

OECD Economic Outlook

Resilient Growth but with Increasing Fragilities

December 2025

Volume 2025/2, No. 118



OECD ECONOMIC OUTLOOK

118

DECEMBER 2025

RESILIENT GROWTH BUT WITH INCREASING
FRAGILITIES

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Please cite this publication as:

OECD (2025), *OECD Economic Outlook, Volume 2025 Issue 2: Resilient Growth but with Increasing Fragilities*, OECD Publishing, Paris, <https://doi.org/10.1787/9f653ca1-en>.

ISBN 978-92-64-41773-1 (print)
ISBN 978-92-64-78880-0 (PDF)
ISBN 978-92-64-59476-0 (HTML)

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

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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 Luiz De Mello, Asa Johansson, Isabell Koske and Filiz Unsal, 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 Dan Andrews, with Dan Andrews, Joana Duran-Franch and Sébastien Turban as the principal authors.

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

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, Rosario Hernando Cruz, Robin Houng Lee, Sophie Jenkins, Elodie Lormel 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

Resilient growth but with increasing fragilities

The global economy has been resilient this year, despite concerns about a sharper slowdown in the wake of higher trade barriers and significant policy uncertainty. Activity has held up thanks to front-loading of production and trade, strong AI-related investment, and supportive fiscal and monetary policies.

Yet, global trade growth moderated in the second quarter of this year, and we expect higher tariffs to gradually feed through to higher prices, reducing growth in household consumption and business investment. Labour markets are still relatively tight, but are showing signs of easing, as job openings have fallen back to their pre-pandemic levels of 2019.

Our projections point to a moderation of global GDP growth, from 3.3% in 2024, to 3.2% in 2025 and 2.9% in 2026, followed by a small rebound to 3.1% in 2027. Inflation is expected to gradually return to target in most major economies by mid-2027.

This outlook remains fragile. A further rise in trade barriers, especially around critical inputs, could inflict significant damage on supply chains and global output. High asset valuations based on optimistic expectations of AI-driven corporate earnings pose a risk of potentially abrupt price corrections. Fiscal vulnerabilities may push long-term sovereign yields higher, tightening financial conditions and hampering growth.

Constructive dialogue between countries is central to ensure a lasting resolution to trade tensions and improve the economic outlook. All other things being equal, well-functioning open global markets mean better living standards and stronger growth. Governments should engage productively with one another to make international trading arrangements fairer and function better, in a way that preserves the economic benefits of open markets and rules-based global trade.

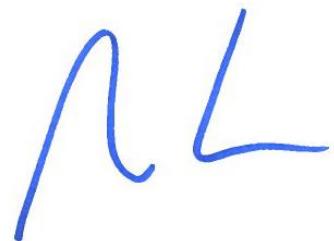
Central banks should remain vigilant, continuing to lower rates where inflation is firmly at or returning to targets, yet be ready to adjust course in case of renewed inflationary pressures or unexpected labour market weakness. Financial regulators must ensure effective oversight of non-bank financial institutions and crypto assets, to ensure financial innovation does not lead to undue financial stability risks.

Fiscal discipline is necessary to tackle high and rising public debt, and maintain fiscal space to react to shocks. Systematic and regular spending reviews, strengthened public procurement practices, greater digital technology adoption in government, and better targeting of social benefits would improve efficiency of public spending and free up spending for areas that better support opportunities and growth.

Ambitious structural reforms are important to unlock stronger prospects for economic growth. Current potential GDP per capita growth in the OECD is estimated at 1.4%, down from around 2.2% in the late 1990s. Policy reforms that reduce red tape, simplify regulations and lower entry barriers in service sectors are key for enhancing competition, innovation, productivity and business dynamism.

This OECD Economic Outlook projects a relatively mild negative impact of recent trade shocks and elevated uncertainty on the global economy. Policymakers need to tackle underlying fragilities, advance structural reforms and optimise public finances, in order to durably strengthen growth prospects and living standards.

2 December 2025

A handwritten signature in blue ink, appearing to read "MC".

Mathias Cormann
OECD Secretary-General

1. General assessment of the macroeconomic situation

Introduction

The global economy has proved more resilient than expected this year, but underlying fragilities remain. Supportive macroeconomic policies, improved financial conditions fuelled by optimism about the potential impact of new technologies, and rising AI-enabling investment and trade have helped underpin demand to a varying extent across economies, cushioning the headwinds from elevated policy uncertainty and rising barriers to trade. The full effects of higher tariffs have yet to be felt, but are becoming increasingly visible in spending choices, business costs and consumer prices, especially in the United States. Global trade growth has moderated after strong front-loading of merchandise trade early in the year ahead of anticipated tariff increases, and inflation has yet to return to target in some countries. There are also some signs of weakening labour demand across economies. Global GDP growth is projected to slow from 3.2% in 2025 to 2.9% in 2026, before picking up to 3.1% in 2027. Further policy interest rate reductions are expected, and little fiscal tightening is anticipated in many countries despite the need to address rising budgetary pressures. Labour markets are projected to continue to ease, putting additional downward pressure on labour cost growth and inflation. Annual consumer price inflation in the G20 countries is expected to moderate to 2.8% and 2.5% in 2026 and 2027 respectively, from 3.4% this year. By mid-2027, inflation is projected to be back to target in almost all major economies.

These projections are subject to substantial risks, which may interact with each other. Further increases or swift changes in trade barriers, including the application of higher tariff rates to a broader range of goods or stricter controls on the export of critical products such as rare earth elements, would weaken growth, add to policy uncertainty, and generate significant disruptions in global supply chains. Weaker-than-expected growth, lower-than-expected returns from net AI investment, or upside inflation surprises could all trigger widespread risk repricing given stretched asset valuations and optimism about corporate earnings, and be amplified by forced asset sales by highly leveraged non-bank financial intermediaries (NBFIs). The high price volatility of crypto-assets and the growing interconnectedness of NBFIs with the traditional financial system also raise financial stability risks. Failure to make progress in tackling fiscal vulnerabilities could prompt additional increases in long-term sovereign bond yields, tightening financial conditions, raising debt service burdens and adversely affecting growth prospects. On the upside, agreements that result in a reversal of the increase in trade barriers would provide additional support to growth and reduce inflation pressures. Businesses may also prove more adaptable than expected when faced with significant adverse shocks and elevated uncertainty, limiting the downside impact on growth. The future productivity benefits of new technologies could also emerge more rapidly and more widely than anticipated, providing an additional impetus to global growth prospects.

Against this backdrop, the key policy priorities are to ensure a lasting decline in trade tensions, policy uncertainty and inflation, address emerging financial stability risks, establish a credible fiscal path to debt sustainability, and implement ambitious reforms to strengthen productivity growth.

- 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 and deepen trade relations would improve policy certainty and strengthen the prospects for investment, productivity and output growth. Additional areas where opportunities exist for reforms include further improvements in trade facilitation, reductions in regulatory barriers that impede access to national services markets, and initiatives to enhance the cross-border digital delivery of services.
- Central banks should remain vigilant and react promptly to shifts in the balance of risks to price stability. Provided inflation expectations remain well anchored, policy rate reductions should continue in economies in which underlying inflation is projected to moderate or remain subdued. The issues facing policymakers will vary across countries, with the downside impact on demand and labour markets from higher uncertainty and weaker exports likely to be the key influence on policy decisions in most countries, but upside inflationary pressures being a more pertinent concern in countries raising tariffs.
- Faced with mounting risks to financial stability, and the increasing linkages between banks and many less regulated non-bank financial intermediaries (NBFIs), effective monitoring and supervision of banks, and progressing with robust regulatory policies for NBFIs and crypto-assets in line with internationally agreed recommendations by the G20 and the Financial Stability Board are key steps to safeguard stability.
- Governments need to ensure longer-term debt sustainability and maintain the ability to react to future shocks, with monetary policy normalisation and growth close to trend providing an opportune moment to act in many economies. Stronger efforts to contain and reallocate spending, improve public sector efficiency 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. Spending and tax choices should focus on the need to strengthen sustainable economic growth while preserving adequate support for those in need.
- Rising protectionism, geopolitical uncertainty and weak growth prospects reinforce the need for ambitious structural policy reforms that strengthen living standards, enhance resilience and help to improve prospects for debt sustainability. One area of focus should be regulatory reforms, particularly those that improve the incentives and ability for businesses to innovate and grow and the capacity for workers to move to those parts of the economy where their skills are most needed. Through enabling better resource reallocation, such improvements increase the adaptability of economies to future unexpected shocks and strengthen future productivity growth. Reforms to financial sector regulation can also support more efficient capital allocation and help buttress economies against systemic risks.

Table 1.1. Global GDP growth is projected to moderate next year and recover only slowly

Average 2013-2019	2024	2025	2026	2027	2025 Q4	2026 Q4	2027 Q4	
					Per cent			
Real GDP growth¹								
World ²	3.4	3.3	3.2	2.9	3.1	3.0	3.0	3.1
G20 ²	3.5	3.4	3.2	2.9	3.1	2.9	3.0	3.2
OECD ²	2.3	1.7	1.7	1.7	1.8	1.5	1.8	1.8
United States	2.5	2.8	2.0	1.7	1.9	1.8	1.6	1.9
Euro area	1.9	0.8	1.3	1.2	1.4	1.0	1.5	1.4
Japan	0.8	-0.2	1.3	0.9	0.9	0.5	1.3	0.7
Non-OECD ²	4.4	4.5	4.4	3.9	4.0	4.1	3.9	4.1
China	6.8	5.0	5.0	4.4	4.3	4.7	4.3	4.3
India ³	6.8	6.5	6.7	6.2	6.4			
Brazil	-0.4	3.4	2.4	1.7	2.2			
OECD unemployment rate⁴	6.5	4.9	5.0	5.0	4.9	5.0	5.0	4.9
Inflation⁵								
G20 ^{2,6}	3.0	6.3	3.4	2.8	2.5	2.9	2.6	2.4
OECD ⁶	1.6	5.0	4.2	3.5	2.8	4.2	3.1	2.6
United States ⁷	1.3	2.6	2.7	3.0	2.3	3.0	2.9	2.1
Euro area ⁸	0.9	2.4	2.1	1.9	2.0	2.0	1.9	2.0
Japan ⁹	0.9	2.7	3.2	2.2	2.1	2.7	2.2	2.1
OECD fiscal balance¹⁰	-3.1	-4.7	-4.5	-4.6	-4.6			
World real trade growth¹	3.3	3.9	4.2	2.3	2.8	3.3	2.7	2.9

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 118 database.

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Recent Developments

Global growth has been surprisingly robust

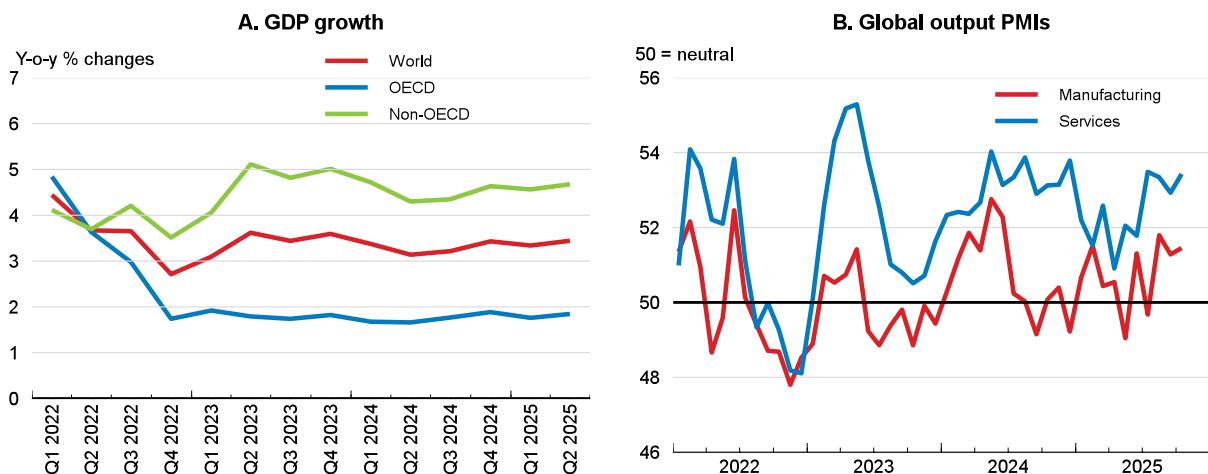
The global economy has shown surprising resilience in 2025 (Figure 1.1, Panel A). Front-loading of goods production and trade ahead of the introduction of higher tariff rates was a key factor in the early part of the year. Easier global financial conditions, supportive macroeconomic policies, real income growth, and strong demand for new AI-related investments in some countries, particularly the United States, are all providing broader support for demand, offsetting headwinds stemming from the gradual implementation of new trade policy barriers, still-elevated policy uncertainty, and declining residential investment.

Growth developments in advanced economies have been mixed. In the United States, private consumption growth has slowed compared with 2024, partly reflecting the imposition of higher tariff rates on imports and lower net immigration. The government shutdown in the fourth quarter has also resulted in some temporary weakness that should be reversed at least partially in the first quarter of 2026. However, very strong investment in information processing equipment and software has boosted growth (Box 1.1), and buoyant equity markets have generated favourable wealth effects for higher-income households. Private investment has also helped sustain output growth in Japan, even as relatively high inflation has weakened real household income gains, though residential investment fell in the third quarter of 2025. In contrast, in

the euro area, business investment growth has generally been sluggish, though disinflation, rising real incomes and fiscal easing supported activity through the first three quarters of the year. Accommodative fiscal policy, along with a decline in domestic policy uncertainty, has also underpinned stronger growth in Korea. In the United Kingdom, output gains have progressively slowed, with some activity pulled forward to the early months of the year in anticipation of tax increases and higher US tariff rates.

GDP growth has been surprisingly resilient in many emerging-market economies. Chinese production and demand were boosted by strong front-loading activity early in 2025, and the government trade-in programme for household durables, although the ongoing correction in the property market continues. Easier financial conditions, following reductions in policy interest rates, have helped to underpin domestic demand growth in several other emerging-market economies, including Colombia, India, Indonesia and Peru. Monetary policy easing also supported the Mexican economy through the first half of the year, though GDP and industrial production contracted in the third quarter amid high external and domestic policy uncertainty. In South Africa, monetary policy easing combined with pension reforms that eased access to retirement funds has boosted private consumption spending. In contrast, growth in Brazil has slowed as earlier monetary policy tightening has moderated domestic demand growth and agricultural production has returned to more normal levels following a spike in the first quarter of the year.

Figure 1.1. Global growth has remained resilient



Note: In Panel A, the global, OECD and non-OECD aggregates are derived using moving PPP weights. For Panel B, values below (above) 50 indicate that a balance of firms report a contraction (expansion).

Source: OECD Economic Outlook 118 database; S&P Global; and OECD calculations.

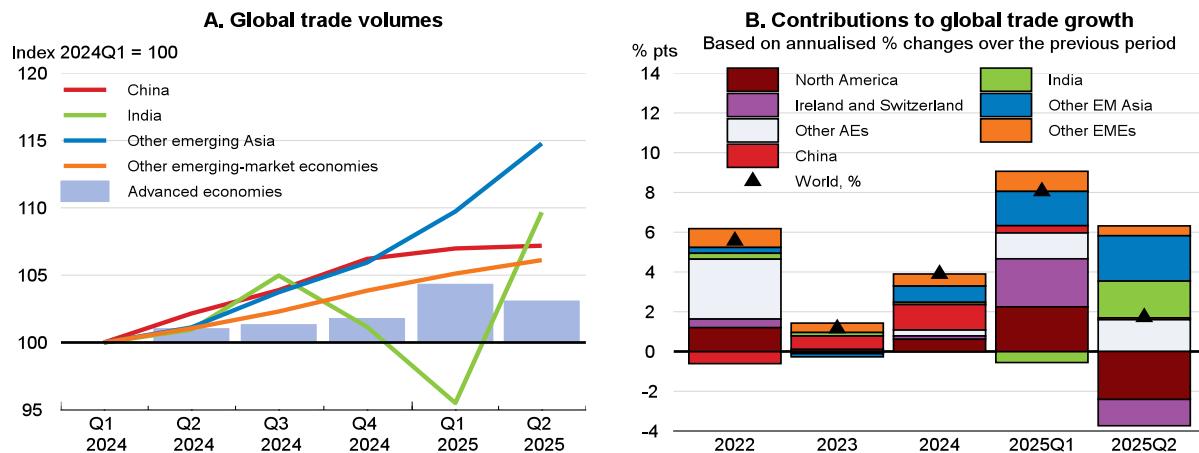
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Global trade volumes (goods plus services) have also been surprisingly robust this year. Front-loading of exports in the first quarter ahead of anticipated US tariff increases was stronger than anticipated, with global trade volumes rising at an annualised pace of 8.1%. In the second quarter, import volumes in the United States fell at an annualised rate of 29.3% as a result. However, the impact on aggregate global trade growth was partly offset by strong trade in India and continued buoyant trade growth in the smaller emerging Asian economies (Figure 1.2, Panels A and B).

Sustained growth in emerging Asian trade partly reflected rapid growth in Chinese import volumes, which rose at an annualised pace of 9.8% in the second quarter even as exports to the United States fell. The OECD Trade in Value Added dataset highlights the importance of final demand in China for exports in the South-East Asian economies (Figure 1.3, Panel A). Trade in many Asian economies is also being supported by a strong rise in AI-enabling trade, linked to the rapid growth in ICT equipment investment in the United States and some other economies (Box 1.1). Tech exports from Korea and Chinese Taipei continued to rise into the third quarter (Figure 1.3, Panel B). Estimates suggest that AI-related trade makes

up about 15.5% of total world merchandise trade, with two-thirds of that originating in Asia, 3% in Europe and 2.5% in North America (WTO, 2025a).

Figure 1.2. Trade growth has been resilient

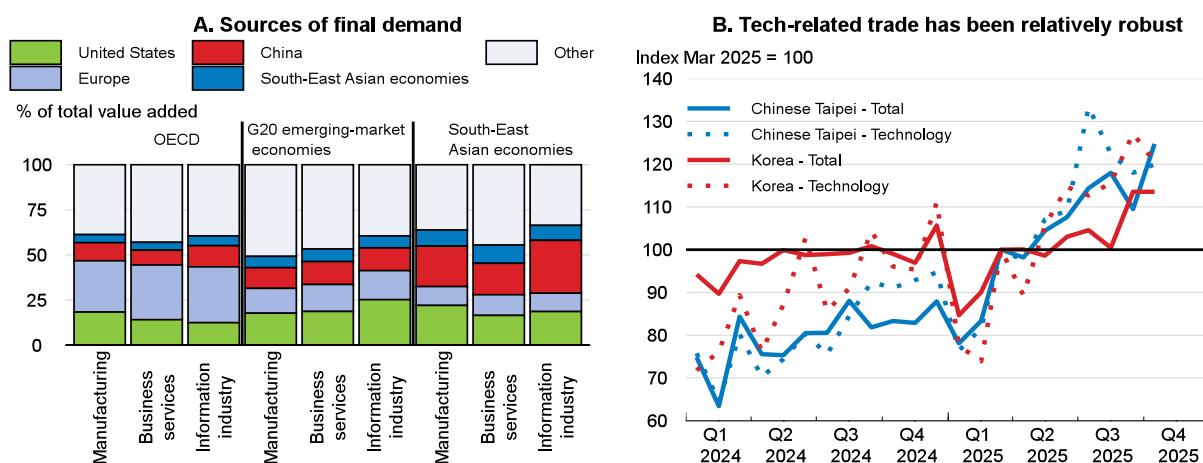


Note: The data correspond to quarterly trade of goods and services in volume (average of exports and imports). In Panel A, "Advanced economies" include OECD member countries other than Chile, Colombia, Costa Rica, Mexico, and Türkiye. "Other emerging Asia" includes Hong Kong (China), Indonesia, Malaysia, the Philippines, Singapore, Chinese Taipei, Thailand and Viet Nam. "Other emerging market economies" are all remaining emerging-market economies. In Panel B annual growth rates are shown for 2022-2024. "North America" includes Canada, Mexico and the United States. "Other AEs" in Panel B are the 33 advanced economies who are OECD members excluding "North America", Ireland and Switzerland. "Other EM Asia" corresponds to "Other emerging Asia" in Panel A. "Other EMEs" are the remaining emerging-market economies not shown separately.

Source: OECD Economic Outlook 118 database; and OECD calculations.

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Figure 1.3. Strong tech-related demand is supporting trade, particularly in Asia



Note: Panel A is based on 2022 data. The green bar shows that almost 20% of OECD domestic value added of the manufacturing industry was consumed as a final good by the United States; the red bar shows that around 13% of G20 EME domestic value added of the information industry was consumed as a final good by China. South-East Asian economies include Hong Kong (China), Malaysia, the Philippines, Singapore, Chinese Taipei, Thailand and Viet Nam. The G20 emerging-market economies include Argentina, Brazil, India, Indonesia, Saudi Arabia and South Africa. Manufacturing includes all ISIC codes 10 to 33; business services from 45 to 82; and the information industry shows ISIC codes 25 and 58 to 63. Panel B is based on values of exports. The Chinese Taipei tech indicator includes integrated circuits; dynamic random access memory integrated circuits; bare printed circuit boards; computer storage devices; and computer parts and accessories; the Korean tech exports indicator is based on semiconductors.

Source: OECD Trade in Value Added (TiVA) 2025 edition; Korean Ministry of Trade, Industry and Resources; Chinese Taipei Ministry of Finance; and OECD calculations.

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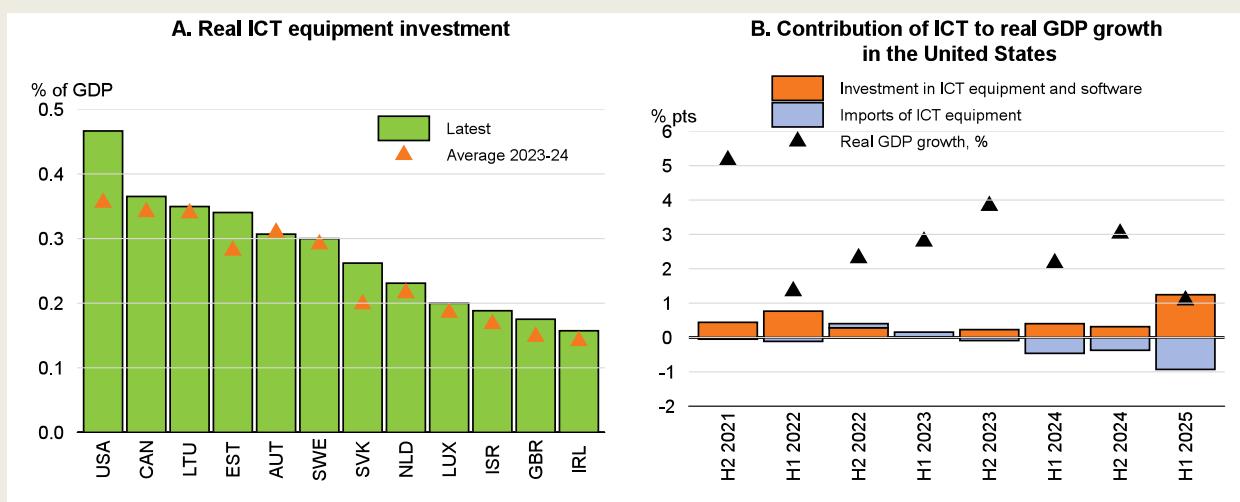
Box 1.1. Recent developments in ICT investment

Private investment in the information and communication technology (ICT) sector strengthened in the first half of 2025. Across those economies with comparable quarterly data, private investment in ICT equipment as a share of GDP has recently risen in many economies, most notably in the United States (Figure 1.4, Panel A). The strong growth in real ICT equipment investment in the United States is particularly notable given the high level of such investment, which is equivalent to around twenty times that in the United Kingdom or Canada. ICT equipment and software investment contributed strongly to real GDP growth in the United States in the first half of 2025 (Figure 1.4, Panel B), though imports of ICT equipment also grew rapidly, suggesting a more modest net impact on domestic output growth.

