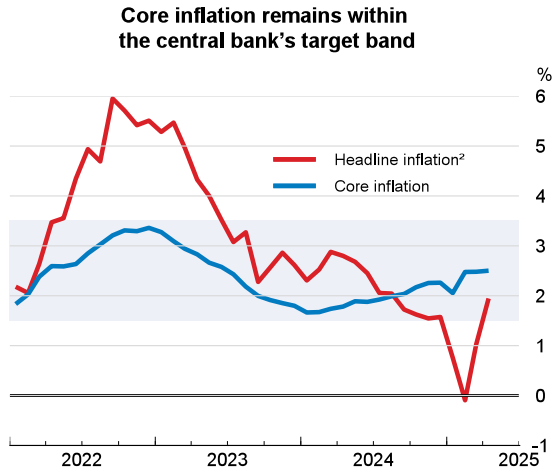
The economy is going through a soft patch

Annual seasonally unadjusted real GDP growth slowed to 4.9% in the first quarter of 2025, amid soft investment, stable household consumption and a positive contribution from net exports. While the unemployment rate declined to 4.8% in the first quarter of 2025, among the lowest values in two decades, the economy appears to have slowed, as consumer and business sentiment deteriorated and prices of key export commodities declined. Low inflation is supporting real household incomes, but high borrowing costs continue to weigh on investment.

Inflation has come down from around 6% in the second half of 2022 to 2% in April 2025, on the back of monetary policy tightening, the normalisation of food and commodity prices and a temporary electricity price discount in January and February of 2025. The phase-out of the price discount and the depreciation of the currency – around 4% relative to the US dollar since the beginning of the year – will put upward pressure on prices in the near term, but core inflation remains close to the mid-point of the central bank's target band of 1.5-3.5% and inflation expectations are stable. Exposure to higher US import tariffs is relatively limited, with goods exports to the United States amounting to less than 2% of GDP.

Indonesia 1





1. Year-on-year growth rates. The sum of components may deviate from observed GDP growth because of balancing items, chain-linking procedures and direct/indirect seasonal adjustment methods.
2. Annual rates. The shaded area corresponds to the central bank's inflation tolerance band.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/rv6j8e

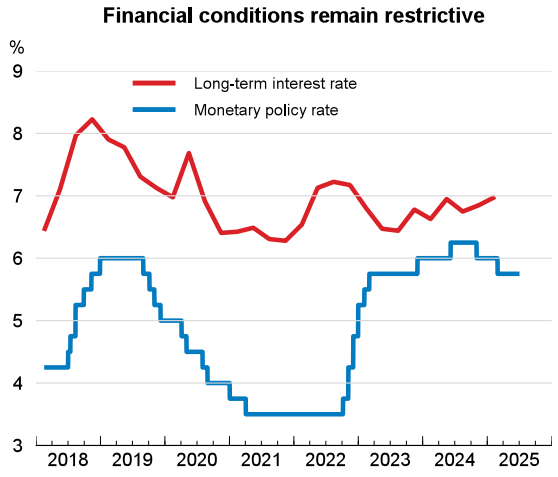
Indonesia: Demand, output and prices

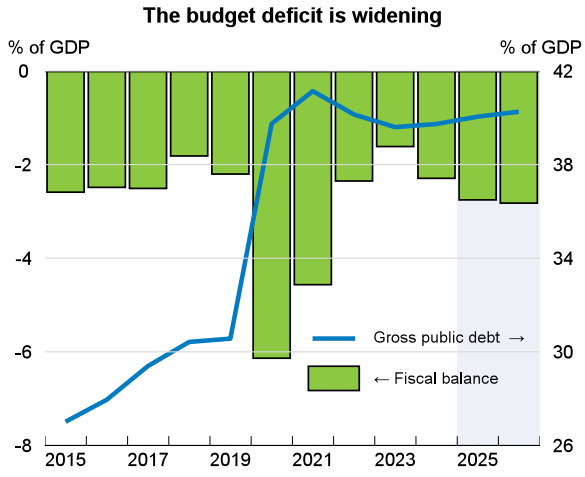
Indonesia	2021	2022	2023	2024	2025	2026
	Current prices IDR trillion	Percentage changes, volume (2010 prices)				
GDP at market prices	16 976.8	5.3	5.0	5.0	4.7	4.8
Private consumption	9 444.0	5.0	4.9	5.1	4.8	5.2
Government consumption	1 569.8	-4.4	3.0	6.6	5.9	6.1
Gross fixed capital formation	5 227.9	3.9	3.8	4.6	3.9	5.8
Final domestic demand	16 241.6	3.8	4.4	5.1	4.6	5.5
Stockbuilding¹	288.9	1.0	0.3	0.4	-0.1	0.0
Total domestic demand	16 530.5	4.7	4.6	5.3	4.4	5.3
Exports of goods and services	3 635.8	16.2	1.3	6.5	4.0	1.9
Imports of goods and services	3 189.6	15.0	-1.6	7.9	2.3	3.5
Net exports¹	446.2	0.8	0.7	0.0	0.5	-0.2
Memorandum items						
GDP deflator	_	9.6	1.5	0.9	2.0	2.2
Consumer price index	_	4.2	3.7	2.2	2.3	3.0
Private consumption deflator	_	4.8	4.3	2.6	2.9	2.8
Government financial balance² (% of GDP)	_	-2.4	-1.6	-2.3	-2.8	-2.8
Government gross debt² (% of GDP)	_	40.1	39.6	39.7	40.0	40.3
Current account balance (% of GDP)	_	1.0	-0.1	-0.6	-2.0	-2.4

1. Contributions to changes in real GDP, actual amount in the first column.
2. Data refer to general government.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/n31dx9

Indonesia 2





Source: OECD Economic Outlook 117 database; and CEIC.

StatLink https://stat.link/t3cdvl

Macroeconomic policies are becoming less restrictive

Monetary policy is expected to ease over 2025-26. The central bank initiated the ongoing easing cycle in August 2024, bringing the policy rate from 6.25% to 5.5% in May, but financial conditions remain restrictive. With stable inflation expectations and domestic demand growth projected to be below trend, there is room for the central bank to further reduce the policy rate towards a more neutral level of around 5%. Pursuing a data-dependent approach that balances support to economic growth and close monitoring of price pressures from the recent currency depreciation is key to durably maintain inflation within the central bank's target band.

The government budget deficit is expected to increase from 2.3% of GDP in 2024 to 2.8% in 2025. The expansion of a free meals programme for schoolchildren and pregnant women and the creation of a new sovereign wealth fund, as well as foregone revenue from a temporary electricity price discount in early 2025 will put upward pressure of around 1.6% of GDP on the budget deficit. This will be mitigated by across-the-board spending cuts amounting to around 1.3% of GDP, which will maintain the budget deficit below the statutory limit of 3% of GDP. Despite the rising budget deficit, the fiscal policy stance will be neutral in 2025, as only part of the funds transferred to the new sovereign wealth fund will translate into new public investment outlays in 2025. Accelerating disbursements from the new sovereign wealth fund in the near term while ensuring transparency and accountability in its management would support growth in 2025, which appears appropriate amid rising uncertainty about the growth outlook. Gradually raising government revenue from 2026 would put public debt – which is currently around 40% of GDP – on a declining path.

Growth is expected to slow in the near term

Real GDP growth is expected to slow to 4.7% in 2025 before picking up slightly to 4.8% in 2026. The recent weakening of business and consumer sentiment amid fiscal policy uncertainty and high borrowing costs will weigh on private consumption and investment in the first half of 2025. As financial conditions gradually ease, inflation remains comfortably within the central bank's target band, and public investment outlays

from the new sovereign wealth fund gather momentum, domestic demand is expected to gradually increase over the second half of 2025 and 2026. The recent escalation of global trade tensions and the decline in commodity prices are expected to weigh on external demand and export revenues. Inflation is expected to gradually rise to the mid-point of the central bank's target range, as the effects of the temporary electricity price discount at the beginning of 2025 fade, and the recent depreciation of the currency gradually feeds into domestic prices.

Risks are tilted to the downside. Persistent capital outflows driven by global and domestic policy uncertainty could place renewed pressure on the currency, potentially leading to a temporary widening of the current account deficit and fuelling inflation through higher import costs. Additionally, a larger-than-expected slowdown in China – Indonesia's largest export market – would further weigh on export performance, particularly in commodity sectors. On the upside, swift and effective deployment of the newly established sovereign wealth fund could catalyse private investment by crowding in capital and accelerate the implementation of high-impact infrastructure and industrial projects.

Structural reforms are needed to boost growth

Recent reforms have reduced barriers to foreign investment, but significant barriers to foreign equity ownership remain, especially in the telecommunications and transportation sectors. Moreover, the investment climate is affected by overlapping regulations, uneven policy implementation, and limited coordination among government agencies. Further reforms in this area will become increasingly relevant in the context of global trade policy uncertainty and the potential reconfiguration of supply chains. Addressing infant malnutrition through the free meals programme will strengthen public health, but improved targeting to vulnerable households would ensure that funds are spent more efficiently. Reforms to reduce informality would help broaden the tax base and create fiscal space for the expansion of public investment, including transport infrastructure and clean energy, as well as health and education spending. Shifting the funding of maternity leave from employers to social insurance, in particular for smaller firms and self-employed women, would help raise female labour force participation.

Ireland

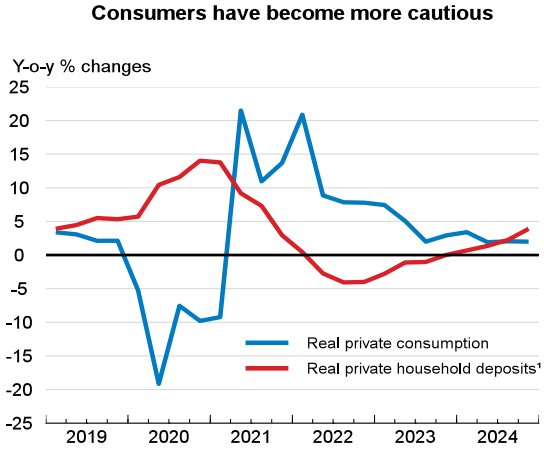
GDP growth is projected to be 3.7% in 2025, before moderating to 2.3% in 2026, as trade fragmentation weighs on export-oriented sectors. On the domestic side, heightened uncertainty will encourage households to save more, despite sustained nominal wage growth underpinned by a tight labour market. Modified domestic demand, which controls for the major distortions arising from the activity of multinationals, is projected to expand by 2.2% in 2025 and 2.1% in 2026, below its long-term average of 2.7%.

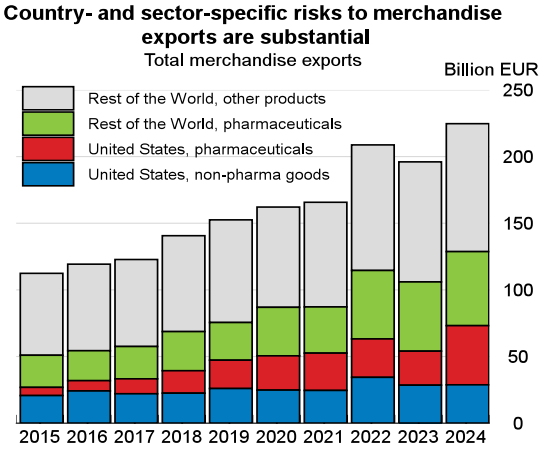
As the United States is Ireland's biggest export market and multinationals play a large role in Irish exports and tax revenues, higher tariffs or non-tariff trade barriers would lower growth and exacerbate medium-term fiscal challenges. Prioritising productivity-enhancing reforms, spending efficiency, and stricter domestic fiscal controls will be key. Planned infrastructure investment should be implemented, albeit properly sequenced to avoid adding to inflation.

The strong labour market shores up the domestic economy

According to preliminary estimates, GDP grew strongly by 3.2% in the first quarter of 2025, mainly reflecting strong exports of pharmaceuticals despite considerable global uncertainty. Amidst persistent population growth, the labour market was robust in early 2025, with strong job creation and low unemployment. After easing considerably in late 2024, headline inflation bounced back to 2.0% in April, driven mostly by food prices, while stronger services price growth pushed core inflation up to 2.4%. Consumer spending rebounded by end-2024, driven by sustained wage growth underpinned by labour shortages. Buoyant VAT revenues indicate ongoing strength in private consumption in early 2025. Going forward, tariff-related uncertainties will weigh on consumer confidence.

Ireland





1. Deflated by the harmonised index of consumer prices.
Source: OECD Economic Outlook 117 database; Central Bank of Ireland "Private Household Credit and Deposits" (dataset); and CSO, "Goods Exports and Imports" (dataset).

StatLink https://stat.link/mq6wt8

Ireland: Demand, output and prices

Ireland	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2022 prices)				
GDP at market prices	448.1	8.7	-5.6	1.2	3.7	2.3
Private consumption	105.4	10.9	4.3	2.3	2.2	1.9
Government consumption	52.6	4.1	5.5	4.2	3.0	2.4
Gross fixed capital formation	98.8	4.2	2.8	-25.8	19.7	3.1
Final domestic demand	256.8	7.3	3.9	-7.1	7.7	2.4
Stockbuilding[1]	5.1	0.8	1.3	-3.1	-1.8	0.0
Total domestic demand	261.9	7.9	5.7	-12.0	3.2	2.5
Exports of goods and services	597.0	13.6	-6.0	11.9	3.9	3.2
Imports of goods and services	410.8	16.4	1.3	6.5	4.1	3.1
Net exports[1]	186.2	3.1	-9.5	9.4	1.5	1.4
Memorandum items						
Modified final domestic demand[2], volume	_	9.1	2.7	2.6	2.2	2.1
GDP deflator	_	6.9	4.0	2.8	2.6	2.8
Harmonised index of consumer prices	_	8.1	5.2	1.3	2.1	2.0
Harmonised index of core inflation[3]	_	4.6	4.4	2.3	2.3	2.1
Unemployment rate (% of labour force)	_	4.4	4.3	4.2	4.4	4.6
Household saving ratio, net (% of disposable income)	_	10.5	9.3	9.8	11.1	11.2
General government financial balance (% of GDP)	_	1.7	1.5	4.4	1.3	0.9
General government gross debt (% of GDP)	_	45.4	46.2	41.3	38.2	36.0
General government debt, Maastricht definition[4] (% of GDP)	_	43.2	43.2	41.1	38.0	35.8
Current account balance (% of GDP)	_	8.8	8.1	17.2	14.1	13.7

1. Contributions to changes in real GDP, actual amount in the first column.
2. Excludes airplanes purchased by leasing companies in Ireland but then operated in other countries and investment in imported intellectual property by multinationals.
3. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
4. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/0yzptd

The non-pharma chemical, dairy, and beverage industries are among the sectors directly affected by the 10% tariff on US imports from the EU. An extension of the tariff to currently exempt pharmaceuticals, or a tightening of non-tariff barriers on services trade, could weigh heavily on growth. Exports of pharmaceuticals – largely from US-owned multinationals – to the United States, Ireland's largest single export market, surged to EUR 44 billion in 2024, out of total goods exports of EUR 73 billion. Multinational-dominated trade with the United States in intellectual property products, computer, and business services accounts for about 25% of Ireland's services trade.

Public spending pressures are mounting

Looming risks warrant greater fiscal prudence. Underlying tax revenue growth remained strong in early 2025. As Budget 2025 measures – worth 2.0% of 2024 GDP; 3.6% of GNI* – are being rolled out, public spending is surging. In addition to higher public investment and a set of loosely targeted new cost-of-living initiatives, the package includes permanent current spending increases and tax measures to offset income threshold effects. Higher spending and weaker tax revenues due to second-round effects from the 10% tariff on US goods imports from the European Union, and the further extension of reduced VAT rates on electricity and gas to end-October 2025, will lower the budget surplus to 1.3% of GDP (2.2% of GNI*) in 2025. The fiscal stance is slightly expansionary in the projection period, even assuming no income-support measures in 2026. Gross public debt is projected to fall close to 60% of GNI* (36% of GDP) by 2026.

Heightened uncertainties will slow growth

By weighing on consumer and business sentiment in 2025-26, trade policy uncertainty is expected to restrain business investment and household consumption, despite real income gains driven by still resilient nominal wage growth. Hence, modified domestic demand is projected to expand by just over 2% annually through 2026, though GDP growth is projected at 3.7% in 2025 and 2.3% in 2026. Higher input costs and services prices will push headline inflation up to 2.1% in 2025, despite milder energy price pressures, while core inflation will reach 2.3%, before both ease slightly in 2026. Given the key role of a few large foreign-owned multinationals in export-oriented sectors, like pharmaceuticals or advanced computer and business services, higher general or industry-specific tariffs or non-tariff barriers could lower growth and adversely impact fiscal balances. On the upside, manufacturing multinationals' significant sunk investments in both labour and capital equipment may help mitigate the impact of tariffs on growth. Amid significant skills shortages, the employment correction to the shock might be softened by firms' reluctance to shed staff.

Tackling infrastructure bottlenecks remains a priority

Higher investment in housing, transport and energy infrastructure is essential to maintain foreign investor confidence and preserve living standards. While tariffs could lower corporate and personal income tax revenues, excess corporate tax receipts should continue to be allocated to the long-term savings funds, which are intended to address ageing-related costs and support medium-term productivity-enhancing investment. Additionally, greater emphasis should be placed on improving spending efficiency – supported by comprehensive spending reviews, stricter domestic fiscal guard-rails, and better-targeted income support where needed. Boosting work incentives in the tax and benefit system, alongside improving the supply of quality vocational pathways for low-skilled workers, could help alleviate labour and skills shortages. Easing SMEs' access to R&D funding and to tailored lifelong learning programmes, via the National Training Fund, could help foster domestic investment in digitalisation and innovation, and result in more even productivity gains.

Israel

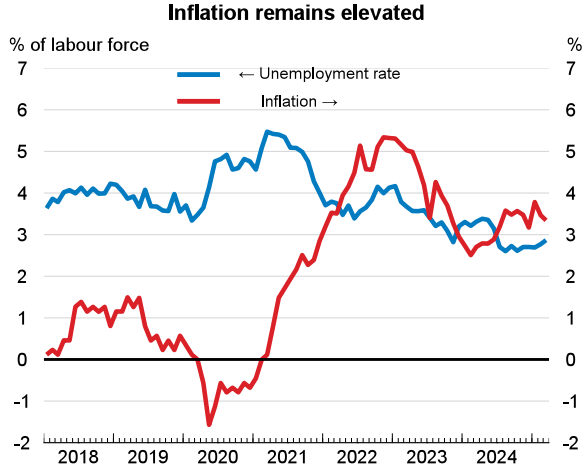
Economic activity is on a path to expand by 3.3% in 2025 and by 4.9% in 2026. The ceasefire in Lebanon at the end of 2024 brought a significant improvement in the economic environment spurring exports and private consumption. With a tight labour market and lingering supply constraints, inflation is anticipated to remain high at 3.2% in 2025 before moderating to 2.9% in 2026. Risks are substantial, hinging on regional geopolitical developments.

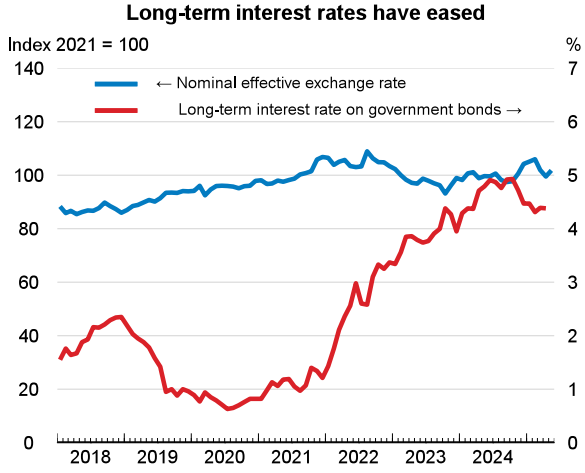
Implementing the fiscal consolidation planned for 2025-2026 is important to secure fiscal sustainability while creating buffers. Monetary policy must remain tight to ensure that inflation durably falls back within the 1-3% target range. Strong population growth necessitates investment in physical and education infrastructure accompanied by reforms to remove regulatory barriers and restructure the education system so that it can deliver high-quality teaching for all.

The recovery is accelerating

The economic recovery has gathered strength since the ceasefire in Lebanon at the end of 2024, with GDP expanding at an annualised rate of 3.4% in the first quarter of 2025. By removing most of the threat of rocket fire over the north and centre of the country, the ceasefire strongly improved the economic environment with long-term bond yields consequently falling by more than half a percentage point since October 2024. Foreign airlines returned to the Tel Aviv airport, facilitating international business and a recovery of high-tech investment. The improvement in living conditions enabled consumption to remain strong. Despite the one-percentage point VAT rise at the start of 2025, credit card purchases by March 2025 overtook their level in December 2024, which had been boosted by advance buying ahead of the VAT increase.

Israel





Source: OECD Labour Statistics database; OECD Price Statistics database; Bank for International Settlements (BIS); and OECD Economic Outlook 117 database.

StatLink https://stat.link/9q3bah

Israel: Demand, output and prices

Israel	2021	2022	2023	2024	2025	2026
	Current prices NIS billion	Percentage changes, volume (2015 prices)				
GDP at market prices	1 582.3	6.3	1.8	1.0	3.3	4.9
Private consumption	778.8	7.6	-1.2	3.7	3.9	5.8
Government consumption	350.5	0.2	7.9	13.8	-0.1	0.8
Gross fixed capital formation	376.2	10.6	-1.8	-6.4	8.9	4.5
Final domestic demand	1 505.5	6.6	0.7	3.8	4.0	4.3
Stockbuilding[1]	33.3	0.4	-0.6	-1.0	-0.6	0.0
Total domestic demand	1 538.9	6.9	0.1	2.7	3.4	4.3
Exports of goods and services	456.1	9.4	-1.1	-4.9	3.7	7.6
Imports of goods and services	412.6	12.1	-7.5	-0.4	6.8	5.5
Net exports[1]	43.4	-0.4	1.8	-1.4	-0.7	0.8
Memorandum items						
GDP deflator	_	4.9	4.5	5.4	2.1	3.0
Consumer price index	_	4.4	4.2	3.1	3.2	2.9
Core inflation index[2]	_	4.0	4.2	2.6	3.3	2.9
Unemployment rate (% of labour force)	_	3.8	3.4	3.0	2.4	2.0
General government financial balance (% of GDP)	_	0.3	-5.1	-8.2	-4.9	-4.0
General government gross debt (% of GDP)	_	60.5	61.6	66.2	67.8	66.8
Current account balance (% of GDP)	_	3.3	3.8	3.1	2.9	3.3

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 117 database.

StatLink https://stat.link/lqn2tx

Global trade tensions and the appreciation of the shekel have slowed the export recovery that started in the second half of 2024. Tariffs on the 28% of Israeli merchandise exports that ship to the United States average below 7%. Services, which make up much of Israel's exports to the United States, remain outside the scope of the new US tariffs. The effective exchange rate appreciation since October 2024 is also reducing import price inflation. Imports of goods are also facilitated by the "What's good for Europe is good for Israel" reform, whereby goods meeting EU standards across a wide range of categories are deemed compliant with Israeli standards.

Macroeconomic policy is adequately tight

The fiscal stance is set to tighten in 2025 and 2026. After rising from 4.2% of GDP in 2022 to 8.0% in 2024, military expenditure will fall, albeit to a higher level than before October 2023. Simultaneously, government receipts are poised to rise in 2025-2026 following the VAT rate increase, the new tax on undistributed profits of some holding companies, the increase in national insurance contributions, the freeze of personal income tax brackets and other revenue-generating measures. Despite this fiscal tightening and the currency appreciation, monetary policy is expected to remain restrictive as, at 3.6% in April 2025, inflation lies above the 1-3% target range, while the labour market remains very tight with 2.7% unemployment in April 2025. Furthermore, persistent labour shortages in construction constrain supply.

The private sector is set to drive growth

Activity is set to expand by 3.3% in 2025 and 4.9% in 2026 under the impetus of private consumption and exports. Inflation is anticipated to reach 3.2% in 2025 reflecting a very tight labour market and lagged effects of acute supply constraints in 2024. Fiscal consolidation and tight monetary conditions together

with easing supply constraints are projected to bring inflation back to 2.9% in 2026. Risks are large but balanced. On the upside, a peaceful settlement of ongoing conflicts would reduce sovereign risk. New diplomatic agreements with countries in the region would durably boost trade. On the downside, broader regional conflict could result in economic contraction and a large widening of fiscal deficits. Deepening unrest in relation with judicial reform plans could also derail high-tech dynamism, especially if it involved significant high-skilled labour emigration.

Forward-looking economic management is paramount

Macroeconomic policy needs to remain prudent to keep the economy on track for a balanced recovery. Besides maintaining the revenue-raising instruments already deployed, the government should lower transfers and subsidies that can discourage labour market participation. Monetary policy needs to remain restrictive until inflation is set to come durably into the target range. Looking ahead, strong demographic growth calls for substantial investment in physical capital, to address infrastructure gaps, and in education, to maintain the strong skills base that the high-tech sector and the rest of the economy require to reap the dividends of AI and digitisation. In addition, infrastructure and education both require structural reforms to remove unnecessary regulatory obstacles to entry, competition and investment and ensure that the education system works well for pupils across population groups.

Italy

GDP growth is expected to slow slightly to 0.6% in 2025 and pick up to 0.7% in 2026. Global trade policy disruptions are expected to drag on growth. Higher real wages are set to support consumer demand. Investment will be boosted by accelerated implementation of National Recovery and Resilience Plan (NRRP) projects. Export volumes are poised to stagnate in 2025 due to more restrictive trade policy settings and sluggish demand in key European markets. Downside risks dominate, including the uncertain response of investors and employers to global policy developments. Faster implementation of NRRP projects or stronger export demand from other European countries would bolster growth.

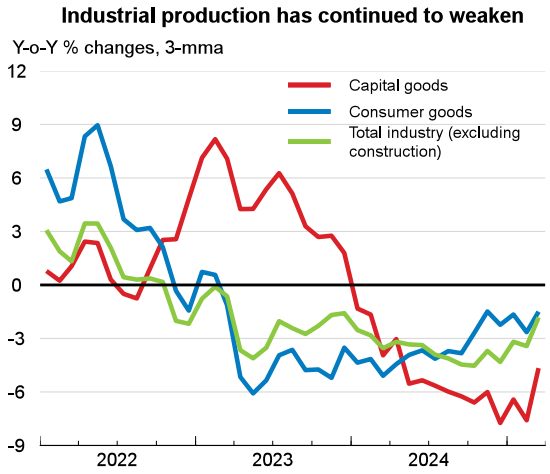
Continuing fiscal consolidation is projected in 2025 and 2026, as the government remains committed to reducing the fiscal deficit and putting the public finances on a sustainable medium-term path. Progress implementing the NRRP should encourage greater private investment and employment in the medium term. Sustaining living standards in the longer term will require improving opportunities for graduating youth and older workers to update their skills to meet the needs of the labour market.

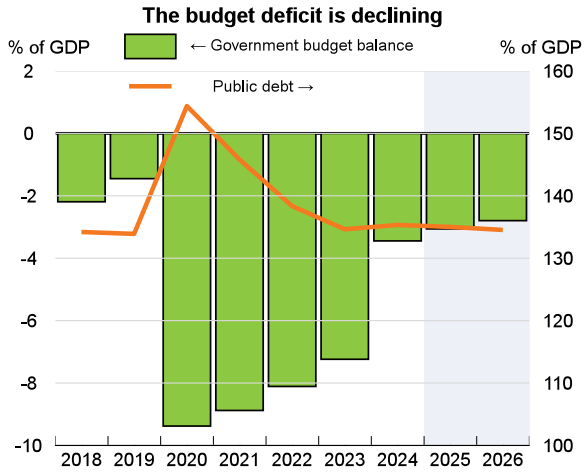
Weaker industrial production has weighed on GDP growth

GDP expanded by 0.7% in 2024, with weak growth in the second half of the year. Export volumes fell. Industrial production was 1.8% lower in March 2025 than a year earlier and has fallen for over two years. The weakness is broadly-based, with motor vehicles and parts production especially weak. Investment has been dragged by lower housing construction with the winding-down of the generous Superbonus building tax credit from early 2024. Private consumption was buoyed by support to disposable incomes from rising employment and wages and moderate underlying inflation. The unemployment rate was 6% in March 2025, near its lowest rate since prior to the global financial crisis.

Italy is exposed to more restrictive US trade policy through higher tariffs on EU goods. Over 10% of Italy's total goods exports in 2023 went to the United States. Moreover, the indirect effects may be significant, for example through global motor vehicle production chains or weaker demand globally. Italy is also exposed to growing competition from Chinese industrial products. Volatility in international energy prices has been transmitted into consumer prices. Higher gas prices in early 2025 contributed to headline inflation rising to 2.0% in the year to April 2025. In response, the government introduced a new support programme targeting lower income households. The fall in gas and petroleum prices in March and April 2025 is passing into producer and consumer prices.

Italy 1





Source: Istat; and OECD Economic Outlook 117 database.

StatLink https://stat.link/8qyuj5

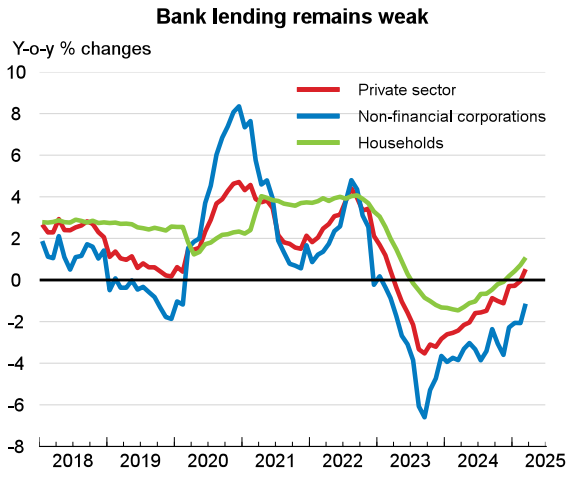
Italy: Demand, output and prices

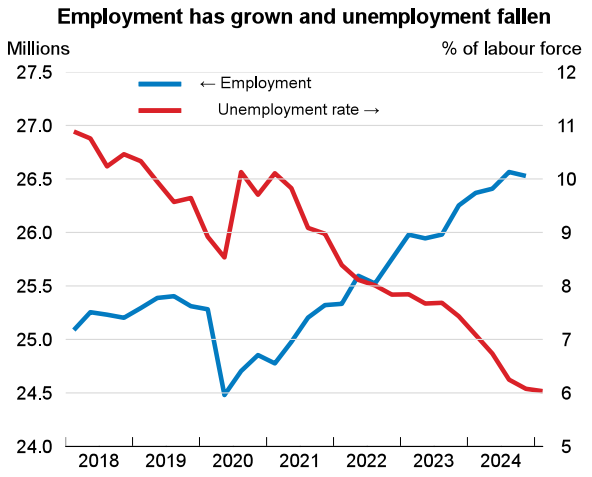
Italy	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2020 prices)				
GDP at market prices	1 842.5	4.8	0.7	0.7	0.6	0.7
Private consumption	1 037.7	5.3	0.4	0.4	0.8	0.7
Government consumption	361.8	0.8	0.6	1.1	0.9	0.8
Gross fixed capital formation	382.7	7.4	9.0	0.5	0.9	0.9
Final domestic demand	1 782.2	4.8	2.3	0.6	0.9	0.8
Stockbuilding[1]	22.7	0.9	-2.2	-0.2	0.3	0.0
Total domestic demand	1 804.9	5.7	0.1	0.4	1.2	0.8
Exports of goods and services	574.3	9.9	0.2	0.4	-0.4	0.6
Imports of goods and services	536.7	12.9	-1.6	-0.7	1.3	0.9
Net exports[1]	37.6	-0.7	0.7	0.4	-0.5	-0.1
Memorandum items						
GDP deflator	_	3.5	5.9	2.1	2.2	2.0
Harmonised index of consumer prices	_	8.7	5.9	1.1	2.0	1.9
Harmonised index of core inflation[2]	_	3.3	4.5	2.2	1.5	1.7
Unemployment rate (% of labour force)	_	8.1	7.7	6.5	6.1	6.1
Household saving ratio, net (% of disposable income)	_	3.2	3.2	4.1	5.6	4.9
General government financial balance (% of GDP)	_	-8.1	-7.2	-3.4	-3.1	-2.8
General government gross debt (% of GDP)	_	145.1	148.3	148.5	148.2	147.7
General government debt, Maastricht definition[3] (% of GDP)	_	138.3	134.6	135.3	135.0	134.5
Current account balance (% of GDP)	_	-1.7	0.1	1.1	1.1	1.2

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/atk1ug

Italy 2





Source: Bank of Italy; and OECD Economic Outlook 117 database.

StatLink https://stat.link/helnfq

Fiscal consolidation continues alongside implementation of the NRRP

The fiscal deficit fell to 3.4% of GDP in 2024, 0.4 percentage points lower than the government had budgeted. A modest reduction is projected for 2025 and further consolidation in 2026, in line with the medium-term structural fiscal plan submitted to the European Commission. These are projected to reduce the headline budget deficit by 0.6% of GDP. The ramp-down in spending on the building tax credit is supporting consolidation, alongside positive revenue developments and some savings in ministries' spending. The government expects these to be sufficient to offset planned income tax cuts and tax bracket consolidation, as well as planned increases in spending, including on health care and investment. The government also plans small increases in defence and national security spending, and to accelerate public investment spending, although this will mainly be in 2026. The improvement in the budget balance may be more modest than the government's projections given the weakening growth outlook and increased pressures for defence and other spending. Italy has continued to make progress on implementing the reforms in the National Recovery and Resilience Plan and spending rates have increased.

Lower euro area interest rates are passing into lending and deposit rates. Household borrowing demand started rising in early 2025, although businesses continued to reduce their borrowing. Long-term government bond yields were broadly stable from mid-2024 to May 2025, while spreads relative to equivalent German government bond yields declined to about 105 basis points in mid-May 2025, after averaging around 125 basis points over the previous six months. Still, the government expects the interest cost of public debt to rise.

Global trade policy developments will drag on the recovery in GDP growth

Real GDP growth is projected to slow to 0.6% in 2025 and pick-up slightly to 0.7% in 2026. New global trade restrictions are expected to result in export volumes contracting slightly in 2026 – the first contraction since the global financial crisis (excluding the pandemic). Exports are expected to resume growing in 2026 as other European countries increase their investment and defence spending. Consumer demand is expected to remain resilient, despite the increased economic uncertainty, as real wages are supported by

firm employment and wage growth and moderate inflation. Investment is set to grow with the accelerating disbursement of NextGenerationEU-funded projects, while residential construction spending returns to longer-term average levels with the withdrawal of the Superbonus tax credits. Other business investment is poised to remain weak, despite lower financing costs, due to uncertainty over the global economic and policy environment. Headline inflation is set to ease as the increase in energy and fresh food prices fades, while underlying inflation will rise moderately with ongoing wage growth.

Risks to growth are tilted to the downside due to the uncertainty created by global trade policy developments. New or retaliatory trade restrictions or more prolonged weakness in demand in the euro area may lead to a deeper contraction in exports than expected. Uncertainty over policy may lead to firms cutting investment and recruitment plans by more than expected and households cutting their expenditure to build precautionary savings. On the upside, more of the public investment projects funded through the National Recovery and Resilience Plan (NRRP) could be implemented than expected over 2025 and 2026.

Raising the economy's potential while proceeding with fiscal consolidation will support investment

Achieving the planned fiscal consolidation will be necessary to ensure public debt is on a prudent path and to contain interest expenses. The high share of spending on pensions and rising spending pressures from ageing, climate and defence needs in the medium term require significant reforms. Raising property taxes and addressing tax evasion, and containing pension spending despite demographic pressures, can create room for public investment. Ensuring effective and timely disbursement of NextGenerationEU-funded projects will boost near-term demand and improve the investment climate into the longer-term. Simplifying the authorisation procedures for renewable energy and associated electricity grid investments would reduce the dependence on natural gas, lower energy costs and accelerate electrification. Bolstering the labour force will be central for private investment prospects. Improving school leavers' readiness for the workforce, such as by boosting apprenticeships and advanced technical education, would help support the size and skills of the workforce, and improve the attractiveness of staying in Italy for young adults. Women's participation would be raised by continuing to expand public support for care for children and other dependents. Expanding access to reskilling opportunities for adults to extend their working lives will also help address demographic challenges and the labour force's needs.

Japan

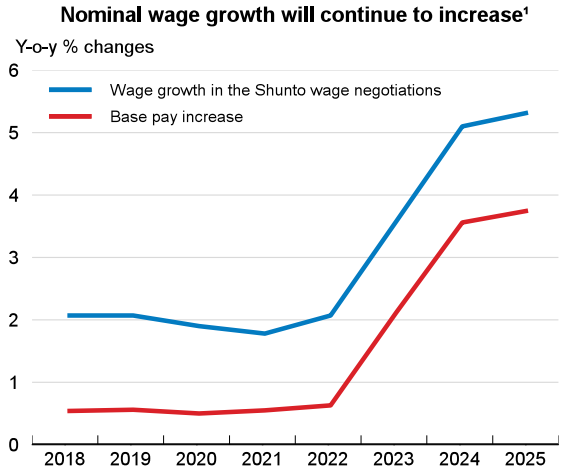
Real GDP growth is projected at 0.7% in 2025, despite significant headwinds, before reverting towards potential in 2026, at 0.4%. Domestic demand will be the main driver of growth. Private consumption is set to increase as robust wage growth boosts households' disposable income. Expanding profits and government subsidies, especially for green and digital investment, will support business investment, despite higher uncertainty. External demand will exert a drag on growth, reflecting the higher US tariffs. A surge in food prices will slightly raise headline consumer price inflation in 2025, before it eases towards the 2% target in 2026.

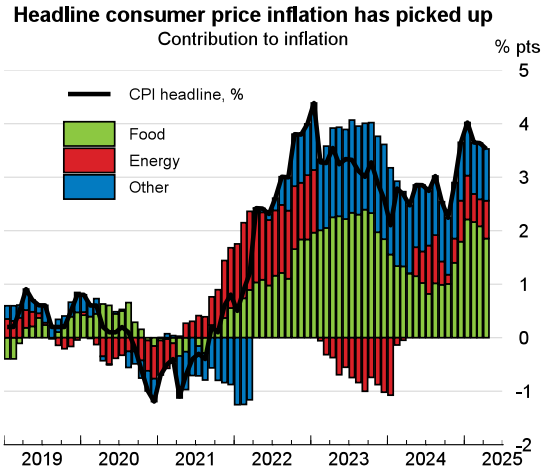
Inflation above target over the past three years and robust wage growth warrant continued gradual policy interest rate increases, but high uncertainty calls for close monitoring and a data-driven pace. The primary fiscal balance is projected to improve absent additional supplementary budgets, which should be limited to large shocks. To increase fiscal buffers to address shocks and ensure medium-term fiscal sustainability, a medium-term fiscal consolidation path is needed amid rising debt servicing costs. Structural reforms to boost productivity, including labour-saving and labour-augmenting investment, and employment are key to address demographic headwinds and raise potential growth.

Robust profits and wage growth are supporting domestic demand

While GDP contracted in the first quarter of 2025, domestic demand grew robustly. Business investment increased, supported by high corporate profits, and the order backlog of machinery rose to record highs. The Bank of Japan's March *Tankan Survey,* which did not fully factor in the impact of US tariffs, pointed to robust future investment plans. Consumption remained flat in the first quarter of 2025, reflecting declining consumer confidence amidst high inflation, despite rising nominal wages and strong labour market performance. Annual headline consumer price inflation was 3.6% in April, due to sticky food inflation, despite the resumption of electricity and city gas subsidies between January and March. The outcome of the ongoing annual wage negotiations for FY2025, with a 3.8% base pay increase as of 2 May, is stronger than last year.

Japan 1





1. As of 2 May. The horizontal axis shows fiscal years.
Source: Japanese Trade Union Confederation; Ministry of Internal Affairs and Communications; and OECD calculations.

StatLink https://stat.link/9tnr50

Japan: Demand, output and prices

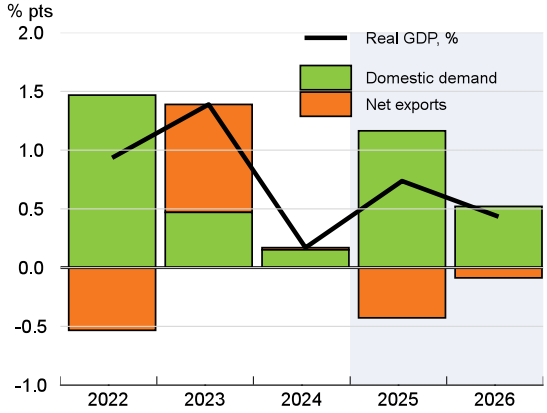
Japan	2021	2022	2023	2024	2025	2026
	Current prices YEN trillion	Percentage changes, volume (2015 prices)				
GDP at market prices	553.1	0.9	1.4	0.2	0.7	0.4
Private consumption	295.6	2.1	0.8	0.0	0.9	0.6
Government consumption	117.5	1.4	-0.3	0.9	1.2	1.0
Gross fixed capital formation	141.3	-0.6	1.5	0.3	1.4	0.2
Final domestic demand	554.5	1.3	0.8	0.2	1.1	0.6
Stockbuilding[1]	1.5	0.2	-0.3	-0.1	0.1	-0.1
Total domestic demand	555.9	1.5	0.5	0.1	1.2	0.5
Exports of goods and services	100.2	5.5	3.3	1.1	1.1	0.1
Imports of goods and services	103.0	8.3	-0.8	1.0	2.9	0.5
Net exports[1]	- 2.9	-0.5	0.9	0.0	-0.4	-0.1
Memorandum items						
GDP deflator	_	0.4	4.1	2.9	2.6	2.0
Consumer price index	_	2.5	3.3	2.7	2.8	2.0
Core consumer price index[2]	_	0.3	2.7	2.0	1.9	2.0
Unemployment rate (% of labour force)	_	2.6	2.6	2.5	2.5	2.5
Household saving ratio, net (% of disposable income)	_	4.1	0.9	3.2	2.3	2.7
General government financial balance (% of GDP)	_	-4.2	-2.3	-2.0	-1.6	-1.2
General government gross debt (% of GDP)	_	240.1	226.8	222.1	216.5	212.5
Current account balance (% of GDP)	_	1.9	3.8	4.8	5.0	4.9

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 117 database.

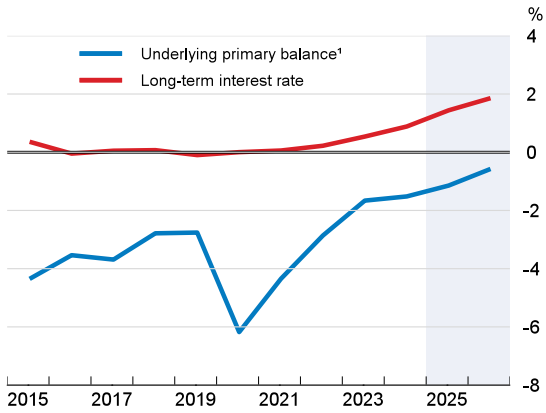
StatLink https://stat.link/0yt9ew

Japan 2

Domestic demand will drive growth
Contribution to GDP



The primary balance is projected to remain negative and debt servicing costs are set to increase



1. The underlying primary balance in 2024-26 is estimated or projected.
Source: OECD Economic Outlook 117 database; and OECD calculations.

StatLink https://stat.link/dnp471

The United States, Japan's main export destination at 20% of total goods exports in 2024, has imposed tariffs on steel and aluminium products, and automobiles and auto parts, as well as an additional flat tariff of 10% as of mid-April 2025. The impact on the Japanese economy will be direct, as for example automobile exports to the United Stares are high at 6% of total exports, and indirect through higher uncertainty and lower global growth. The projections assume no trade policy retaliation by Japan. Imports and inventories grew strongly in the first quarter of 2025, reflecting precautionary behaviour by firms in the face of higher trade uncertainty. Inbound tourism has expanded robustly, driven primarily by tourists from China.

Macroeconomic support is projected to gradually decrease

In January, the Bank of Japan (BoJ) raised the policy interest rate from around 0.25% to around 0.5%, the highest level in 17 years. The BoJ's reduction of its monthly purchases of Japanese Government Bonds (JGBs) by around JPY 400 billion each quarter, targeting about JPY 3 trillion by the first quarter of 2026 and roughly a 7-8% reduction in JGB holdings by March 2026, has been proceeding smoothly. Corporate inflation expectations have risen moderately to 2.5%, 2.4%, and 2.3% at the one-, three-, and five-year horizons, respectively, according to the *Tankan Survey*. Given inflation and wage developments, monetary accommodation should continue to be withdrawn gradually, with the policy rate projected to reach 1¼ per cent during the latter half of 2026. High uncertainty calls for close monitoring and a data-driven pace to monetary policy normalisation.

The underlying primary deficit is projected to decrease from 1.5% of GDP in 2024 to 0.6% in 2026, assuming no supplementary budgets in FY2025 and FY2026, helped by fiscal consolidation in both years. OECD projections assume an increase in public investment to mitigate the impact of future disasters by 0.2% of GDP in FY2026, and additional expenditures on high school tuition assistance by 0.1% of GDP and defence spending by 0.2% of GDP in FY2025-2026. On the other hand, the corporate tax rate will be increased by 4 percentage points in April 2026 to partly finance increased defence spending. Subsidies for electricity and city gas bills will be resumed between July and September 2025. Given lower oil prices, the projections assume that the gasoline price subsidy will be phased out at the end of 2025. The gross public debt-to-GDP ratio is projected to decrease from 227% in 2023 to 213% in 2026, as nominal growth surpasses debt servicing costs.

Domestic demand will drive growth but faces significant risks

Real GDP is projected to grow by 0.7% and 0.4% in 2025 and 2026, respectively, driven by domestic demand. Strong wage growth will support private consumption. Despite headwinds from uncertainty, business investment is projected to remain robust in 2025, reflecting high corporate profits, a large order backlog in machinery and government subsidies. Higher trade restrictions, weaker global demand and elevated uncertainty about trading partner trade policies will weigh on exports, moderating growth. Headline consumer price inflation is projected to edge up to 2.8% in 2025, before converging to the 2% target in 2026 as food inflation slows.

Risks are tilted to the downside. Weaker-than-expected external demand and abrupt changes in financial markets would lower growth. A large and rapid appreciation of the yen could reduce corporate profits and wage increases, leading to lower-than-projected private consumption and investment. Abrupt changes in bond and equity prices could destabilise financial markets and hurt the balance sheets of private financial institutions, the government, and the public pension funds. Interest rates on long-dated Japanese government bonds have already surged to record highs in May. A loss of confidence in Japan's fiscal sustainability and an increase in the sovereign risk premium could also adversely affect the financial sector and the real economy. The main upside risk is higher-than-projected exports due to a rapid reconstruction

of international supply chains, the establishment of new export channels or an agreement with the United States on tariffs.

Rebuilding fiscal buffers and boosting potential growth are priorities

A higher interest bill and expenditure pressures related to spending on health and long-term care for an ageing population will exacerbate medium-term fiscal sustainability challenges. A medium-term fiscal consolidation path needs to be spelled out and adhered to, underpinned by concrete revenue and expenditure measures. Supplementary budgets should only be used in the event of large shocks. Additional potential support against the high cost-of-living or tariffs could derail fiscal consolidation and, if implemented, should be targeted and temporary. Misallocation of capital and labour and population ageing have weighed on investment and total factor productivity growth during the past decade. Reforms to improve the innovation framework and incentives for start-ups, such as redesigning the R&D tax credit and strengthening the links between universities and SMEs, would boost productivity growth and investment in new technologies and digitalisation. Investing in labour-saving and labour-augmenting technologies, as well as re-skilling and upskilling to address changing skill needs, are also key. Higher labour mobility can also boost knowledge transfer and productivity growth. Reforms to boost the labour supply of older, female, and migrant workers should also be continued to address demographic headwinds.

Korea

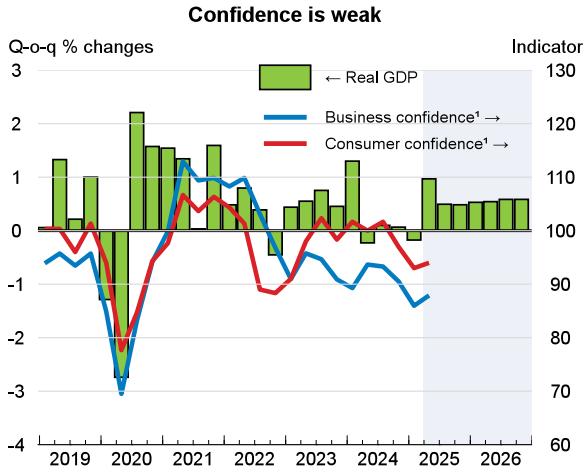
GDP growth is projected to weaken to 1.0% in 2025 before picking up to 2.2% in 2026. Increased tariffs and uncertainty are set to hold back export growth and weaken business investment. Private consumption should pick up from late 2025 as domestic political uncertainty subsides and real wages continue to rise. Inflation will remain close to target. Increased female and elderly labour market participation will raise employment, and unemployment is set to edge down in 2026.

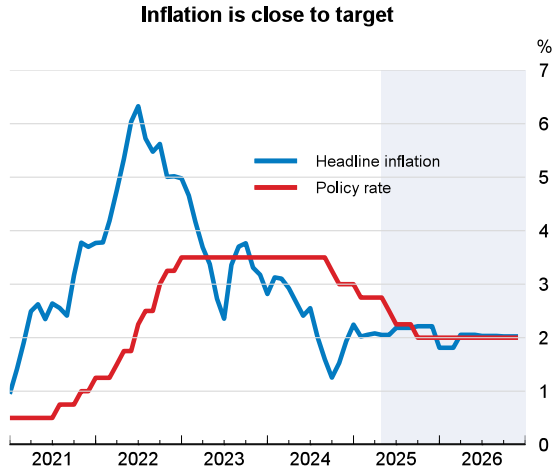
The Bank of Korea cut the policy rate to 2.75% in February and is expected to lower it further to 2.0% in 2025 amid weak demand. The partial reversal of large revenue shortfalls in 2023 and 2024 will contribute to the planned fiscal consolidation in 2025. Any additional fiscal support should be complemented by a sustainable long-term fiscal framework. Labour market reform can boost growth, reduce elderly poverty and lessen the high opportunity cost of motherhood.

Confidence is tested by an uncertain environment

The martial law declaration on 3 December 2024 dealt a blow to already weak domestic demand. Consumer and business confidence have been subpar. GDP contracted in the first quarter of 2025, largely driven by temporary factors holding back business and housing investment. Confidence will be boosted by the resolution of the presidential impeachment case, but uncertainty related to tariffs and international trade pulls in the opposite direction. Employment bottomed out in late 2024, and unemployment is falling back from a recent peak. Retail sales volumes have fallen in early 2025. Housing prices and construction orders have been sliding. Recent inflation readings are largely in line with the 2% target, with headline inflation at 2.1% and core inflation at 2.4% in April.

Korea





1. Quarterly averages. Only April data available for 2025Q2.
Source: OECD Economic Outlook 117 database; and Bank of Korea.

StatLink https://stat.link/gwf0a2

Korea: Demand, output and prices

Korea	2021	2022	2023	2024	2025	2026
	Current prices KRW trillion	Percentage changes, volume (2020 prices)				
GDP at market prices	2 221.9	2.7	1.4	2.1	1.0	2.2
Private consumption	1 046.8	4.2	1.8	1.1	1.2	2.4
Government consumption	378.3	4.0	1.3	1.8	2.1	1.8
Gross fixed capital formation	699.6	-0.2	1.4	-0.7	-1.8	2.5
Final domestic demand	2 124.7	2.7	1.6	0.7	0.4	2.3
Stockbuilding[1]	22.3	0.1	-0.2	-0.5	0.3	0.0
Total domestic demand	2 147.0	2.8	1.4	0.2	0.8	2.3
Exports of goods and services	874.1	3.9	3.6	7.1	0.3	3.5
Imports of goods and services	799.2	4.2	3.5	2.5	0.0	3.8
Net exports[1]	74.9	0.0	0.0	1.9	0.2	0.0
Memorandum items						
GDP deflator	_	1.8	1.9	4.1	2.8	1.9
Consumer price index	_	5.1	3.6	2.3	2.1	2.0
Core inflation index[2]	_	3.6	3.4	2.2	2.0	2.0
Unemployment rate (% of labour force)	_	2.9	2.7	2.8	2.9	2.8
Household saving ratio, net (% of disposable income)	_	7.4	4.8	3.5	3.5	3.2
General government financial balance (% of GDP)	_	0.0	-0.7	-3.0	-3.0	-2.4
General government gross debt (% of GDP)	_	46.2	48.9	50.7	52.8	54.2
Current account balance (% of GDP)	_	1.3	1.8	5.3	5.7	5.6

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 117 database.

StatLink https://stat.link/20j1g4

Effective tariff rates applying to Korean exports to the United States have increased from 1% to 16%, and Korea has considerable trade exposure to the United States, directly and through its participation in global value chains. The Government will pursue negotiations and is not expected to respond by raising tariffs on the United States in the near term. Customs exports flatlined in the first quarter of 2025, contrary to expectations of an increase driven by front-loading ahead of the imposition of tariffs.

Monetary policy is easing while the fiscal stance remains restrictive

The Bank of Korea cut the policy rate to 2.75% in February, keeping the stance slightly restrictive. Further cuts totalling 75 basis points are expected in the course of 2025 to boost domestic demand and counteract the drag on growth from increased tariffs and uncertainty. Thereafter, the policy rate is assumed to remain at 2% until the end of 2026. A supplementary spending package of 0.1% of GDP has been legislated, with spending expected to be front-loaded in the second quarter. Fiscal policy is assumed to be restrictive, with consolidation of 1.1% of GDP over 2025-26, notably due to a partial reversal of the weak corporate income tax receipts over the past two years.

Tariffs and uncertainty hold back growth

GDP is set to grow by 1.0% in 2025 and 2.2% in 2026. Household consumption will gather strength gradually, supported by rising real incomes and improving labour market conditions. Business and housing investments are set to bounce back from the second quarter of 2025. Inflation is on course to remain around the 2% target. A prolonged slowdown in key trading partners and spiralling protectionism could further strain Korea's trade-dependent economy.

Short-term support should not end up in long-term fiscal slippage

Further monetary policy loosening is warranted considering weak domestic demand and would help prop up investment amidst high uncertainty. Fiscal support may also be appropriate in the short term, but public debt has increased rapidly over the past few years, while reducing budget deficits according to plans has proved difficult. The agreement between the government and opposition on additional spending should therefore be followed by a bipartisan commitment to placing the public finances on a sustainable path going forward. Lowering barriers to trade and foreign direct investment, combined with growth-friendly fiscal measures such as environmental taxes, increased auctioning in the emissions trading scheme and streamlining of state support to companies could strengthen investment. Reforming the labour market to reduce duality, move decisively from seniority-based to performance-based wage setting and systematically enforce legislation against discrimination, can boost growth, lower elderly poverty and lessen the high opportunity cost of motherhood.

Latvia

Real GDP is projected to grow by 1.1% in 2025 and 2.1% in 2026. High inflation and rising geopolitical uncertainty are bearing down on the recovery of private consumption and investment. Increasing public investment will gradually strengthen domestic demand, while export demand is weakened by rising global trade barriers. Core inflation will remain high due to strong wage growth related to labour shortages. Further delays in the absorption of EU funds could adversely affect the recovery in domestic demand.

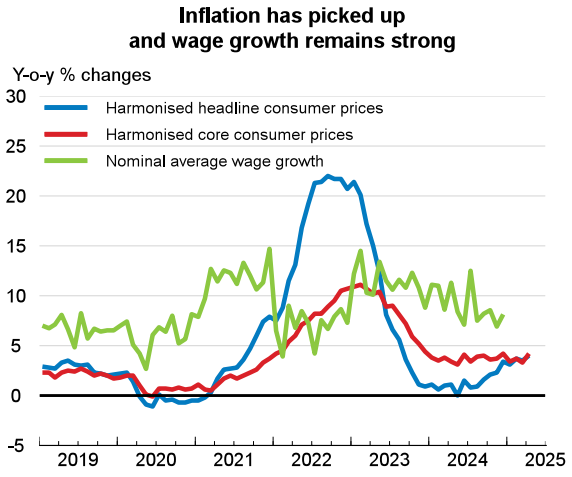
Increasing revenue and reallocating spending to finance the strengthening of defence capacity are key to ensure medium-term fiscal sustainability. Improved capacity for infrastructure planning and policy impact evaluation would help increase spending efficiency. Listing large state-owned enterprises could help deepen capital markets and improve access to finance for firms. Reducing the labour tax wedge for low-income earners and shifting the tax burden towards other income, property and environmental taxes would help lower informality. Strengthening competition enforcement and addressing skills shortages by improving training opportunities and facilitating skilled immigration would support business dynamism, innovation and investment.

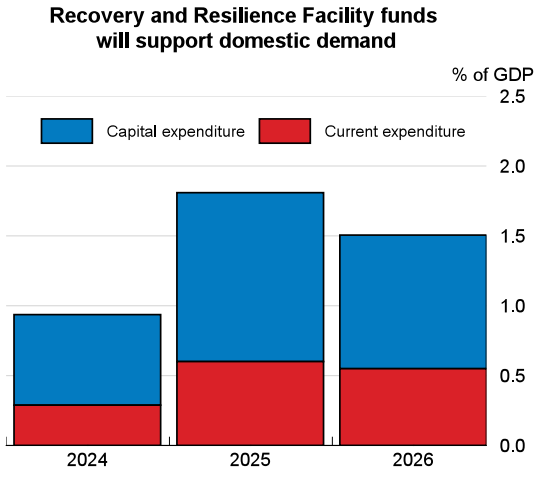
Weak confidence and slow absorption of EU funds have weighed on growth

GDP has stagnated in the fourth quarter of 2024. Private consumption fell due to low confidence and a surge in food price inflation, despite strong wage growth in the fourth quarter. Slow absorption of EU funds has weighed on public and private investment, despite easing financing conditions. Industrial production fell by 2% in March compared to February and was about 2½ per cent lower than a year earlier. Annual inflation rose from 3.5% in March to 4% in April due to rising food prices, and core inflation increased to 4.2%, reflecting strong wage growth and high services price inflation. The unemployment rate was 6.7% in March, and the vacancy rate was 2.6% in the fourth quarter of 2024, reflecting increased shortages of technicians, professionals and managers.

Declining relative import prices and an increase in demand for defence equipment contributed to import volumes, which increased by 1.8% in the fourth quarter of 2024 compared to the third quarter. Exports increased by 2.2% over the quarter, particularly driven by IT and business services. The merchandise trade deficit narrowed in the first quarter of 2025 but widened in March due to a rapid rise in import values. Although less than 3% of goods and services exports go to the United States, tariff increases could hurt exports in industries such as wood, wood products and electronics. Mortgage rates have fallen about 190 basis points from a year ago, supported by euro area monetary easing and recent reforms to strengthen competition in financial markets that reduced refinancing costs.

Latvia





Note: Core inflation refers to the harmonised index of consumer prices excluding food, energy, alcohol and tobacco. Wage refers to average net monthly wages and salaries of employees. The right-hand panel shows the projected allocation of revenue from the Recovery and Resilience Facility funds.
Source: OECD Prices database; Eurostat; Statistical Central Bureau of Latvia; Ministry of Finance of Latvia; OECD Economic Outlook 117 database; and OECD calculations.

StatLink https://stat.link/89nyil

Latvia: Demand, output and prices

Latvia	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2020 prices)				
GDP at market prices	32.3	1.8	2.9	-0.4	1.1	2.1
Private consumption	18.0	5.1	-1.0	0.5	0.5	1.5
Government consumption	7.0	2.4	7.0	7.6	4.5	4.2
Gross fixed capital formation	7.4	-1.6	9.9	-6.7	-0.8	3.5
Final domestic demand	32.4	3.0	3.0	0.2	1.0	2.5
Stockbuilding[1]	0.9	-1.9	1.9	-0.7	0.6	0.0
Total domestic demand	33.3	1.1	4.7	-0.9	1.6	2.4
Exports of goods and services	21.6	11.4	-4.7	-1.6	1.3	1.8
Imports of goods and services	22.6	9.9	-2.0	-2.3	2.1	2.4
Net exports[1]	- 1.0	0.7	-2.0	0.6	-0.5	-0.4
Memorandum items						
GDP deflator	_	9.8	6.0	2.6	3.6	2.4
Harmonised index of consumer prices	_	17.2	9.1	1.3	3.6	2.4
Harmonised index of core inflation[2]	_	7.6	8.4	3.7	3.1	2.6
Unemployment rate (% of labour force)	_	6.8	6.5	6.9	6.8	6.5
Household saving ratio, net (% of disposable income)	_	0.0	5.7	8.3	7.9	7.6
General government financial balance (% of GDP)	_	-4.9	-2.4	-1.8	-3.2	-3.5
General government gross debt (% of GDP)	_	54.5	54.6	58.5	60.0	61.8
General government debt, Maastricht definition[3] (% of GDP)	_	44.4	44.6	46.8	48.3	50.0
Current account balance (% of GDP)	_	-5.5	-3.9	-2.1	-2.9	-3.5

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/lhgrjx

Fiscal policy will ease significantly

The fiscal stance will ease by about 1.7% of GDP over 2025-26 and the public debt-to-GDP ratio is projected to increase. EU Recovery and Resilience Facility grants will finance public investment and measures to improve training and digital adoption in small businesses, with average yearly spending of about 1.7% of GDP in 2025-26. Spending on internal security and defence will increase by 0.5% of GDP in 2025 and by an additional 0.9% of GDP in 2026. Legislated expenditures in social protection and public services, and interest expenses add to spending pressures. A tax on undistributed profits of credit institutions, the transfer of 1 percentage point of gross wages from the mandatory asset-backed private pension pillar to the solidarity-based public pension pillar, and rising excise taxes will partly finance the increased spending in 2025-26. There are also plans to transfer some public administrative functions to the private sector but it remains uncertain if these measures will effectively expand fiscal space.