Other technology-related investment has also been rising rapidly. In the United States, real investment in the construction of data centres increased by an annualised rate of 21% in the first half of 2025, accounting for over 5% of total investment in non-residential construction (see Figure 1.25 below). The United States was already the location for 43% of global installed data centre capacity in 2024, with 25% in China and 16% in Europe (IEA, 2025a). The recent strength in data centre investment in the United States is likely to partially reflect the increased deployment of AI technologies.

Rapid ICT investment has been accompanied by strong growth in tech sector industrial production in some economies. This has been particularly evident in the United States and several Asian economies that have significant ICT production sectors, such as Korea, Singapore, Japan and Chinese Taipei (shown collectively in Figure 1.5, Panel A). In China, value added growth in the sector has also been strong, at 9.3% over the year to October 2025. In contrast, in the European Union, growth in the production of computer and electronic products has remained relatively subdued.

Figure 1.4. Strong ICT investment has supported economic growth



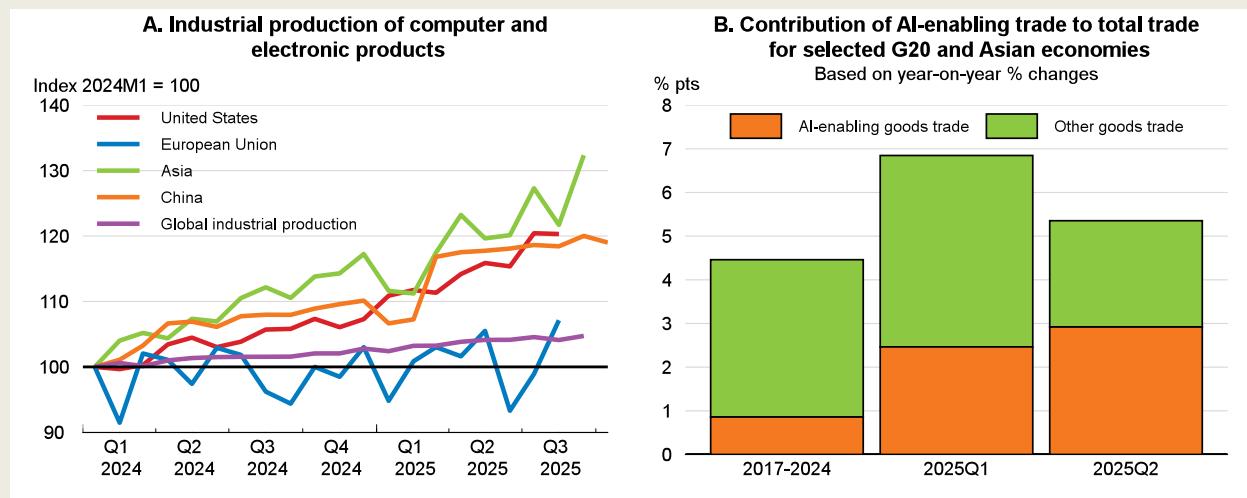
Note: In Panel A 'Latest' corresponds to 2025Q3 for Israel, the Netherlands and the United Kingdom, and to 2025Q2 for other countries. In Panel B, ICT equipment and software investment is defined as gross private domestic investment in information processing equipment and software. ICT equipment imports are defined as imports of computers, peripherals and parts.

Source: OECD Quarterly GFCF by Assets database; Bureau of Economic Analysis and OECD calculations.

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Strong growth in tech sector activity has underpinned global trade flows in the first half of the year. In particular, trade in goods that the World Trade Organisation defines as “AI-enabling” contributed over half the growth in trade for selected G20 and Asian economies in the second quarter of 2025, a substantial increase from the annual average contribution during the 2017-24 period (Figure 1.5, Panel B).

Figure 1.5. Global industrial production and trade are being supported by activity in the ICT sector



Note: Panel A is based on seasonally adjusted data in real terms. “Asia” is the weighted average of industrial production for Japan, Korea, Singapore and Chinese Taipei. The selected high-technology industries are: computer and electronic production for Asia, computer, electronic and optical products and electrical equipment for the EU (NACE Rev 2 C26), computers and peripheral equipment, communications equipment and semiconductors and related electronic components for the United States (NAICS 3341, 3342 and 3344), computer, communication & other electronic equipment for China. Panel B is based on monthly merchandise trade statistics in nominal USD terms. Trade values are computed as the average of exports and imports. The selected countries are G20 and South-East Asian economies for which timely customs data are available (Argentina, Australia, Brazil, Canada, China, European Union, United Kingdom, India, Japan, Mexico, Türkiye, the United States, South Africa, Hong Kong (China), Malaysia and the Philippines). These countries account for around two-thirds of global merchandise trade in 2024. AI-enabling goods are the 104 products at HS6 level defined by the WTO (2025b).

Source: OECD Main Economic Indicators database; Eurostat; General Administration of Customs China; Ministry of Economic Affairs Chinese Taipei; National Bureau of Statistics of China; Statistics Korea; Statistics Singapore; Ministry of Economy Trade and Industry of Japan; UN Comtrade; US Federal Reserve; and OECD calculations.

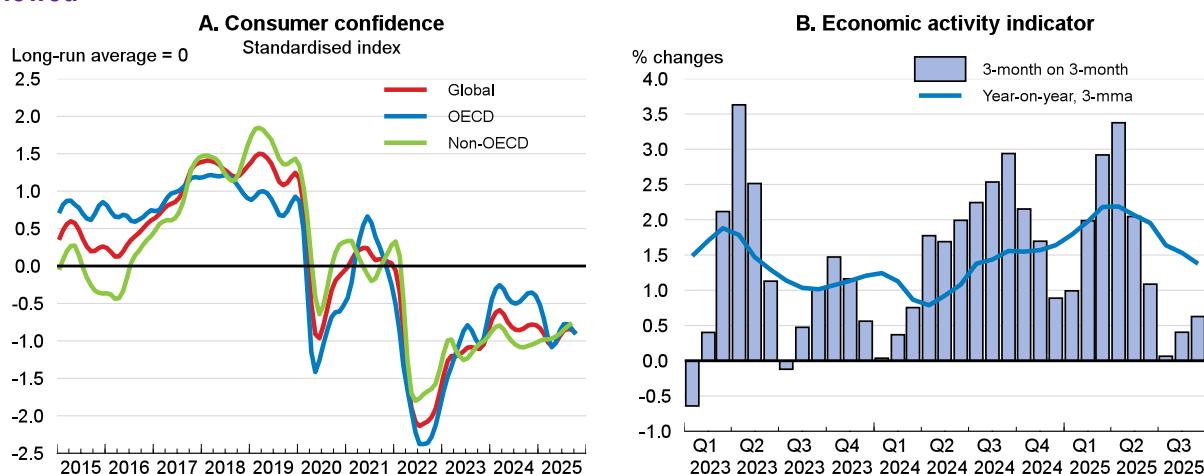
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Recent activity indicators are mixed

Recent business survey indicators suggest that output growth continued to hold up in most economies through to October (Figure 1.1, Panel B), with preliminary estimates suggesting this was maintained in advanced economies in November, but there are some signs of slowing momentum in other monthly activity data. As front-loading of consumption and investment spending has unwound, industrial production growth has moderated in some major economies, including Germany and Japan. Yet, the slowdown in industrial production growth has not been universal, with activity continuing to expand steadily in China and the United States. Despite elevated policy uncertainty, textual analysis of transcripts from earnings calls held during October and November by the top 50 listed companies in the United States do not indicate a slowdown in investment intentions. Consumer sentiment does seem to be impacted though, with confidence remaining subdued by historical standards and below the level observed in late 2024, especially in OECD economies (Figure 1.6, Panel A). This may also reflect recent rapid increases in food prices in some economies. A composite indicator of monthly economy-wide economic activity across 14 advanced and emerging-market economies suggests softer output growth in these economies in the third quarter of 2025 (Figure 1.6, Panel B).

Changes in US bilateral tariff rates between mid-May and mid-November have lowered the (ex-ante) effective tariff rate on US merchandise imports to an estimated 14.0% in the latter half of November from the 15.4% rate assumed in the June OECD Economic Outlook. The revision reflects the net effects of a lower tariff on imports of goods from China, new higher tariffs imposed at the country level since August, some higher sector tariffs, and an upward reassessment of the proportion of imports from Canada and Mexico that are compliant with the US-Canada-Mexico Free Trade Agreement (Box 1.2). Import tariffs on secondary copper products were raised by 50 percentage points, steel and aluminium tariffs were raised from 25 percentage points to 50 percentage points, and new tariffs were imposed on timber, trucks and buses. Offsetting these changes, the United States has lowered the general tariff increase imposed this year on all goods imports from China to 10% from 20%, and has signed trade agreements with Japan and the European Union, which include lower tariff rates for cars and parts, and civil aircraft exports to the United States, and a guaranteed tariff ceiling on pharmaceutical product exports. Trade agreements have also been signed with Switzerland, Korea and several emerging-market economies, including Argentina, Indonesia, Malaysia, Thailand, and Viet Nam.¹ The range of exempted agricultural products has also been expanded. The revised assessment of the proportion of USMCA-compliant merchandise imports from Canada and Mexico reduces the aggregate effective tariff rate by just over 3 percentage points given the share of these countries in US trade.

Figure 1.6. Consumer sentiment remains subdued and some indicators of economic activity have slowed



Note: In Panel A, the global, OECD and non-OECD aggregates are derived using moving PPP weights. Panel B is based on monthly activity (largely output) data from 14 countries (Argentina, Brazil, Canada, Chile, Colombia, Costa Rica, Finland, Japan, Korea, Mexico, Norway, Peru, Sweden and the United Kingdom) up to 28 November 2025, weighted using moving nominal GDP shares in PPP terms. Bars show the annualised percentage change of the indicator average over the 3 months ending in the month depicted relative to the previous 3 months.

Source: OECD Main Economic Indicators database; LSEG; and OECD calculations.

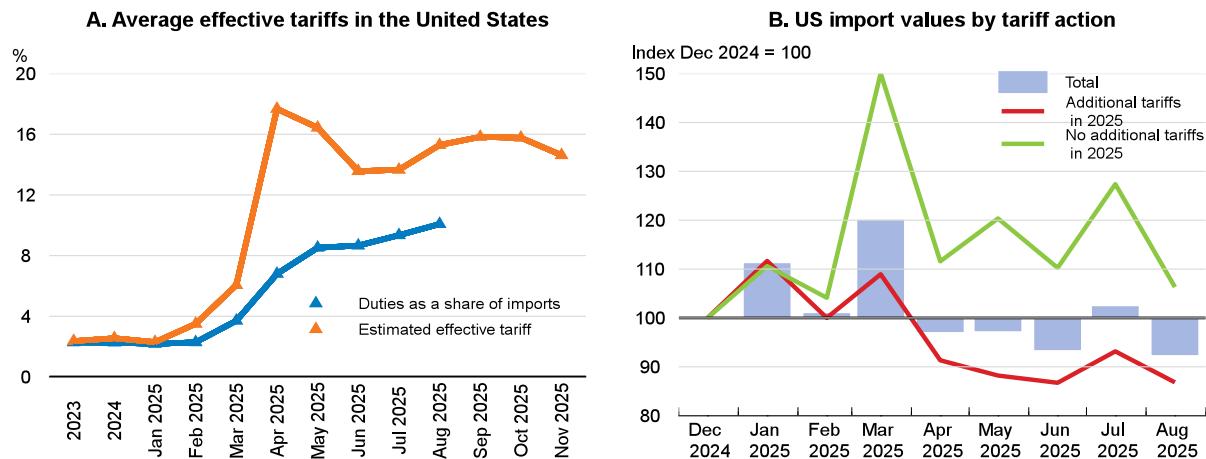
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The impacts of higher tariff rates are yet to be fully felt in the US economy. This reflects a combination of factors, with firms making use of inventories and ample profit margins to avoid or absorb the initial impact of higher tariffs, lags between the announcement and imposition of higher tariff rates, and the exemption of goods already in transit from higher tariff rates. Observed (ex-post) monthly tariff rates calculated from United States revenue and trade statistics (reported customs duties divided by the value of merchandise imports) have risen sharply this year, but are lower than estimated effective tariff rates (Figure 1.7,

¹ An earlier trade agreement had also been completed with the United Kingdom.

Panel A), portending an increase in tariff collection in the coming months.² The extent of the gap between revenues and estimated effective tariffs differs across types of goods. Tariff collection rates on cars and parts as well as steel and aluminium, which have been in place for some time and have few global exceptions, are closer to their effective tariff rates than is the case for other goods.

Figure 1.7. The impact of US tariffs is increasingly being felt



Note: In Panel A, the monthly average 2025 estimated effective tariff rate is based on applicable rates to products and countries at the time they became effective, weighted by country-specific product shares of United States imports in 2024. The estimates include updated weights for compliance of imports from Canada and Mexico (see Box 1.2 for more details). Data before 2025 based on WITS average effective tariff rates, corrected for Section 301 actions on China undertaken between 2018 and 2024. 2025 tariff revenues estimated as a share of import values including cost, insurance and freight, based on monthly data from US Census Bureau. Data before this are from USITC (2025) "U.S. imports for consumption, duties collected, and ratio of duties to value, 1891-2024". Data in Panel B are based on import values. Goods which face no new tariffs in 2025 are all goods exempted from country-specific tariff increases as of August 2025, excluding goods imports in these categories from China (since the additional 20 percentage point tariff increase imposed on China in March 2025 is unaffected by the exemption).

Source: OECD Economic Outlook 118 database; US Census Bureau; United States International Trade Commission; World Integrated Trade Solution (WITS); and OECD calculations.

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Despite the lagged effects of higher tariffs, there is a sharp decrease in the value of US imported goods subject to tariffs compared to non-tariffed goods (Figure 1.7, Panel B). This suggests that tariffs are affecting demand, and will continue to weigh on trade volumes as announced tariffs come into full effect. This could in turn further weigh on the estimated effective tariff rate, reducing the divergence with collected duties. Continued strength in demand for technology products should still provide some support for global trade, although new export orders for manufacturing in most large economies remain relatively weak outside of the Asian emerging-market economies. Trade policy uncertainty has fallen from recent peaks, but recent announcements about further changes to bilateral tariff barriers and the possible broadening of licencing requirements for rare earth materials in China could add to uncertainty.

Box 1.2. US tariff rates: in law and in effect

In recent months the United States has continued to announce additional tariff increases on imports from most countries, alongside separate sector-specific tariffs on steel and aluminium, cars and parts, trucks, buses, timber, and copper. This box discusses some of the issues involved in calculating the aggregate

² The effective tariff rate in November 2025 is shown as 14.6% in Figure 1.7 rather than 14.0%. This is because a monthly average tariff rate is used in Figure 1.7 whereas the latter reflects the effective tariff rate following the policy changes that occurred by mid-November.

effective tariff rate for each country, focusing in detail on Canada and Mexico – two major trading partners with the United States.

The overall impact of tariffs is expected to vary widely by country, reflecting the differing composition of imports from each country as well as the different tariff rates applied to countries (see Figure 1.8).

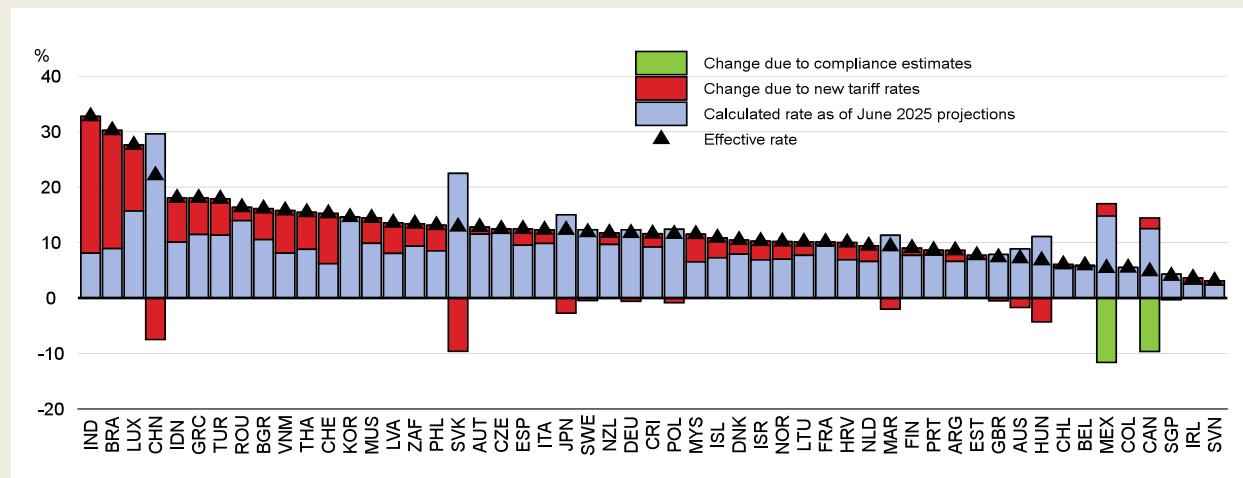
- The estimated effective tariff rate on Chinese goods entering the United States has fallen by close to 10 percentage points, in line with the decision to reduce the tariff rate applied to all Chinese goods from 20% to 10%.
- For the European Union, Japan and Korea, new trade agreements with the United States impose a maximum rate of 15% on most goods – including cars and parts, and timber, as well as a promise of a maximum 15 percentage point tariff increase on pharmaceutical and semiconductor products should the United States impose global sector tariffs on these goods. The global rate continues to be applied for steel and aluminium, copper, trucks and buses. These countries also qualify for an expanded list of zero-rated items.¹
- As a result of these agreements, the effective tariff rates on imports from Germany, Hungary, Japan, Poland and the Slovak Republic are now estimated to have declined since mid-May, in part due to the lower autos tariffs they now face that make up a substantial share of their exports to the United States (Figure 1.8).
- The effective tariff rate on imports from Australia has also declined since May, as a larger share of items are now exempt from tariffs.
- By contrast, amongst EU member states, Luxembourg, Bulgaria and Greece face higher tariffs than before as they have a relatively low share of zero-rated exports to the United States and higher shares of steel and aluminium exports. However, their merchandise exports to the United States are relatively small shares of their total goods and services exports.
- Brazil and India now face additional tariffs of 40 percentage points and 25 percentage points respectively on a range of goods. Taking into account specific exclusions, including those announced in November, these tariffs are estimated to affect about 50% of Brazil's exports to the US and 57% of India's exports.
- The effective tariffs on imports from Switzerland is expected to decline by almost 10 percentage points by next year from the estimate in Figure 1.8, once negotiations are completed. The effective tariff applied to Malaysia's exports to the United States could fall a further 4.5 percentage points from the estimate in Figure 1.8 once the new bilateral agreement is ratified and applied. Together, these two changes could lower the aggregate US effective tariff to 13.8%.

There are also significant declines in the estimated effective tariff rates for Canada and Mexico. A particular complication for these two countries is the need to estimate the share of different US imports that are compliant with the United States-Mexico-Canada Agreement (USMCA). Such imports enter the United States on a tariff-free basis provided that certain conditions are met. As of 1 August, imports from Canada face a tariff of 35% on most goods (and 10% on energy and potash goods) which are not compliant with the USMCA. Mexico faces a 25% tariff on non-USMCA compliant goods.

There is evidence suggesting that USMCA compliance rates have risen since tariffs were raised this year, as the additional costs of the reporting procedures required to ensure compliance are now lower than the cost of the tariff applied to non-compliant goods. Previously, US duty rates of close to zero provided little incentive for many businesses to undertake the costs of compliance. In 2024, around 50% of US imports from Mexico and 40% from Canada were registered under the USMCA programme. This informed the assumption of a 50% compliance rate with USMCA in the effective tariff rate estimates reported in the June 2025 OECD Economic Outlook. Since then, the share of goods registered under the USMCA programme has risen, reaching 85% in July for both Canada and Mexico (Figure 1.9, Panel A). Moreover, the shares of duty-free goods in the total value of imports to the United States have remained broadly stable for Canada and Mexico, whereas they have

fallen elsewhere (Figure 1.9, Panel B). The updated effective estimates for Canada and Mexico now assume that 80% of goods imported into the United States will be USMCA-compliant.

Figure 1.8. Estimated US effective tariff rates



Note: Estimates based on trade policy announcements as of 14 November 2025 and calculated using weights based on product level data for US imports by country in 2024. These take account of country-specific tariff rates and sector-specific changes due to a 25% tariff rise for listed cars, parts, trucks and buses; a 50% tariff rise on steel, aluminium and copper products; and zero-rated general goods as well as those related to semiconductors. Europe, Japan and Korea face a maximum 15% tariff on cars and parts, and timber, and 0% tariffs are applied to civil aviation products, generic pharmaceuticals and certain natural resources. The United Kingdom faces a 25% tariff rise on steel and aluminium, 7.5% for British cars within the annual quota, 10% on timber products, and duty-free civil aviation products. China, Brazil and India face additional country-specific tariffs, with varying application across products. Data classifications are based on product-level lists published by the US administration. Source: United States International Trade Commission; US Census Bureau, and OECD calculations.

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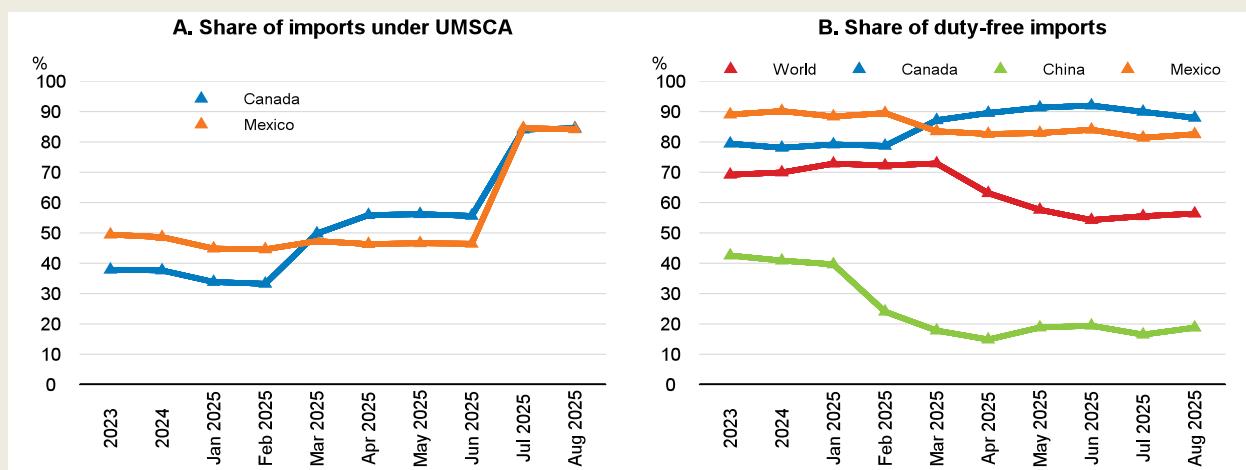
The share of duty-free imports is generally higher for imports from Canada and Mexico than elsewhere across a range of goods (Figure 1.10, Panel A). Taking the share of duty-free goods as a proxy for USMCA compliance, around 60% and 53% of car imports for Mexico and Canada respectively are USMCA compliant. For steel and aluminium, however, Canada has a compliance rate of just 33% compared to 66% for Mexico. For goods excluding imports of cars and parts, steel and aluminium, and items exempted from tariffs, compliance rates are 93% and 90% for Canada and Mexico, respectively.

Overall, these compliance rates result in US imports of cars and parts from Canada and Mexico currently incurring duties of 12% and 11% respectively, slightly less than half the 27% being charged on imports from many other countries (Figure 1.10, Panel B). For steel and aluminium, Mexican imports incur duties of 15% of import values, whilst those from Canada incur duties of 32%, close to the 33% incurred by imports from the rest of the world (Figure 1.10, Panel C). These rates will rise as the 50 percentage point tariff on steel and aluminium has been effective since late August 2025.