Economic activity will gradually recover, driven by domestic demand

Real GDP growth will rebound to 1.1% in 2025 and 2.1% in 2026. Private consumption will recover gradually, accelerating in 2026 as confidence improves. Public consumption will further increase due to rising spending on defence and public services. Trade policy uncertainty will weigh on exports and business investment. Tight labour markets and planned increases in minimum wages will support wage growth and lead to sticky core inflation. However, a cap on public sector wage growth will moderate wage increases. Delays in the absorption of EU funds due to skilled labour shortages, rising costs and weak capacity in infrastructure planning could weigh on domestic demand. On the upside, a stronger-than-expected impact of fiscal expansion in Germany on euro area growth would raise export demand.

Strengthening competition and addressing skills shortages will support business dynamism, innovation and investment

Reducing high credit costs calls for lowering switching costs for loans to businesses and strengthening competition enforcement. Listing large state-owned enterprises would help improve their governance and attract investors. Strengthening the powers of the Competition Council to conduct market investigations and enforce competitive neutrality of state-owned enterprises would foster business dynamism, innovation and investment. Reducing social security contributions for low-income earners, raising progressivity of personal income taxes and stepping up enforcement efforts would help reduce informality. This also requires raising trust in institutions and continuing the fight against corruption, for example by applying the heavy fines for tax evasion and bribery that current legislation allows, while ensuring that they are proportionate. Lowering occupation-specific restrictions and facilitating administrative procedures for migrants can help to reduce skilled labour shortages, while investing more in childcare facilities would increase the labour supply of women. Establishing a tri-partite training fund and improving cooperation in training design and implementation among firms and training providers is also key.

Lithuania

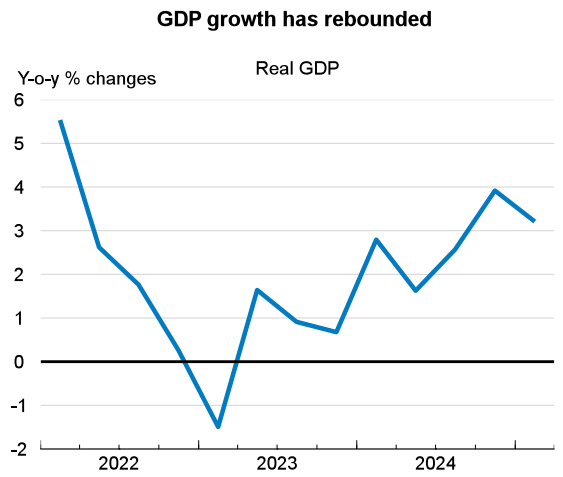
GDP is projected to grow by 2.7% in 2025 and 2.4% in 2026, after 2.8% in 2024. Strong real wage gains will continue supporting private consumption, especially in 2025. After a decline in 2024, investment is expected to increase progressively, supported by improved financial conditions and higher capacity utilisation but hampered by trade policy uncertainty. Despite a negative carry-over in 2025, exports are expected to increase moderately, but economic activity in the euro area is a key risk for Lithuania, along with global energy prices and geopolitical tensions.

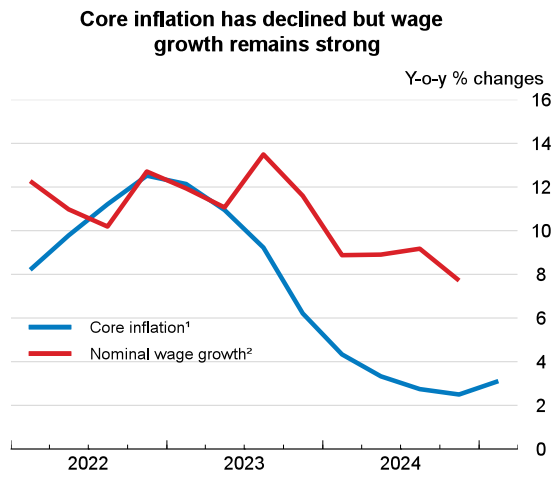
The fiscal stance is expected to loosen over 2025-26. Nevertheless, creating additional fiscal space will be key to financing rising ageing-related spending as well as defence spending. Moreover, deepening capital markets will be essential for alleviating the financial constraints that many firms are facing, and supporting investment and productivity growth. Further strengthening the public integrity framework would also support investor confidence.

Economic activity has continued to strengthen

GDP increased by 2.8% in 2024 as a whole and by 0.6% in the first quarter of 2025, largely supported by strong real wage growth and private consumption. Nevertheless, investment declined amid low capacity utilisation and subdued business confidence, especially in services. Consumer confidence remains high but has been declining since the end of 2024. Headline inflation bottomed out in October 2024 and reached 3.6% in April 2025, amid higher food and energy prices. While immigration helped to alleviate some labour shortages, the labour market is tight, with vacancies at a high level and contributing to strong wage growth. Unemployment, at 6.4% in March 2025, is below its long-term average.

Lithuania





1. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
2. Total economy.
Source: OECD Consumer Prices database; and OECD National Accounts database.

StatLink https://stat.link/rnj571

Lithuania: Demand, output and prices

Lithuania	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2021 prices)				
GDP at market prices	56.7	2.5	0.3	2.8	2.7	2.4
Private consumption	31.9	2.0	-0.3	3.5	4.9	4.0
Government consumption	9.9	1.2	-0.2	1.4	1.0	0.8
Gross fixed capital formation	12.7	5.2	9.3	-1.3	4.9	4.6
Final domestic demand	54.5	2.6	1.9	2.0	4.2	3.5
Stockbuilding[1]	- 0.4	-0.3	-3.3	1.0	1.6	0.0
Total domestic demand	54.2	2.9	-0.9	3.1	6.1	3.5
Exports of goods and services	45.1	12.4	-3.4	2.1	1.1	2.6
Imports of goods and services	42.6	12.7	-5.3	2.4	5.1	4.2
Net exports[1]	2.5	0.3	1.8	-0.2	-2.7	-1.0
Memorandum items						
GDP deflator	_	16.1	9.0	3.4	4.7	3.2
Harmonised index of consumer prices	_	18.9	8.7	0.9	4.0	2.5
Harmonised index of core inflation[2]	_	10.5	9.6	3.2	2.9	2.4
Unemployment rate (% of labour force)	_	6.0	6.8	7.1	6.3	5.8
Household saving ratio, net (% of disposable income)	_	0.9	3.0	7.9	7.4	6.8
General government financial balance (% of GDP)	_	-0.7	-0.7	-1.3	-3.0	-3.0
General government gross debt (% of GDP)	_	37.7	38.5	40.3	43.3	44.0
General government debt, Maastricht definition[3] (% of GDP)	_	38.1	37.3	38.2	41.4	42.1
Current account balance (% of GDP)	_	-6.0	1.1	3.0	3.3	2.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/mj76ok

While only 4% of Lithuanian exports are directly shipped to the United States, Lithuanian firms are integrated into global value chains which ultimately serve the US market. Higher US tariffs on EU goods will thus indirectly weigh on Lithuania through reduced activity in the European Union, which accounts for 60% of total Lithuanian exports.

Fiscal policy is becoming more accommodative

Financing conditions, measured by long-term interest rates, have improved compared to a year ago and are expected to stabilise, as the spread vis-à-vis German benchmarks settles around 0.7 percentage points, down from 2.2 percentage points when inflation peaked. The fiscal deficit is expected to increase further from 1.3% in 2024 to 3.0% in 2025 and 2026. The main factors contributing to a higher headline deficit in 2025-26 than in 2024 are related to pension benefits and public wages. The State Defence Council, comprising Lithuania's political and military leaders, recently agreed to raise defence spending to 5-6% of GDP annually over 2026-30, up from 3% in 2025. While Parliament still needs to approve this plan and clarify financing, and budget cuts are envisaged in non-defence ministries, the increase in defence spending may raise the 2026 fiscal deficit beyond the current projection.

Private consumption will continue to support growth

GDP is projected to increase by 2.7% in 2025 and 2.4% in 2026. Sustained real wage gains and a lower saving rate will continue supporting private consumption, especially in 2025. Investment is expected to rebound progressively. While lower long-term interest rates and higher capacity utilisation will support investment, trade policy uncertainty is likely to hamper it. Exports are projected to pick up but will remain closely connected to external demand from Lithuania's main trading partners. Economic activity in the euro area is thus a key risk for Lithuania, along with global energy prices and geopolitical tensions.

Structural reforms would improve fiscal sustainability and support investment

Lithuania will face a major demographic shock that will increase pension-related costs, with high old-age poverty and low life expectancy for men making it difficult to contain these pressures. In this context, creating additional fiscal space will be needed to ensure fiscal sustainability. This will require improving the efficiency of public spending, increasing tax revenues and encouraging formal economic activity. Strengthening productivity growth will sustain living standards despite population ageing. While Lithuania's product market regulations and insolvency framework are among the most conducive to productivity growth in the OECD, many firms are facing financial constraints. The development of capital markets would support productivity growth by facilitating investment in intangibles, research and development, and technological innovation. This requires increasing the supply and demand of non-bank capital, including by mobilising institutional investors such as pension funds, leveraging digital financing, and listing a wider range of state-owned enterprises. Further strengthening the public integrity framework, including by systematically monitoring the post-public employment activities of high-ranking public officials and reinforcing leadership support for integrity measures in public institutions, would also limit perceived corruption and support investor confidence.

Luxembourg

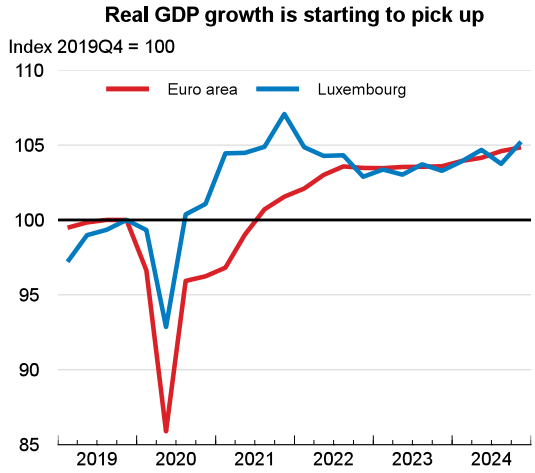
GDP is projected to grow by 2.1% in 2025 and 2.3% in 2026, following a strong rebound in activity in the final quarter of 2024. Private consumption will remain robust as real wage growth, bolstered by receding inflation and rising wage rates, supports households' real disposable income. Lower interest rates will provide stimulus to the financial and construction sectors. Risks are broadly balanced. Construction and finance may recover faster than expected. Weaker activity in the euro area and increasing barriers to trade could dampen the recovery.

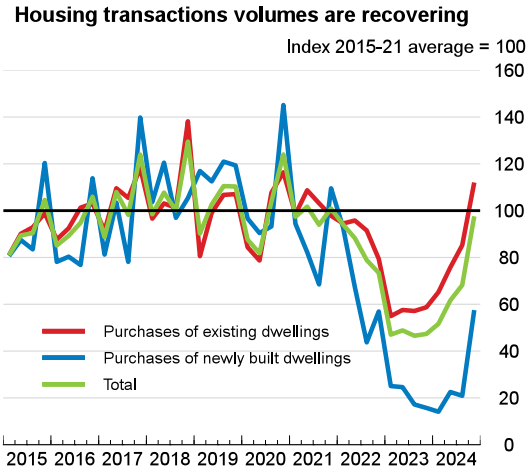
Fiscal policy should remain prudent through the full phasing-out of energy policy supports. A comprehensive pension reform, to raise contributions, increase the effective retirement age and adjust benefits, is needed to ensure sustainability for future generations. Rising capacity constraints imply the need to transition from a growth model based on rapid labour force growth to one based on innovation and skills, while maintaining public investment in transport and climate mitigation actions. Housing affordability should be tackled through reforms aimed at relaxing structural barriers to developing supply.

Economic activity recovered strongly in the final quarter of 2024

Industrial production and construction activity rose slightly through 2024. Lower interest rates fuelled the recovery of the financial sector and of housing transactions in the last quarter of 2024. High-frequency indicators and the decline in new loans for house purchases suggest a slowdown in the first quarter of 2025. Business confidence indicators in most non-financial services have recovered since the sharp fall in 2024Q3 but remain below historical averages. While labour shortages persist, they have significantly eased from the post-pandemic peak. Wage indexation supported households' purchasing power and private consumption through 2024, despite weak consumer sentiment. In the year to April 2025, despite the partial lifting of energy price supports and some increase in food and energy prices, headline inflation fell to 1.7% (down from 3.2% in April 2024) and core inflation to 2.1%.

Luxembourg





Source: OECD Economic Outlook 117 database; and Eurostat.

StatLink https://stat.link/cn9857

Luxembourg: Demand, output and prices

Luxembourg	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	72.9	-1.1	-0.7	1.0	2.1	2.3
Private consumption	22.1	6.6	2.0	1.3	2.3	1.7
Government consumption	12.5	4.6	1.6	4.1	2.5	1.9
Gross fixed capital formation	13.2	-13.8	-6.3	-7.2	1.3	5.3
Final domestic demand	47.8	0.4	-0.1	0.1	2.2	2.6
Stockbuilding[1]	0.9	-0.2	0.9	-0.2	0.2	0.0
Total domestic demand	48.7	0.4	1.3	-0.2	2.5	2.5
Exports of goods and services	157.0	1.5	-0.3	0.3	1.8	1.9
Imports of goods and services	132.8	2.4	0.4	-0.3	2.1	1.8
Net exports[1]	24.2	-1.1	-1.5	1.1	0.0	0.7
Memorandum items						
GDP deflator	_	6.7	6.5	3.9	4.0	2.5
Harmonised index of consumer prices	_	8.2	2.9	2.3	2.1	1.9
Harmonised index of core inflation[2]	_	4.2	3.9	2.5	1.4	1.9
Unemployment rate (% of labour force)	_	4.8	5.2	5.7	6.0	5.9
Household saving ratio, net (% of disposable income)	_	11.6	13.0	12.5	11.5	12.8
General government financial balance (% of GDP)	_	0.2	-0.8	1.0	0.0	-0.1
General government gross debt (% of GDP)	_	29.7	30.8	32.2	32.2	32.7
General government debt, Maastricht definition[3] (% of GDP)	_	24.8	24.9	26.5	26.5	27.0
Current account balance (% of GDP)	_	9.5	11.2	13.9	12.8	14.2

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/0ob2nh

Luxembourg's direct exposure to higher US tariffs on EU goods is currently limited as only 3% of total exports go to the United States and the main exports are financial (45% of total exports) and other services (43%), which are exempt from tariffs. However, indirect effects through weaker demand from European partners, including automotive components from Germany, are expected. Furthermore, lower equity prices and weaker household income growth in Europe may slow activity in the financial sector.

Fiscal policy will remain prudent

The government budget recorded a small surplus in 2024, mostly thanks to higher revenues from direct business taxes and lower current outlays. Despite the scaling back of energy policy support, the budget balance is projected to return to a small deficit in 2025 and 2026 due to increasing defence expenditures, which should reach 2% of GDP by 2030, up from 1.3% in 2024. Overall, the fiscal stance is projected to ease by 1.7% of GDP over 2025 and 2026.

The recovery in activity is expected to continue

Growth is projected to strengthen gradually over 2025 and 2026, as easing financial conditions bolster the financial and construction sectors. Despite increased global uncertainty, domestic consumption will be resilient, due to the scheduled wage indexation in 2025Q2 supporting real incomes, and to a modest draw-down of household savings towards their long-term average rate. Unemployment should peak in 2025 before gradually decreasing as activity picks up. Core and headline inflation are expected to slowly

increase in 2025 due to the scale back of energy price support and higher costs of imports. Amid global uncertainty and growing barriers to trade, the contribution of exports to GDP will remain modest. Risks are broadly balanced, with a faster than-expected recovery in finance and construction representing the main upside risk. The main downside risks include a slowdown of economic activity in the euro area, potential financial markets disruptions, and a contraction of exports linked to tariffs.

Structural reforms are necessary to boost productivity growth and ensure fiscal and environmental sustainability

To safeguard fiscal sustainability, a comprehensive pension reform is needed to raise contributions, increase the effective retirement age and contain expenditures. Productivity is high relative to the EU area average but growth is stagnant. Structural reforms are necessary to support private investment in innovation and improve the quality of life-long training, including through better coordination across the main public actors supporting R&D, and a shift from the current institution-oriented system to a project-oriented one. Quality standards for training providers can be strengthened by introducing a national accreditation agency and by tightening quality controls. Despite substantial progress, further efforts to implement the national energy and climate plan and strengthen public transport are needed to meet climate targets, mitigate congestion and improve attractiveness to cross-border workers.

Malaysia

GDP is projected to grow by 3.8% in 2025 and 4.1% in 2026. Domestic demand will be the main driver of growth. Private consumption will remain robust, supported by favourable labour market conditions. Investment growth will benefit from new opportunities in technology-intensive sectors, although global trade tensions are generating significant risks. Inflation is expected to rise amid a planned removal of fuel subsidies and potential wage pressures.

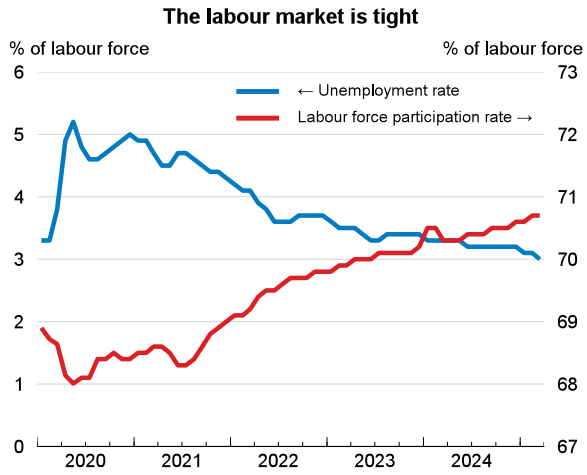
Government debt has increased to 64.6% of GDP in 2024. Fiscal consolidation is needed to rebuild fiscal space, including by mobilising more revenues and phasing out energy subsidies. The neutral monetary policy stance should be maintained in the short term. Substantial gender gaps are hampering women's economic opportunities, which could be addressed by investing more in childcare support and promoting workplace flexibility. Reducing skill mismatches could boost both growth and social inclusion.

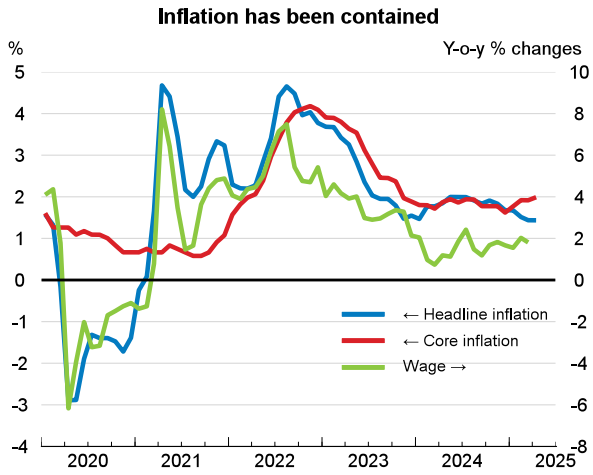
The economy has been growing steadily

Real GDP grew by 5.1% in 2024, largely driven by private consumption and to a lesser extent investment. After a small contraction in late 2024, GDP growth rebounded in the first quarter of 2025, with 0.7% growth quarter-on-quarter on a seasonally-adjusted basis. Inflation has been contained, with neither annual headline nor core inflation exceeding 2% since August 2024, despite an uptick in core inflation in early 2025. Meanwhile, the labour market has been strong as unemployment fell to 3.0% in March 2025, its lowest level since April 2015, while labour force participation rose to an all-time high of 70.7% in the same month.

Exports grew strongly in 2024 and shipments to the United States, Malaysia's third largest export destination, accounted for about the half of the growth of merchandise exports. Exports to China, the country's second largest export market, declined by 2.2%. Due to strong import growth, however, net exports made only a marginal contribution to growth. These trends continued in the first three months of 2025. Tourist arrivals have now recovered to well above their 2019 levels. Exports to the United States accounted for 13.2% of merchandise exports and 10.3% of GDP in 2024, and a 10% tariff is now being applied to merchandise imports from Malaysia, although there some exemptions for particular products.

Malaysia





Source: CEIC.

StatLink https://stat.link/3t8u1g

Malaysia: Demand, output and prices

Malaysia	2021	2022	2023	2024	2025	2026
	Current prices MYR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	1 548.7	9.0	3.5	5.1	3.8	4.1
Private consumption	898.4	11.4	4.6	5.1	5.5	5.5
Government consumption	195.7	5.6	3.4	4.7	3.9	4.2
Gross fixed capital formation	298.7	6.8	5.4	12.0	6.8	5.9
Final domestic demand	1 392.8	9.6	4.6	6.5	5.6	5.4
Stockbuilding[1]	44.0	0.3	0.5	-1.4	-2.3	0.0
Total domestic demand	1 436.7	9.7	5.0	4.9	3.1	5.5
Exports of goods and services	1 093.9	14.5	-7.9	8.3	2.8	3.9
Imports of goods and services	981.9	16.0	-6.8	8.2	1.8	6.0
Net exports[1]	112.0	-0.1	-1.2	0.4	0.8	-1.2
Memorandum items						
GDP deflator	_	6.3	-1.8	0.8	1.4	2.8
Consumer price index	_	3.4	2.5	1.8	2.2	2.7
Core inflation index[2]	_	3.0	3.0	1.8	2.2	2.2
Current account balance (% of GDP)	_	3.2	1.1	1.4	3.1	2.2

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 117 database.

StatLink https://stat.link/sdaguo

Fiscal consolidation is set to continue as monetary policy remains neutral

The fiscal deficit fell from 5.0% in 2023 to 4.1% of GDP in 2024, and the government is appropriately committed to continuing fiscal consolidation through various spending and revenue measures, including a better targeting of fuel subsidies towards low-income households and broadening the base of the Sales and Service Tax. The lower deficit will help bring down government debt, which has increased rapidly from 52.4% of GDP in 2019 to 64.6% in 2024 and create fiscal space to address rising long-term spending pressures related to social protection and climate change. The central bank has maintained the policy rate at 3% since July 2023, which is a broadly neutral monetary policy stance. This stance is expected to continue, although the central bank should remain vigilant in the face of emerging inflationary pressures from the continued withdrawal of fuel subsidies, increases in the minimum wage and civil servants' salaries, and tight labour market.

The economy will grow moderately, but faces significant downside risks

Output is projected to grow by 3.8% in 2025 and 4.1% in 2026. Private consumption will be buoyed by favourable labour market conditions, although the withdrawal of fuel subsidies will weigh on the real purchasing power of some households. Private investment will be supported by new opportunities in technology-intensive sectors. Infrastructure projects and investments by public corporations will support public investment. Inflation is projected to rise slightly to 2.2% in 2025 and 2.7% in 2026, reflecting progress in fuel subsidy withdrawal. Export growth will be affected by global trade tensions and high levels of uncertainty, which could have more negative effects than currently assumed, particularly if tariff rates rise further. On the domestic front, stronger than expected inflationary pressures remain a downside risk.

Structural reforms can reduce inequalities and make growth more sustainable

Improving the targeting of social protection while raising social assistance coverage and benefit levels would allow stronger reductions of poverty and inequality. Policies to bridge the gender gap, including improving access to affordable childcare and extending paid maternity and paternity leave periods, would allow more women to participate in the labour market and find jobs that match their skills. Measures to reduce skill mismatches, such as expanding the skills registry and investing more into adult education, could boost both growth and social inclusion. Addressing climate change requires accelerating the planned withdrawal of energy subsidies and a stronger role for carbon pricing, complemented by stricter regulations and additional investments. A "National Policy on Climate Change 2.0" was announced in September 2024 and contains ambitious measures in this direction, which should be implemented without unnecessary delays. Private investment could benefit from a more even playing field between private and government-linked enterprises.

Mexico

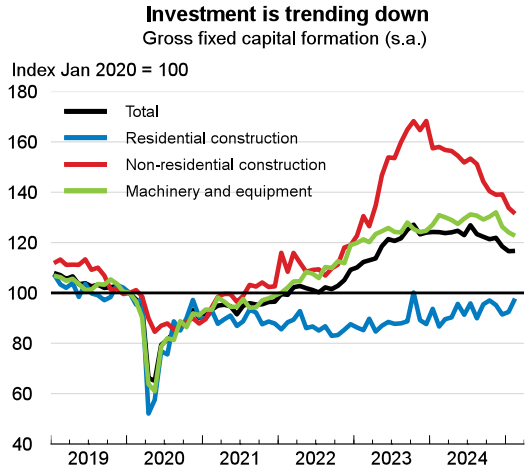
The economy is projected to grow by 0.4% in 2025 and 1.1% in 2026. Low unemployment and easing inflation will support consumption. Public consumption and investment will remain subdued, given ongoing fiscal consolidation. Exports will be dampened by tariffs, uncertainty and weaker global growth. Investment will be supported by declining interest rates but is expected to recover only gradually, reflecting high uncertainty.

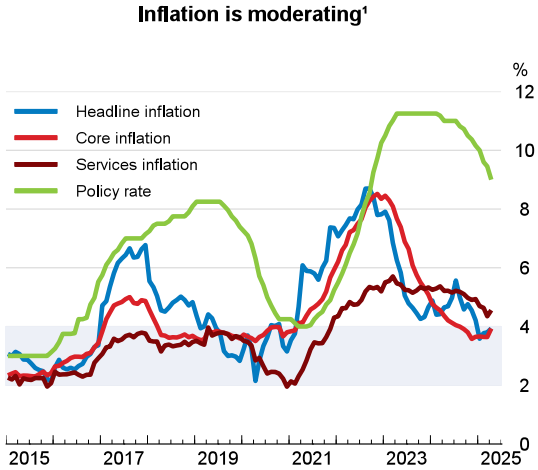
Implementing a medium-term fiscal plan could help reduce the deficit gradually, creating room for investments that boost productivity, such as education. To ensure that inflation continues to decrease towards target, the central bank should continue its prudent and gradual easing cycle. Expanding dual vocational programmes would enhance technical skills availability, boosting competitiveness and facilitating access to formal jobs.

Agriculture has recovered but investment is slowing

Short-term indicators point to a partial improvement in economic activity during the first quarter of 2025, with GDP growing by 0.2% (quarter on quarter), after the 0.6% contraction in the previous quarter. The improvement was driven entirely by a rebound in the agriculture sector, following weather related disruptions at the end of 2024, while industrial production contracted and services stagnated. Non-residential construction is losing momentum after the completion of major infrastructure projects in the South, while investment in machinery and equipment is also easing amid high uncertainty. Private consumption has slowed, in line with slowing formal job creation. Exports remain subdued, constrained by persistent trade-related uncertainty. Unemployment, at 2.6% in March, remains at historically low levels, although participation has recently declined. Inflationary pressures are easing, although headline and core inflation rose to 3.9% (year-on-year) in April, driven by volatility in some food prices and seasonal variations in tourism-related services.

Mexico





1. The shaded area represents the central bank's inflation target range.
Source: INEGI; and Banxico.

StatLink https://stat.link/37m52v

Mexico: Demand, output and prices

Mexico	2021	2022	2023	2024	2025	2026
	Current prices MXN billion	Percentage changes, volume (2018 prices)				
GDP at market prices	26 690.0	3.7	3.3	1.5	0.4	1.1
Private consumption	18 236.2	4.8	4.2	2.8	0.5	1.8
Government consumption	3 043.9	2.0	1.8	1.6	0.2	0.3
Gross fixed capital formation	5 687.6	7.5	16.6	3.3	-0.9	1.5
Final domestic demand	26 967.7	5.1	6.6	2.8	0.1	1.6
Stockbuilding[1]	237.7	0.0	-0.2	0.0	0.0	0.0
Total domestic demand	27 205.4	5.0	6.2	2.8	0.2	1.6
Exports of goods and services	10 827.9	9.5	-7.2	3.3	6.8	1.1
Imports of goods and services	11 343.3	8.6	3.7	2.7	3.1	2.4
Net exports[1]	- 515.4	0.2	-4.7	0.1	1.2	-0.7
Memorandum items						
GDP deflator	_	6.6	4.5	4.9	4.4	3.3
Consumer price index	_	7.9	5.5	4.7	3.4	3.2
Core inflation index[2]	_	7.6	6.7	4.1	3.6	3.2
Unemployment rate[3] (% of labour force)	_	3.3	2.8	2.7	2.8	2.8
Government financial balance[4] (% of GDP)	_	-3.2	-3.4	-4.9	-3.5	-3.0
Government gross debt[4] (% of GDP)	_	48.2	47.4	50.6	51.8	52.4
Current account balance (% of GDP)	_	-1.5	-0.3	-0.1	-0.2	-0.4

1. Contributions to changes in real GDP, actual amount in the first column.

2. Consumer price index excluding volatile items: agricultural, energy and tariffs approved by various levels of government.

3. Based on National Employment Survey.

4. Data are for the overall public balance, comprising federal and other public agencies such as the social security system and state-owned enterprises.

Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/y4hges

Mexico is an open economy with strong trade linkages to the United States, which accounts for over 80% of its exports. As a result, Mexico is particularly impacted by rising trade restrictions and ongoing uncertainty. The projections assume that Mexico's exports to the United States that are compliant with the United States–Mexico–Canada Agreement (USMCA) face a 0% tariff, while non-compliant exports face a 25% tariff, both in 2025 and 2026. Around 50% of Mexico's exports to the United States are currently compliant. Compliance is assumed to gradually rise towards 75% in 2026 by following the necessary steps, such as completing certifications of origin. Automobiles and automobile parts are assumed to be subject to a 25% tariff rate in 2025 and 2026, with the share of United States content excluded from this tariff. The projections also assume a 25% tariff on United States imports of steel and aluminium products from Mexico.

Monetary policy easing and fiscal consolidation should be gradual

The central bank has continued its monetary easing cycle, lowering the policy rate to 8.5% in May. Easing inflationary pressures, weakening economic activity and well-anchored inflation expectations support a further gradual, data-dependant reduction in the policy rate to 7% by the end of 2025, with additional cuts in 2026. After widening to 4.9% of GDP in 2024, the highest level in 35 years, the budget deficit is expected to fall to 3.5% in 2025, primarily through cuts in public investment, and to 3% in 2026. By the end of 2026, the public debt-to-GDP ratio is expected to be around 52% of GDP.

Growth will slow amid high uncertainty

The economy is projected to expand by 0.4% in 2025, before picking up by 1.1% in 2026. Private consumption will be supported by low unemployment and declining inflation. Private investment will gradually benefit from lower interest rates, though it will remain constrained by high domestic and global uncertainty. Public investment is set to stay subdued as part of efforts to reduce the fiscal deficit. Quarterly export growth will be dampened by trade tariffs and high global uncertainty. Both headline and core inflation will continue to fall gradually. However, the outlook for both growth and inflation remain uncertain. Given Mexico's high exposure to the US market, the projected US slowdown in 2025-26 and tighter financial conditions may weigh further on external and investment demand. Moreover, increased global risk aversion and exchange rate volatility could raise sovereign borrowing costs and further limit fiscal space. On the upside, a reduction in uncertainty, such as through a swift and successful renegotiation of the trade agreement with the United States and Canada, could support investment and exports more strongly than currently anticipated.

Boosting productivity and adapting to climate change are priorities

Enhancing immovable property tax collection and improving tax administration, including through digitalisation, could help increase tax revenues and create fiscal space for additional spending in productivity-enhancing areas, such as education or digitalisation. Systematically applying cost-benefit analysis would enhance the efficiency of public spending. A comprehensive early childhood education and care system would facilitate women's labour market participation. Encouraging private investment in renewable energy through supportive regulations could help turn Mexico's abundant renewable resources into a competitive advantage. Improving water management would strengthen Mexico's adaptation to climate change, reduce operational risks and help to attract investment.

Netherlands

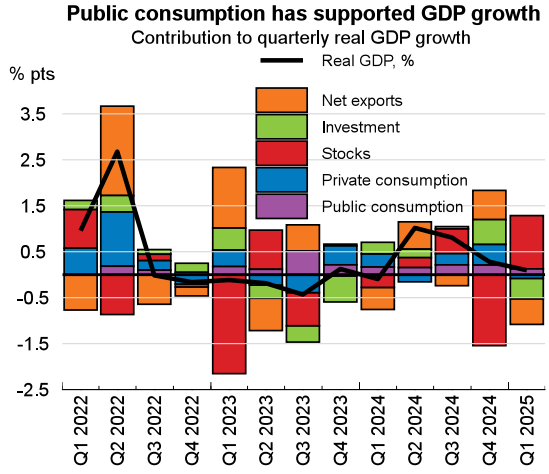
GDP is set to grow by 1.3% in 2025 and 1.1% in 2026, driven by strengthening private consumption on the back of rising disposable household income, and government investment. Private investment will also improve, supported by gradually declining interest rates, but will be dampened by global uncertainty. However, external demand will weaken due to higher tariffs and trade uncertainty. Annual headline inflation is set to fall only slowly to 2.9% in 2025 and 2.5% in 2026, as service price pressures persist. Unemployment will increase marginally from 3.7% in 2024 to 4% in 2026, as the bankruptcy rate rises to pre-pandemic levels.

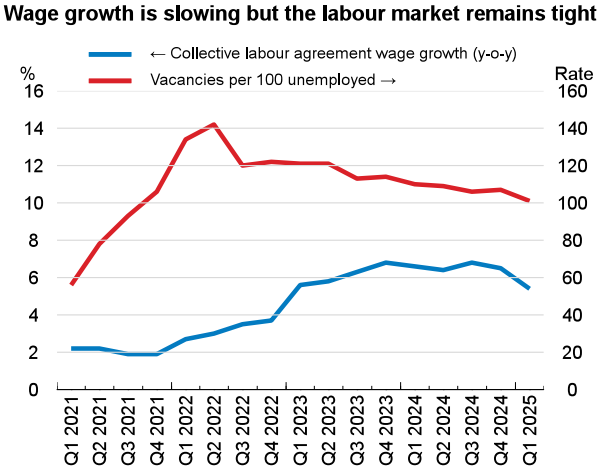
The fiscal stance will be expansionary over 2025-26 due to higher spending on health care, housing and defence, as well as cuts in personal, corporate and environmental taxes. In the short term, fiscal measures are projected to support economic growth but worsen the fiscal balance, with the government deficit projected to widen from 0.9% of GDP in 2024 to 2.8% in 2026. The government should prioritise investments supporting the green transition and productivity, including enhancing digital skills and increasing the adoption of digital technologies.

The economy remains resilient

In the first quarter of 2025, GDP growth slowed to 0.1% quarter-on-quarter, down from 0.4% in the fourth quarter of 2024. Weaker household spending and fixed asset investment weighed on the economy, partly offset by higher public consumption and a smaller reduction in inventories. Headline inflation picked up to 4.1% in April, from 3.4% in the previous quarter, reflecting higher food and service prices. Annual wage growth under collective labour agreements moderated, falling to 5.5% from 6.6% the quarter before. The labour market remained tight, with job vacancies continuing to outnumber unemployed persons, and the unemployment rate stable at 3.8% in April. Consumer confidence continued to decline between January and April. Business sentiment also remained below its long-term average, declining again in April after a modest rebound earlier in 2025.

Netherlands





Source: OECD Economic Outlook 117 database; and Statistics Netherlands (CBS).

StatLink https://stat.link/khw8uc

Netherlands: Demand, output and prices

Netherlands	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2021 prices)				
GDP at market prices	891.3	5.0	0.1	1.0	1.3	1.1
Private consumption	380.4	6.9	0.8	1.0	1.5	1.6
Government consumption	226.1	1.3	2.9	3.6	2.4	1.7
Gross fixed capital formation	184.6	3.4	1.2	-0.5	0.4	1.3
Final domestic demand	791.1	4.5	1.5	1.4	1.5	1.6
Stockbuilding[1]	13.6	0.5	-2.3	-0.4	0.3	0.0
Total domestic demand	804.7	5.0	-0.9	1.0	1.9	1.6
Exports of goods and services	769.3	4.5	-0.4	0.1	0.3	1.1
Imports of goods and services	682.7	4.4	-1.7	0.0	0.7	1.6
Net exports[1]	86.6	0.5	1.1	0.1	-0.3	-0.3
Memorandum items						
GDP deflator	_	6.2	7.3	5.2	3.3	2.6
Harmonised index of consumer prices	_	11.6	4.1	3.2	2.9	2.5
Harmonised index of core inflation[2]	_	4.8	6.4	3.2	2.6	2.6
Unemployment rate (% of labour force)	_	3.5	3.5	3.7	3.9	4.0
Household saving ratio, net[3] (% of disposable income)	_	7.1	7.5	9.4	9.7	8.8
General government financial balance (% of GDP)	_	0.0	-0.4	-0.9	-2.3	-2.8
General government gross debt (% of GDP)	_	52.7	49.8	47.5	48.3	50.0
General government debt, Maastricht definition[4] (% of GDP)	_	48.4	45.2	43.3	44.7	46.8
Current account balance (% of GDP)	_	6.6	9.9	9.9	9.3	9.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. Including savings in life insurance and pension schemes.
4. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/8kb5gl

As a trade-dependent economy, the Netherlands is exposed to global trade developments. About 5.7% of goods exports are destined for the United States. However, the most important exports include semiconductor machines and pharmaceuticals, which have so far been exempt from the increase in US import tariffs on EU goods. Indirectly, both through its strong integration in global value chains and as a logistic hub for EU trade, the Dutch economy will be affected via the slowdown in global trade.

Fiscal policy is expansionary

The fiscal stance will be expansionary over 2025-26, with fiscal easing projected to be around 1.4% of potential GDP, supporting short-term economic growth but worsening the government's fiscal balance. The budget deficit is projected to widen from 0.9% of GDP in 2024 to 2.8% in 2026, in line with government plans for higher spending on health care, housing and defence. These spending increases are partially offset by spending cuts in education, public services and development aid. In 2026, the transfer of military pensions to the Dutch civil service pension fund (ABP) will weigh additionally on the fiscal balance. The government support of low- and middle-income household purchasing power through the introduction of a new reduced tax bracket in income taxation took effect at the beginning of 2025 and will reduce revenues over the projection period. Overall, the debt ratio is expected to rise from the historically low level of 43.3% of GDP in 2024 to 46.8% in 2026.

Growth will pick up but risks abound

GDP is set to grow moderately by 1.3% in 2025 and 1.1% in 2026 supported by resilient domestic demand amid persistent global headwinds. Private consumption will be a key driver, buttressed by a boost in real income as wages continue growing above inflation, though weak consumer confidence may temper the pace of recovery. Investment will recover, supported by gradually declining interest rates and public spending, though uncertainty, tight financial conditions and supply constraints could weigh on the momentum. External demand is expected to remain subdued, reflecting ongoing trade fragmentation, tariff uncertainty and weakening global growth. Annual headline inflation is set to fall only slowly to 2.9% in 2025 and 2.5% in 2026, and core inflation is expected to remain sticky slowing to 2.6% in 2026, with rising labour costs continuing to exert upward pressure on services prices. Bankruptcy rates will rise, but lead only to a marginal increase in unemployment from 3.7% in 2024 to 4% in 2026, as the labour market remains tight. The economic outlook is surrounded by significant downside risks, primarily related to rising geopolitical tensions and trade fragmentation. Domestically, labour market tightness remains a key concern. Continued wage growth could maintain price pressures, especially if euro area policy rates are lowered while inflation remains elevated in the Netherlands. While this could erode price competitiveness, weaken purchasing power, and slow private consumption, it could also help to alleviate labour market tightness. Furthermore, trade diversion could lead to lower import prices thereby creating downward pressure on inflation.

Enhancing tax efficiency would support growth

The Netherlands' strong fiscal position provides room for a moderately expansionary stance, though rising population ageing and significant investment needs for the green transition will test medium-term fiscal sustainability. To increase the share of renewables in the energy mix, the government needs to support investment in the electricity grid. Long-standing structural challenges also need to be addressed, focussing on easing labour market pressures and supporting productivity growth. Simplifying the tax and benefits system and removing distortions favouring owner-occupied housing could increase productivity-enhancing investment and ease tensions in the labour market. Enhancing digital skills and increasing the adoption of digital technologies particularly among smaller enterprises could further boost productivity growth and maintain competitiveness.

New Zealand

Following the deepest recession since 1991, economic activity began to recover in late 2024. The expansion is expected to continue with growth projected to rise to 0.8% in 2025 and 1.7% in 2026 supported by lower interest rates. However, increased trade restrictions and high uncertainty about trade policy globally will temper external demand, confidence and the pace of the recovery. Inflation is set to fall further due to lower oil prices and higher spare capacity including in the labour market. The unemployment rate is expected to peak in late 2025 at around 5.4%.

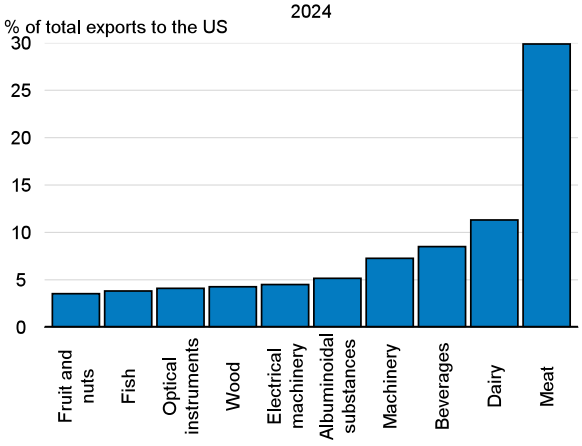
With core inflation declining, and inflation expectations well anchored, the central bank should steadily reduce the official cash rate to the neutral rate of around 3% and reduce it further if the recovery falters. The pace of fiscal consolidation is appropriate but may need to be slowed if the expansion stalls. Trend growth will remain modest without energy, innovation, investment and skills reforms to lift lacklustre productivity.

A recovery is underway

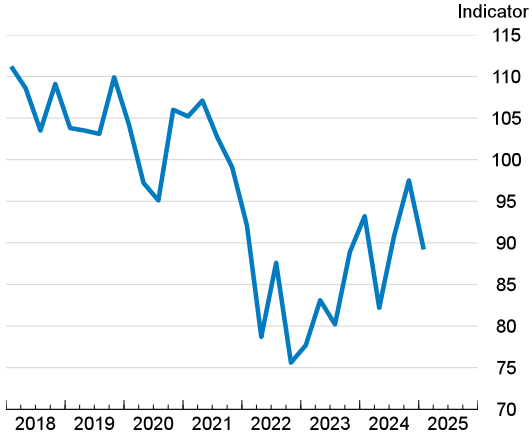
Rebalancing of the economy following a severe episode of post-pandemic overheating is well advanced. Headline inflation has declined towards the midpoint of the central bank's 1 to 3% target range and core inflation is also declining, albeit more gradually. The economy started to recover in late 2024. The rebound was narrowly based on exports, public consumption and stock building. Private consumption and investment growth remained subdued and consumer confidence fell sharply in early 2025. Indicators for the construction sector are showing signs of bottoming out. Net inwards migration has fallen from a peak of 135 000 per annum (2.6% of the population), to a more sustainable level of around 30 000. Commodity export volumes and prices grew strongly in late 2024 and early 2025, Tourism growth has been buoyant, with arrivals rising to 85% of their pre-pandemic level in 2024, but showed signs of weakening in early2025.

New Zealand

Food and beverages dominate New Zealand exports to the US



Consumer confidence has recently weakened



Source: Statistics New Zealand; and Westpac.

StatLink https://stat.link/f7runl

New Zealand: Demand, output and prices

New Zealand	2021	2022	2023	2024	2025	2026
	Current prices NZD billion	Percentage changes, volume (2009/2010 prices)				
GDP at market prices	359.1	3.2	1.9	-0.1	0.8	1.7
Private consumption	202.9	4.2	1.0	0.2	0.3	1.8
Government consumption	73.4	5.2	0.8	0.0	0.3	0.3
Gross fixed capital formation	85.7	4.2	-0.1	-4.6	-1.0	2.7
Final domestic demand	362.0	4.4	0.7	-1.0	0.0	1.7
Stockbuilding[1]	8.7	0.2	-1.7	0.2	0.2	0.0
Total domestic demand	370.7	4.4	-0.9	-0.8	0.2	1.7
Exports of goods and services	77.7	-0.8	11.4	4.2	4.0	1.5
Imports of goods and services	89.4	4.6	-0.6	2.4	1.3	1.4
Net exports[1]	- 11.7	-1.3	2.8	0.3	0.6	0.0
Memorandum items						
GDP deflator	_	6.2	3.6	3.6	2.6	1.9
Consumer price index	_	7.2	5.7	2.9	2.4	2.1
Core inflation index[2]	_	6.0	5.6	3.5	2.5	2.2
Unemployment rate (% of labour force)	_	3.3	3.7	4.7	5.3	5.2
Household saving ratio, net (% of disposable income)	_	-3.0	-8.5	-7.8	-6.8	-6.6
General government financial balance (% of GDP)	_	-2.6	-2.1	-1.8	-1.2	-1.2
General government gross debt (% of GDP)	_	51.2	54.4	57.0	57.8	58.4
Current account balance (% of GDP)	_	-8.8	-6.9	-6.1	-5.0	-4.8

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 117 database.

StatLink https://stat.link/9o6gba

The additional 10% minimum tariff imposed by the United States on imports of goods in April 2025 will increase barriers to exports and notably beef, which benefited from a low-rate tariff quota. The direct effects of higher trade restrictions are likely to be mainly via weaker export prices rather than lower volumes as in the short run agricultural export volumes are supply driven and New Zealand is a price taker in the United States market. In addition, New Zealand's export prices are expected to come under pressure from greater competition in markets outside the United States. Weaker external demand is also projected to eventually slow export volume growth, weighing on the expansion. The projections assume no trade policy retaliation by New Zealand. As a result, effects on inflation are assumed to be only indirect, via higher costs in global production chains, as well as cheaper imports other countries that are attempting to sell exports no longer bound for the United States elsewhere.

Monetary policy is expected to loosen further while budget consolidation continues

With inflation falling and inside the target range the central bank cut the official cash rate by 200 basis points to 3.5% between August 2024 and April 2025. It is assumed to cut the official rate to a neutral level of around 3% during 2025 and should reduce it further if the expansion falters. Public debt has risen significantly, and the budget is coming under pressure from rising pension expenditure and faces growing defence spending needs. The 2025 Budget continues the programme of reducing expenditure as a share of GDP. It also took an important step to address the economy's low capital intensity by introducing the "Investment Boost", which allows firms to immediately deduct 20% of the value of a new asset from their taxable income on top of normal depreciation. Provided the expansion continues, the government should continue to fully pursue its programme to reduce expenditure as a share of GDP. This is expected to increase the structural fiscal balance by 1.2% of GDP and 0.2% of GDP in 2025 and 2026 respectively.

A modest expansion is expected

Looser monetary policy is expected to be the main driver of the expansion with a return to growth of construction and other interest rate sensitive activity. However, escalating trade restrictions, weakening external demand and high trade policy uncertainty are hitting confidence and are set to hold back the recovery. High and rising prices for electricity hedges are contributing to industrial closures and are expected to restrain investment. The unemployment rate is set to peak at around 5.4% in late 2025 before gradually declining as employment growth picks up. Headline inflation is projected to fall to 2.5% in 2025 due to the decline in oil prices. Core inflation is projected to continue falling slowly. A large increase in tariffs on New Zealand exports, or low rainfall that reduces hydroelectricity generation and raises electricity prices would slow growth. However, a faster recovery of investment may occur as the “Investment Boost”, and other reforms to accelerate FDI and infrastructure construction, take hold.

Increasing trade and investment linkages is key for sustaining the expansion

An increasingly febrile and fractured geoeconomic environment means New Zealand will need to work harder working with like-minded countries to expand trade and encourage foreign direct investment. This is crucial for boosting investment and management skills required to address the chronically low capital-to-labour ratio and poor productivity growth. As well as maintaining low trade policy barriers and further expanding free trade agreements, the government should continue efforts to attract more foreign investment via more streamlined government support and lowering high restrictions. Competition and energy related reforms are required to improve the reliability and affordability of electricity. This is a prerequisite for more investment in digitalisation and lowering greenhouse gas emissions.

Norway

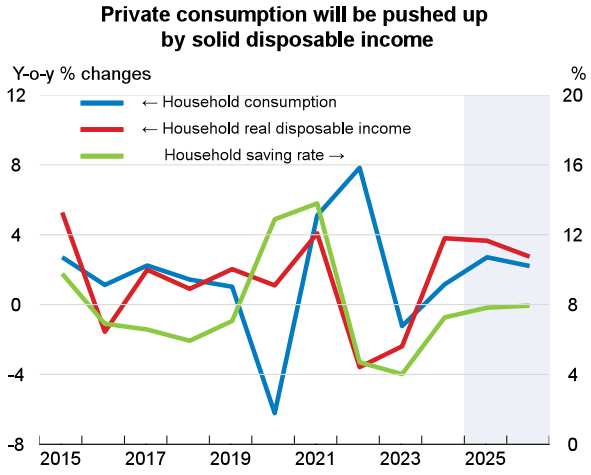
Mainland GDP is projected to increase by 1.7% in 2025 and 1.9% in 2026. Solid household disposable income growth will boost private consumption. Housing investment will rebound from a slump as interest rates decline. Non-oil business investment will strengthen only slightly due to heightened uncertainty. Oil production is expected to decline markedly. Strong domestic cost pressures, currently pushing up inflation, are expected to subside gradually.

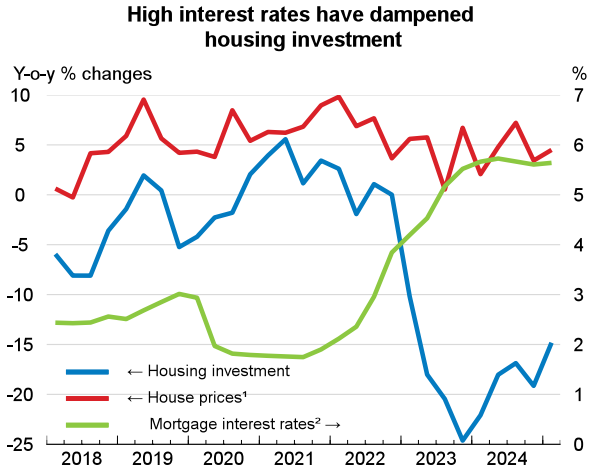
The central bank is expected to start cutting the policy rate around mid-2025, as inflation eases. Fiscal policy is set to remain expansionary in 2025-26, worsening the structural non-oil budget balance further. Easing product market regulations and insolvency regimes would spur private investment and productivity, fostering stronger self-driven economic growth.

Mainland activity has shown signs of recovery

Mainland GDP growth picked up in the first quarter of 2025. Household consumption, which had remained somewhat subdued due to high inflation and high interest rates, grew strongly on the back of solid real wage gains. Housing investment declined considerably through late 2024, and remains depressed. Growth in non-oil business investment has generally remained weak. There are signs of a more broad-based recovery, as both manufacturing production and retail sales have risen in recent months. Business surveys also suggest some momentum in activity, except for construction, in the near term. Headline inflation has been volatile in recent months, largely owing to food and energy prices, and stood at 2.5% in April.

Norway





1. "House prices" refer to the price index for new dwellings, including both detached houses and multi-dwellings.
2. "Mortgage interest rates" refer to interest rates on new loans secured on dwellings covering all fixed interest periods.
Source: OECD Economic Outlook 117 database; and Statistics Norway.

StatLink https://stat.link/ejk3yo

Norway: Demand, output and prices

Norway	2021	2022	2023	2024	2025	2026
	Current prices NOK billion	Percentage changes, volume (2022 prices)				
Mainland GDP at market prices[1]	3 315.3	4.3	0.7	0.6	1.7	1.9
GDP at market prices	4 323.9	3.2	0.1	2.1	0.3	1.6
Private consumption	1 626.3	7.8	-1.2	1.2	2.7	2.2
Government consumption	970.7	1.8	3.4	2.4	1.5	1.1
Gross fixed capital formation	992.2	0.3	-1.5	-1.9	-0.4	2.2
Final domestic demand	3 589.2	4.1	-0.2	0.7	1.6	1.9
Stockbuilding[2]	92.6	1.4	-0.5	-0.7	0.0	0.0
Total domestic demand	3 681.8	5.6	-0.8	-0.1	1.6	1.8
Exports of goods and services	1 860.9	5.2	0.4	5.7	-1.4	1.6
Imports of goods and services	1 218.8	13.3	-1.5	3.7	1.0	2.5
Net exports[2]	642.1	-1.5	0.7	1.5	-1.0	-0.1
Memorandum items						
GDP deflator	_	28.4	-11.1	-0.2	1.7	0.4
Consumer price index	_	5.7	5.5	3.2	3.0	2.3
Core inflation index[3]	_	3.6	5.8	3.5	2.9	2.5
Unemployment rate (% of labour force)	_	3.3	3.6	4.0	4.1	4.0
Household saving ratio, net (% of disposable income)	_	4.7	4.0	7.3	7.8	7.9
General government financial balance (% of GDP)	_	25.5	16.5	13.2	10.0	10.3
General government gross debt (% of GDP)	_	42.2	51.0	62.0	60.7	59.5
Current account balance (% of GDP)	_	29.0	16.6	16.9	14.6	12.5

1. GDP excluding oil and shipping.
2. Contributions to changes in real GDP, actual amount in the first column.
3. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/c6q4wn

The United States imposed a 10% tariff on goods imported from Norway in April, which could be raised to 15% by July. The United States accounts for around 3% of Norway's total exports, so the direct impact of the increased US tariff will be relatively modest. In this projection, Norway is assumed not to introduce a retaliatory tariff and the possible rise in July is assumed not to take place. Nonetheless, Norway will be affected by increased uncertainty in the global economy and a contraction in demand, including for oil and gas. Both oil and gas prices have declined markedly since early April, reducing export and government revenue.

Macroeconomic policies will be supportive

The central bank has repeatedly postponed the envisaged first rate cut, amid stronger-than-expected inflationary pressures associated with strong wage growth. With inflation expectations well anchored around the 2% target, however, the monetary policy stance is set to become less restrictive starting around mid-2025, with the policy rate expected to be brought down to 3.5% by late 2026. Overall, fiscal policy is expected to be expansionary in 2025 and 2026. Defence spending is to rise to 2.2% of GDP in 2025, and personal income tax and social security contributions are being cut. The Revised National Budget introduces a new electricity support package. It also considerably increases support to Ukraine, albeit with little effect on economic activity in Norway. The structural non-oil budget deficit is expected to widen by more than 2½ percentage points of mainland GDP this year, with the increased support to Ukraine largely accounting for the deviation from the initial budget. The structural non-oil deficit in 2025 is still expected to remain below the 3% of the value of the Government Pension Fund Global (GPFG) threshold, which has been raised significantly due to substantial increases in GPFG assets over time.

The projected recovery is surrounded by substantial risks

Mainland GDP growth is projected to extend its recovery and inflation to subside slowly, as real wages will outpace productivity. Solid growth in real household disposable income, driven by strong wage growth, lower inflation and government support, will drive up private consumption. As interest rates decline, housing investment will pick up in the latter half of 2025 from currently depressed levels. Non-oil business investment will increase only moderately, reflecting heightened uncertainty in the global economy. Oil production, exports and investment are projected to weaken this year. Oil and gas prices could affect the Norwegian economy substantially in both directions. A surge in oil and gas prices would considerably boost export and government revenue. Conversely, an abrupt decline in oil and gas prices would substantially strain the budget balance, especially given the significant deterioration of the structural non-oil budget balance in recent years. Similarly, a sharp drop in the value of GPFG assets would abruptly reduce fiscal space.

Public policy needs to stimulate market forces

While the Norwegian economy has been bolstered by offshore activity and government spending for some time, spurring private investment and productivity is key to making growth more sustainable. Industrial subsidies have increased substantially in recent years, with too much focus on specific industries such as battery factories and offshore wind projects. The government should stop support to these, and focus instead on further reforming market regulations, notably by reducing administrative burdens and licence requirements for firm entry and alleviating penalties for business failure. This would help ensure fiscal sustainability while boosting private investment, particularly innovative ventures, via market forces.

Peru

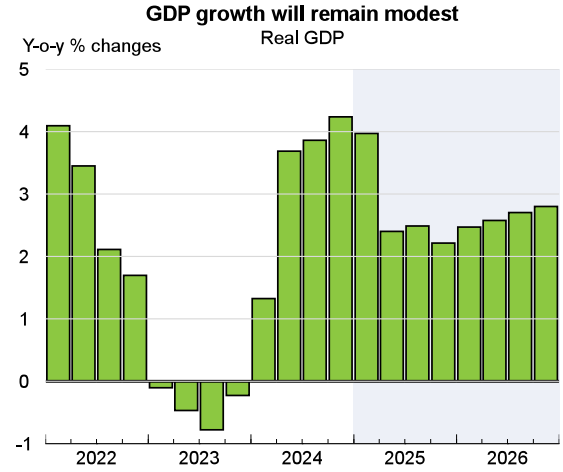
GDP growth is projected to slow to 2.8% in 2025 and 2.6% in 2026, with global and domestic policy uncertainty weighing on the outlook. Government spending will moderate as fiscal consolidation resumes. Private investment will remain moderate, constrained by persistent uncertainty and tighter global financial conditions. Private consumption will be supported by low inflation. Export growth will weaken reflecting the direct impact of new US tariffs on Peruvian products and the broader drag from weaker global growth. Inflation is expected to remain close to the central bank's 2% target.

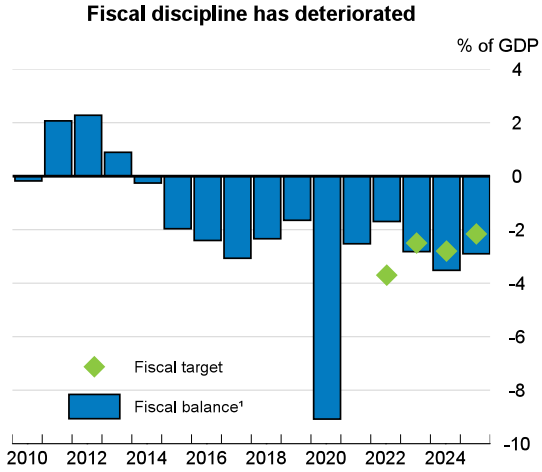
The Central Bank's broadly neutral monetary stance is appropriate and should remain cautious and data dependent. The government plans gradual consolidation in 2025 and 2026 to align the deficit with fiscal rules, but rising expenditure pressures and optimistic revenue projections make compliance challenging, requiring additional measures to meet fiscal targets. Streamlining permits, easing regulatory burdens, and strengthening subnational investment capacity can help crowd in private investment.

Strong domestic demand propelled the economic recovery

GDP rose by 3.3% in 2024, led by strong domestic demand and a rebound in agricultural and mining exports. Public investment rose by 14% and private consumption was supported by pension fund withdrawals. Private investment began to recover moderately, aided by improved business sentiment, looser financial conditions, and newly awarded Public-Private Partnership contracts. Historically high terms of trade supported the current account. Monthly GDP indicators show that growth remained strong in the first quarter of 2025, with GDP expanding by 3.9% year-on-year. Inflation remains well anchored within the central bank's 1–3% target band, with headline and core inflation rising by 1.6% and 1.9% in April relative to the previous year, respectively, and expectations close to 2%. Despite a 0.8% rise in employment in 2024, real wages in the formal sector remain below 2019 levels, while high informality and weak participation persist, particularly for women and youth.

Peru





1. Non-financial public sector. Data for 2025 refer to the 12-month cumulative fiscal deficit as of April.
Source: OECD Economic Outlook 117 database; and Central Reserve Bank of Peru.

StatLink https://stat.link/e6wdbj

Peru: Demand, output and prices

Peru	2021	2022	2023	2024	2025	2026
	Current prices PEN billion	Percentage changes, volume (2007 prices)				
GDP at market prices	877.3	2.8	-0.4	3.3	2.8	2.6
Private consumption	534.9	3.3	0.1	2.7	3.2	2.8
Government consumption	120.5	0.0	3.3	3.4	4.1	1.5
Gross fixed capital formation	202.9	0.7	-5.6	5.2	8.3	2.6
Final domestic demand	858.3	2.3	-0.8	3.3	4.4	2.6
Stockbuilding[1]	- 7.9	0.4	-1.1	0.6	-1.5	0.1
Total domestic demand	850.4	2.6	-1.8	4.0	3.1	2.7
Exports of goods and services	256.4	4.4	3.8	5.3	9.9	2.4
Imports of goods and services	229.5	3.5	-1.7	7.9	10.4	2.5
Net exports[1]	26.9	0.1	1.5	-0.8	-0.4	-0.1
Memorandum items						
GDP deflator	_	4.6	6.3	5.1	3.6	2.5
Consumer price index	_	7.9	6.3	2.4	1.8	2.1
Core inflation index[2]	_	4.7	4.4	2.9	2.1	2.1
Unemployment rate (% of labour force)	_	4.7	5.4	5.6	4.8	4.5
Government financial balance[3] (% of GDP)	_	-1.7	-2.8	-3.5	-2.5	-2.2
Government gross debt[3] (% of GDP)	_	33.6	33.0	32.7	33.3	33.9
Current account balance (% of GDP)	_	-4.1	0.3	2.2	2.1	2.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
3. Data are for the non-financial public sector, comprising the general government and the state-owned enterprises.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/ae3nwz

The United States imposed a 10% tariff on Peruvian exports of goods in April 2025, affecting particularly agricultural goods, which made up over 45% of Peru's exports to that market in 2024. Copper exports, representing less than 10% of bilateral trade to the United States, remain exempt but faced an average price drop of 3% in April y-o-y. Gold, a key export commodity, saw rising prices, while the currency depreciated moderately since mid-March. Ample currency reserves and low public debt provide resilience against shocks.