As a result of these changes in compliance across sectors, the estimated increase in the aggregate US effective tariff rate on imports from Canada and Mexico has declined. Currently, these are estimated to be 4.8% and 5.4% respectively, down from 12.5% and 14.8% based on developments up to mid-May. Incorporating these two changes, the estimated aggregate effective US tariff rate is approximately 3 percentage points lower than it otherwise would be, reflecting the importance of US trade with Canada and Mexico.

1. These trade agreements also included a number of other commitments, relating to investment and regulation.

Figure 1.9. USMCA compliance has limited effective tariff rates increases on US imports from Canada and Mexico

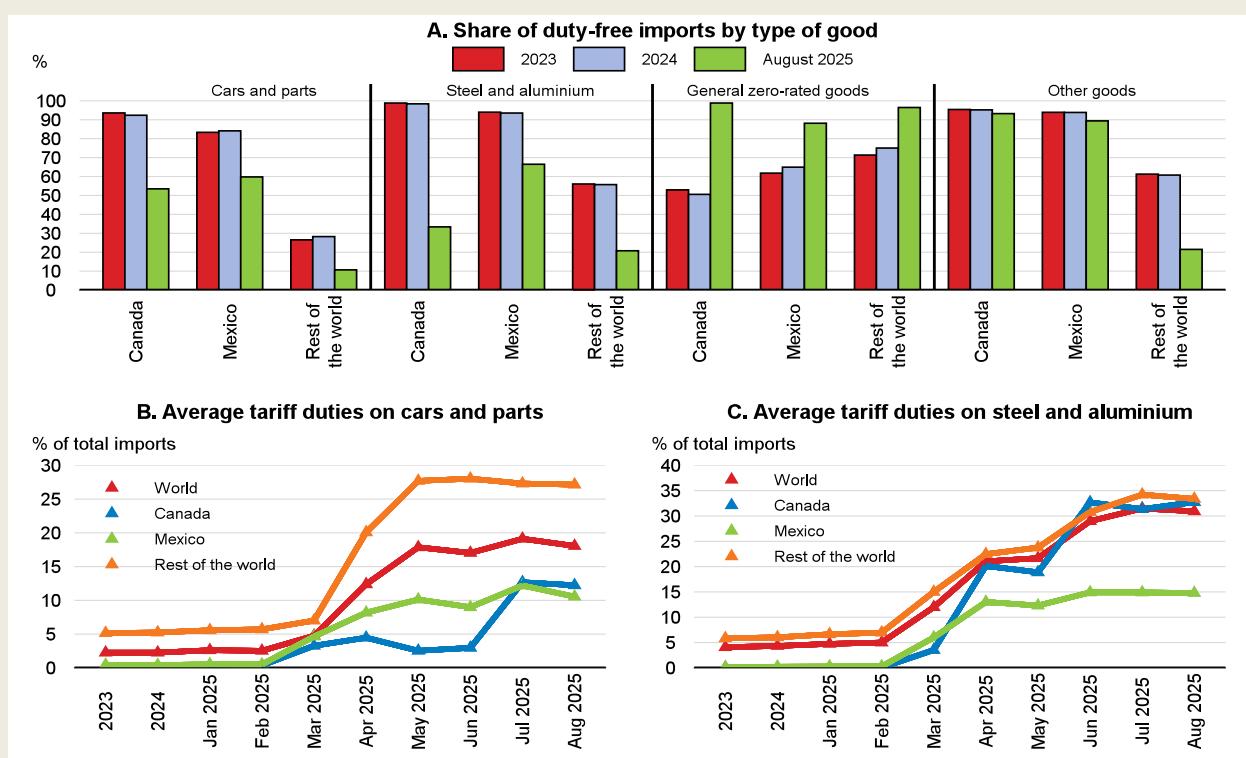


Note: Share of duty-free imports based on dutiable value as a share of CIF import values.

Source: United States International Trade Commission; US Census Bureau; and OECD calculations.

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Figure 1.10. Different shares of duty-free trade with the United States result in wide variation in effective sectoral tariff rates



Note: Panel A "General zero-rated goods" refers to goods exempted from 2025 tariff increases in Executive Order 14257 other than items listed in the semi-conductors list. Duty-free goods are applied under USMCA and other provisions, and calculated as the share of non-dutiable value relative to import values including cost, insurance and freight. "Other goods" exclude the listed sectors, as well as items listed in the semi-conductors list, which have a share of duty-free exports above 95%.

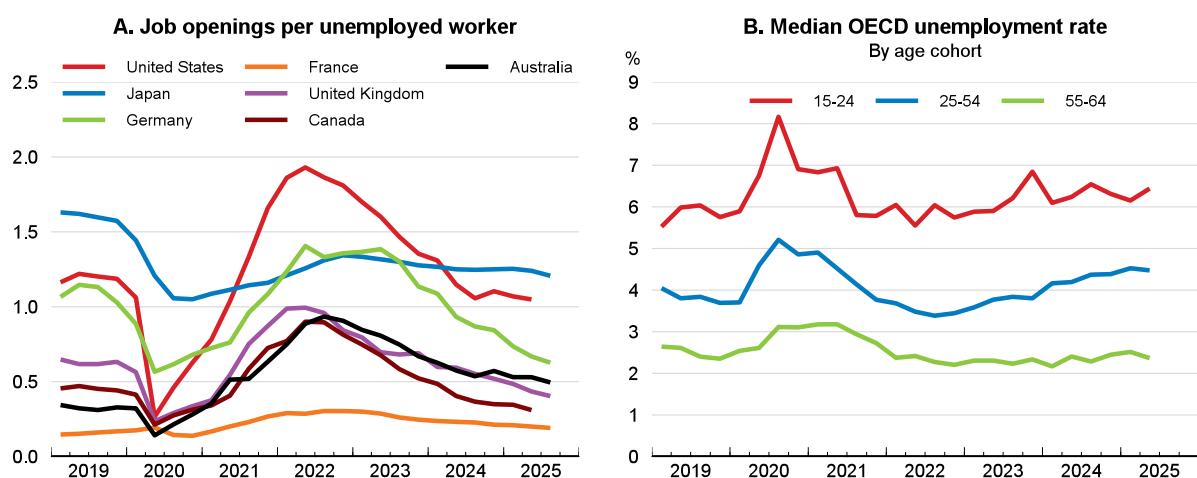
Source: United States International Trade Commission; US Census Bureau; and OECD calculations.

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There are signs that labour markets have weakened

Labour demand has shown further signs of moderating this year. Job openings per unemployed worker have generally continued to decline and are now below the average level in 2019 in many major economies, including the United States, United Kingdom, Germany, Canada and Japan (Figure 1.11, Panel A). At an industry level, measures of job openings in administrative and support services, which includes temporary employment services, have fallen particularly notably across countries. The unemployment rate in the median OECD economy has drifted higher, from 5.2% in the first half of 2024 to 5.5% in the third quarter of 2025, owing to developments in the population aged 25-54 (Figure 1.11, Panel B). However, this has partly reflected increased labour force participation rates. Rising participation rates have been observed across all major age cohorts in many European economies, including Czechia, Denmark, France, Latvia, the Netherlands, Ireland, Spain and the United Kingdom.

Figure 1.11. Labour demand has slowed and unemployment rates have generally drifted higher



Note: In Panel A, the indicator is computed as the number of job vacancies to unemployed workers except for Japan where it represents the ratio of active job openings to active applicants. The median in Panel B is calculated across 36 OECD countries.

Source: OECD Infra-annual Registered Unemployment and Job Vacancies database; OECD Infra-annual Labour Statistics database; Eurostat; CEIC; Statistics of Japan; and OECD calculations.

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Nominal wage growth in most OECD economies has continued to slow, although strong minimum wage increases or wage indexation mechanisms based on past inflation have contributed to rapid wage gains in some economies, including Austria, Hungary, Greece, Bulgaria, Croatia and Colombia. Persistent inflation has also kept negotiated wage growth high in Japan. Largely reflecting patterns in nominal wage gains, unit labour cost growth has generally been declining but remains high relative to medium-term inflation objectives in many countries (Figure 1.12, Panel A). Real wages have continued to grow steadily where solid nominal wage growth has combined with ongoing disinflation, such as in many euro area economies. However, more persistent inflationary pressures have caused real wages to plateau elsewhere, including in Canada and Japan (Figure 1.12, Panel B).

Figure 1.12. Labour cost growth remains elevated and real wages have risen in most economies

Note: Panel B shows the compensation rate of employees deflated by the private consumption deflator except for Brazil, where it corresponds to real labour income (usual earnings). The latest historical point corresponds to 2025Q3 for Brazil, Japan, Spain and the United Kingdom, and 2025Q2 for remaining countries except Israel (2025Q1).

Source: OECD Economic Outlook 118 database; CEIC; and OECD calculations.

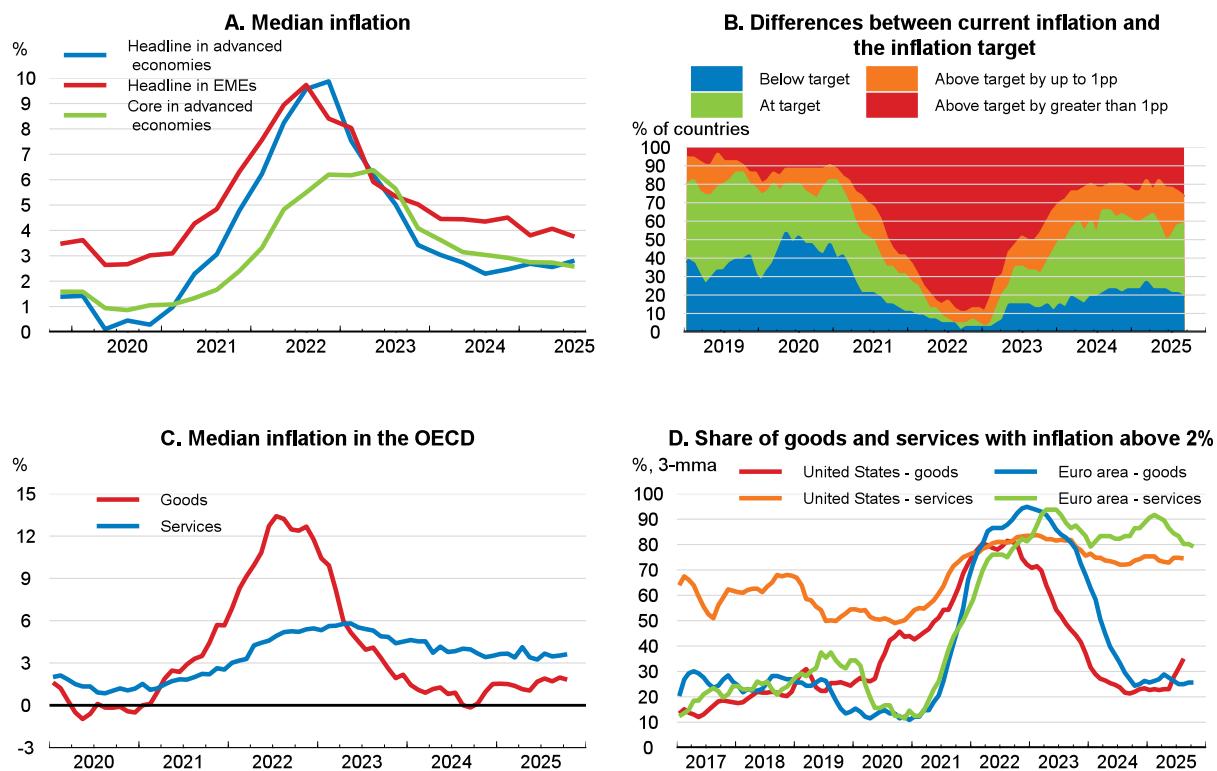
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Inflation developments have recently diverged

Inflation developments continue to vary greatly between countries. The four largest euro area economies now have consumer price inflation around or below the area-wide 2% target. Inflation is also under 2% and below medium-term policy objectives in some emerging-market economies, including Costa Rica, India, Malaysia, Peru, the Philippines and Thailand. In China, consumer price inflation turned slightly positive in October, despite declining producer prices. Yet, disinflation progress has stalled in some other major economies, with inflation having levelled off above central bank targets. An increasing share of countries have inflation above target (or above the top of the target band) compared with late 2024 (Figure 1.13, Panels A and B). Headline inflation is still above central bank targets in the United Kingdom, United States and Japan, as well as in some emerging-market economies such as Brazil and Colombia. Despite having declined markedly, inflation remains at double-digit rates in Türkiye and Argentina.

Goods inflation has picked up and services inflation remains sticky in many economies. In the median OECD economy, annual goods inflation rose from 0.8% in the final quarter of 2024 to 1.8% in October 2025, while median services inflation edged up from 3.6% to 3.7% over the same period (Figure 1.13, Panel C). An increase in food inflation has been one factor pushing goods inflation higher. In the United States, tariff-rate increases have also contributed, with the share of consumer goods with prices rising by above 2% turning up since May 2025 (Figure 1.13, Panel D). Other policy changes have also temporarily pushed inflation higher in some countries, including the United Kingdom, with recent increases in administered prices and payroll taxes, and Indonesia, following the phase-out of a temporary electricity price discount. In services sectors, inflation in recreation and restaurant items remains elevated in many economies. However, weakening housing cost pressures are now helping to reduce inflation.

Figure 1.13. Disinflation has levelled off in some economies partly due to higher goods inflation



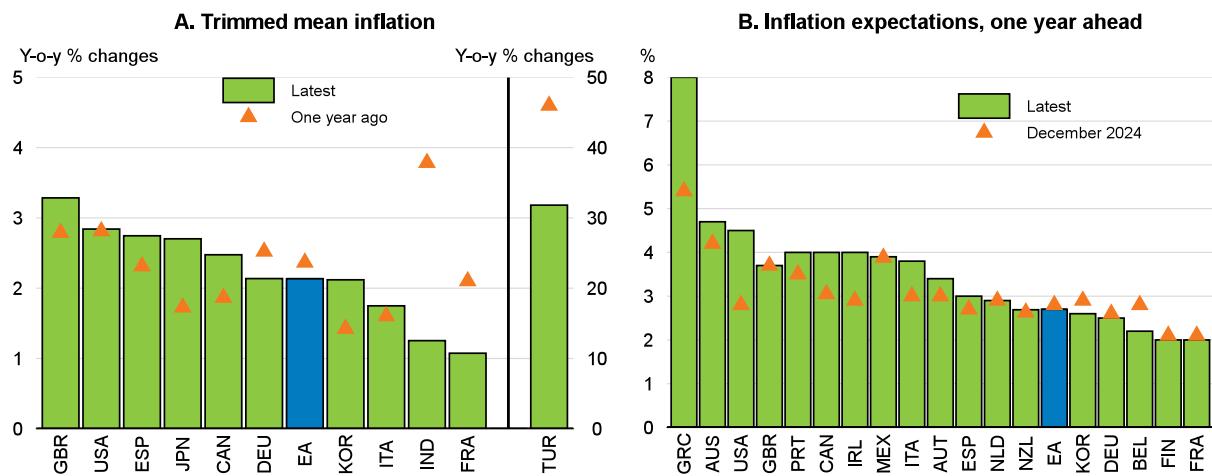
Note: Panel B covers headline consumer price inflation in 22 OECD economies (the euro area is included but not individual euro area member countries) and 28 non-OECD countries. For central banks targeting a range (a point target), 'Below target' refers to cases where headline inflation is below the lower threshold of the range (below the point target by more than 0.5pp); 'At target' is where headline inflation is within the target range (within 0.5pp of the point target); 'Above target by up to 1pp' where headline inflation is above the upper threshold of the range by less than 1pp (above the point target by between 0.5pp and 1.5pp); 'Above target by greater than 1pp' where headline inflation is above the upper range by more than 1pp (above the point target by more than 1.5pp). The last data point is based on September 2025 inflation for all countries other than the United States (August 2025).

Source: OECD Economic Outlook 118 database; OECD Consumer Prices database; Bureau of Economic Analysis; Eurostat; and OECD calculations.

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Underlying inflation developments have also diverged. A harmonised measure of monthly trimmed mean inflation has declined in France, India and Türkiye relative to a year earlier. However, trimmed mean inflation increased in some other major economies, including the United Kingdom, Spain, Japan and Canada (Figure 1.14, Panel A). Furthermore, short-term household inflation expectations have materially risen since the start of the year in Greece, the United States, Canada and Ireland (Figure 1.14, Panel B). Medium and longer-term household inflation expectations remain stable but above central bank targets in those economies with available data such as the United Kingdom, United States and euro area.

Figure 1.14. Underlying inflation and short-term inflation expectations have risen in some economies



Note: In Panel A, the latest data are for October 2025, except for the United States (August 2025). Trimmed mean inflation is the recomputed overall inflation rate after removing 10% of the consumer basket at the top and at the bottom of the distribution of inflation rates so that the most extreme price changes are excluded. In Panel B, the most recent monthly data are for November for Korea, New Zealand, the United Kingdom and the United States, October 2025 for Mexico, and September 2025 for other countries, except Australia and Canada (third quarter of 2025). Source: Banco de Mexico; Bank of Canada; Bank of Japan; Bank of Korea; Bureau of Economic Analysis; European Central Bank; Eurostat; Federal Reserve Bank of Atlanta; Korean Statistical Information Service; Ministry of Statistics and Program Implementation; Office of National Statistics; Reserve Bank of Australia; Statistics of Japan; Turkish Statistical Institute; University of Michigan; YouGov/Citigroup; and OECD calculations.

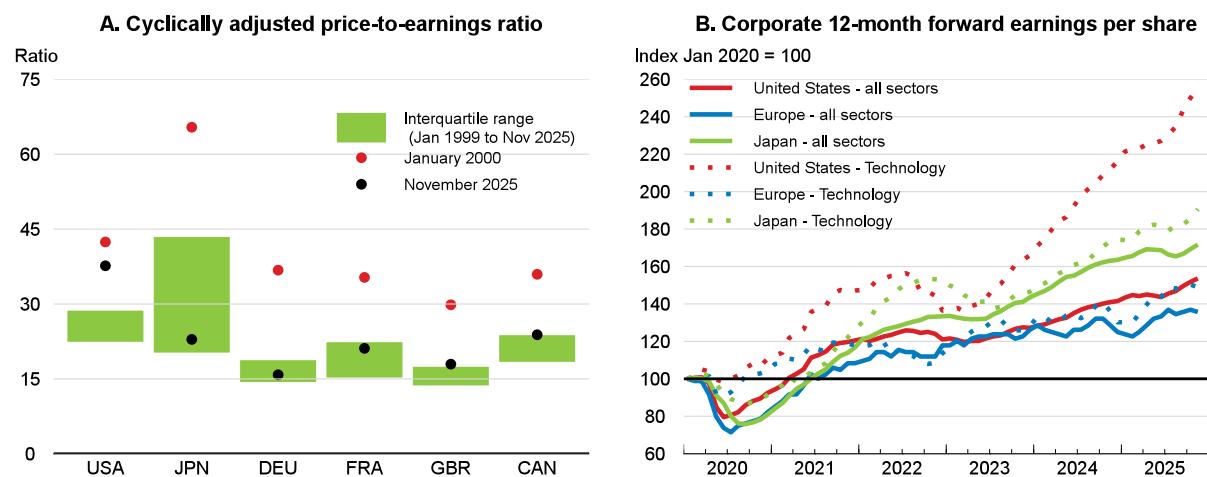
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Financial market conditions have improved

Financial conditions have eased considerably since April in both advanced and emerging-market economies, with financial market volatility and stress indicators generally remaining low, strong equity returns, compressed credit spreads and the depreciation of the US dollar against most currencies this year. However, sovereign yield curves have steepened considerably at the long end, suggesting growing concerns about fiscal risks. Soaring gold prices and large-scale hedging of US dollar-denominated exposures also point to continued uncertainty.

Equity markets have risen strongly, particularly in the United States, where price-earnings valuations are approaching levels last seen in the late 1990s at the peak of the dot-com bubble (Figure 1.15, Panel A). Equity risk premia have also continued to decline, reaching levels last observed in 2005–06 prior to the global financial crisis, highlighting strong risk appetite. Despite some sell-offs in recent weeks, technology stocks remain the main driver of the surge in equity prices, reflecting investor enthusiasm for the potential gains from AI and stronger expected earnings growth than in other sectors and jurisdictions (Figure 1.15, Panel B). After soaring for most of this year, the market value of crypto-assets has declined sharply, by around 30% from the peak reached in early October. In the United States domestically focused US companies, often reliant on imported inputs, face higher costs and have continued to see more limited gains than other companies (Roulet and Tatomir, 2025). Japanese equities have also performed strongly, supported by robust earnings prospects, but equity prices have risen more slowly in Europe, reflecting softer expected earnings growth. Equity performance has remained weaker for firms heavily exposed to US tariffs in these jurisdictions.

Figure 1.15. Elevated equity valuations are supported by the higher expected earnings of technology companies



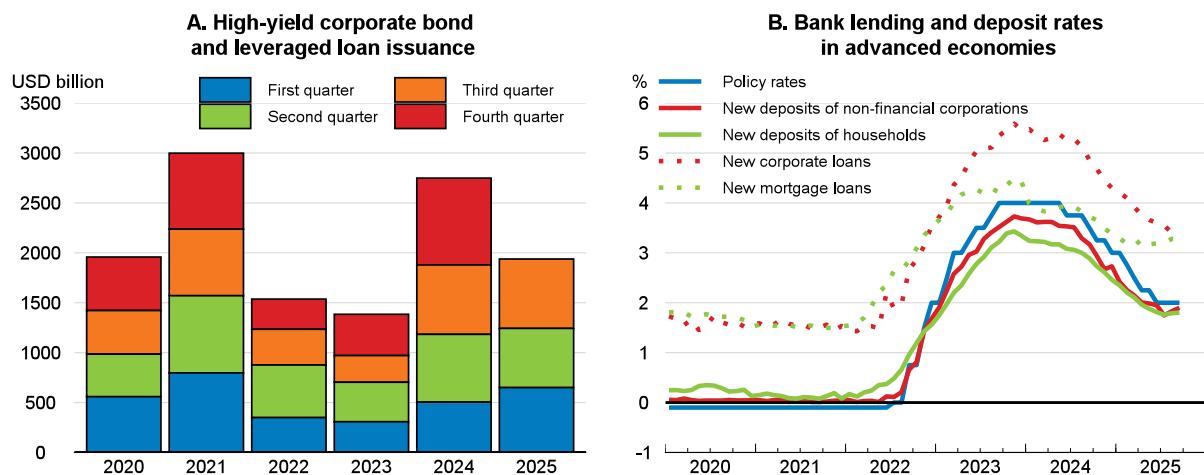
Note: Panel A shows monthly values of the cyclically adjusted price-to-earnings ratio (CAPE), computed with 10-year average earnings adjusted for subsequent changes in consumer prices. The value for November 2025 is based on observations up to 19 November.

Source: LSEG; and OECD calculations.

Spreads on high-yield corporate bonds remain close to historical lows, despite a recent uptick, and investment-grade bond yields have declined in recent months. Low credit risk premia and sustained portfolio inflows in the United States and the euro area have helped to support strong corporate bond and leveraged loan issuance during the first three quarters of 2025 (Figure 1.16, Panel A). Bank credit growth has also been recovering gradually in major advanced economies, albeit from low levels, supported by an ongoing decline in lending rates (Figure 1.16, Panel B).

Emerging-market economies have benefitted from higher global risk appetite. A weaker US dollar and declining exchange rate volatility have made emerging-market assets relatively more attractive. This has been accompanied by strong growth in equity prices, partly driven by a substantial rise of AI-related equities, with the main exception of India, where the stock market has been broadly flat, possibly reflecting the marked rise in the US tariff rate on imports of goods from India. Spreads on corporate bonds issued by emerging-market companies have continued to fall, reaching their lowest levels since 2007. In the sovereign bond markets of most emerging-market economies, long-term yields have broadly eased since June and spreads on US dollar-denominated bonds have declined.

In contrast, developments in sovereign debt markets in advanced economies have been less favourable. Ten-year yields have edged up in recent months in many jurisdictions and 30-year yields have increased by larger amounts, steepening the long end of the yield curve. Amid ongoing quantitative tightening and large net government debt issuance needs in the near future, that steepening could reflect growing concerns about long-run fiscal sustainability. In the United States, the 10-year sovereign yield has been underpinned by a persistently high estimated real term premium. In France, mounting political challenges have clouded the fiscal outlook, markedly widening French-German sovereign spreads since mid-August.

Figure 1.16. Sustained debt issuance and declining bank lending rates

Note: Panel A shows the sum of global high-yield corporate bond and leveraged loan issuance, deflated using the US consumer price index rebased to 2025Q3. A leveraged loan is a secured loan granted to a highly indebted (leveraged) company. Leveraged loans are defined as secured loans where the borrower is sub-investment-grade or the spread at issuance is above a certain threshold. Panel B shows median rates for selected advanced economies (Australia, Canada, France, Germany, Italy, Japan, Spain, Sweden, Switzerland, the United Kingdom and the United States). In the computation of median deposit rates, offer rates are used for Canada, Switzerland and the United States, and deposits of all sectors (without distinguishing between firms and households) are used for Japan and the United States. Average contract interest rates on loans and discounts are used for Japan in the computation of median lending rates (without distinguishing between firms and households).

Source: Bank of Canada; Bank of England; Bank of Japan; Board of Governors of the Federal Reserve System; European Central Bank; Federal Deposit Insurance Corporation; Mortgage Bankers Association; Reserve Bank of Australia; Sveriges Riksbank; Statistics Sweden; Swiss National Bank; and OECD calculations.

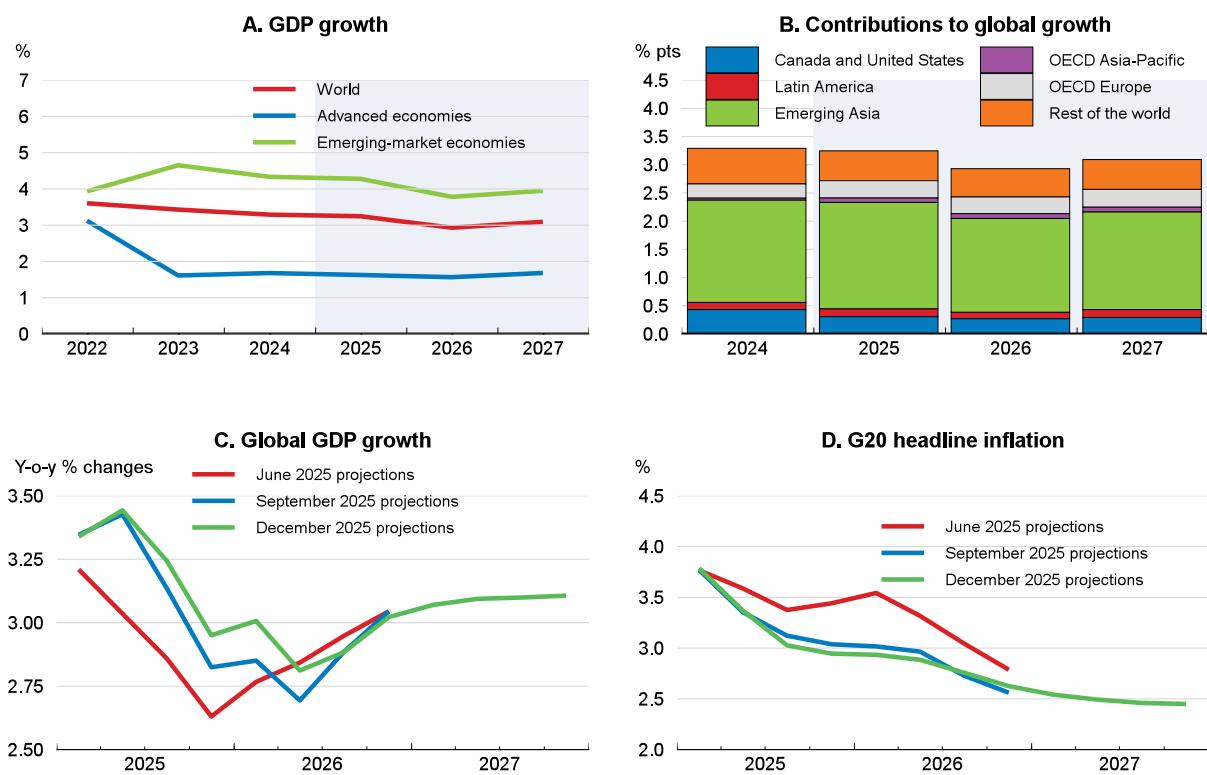
Stretched asset valuations and high economic uncertainty have led investors to increase their demand for gold and pursue hedging strategies to a greater extent. Gold prices have reached historically high levels, rising by more than 60% since January at their peak — the strongest performance since the 1979 oil price shock. The depreciation of the US dollar this year, only partially reversed since October, has been sustained by expectations of policy rate reductions, mounting fiscal concerns and foreign investors' hedging activities to mitigate potential losses on unhedged USD denominated exposures. The latter has been reflected in a notable decline in net long dollar positions in forward markets since April.

Projections

Global GDP growth is projected to slow from 3.2% in 2025 to 2.9% in 2026, before picking up to 3.1% in 2027 (Figure 1.17, Panel A; Table 1). Growth is expected to soften during the second half of this year, as front-loading activity further unwinds and higher effective tariff rates on imports to the United States and China pass-through further into business costs and final goods prices, dampening investment and trade growth. Elevated geopolitical and policy uncertainty will also continue to weigh on domestic demand in many economies. However, global growth is expected to recover through 2026, helped by the fading impact of higher tariff rates, favourable financial conditions, supportive macroeconomic policies and lower inflation, with emerging-market economies in Asia continuing to account for the majority of global growth (Figure 1.17, Panel B). The projections are based on a technical assumption that the bilateral tariff rates announced by mid-November persist through the rest of the projection period, despite ongoing legal challenges in the United States.³

³ Switzerland and Malaysia are assumed to see a reduction in their tariff rates in line with agreements by 2026.

Figure 1.17. Global growth is projected to weaken before recovering gradually



Note: In Panel A, 'Advanced economies' include the OECD member countries except Chile, Colombia, Costa Rica, Mexico, and *Türkiye*, plus Croatia. 'Emerging-market economies' comprises all other economies. In Panel B, Emerging Asia comprises China, Hong Kong (China), India, Indonesia, 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 118 database; OECD Economic Outlook 117 database; OECD Interim Economic Outlook 118 database; and OECD calculations.

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The near-term growth projections are close to those in the September 2025 OECD Interim Economic Outlook but stronger than those in the June 2025 OECD Economic Outlook (Figure 1.17, Panel C). The change since June reflects several factors, including easier global financial conditions, evidence of stronger investment momentum in some OECD economies and more supportive macroeconomic policies than anticipated, with policy interest rates continuing to be lowered in many countries, and little fiscal tightening in the median OECD economy this year and next. Fiscal policies are also providing support for domestic demand in China, India (via the goods and services tax reform) and Indonesia. At the same time, inflation projections for G20 countries have been revised downwards to incorporate weaker-than-expected inflation outturns, most notably for the United States. Inflation in the G20 countries is anticipated to further moderate through 2026, with the inflationary impact from higher trade costs generally offset by softer growth (Figure 1.17, Panel D).

Central banks are assumed to lower monetary policy rates further as inflation continues to fall and labour market pressures ease. In most economies, real interest rates are assumed to decline to be around estimates of neutral levels by the end of 2026. Limited further monetary policy easing is assumed for 2027, with the exception being those economies where policy rates at the end of 2026 remain relatively restrictive, such as Brazil, Colombia and Türkiye. After a neutral stance in 2025 and 2026, fiscal policy is assumed to tighten modestly in most OECD economies in 2027, with relatively sizeable consolidation assumed in the United Kingdom, France, Italy and several smaller European economies. Fiscal policy is assumed to be mildly restrictive in the majority of emerging-market economies in 2026-27, but little changed in some of the largest economies, including China, India and Indonesia.

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

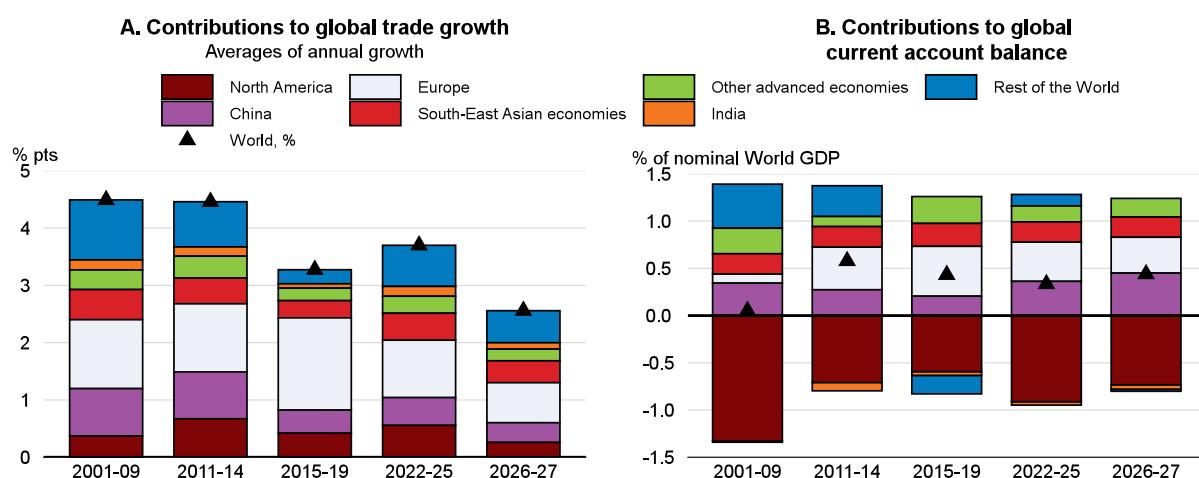
- In the United States, output growth is expected to slow as the effects of substantially higher effective tariff rates on imports, cuts to the federal government workforce and a drop in net immigration are fully felt. As their peak impact passes, and with ongoing strength in AI-related investment and continued monetary policy easing, calendar year growth is expected to pick up in 2027. On an annual basis, GDP growth is projected to be 2.0% in 2025, 1.7% in 2026 and 1.9% in 2027. In Canada, real GDP growth is also anticipated to gradually recover as the economy further adjusts to the new trade environment, with growth of 1.1% in 2025, 1.3% in 2026 and 1.7% in 2027.
- The Japanese economy is expected to expand at a moderate pace, helped by expansionary fiscal policy next year, and with private consumption growth supported by real disposable income gains and business investment growth underpinned by healthy profits and government subsidies. Nonetheless, these factors will be somewhat offset by subdued external demand amid new trade restrictions and elevated trade policy uncertainty. Real GDP growth is projected to moderate from 1.3% in 2025 to 0.9% in both 2026 and 2027. In Korea, growth is projected to recover, from 1.0% in 2025 to 2.1% in both 2026 and 2027, supported by monetary policy easing and further modest fiscal expansion.
- Growth in the euro area is projected to ease modestly from 1.3% in 2025 to 1.2% in 2026, before increasing to 1.4% in 2027, with increased trade frictions being offset by improved financial conditions, ongoing capital spending from Recovery and Resilience Facility funds and resilient labour markets. Fiscal expansion is anticipated to boost economic activity in Germany, reflecting higher spending on defence and infrastructure, but expected consolidation in both France and Italy will dampen growth. In the United Kingdom, fiscal consolidation and uncertainty will also weigh on the pace of expansion, with real GDP growth projected to ease from 1.4% in 2025 to 1.2% in 2026 and 1.3% in 2027.
- In China, the unwinding of front-loading of exports, the imposition of higher tariff rates on exports to the United States, continuing adjustment in the real estate sector and the fading of fiscal support is expected to lower growth. While the anti-involution campaign is anticipated to weaken business investment growth in industries affected by excess capacity, the pace of public infrastructure investment is expected to pick-up. Real GDP growth is projected to be 5.0% in 2025 and 4.4% in 2026 and 4.3% in 2027.
- In India, growth is anticipated to be supported by rising real incomes, monetary policy easing and strong growth in public capital spending. However, higher tariff rates on many exports to the United States will weaken export growth, with real GDP projected to grow by 6.7% in the fiscal year 2025-26, 6.2% in 2026-27 and 6.4% in 2027-28. Similarly, in Indonesia, strong domestic demand growth is expected to be partially offset by a deceleration in export growth. Real GDP is projected to grow by 5.0% in both 2025 and 2026, followed by an uptick to 5.1% in 2027.

- The Mexican economy is projected to recover slowly as inflation eases and further cuts to policy rates take effect. However, higher tariffs on exports to the United States and weak public demand are headwinds to growth, with real GDP projected to rise by 0.7% in 2025, 1.2% in 2026 and 1.7% in 2027. In Brazil, growth is anticipated to weaken in the near-term as investment slows in response to higher interest rates, though monetary policy easing through 2026 will support activity. After easing from 2.4% in 2025 to 1.7% in 2026, output growth is projected to recover to 2.2% in 2027.

Global trade growth for 2025 is now expected to be 4.2%, reflecting stronger than expected front-loading in the first half of the year. This is being unwound only partially given the momentum of investment- and tech-related trade through 2025. Nonetheless, trade growth is projected to moderate to 2.3% in 2026 as the full effects of higher tariffs are felt, before recovering to 2.8% in 2027 as growth picks up.

The composition of trade growth is different to the pre-pandemic period (Figure 1.18, Panel A), with the emerging-market economies accounting for a larger share, even as all regions grow more slowly. In particular, the share of trade accounted for by the South-East Asian economies is expected to rise in 2026-27. In contrast, the contribution of China is projected to weaken slightly, as trade growth slows, and the contribution of advanced economies to global trade growth is expected to decline, especially that of Europe and the North American economies.

Figure 1.18. Trade patterns are evolving with emerging markets becoming a key driver of growth



Note: North America includes Canada, Mexico and the United States. Europe includes the 22 OECD countries which are members of the European Union, plus Iceland, Norway, Switzerland, Türkiye and the United Kingdom. South-East Asian economies include Hong Kong (China), Malaysia, the Philippines, Singapore, Chinese Taipei, Thailand, and Viet Nam. Other advanced economies include Australia, Israel, Japan, Korea and New Zealand. Statistical discrepancies mean that current account balances based on national data rarely equal zero at the world level.

Source: OECD Economic Outlook 118 database; and OECD calculations.

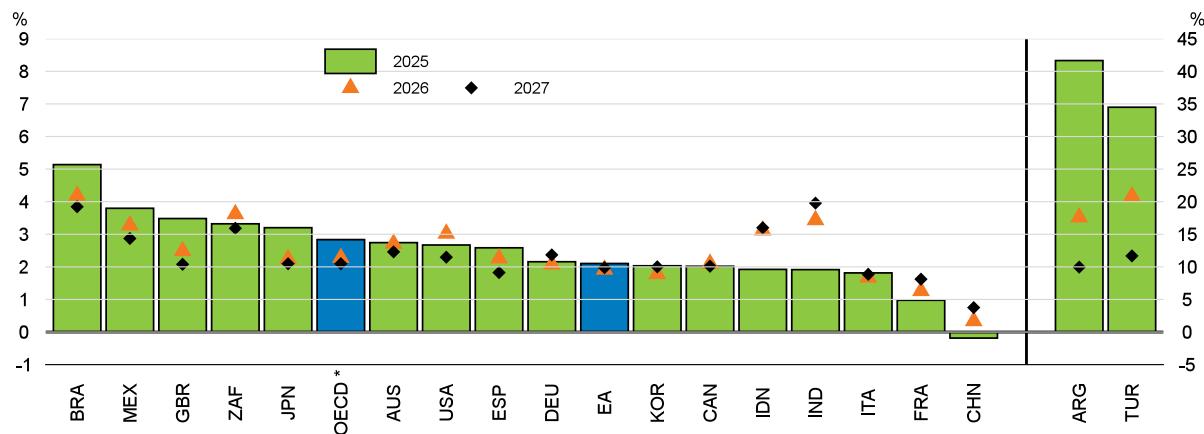
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Global current account balances are projected to decrease slightly as a share of global GDP over the next two years (Figure 1.18, Panel B). In the United States, lower imports and reduced remittances linked to international migration, and continued strong growth in tech-related exports and services help to reduce the current account deficit from 2024 levels, despite a decline in export market performance. China's continued export growth, coupled with weak domestic demand and a continued policy orientation towards import substitution is projected to result in a higher external surplus. Sizeable surpluses are also projected to persist in Germany, Japan, Korea and a number of smaller economies, including Denmark, Ireland, the Netherlands, Norway, Sweden, Switzerland and Thailand. There is little change in the current account surplus in the euro area as a whole.

Headline inflation is projected to decline further in the advanced and emerging-market economies in which inflation is currently exceeding the central bank target (Figure 1.19). In the United States, inflation is expected to rise further over the next several quarters as tariff increases further pass through to final goods prices, peaking in mid-2026, before moderating slowly as excess capacity builds and tariff impacts fade. Headline inflation has exceeded 2% in Japan since mid-2022 and is projected to continue to do so over the coming quarters, with underlying inflation increasing partly due to solid nominal wage and unit cost growth. In some emerging-market economies, inflation is projected to pick up from very low levels. The expected reduction in excess capacity in China, with the introduction of anti-involution measures, is anticipated to help consumer price inflation rise from its current very low rate. In other emerging-market economies, such as Costa Rica, India, Indonesia and Thailand, the fading of temporary factors will push inflation higher but consistent with central bank targets. In contrast, inflation is projected to further decline in Argentina and Türkiye, partly reflecting fiscal restraint.

Figure 1.19. Inflation is projected to move towards central bank targets

Headline consumer price inflation



Note: Argentina and Türkiye are shown on the right-hand scale, all other countries on the left-hand scale. Data refer to the 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 118 database; and OECD calculations.

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OECD employment growth is expected to weaken from the pace of recent years, with annual growth in the median OECD country projected to ease from 0.9% in 2024 to be 0.6% over 2025-27. Employment growth is projected to be more robust in some non-OECD economies, such as 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 further ease, with populations ageing and migration inflows moderating in some economies. After increasing from 5.2% in 2024 to 5.7% in 2026, the median unemployment rate across OECD economies is projected to remain stable in 2027. Nominal wage growth is projected to continue to decline in most economies as labour markets further loosen. Coupled with a projected gradual upturn in labour productivity growth, moderating wage pressures will ease unit labour cost growth and, in turn, reduce inflationary pressures.

Risks

Further changes in trade policies could significantly impact growth

Amid ongoing policy uncertainty, two key concerns are that bilateral tariff rates could be raised further on merchandise imports, and the possibility of more widespread restrictions on the export of critical products. Such moves could further raise international tensions and trade policy uncertainty, with implications for a broad set of countries and industries. The associated restructuring of production and supply chains might also result in additional costs that would feed through into prices and dampen growth and lower longer-term economic efficiency.

In October 2025, China announced plans for a significant extension of export controls on lithium ion-batteries and rare-earth materials and technologies, with licences required even for foreign-made products that use Chinese-sourced rare earths or rare earth technologies. Although these plans have subsequently been officially suspended until November 2026, their announcement highlights the potential supply chain and trade risks related to trade concentration. Rare earths are used primarily as magnets, catalysts and phosphors in a wide range of products - from hard drives, liquid crystal displays, lasers, semiconductors and superconductors, to electric vehicles and wind turbines (IEA, 2025b).⁴ They are considered critical, even though they are used in small quantities, as they are difficult to substitute, recycle and produce.⁵ China accounts for about 60% of rare earths mining and 94% of magnet production (Figure 1.20, Panel A), and around 8% of global exports and 40% of global imports (Figure 1.20, Panel B). Although trade in rare earths was just 0.04% of global merchandise trade values in 2024, the breadth and complexity of China's proposed controls could materially affect many supply chains in the short to medium term if restrictions are reimposed and licences are delayed or denied. Such adverse supply shocks would also materially impact the costs of products reliant on these inputs. Transport equipment, defence equipment and energy are where restrictions would be likely to have the greater impact (Alfaro et al., 2025; Banin et al., 2025; IEA, 2025b).

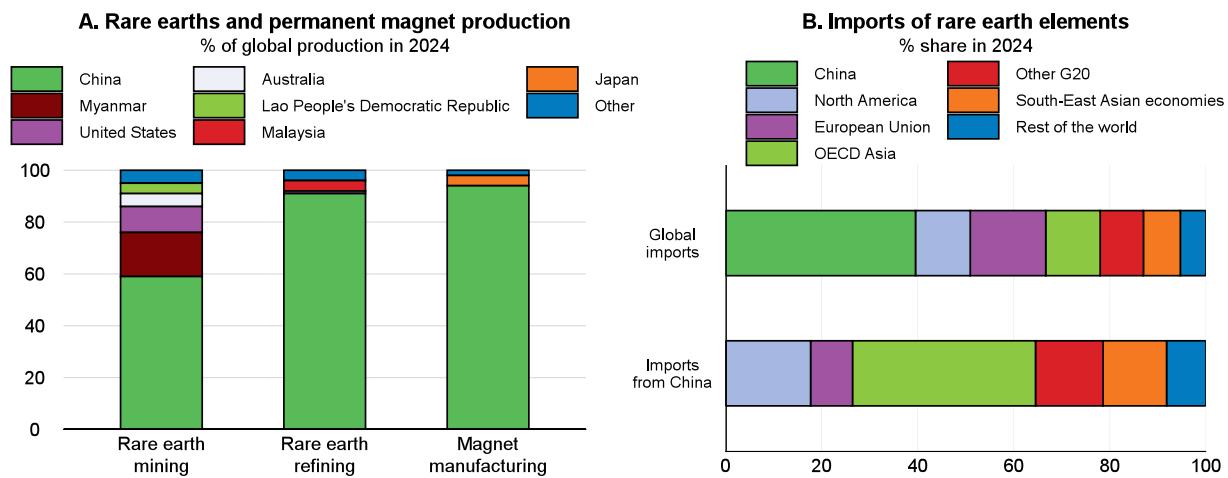
Another risk is the possibility of the application of tariff rate increases in the United States and China to a broader range of goods, including pharmaceuticals and semi-conductors, with supply-chain linkages propagating these widely. Higher prices for these goods could adversely affect demand from consumers as well as businesses. Many countries would be hit by weaker US demand for products from these affected sectors. For instance, US demand for final consumption and intermediates of pharmaceuticals represents 12.2% of Ireland's domestic value added in its exports and 4.4% in Switzerland, with a number of other European countries also exposed (Figure 1.21, Panel A). A reduction in this demand would likely affect both the pharmaceuticals sector and the chemicals sector. By contrast, a fall in US demand for computers and electronic products could have a significant impact on the domestic value added of both the computer and electronics sector and also services sectors (Figure 1.21, Panel B). These impacts would be relatively large in many South-East Asian economies.

Higher trade barriers could also be adopted in other economies to protect domestic industry against enhanced low-price competition, especially if trade is deflected away from tariff-raising economies. More broadly, frequent trade policy changes could raise policy uncertainty further with adverse impacts on investment and consumer confidence. Higher trade policy uncertainty would also slow trade growth further (Box 1.3). The associated restructuring of production and supply chains resulting from higher trade barriers would also be likely to result in a loss of economic efficiency, and additional costs that would feed through into prices and dampen growth.

⁴ Phosphors are materials that absorb energy and release it as light, and are typically used in screen displays.

⁵ Although rare earths are geologically abundant, they require specialised, energy-intensive and often highly polluting extraction processes (IEA, 2025b).