The fiscal deficit is set to decline, while monetary policy is expected to remain broadly neutral

Fiscal consolidation is planned for 2025–2026. While high metal prices will support revenues and narrow the fiscal deficit, additional measures equivalent to 0.3% of GDP in 2025 and 0.4% of GDP in 2026 are still needed to meet fiscal targets. Peru's fiscal deficit reached 3.5% of GDP in 2024, marking a second consecutive year with a breach of the fiscal rule despite the economic recovery. Fiscal pressures are increasing due to newly introduced tax exemptions, including those for special economic zones, an underfunded pension reform, and potential further support to the state oil company, Petroperú. A broadly neutral monetary policy remains appropriate given well-anchored inflation expectations. Following the recent cut to 4.5%, the policy rate is expected to remain unchanged in the remainder of 2025-26.

GDP growth is set to moderate

GDP growth will slow to 2.8% in 2025 and 2.6% in 2026, while inflation is expected to stay around the 2% target. Global and domestic uncertainty will weaken business and consumer confidence. Government

efforts to accelerate PPPs and streamline permitting, and low inflation will partly offset this by supporting private investment and consumption. Fiscal consolidation will limit government consumption and public investment. Given elevated uncertainty, downside risks to growth have increased, particularly through weaker investment and external demand. Domestic political uncertainty may intensify in the lead-up to the 2026 general election, while rising insecurity and crime could hinder economic growth. Lower growth in China, Peru's major trading partner, and weaker copper prices could hurt exports, government revenues, and investment.

Securing fiscal sustainability requires efficiency improvements, revenue mobilisation, and formalisation

Stricter control of the public wage bill and phasing out inefficient fuel subsidies and tax expenditures would help meet the fiscal rule. Failure to do so may erode investor confidence, raise borrowing costs, and worsen the debt outlook. To safeguard fiscal sustainability amid growing demands for social and infrastructure spending, Peru must raise tax revenues and improve spending efficiency. This includes strengthening budget planning, improving public investment management and enhancing subnational implementation capacity. Addressing informality, improving the tax administration and the eliminating ineffective tax exemptions are critical for broadening the tax base. Simplifying tax regimes for small firms could boost formalisation, support SME growth and generate additional revenues. Phasing out fossil fuel subsidies and introducing a carbon tax would aid both fiscal and environmental goals. In the current context of tighter global financial conditions and heightened uncertainty, restoring investor confidence is essential. Establishing a broad formalisation agenda that includes lower non-wage labour costs for low-income workers, leaner permits and regulations, stronger legal enforcement and better education and training - would raise investment, productivity and expand the tax base.

Philippines

Real GDP is projected to grow by 5.6% in 2025 and 6.0% in 2026. Private consumption will be bolstered by a strong labour market and low inflation, while investment is projected to pick up modestly on the back of easing financial conditions and increased public infrastructure spending. Inflation is anticipated to remain contained at 2.0% in 2025 and 3.1% in 2026 amid balanced domestic demand and currency stability. Risks are broadly balanced. On the downside, a larger-than-expected slowdown in major economies, including the United States or China, could reduce demand for Philippine exports and affect remittance inflows, impacting domestic consumption and investment. On the upside, recent reforms to reduce barriers to foreign direct investment could boost investment.

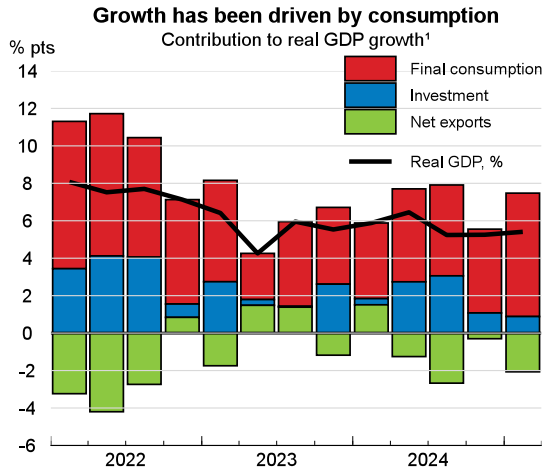
Monetary policy is expected to continue to ease over 2025 and 2026 to a more neutral stance. Fiscal policy is projected to be moderately restrictive in both 2025 and 2026, with a gradual reduction of the fiscal deficit from 5.7% of GDP in 2024 to 4.6% in 2026. Complementing recent pro-competition reforms with measures to streamline regulations across the economy – including in key network sectors such as energy, telecommunications and transport – is key to lift investment from relatively low levels.

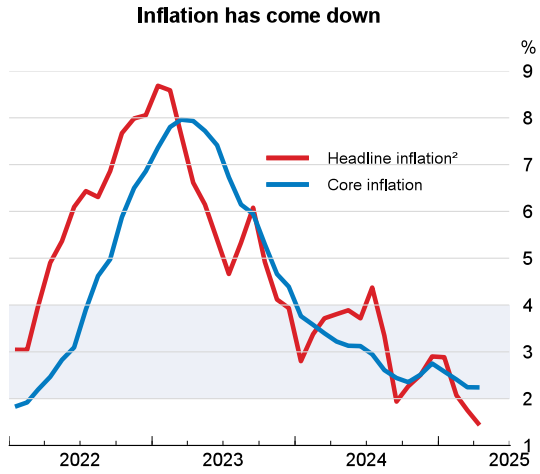
Economic growth is stable

Real GDP grew by 5.4% in the first quarter of 2025, supported by robust household and government consumption, as investment went through a soft patch. Economic activity has been underpinned by a strong labour market, with unemployment reaching 3.9% in March, among the lowest values in two decades. Low inflation has supported real household incomes and exposure to higher US tariffs has been relatively limited, with merchandise exports to the United States amounting to around 2½ per cent of GDP, but high borrowing costs have continued to weigh on investment. While industrial production and tourist arrivals have declined in annual terms, business sentiment has remained resilient, suggesting broadly stable growth in the first half of 2025.

Headline inflation has come down to 1.4% in April, with core inflation at 2.2% remaining within the central bank's target band of 2-4%. Declining food and fuel prices drove the decline in headline inflation, while core inflation continued to ease on the back of moderate domestic demand growth. The exchange rate has remained broadly stable since the beginning of the year and global energy prices have come down, easing price pressures.

Philippines





1. Year-on-year growth rates. Seasonally non-adjusted data.
2. Annual rates. The shaded area corresponds to the central bank's inflation tolerance band.
Source: Philippine Statistics Authority; and CEIC.

StatLink https://stat.link/3jxsv4

Philippines: Demand, output and prices

The Philippines	2021	2022	2023	2024	2025	2026
	Current prices PHP billion	Percentage changes, volume (2018 prices)				
GDP at market prices	19 410.6	7.6	5.5	5.7	5.6	6.0
Private consumption	14 608.5	8.3	5.5	4.9	5.7	6.5
Government consumption	3 024.0	5.1	0.3	7.3	13.9	6.2
Gross fixed capital formation	4 324.5	9.8	8.2	6.3	3.0	6.3
Final domestic demand	21 957.1	8.1	5.4	5.5	6.2	6.4
Stockbuilding¹	- 221.0	0.8	-0.4	0.3	0.1	0.0
Total domestic demand	21 736.1	8.9	5.0	5.8	6.3	6.4
Exports of goods and services	4 998.6	11.0	1.3	3.3	5.5	2.1
Imports of goods and services	7 324.1	14.0	1.0	4.2	7.4	4.6
Net exports¹	-2 325.5	-2.2	0.0	-0.7	-1.3	-1.2
Memorandum items						
GDP deflator	_	5.5	4.6	2.9	2.2	3.6
Consumer price index	_	5.8	6.0	3.2	2.0	3.1
Government financial balance² (% of GDP)	_	-7.3	-6.2	-5.7	-5.1	-4.6
Government gross debt² (% of GDP)	_	60.9	60.1	60.7	61.1	60.1
Current account balance (% of GDP)	_	-4.5	-2.8	-3.8	-4.4	-5.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Data refer to national government.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/2ozgq4

Monetary policy easing will offset mild fiscal consolidation

The central bank initiated the ongoing monetary easing cycle in August 2024, bringing the policy rate from 6.5% to 5.5% in April 2025. With real GDP expected to grow below trend and stable inflation expectations, there is room to continue the easing cycle over 2025-26 to bring the policy rate to a more neutral level of around 4.75-5% in the latter half of 2026. Fiscal policy will be slightly restrictive over 2025-26, as the authorities are expected to continue gradual fiscal consolidation to put public debt – currently at around 60% of GDP – on a declining path. The overall macroeconomic policy mix strikes a balance between fiscal prudence and support to growth among global headwinds.

The economy will grow around trend

Real GDP will grow by 5.6% in 2025 before picking up slightly to 6% in 2026. Household consumption is expected to remain robust, as strong labour market performance supports real household incomes amid low inflation. Investment will recover in the first half of 2025 as borrowing costs decline, but the recent escalation of global trade tensions is expected to weigh on external demand and export revenues. Inflation is expected to rise gradually to the mid-point of the central bank's target range, as temporary effects from lower food and global energy prices fade. Risks are broadly balanced. A sharper-than-expected global economic slowdown – especially in the United States and China – could weaken demand for exports and dent remittances, weighing on consumption and investment. On the upside, the recent liberalisation of foreign investment rules and enhanced fiscal incentives offer a chance to offset headwinds from exports with higher capital inflows.

Structural reforms are needed to boost growth

To foster broad-based economic growth, the Philippines should build upon recent pro-competition reforms, such as the amended Public Services Act that reduced barriers to foreign investment in services. Further streamlining regulations across key network sectors, such as energy, telecommunications and transport, can reduce barriers to entry and encourage private investment. Addressing labour market challenges is crucial to boost productivity and provide workers with greater security. This includes reforms to reduce non-wage labour costs and ease rigidities in labour market regulations, which would help incentivise businesses to formalise employment. Enhancing women's participation in the labour force through improved access to affordable childcare and flexible work arrangements would enable the Philippines to leverage its substantial human capital, thereby fostering economic growth and reducing gender disparities in employment.

Poland

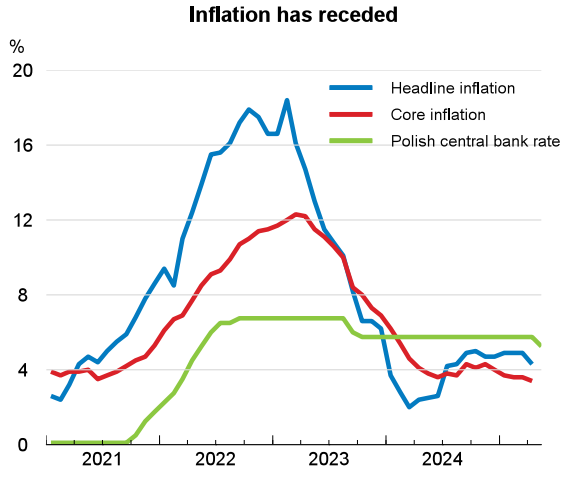
The economy will grow by 3.2% this year and 2.7% in 2026, supported by falling inflation, lower interest rates and rising public investment. Accelerating fiscal consolidation and the impact of unfolding global uncertainties will weaken activity, but EU funds will continue to boost investment. Inflation will rise to 4.1% this year as electricity price caps are phased out, before declining to 2.6% in 2026. A sharper global slowdown in trade and an increase in geopolitical tensions could lead to lower growth, while more persistent wage growth than anticipated poses an upside risk to inflation.

With underlying price pressures easing, monetary policy can become less restrictive. Given the large fiscal deficit, a gradual and sustained fiscal policy tightening is needed to rebuild fiscal buffers. Improving and expanding adult education and raising the minimum pension age could help to alleviate labour shortages and strengthen growth.

Growth is underpinned by a recovery in consumption

The Polish economy grew by 2.9% last year, underpinned by rising public spending and recovering private consumption. The labour market remains strong, with low unemployment and solid, yet easing, wage growth. Inflation has been affected by the reintroduction of VAT on food and the partial lifting of the freeze on energy prices. Headline inflation was 4.3% in April, still above the central bank's target, and core inflation was 3.4%. Recent high-frequency indicators and the GDP flash estimate point to a continued recovery at the beginning of the year.

Poland



Source: OECD Economic Outlook 117 database; and Eurostat.

StatLink https://stat.link/xsc8pl

Poland: Demand, output and prices

Poland	2021	2022	2023	2024	2025	2026
	Current prices PLN billion	Percentage changes, volume (2020 prices)				
GDP at market prices	2 660.5	5.5	0.1	2.9	3.2	2.7
Private consumption	1 504.5	5.1	-0.2	3.0	3.1	3.5
Government consumption	490.1	1.2	4.7	7.6	3.5	3.3
Gross fixed capital formation	455.7	2.1	10.5	-0.1	4.5	6.4
Final domestic demand	2 450.3	3.7	2.7	3.4	3.4	4.0
Stockbuilding[1]	121.9	1.7	-5.4	0.3	1.1	0.0
Total domestic demand	2 572.2	5.4	-2.9	3.7	4.6	3.9
Exports of goods and services	1 518.8	7.4	3.7	2.0	2.0	2.1
Imports of goods and services	1 430.5	6.9	-1.4	4.2	3.9	4.5
Net exports[1]	88.4	0.6	3.2	-1.1	-0.9	-1.1
Memorandum items						
GDP deflator	_	10.3	10.1	3.6	3.9	2.4
Consumer price index	_	14.4	11.5	3.8	4.1	2.6
Core inflation index[2]	_	9.0	9.9	4.4	3.5	2.7
Unemployment rate (% of labour force)	_	2.9	2.8	2.9	2.8	2.7
Household saving ratio, net (% of disposable income)	_	-1.0	2.8	7.5	9.0	9.0
General government financial balance (% of GDP)	_	-3.4	-5.3	-6.6	-6.3	-6.0
General government debt, Maastricht definition[3] (% of GDP)	_	48.9	49.6	55.3	58.1	63.4
Current account balance (% of GDP)	_	-2.2	1.8	0.2	-0.8	-1.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/4rkxsj

Weak demand in the euro area has led to subdued trade growth, with net trade acting as a drag on activity for most of last year. Total exports to the United States accounted for less than 3% of Polish GDP and the same share of employment in 2023. However, the impact of any US tariff restrictions on the EU is likely to weaken demand in export markets and further increase business uncertainty.

Monetary policy easing is warranted as inflation subsides and fiscal policy becomes more restrictive

In a first cut since late 2023, the central bank lowered the interest rate in May to 5.25%. Excise tax increases this year and again in 2026, together with the planned lifting of the electricity price cap in September, will put upward pressure on prices, but inflation is expected to return to target in the second half of 2025. Monetary policy is assumed to ease further gradually this year and next, with policy rates moving towards 4% by the end of 2026, as inflationary pressures subside. Planned multi-annual fiscal consolidation will weigh on growth, with higher income tax revenues due to ‘bracket creep’ and a nominal freeze of some family benefits. It will need to accommodate increased defence spending, which is set to rise from the current 4.7% to 5% of GDP next year. Overall, the fiscal stance is expected to tighten by 0.6% of GDP in 2025-26.

Growth will pick up this year but moderate in 2026

GDP growth will strengthen to 3.2% this year, supported by falling inflation, lower interest rates and rising public investment. Private consumption will remain solid, supported by real wage growth and falling interest

rates. Next year, the accelerating pace of fiscal consolidation and the impact of a weaker global environment will contribute to the slowdown, with GDP growth moderating to 2.7%. Nevertheless, public investment should remain strong, supported by the continued payout of EU funds. Annual inflation will peak at 4.1% this year, in part due to tax and regulated price increases. In 2026, the annual inflation rate will ease to 2.6%. The unemployment rate will remain low, reaching 2.8% this year and 2.7% in 2026. A sharper global slowdown in trade and an increase in geopolitical tensions could lead to lower growth, while more persistent wage growth poses an upside risk to inflation.

Fiscal consolidation and reforms to raise labour participation are needed

The acceleration of the planned fiscal consolidation will allow for further monetary policy easing. An ambitious pace of fiscal adjustment is planned for 2026 and beyond, although borrowing will remain higher due to increases in defence spending. To support consolidation, property and environmental taxes should be increased. A full phase-out of energy support would provide households adequate price signals helping the net zero transition, as much of the energy still comes from coal. Public investment has been spared from the consolidation effort, which is welcome. Building a single pipeline of ready projects should be considered, as well as centralised annual monitoring of all major projects including those of state-owned enterprises. Improving and expanding uptake of adult education and raising the pension age could help address skill and labour shortages.

Portugal

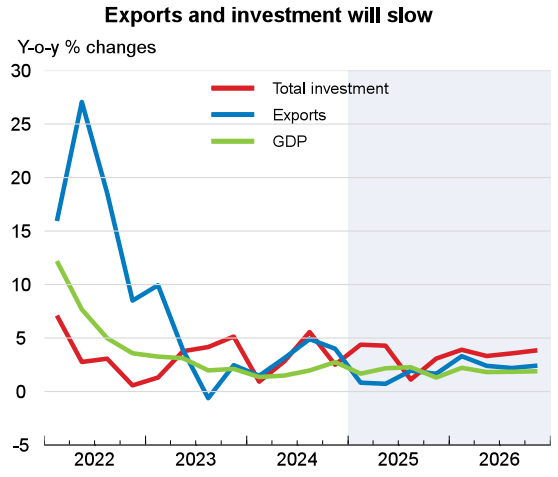
Real GDP growth is projected to remain at 1.9% in 2025 and 2026. A tight labour market, minimum wage increases and the decline of historically high savings will raise private consumption. Faster implementation of the Recovery and Resilience Plan (RRP) will boost public investment and consumption. Export growth is expected to slow further due to softening global demand, rising trade barriers and a 10% US tariff on Portuguese goods, including steel and autos. As import prices rise and labour demand remains high, inflation will moderate only slowly to 2.1% in 2026.

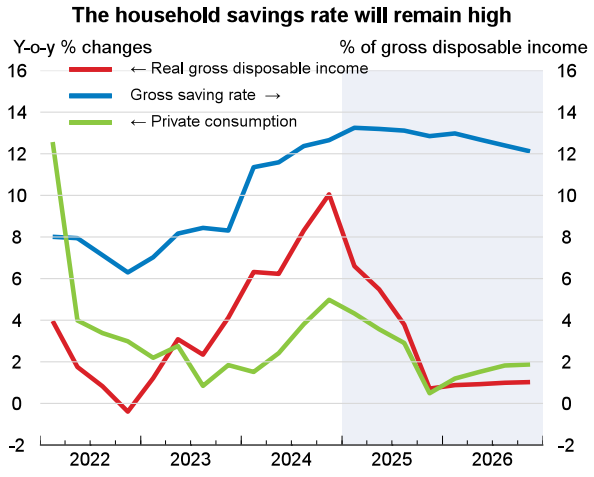
Fiscal policy will remain expansionary. Implementation of the RRP, as well as household and corporate tax cuts will raise internal demand, while sustained fiscal surpluses will bring public debt down to 89.8% of GDP in 2026 (Maastricht definition). Lowering entry barriers in services, especially the retail sector, further streamlining regulations, improving counselling for students and workers, and enhancing childcare services would boost investment and productivity. Over the medium term, regular spending reviews would help to address mounting spending pressures from an ageing population and strong investment needs.

Growth is easing

Growth strengthened to 2.8% in the year to the fourth quarter of 2024 before easing to 1.6% in the first quarter of 2025. Employment growth remained strong at 2.2% in the year to March 2025, and labour costs per employee increased by 5.4% in the year to the first quarter of 2025. A strong labour market, tax cuts and disinflation have supported steady gains in real disposable income. Despite rising household savings, private consumption and housing investment accelerated in late 2024. However, domestic demand stagnated in the first quarter of 2025, while the trade balance worsened. Weakening international economic prospects and high uncertainty lowered household confidence in March and April 2025, though business confidence remained above its long-term average.

Portugal





Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/skq8fc

Portugal: Demand, output and prices

Portugal	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2021 prices)				
GDP at market prices	216.5	7.0	2.6	1.9	1.9	1.9
Private consumption	137.1	5.6	1.9	3.2	2.8	1.6
Government consumption	40.1	1.7	0.6	1.1	1.2	1.0
Gross fixed capital formation	44.4	3.3	3.6	3.0	3.2	3.7
Final domestic demand	221.6	4.4	2.0	2.8	2.6	1.9
Stockbuilding[1]	0.9	0.3	-0.3	-0.1	-0.2	0.1
Total domestic demand	222.5	4.7	1.7	2.6	2.4	2.0
Exports of goods and services	89.9	17.2	3.8	3.4	1.3	2.6
Imports of goods and services	96.0	11.3	1.8	4.9	2.3	2.7
Net exports[1]	- 6.0	2.1	1.0	-0.7	-0.4	0.0
Memorandum items						
GDP deflator	_	5.3	7.0	4.5	2.5	2.1
Harmonised index of consumer prices	_	8.1	5.3	2.7	2.1	2.1
Harmonised index of core inflation[2]	_	5.0	5.4	2.7	2.4	2.2
Unemployment rate (% of labour force)	_	6.1	6.5	6.4	6.4	6.4
Household saving ratio, net (% of disposable income)	_	-2.0	-1.3	3.4	5.0	4.6
General government financial balance[3] (% of GDP)	_	-0.3	1.2	0.7	0.2	-0.3
General government gross debt (% of GDP)	_	114.3	104.8	100.6	97.7	95.5
General government debt, Maastricht definition[4] (% of GDP)	_	111.2	97.7	94.9	92.0	89.8
Current account balance (% of GDP)	_	-2.0	0.6	2.2	1.1	1.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. Based on national accounts definition.
4. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/vf07dp

Credit to businesses and households recovered through 2024 and continued to expand in early 2025 on the back of easing financial conditions. In 2024, the current account improved further with significant terms-of-trade gains and a historically high trade surplus. Portuguese exporters are facing a standard 10% tariff on goods by the United States as well as specific tariffs on steel, aluminium and the automotive industry. Though direct exports of goods and services to the United States account for only 2.8% of GDP, Portugal also faces weakening external demand from its main European trading partners.

Fiscal policy will remain expansionary

Fiscal policy is set to remain expansionary, with fiscal easing of around 1.5% of GDP expected between 2024 and 2026. Spending from RRP grants is expected to increase from 0.7% of GDP in 2024 to 2.3% in 2025 and 1.7% in 2026, boosting investment and public consumption without affecting the budget balance. Persistent fiscal surpluses will lower public debt to 89.8% of GDP in 2026 (Maastricht definition). Activity will also be supported by increasing disbursements of RRP loans, higher public wages, the indexation of pension benefits, a further reduction in the personal income tax, and business tax cuts. Increasing environmental taxes and efforts to curb tax avoidance will boost public revenues. At the same time, the minimum wage rose by 6.1% in 2025, and a further increase expected in 2026 will raise household incomes.

Growth will soften

GDP is projected to grow by 1.9% in 2025 and 2026. Spending of European funds is boosting investment, but the projected slowdown in global activity and European growth will weigh on exports and private investment. Sustained wage growth and robust employment will raise consumption, especially as inflation and debt servicing costs are set to remain moderate. Tax cuts, increasing social transfers and higher public wages will support household incomes but also slow the decline in inflation. Headline consumer price inflation will moderate to 2.1% in 2025 and 2026 as import prices rise and services price pressures diminish slowly. A further decline in the household saving rate and stronger-than-expected wage developments could strengthen consumption but also fuel inflation. Higher than expected public expenditures, notably on defence, could also raise internal demand. Global financial tightening and elevated uncertainty could weigh more heavily on private investment and confidence than currently assumed, implying both lower growth and lower inflation.

Policy should support stronger and more sustainable growth

Sustained productivity growth, higher employment and more efficient public spending are needed to face rapid population ageing and significant investment needs, including in human capital, while maintaining public debt on a firmly declining path. Continuing to roll out new accounting standards, developing performance budgeting and reducing tax expenditures would improve the efficiency of public spending and help to shift its structure towards investment. Strengthening environmental and property taxation while protecting vulnerable groups would help to attain ambitious climate goals and make room to lower taxes on low-wage workers. Reducing entry barriers in services, including in the retail sector, would raise investment and productivity. Improved counselling to guide study and reskilling choices and strengthening active labour market policies that focus on smaller firms would reduce skill and labour shortages. Better childcare services for low-income households could further raise the labour force participation of women, further easing labour shortages.

Romania

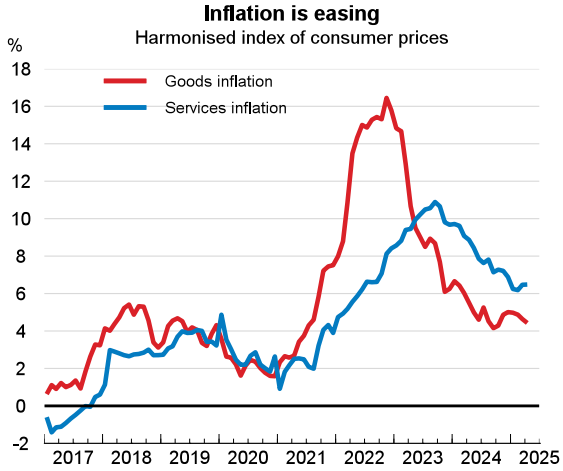
After slowing in 2024, GDP growth is projected to increase to 1.5% in 2025 and 2.4% in 2026. Private consumption is set to remain a key driver of growth, supported by higher wages and pensions. Following a decline in 2024, investment is projected to expand gradually, supported by EU-funded infrastructure projects. Export dynamics are expected to remain weak in early 2025 and to recover gradually thereafter.

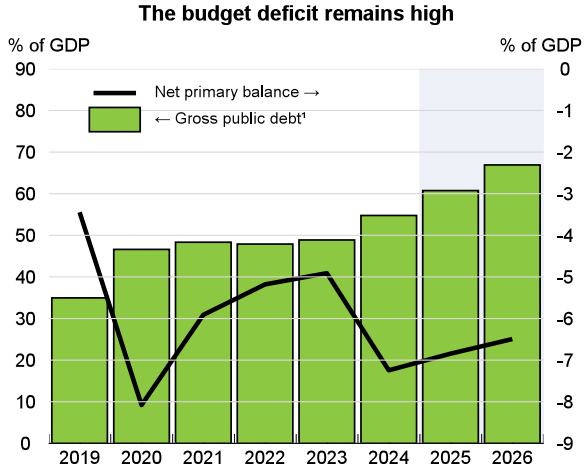
The monetary policy stance is expected to remain restrictive to ensure a convergence of inflation to target. Faster budget consolidation is necessary for the sustainability of the public finances and to narrow the large external deficit. Raising revenues from less distortive taxes would free up fiscal space for new spending on social protection, health, education, and infrastructure. Improving the absorption of EU funds would boost growth potential through key investments.

GDP growth slowed in 2024

GDP growth slowed to 0.8% in 2024, held back by stagnating manufacturing output, and contracting activity in construction and agriculture. On the expenditure side, private consumption was the main driver of growth, supported by public wage and pension increases. Higher incomes boosted imports, whereas exports declined, affected by weak external demand. Gross fixed capital formation also contracted. High wage growth has kept pressure on consumer prices and resulted in strong increases in unit labour costs, posing risks to cost competitiveness. Inflation remains above target, at 4.9% in April 2025. Despite the economic slowdown, the unemployment rate has remained broadly stable. According to the flash estimate, GDP grew by 0.5% over the year to the first quarter of 2025. High-frequency indicators in early 2025 present mixed signals. After improving in February and in March, business sentiment decreased in April. Industrial output declined by 7.7% year-on-year in March, driven by a sharp contraction in the automotive sector.

Romania





1. Maastricht definition.
Source: Eurostat; and OECD Economic Outlook 117 database.

StatLink https://stat.link/pq9srz

Romania: Demand, output and prices

Romania	2021	2022	2023	2024	2025	2026
	Current prices RON billion	Percentage changes, volume (2020 prices)				
GDP at market prices	1 192.3	4.0	2.4	0.8	1.5	2.4
Private consumption	733.8	5.1	3.0	6.0	3.5	2.4
Government consumption	212.5	-1.4	6.3	0.7	1.4	0.7
Gross fixed capital formation	290.6	5.4	14.5	-3.3	0.0	4.1
Final domestic demand	1 236.9	4.2	6.2	2.8	2.3	2.5
Stockbuilding[1]	22.8	0.3	-4.6	0.6	0.5	-0.1
Total domestic demand	1 259.7	4.4	2.2	3.5	2.8	2.5
Exports of goods and services	482.6	9.3	-0.8	-3.1	-1.6	2.3
Imports of goods and services	550.0	9.3	-1.1	3.8	2.2	2.4
Net exports[1]	- 67.4	-0.5	0.2	-2.9	-1.5	-0.2
Memorandum items						
GDP deflator	_	12.1	12.8	8.8	5.6	3.5
Consumer price index	_	13.8	10.4	5.6	4.8	3.4
Core consumer price index[2]	_	10.1	12.4	6.2	4.7	3.4
Unemployment rate (% of labour force)	_	5.6	5.6	5.4	5.6	5.5
General government financial balance (% of GDP)	_	-6.4	-6.6	-9.3	-9.3	-9.3
General government gross debt (% of GDP)	_	52.2	58.1	63.2	69.2	75.4
General government debt, Maastricht definition[3] (% of GDP)	_	47.9	48.9	54.8	60.7	66.9
Current account balance (% of GDP)	_	-9.5	-6.6	-8.4	-8.9	-8.7

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/ud5v8f

While Romania is subject to tariffs on goods in the United States, only 2.5% of Romanian exports of goods are directly exposed to the US market. However, higher US tariffs are expected also to indirectly weigh on Romania's exports through reduced external demand from its key EU trade partners.

Monetary policy is set to remain tight and fiscal consolidation limited

The monetary stance is set to remain restrictive, with some easing projected from the third quarter of 2025 The benchmark rate is expected to decline to below 5% by the end of 2026 as inflation converges to target. The budget deficit is forecast to remain elevated over the projection, following fiscal slippage in 2024 caused by higher spending on pensions and public wages, which saw the budget deficit reach 9.3% of GDP compared to an initial target of 5%. As of 2025, a recent package of fiscal measures is intended to reduce the budget deficit by containing the growth of public wages and pensions. The budget deficit is projected to stay at 9.3% in 2025 and 2026, despite a fiscal consolidation of the underlying primary balance of 1.4% of GDP over 2025-26.

GDP will gradually recover amid external headwinds

GDP growth is projected to strengthen from 0.8% in 2024 to 1.5% in 2025 and 2.4% in 2026. Private consumption is set to remain robust. Investment growth is projected to gradually increase from 2025 onwards, supported by the assumed acceleration in the execution of EU-funded investment projects and by a progressive recovery in private investment. Following a contraction in 2024 and weak growth in early

2025, exports are expected to gradually pick up by the end of 2025. Labour market performance is expected to remain strong, with the unemployment rate projected to be 5.5% in 2026. Consumer price inflation is expected to return to the target band, reaching 3.5% in the first quarter of 2026. A lack of fiscal consolidation or persisting wage pressures could keep inflation elevated for longer and increase Romania's external vulnerabilities.