Figure 1.20. Global production and demand for rare earths is highly dependent on China



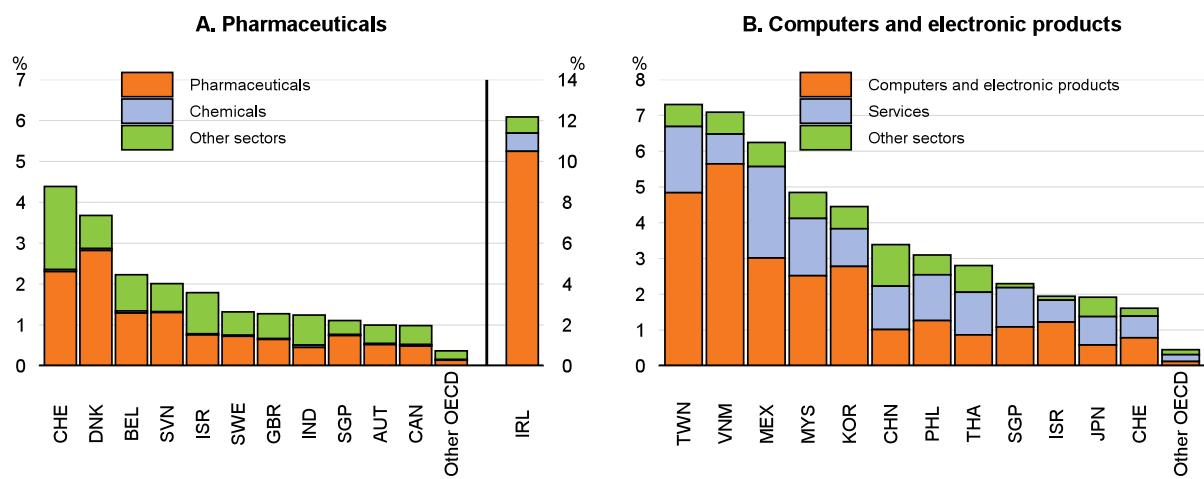
Note: Rare earth elements include products listed under HS codes 250810, 251320, 261400, 261510, 280530, 284610 and 284690. Panel B refers to the value of merchandise trade, and uses the Balanced International Trade Statistics database, so exports are equal to imports, and only direct trade is recorded. North America is Canada, Mexico and the United States. OECD Asia includes Japan and Korea. Other G20 includes Argentina, Australia, Brazil, India, Indonesia, Russia, Saudi Arabia, South Africa, Türkiye and the United Kingdom. South-East Asian economies include Hong Kong (China), Malaysia, the Philippines, Chinese Taipei, Thailand, Singapore, and Viet Nam. Rest of the world includes all remaining countries.

Source: Kim et al. (2025); IEA (2025b); OECD Balanced International Merchandise Trade Statistics database; and OECD calculations.

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Figure 1.21. Tariffs on pharmaceutical products or semiconductors would hit output in many countries

Share of domestic value added in exports dependent on US demand



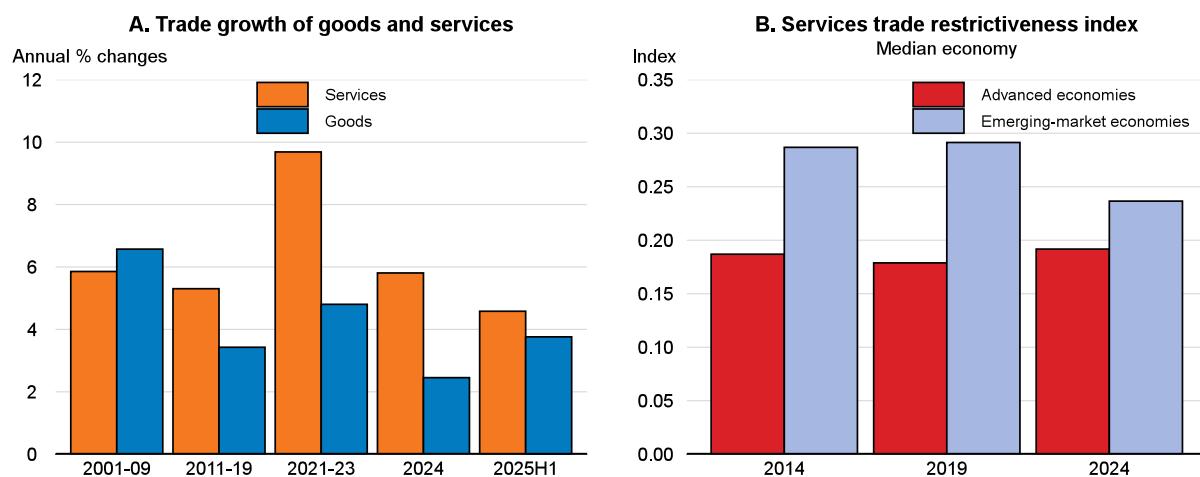
Note: In Panel A, Ireland is shown on the right-hand scale, all other countries on the left-hand scale. The panels show each country's total domestic value added by sector that is destined for US intermediate or final consumption of pharmaceutical products (or computer and electronic products), including direct and indirect trade linkages, expressed as a share of each country's domestic value added in total exports. "Pharmaceuticals" is the basic pharmaceuticals and preparations sector; "Chemicals" is the chemicals and chemical products sector. The computer and electronic products sector includes semi-conductor related products such as the design and use of integrated circuits.

Source: OECD Trade in Value Added (TiVA) 2025 edition; OECD ICIO 2025 edition; and OECD calculations.

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On the upside, agreements that lower bilateral tariff barriers from current levels and improve policy predictability would support stronger economic growth and trade, and lower inflation relative to the baseline. Benefits could also arise if there was to be further progress in tackling barriers to trade in cross-border services. Services trade has been relatively robust since the global financial crisis, while merchandise trade growth has moderated (Figure 1.22, Panel A), but barriers continue to impede cross-border trade in services. The OECD Services Trade Restrictiveness Index highlights the continued challenges of regulatory fragmentation and uneven conditions in access to cross-border markets (OECD, 2024a). Barriers to services are higher in emerging-market economies than in advanced economies, but they have declined since the pandemic, whereas those in the typical advanced economy have risen slightly (Figure 1.22, Panel B). The remaining barriers hamper trade in services as well as goods, because many services, such as logistics, are also crucial for global trade in goods. An upside risk is that new policy reforms that reduce services trade restrictiveness could reduce trade costs and result in stronger trade growth than projected.

Figure 1.22. Services trade needs to be supported to raise growth



Note: In Panel A, 2025 growth is annualised and based on those countries for which goods and services trade volumes are available in the first half of 2025, representing about 75% of world trade volumes. Panel B is based on the score for total services (including construction) for all emerging-market and advanced economies in the STRI database.

Source: OECD Economic Outlook 118 database; OECD Services Trade Restrictiveness Index; and OECD calculations.

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Box 1.3. The impact of policy uncertainty on trade growth

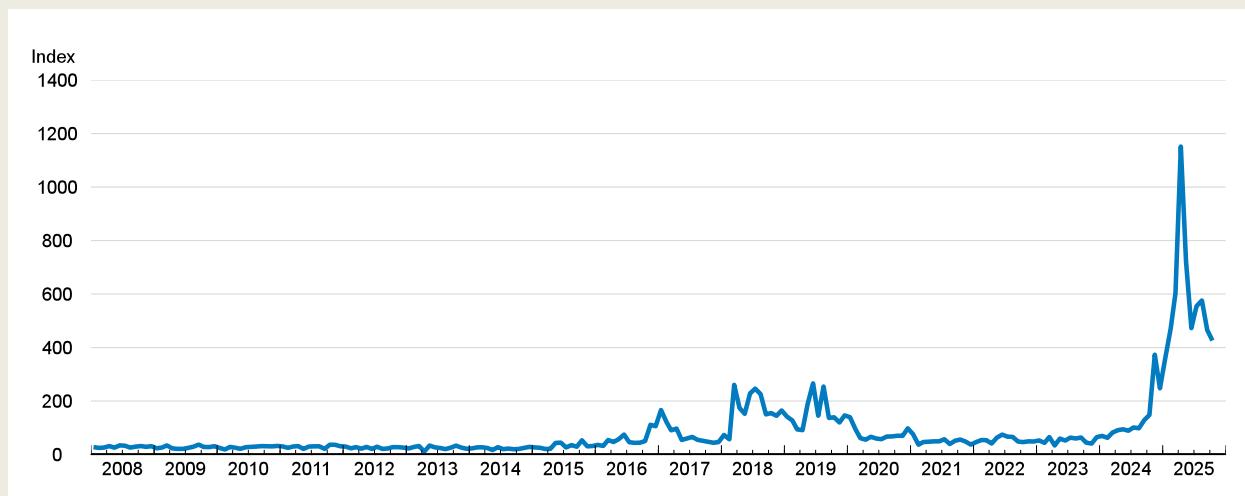
Trade policy uncertainty (TPU) has risen markedly over the past year (Figure 1.23) which should have a dampening effect on trade. This Box assesses the possible trade impact of higher trade policy uncertainty.

In the first half of 2025, the TPU index was almost four times higher than in 2018-19. The surge at that time may have caused as much as a 1 percentage point decrease in world trade growth (Costantinescu et al., 2019), with broader effects on prices, sourcing choices and inputs (Handley and Limão, 2022). More recently, Sampognaro (2025) estimates that monthly global merchandise trade volumes could be 5% lower than in the absence of the recent increase in uncertainty seen in 2024-25. Studies that use bilateral trade values and alternative trade uncertainty measures find a wider range of effects. Nana et al. (2025) estimate that an increase in global trade uncertainty by one standard deviation is correlated with a decline in bilateral trade values of 1.6%, whilst Jakubik and Ruta (2023) estimate that it will lower the value of bilateral trade by 3.1% between geopolitically distant countries.

Uncertainty tends to reduce trade as it increases the value of waiting rather than acting. However, in some circumstances trade could rise in the very short term when firms have an incentive to act immediately before anticipated, though unpredictable, costly policy changes. For instance, Sampognaro (2025) finds that global merchandise trade volumes increase by 1.5% in the first month following an uncertainty shock (of two standard deviations in the uncertainty index) before declining. Such a pattern was seen in the early months of 2025.

To explore these effects, the impact of trade policy uncertainty on global trade volumes is estimated using a panel vector autoregression (VAR) model and quarterly data. The model includes the growth rate of merchandise import and export volumes (consistent with national accounts data), the nominal effective exchange rate, consumption, investment and the trade policy uncertainty index.

Figure 1.23. Trade policy uncertainty has risen to historically high levels



Note: The Trade Policy Uncertainty Index is computed by counting the frequency of joint occurrences of trade policy and uncertainty terms across major US newspapers.

Source: Caldara, et al. (2019).

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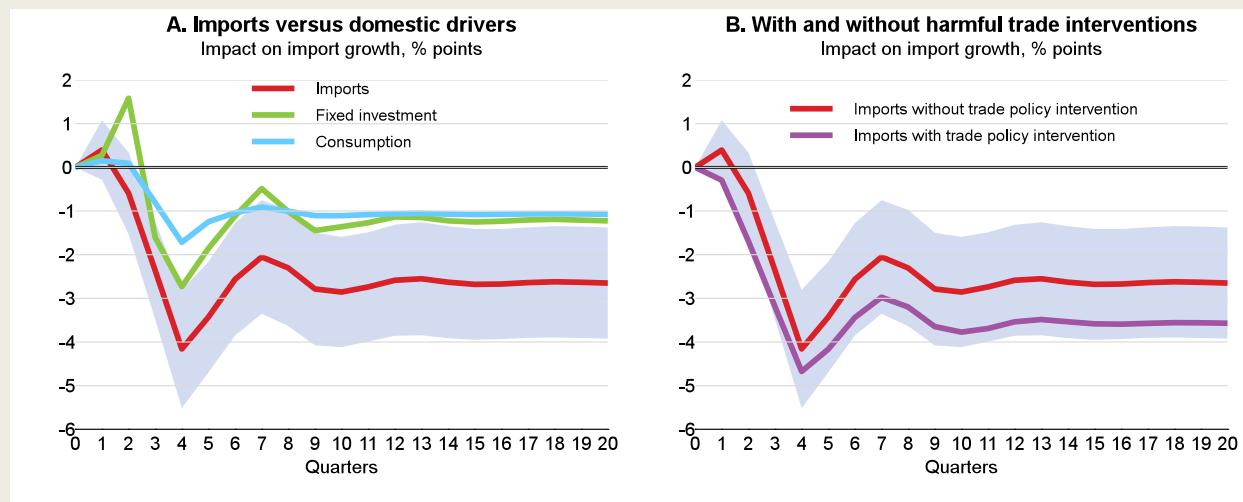
The results suggest that a one standard deviation increase in the global trade policy uncertainty index reduces global real merchandise import growth with a peak impact of around 4.2 percentage points after one year and about 2.6 percentage points after 3 years.¹ Trade policy uncertainty is accompanied by front-loading effects, which seem particularly related to investment, following a trade uncertainty shock (Figure 1.24, Panel A). This is consistent with the somewhat higher import intensity of investment compared to consumption. Based on this evidence, recent increases in trade policy uncertainty in the first three quarters of 2025, if sustained, could reduce growth in world import volumes of goods by about 3 percentage points after one year. This impact can be offset by positive shocks to other determining factors. For instance, upside surprises in investment (outlined in Box 1.2) in the first half of 2025 may have mitigated some of the downside impact of higher policy uncertainty on trade, at least in the near term.

The impact of TPU on trade volumes may also be influenced by announcements of more restrictive trade policy, although the direction of the impact is not always clear. Such policy announcements could mitigate uncertainty by making a clear policy change and reducing speculation. Alternatively, these trade policy announcements could add to the trade inhibiting effects of uncertainty, either by increasing the expected probability of negative trade policy outcomes and the expected loss (Handley and Limão, 2022), or by raising the prospects of additional action at a subsequent date.

When account is taken of the number of products affected by an import tariff at announcement date, global merchandise import growth is found to be reduced by an additional percentage point after 3 years following a one standard deviation increase in TPU (Figure 1.24, Panel B). A possible interpretation is that announcements of restrictive trade measures with a broader scope may be more likely to raise uncertainty than announcements focused only on a small number of products, particularly if they also raise uncertainty about possible retaliatory measures.

Figure 1.24. Trade policy uncertainty shocks inhibit trade growth

Cumulative impact of a one standard deviation increase in the trade policy uncertainty index



Note: Both panels show the estimated cumulative impact of a one standard deviation increase in the trade policy uncertainty index on merchandise import volume growth. Panel A compares the estimated impact on the growth rate of real merchandise imports, investment and household plus government consumption computed across 33 advanced countries and 23 emerging market economies. The shaded area depicts the 90% confidence band around the estimate for imports. Panel B compares the estimated impact on global import growth with and without accounting for harmful trade policy interventions proxied by the number of imported products affected by a tariff at announcement date. The shaded area depicts the 90% confidence band around the estimate for world without trade policy interventions. The dynamic panel VAR model is estimated using a generalised method of moments approach over 2017Q1-2025Q2. It includes four lags of the growth rates of real merchandise imports and exports, investment, total consumption, the effective exchange rate and the trade policy uncertainty index in the baseline version (Panel A) and it adds the number of harmful interventions on imported products as an exogenous variable in the extended version (Panel B).

Source: OECD Economic Outlook 118 database; Global Trade Alert Data Center; and OECD calculations.

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1. The results are robust when excluding 2025 data, when the TPU rose sharply, as well as 2024 data.

Inflationary pressures could resurface

Inflation could surprise on the upside, requiring higher policy interest rates than currently assumed. Indicators of underlying inflation have not yet returned fully to target in many countries, recent progress in disinflation has been limited, and inflation expectations have risen in some economies. The observed easing in global financial conditions and higher inflation in salient items such as some food products heighten this risk. Inflationary pressures could also be exacerbated if any loss of central bank credibility were to threaten the anchoring of inflation expectations. Other potential triggers for a renewed bout of inflationary pressure include supply shocks that could arise through a broadening of geopolitical tensions and trade restrictions, or a further increase in the prevalence and intensity of natural disasters in some countries. An additional potential source, particularly in the United States, is that the pass-through of tariffs into prices could strengthen more quickly than anticipated once companies exhaust the scope to absorb higher costs in their profit margins. The risk of second-round effects from such a shock generating greater inflation persistence is particularly pronounced in those economies where inflation expectations are not well-anchored. Reflecting the recent divergence of inflation outcomes between countries, there are also downside risks in some economies where inflation outcomes have recently been benign, including China, if demand proves weaker than currently anticipated.

Financial market risks are rising

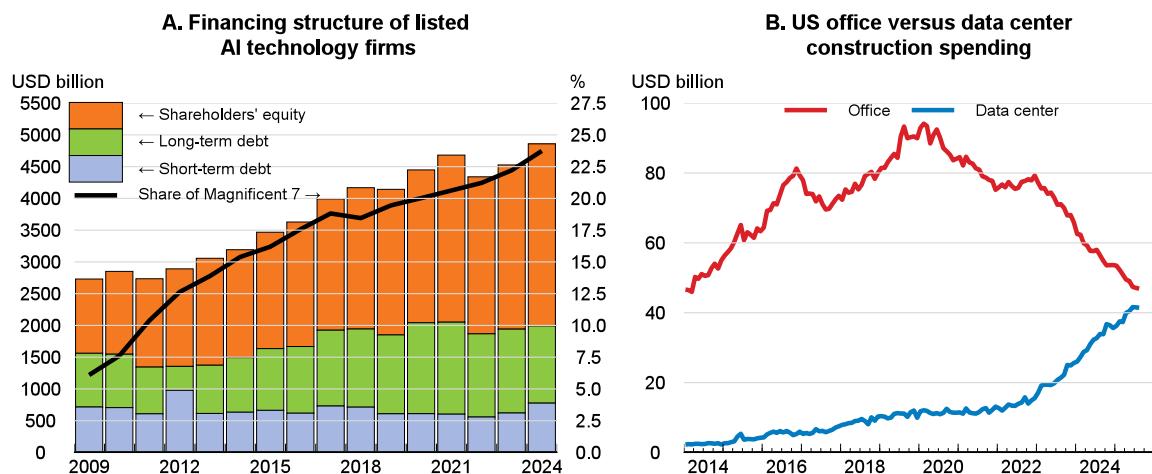
Corporate financial strains may lead to risk repricing in financial markets

Given high valuations by historical standards, repricing in equity markets is a key risk to the economy and financial stability. One trigger might be if investors' enthusiasm for AI proves overstated, with price corrections spreading from technology stocks to broader benchmark indices. The concentration of ICT investment in the major technology firms paired with stretched valuations, signals rising exuberance and mounting risks if substantial investments fail to deliver expected returns.⁶ The impact on AI technology firms could be particularly severe if they are forced to write down the value of their AI-related assets due to underperformance. Despite their growing reliance on equity financing, listed AI technology firms have accumulated substantial debt (Figure 1.25, Panel A), including less transparent private debt and commercial mortgage-backed securities. This could result in a high correlation of default risk across multiple credit products.⁷ Any substantive correction in AI equity prices would also have a noticeable impact on the overall equity market given the increasing share of market capitalisation accounted for by the major technology stocks and the rising importance of index-linked passive investment funds (OECD, 2025a). This could be amplified by abrupt deleveraging of balance sheets, with fire sales of assets to meet margin calls or to satisfy risk limits. A downward reassessment of expected returns from AI could also soften or even halt data centre investment. This has surged over the past three years (Figure 1.25, Panel B), helping to support activity in the overall commercial real estate sector.

⁶ In 2024, the “Magnificent seven” (Alphabet (Google), Amazon, Apple, Meta Platforms (Facebook), Microsoft, Nvidia and Tesla) represented 60% of capital expenditures of listed AI technology firms.

⁷ Asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS) are structured credit products backed by bonds or mortgages issued to AI firms or used to finance AI-related projects, such as data centres.

Figure 1.25. Strong growth of listed AI technology firms has had spillovers across the economy



Note. In Panel A, the sample of listed AI technology firms comprises 91 firms located across 13 jurisdictions: Canada, China, Finland, France, Germany, Hong Kong (China), Ireland, Israel, Japan, Korea, Chinese Taipei, the United Kingdom and the United States. The “Magnificent Seven” refer to the largest technology companies, namely Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla. Debt covers loans from banks and marketable debt securities. Short-term debt comprises all interest-bearing financial obligations maturing within one year, while long-term debt encompasses interest-bearing obligations with maturities exceeding one year. Annual data at current prices are converted to 2024 prices using the US consumer price index. Debt and shareholders’ equity of the “Magnificent Seven” is expressed as a share of debt and shareholders’ equity of all 91 listed AI technology firms. In Panel B, the figure shows monthly seasonally adjusted values of private office and data centre construction in the United States deflated using the US consumer price index rebased to August 2025.

Source: US Census Bureau; LSEG; and OECD calculations.

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At an aggregate level, corporate balance sheets remain broadly sound, with debt-to-GDP and debt service ratios still close to their ten-year averages. Nonetheless, financial strains could still emerge in the event of adverse shocks to growth, hitting corporate earnings and debt-servicing capacity. Such shocks could also lead to repricing in financial markets, making equity financing more costly.

Contagion within and across traditional finance and crypto assets may threaten financial stability

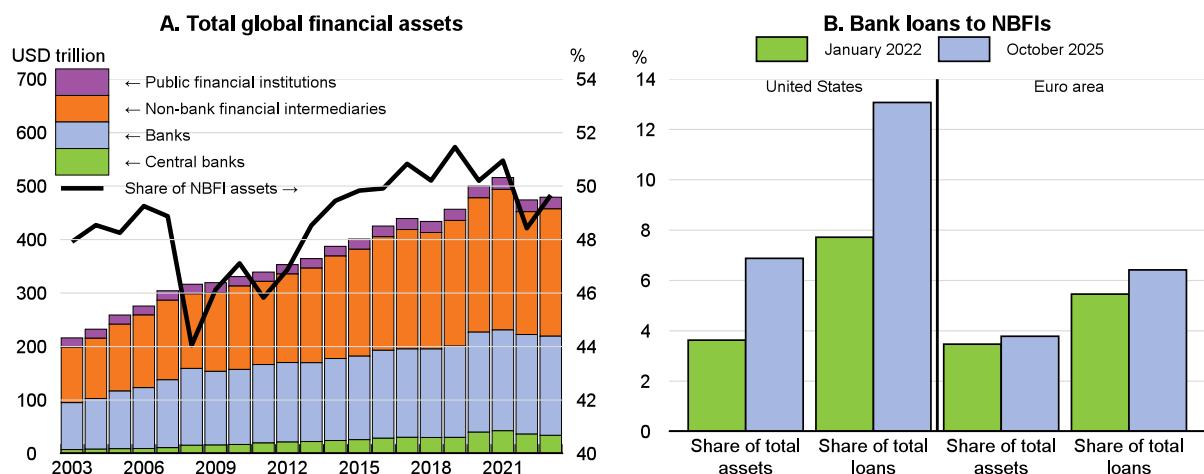
Non-bank financial institutions (NBFIs) have grown rapidly since the global financial crisis (Figure 1.26, Panel A) and linkages between banks and non-banks have risen. Bank lending to NBFIs has expanded in recent years (Figure 1.26, Panel B), and banks have also provided liquidity backstops such as credit lines to NBFIs (Gabriel and Sterling, 2025). This partly reflects banking regulatory requirements that incentivise banks to favour exposures to NBFIs over some types of direct corporate lending (BIS, 2025a). Funding NBFIs through heavily collateralised loans, investment grade bonds or credit lines enables banks to reduce their credit risk weights and manage capital more flexibly. However, indicators of volatility for banks and non-banks are often highly correlated, especially in major crises, suggesting interlinkages. This can generate spillovers across financial intermediaries that leave banks exposed to shocks that occur outside the banking sector.

NBFIs are highly diverse, though interconnected, and are subject to differing risks and degrees of regulatory oversight. Some small but fast-expanding segments, such as private credit and equity funds and hedge funds have comparatively light regulatory frameworks. This limits the extent to which regulators and supervisors can monitor and assess system-wide risks. One such segment is real estate investment trusts (REITs) and business development companies (investment funds that lend to small and mid-sized business) who were especially prone to credit risk during the pandemic. Such private credit vehicles are often characterised by high leverage, interconnected to banks through credit lines, and less transparent than banks due to lighter reporting requirements (Acharya et al., 2024; Roulet, 2024).

Default rates have recently increased among leveraged private credit borrowers (Fitch Ratings, 2025), partly reflecting the prevalence of variable-rate loans that heighten borrowers' sensitivity to interest rate and economic conditions (OECD, 2024b). The bankruptcy of auto parts producer First Brands Group in September 2025 marked one of the largest collapses in private debt markets in recent years, illustrating the risk of contagion to banks. Any resurgence of strains in commercial real estate (CRE) markets could raise bank non-performing loans and generate losses for NBFIs, particularly REITs, real estate funds, and institutional investors. Elevated CRE delinquency rates in the US (especially in the office segment) and China's protracted property downturn continue to weigh on confidence and pose headwinds in both commercial and residential real estate markets.

Crypto-assets and emerging alternatives, such as tokenised commercial bank deposits, are reshaping the payments landscape (Cecchetti and Schoenholtz, 2025).⁸ The rapid expansion of crypto-asset markets, their high price volatility and interconnectedness with other parts of the financial system raise financial stability risks. Recent regulatory developments for stablecoins in the United States and in the European Union, combined with ongoing innovation in crypto-asset financial products, are likely to further promote the integration of crypto-assets into the portfolios of financial intermediaries - such as banks, insurance companies, pension funds, and investment funds - and thereby enhance linkages with traditional finance. This could generate a number of possible policy challenges, including heightened liquidity and market risks and the possibility of sudden capital outflows from emerging market economies (Box 1.4).

Figure 1.26. The rise of NBFIs and banks' increasing exposure to the sector



Note: In Panel A, public financial institutions refer to development banks and government-owned financial bodies that play a role in financial intermediation. Outstanding global financial assets are expressed in USD trillion (deflated using the US consumer price index rebased to 2023) and financial assets of NBFIs are expressed as a share of the global total. In Panel B, US commercial bank loans to NBFIs are defined as the loans to non-depository financial institutions by US commercial banks (i.e. domestically chartered commercial banks, US branches and agencies of foreign banks, and Edge Act and agreement corporations). In the euro area, loans by MFIs (monetary financial institutions) to NBFIs in the euro area are defined as the loans to euro area insurance companies and pensions funds, and other nonbank financial corporations excluding the European System of Central Banks. There is not enough information to identify MFI loans to non-euro area NBFIs. Loans to NBFIs are expressed as a share of total bank loans or assets.

Source: European Central Bank; US Federal Reserve; Financial Stability Board; and OECD calculations.

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⁸ Tokenised deposits, still in an experimental stage, are digital representations of traditional bank deposits.

Box 1.4. Growing linkages between stablecoins and traditional finance: implications for financial stability

The market valuation of crypto-assets rose to more than USD 4 trillion in October 2025, almost twice the value of a year earlier (Figure 1.27, Panel A). While delivering high returns in the recent past, crypto-asset values remain highly volatile compared to other asset classes (Figure 1.27, Panel B), as shown by the sharp 30% decline in market value between the peak reached in early October and end-November. Risks are compounded by high market concentration, with Bitcoin accounting for 57% of total crypto-market capitalisation in November 2025. The exposure of financial institutions to crypto-assets generally remains limited but interconnections are increasing, raising new financial stability issues and regulatory challenges.

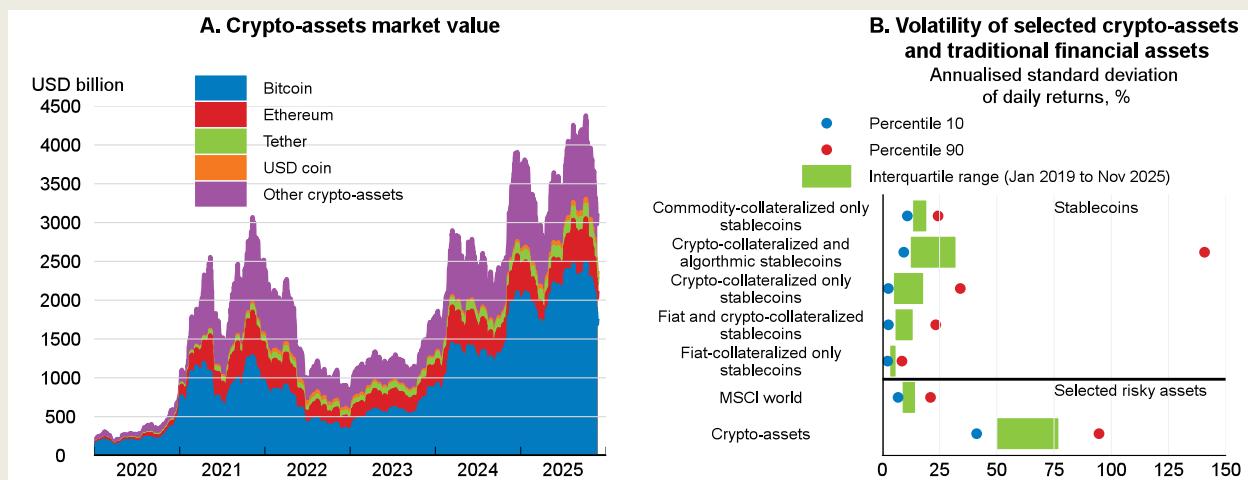
Fast growth, high concentration and non-negligible risks also permeate segments of crypto-assets that are intended to be safer, such as stablecoins. Stablecoins have become an attractive means of payment, as they are intended to maintain a stable value by anchoring to a reference asset (typically US Treasury bills), offering convertibility on demand at par. They also offer fee-free, immediate and pseudonymous transactions, which is a particular advantage for payments and transfers across borders. Two issuers that mainly rely on USD-denominated collateral (Tether and USD Coin, Figure 1.27, Panel A) accounted for around 87% of the USD 298 billion market capitalisation in November 2025.

The total value of payments using stablecoins surpassed that of major traditional digital payment providers in 2024 (Figure 1.28, Panel A). Stablecoins have been primarily used so far to settle trades in other crypto-assets, and now account for around 80% of all trades on crypto-asset platforms (ECB, 2025), although usage for other payments by corporates, traditional financial intermediaries and even households has risen. However, some stablecoins have also experienced significant price volatility, particularly those that are not fully fiat-collateralised and which account for the majority of stablecoin transaction volumes (Figure 1.27, Panel B).¹ Persistent deviations from par, together with instances of past failures, cast some doubt on the reliability of stablecoins as a broad means of payment and store of value. Stablecoins are typically uninsured, unlike most bank deposits, and variation in the value of their backing assets may prompt holders to request redemptions.

The growth of crypto-asset exchange-traded products (ETPs) — a new class of investment funds listed on traditional securities exchanges which track the performance of one or more underlying crypto-assets — is likely to ease access to crypto-assets further. Exposure to this asset class by traditional investors such as banks, insurance companies, pension funds, and investment funds could increase as a result (ESRB, 2025). As with other investment funds, crypto-asset ETPs are vulnerable to investors' redemption runs and the ensuing asset fire sales, a risk compounded by fragile infrastructure to issue and redeem shares and trade assets.² As the currently-limited linkages between crypto-assets and traditional finance grow, so do risks to financial stability. These include liquidity shortages and fire sales of collateral, volatility in funding costs and markets, and spillovers to bank-based financial intermediation. Challenges for monetary policy transmission may also arise given the potential for stablecoins to flow seamlessly across international borders and the scale of their investments in Treasury bills (Rey, 2025).

Stablecoins could potentially affect the pricing and operation of segments of critical funding markets, such as sovereign debt ones (Aldasoro et al., 2025; OECD, 2022), as stablecoin issuers are now major holders of US Treasury bills (Figure 1.28, Panel B). Perceived high-risk stablecoins might be particularly susceptible to runs following a negative shock, such as a cybersecurity failure. Investor inflows into stablecoins and asset sales to meet redemptions could thus affect short-term bond yields and monetary policy transmission. Stablecoin issuers' generation of additional income by using reverse repos (lending securities to traditional financial intermediaries who then pledge them as collateral) also adds to potential strains on repo market liquidity at times of stress.

Figure 1.27. The market value of crypto-assets has risen sharply and returns are volatile

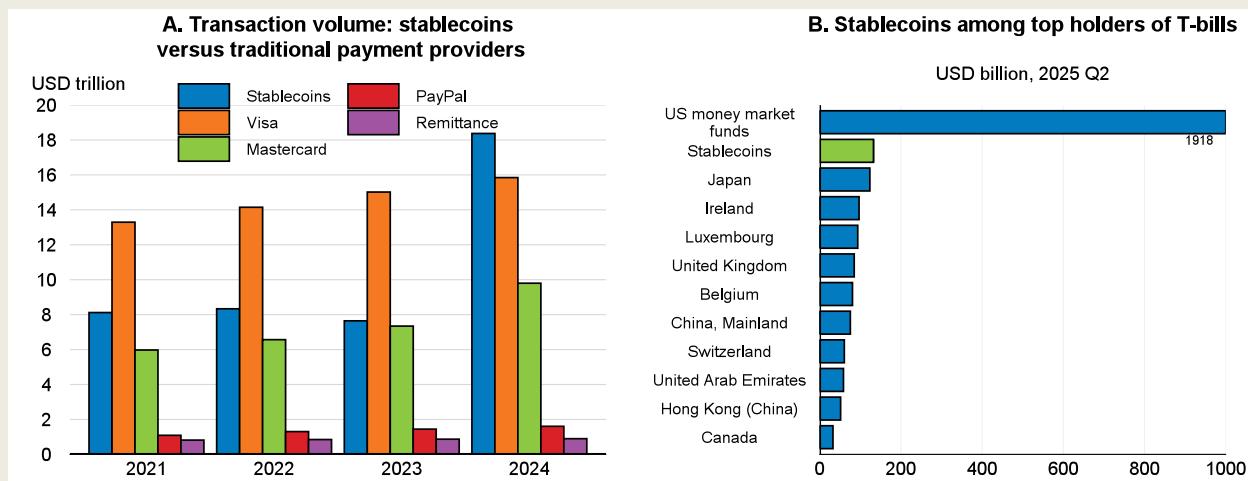


Note: In Panel A, "Bitcoin" and "Ethereum" are the two largest crypto-assets by market value, and "Tether" and "USD Coin" are the two largest stablecoins by market value. In Panel B, volatility is defined as the annualised standard deviation of daily returns computed on moving 21-trading day windows. The stablecoins classification is based on Kosse et al. (2023), Chainalysis (2024) and CoinGecko (2024). Fiat-collateralised stablecoins (such as Tether and USD Coin) are collateralised by assets denominated in a fiat currency (e.g. US T-bills). Crypto-collateralised stablecoins are collateralised by other crypto-assets. Commodity-collateralised stablecoins are collateralised by commodities (such as gold or silver). Stablecoins can also maintain a stable value through their blockchain digital infrastructure (algorithms or protocols). Hybrid collateral models combining multiple mechanisms are the most common. The MSCI Index represents large and mid-cap firms across 23 advanced markets and 24 emerging-market countries, covering approximately 85% of the global investable equity opportunity set.

Source: CoinGecko; <https://www.rwa.xyz>; and OECD calculations.

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Figure 1.28. Stablecoins transactions and holdings of US Treasury bills are rising



Note: In Panel A, Visa, Mastercard and PayPal payments primarily reflect settlements for goods and services, while stablecoins have been primarily used so far to settle trades in other crypto-assets. All types of stablecoins are included (i.e. fiat-collateralised and others). Panel B reports holdings of US T-bills for selected domestic and foreign holders as of 2025 Q2, categorised by type and nationality. For stablecoins, holdings correspond to US T-bills held by Tether and USD Coin.

Source: Artemis Analytics; Tether and USD Coin transparency reports; US Federal Reserve; US Department of the Treasury; Visa and Mastercard annual reports; and OECD calculations.

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The growth of stablecoins may also pose risks to banks. Companies with crypto-related business models, including stablecoin issuers, also hold bank deposits (as required by regulation in some jurisdictions). This could prove an unstable deposit base if stablecoin issuers suddenly withdraw funds to meet liquidity needs (ECB 2025), potentially disrupting bank credit availability.

The growing adoption and use of stablecoins, and their ability to circulate freely across borders, also raise economic policy challenges. Exchange rate volatility in emerging-market economies could rise if capital controls are less effective at times of stress and foreign exchange regulations could be bypassed by the use of foreign-currency denominated stablecoins. This would make standard indicators of capital outflows harder to interpret. More broadly, the use of foreign currency denominated stablecoins could weaken the control of monetary conditions by domestic central banks (BIS, 2025a). The potential use of stablecoins for illicit activities is a further concern, raising challenges for the enforcement of anti-money laundering and financing of terrorism regulations.

Many countries have begun to develop tailored regulations relating to stablecoins, and crypto-assets more generally, with prominent recent examples including the GENIUS Act in the United States and the MiCA legislation in the European Union.³ However, regulatory approaches differ across countries and significant gaps and inconsistencies remain (FSB, 2025a). One key issue is the limited oversight of cross-border transactions, which could hamper responses to systemic risks and encourage regulatory arbitrage. The rapid growth of the stablecoin market, and the impact stablecoin usage may have on other asset markets, highlights the need for enhanced international cooperation to ensure effective regulation, supervision, and oversight of stablecoins in all jurisdictions.

1. Transaction volumes of fiat-collateralised stablecoins accounted for 31% of total stablecoin transaction volumes in 2024, down from a peak of 48% in 2023 (Visa, 2025).
2. Traditional investment funds rely on established authorised participants. In contrast, crypto-asset ETPs rely on a small number of liquidity providers (LPs) with lower credit ratings and limited reserves, with the three largest LPs accounting for more than 70% of the crypto-asset ETP market.
3. The GENIUS Act (Guiding and Establishing National Innovation for U.S. Stablecoins Act), was enacted in July 2025, establishing a comprehensive regulatory framework for USD-backed payment stablecoins. The 2023 EU Markets in Crypto-Assets Regulation (MiCA), effective from December 2024, provides a unified regulatory framework for crypto-assets not covered by existing legislation.

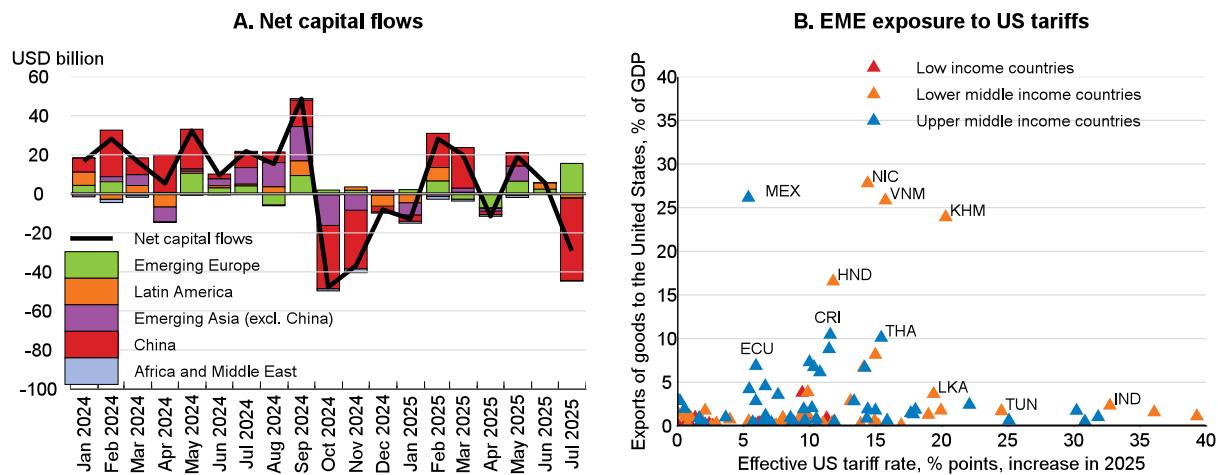
Risks in emerging market and developing economies have receded but some vulnerabilities remain

Near-term risks in emerging-market economies have receded as financial conditions have improved. Net capital flows to EMEs have been relatively resilient since the start of the year, especially to countries other than China, helped by the US dollar depreciation and a rise in risk appetite (Figure 1.29, Panel A). Many emerging market economies are in a better position than in the past to withstand global shocks. In larger and higher income emerging markets, the share of borrowing in local currency has increased and the share of non-resident investors has declined over time (IMF, 2025a). This has reduced sensitivity to global shocks as currency mismatch and the risk of a sudden stop are lower. Nonetheless, the share of marketable liabilities in total liabilities has grown (BIS, 2024), which has increased susceptibility to shifting global or local risk sentiment. A sharp repricing resulting from overstretched asset markets in the US or other major markets would lead to a substantial rise in global risk aversion which often tends to affect emerging-market economies disproportionately more than developed economies.

Sovereign borrowing risks remain. Since 2010, the total sovereign debt of emerging-market economies has quadrupled in US dollar terms and, in the median economy, almost doubled as a share of GDP. Around a fifth of outstanding bonds will mature over 2026-27, with new issuance potentially incurring higher financing costs (OECD, 2025b). A sharp appreciation of the dollar or a renewed spike in yields could make

borrowing significantly more difficult, particularly in foreign currencies. However, EME credit ratings have improved this year (Khan and Jadhav, 2025) and narrowing spreads on USD-denominated sovereign bonds point to a decline in perceived default risk. The proportion of emerging-market and developing economy sovereign debt in default fell to around 1.5% in 2024 and the number of countries in default declined, although it remained high (Beers, Ndukwe and Berry, 2025).

Figure 1.29. Emerging-market economies have benefitted from resilient capital flows but face higher US tariffs



Note: Panel A shows gross portfolio inflows from the OECD Monthly Capital Flow dataset for 23 emerging-market economies grouped by four geographical areas. Panel B shows exports of goods to the United States as a share of GDP in 2023 compared to increases in effective US tariffs, relative to 2024, for 116 emerging-market economies. Income classifications are taken from the World Bank.

Source: OECD Monthly Capital Flow dataset; US Census Bureau; OECD BIMTS; and OECD calculations.

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The rise in US tariffs could hit some emerging and developing economies particularly hard. For example, Cambodia, Nicaragua and Viet Nam export goods to the United States equivalent to around one-quarter of their GDP and are facing significantly higher US tariffs (Figure 1.29, Panel B). For low-income EMEs, financing risks are compounded by a narrower investor base and falling development aid. Official development assistance declined by around 8% in 2024, reversing a trend of expanding aid (OECD, 2025c), and is likely to fall further, raising the need for additional sources of revenue in recipient countries if sharp cutbacks in activity and incomes are to be averted.

There are also potential sources of upside surprises to the outlook

Several other uncertain factors could generate upside surprises to the global economy over the next two years, in addition to reductions in trade barriers. A lasting de-escalation of conflicts in Europe and the Middle East could reduce geopolitical uncertainty, along with energy prices. Fundamentals in global oil markets currently point to downward pressure on prices, with global oil supply projected to exceed demand by over 4 million barrels per day in 2026 (IEA, 2025c).

Positive supply shocks could boost potential output growth, enabling faster output expansions than currently projected. For example, the strong momentum in AI-related investment in the United States could broaden to other major economies, boosting current spending and potentially raising productivity growth in the future. The extent and timing of productivity gains related to the adoption of AI is highly uncertain, but it is possible that such gains become more visible than currently anticipated over the next two years. Previous general-purpose technologies, such as the internet, took considerable time to be broadly adopted

and to deliver substantial productivity effects. However, the relatively fast pace of AI adoption in many economies to date, reflecting the user-friendly nature of the technologies and rapid declines in user costs, may work in favour of AI having more rapid adoption and productivity impacts (Filippucci et. al., 2025). The potential for faster adoption could be enhanced in those economies where governments undertake complimentary reforms, including by improving public investment in digital infrastructure for AI, strengthening digital and AI-related skills programmes and ensuring regulatory frameworks promote competition in the sector.

More broadly, the growth outlook could be boosted gradually in the event that governments undertake growth-enhancing structural reforms beyond those currently incorporated in the projections. Reforms that reduce barriers to the reallocation of labour and capital would be particularly important as businesses further adapt to new trade policies and new technologies amid heightened policy uncertainty. Such measures could include governance reforms and lower regulatory barriers to firm entry, initiatives that enhance access to finance for high potential businesses and those that increase the ability of individuals to join the labour force and transfer jobs. Estimates using the OECD Long-Term Model highlight that a package of reforms that involves reducing product market regulation, raising female employment rates and improving the rule of law could boost average annual real GDP growth by 0.2 percentage points in the advanced G20 economies and 0.8 percentage points in emerging-market G20 economies (OECD, 2025d).

Policies

Trade tensions need to be resolved

Countries need to find ways of engaging co-operatively within the global trading system and working together to make trade policy more predictable and secure a lasting resolution to trade tensions. Agreements to improve access to national markets, and clear and transparent trade policies, would reduce policy uncertainty and strengthen the prospects for growth. Steps to lower tariffs and non-tariff barriers, deepen trade agreements or reduce barriers to trade in services would all benefit productivity and living standards. Efforts to prevent further trade fragmentation should be coupled with reforms that enhance diversification, reduce vulnerabilities and strengthen the resilience of supply chains. This would help to align economic security objectives with continued growth while preserving the economic benefits and predictability of open markets and a rules-based trading system.

Greater use of export controls raises uncertainty and generates adverse supply shocks, particularly when they are applied to critical products with few suppliers. Holding greater inventory stocks could help to buffer such shocks, but might also raise working costs for businesses. National stocks of key products can help when private costs are prohibitively high. However, lessons from the pandemic show that accumulating inventories in times of crisis can also exacerbate global supply shortages (OECD, 2023). International co-ordination to align stockpiling strategies as well as long-term planning can help to mitigate these risks (OECD, 2023).⁹ Over the long term, countries need to support efforts to reduce critical dependencies by developing alternative technologies to better ensure resilience, and encourage diversification of suppliers and buyers.

Monetary policy should remain vigilant

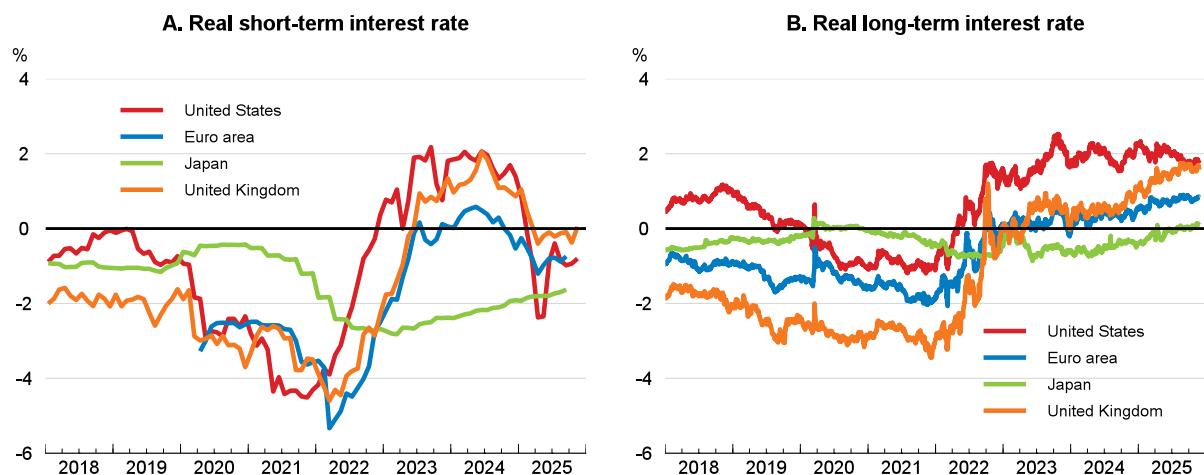
In recent months reductions in policy interest rates have continued in many advanced economies, and resumed in Canada and the United States. In contrast, policy rates have remained unchanged since June in the euro area, following a 2 percentage point decrease since June 2024 and where inflation is close to target. Central bank balance sheet reductions have continued in several advanced economies, though the United Kingdom has slowed quantitative tightening and the United States has brought it to an end at the beginning

⁹ For example, in Switzerland, stockpiles are managed in cooperation with the private sector, with a compulsory rolling stock system, that is owned by private companies but monitored by the state (OECD, 2023; Frohm, 2024).

of December. The monetary policy stance has become less restrictive in most advanced economies, and no longer restrictive in some (see below), despite forward-looking long-term real interest rates remaining well above pre-pandemic norms (Figure 1.30). In Japan, monetary accommodation has continued to be gradually withdrawn, with further steps to reduce central bank asset holdings and real interest rates edging upwards, though policy rates have remained unchanged since January.