Stronger absorption of EU funds is critical to boost investment and raise potential output

Improving the absorption of EU funds, including under the Recovery and Resilience Fund, can play a direct role in raising Romania's economic potential, while helping catalyse additional private investment and limiting pressures on public finances. Strengthening government revenues is necessary to ensure sustainable public finances and to address emerging spending pressures. Additionally, tax reforms should focus on eliminating distortions and loopholes in the system and strengthening tax enforcement, while broadening the value-added tax base. Increasing labour force participation would help address the challenges related to a shrinking working age population. This will require policies to incentivise women to work and to improve education completion rates, particularly in rural areas. Ongoing governance reforms would complement efforts to reduce firms' compliance costs with regulations. Transitioning from fossil fuels will require accelerating renewable energy deployment and upgrading power grids.

Slovak Republic

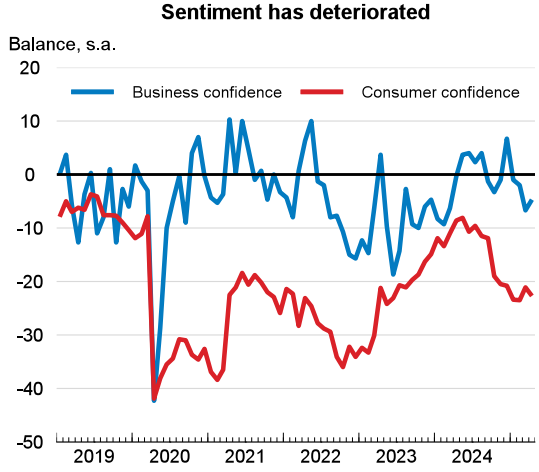
Real GDP is projected to grow by 1.4% in 2025 and 1.1% in 2026. Exports will slow due to trade barriers lowering foreign demand, particularly in the automotive sector. Accelerated absorption of EU funds will support investment against the headwinds created by heightened economic uncertainty. In an environment of low consumer confidence and high uncertainty, real wage gains on account of lower inflation will primarily be used to rebuild household savings. Escalating geopolitical tensions, further trade barriers and slower-than-expected growth in Europe pose downside risks to the outlook.

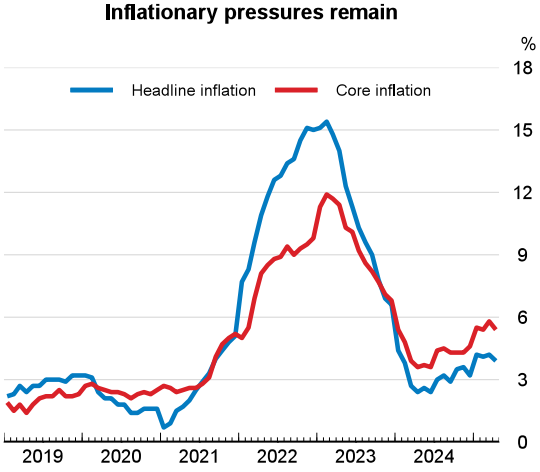
A sustainable medium-term fiscal strategy is needed to rebuild fiscal buffers, including further reforms to the pension system and changes to family benefits. Enhancing the efficiency of public spending by strengthening project preparation and implementation capacity can increase public investment. Better tertiary education and stronger incentives to participate in adult learning would help reduce skill shortages that remain a barrier to investment. Continuing efforts to fight corruption and strengthening trust in the judiciary system is essential to reducing uncertainty and spurring growth.

Growth is slowing amid heightened uncertainty

Real GDP grew by 0.2% in the first quarter of 2025 compared to the previous quarter according to the Eurostat flash estimate. Weak business sentiment, low consumer confidence, and slow momentum in industry and retail trade point to sluggish growth in the second quarter of 2025. Uncertainty is weighing on exports and investment spending, while increased absorption of EU funds boosts capital formation. Harmonised consumer price inflation has risen to 3.9% in April, reflecting higher VAT rates and persistent service price growth. Harmonised core inflation remained elevated at 5.5% in April. Real wage growth has continued to strengthen. The labour market is tight, with the unemployment rate and employment rate remaining at historic lows and highs respectively. Labour and skills shortages remain pressing.

Slovak Republic





Source: Statistical Office of the Slovak Republic; and OECD Price Statistics database.

StatLink https://stat.link/jtqa75

Slovak Republic: Demand, output and prices

Slovak Republic	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2020 prices)				
GDP at market prices	101.9	0.4	2.2	2.1	1.4	1.1
Private consumption	57.6	5.2	-3.0	2.8	0.8	1.1
Government consumption	21.6	-2.9	-2.5	3.7	1.7	1.6
Gross fixed capital formation	20.0	4.3	4.0	1.8	-0.3	2.5
Final domestic demand	99.1	3.2	-1.5	2.8	0.8	1.5
Stockbuilding[1]	3.2	-1.4	-3.4	0.9	0.2	0.0
Total domestic demand	102.3	1.7	-4.6	3.8	1.0	1.5
Exports of goods and services	92.2	2.9	-0.2	-0.2	1.3	2.0
Imports of goods and services	92.6	4.4	-7.0	1.5	0.7	2.4
Net exports[1]	- 0.4	-1.4	7.1	-1.5	0.5	-0.4
Memorandum items						
GDP deflator	_	7.5	10.1	3.6	2.8	2.8
Harmonised index of consumer prices	_	12.1	11.0	3.2	3.5	2.5
Harmonised index of core inflation[2]	_	8.2	9.5	4.3	4.9	2.6
Unemployment rate (% of labour force)	_	6.1	5.8	5.3	5.4	5.4
Household saving ratio, net (% of disposable income)	_	-1.9	0.5	-0.8	0.3	1.2
General government financial balance (% of GDP)	_	-1.7	-5.2	-5.3	-4.8	-4.7
General government gross debt (% of GDP)	_	65.2	64.8	67.5	70.7	73.7
General government debt, Maastricht definition[3] (% of GDP)	_	57.7	55.6	59.3	62.4	65.4
Current account balance (% of GDP)	_	-9.6	-1.7	-2.6	-3.8	-3.7

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/buqcj4

New orders and goods exports strengthened at the beginning of 2025, reflecting still buoyant foreign demand ahead of the announcements of tariffs and the associated increase in uncertainty. The Slovak Republic is highly exposed to trade barriers, due to its specialisation in the highly trade-dependent automotive value chain. The sector and associated industries account for 10% of total value added, among the highest in the OECD, and more than 80% of gross goods exports to the United States come from the automotive sector, which is now facing 25% tariffs. Furthermore, Slovakia's deep linkages to the European automotive value chain will transmit the effects of lower foreign demand for automotive output.

Tighter fiscal policy to reduce the deficit

The fiscal deficit remained high in 2024, at 5.3% of GDP. A revised fiscal plan aims to reduce the deficit below 3% of GDP by 2028, one year later than previously envisaged. Most instruments are on the revenue side, thus increasing the tax-to-GDP ratio. Notably, a financial transactions tax was introduced from 1 April 2025. The tax will be deducted by banks from each transaction and ATM withdrawals. The basic VAT rate will increase to 23% from 20%. There are also increased fees for motorway stamps, tolls and vehicle taxes for companies. The increase in taxes will help reduce the budget deficit to 4.8% in 2025. For 2026, the projections assume that higher defence expenditures and rising interest costs on debt will slow consolidation efforts, and the fiscal deficit is expected to narrow just slightly to 4.7%.

Lower demand will reduce GDP and inflation

Tariffs on the automotive sector will reduce goods trade in 2025 and 2026. Heightened uncertainty due to the risk of additional trade restrictions will weaken investment growth. Real wage gains, due to lower inflation, will primarily be used to rebuild household savings, and to a lower extent to support consumption. Headline inflation is projected to rise to 3.5% in 2025 before gradually falling back to 2.5% in 2026. The fiscal consolidation package, while needed, focuses almost exclusively on revenue-raising measures and does little to tackle expenditures and spending inefficiencies, which risks lowering growth in the medium-term. Lower foreign demand and heightened uncertainty would negatively affect trade and investment.

Promoting investment through reforms and incentives

The public finances deteriorated following the pandemic and Russia's war of aggression against Ukraine, resulting in public debt remaining above pre-pandemic levels. A sustainable medium-term fiscal consolidation strategy that reduces expenditures and broadens the tax base is needed to create fiscal space, with a focus on improving the efficiency of public spending and addressing the challenges of rapid population ageing. Targeted training to strengthen project preparation and implementation capacity can boost public investment by maximising the impact of substantial inflows of EU funds. Making R&D tax allowances refundable for small and young companies could help increase R&D investment. Skills shortages are a significant and persistent barrier to investment. Expanding work-based learning, improving the quality of tertiary education through targeted funding, strengthening incentives to participate in adult learning, and increasing training for the unemployed would help reduce skill imbalances, retain and attract high skilled people, and boost productivity. Continuing efforts to fight corruption and strengthening trust in the judiciary system is also essential to unleash investment.

Slovenia

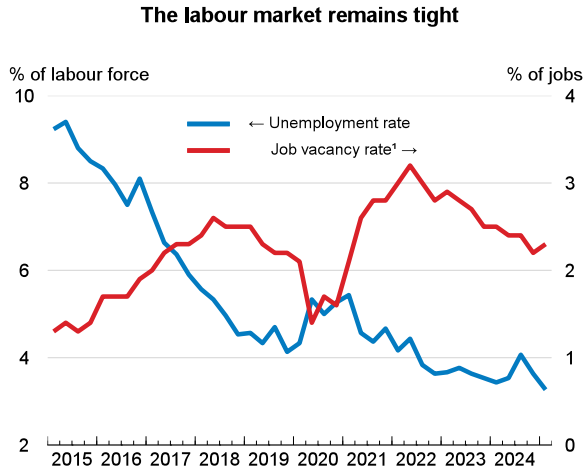
GDP is projected to grow by 1.6% in 2025 and 2.4% in 2026, driven by domestic demand. Strong wage growth will support private consumption, and investment will gradually rise with government spending on post-flood reconstruction and EU funds. Risks are tilted to the downside and include rising trade tensions, stronger-than-expected wage growth, reduced competitiveness, and prolonged inflation. Upside risks involve faster reconstruction efforts and increased EU spending that boosts investment activity.

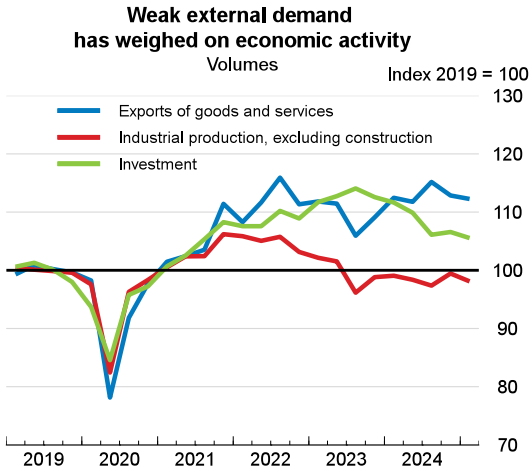
Fiscal policy will be expansionary in 2025 and 2026 due to increased defence and reconstruction spending. Structural measures include higher long-term care spending funded by a higher social security contribution rate. In addition to the upcoming pension reform, further tax policy reforms are needed for fiscal sustainability in the long-term, while investment would benefit from supply-side reforms such as easier immigration processes and streamlined planning and permitting.

Economic activity has slowed

Economic activity declined by 0.8% quarter-on-quarter in the first quarter of 2025, driven by negative net exports, while domestic demand supported growth. Recent indicators are mixed: consumer and business sentiment improved slightly to long-term averages in May, but both industrial production and retail trade turnover (without automotive fuels) declined by 1.2% month-on-month in March. The labour market remains tight, with a 3.2% unemployment rate in March, which, together with rising public wages due to a public pay reform, is fuelling strong wage growth. Hourly labour costs rose 6.8% year-on-year in the fourth quarter of 2024, contributing to annual service inflation of 3.8% and annual core inflation of 2.5% in April, with annual headline inflation at 2.3%.

Slovenia





1. The job vacancy rate measures the proportion of total posts that are vacant, expressed as the ratio of the number of job vacancies to the number of occupied posts plus the number of job vacancies.

Source: Statistics Slovenia; and OECD Economic Outlook 117 database.

StatLink https://stat.link/qod62s

Slovenia: Demand, output and prices

Slovenia	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	52.0	2.7	2.1	1.6	1.6	2.4
Private consumption	26.8	5.3	0.1	1.6	1.3	1.7
Government consumption	10.8	-0.7	2.4	8.5	1.1	2.8
Gross fixed capital formation	10.5	4.2	3.9	-3.7	-1.4	2.6
Final domestic demand	48.1	3.7	1.5	1.8	0.7	2.1
Stockbuilding[1]	0.8	0.8	-1.5	0.3	1.3	0.0
Total domestic demand	49.0	4.5	-0.2	2.1	2.1	2.0
Exports of goods and services	43.7	6.8	-2.0	3.2	0.0	2.0
Imports of goods and services	40.6	9.2	-4.5	3.9	1.2	1.5
Net exports[1]	3.1	-1.5	2.3	-0.4	-0.9	0.4
Memorandum items						
GDP deflator	_	6.5	10.1	3.1	4.2	2.3
Harmonised index of consumer prices	_	9.3	7.2	2.0	2.6	2.3
Harmonised index of core inflation[2]	_	5.9	6.7	2.9	2.3	2.3
Unemployment rate (% of labour force)	_	4.0	3.7	3.7	3.7	3.7
Household saving ratio, net (% of disposable income)	_	6.1	7.2	10.0	10.0	10.8
General government financial balance (% of GDP)	_	-3.0	-2.6	-0.9	-1.7	-1.5
General government gross debt (% of GDP)	_	74.5	72.2	70.8	69.9	69.3
General government debt, Maastricht definition[3] (% of GDP)	_	72.7	68.4	67.0	66.2	65.6
Current account balance (% of GDP)	_	-1.1	4.5	4.4	3.5	4.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/6o7ae5

Export growth was improving due to recovering external demand before US tariffs on EU goods were announced, with merchandise exports growing 1.7% year-on-year in the first quarter of 2025. Direct trade exposure to the United States is limited, with exports of goods to the United States making up 2% of GDP in 2024. However, Slovenia is also exposed through European value chains. About 80% of exports to the United States are pharmaceuticals, currently not targeted. The impact of euro area monetary easing on financial conditions has now passed through, with loans to the non-banking sector growing by 7.6% over the year to March.

Fiscal policy will be expansionary

The fiscal policy stance is expected to be expansionary in 2025 and 2026, with fiscal easing of 0.6% of GDP over 2025-26 driven by higher defence and post-flood reconstruction spending. Still, public debt (according to Maastricht definition) is projected to decline to 66% of GDP by 2026. Reconstruction spending is funded by a temporary increase in the corporate income tax rate and the introduction of a temporary bank levy. The government announced a rise in defence spending, to 2% of GDP in 2025 and 3% of GDP in 2030. Structural measures include higher spending on public wages by 0.5% of GDP in both 2025 and 2026 due to public sector wage reforms and increased long-term care spending by 0.3% of GDP in 2025 and 0.7% of GDP in 2026, funded by a 2 percentage point increase in the social security contribution rate.

Economic activity is set to strengthen

Growth is projected to reach 1.6% in 2025 and 2.4% in 2026, driven by strengthening domestic demand. Private consumption will benefit from a tight labour market and strong real wage growth. Investment will gradually rebound due to post-flood reconstruction spending and EU funds, offsetting the effects of weak external demand and higher uncertainty. The labour market will remain tight, keeping wage growth elevated. Wage pressures will keep inflation above 2% in 2025 and 2026. Downside risks include rising trade tensions that could further dampen exports and private investment. Also, stronger-than-expected wage growth could reduce competitiveness and keep inflationary pressures elevated for longer. On the upside, faster implementation of reconstruction and EU spending could boost investment activity.

Structural reforms will help raising investment and growth

Fiscal consolidation, as outlined in the national medium-term fiscal plan, is essential to rebuild fiscal buffers. While debt-financed defence spending is justified by current geopolitical risks, permanent increases will require spending reprioritisation. The social partners agreed on pension reforms—currently under parliamentary review—that include gradually raising the retirement age from 65 to 67 from 2028, extending the period for pension calculations from the most favourable 24 contribution years to 40 years minus the five best, and a greater weight of inflation in pension indexation. These reforms should be combined with further tax policy reforms to ensure long-term fiscal sustainability. This includes boosting labour supply by removing tax disincentives for second earners and single parents to work full time. Investment will benefit from structural reforms, such as easing immigration for non-EU workers and streamlining planning and permitting processes. These efforts should be paired with growth-friendly tax reforms to reduce the labour tax burden, funded by higher consumption, environmental and recurrent immovable property taxation.

South Africa

GDP is projected to increase by 1.3% in 2025 and 1.4% in 2026. High uncertainty and declining confidence will weigh on domestic demand, though easing monetary policy will provide support. The increase in tariffs on imports into the United States will weigh on exports. An easing in access to pension savings from late 2024 will support consumption. Inflation will fall in the near term following the decline in global oil prices, but will strengthen during the second half of 2025 and in 2026, as activity strengthens.

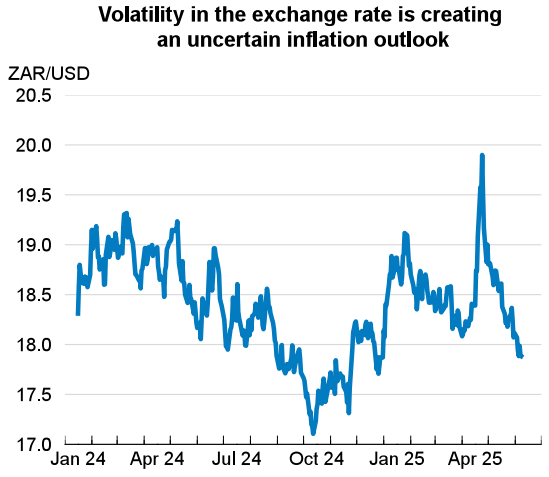
Fiscal consolidation in 2025 and 2026 will help stabilise public debt. Reinforcing spending rules and broadening the narrow tax base would further support debt sustainability. Monetary policy is projected to continue easing in 2025 to slightly below neutral rates. Continued progress in reforms to improve the efficiency and governance of state-owned enterprises, to increase the supply of electricity, and to ease logistics bottlenecks and regulation will support investment and stronger potential growth.

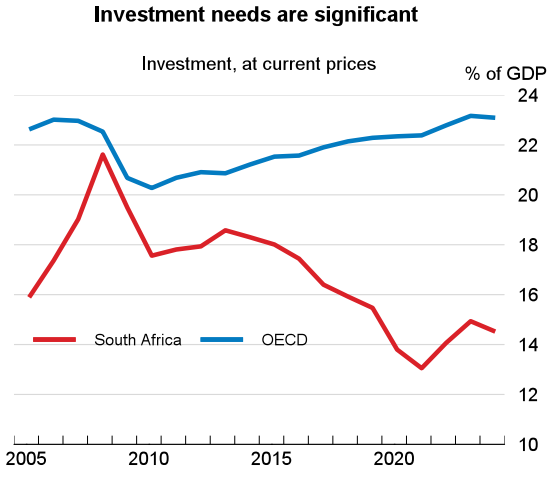
Consumer confidence has fallen and exchange rate volatility has increased

Consumer confidence fell in the first quarter of 2025 alongside domestic political uncertainty and geopolitical tensions, wiping out more than its increase over 2024. Business confidence remained above its long-term average in the first quarter of 2025. The unemployment rate increased to 32.6% in the first quarter of 2025, after having declined over the previous three quarters. Core inflation continues to ease, reaching 3% in April, slightly above headline inflation, which was 2.8%.

The United States has increased tariffs on imports from South Africa to 10%, though the exclusion of certain critical minerals and bullion slightly lowers the effective rate. South Africa sends around 7.6% of its exports to the United States, limiting the impact on GDP. Spreads between South African and US long-term bond yields have increased in recent months, suggesting that the perceived risk of investing in South Africa has increased. The exchange rate against the US dollar depreciated sharply in early April, although it has reversed since then.

South Africa





Source: OECD Exchange rates database; and OECD Economic Outlook 117 database.

StatLink https://stat.link/o2gi6t

South Africa: Demand, output and prices

South Africa	2021	2022	2023	2024	2025	2026
	Current prices ZAR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	6 220.2	1.9	0.7	0.6	1.3	1.4
Private consumption	3 847.3	2.5	0.7	1.0	1.4	1.3
Government consumption	1 192.9	0.6	1.9	0.4	2.7	1.3
Gross fixed capital formation	811.8	4.8	3.9	-3.7	1.2	4.0
Final domestic demand	5 852.1	2.4	1.4	0.2	1.6	1.7
Stockbuilding[1]	- 15.9	1.5	-0.6	-1.0	0.0	0.0
Total domestic demand	5 836.2	4.0	0.8	-0.7	1.6	1.7
Exports of goods and services	1 934.7	6.8	3.7	-2.0	0.3	1.5
Imports of goods and services	1 550.8	15.0	3.9	-6.3	1.5	2.3
Net exports[1]	383.9	-2.1	-0.1	1.3	-0.3	-0.2
Memorandum items						
GDP deflator	_	5.0	4.8	3.8	3.9	4.5
Consumer price index	_	6.9	5.9	4.4	3.2	4.2
Core inflation index[2]	_	4.6	5.1	4.2	3.3	4.3
General government financial balance (% of GDP)	_	-5.0	-6.6	-5.4	-6.6	-5.1
Current account balance (% of GDP)	_	-0.5	-1.6	-0.6	-1.3	-1.8

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 117 database.

StatLink https://stat.link/iqny6t

Fiscal policy is consolidating while easing monetary policy will support activity

The primary fiscal balance excluding one-off items is projected to improve by 0.2% of GDP in 2025 and 0.8% of GDP in 2026. Revenue measures include no inflationary adjustment to income-tax brackets, adding 0.2% of GDP of revenues in each fiscal year, and additional tax measures to be announced in the 2026 Budget, representing 0.2% of GDP for the 2026/27 fiscal year. Conversely, expenditure as a share of GDP is expected to rise in the 2025/26 fiscal year, before easing. This is driven by a 0.2% of GDP rise in water, sanitation and road infrastructure investment and exceptional debt relief for the state electricity operator, Eskom, of around 1% of GDP. Transfers from the central bank to government accounts (via the Gold and Financial Contingency Reserve Account), equivalent to 0.3% of GDP, will contribute to debt reduction for the second consecutive year, albeit to a lesser extent. The central bank lowered policy rates by 75 basis points to 7.5% between September and January as inflation eased. Rates are projected to decrease by a further 50 basis points over 2025. Further volatility in the exchange rate is creating significant uncertainty around the outlook for inflation and monetary policy.

Activity will increase moderately, amidst significant uncertainty

The economy is projected to grow moderately in 2025 and 2026. Monetary policy easing and progress in electricity availability are set to support investment. Private consumption will benefit to some extent from the 2024 pension reform, which eases access to retirement funds. Exports will increase only gradually, though, weighed down by the increase in US tariffs. As economic growth strengthens gradually and the negative output gap narrows, inflation will rise to 4.2% in 2026 and the unemployment rate will decrease slightly to 32.1% in 2026. Risks to the outlook remain high. On the downside, trade tensions have heightened uncertainty and slower progress than expected in easing freight and port bottlenecks could weigh on activity. On the positive side, accelerated reform of electricity availability would strengthen the recovery in investment, boosting potential growth.

Swiftly implementing reforms would support fiscal consolidation and investment

High government debt-servicing costs, close to 22% of revenues, are limiting the fiscal space available for social and growth-enhancing policies. Strengthening the fiscal framework through stricter spending controls and reinforced fiscal rules anchored to a stable debt target would support fiscal consolidation and help reduce the risk premium, as well as the risk that elevated government borrowing crowds out private investment. Swift implementation of reforms will be key to boosting the current low level of investment. Easing burdensome licensing, permits and complex procurement rules will support firm entry and expansion. Reforms in the electricity sector would enhance businesses' ability to operate efficiently and strengthen their incentives to invest. Lastly, creating a business-friendly environment would support rail investment needs by reforming the governance of transport state-owned enterprises, including by establishing a regulator and promoting competition.

Spain

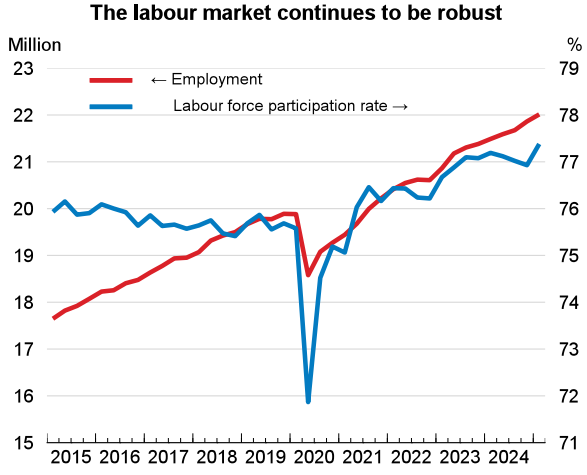
Real GDP growth is projected at 2.4% in 2025 and 1.9% in 2026. Growth will be driven by domestic demand, with consumption supported by a robust labour market, real income gains and falling inflation. Investment is expected to rise over 2025-26 supported by lower financing costs and the implementation of the Recovery, Transformation and Resilience Plan (RTRP). Export growth will slow, reflecting weak demand in trading partners, rising trade fragmentation and the dampening effect of US tariffs. Risks to economic growth are skewed to the downside, including escalating geopolitical and trade tensions, further tariff increases on EU exports, increased uncertainty, and tighter global financial conditions.

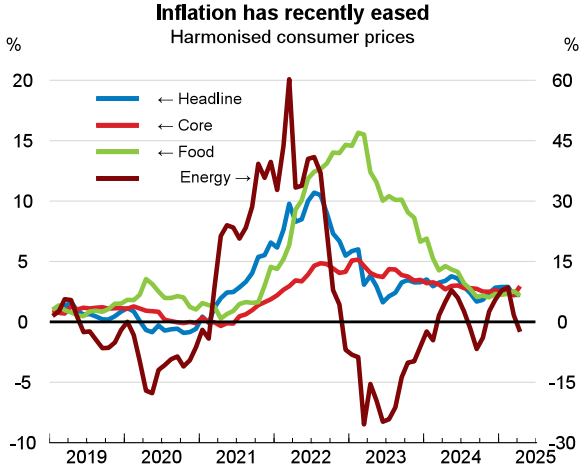
The fiscal deficit is expected to narrow to 2.8% of GDP in 2025 and 2.3% in 2026, helped by robust economic growth. In 2026, lower spending growth due to the phase-out of public transportation subsidies and DANA support measures will back further consolidation efforts, placing gross public debt on a downward trend. Lowering entry barriers in services, further streamlining regulations at all levels of government, and accelerating public-private partnerships under the RTRP would boost investment and potential growth.

Economic activity remains strong

Growth reached 2.8% year-on-year in the first quarter of 2025, driven by robust gross capital formation and private consumption. A strong labour market and wage growth supported steady gains in real disposable incomes. Social security affiliations rose by 2.3% over the year to April 2025, while the unemployment rate reached 10.9% in March 2025. Business expectations continued to signal expansion in April, though with signs of moderation. Annual headline inflation eased to 2.2% in April 2025 due to lower energy prices, following a temporary rise earlier in the year linked to the expiration of VAT reductions on electricity. Core inflation stood at 3.0% in April, largely driven by more persistent services inflation.

Spain





Source: Eurostat; and OECD Economic Outlook 117 database.

StatLink https://stat.link/nvei8k

Spain: Demand, output and prices

Spain	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2020 prices)				
GDP at market prices	1 235.5	6.2	2.7	3.2	2.4	1.9
Private consumption	693.6	4.8	1.8	2.9	2.7	1.9
Government consumption	259.4	0.6	5.2	4.1	2.2	1.7
Gross fixed capital formation	249.6	3.3	2.1	3.0	4.4	2.7
Final domestic demand	1 202.6	3.6	2.6	3.2	2.9	2.0
Stockbuilding[1]	20.7	0.4	-0.8	-0.2	-0.1	0.0
Total domestic demand	1 223.2	3.9	1.7	2.9	2.8	2.0
Exports of goods and services	417.1	14.3	2.8	3.1	2.2	2.2
Imports of goods and services	404.8	7.7	0.3	2.4	3.3	2.3
Net exports[1]	12.2	2.3	1.0	0.3	-0.3	0.0
Memorandum items						
GDP deflator	_	4.7	6.2	3.0	2.3	1.8
Harmonised index of consumer prices	_	8.3	3.4	2.9	2.4	1.9
Harmonised index of core inflation[2]	_	3.8	4.1	2.8	2.3	2.0
Unemployment rate (% of labour force)	_	13.0	12.2	11.3	10.7	10.1
Household saving ratio, net (% of disposable income)	_	2.5	6.1	6.7	6.2	6.0
General government financial balance (% of GDP)	_	-4.6	-3.5	-3.2	-2.8	-2.3
General government gross debt (% of GDP)	_	113.7	111.0	108.5	107.0	105.9
General government debt, Maastricht definition[3] (% of GDP)	_	109.5	105.1	101.8	100.4	99.3
Current account balance (% of GDP)	_	0.4	2.7	3.0	2.8	2.8

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/vl5gjb

Housing credit to households and credit to firms grew by 1.4% and 1.5%, respectively, over the year to March 2025, supported by monetary easing. In February, the goods trade deficit widened, with import growth of 3.5% year-on-year while exports grew by just 0.4%. Meanwhile, the services surplus increased to 6.7% of GDP, supported by a rise in tourism. The United States has imposed a 10% import tariff on EU goods, but Spain's direct exposure is limited, as Spanish goods exports to the United States only represented around 1% of GDP in 2024.

Fiscal consolidation continues

The fiscal deficit will narrow to 2.8% in 2025, and 2.3% in 2026, from 3.2% in 2024, helped by mild fiscal consolidation. Most of the temporary support measures introduced during the inflationary shock have been phased out, including the planned expiration of public transportation subsidies by June 2025. The consolidation is underpinned by higher revenues from strong job creation and previously announced tax measures. Spending declines reflect the phase-out of energy related and DANA support measures. The projections also incorporate a gradual increase in defence spending in 2025 and 2026, and government initiatives to help sectors affected by trade tensions, amounting to EUR 14 billion (0.9% of GDP), with most support channelled through guarantee schemes and loans.