Central banks will need to remain vigilant and attentive to shifts in the balance of risks around economic and financial developments to ensure that underlying inflation pressures are durably contained. A one-off tariff-induced rise in the relative price of tradeable goods, even if it materialises only gradually, can be looked through provided inflation expectations do not rise, but policy adjustment may be needed if there are broader price increases or weaker labour market conditions. Central bank independence, both legal and operational, and accountability help to ensure that long-term inflation expectations remain well anchored, as policymakers can respond quickly to changes in the balance of risks for price stability and lower the volatility and persistence of inflation.

Figure 1.30. Real short-term interest rates have eased



Note: Based on data up to 26 November 2025. In Panel A, 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 Japan; European Central Bank; University of Michigan; YouGov/Citigroup and OECD calculations.

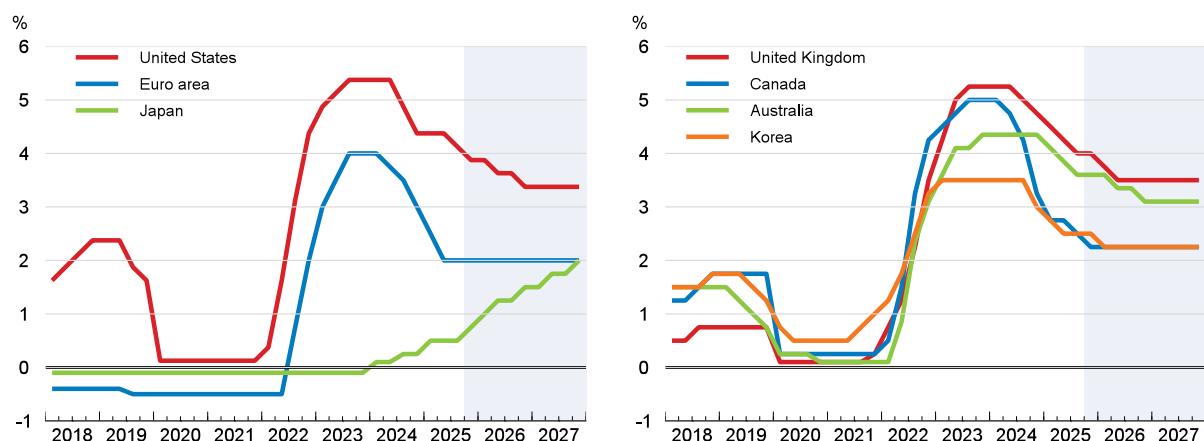
Under the projected outlook for inflation and GDP growth, policy rate reductions are expected to continue in the next few quarters in many major advanced economies (Figure 1.31). Central banks in smaller advanced economies are expected to have more diverse policy rate trajectories, with rate reductions extending well into 2027 in some cases.

- In the United States, the federal funds rate is projected to decline gradually from 3¾-4 per cent at present to 3¼-3½ per cent by end-2026 and remain unchanged afterwards. Aggregate securities holdings of the Federal Reserve are projected to remain unchanged, with maturing Treasury securities being rolled over and maturing agency securities being reinvested into Treasury bills.
- In the euro area, policy rates are projected to remain unchanged until end-2027, with inflation staying close to the target and the deposit facility rate at 2%. The decline in Eurosystem bond holdings is expected to continue broadly at the pace observed in 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 from 0.5% at present to 2% by the end of 2027, 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 further, as the bank's monthly gross purchases are to be reduced by about JPY 400 billion per quarter until the first quarter of 2026, and by about JPY 200 billion per quarter thereafter. Other Bank of Japan outstanding assets (those under the loan support programme, corporate bonds, exchange-traded funds and Japan real estate investment trusts) are also expected to decrease.
- Reductions in policy rates are projected to have now ended in Canada, and to cease in the first half of 2026 in Korea and the United Kingdom and in the second half of 2026 in Australia. Central bank bond holdings are assumed to decline further in Australia and the United Kingdom, albeit in the latter at a slower pace decided in September 2025. In Canada, asset purchases through term repos followed by sovereign debt purchases are expected, allowing the balance sheet size to eventually expand modestly in line with the growth of the economy.

Figure 1.31. Policy rate reductions are projected to end next year in many advanced economies

Policy interest rates



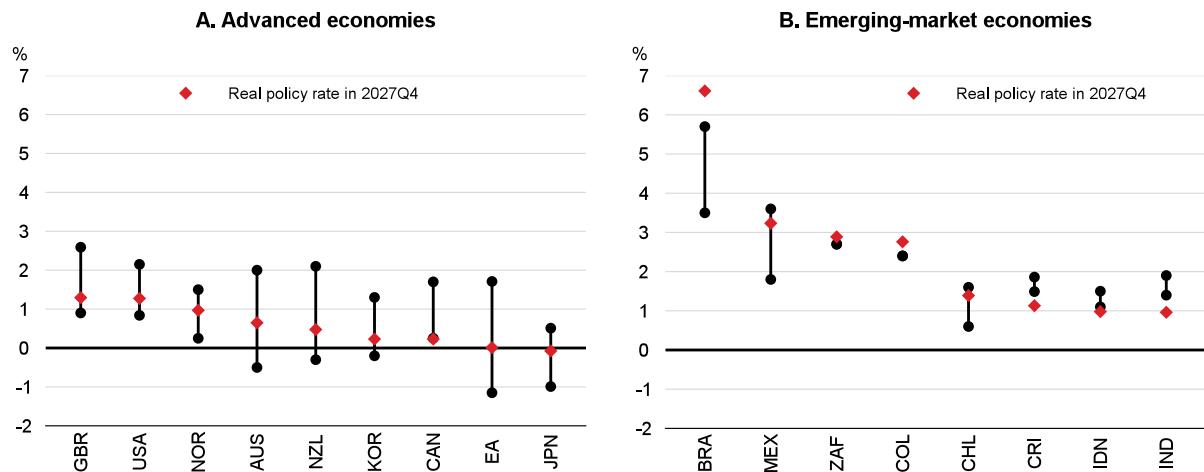
Note: The first panel shows the midpoint of the federal funds target range for the United States and the deposit facility rate for the euro area.
Source: OECD Economic Outlook 118 database.

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In many advanced economies, real policy rates are already close to or within estimated ranges for real neutral rates – the real interest rate at which the policy stance is neither accommodative nor restrictive – and all are projected to be so at the end of 2027, with inflation back or close to target at that time (Figure 1.32, Panel A), although neutral rate estimates are surrounded by considerable uncertainty. Stronger productivity and investment, for instance as a result of widespread AI adoption, could make the future neutral rate be higher than current estimates suggest (Rachel, 2025), as could higher public debt and quantitative tightening (Schnabel, 2025). On the other hand, lower immigration and tariff increases could put downward pressure on the neutral rate (Miran, 2025), though the impact from tariffs could largely disappear in the long run (Mehrotra and Waugh, 2025).

Figure 1.32. Real policy rates are projected to converge to neutral level ranges

Real policy rate and range for real neutral rates



Note: The projected real policy rates in 2027Q4 are calculated using projected nominal policy rates deflated by projected annual core inflation over the year to 2027Q4 (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. These estimates refer to the recent past. The minimum and maximum values come from the estimates of different models or sources and the ensuing ranges should not be regarded as confidence intervals. The estimates for Colombia and South Africa are from a single model or source.

Source: OECD Economic Outlook 118 database; Banco Central do Brasil (2024); Banco Central de Chile (2024); Banco de Mexico (2024); Banco de la República (2025); Bank of Canada (2025); Beyer et al. (2025); Castaing et al. (2024); Do et al. (2024); Ellis (2022); Federal Reserve Bank of New York (2025); Federal Reserve Bank of Richmond (2025); IMF (2023a), IMF (2023b); Lubik et al. (2024); Nakano et al. (2024); Norges Bank (2025); Reserve Bank of India (2024); Segura-Rodriguez (2024); South African Reserve Bank (2025); and OECD calculations.

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Active supervision and monitoring are needed to address financial stability risks

Stretched valuations in financial markets, including the rapid growth in crypto-asset market capitalisation, and the growing interconnections between banks and non-bank financial institutions call for enhanced vigilance to safeguard financial stability. Effective monitoring, supervision and robust regulatory policies are needed, in line with internationally-recommended norms, with reforms being implemented across jurisdictions in a timely and consistent manner to minimise regulatory arbitrage.

For banks, countries should ensure that they have sufficient levels of capital and liquidity to withstand shocks, drawing on the guidelines of the Basel III framework. This would help to protect against risks of banking failures and adverse spillovers from NBFIs given their growing interconnectedness with banks. Further progress is also required to safeguard against the risks from highly diverse NIFI business models, following the FSB/G20 recommendations (FSB, 2025b), including the collection of timely and more comprehensive data and closer scrutiny of structural vulnerabilities from liquidity and leverage, especially in investment funds and asset management firms. More broadly the interconnections between banks and non-banks enhance the case for joint assessment of their balance sheets and for bank stress tests which incorporate those interconnections (Acharya et al., 2024). Likewise, liquidity stress tests of investment funds subject to investor redemptions are a priority. The financial authorities should also identify highly interconnected, systemically important NBFIs to develop entity-specific regulatory and supervisory requirements (BIS, 2025b). Recovery and resolution plans could also be established for NBFIs to enable the orderly exit of unviable entities without jeopardising systemic stability.

Crypto-assets present a broad range of policy challenges. Effective monitoring of developments and risks requires improvements in timely data disclosure and regulatory reporting, as well as structured and systematic use of available information, such as that from incumbent financial institutions or public and

commercial data sources. Countries should also perform comprehensive assessments of current gaps in regulation and supervision, custody and eligibility of collateral, recovery and resolution planning, and insolvency frameworks (FSB, 2023, 2025a). Enhanced international cooperation is key to ensure efficient cross-border regulation and supervision as well as clear institutional accountability.

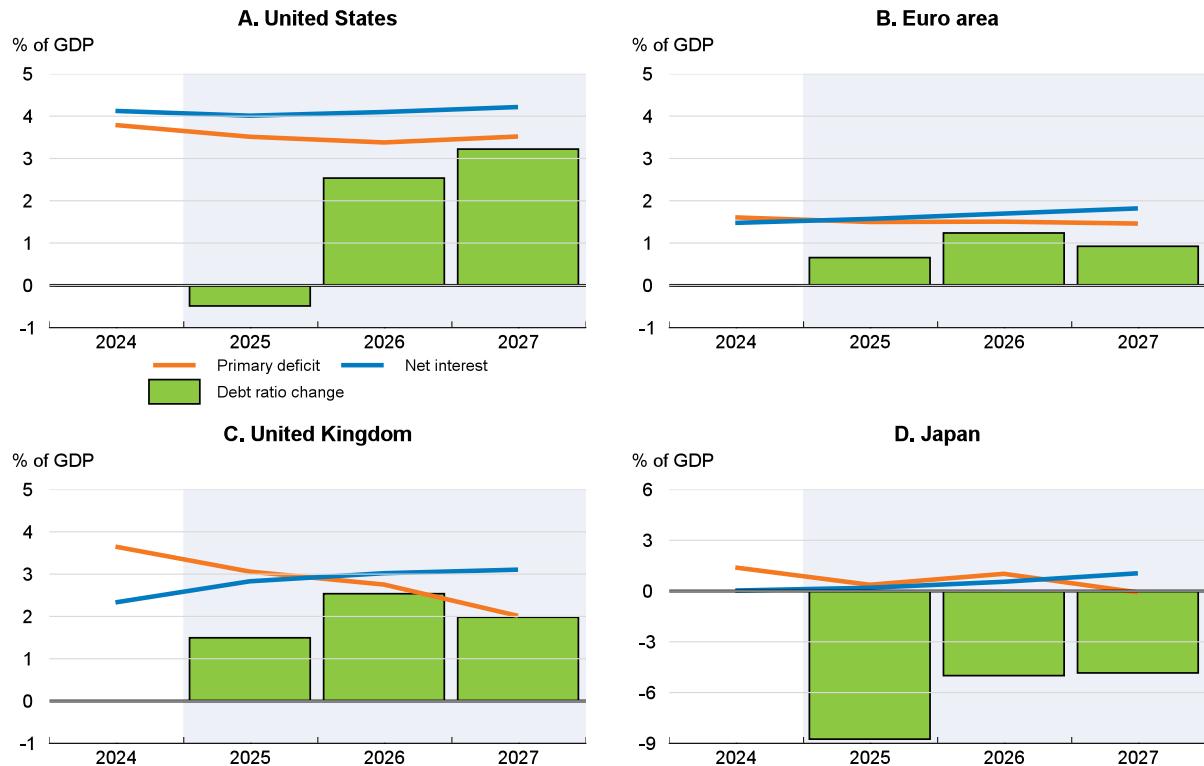
Tighter fiscal policy is needed to contain rising debt burdens

On the basis of the latest budget proposals, the fiscal stance is projected to ease slightly in many advanced economies in 2025 and 2026 before tightening in most countries in 2027. The projected median change in underlying primary balances (one indicator of the structural fiscal position) from 2025 to 2027 is a modest improvement worth 0.3% of potential GDP. The gross government debt-to-GDP ratio is expected to rise further between 2025 and 2027 in a majority of economies, and by 2.6 percentage points in the OECD overall. Only a small number of countries are planning significant fiscal tightening over the next two years, and a handful are likely to see marked fiscal easing, including Germany. The fiscal projections for 2026-27 for advanced and emerging market economies (discussed below) are conditional on announced government measures and OECD assessments of current plans (Annex 1.A).

- The United States' aggregate (general government) budget deficit is currently estimated to be 7½ per cent of GDP and is expected to rise a little further over the next two years. The structural primary budget deficit is also projected to remain large, at 3.5% of potential GDP in 2027. Despite a small improvement in the underlying fiscal position this year and in 2026 – in part from higher tariff revenues and lower-than-expected government purchases – the government debt burden will continue to grow. The partial shutdown of the US federal government from 1 October to 12 November 2025 is assumed to have reduced public outlays only temporarily.
- In the euro area, the underlying primary deficit is estimated to be 1.3% of GDP in 2025 and projected to remain broadly unchanged over the next two years. This reflects a wind down of spending tied to NextGenerationEU (NGEU) offset by an increase in defence outlays. The aggregate projection also masks diverging outcomes across the euro area's largest economies. In France, fiscal tightening of 1% of GDP is projected in 2026-27. The end of NGEU stimulus is expected to contribute to fiscal tightening in a number of countries in 2027, including Italy and Spain. A fiscal tightening of 0.3% of GDP is also projected in Italy in 2026. In contrast, a major fiscal expansion in Germany is projected to cause the underlying balance to deteriorate by 1.4% of GDP over 2025-27. To some extent, this reflects initial differences in the fiscal position of these countries, with Italy having a high debt level, France rising debt and a sizeable budget deficit and Germany having a relatively low debt level.
- Japan's structural primary budget, estimated to be in a modest surplus this year, is projected to weaken by 0.2% of GDP over the next two years. A new stimulus package aimed at lifting investment, easing cost-of-living pressures, and strengthening defence will drive up spending relative to government revenues in 2026. A fiscal tightening is expected in 2027, but the general government budget deficit is projected to still be larger than in 2025.
- Substantial fiscal tightening of 1% of potential GDP or more is projected over 2026-27 in Iceland, Israel, Poland, the United Kingdom and a few smaller euro area member states. In contrast, sizeable fiscal expansions are projected in Denmark and Sweden, both countries cutting taxes and increasing government investment, notably on defence. In Denmark, public outlays on social benefits are also expected to increase. Underlying primary balances are expected to worsen slightly in Canada and Korea in the next two years. Australia's underlying primary deficit is projected to narrow.

With lower nominal growth and bond yields having risen substantially since the pandemic, including recently on very long-term debt, stronger primary balances are needed to keep public debt burdens from increasing. In most advanced economies, including some major economies (Figure 1.33), gross financial liabilities are again rising more rapidly than GDP due to persistent primary deficits and GDP growth that no longer exceeds the effective interest rate on debt. This is reflected in rising projections for the weighted average of OECD economies' gross public debt – which is projected to reach 113% of GDP by the end of 2027.

Figure 1.33. Primary deficits, net interest payments and change in public debt ratios



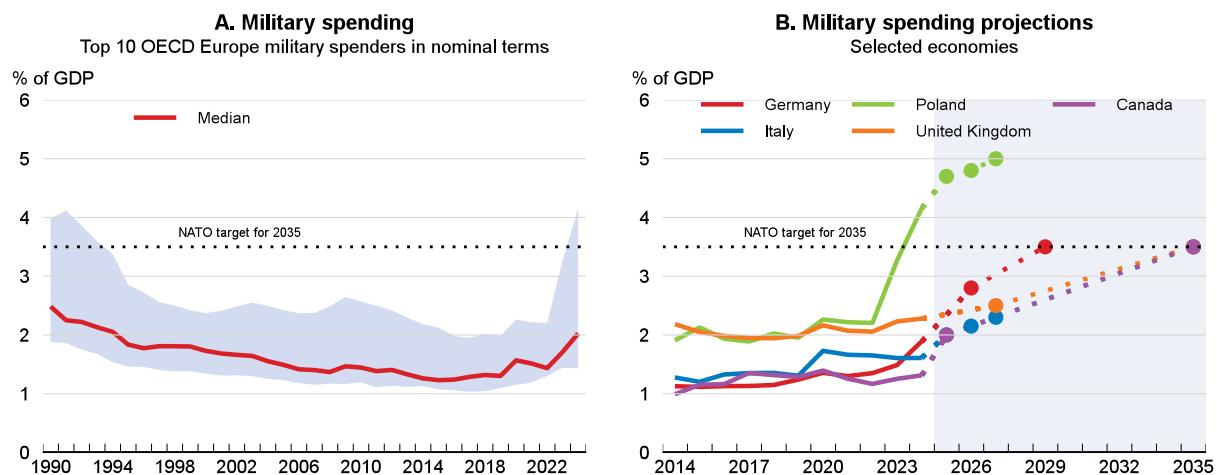
Note: "Primary deficit" denotes the general government primary budget deficit. "Net interest" is interest payments on general government debt less interest receipts. "Debt ratio change" shows the annual change in the ratio of general government gross financial liabilities to GDP starting from 2025.

Source: OECD Economic Outlook 118 database; and OECD calculations.

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Many advanced economies have begun to implement plans to bolster defence spending, including NATO countries who have committed to allocating 3.5% of GDP to core military spending by 2035 (Figure 34). Near-term gains to economic activity are expected in countries borrowing to finance re-armament, with potentially larger payoffs in economies with ample spare capacity and established local defence industries. Lasting benefits may, however, be modest in many small, highly-open economies heavily reliant on purchases of foreign-produced military equipment. Positive growth effects are likely to offset only partially the costs of higher spending. Some countries can afford to sustain higher debt-financed expenditure on defence for some time, with debt ratios climbing above current levels. However, even in these countries, concurrent pressures to spend more on health, long-term care and climate measures will eventually absorb fiscal room for manoeuvre, requiring spending reallocation.

Figure 1.34. Military spending is increasing at different rates across countries



Note: In Panel A, the figure is based on data for the top 10 military spenders in nominal terms (US dollars, 2024) among European member countries of the OECD. In 2024, those countries were Denmark, France, Germany, Italy, the Netherlands, Norway, Poland, Spain, Sweden and the United Kingdom (all NATO members). The dotted line shows the 3.5% of GDP commitment for core defence spending agreed at the 2025 NATO summit. Countries agreed to submit annual plans showing "a credible, incremental path" to this goal. The shaded area shows the range of defence spending outcomes across countries in the sample. In Panel B, markers show planned or proposed spending for the years indicated based on published budget or defence plans. Where projections are not available for years between now and 2035, implied gaps to targets are assumed to close linearly (dotted lines). SIPRI data are used for outcomes.

Source: Stockholm International Peace Research Institute (SIPRI); national budgets and planning documents; and OECD calculations.

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Credible and well-designed fiscal measures are required to safeguard public debt sustainability

Resilient growth, lower inflation and monetary policy normalisation create greater scope for more ambitious fiscal consolidation in many countries to ensure longer-term debt sustainability. Optimal fiscal adjustments will vary across economies and depend on initial conditions, including the state of the public finances and the economy. A reduction and reallocation of government outlays would be desirable where debt needs to be lowered and spending is high relative to the size of the economy, with past experience suggesting that expenditure-based corrections tend to be more sustainable than predominantly revenue-based consolidations (Pina et al., 2025). Higher tax receipts may also be needed where revenue is low as a share of the economy and there is room to lift revenues in a manner that limits distortions to work incentives and economic activity. Fiscal consolidation should in all cases be guided by credible medium-term plans, supported by strong fiscal institutions. Delaying budgetary corrections could increase risks to financial stability, especially in high-debt countries, and further deplete the resources available to manage future shocks. There are different avenues to consolidation, and governments should weigh up distributional effects and consequences for potential growth against other considerations.

Containing and reallocating public spending, and improved public sector efficiency are essential in many countries to limit the need for further tax increases. Reforms, where needed, to increase legislated pension ages to account for gains in life expectancy are one important step, provided they are phased in with adequate provision for the most disadvantaged and measures to support the employment of older workers. Undoing past reforms of this type would complicate the task of budget repair and go against efforts to encourage longer working lives. When adjusting the social safety net, care is needed to navigate trade-offs between the distributive effects of such measures and their impacts on the budget and work incentives. For instance, reducing access to government-funded health insurance may directly reduce public spending, but poorly-targeted measures could cause low-income families and people with disability to forego essential medical spending or add to financial distress.

Expenditure restraint and reallocation can also be achieved through regular reviews of government programmes, enhanced use of digital technologies and better public procurement. Ahead of large military purchases many advanced economies are looking to reform defence procurement, including Canada, Denmark, Germany, Japan and New Zealand. Current proposals aim to enhance the efficiency of public investment, improve coordination with allies and advance strategic objectives. Procurement reforms should take account of the need to ensure open and competitive bidding, foster innovation, and, for the EU, promote an efficient regional market by harmonising procurement standards.

Tax revenues can be raised by broadening tax bases and improving tax compliance where the latter is low, as well as by raising rates. Tax reforms should be designed with due account taken of their interactions with the transfer system and avoid the burden of consolidation falling heavily on those least able to bear it. As far as possible, reforms should also aim to eliminate distortions that discourage work, inhibit innovation and undermine growth potential.

- Many countries have in the past turned to value added taxes to increase revenues. As a share of tax receipts in OECD countries, VAT – which is relatively efficient when levied on a broad base of goods and services – increased from below 5% in the mid-1960s to around 20% by the early 2000s before stabilising around that level, while the average standard VAT rate continued increasing into the late 2010s (OECD 2024c). In some countries (notably Australia, Japan, Korea and Switzerland) standard rates of VAT (sometimes called goods and services tax) remain low, and in the United States, there is no federal value added tax.¹⁰ This suggests scope for raising revenue relatively efficiently, particularly where tax bases are narrow. In other economies, including many EU member states, standard VAT rates are relatively high already. Such countries may need to look more broadly at eliminating inefficient tax expenditures, broadening tax bases, or turn to underexploited taxes to tackle structural revenue shortfalls.
- Effective taxation of housing, and capital more broadly, can limit distortions to economic activity while helping address income and wealth inequality. Measures to increase effective taxation of the recurrent returns to residential property and capital gains on housing assets could, in some markets, complement measures to expand housing supply and improve affordability.¹¹

Strengthened fiscal institutions are needed to underpin the budgetary adjustments that will have to be sustained over many years in some countries. Transparency about the cost of strategically important projects, such as re-armament, should come with clear communication about the need to contain budget imbalances. Strong independent fiscal institutions have an important role to play in this regard, including in jurisdictions where numerical budget rules are currently suspended or have been relaxed, as in the European Union. Deviations from normal fiscal guardrails through escape clauses or other flexibility mechanisms should be justified and temporary.