Domestic drivers support growth as external risks rise

GDP growth will remain robust but gradually moderate, reaching 2.4% in 2025 and 1.9% in 2026. Growth will be driven by domestic demand, supported by a solid labour market, real income gains, and high household savings. Disbursements of the RTPR funds and lower interest rates will support investment, though execution delays and tighter global financing conditions could limit the rebound. Export growth is expected to slow due to weak demand in key trading partners and the recently imposed 10% effective US tariff on EU goods and sector-specific rates as high as 25% on autos and steel. While Spain is less active in these sectors than other EU countries, exports of machinery and agri-food products may still be affected. Headline inflation will reach 1.9% in 2026, aided by lower food and energy prices and limited wage pressures. Downside risks remain elevated, particularly from escalating geopolitical and trade tensions, which could further dampen external demand, increase uncertainty, and delay investments linked to the RTPR.

Enhancing potential growth and meeting fiscal goals is key

Although the fiscal deficit and public-debt-to-GDP have declined, continued consolidation remains essential to put gross public debt on a downward trend, comply with the EU fiscal rules and accommodate rising spending pressures from population ageing and the green transition. Gradually broadening the value added tax base, increasing environmental taxes, and improving public spending efficiency would support consolidation efforts and create space for growth-enhancing spending. Gross fixed capital formation per working-age person has remained significantly below the European average since the global financial crisis, and the recovery in investment has been slow since the pandemic. Lowering entry barriers in services, further streamlining and levelling regulations across levels of government, and accelerating public-private partnerships under the RTRP, would further stimulate investment and raise potential growth.

Sweden

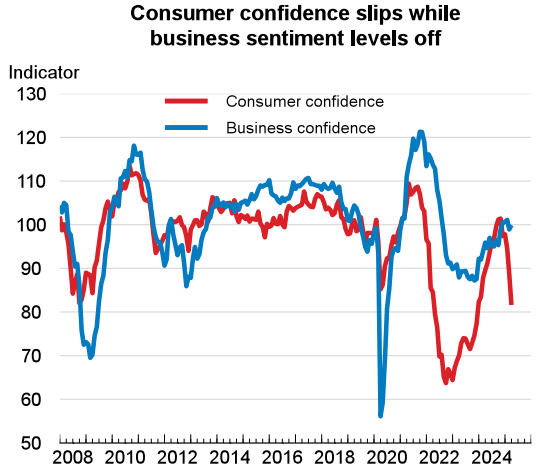
Sweden's economy is expected to grow by 1.6% in 2025 and 2.3% in 2026. In the short term, heightened uncertainty will dampen investment, though domestic demand is expected to gradually recover as confidence improves. Private consumption will strengthen, supported by rising real incomes and improving employment conditions. Unemployment is set to decline steadily as labour demand increases. However, risks remain skewed to the downside, particularly due to heightened global uncertainty.

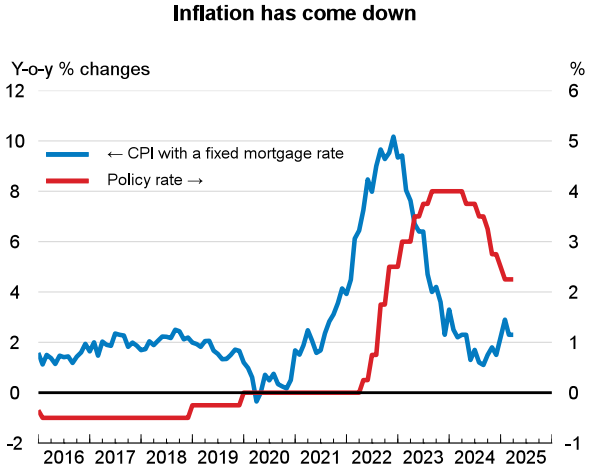
The Riksbank has appropriately paused monetary easing, but should remain agile and respond to incoming data. The mildly expansionary fiscal policy supports the economy and defence needs but could be better targeted. To sustain employment growth amid an ageing population, Sweden must address skill gaps among inactive and unemployed adults. Easing rental regulations and land-use planning would improve housing supply and mobility. Rising climate costs highlight the urgent need for stronger market-based adaptation measures.

Growth momentum is weak

Economic activity continued to recover in late 2024, supported by easing inflation and monetary accommodation. However, recent indicators, including monthly GDP and industrial production, suggest that momentum weakened in early 2025. Domestic demand remains subdued. Inflation, measured by the consumer price index with a fixed mortgage rate (CPIF), the key metric for the Riksbank, is falling again following a temporary spike driven by rising food prices and changes in the consumption basket. Wage growth is set to remain contained in 2025-26 in line with negotiated industrial pay increases totalling 6.4% over two years. Labour market conditions had shown signs of stabilising, but forward-looking indicators point to further softening in the short term. An improvement in business sentiment has stalled, with declining hiring plans. Household sentiment has deteriorated sharply, with increased concerns about unemployment. Although the household saving rate is declining, it remains elevated by historical standards.

Sweden





Source: National Institute of Economic Research; Sveriges Riksbank; and Statistics Sweden.

StatLink https://stat.link/ubfj79

Sweden: Demand, output and prices

Sweden	2021	2022	2023	2024	2025	2026
	Current prices SEK billion	Percentage changes, volume (2023 prices)				
GDP at market prices	5 452.2	1.6	0.1	0.7	1.6	2.3
Private consumption	2 434.3	2.9	-2.0	0.3	1.0	2.2
Government consumption	1 408.8	0.8	1.8	1.2	1.4	2.0
Gross fixed capital formation	1 363.7	0.4	-1.2	-1.2	2.4	3.0
Final domestic demand	5 206.7	1.7	-0.8	0.2	1.5	2.4
Stockbuilding[1]	11.0	1.2	-1.5	0.3	0.0	0.0
Total domestic demand	5 217.7	2.9	-2.3	0.6	1.4	2.4
Exports of goods and services	2 573.3	6.2	4.0	2.4	2.3	1.7
Imports of goods and services	2 338.8	9.7	-0.5	1.7	1.5	1.9
Net exports[1]	234.5	-1.2	2.4	0.4	0.5	0.0
Memorandum items						
GDP deflator	_	5.7	6.0	3.0	2.6	2.0
Consumer price index[2]	_	8.4	8.5	2.8	1.3	2.0
Core inflation index[3]	_	5.8	10.0	4.1	1.1	2.0
Consumer price index with fixed interest rates	_	7.7	6.0	1.9	2.8	2.0
Unemployment rate (% of labour force)	_	7.5	7.7	8.4	8.7	8.3
Household saving ratio, net (% of disposable income)	_	12.1	13.6	15.7	15.6	15.6
General government financial balance (% of GDP)	_	1.0	-0.8	-1.5	-1.4	-1.1
General government debt, Maastricht definition[4] (% of GDP)	_	33.9	31.6	33.5	33.7	33.9
Current account balance (% of GDP)	_	4.7	7.0	7.4	6.8	6.6

1. Contributions to changes in real GDP, actual amount in the first column.
2. The consumer price index includes mortgage interest costs.
3. Consumer price index excluding food and energy.
4. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/lnu6b9

Weak demand from key trading partners, particularly Germany and other euro area countries, continues to weigh on exports. While Sweden's diversified export portfolio provides some resilience to trade disruptions and the increase in the US tariff on merchandise imports from Sweden, industries such as automotive and steel face mounting challenges, notably those lacking a local manufacturing or assembly footprint in the United States.

Monetary policy easing is on hold while fiscal policy turns slightly expansionary

The Riksbank paused monetary easing in March 2025, holding the policy rate at 2.25% in response to elevated inflation. The rate is assumed to remain at this broadly neutral level through the end of 2026. Against the backdrop of subdued domestic demand, the 2025 budget introduced new measures worth nearly 0.9% of GDP. These include tax cuts on fuel and pensions, an enhanced earned income tax credit and lower taxes on investment savings. Additional stimulus of 0.2% of GDP was announced in the April Spring budget bill, including a new home renovation tax break and increased road maintenance spending. Defence spending will rise further in 2025 to 2.4% of GDP (NATO's definition), with a goal of reaching 3.5% of GDP by 2030. Fiscal policy is expected to remain slightly expansionary in 2026 as economic slack persists. The move from a surplus target to a balanced budget rule, effective from 2027, is expected to influence fiscal planning already in 2026.

Near-term headwinds slow demand as recovery gains traction

The economy is projected to grow by 1.6% in 2025 and 2.3% in 2026. Near-term uncertainty will continue to weigh on household consumption and business investment. Private consumption is expected to recover gradually, supported by rising real incomes and improving labour market conditions. Inflation is projected to stabilise around target, with continued economic slack helping to contain price pressures. Risks to the outlook remain tilted to the downside. A prolonged slowdown in key trading partners and spiralling trade protectionism could further strain the highly open economy. A more persistent-than-expected increase in precautionary saving could slow the recovery of household consumption. On the upside, a stronger rebound in private consumption, driven by a sharper-than-anticipated decline in the household saving rate, could support a more robust recovery.

Supporting the recovery through targeted measures and structural reforms

The Riksbank should keep the policy rate unchanged for now, while remaining agile in a volatile environment. The mildly expansionary fiscal stance supports recovery, but tax measures need to be better targeted. Fuel tax cuts are regressive and ineffective in easing cost-of-living pressures, while tax relief for investment savings may raise equity concerns. Looking ahead, addressing skills deficiencies among unemployed and inactive adults and further improving support for adult education and training of individuals at risk of unemployment will be essential to continue to expand employment in the face of an ageing population. Easing rent controls and streamlining land-use planning would boost housing investment and improve affordability and job matching. The costs of climate change are rising, while funding for adaptation investments remains insufficient. Accelerating market-based measures, particularly risk-based insurance premiums and taxes, is important to close the gap.

Switzerland

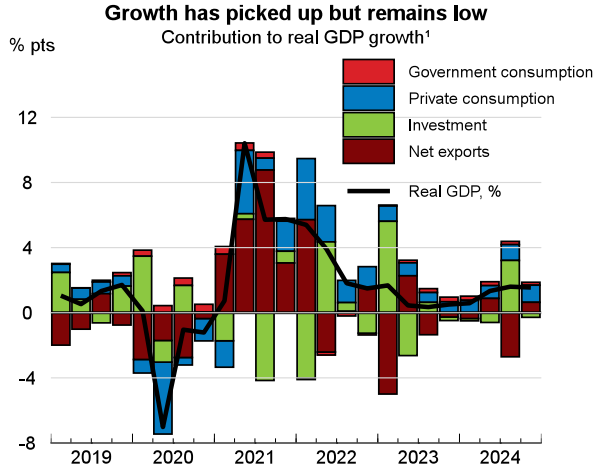
Real GDP is projected to grow by 1.1% in 2025, and 1.2% in 2026. Private consumption will benefit from rising real wages and employment, while investment will continue its recovery. Export growth will lose momentum amid slower global growth and higher US trade tariffs. Moderate demand pressures will keep inflation within the central bank's target range.

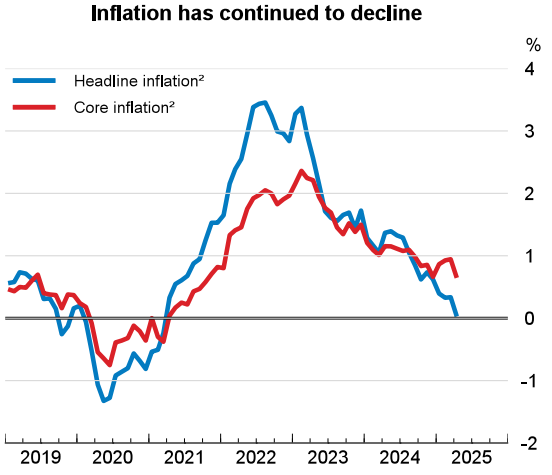
The monetary policy stance will continue to be supportive of growth in 2025-2026. The same holds for fiscal policy as the small headline fiscal surplus expected in 2025 will narrow in 2026, although gross public debt will decrease slightly relative to GDP. Expanding the government one-stop-shop would help increase investment. Relaxing foreign equity restrictions would help to attract more foreign direct investment. Reaching climate neutrality requires further reforms to facilitate investments in renewable energy.

Growth has picked up and inflation has slowed

GDP grew by 0.5% in the fourth quarter of 2024, compared to the previous quarter and adjusted for sporting events. Growth was driven mostly by manufacturing, especially chemicals and pharmaceuticals, and the services sector. Domestic demand remained solid, driven by consumption and investment. Indicators for economic activity grew in early 2025, but surveys suggest that businesses remain cautious about the outlook in the coming months in several industries, including manufacturing. Labour shortages are easing, and recruitment intentions have improved. CPI inflation slowed from 0.6% year-over-year in December to 0.0% in April 2025, and one-year-ahead inflation expectations declined slightly but remain in line with the central bank definition of price stability.

Switzerland





1. Year-on-year growth rates. The sum of components may deviate from observed GDP growth because of balancing items, chain-linking procedures and direct/indirect seasonal adjustment methods.
2. Year-on-year growth rates.
Source: OECD Economic Outlook 117 database; and Federal Statistical Office.

StatLink https://stat.link/l4tbrg

Switzerland: Demand, output and prices

Switzerland	2021	2022	2023	2024	2025	2026
	Current prices CHF billion	Percentage changes, volume (2015 prices)				
GDP at market prices[1]	744.5	3.1	0.7	1.3	1.1	1.2
Private consumption	370.3	4.3	1.5	1.8	1.1	1.4
Government consumption	88.8	-1.2	1.7	1.9	1.3	1.2
Gross fixed capital formation	195.7	-0.1	0.1	-1.0	0.4	1.2
Final domestic demand	654.8	2.2	1.1	1.0	0.9	1.3
Stockbuilding[2 3]	1.0	-0.1	0.8	0.8	-0.1	0.0
Total domestic demand	655.8	2.0	2.0	1.8	0.7	1.3
Exports of goods and services[3]	528.1	6.4	0.9	-0.4	2.6	1.5
Imports of goods and services[3]	439.4	5.7	2.8	0.1	2.6	1.7
Net exports[2 3]	88.7	1.2	-1.0	-0.4	0.2	0.0
Memorandum items						
GDP deflator	_	3.0	0.9	1.3	1.6	2.0
Consumer price index	_	2.8	2.1	1.1	0.3	0.6
Core inflation index[4]	_	1.7	1.8	1.0	0.8	0.6
Unemployment rate (% of labour force)	_	4.1	4.0	4.3	4.5	4.5
Household saving ratio, net (% of disposable income)	_	17.9	17.5	17.2	18.3	18.9
General government financial balance (% of GDP)	_	1.3	0.2	0.6	0.6	0.1
General government gross debt (% of GDP)	_	37.4	39.3	39.8	38.8	38.3
Current account balance (% of GDP)	_	8.7	5.2	5.1	6.5	6.8

1. Not adjusted for sporting-events.
2. Contributions to changes in real GDP, actual amount in the first column.
3. Includes valuables.
4. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/6nid28

The United States was the destination of 19% of Swiss goods exports in 2024, excluding precious metals. Exports included mostly chemicals and pharmaceutical products. US trade tariffs on imports of pharmaceuticals remain unchanged, but a special probe on these imports is ongoing and could lead to higher specific tariffs being applied. Steel and aluminium exports to the United States face a 25% import tariff, while other goods exports are subject to a 10% import tariff.

Monetary and fiscal policies will be supportive of growth

The central bank is expected to continue lowering the policy rate, reaching 0% by mid-2025, amid increased trade tensions and uncertainty about the growth outlook. The real interest rate is therefore expected to become negative in the coming quarters, providing support to economic activity. The general government will post a headline surplus of 0.6% of GDP in 2025, which will narrow to 0.1% of GDP in 2026 due to higher pension spending following last year's reform. Fiscal policy at the federal level will continue to comply with the debt brake rule, which requires a balanced structural budget. Government debt as a share of GDP will decrease over 2025-2026.

Growth is projected to slow

Real GDP will grow by 1.1% in 2025 and 1.2% in 2026, supported mostly by domestic demand. Growing real wages and employment will help to sustain private consumption growth. Export growth will be damped by slower global growth and higher US tariffs on Swiss exports, only partly compensated by higher

investment in Germany. Inflation will increase over 2025-2026, but contained demand pressures will keep it well within the target range of 0-2%. Risks are tilted to the downside. A further escalation of global trade tensions could lead to capital inflows and an appreciation of the Swiss franc, as investors seek safe havens, which could weaken export growth even further. Slower implementation of planned investments in Germany could also weigh on exports.

Streamlining regulatory processes would help boosting investment

Further reductions in administrative burdens on firms could help to support investment, for example by expanding the government one-stop-shop to incorporate cantonal services. Relaxing foreign equity restrictions could attract more inward foreign direct investment. Reaching climate neutrality hinges on increasing electrification, which will require extensive investment in low-carbon energy sources. Speeding up planning and authorisation procedures for building renewable power plants would support this process. Improving the congested power grid will require streamlining licensing procedures and reducing approval times for transmission line and distribution network projects.

Thailand

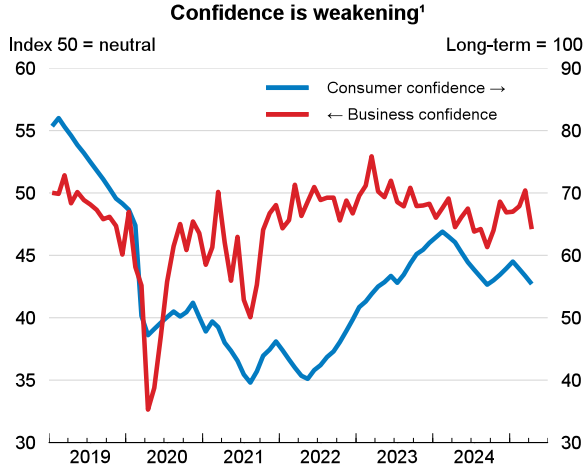
Real GDP growth is projected to decrease to 2.0% in 2025 from 2.5% in 2024. Export growth will decline with impulse from front-loading ahead of US tariffs being overtaken by their negative effects on trade, investment, incomes and consumption. A recovery in domestic demand will lift growth in 2026 to 2.4%. Price inflation will remain below the 2% centre of the inflation target range. The impacts and uncertainties in global tariff policies are the most prominent risk to the outlook.

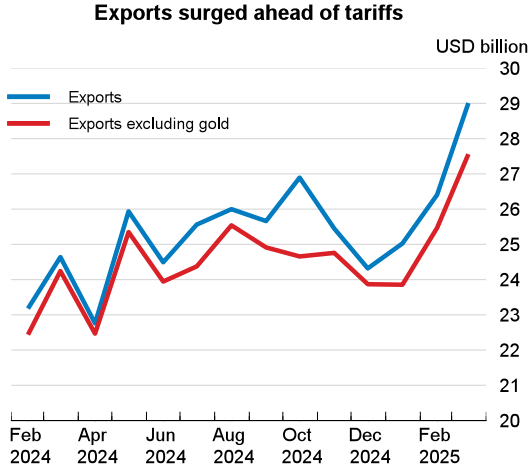
Fiscal consolidation is needed to reduce the public debt burden while also strengthening support for vulnerable groups. Monetary policy should stand ready to make further interest-rate cuts in the event of weak inflation and further deterioration in growth. Boosting efficient and competitive markets through lean regulation, effective competition policy and better resource allocation, including by reducing informal economic activity, are key priorities for raising long-term growth potential and investment.

The economy is weakening

Thailand's domestic demand has been flagging. The economy grew by 0.7% (non-annualised) in the first quarter of 2025. However, investment declined. Meanwhile, trade was supported by front-loading of exports ahead of US trade tariffs; merchandise export values in March rose by 18% year-on-year. Consumer confidence improved between October and January but has since reversed. Business sentiment was also showing some improvement but has recently dipped. Headline inflation has risen from the lows of 2024 reaching 1.1% (year-on-year) in the first quarter of 2025, slightly above the lower bound of the target band of 1-3%. The consumer price index fell by 0.2% over the year to April, but core inflation rose by 1.0%.

Thailand





1. The Business Confidence Index is presented as a diffusion index ranging from 0 to 100. An index value above 50 indicates an improvement in business sentiment, while a value below 50 reflects a deterioration. The Consumer Confidence Index ranges from 0 to 200, with 100 as the cut-off point. CCI = 100 suggests that consumer confidence is stable.
Source: CEIC; and Bank of Thailand.

StatLink https://stat.link/3rsfu0

Thailand: Demand, output and prices

Thailand	2021	2022	2023	2024	2025	2026
	Current prices THB billion	Percentage changes, volume (2002 prices)				
GDP at market prices	16 190	2.6	2.0	2.5	2.0	2.4
Private consumption	8 444	6.2	6.9	4.4	2.0	1.7
Government consumption	2 955	0.3	-4.7	2.4	2.1	3.1
Gross fixed capital formation	3 803	2.2	1.2	-0.1	2.1	2.8
Exports of goods and services	9 488	6.1	2.3	7.8	7.6	2.4
Imports of goods and services	9 458	3.4	-2.6	6.3	2.8	2.6
Memorandum items						
Consumer price index	_	6.1	1.2	0.4	0.8	1.6
Government financial balance[1 2] (% of GDP)	_	-3.0	-3.0	-5.6	-6.1	-5.9
Government gross debt[2] (% of GDP)	_	60.9	61.7	63.7	67.0	68.3
Current account balance (% of GDP)	_	-3.5	1.4	2.1	3.5	3.5

1. Data refer to the calendar year and differ from the fiscal-year data that is reported by the Thai authorities. The fiscal year in Thailand runs from the October to September.
2. Data cover central government plus additional items, for instance state enterprises.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/08452p

Thailand is subject to the United States' 10% universal import tariff and is exposed to the 25% tariff on cars and car parts. Thailand's goods exports to the United States represent about 15% of GDP in value terms. In addition to direct exports to the United States, Thailand's manufacturing exports feed into supply chains linked to Chinese exports. However, the manufacturing sector also potentially has capacity to substitute for Chinese US-bound exports.

Monetary policy is easing and fiscal deficits are widening

The Bank of Thailand has reduced its policy rate by 75 basis points in recent months. The latest cut, made in April 2025, brought the rate to 1.75% and reflected a response to the worsening outlook for output growth amid continuing low price inflation. The Bank's support for economic activity is welcome given the diminished scope for bolstering the economy through fiscal policy measures. One more rate cut is envisaged in the context of the central projection. Further rate cuts, if needed, should remain firmly rooted in a data-dependent and independent approach. The public debt burden is elevated and continues to increase. Outstanding government debt amounted to 64.4% of GDP as of end-March, around 20 percentage points above pre-pandemic levels. The fiscal deficit is being widened by the government's cash handout scheme. Disbursements of a first tranche of transfers to households, began in October 2024. A slight narrowing of the budget deficit in 2026 will slow growth in the public debt burden.

Output growth will slow in 2025

Output growth in 2025 is expected to be lower than in 2024, at 2.0%. Negative effects from international trade policy developments will emerge in household consumption, investment and trade. In 2026, recovery in domestic demand and trade as the tariff impacts tail off will lift output growth to 2.4%. These developments will be echoed in the labour market. Inflation will increase gradually during 2025 and 2026. Uncertainties around international trade polices dominate the risk profile. Risks around high levels of household debt also remain.

Stronger competition is key to raising growth potential

Raising growth potential, including via productivity-enhancing investment, requires stronger competition in product and service markets. Reducing entry barriers and strengthening the competition authority will also boost investment and productivity, along with further improvements in public integrity. Growth potential and investment would also be enhanced by a further shift away from low-productivity, informal economic activity. Mobilising additional fiscal revenue would help fund spending pressures from mounting social demands, population ageing and the green transition. Improving the coverage, co-ordination and targeting of social benefits, including basic pensions, and raising benefit levels, would allow further reductions in inequality and poverty, creating better opportunities for all.

Türkiye

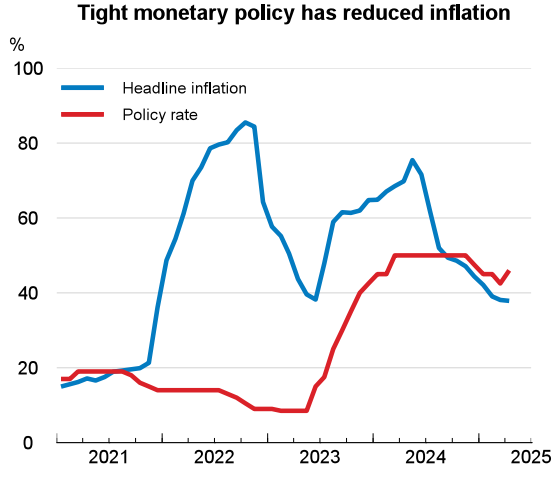
Output is expected to grow by 2.9% in 2025 and 3.3% in 2026. Tighter financial conditions and fiscal consolidation are moderating household consumption. Private investment and export growth will slow in 2025 due to weaker trade, before picking up gradually in 2026. Inflation is projected to decline substantially thanks to tight monetary policy and decline to around 15% by the end of 2026. However, upside risks to inflation remain significant and the impact of developments in international trade is uncertain.

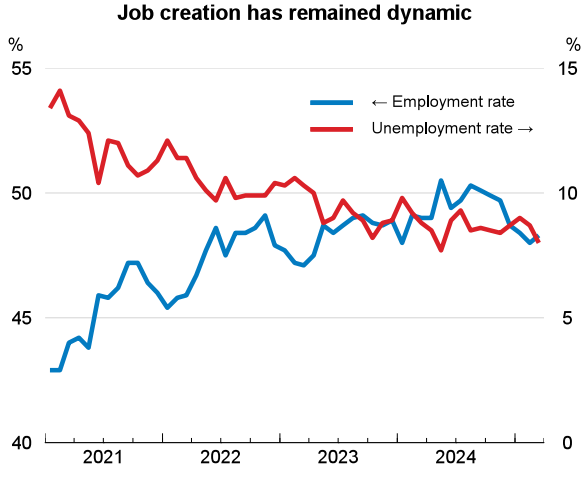
Fiscal and monetary policies should remain contractionary to ensure inflation remains firmly on a downward path. In 2026, lower inflation will allow the monetary policy stance to become less restrictive, bolstering growth. Structural reforms, notably in the labour market and in competition policy, can support macroeconomic stabilisation and raise long-term growth potential.

Data point to a continued slowdown in growth

Growth slowed from 5.1% in 2023 to 3.2% in 2024 as the economy rebalanced away from its previous overreliance on domestic consumption towards a stronger contribution of net exports. Tight financial conditions weighed on domestic demand, causing a sharp growth slowdown in household spending and investment. Consumption and investment strengthened markedly in late 2024, but it is still unclear if this marks a turnaround. Furthermore, leading indicators, including the purchasing managers index and manufacturing capacity utilisation, continue to decline, pointing to weaker output growth. By contrast, job creation has been solid, with unemployment remaining on the downward trend seen since the pandemic. Inflation has fallen sharply from 75% in May 2024 to 38% in April 2025, although inflation remains visible in housing and education; inflation expectations also remain high.

Türkiye





Source: Bank for International Settlements (BIS); CBRT; and TurkStat.

StatLink https://stat.link/2z1yu6

Türkiye: Demand, output and prices

Türkiye	2021	2022	2023	2024	2025	2026
	Current prices TRY billion	Percentage changes, volume (2009 prices)				
GDP at market prices	7 256.1	5.3	5.1	3.2	2.9	3.3
Private consumption	4 008.7	18.5	13.5	3.8	2.3	2.9
Government consumption	939.3	4.3	2.5	0.8	1.5	2.3
Gross fixed capital formation	2 044.2	1.3	8.4	3.9	3.1	4.5
Final domestic demand	6 992.2	11.3	10.6	3.3	2.5	3.3
Stockbuilding[1]	234.5	-5.5	0.7	-2.3	0.2	0.0
Total domestic demand	7 226.8	4.8	10.6	1.4	2.8	3.5
Exports of goods and services	2 593.6	9.9	-2.8	0.9	0.5	2.8
Imports of goods and services	2 564.2	8.6	11.8	-4.1	0.3	3.4
Net exports[1]	29.4	0.5	-6.1	1.7	0.1	-0.1
Memorandum items						
GDP deflator	_	96.5	68.3	58.4	30.9	20.0
Potential GDP, volume	_	4.4	4.4	4.1	4.1	4.1
Consumer price index[2]	_	72.3	53.9	58.5	31.4	18.5
Core inflation index[3]	_	57.3	58.5	59.8	32.3	18.6
Unemployment rate (% of labour force)	_	10.5	9.4	8.7	8.6	8.5
General government financial balance (% of GDP)	_	-2.1	-4.8	-4.9	-3.3	-3.0
Current account balance (% of GDP)	_	-5.2	-3.4	-0.8	-0.7	-1.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Based on yearly averages.
3. The consumer price index excluding food, energy, alcoholic beverages and gold.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/b73k8s

The depreciation of the Turkish Lira since March (both the nominal rate against the US dollar and the real effective exchange rate) has had a limited impact on imported inflation so far – thanks in part to the following increase in the policy rate – but a higher pass-through may eventually be visible. Uncertainty about global trade should affect the economy mostly through indirect channels as some of the country's export sectors are likely to be affected by a potential slowdown in European demand. While Türkiye's exports of goods to the United States are subject to the 10% universal tariff, they only account for about 6% of exports and 1% of GDP. Furthermore, Türkiye has been subject to US tariffs on steel and aluminium since 2018, and is hence less affected by the new 25% rate on all countries.

Monetary and fiscal policy will remain contractionary

Both fiscal and monetary policies have contributed decisively to the recent decline in inflation. The fiscal deficit is expected to decline from 4.9% of GDP in 2024 to 3.3% in 2025 and 3.0% in 2026. This consolidation will be driven by lower levels of capital and transfer expenditures, along with improved revenue performance. The size of the consolidation is likely to be smaller than previously expected due to trade uncertainties and lower growth prospects. The sharp increase in the monetary policy rate is continuing to bring down inflation. The policy rate was raised again to 46% on 17 April, amidst global trade uncertainty and pressure on the Turkish Lira. As inflation decreases further and uncertainty dissipates, space for some gradual easing will eventually emerge. The policy rate is expected to reach 25% by the end of 2026, absent a marked resurgence of global trade and financial tensions or renewed inflationary pressures.

Growth will strengthen in late 2025 and 2026

Growth will remain modest in the first half of 2025 due to trade uncertainties and continuously tight financial conditions. Headline and core inflation are expected to fall from 31% in 2025 to under 19% in 2026, with year-on-year inflation approaching 15% by the last quarter of 2026. As disinflation proceeds, a less contractionary monetary stance is projected to support consumption and investment from the end of 2025 onwards. While exports are expected to accelerate in late 2025 and 2026, this will be more than offset by import growth, and net exports will contribute negatively to GDP growth in 2026. A more persistent slowdown in global trade and European demand could weigh on growth in 2026, while renewed inflationary pressures or foreign exchange tensions would require tighter financial conditions for longer.

Macroeconomic stabilisation policies should be sustained

The authorities should continue to prioritise the stabilisation of the economy until inflation is firmly on track to meet the target. Alongside current fiscal consolidation efforts, the government should continue to closely monitor risks from contingent liabilities. Ensuring a stable and predictable policy framework would significantly improve investor sentiment and attract international investment. Fostering female labour force participation, enhancing innovation and training policies and efforts to streamline business regulations would raise long-term growth potential and investment. Making permanent labour contracts more flexible and ensuring that minimum wages are affordable for businesses could also promote formal job creation.

United Kingdom

GDP growth is projected to reach 1.3% in 2025 before slowing to 1.0% in 2026, dampened by heightened trade tensions, tighter financial conditions, and elevated uncertainty. Inflationary pressures will initially linger, due to higher import prices and robust wage growth in 2025, but subside over 2026, as spare capacity emerges and the labour market loosens. Substantial debt interest payments will continue to weigh on the fiscal balance and push up public debt.

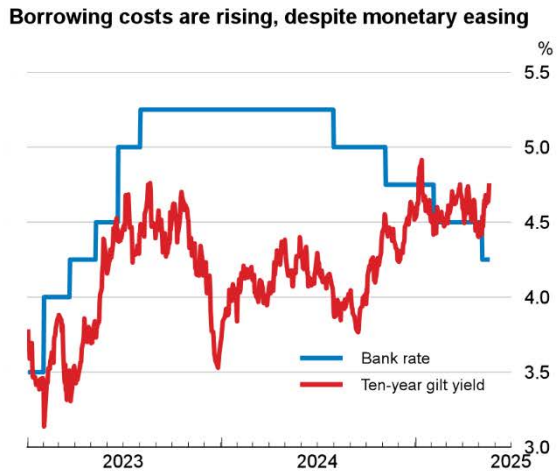
Fiscal prudence is required as the monetary stance is easing gradually. Efforts to rebuild buffers should be stepped up in the face of strongly constrained budgetary policy and substantial downward risks to growth, while productivity-enhancing public investments should be preserved. Continuing to advance supply-side priorities is key, including by delivering on the announced planning reform to support investment, as well as on welfare reform and the ongoing extension of childcare support to promote labour supply.

The economy has picked up but faces headwinds

Growth strengthened in the first quarter of 2025, reaching 0.7% on a quarter-to-quarter basis according to the first estimate, up from 0.1% in the last quarter of 2024. Credit to the private sector in March increased at its fastest pace since the third quarter of 2022, reflecting the four 25 basis point cuts in Bank Rate since August 2024. But momentum is weakening, with business sentiment rapidly deteriorating. Consumer confidence remains depressed and has declined since the second half of 2024, while retail sales volumes have been volatile, with an uptick in March. Gilt yields have risen significantly in recent months, partly reflecting global developments. The labour market continues to cool, as falling vacancies are bringing the vacancy-to-unemployment ratio back to pre-pandemic levels. Increases in the national minimum wage, in employer social security contributions, and in utility bills kept services price inflation elevated, at 5.4% in the year to April, and maintained substantial domestic price pressures, with CPI inflation at 3.5% over the same period.

Survey measures of new export orders have plummeted, as the aggregate effective tariff faced by domestic goods exporters in US markets is estimated to have increased by almost 8 percentage points since the beginning of the year. This reflects new tariffs of 10% on cars up to a tariff-rate quota of 100 000 vehicles, and 10% on all other goods exports to the United States apart from exempted items, such as pharmaceutical products and steel and aluminium, as well as the removal of tariffs on beef, up to a duty-free quota of 13 000 metric tonnes. More than a fifth of UK exports are destined for US markets, but less than a third of these are goods, worth about 2% of GDP. Among these, pharmaceutical products account for about a third, while cars and car parts account for about 20%. No retaliatory tariffs have been announced on imports from the United States, and tariffs have been removed on US ethanol up to a duty-free quota of 1.4 billion litres, and on US beef up to a duty-free quota of 13 000 metric tonnes.

United Kingdom 1



1. S&P Global UK Purchasing Manager Indexes; values above 50 indicate expansion.
Source: S&P Global; and Bank of England.

StatLink https://stat.link/bo3r98

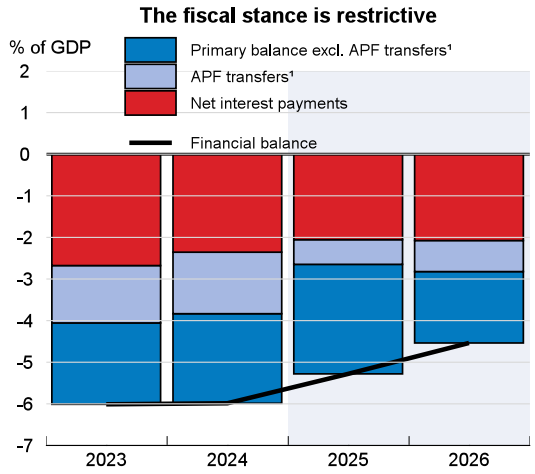
United Kingdom: Demand, output and prices

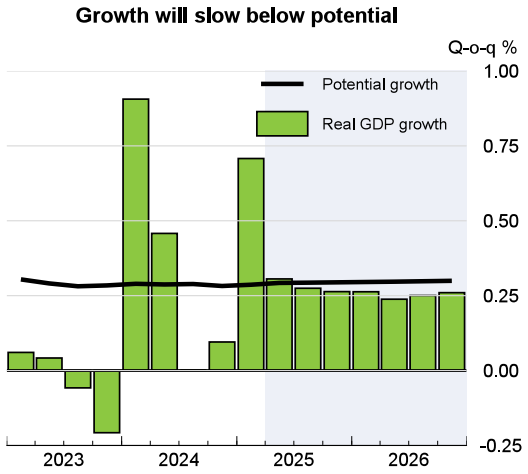
United Kingdom	2021	2022	2023	2024	2025	2026
	Current prices GBP billion	Percentage changes, volume (2022 prices)				
GDP at market prices	2 285.4	4.8	0.4	1.1	1.3	1.0
Private consumption	1 369.8	7.4	0.5	0.6	0.9	0.9
Government consumption	508.7	0.6	1.6	3.0	1.2	1.5
Gross fixed capital formation	404.9	5.1	0.3	1.5	3.7	2.0
Final domestic demand	2 283.5	5.5	0.7	1.3	1.4	1.2
Stockbuilding¹	7.0	-0.6	-0.7	1.1	1.0	0.0
Total domestic demand	2 290.5	5.0	0.0	2.4	2.5	1.2
Exports of goods and services	666.9	12.6	-0.4	-1.2	1.2	0.5
Imports of goods and services	672.0	13.0	-1.2	2.7	4.5	1.2
Net exports¹	- 5.1	-0.2	0.3	-1.3	-1.1	-0.2
Memorandum items						
GDP deflator	_	5.4	6.9	4.0	3.5	2.0
Harmonised index of consumer prices	_	9.1	7.3	2.5	3.1	2.3
Harmonised index of core inflation²	_	5.9	6.2	3.7	3.1	2.3
Unemployment rate (% of labour force)	_	3.8	4.0	4.3	4.6	4.6
Household saving ratio, gross (% of disposable income)	_	6.0	7.3	10.1	11.6	11.7
General government financial balance (% of GDP)	_	-4.6	-6.0	-6.0	-5.3	-4.5
General government gross debt (% of GDP)	_	99.6	100.4	101.3	102.5	104.3
Current account balance (% of GDP)	_	-2.1	-3.5	-2.7	-3.2	-3.5

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/52sj39

United Kingdom 2





1. Transfers to and from the Bank of England under the Asset Purchase Facility indemnification arrangement.
Source: OECD Economic Outlook 117 database; and Office for Budget Responsibility.

StatLink https://stat.link/0ru51o

The fiscal stance is restrictive as monetary easing continues

Bank Rate is projected to be lowered gradually from its current value of 4.25% and reach a terminal value of 3.5% in the second quarter of 2026, as inflation continues to converge towards target and growth slows below potential. The unwinding of the stock of assets held for monetary purposes in the Asset Purchase Facility is assumed to proceed at an unchanged pace, with the GBP 100 billion target for gilt stock reduction over the 12-month period to September 2025 renewed for another year.

Fiscal tightening will continue, with consolidation of about 1.2% of potential GDP between 2024 and 2026. To comply with its fiscal rules, the government implemented tax and spending adjustments in the spring statement, including cuts to welfare spending on incapacity of GBP 5 billion (slightly under 0.2% of GDP), and other tax measures of GBP 2 billion. Moreover, defence spending will be increased by GBP 7 billion (a little over 0.2% of GDP), fully funded through cuts in overseas aid. The government deficit will improve substantially, from 6.0% of GDP in 2024 to 5.3% in 2025 and 4.5% in 2026, owing to both consolidation and rising tax receipts, as debt interest spending remains high. Public debt is set to continue rising, reaching 104% of GDP in 2026. With the ongoing fiscal consolidation, tax receipts will keep rising to about 37.5% of GDP by fiscal year 2026-27. Further supply-side reforms, including the overhaul of the National Planning Policy Framework, are expected to increase potential output and could help to lower fiscal pressures in the longer run.

Growth will remain modest while public finances are under pressure

GDP is projected to grow by 1.3% in 2025 and 1.0% in 2026. Adverse effects from heightened trade tensions and uncertainty on business sentiment and consumer confidence will significantly weigh on growth. The drag on external demand, private consumption, and business investment is projected to more than offset the positive effects of last autumn's budgetary measures on government consumption and investment. Higher import prices will slow the disinflation process in 2025, before the emergence of spare

capacity and the loosening of the labour market create downward pressure in 2026. Unemployment is expected to increase moderately to 4.6%.

The state of the public finances is a significant downside risk to the outlook if the fiscal rules are to be met. Currently very thin fiscal buffers could be insufficient to provide adequate support without breaching the fiscal rules in the event of renewed adverse shocks. Elevated services price inflation constitutes another downside risk, as it could require the monetary stance to remain tighter for longer. Relatively high excess savings are an upside risk to private consumption and housing investment.

Continuing to rebuild fiscal buffers and to focus on the supply side is essential

Strengthening the public finances remains a priority, by delivering on the government's ambitious fiscal plans, including through the upcoming spending review. A balanced approach should combine targeted spending cuts, including closing tax loopholes; revenue-raising measures such as re-evaluating council tax bands based on updated property values; and the removal of distortions in the tax system. To boost investment and revive productivity growth, it is necessary to deliver on the planned overhaul of the National Planning Policy Framework to unlock infrastructure projects and housing development. To reverse the decline in labour market participation, swiftly implementing pro-work reforms to the welfare state is key, while protecting the most vulnerable. Proceeding with the ongoing reform of childcare support, including by addressing potential bottlenecks and prioritising low-income households if childcare supply falls short of demand, is required to continue promoting female labour market participation.

United States

Growth is expected to slow markedly to 1.6% in 2025 and 1.5% in 2026. This reflects the substantial increase in the effective tariff rate on imports and retaliation from some trading partners, high economic policy uncertainty, a significant slowdown in net immigration, and a sizeable reduction in the federal workforce. Annual headline inflation is set to pick up to 3.9% by end-2025 due to higher import prices but is expected to ease throughout 2026, aided by moderate GDP growth and higher unemployment. Risks to the growth projection are skewed to the downside, including a more substantial slowing of economic activity in the face of policy uncertainty, greater-than-expected upward pressure on prices from tariff increases, and large financial market corrections.

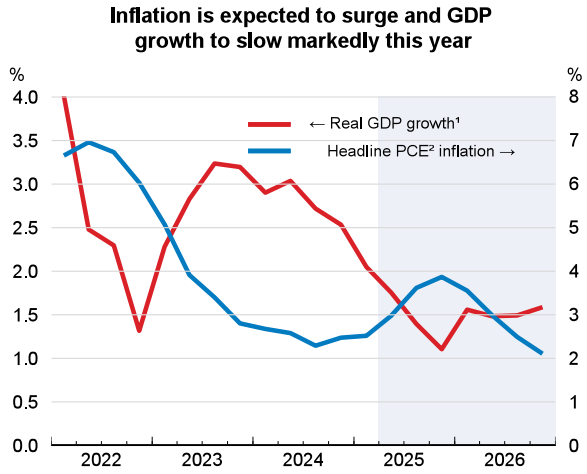
Further easing of monetary policy will be warranted once inflation begins to abate and so long as inflation expectations remain well-anchored. Large budget deficits are expected for a sustained period, contributing to a high and rising government debt-to-GDP ratio. A significant fiscal adjustment will be required over several years. To ensure sustained growth and resilience, further efforts are needed to resolve trade tensions with international partners and reduce policy uncertainty.

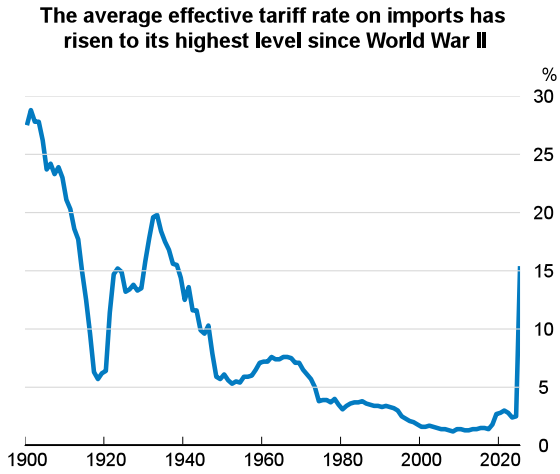
The economic outlook has deteriorated

GDP grew at a robust pace of 2.8% in 2024, driven largely by private consumption and government spending, while further progress was made on disinflation. Although the advance estimate of GDP growth in the first quarter of 2025 was negative, this weakness likely reflected distortions from announced and anticipated actions on tariffs. Incoming hard data have generally indicated that the US economy began the year with considerable momentum. Final private demand remained resilient in the first quarter, monthly payroll growth averaged about 145 000 through the first four months of the year, and the unemployment rate remained low at 4.2%. By contrast, recent soft data indicators, such as surveys of consumer and business sentiment and inflation expectations, suggest a notable cooling of real GDP growth and a significant increase in inflation expectations. Measures of economic policy uncertainty have soared, and equity and bond markets have been characterised by elevated uncertainty and volatility. Meanwhile, inflation has proven sticky over recent quarters, with annual headline inflation remaining about 0.5 percentage point above the Federal Reserve's target of 2% through the first quarter of 2025.

There has been a significant shift in US trade policy since February through a wide range of announcements regarding new tariffs and other trade restrictions, some of which have been reversed, delayed or modified, together with retaliation by some trading partners. A technical assumption is made that the tariffs prevailing as of mid-May will remain in place through the rest of 2025 and in 2026. Since the start of the year, the effective tariff rate on Chinese imports has risen by about 30%, while the effective tariff rate on other trading partners has risen to around 10%, on average. This represents an unprecedented increase in the average effective tariff rate, raising it from about 2.5% to above 15%, the highest rate since World War II. While the new tariffs may increase incentives to produce in the United States, higher import prices will reduce real incomes for consumers and raise the price of imported intermediate goods. Tariffs and policy uncertainty disrupt value chains and negatively affect investment. Border encounters between US Customs and Border Protection officials and illegal entrants to the United States, a proxy for net immigration, have fallen sharply over the past year from their previously elevated levels and are now well below pre-pandemic levels, when net immigration averaged about 1 million annually. Slower net immigration will contribute to lower growth in both supply and demand.

United States 1





1. Year-on-year percentage changes.
2. Personal Consumption Expenditures price index.
Source: OECD Economic Outlook 117 database; and U.S. Tax Foundation.

StatLink https://stat.link/fvo6qj

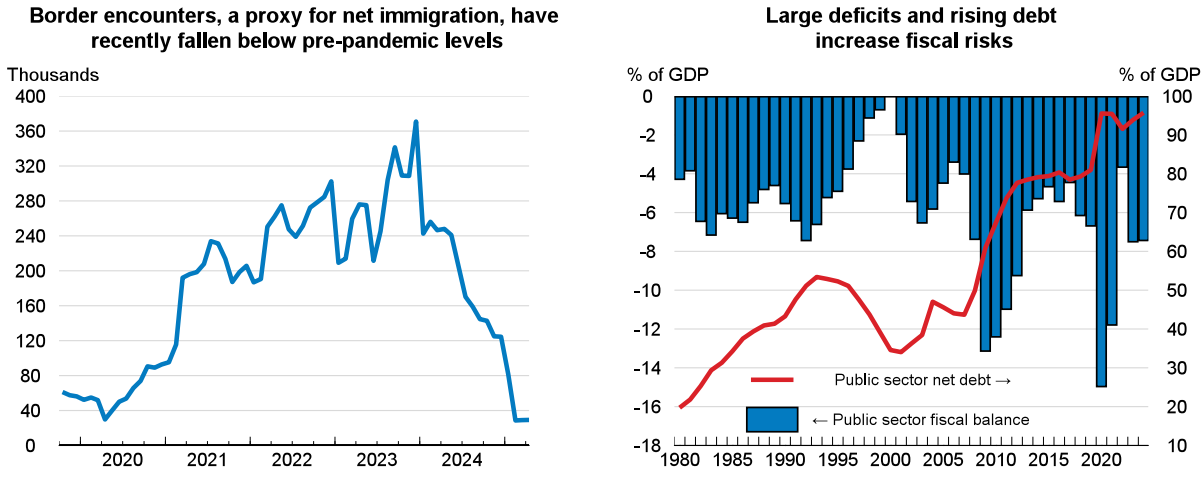
United States: Demand, output and prices

United States	2021	2022	2023	2024	2025	2026
	Current prices USD billion	Percentage changes, volume (2017 prices)				
GDP at market prices	23 681.2	2.5	2.9	2.8	1.6	1.5
Private consumption	16 113.9	3.0	2.5	2.8	2.1	1.3
Government consumption	3 375.3	-1.1	2.9	2.5	0.7	0.7
Gross fixed capital formation	5 039.8	2.0	3.2	4.3	1.0	0.4
Final domestic demand	24 529.0	2.3	2.7	3.0	1.7	1.1
Stockbuilding¹	12.2	0.6	-0.4	0.1	0.4	0.0
Total domestic demand	24 541.2	2.8	2.3	3.1	2.1	1.0
Exports of goods and services	2 555.4	7.5	2.8	3.3	1.9	1.9
Imports of goods and services	3 415.5	8.6	-1.2	5.3	5.9	-1.6
Net exports¹	- 860.0	-0.4	0.5	-0.4	-0.6	0.4
Memorandum items						
GDP deflator	_	7.1	3.6	2.4	3.4	2.7
Personal consumption expenditures deflator	_	6.6	3.8	2.5	3.2	2.8
Core personal consumption expenditures deflator²	_	5.4	4.1	2.8	3.5	2.8
Unemployment rate (% of labour force)	_	3.6	3.6	4.0	4.2	4.3
Household saving ratio, net (% of disposable income)	_	3.1	4.9	4.7	4.3	5.0
General government financial balance (% of GDP)	_	-3.7	-7.5	-7.4	-7.5	-8.1
General government gross debt (% of GDP)	_	118.6	121.2	122.9	125.2	128.8
Current account balance (% of GDP)	_	-3.9	-3.3	-3.9	-4.1	-3.4

1. Contributions to changes in real GDP, actual amount in the first column.
2. Deflator for private consumption excluding food and energy.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/bkftp6

United States 2



Source: U.S. Customs and Border Protection; and OECD Economic Outlook 117 database.

StatLink https://stat.link/hwgc08

The large budget deficit will expand further, while monetary policy easing will be on hold this year

The budget deficit on a general government basis is expected to rise from around 7½ per cent of GDP in 2024 to over 8% in 2026, with the net debt-to-GDP ratio exceeding 100% by end-2026. New tariff revenues and spending cuts resulting from the shrinking of the federal workforce will be deficit-reducing. However, these effects will be more than offset by a slowing in revenue growth from weaker economic activity, as well as the expected enactment of a fiscal package for fiscal year 2026 and beyond that would extend the expiring provisions of the 2017 Tax Cuts and Jobs Act, make additional personal and corporate income tax cuts and boost spending on border security, while making further spending cuts, primarily related to health care. This fiscal package is responsible for most of the projected 0.6 percentage point of GDP rise in the deficit in 2026.

Monetary policy easing, which began in the third quarter of 2024, is likely to be on hold throughout 2025 given that inflation, already somewhat above target, is projected to move higher this year. The Federal Open Market Committee is expected to wait to see renewed progress towards its inflation mandate, even in a context of slowing growth. As long as inflation expectations remain well anchored, monetary policy easing should resume in 2026 with a cumulative 100 basis point cut in the policy rate, bringing it to 3¼-3½ per cent by end-2026.

GDP growth is set to slow and risks are skewed to the downside

Real GDP growth is expected to slow significantly from its 2024 pace. The substantial increase in the effective tariff rate on US imports and elevated policy uncertainty will dent household consumption and business investment growth. Both export and import growth will slow because of tighter trade policies and weaker demand, but the impact on imports will be greater than that on exports given the asymmetry in the change in tariffs, leading to a modest reduction in the current account deficit. With slower aggregate demand growth, the unemployment rate is projected to rise to 4.4% in early 2026, with the increase mitigated by the immigration slowdown. Annual headline inflation is expected to increase sharply to 3.9%

by the end of 2025 as the tariffs are implemented and passed onto consumers. Inflation should then fall rapidly in 2026 as the upward impact of the tariff increases on the price level drops out and sluggish growth mitigates second-round effects.

Risks to growth are skewed to the downside. These include a more pronounced slowing of household consumption and investment due to elevated policy uncertainty and resulting financial market corrections. Monetary policy easing may be derailed should inflation expectations become de-anchored due to greater-than-expected upward pressure on prices, leading to higher interest rates than assumed. A key upside risk is that the tariff increases are unwound further. In addition, the economy could prove more resilient to the tariff shock than expected, especially if less of the tariff increase is passed on to the final consumer than is usually found to be the case. Deregulation of key sectors of the economy and new advances in artificial intelligence could also provide a boost to growth.

A resolution of trade tensions and a reduction in policy uncertainty are needed

To ensure sustained growth and resilience, it will be important to mitigate the disruption and uncertainty now prevailing. One key step is to resolve tensions with international trading partners. Any cuts to federal spending and the federal workforce should be well-targeted and not threaten the delivery of vital government services and research programmes. Reforms to immigration policy should be mindful of potential disruption in important sectors of the economy, such as construction and agriculture. The large structural budget deficit and rising debt ratio increase fiscal risks. A significant fiscal adjustment will be required over several years to help mitigate these risks, which would be supported by a solid medium-term fiscal framework. Strengthened competition policies and antitrust enforcement in concentrated industries with high prices, such as telecommunications, could also increase business investment, innovation, and overall economic growth. Other areas for improvement include simplifying the administrative and regulatory burden on business, as well as streamlining the licensing system for starting new firms. More generally, policymaking should be clear, predictable, and consistent to minimise the negative effects of policy uncertainty on economic activity and, in particular, on investment.

Viet Nam

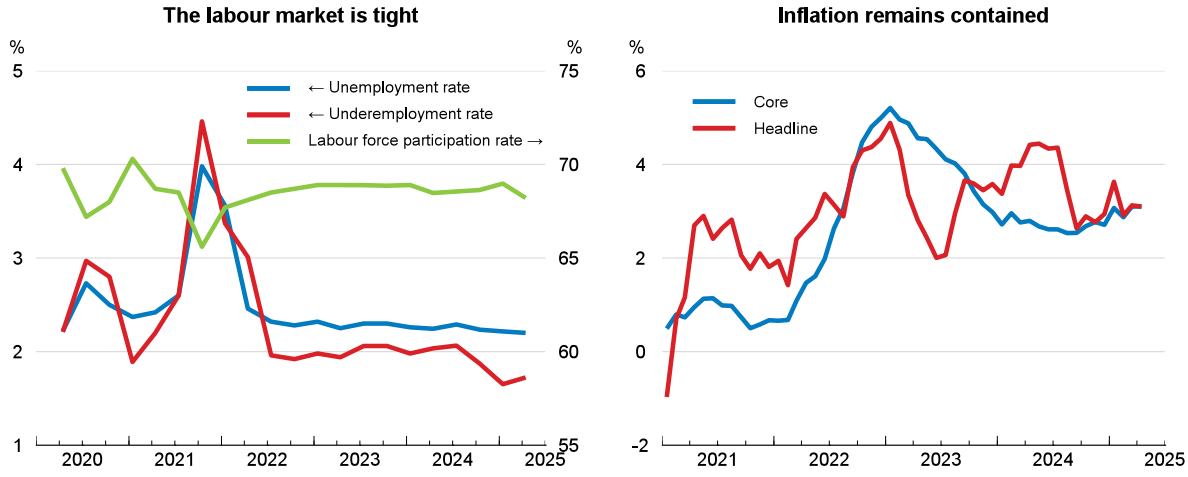
GDP growth is projected to slow to 6.2% in 2025 and 6.0% in 2026, as global policy uncertainty dampens foreign investment and exports. Private consumption will remain buoyant amid rising real wages. Planned increases in public investment will support domestic investment, but foreign investment inflows are expected to weaken. Inflation is projected to pick up. As a trade-dependent economy, Viet Nam remains highly exposed to external developments.

The monetary policy stance is expected to remain accommodative, but vigilance is needed amid emerging inflationary pressures. Fiscal policy is expected to support growth in 2025 by working off a past backlog of public investment projects but should eventually turn more neutral. Improvements in the macroeconomic policy framework and financial sector reforms could improve resource allocation and bolster growth, while a more comprehensive social protection system could improve resilience to shocks. An accelerated rollout of renewable energy sources in the power sector could make growth more sustainable.

Activity has been strong

GDP increased by 7.1% in 2024, after moderate growth of 5.1% in 2023. Final consumption, gross capital formation and exports of goods and services all contributed to the steady expansion. Unemployment has fallen to a historic low of 2.2% in March 2025, the underemployment rate has fallen, and labour force participation has risen. Headline inflation has declined from its recent peak of 4.4% in May 2024, reaching 3.1% in April 2025. Core inflation fell to 2.5% in September 2024 but has since picked up again.

Viet Nam



Note: Core inflation excludes food and foodstuffs; energy and items managed by the state as healthcare and education.
Source: CEIC.

StatLink https://stat.link/iphg1d

Viet Nam: Demand, output and prices

Viet Nam	2021	2022	2023	2024	2025	2026
	Current prices VND trillion	Percentage changes, volume (2010 prices)				
GDP at market prices	8 487.5	8.5	5.1	7.1	6.2	6.0
Private consumption	4 712.2	7.9	3.4	6.7	6.5	6.2
Government consumption	813.5	3.0	4.6	5.8	5.4	5.3
Gross fixed capital formation	2 634.1	5.9	4.6	7.1	7.6	8.0
Final domestic demand	8 159.8	6.7	3.9	6.8	6.8	6.7
Stockbuilding[1]	240.7	-0.8	-0.8	0.9	0.7	0.0
Total domestic demand[2]	8 400.5	5.7	3.1	7.6	7.4	6.6
Exports of goods and services	7 965.5	4.0	-2.5	15.5	8.0	5.4
Imports of goods and services	7 878.6	1.5	-4.5	16.1	9.3	6.0
Net exports[1]	87.0	2.6	2.0	-0.4	-1.2	-0.7
Memorandum items						
GDP deflator	_	4.4	2.1	4.2	4.2	3.3
Consumer price index	_	3.2	3.3	3.6	3.7	3.8
Current account balance (% of GDP)	_	-0.3	5.8	5.7	4.2	3.8

1. Contributions to changes in real GDP, actual amount in the first column.
2. Data for nominal value includes the statistical discrepancy.
3. Consumer price index excluding food, energy and items managed by the state, including healthcare and education.
Source: OECD Economic Outlook 117 database.

StatLink https://stat.link/wcobgm

Exports of goods and services increased significantly by 15.5% in 2024, after a mild contraction in 2023. Exports to the United States account for 30% of Viet Nam's exports of goods and increased by 23.2% in 2024. This makes Viet Nam vulnerable to higher US import tariffs, which are currently 10% but could rise to 46%. Exports to China, Viet Nam's second largest export market, were essentially flat in 2024. These trends continued in the first three months of 2025. Foreign direct investment has been a driver of growth and increased since mid-2024.

Macroeconomic policies could become more neutral if inflation rises

Fiscal policy will continue to support growth through increased public investment in the near term, as the government seeks to make up for past undershooting of investment plans. Emerging inflationary pressures, however, would eventually suggest moving from an accommodative fiscal stance towards a more neutral one. The central bank has maintained an accommodative monetary policy stance since June 2023, using both interest rate cuts and direct credit growth targets for banks. This stance is expected to continue. With a robust recovery underway, the focus should be on closely monitoring inflation risks that could arise from increases in pensions and the minimum wage, as well as expected increases in administrative prices, and monetary policy should stand ready to tighten if needed.

Growth is projected to weaken

GDP is projected to increase by 6.2% in 2025 and 6% in 2026 on the back of domestic demand, while export demand and foreign direct investment inflows will be weaker until policy uncertainty dissipates. Private consumption will be supported by continued increases in real wages and employment, with investment buoyed by accelerated public investment disbursements. Inflation is projected to rise due to strong domestic demand, and there is a risk that these inflationary pressures turn out stronger than

projected, although lower export demand could weaken them. As foreign direct investment and exports have been Viet Nam's principal growth engines, higher trade barriers and continued policy uncertainty constitute major downside risks to the outlook. If trade barriers in export markets diminish Viet Nam's attractiveness as an investment destination, growth could weaken substantially.

Structural reforms would strengthen investment, social protection and sustainability

Reducing barriers to foreign ownership in services sectors would promote continued inflows of foreign direct investment. Social benefits, including old-age pensions, remain patchy amid widespread labour informality. Well-coordinated reforms to expand non-contributory social assistance benefits while maintaining strong incentives for formal job creation would support both resilience to shocks and productivity. Reducing emissions from electricity generation by phasing out coal-fired plants and accelerating the rollout of renewable energy sources will be key for more sustainable growth. Foreign-owned firms have been a driver of growth but have developed few supplier links to local firms. More investment in tertiary education could foster these links and strengthen productivity, combined with stronger competition in services sectors and a more even playing field between private and state-owned companies.

OECD Economic Outlook

Tackling Uncertainty, Reviving Growth

June 2025

Volume 2025/1, No. 117

The global outlook is becoming increasingly challenging. Substantial increases in barriers to trade and heightened policy uncertainty will have marked adverse effects on growth prospects if they persist. On the assumption that tariff rates as of mid-May are sustained, global GDP growth is projected to slow notably this year and to remain subdued in 2026. Growth could be even weaker if there are additional increases in trade barriers and policy uncertainty. Inflationary pressures could be stronger than expected due to higher trade costs and rising inflation expectations, prompting more restrictive monetary policy and repricing in financial markets. On the upside, a reversal of the recent increase in trade barriers, steps to reduce regulatory burdens or an early resolution of geopolitical conflicts could have positive impacts on global growth. The key policy priorities are to ensure a lasting decline in policy uncertainty, trade tensions and inflation, establish a credible fiscal path to debt sustainability while providing temporary support to those vulnerable to economic shocks, and implement ambitious reforms to strengthen growth prospects and investment.

This issue includes an assessment of the global economic situation, a chapter on investment and a chapter summarising developments and providing projections for each individual country. Coverage is provided for all OECD members as well as for selected partner economies.

PRINT ISBN 978-92-64-34736-6
PDF ISBN 978-92-64-87597-5