¹⁰ Sub-national governments impose retail sales taxes, another type of consumption tax, which can be difficult to administer at higher rates.

¹¹ Examples include relaxation of zoning rules and building-height limits across metropolitan areas in Europe, coastal US states, some Canadian provinces and some Australian states.

Structural shifts in the investor base in sovereign debt markets could lead to higher interest rates and greater market volatility

Persistent budget imbalances in many advanced economies have fed concerns this year about the scale of public debt and its sustainability, reflected in rising yields on long-dated government bonds. Continued fiscal deficits imply that private investors in sovereign bond markets will need to keep absorbing significant levels of issuance, particularly in economies with ongoing quantitative tightening by central banks. This is reflected in recent shifts in the relative scale of purchases of sovereign bonds by different investor groups (Figure 1.35). Over the year to 2025Q2 there were increased net purchases relative to GDP by banks and money market funds (Australia, Canada and the euro area), other financial intermediaries, which include investment funds and securities dealers (Canada, the euro area and the United States), and foreign investors (the euro area and the United States). Net purchases of sovereign bonds by institutional investors, including pension funds and insurers, declined relative to GDP in Australia, Canada and the United States over the same period.

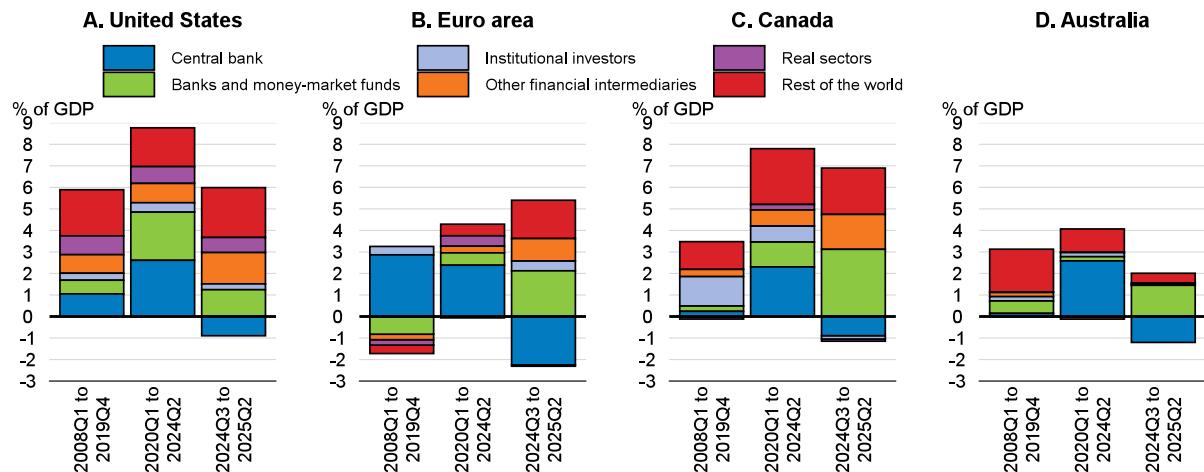
A shift in the balance of sovereign bond purchases from central banks to price-sensitive private sector investors could affect the required rate of return on sovereign bonds (OECD, 2025b; IMF, 2025b). Higher yields could be needed to sustain demand for government debt in coming years, particularly in countries where fiscal trajectories may be viewed as unsustainable, pushing up the cost of government borrowing. A related risk is that sovereign bond markets become more volatile. This could reduce the absorption capacity of some non-bank investors — as they may face higher liquidity needs during market stress due to the risk of investor redemptions, and the value of their existing collateral may have become less certain (ECB, 2023) — and the use of sovereign bonds as safe haven assets (Sengupta and Jacobs, 2025). Higher volatility may often coincide with higher liquidity needs due to margin calls or redemptions from investment funds, potentially forcing other NBFIs to sell assets, including sovereign bonds. Such factors could feed through into the yields on government debt.

Demand for sovereign bonds is also being impacted by reforms affecting pension funds and associated financial intermediaries, such as liability-driven investment (LDI) funds.¹² In the United Kingdom, regulatory adjustments for LDI funds introduced after the 2022 gilt market dislocation — including tighter leverage limits, higher liquidity buffers, and more conservative collateral management practices — have reduced their capacity to maintain large, leveraged positions in long-dated gilts (BIS, 2025c). In the Netherlands and the United Kingdom, the shift from defined benefit to defined contribution schemes has reduced the emphasis on duration matching of fixed liabilities for pension funds, diminishing their demand for long-term sovereign bonds (PIMCO, 2023). Such reforms may contribute to lower steady-state, liability-driven demand for long-duration assets, potentially raising volatility at the long end of the yield curve. In contrast, in some funded pension systems, demand for safer assets such as government bonds could increase with population ageing as more participants de-risk portfolios near the end of their working lives or after retirement.

¹² A LDI fund is an investment vehicle that allows institutional investors, predominantly insurers and defined-benefit pension schemes, to match the timing, size, and interest rate sensitivity of their assets and liabilities by using assets and derivatives that hedge interest rate and inflation risks.

Figure 1.35. Net purchases of sovereign bonds by investor type in selected advanced economies

Quarterly averages



Note: Net purchases of short and long-term government debt securities, consolidated to eliminate intra-government transactions. "Other financial intermediaries" include non-money market investment funds, securities dealers and non-bank money lenders. "Institutional investors" refers to insurance companies and pension funds. "Real sectors" encompass households, non-profit organisations, and non-financial corporations. Data are seasonally adjusted and are expressed as a share of contemporaneous quarterly GDP.

Source: Australian Bureau of Statistics; European Central Bank; Federal Reserve; Statistics Canada; UK Office for National Statistics; OECD National Accounts Databases; and OECD calculations.

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Emerging market economies should ensure that inflation durably returns to target and further reform their public finances

Policy rate reductions have continued across many emerging-market economies in recent months, given currency appreciation against the US dollar this year and the likelihood of downward impacts on inflation from weaker exports to the United States and elevated uncertainty. Brazil has been the main exception, with policy rate increases until June over concerns about a de-anchoring of inflation expectations. Key policy interest rates and reserve requirements have remained unchanged at low levels in China given subdued inflation.

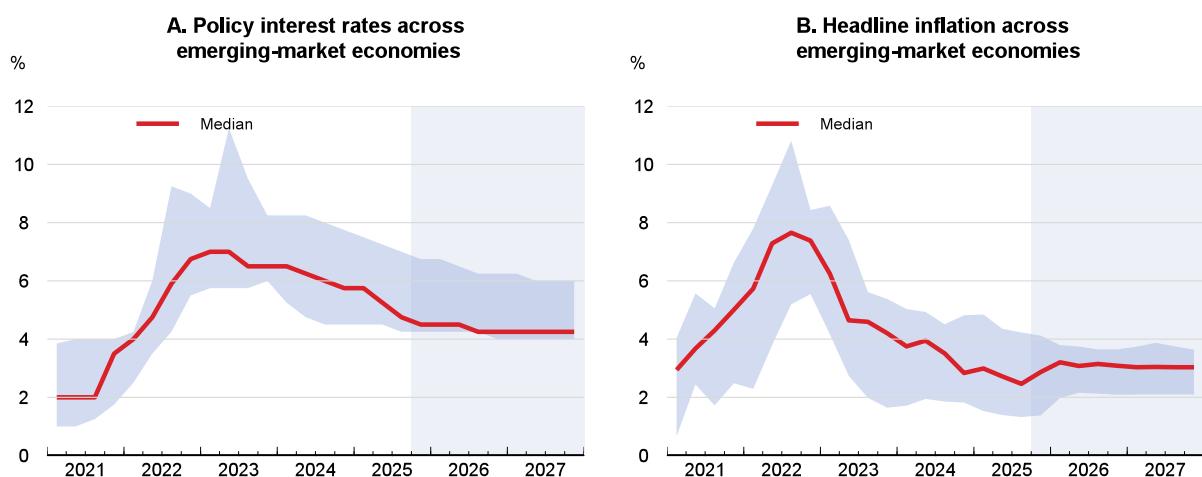
Scope still exists to lower policy rates in many emerging-market economies, but policy decisions are likely to remain finely balanced and policy rates are already close to estimates of neutral rate ranges in some countries, including Costa Rica, India and Peru (Figure 1.32, Panel B). Careful calibration of monetary policy will be essential to minimise risks of currency volatility and keep inflation expectations well anchored. 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 1.36):

- China is expected to maintain an accommodative monetary stance, with the policy rate kept unchanged to support activity as inflation is likely to remain low, despite some upward pressures from the additional tariffs on imports from the United States.
- Malaysia, Peru and Viet Nam are also projected to keep policy rates unchanged, with inflation generally subdued and rates already close to or below neutral level estimates.
- In Costa Rica, India and Indonesia, only modest further policy rate reductions are expected, with rates stabilising at broadly neutral levels in the course of 2026.

- In Chile, Mexico and South Africa, more substantial policy rate reductions are expected to continue, sometimes well into 2027, as inflation falls further and, in the case of South Africa, converges towards the new 3% inflation target.
- In Brazil and Colombia, where disinflation has stalled, policy remains tight and rate reductions are projected to resume only gradually. By end-2027, the policy rates for these countries are expected to reach 10.5% and 6.5%, respectively, coming closer to neutral level estimates.
- In Türkiye, where still very high inflation is projected to decline to around 10% by end-2027, policy rate reductions exceeding 20 percentage points are expected over the next two years.
- In Argentina, a new monetary policy regime was adopted in June. The policy rate is no longer used as an instrument since the central bank targets the growth rate of a monetary aggregate.

Figure 1.36. Lower policy rates are projected in many emerging-market economies as inflation converges to targets



Note: 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, Türkiye and Viet Nam. The blue area shows the 25th and 75th percentiles of policy rates for the Panel A and of annual headline inflation for the Panel B.

Source: OECD Economic Outlook 118 database; and OECD calculations.

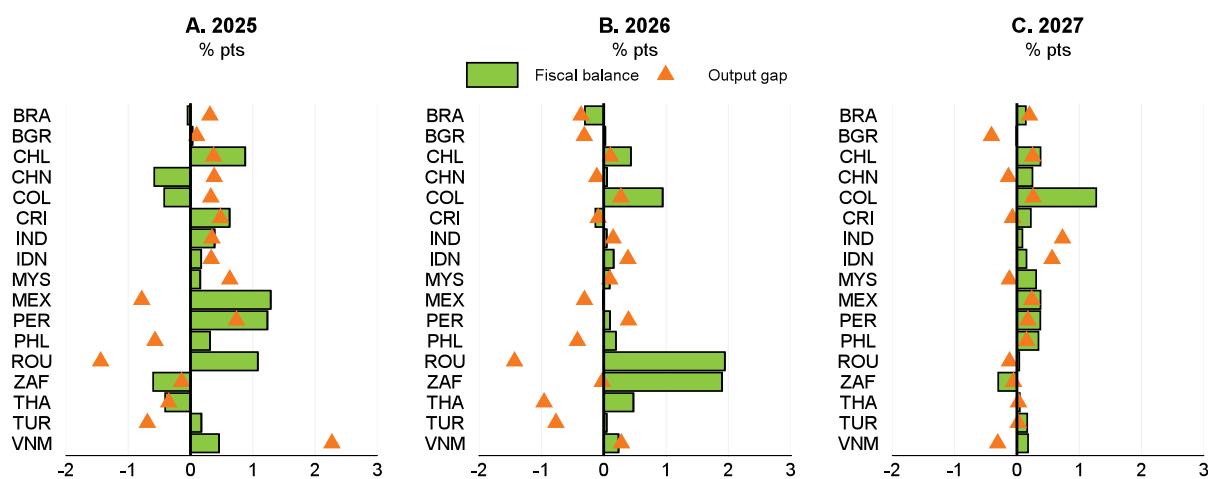
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Government debt and debt burdens have continued to rise in the emerging-market and developing economies, with the debt-to-GDP now estimated to be almost 30% of GDP higher than in 2015. Fiscal balances are generally expected to have improved this year in the emerging-market economies, in some cases from a large deficit in 2024 (Figure 1.37, Panel A). In Chile, Costa Rica, Mexico and Peru, fiscal deficits have narrowed on the back of restrained spending, and increased tax revenues should help improve the fiscal balance in Türkiye. In contrast, the large fiscal deficit in Brazil is expected to remain broadly unchanged in 2025. Similarly, in Indonesia spending on free school meals will not be fully offset by spending cuts elsewhere, leading to little improvement in fiscal balances. In South Africa a government transfer to a state-owned enterprise is expected to temporarily widen the fiscal deficit. In China the fiscal deficit is also expected to rise in 2025, partly reflecting greater budget support for investment and a continuation of the trade-in programme.

Fiscal consolidation is expected over 2026 and 2027, though with considerable cross-country variation (Figure 1.37, Panels B and C). Budget deficits are expected to decrease steadily in Chile, Colombia and Peru, though spending pressures and lower tax revenues have led to a suspension of the fiscal rule in Colombia. In Romania, substantial consolidation efforts are projected in 2025 and 2026, but the fiscal deficit is likely to still remain high. In Costa Rica, rising interest payments are likely to offset improvements in the primary balance leading to little change in the overall fiscal balance. In Brazil, income tax reform is expected to be broadly revenue-neutral, with no improvement in the fiscal balance in 2026-27, although an approval of additional taxation measures could help reduce the deficit. China, Indonesia, Malaysia, the Philippines, Thailand and Viet Nam are projected to see moderate improvement in their fiscal balances. The fiscal deficit is projected to remain broadly unchanged in India, where consumption tax reform will reduce revenues and slow the consolidation process despite its positive impact on demand.

Figure 1.37. 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, and Costa Rica and on broader government definitions (often general government) for the other economies. Fiscal balances are often not comparable across countries as different concepts are applied. Fiscal balances and output gaps for India refer to fiscal years. 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 118 database; and OECD calculations.

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Emerging-market economies need to improve fiscal sustainability while fostering growth. As fiscal deficits persist and public debt continues to rise, many governments remain exposed to rapid shifts in risk sentiment. Credible and well-designed budgetary measures are needed to safeguard public debt sustainability and create fiscal space to deal with future shocks and spending needs related to infrastructure, climate-related losses and strengthening social safety nets. Governments should maintain consolidation efforts and meet fiscal targets where economic conditions allow. Some spending needs could be met by reallocating existing spending towards enhancing physical and human capital while reinforcing adequate social protection. Raising spending efficiency through reductions in subsidies, and better targeting of social benefits, could also reduce spending pressures.¹³ Spending reviews, strengthened public procurement practices, and enhanced use of digital technologies could also help to create additional budgetary space. Revenues should be enhanced by broadening tax bases, raising tax compliance and

¹³ Recent examples of subsidy reduction include the phase out of fossil fuel subsidies in Colombia in 2022 and the reduction in diesel subsidies in Malaysia in 2024. Costa Rica, Chile and Colombia are examples of countries who have improved targeting through better use of household and social registries.

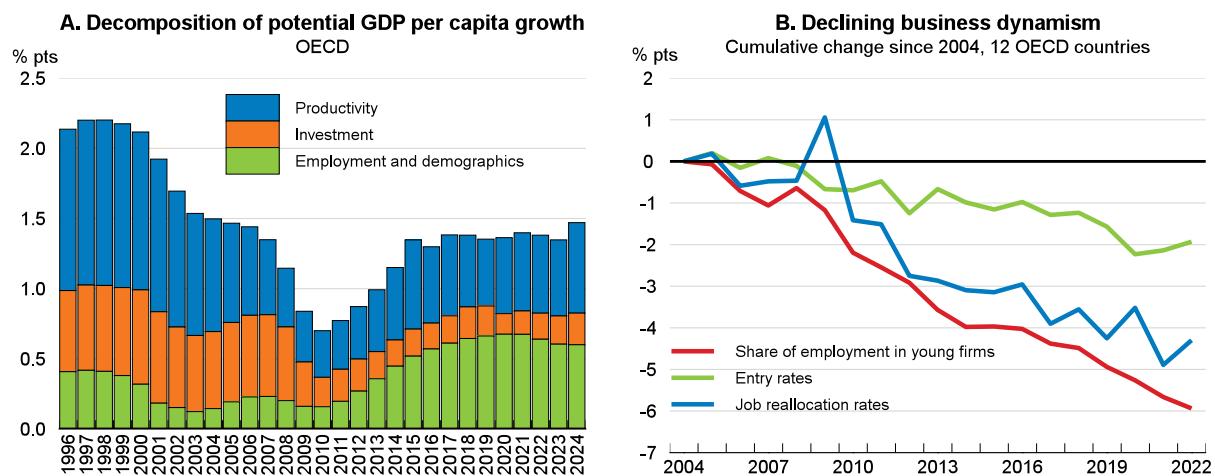
collection, and curbing informality. While emerging market economies have boosted their resilience to global shocks over the past two decades (IMF, 2025a; World Bank, 2025), efforts to strengthen monetary and fiscal frameworks can increase resilience further.

Regulatory policy reforms could boost business dynamism and productivity growth

With constrained fiscal capacity in many economies and new trade barriers having been enacted, structural reforms can help mitigate the medium and long-term headwinds facing economic growth and help secure debt sustainability. One area of focus should be regulatory reforms, particularly those that improve the incentives and ability for businesses to innovate and grow and the capacity for workers to move to those parts of the economy where their skills are most needed. Through enabling better resource reallocation, such improvements increase the adaptability of economies and the ability to respond to future shocks.

As detailed in the special chapter of this OECD Economic Outlook (see Chapter 2), the stock of regulations appears to have been rising across many OECD economies. Regulations are important for achieving economic and social objectives, especially when introduced to target substantive market failures. However, the rising stock of regulations has recently been accompanied by greater complexity of regulations and a plateau in the adoption of good regulatory practices. The majority of business organisations in OECD member countries perceive administrative costs to have risen, according to the OECD Simplifying for Success Survey (OECD, 2025e). Increased regulatory compliance burdens appear to be a factor associated with weaker labour productivity growth (Figure 1.38, Panel A) and business dynamism since the early 2000s in many OECD economies (Figure 1.38 Panel B). As an example, new OECD estimates suggest that labour resources equivalent to around 4 1/4 per cent of the total wage bill in the average US state were devoted to regulatory compliance in 2024. The rise in this regulatory compliance burden over the past 10 years is estimated to have reduced labour productivity by 0.5%. In part this stems from reduced business dynamism, with the rise in regulatory compliance costs estimated to have lowered the share of workers in young firms by almost 0.4 percentage points.

Figure 1.38. Productivity growth and economic dynamism have slowed



Note: In Panel A, potential GDP per capita growth is decomposed into the estimated contribution from investment (capital per worker), productivity (trend labour efficiency) and employment and demographics (the sum of the contribution from trend working-age population and trend employment rate). In Panel B, the figure reports the average of within-country–industry cumulative changes in percentage points relative to 2004. Estimates are based on data for 12 countries (Austria, Belgium, Finland, France, Germany, Italy, Hungary, Portugal, Slovenia, Spain, Türkiye and the United Kingdom) over the period 2004–2022.

Source: OECD Economic Outlook 118 database; Calvino, F., C. Criscuolo and R. Verlhauc (2020); Cho, W. et al. (2024); and OECD calculations.

To improve the regulatory environment in a manner which benefits both social and economic outcomes, there are several channels available. The chapter largely focuses on policy approaches that work through raising business dynamism in the economy. These include:

- Reforming regulatory governance and institutional frameworks to make regulatory processes more effective and efficient. Institutional reforms are needed in many economies to improve the clarity and predictability of the regulatory environment and to better manage the regulatory stock. The latter can benefit from undertaking systematic *ex post* evaluations of existing regulations, which can help identify where regulations have become redundant or need updating.
- Making product and labour market regulations more conducive to business dynamism and labour mobility. This includes measures that streamline administrative, licensing and permitting processes and improve the efficiency of insolvency regulations to ease firm exit. In many economies, there is scope to reduce regulatory restrictions without compromising quality standards in the services sector, particularly by lowering regulatory barriers to competition in the professional services and retail sectors. In addition, labour market regulations should be well designed to balance the protection of workers and ensure adequate flexibility. Constraints to labour mobility, such as post-employment restraint clauses, should be reviewed to ensure they are not hurting outcomes for both employees and firms.
- Redesigning housing regulations to promote affordability and mobility. For example, reforming spatial planning policies that overly restrict housing supply in desirable locations, as well as any regulations related to rent controls and tenant-landlord regulations which reduce incentives for housing investment.
- Ensuring regulatory frameworks keep pace with digitalisation. New digital regulations, such as those related to AI, could reduce the cost and increase the speed of regulatory decisions. However, such regulations also need to ensure that a competitive and innovative environment is maintained, and to adequately balance safety and incentives to innovate. International cooperation will be particularly important in the regulation of digital technologies to avoid fragmentation and loopholes.
- Confronting regulatory barriers that inhibit electrification and the updating of energy systems. Leveraging the efficiency gains of electrification while meeting rising electricity demand amid the green and digital transitions will require modernising outdated regulatory frameworks that hinder investment, flexibility, and the efficient deployment of energy infrastructure.

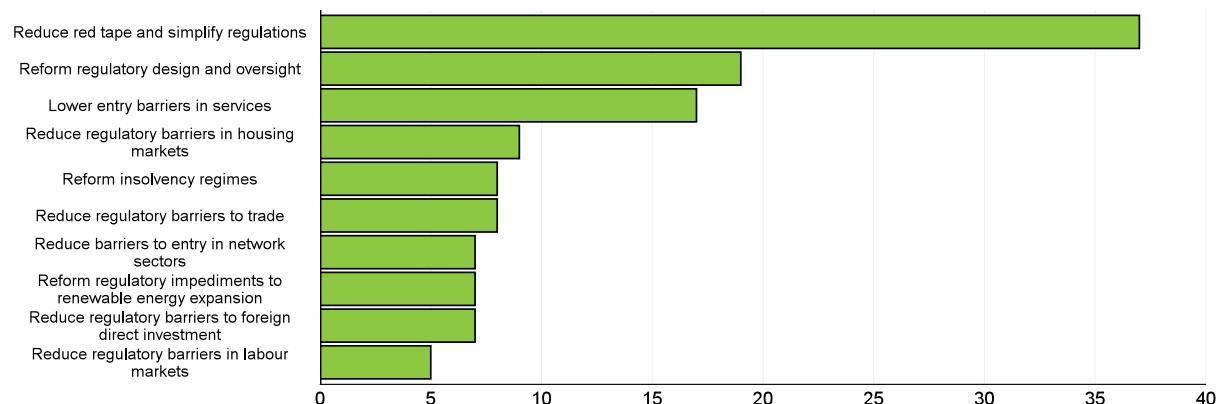
Improving financial regulations should also be an important focus of policymakers in many countries. When financial regulations are well-designed, they help enable the efficient allocation of capital and safeguard the financial system from the accumulation of systemic risks. However, achieving the right balance between a financial regulatory framework that is sufficiently rigorous to address market failures while remaining adaptable and not becoming excessively complex can be challenging. In many countries, there has been a trend towards higher complexity in financial regulation (Gai, et. al. 2019). Reducing unnecessary regulatory complexity helps lower the burden on both regulatory authorities and those entities complying with the regulatory regime. It can also reduce the incentive for the transfer of risks to institutions outside the regulatory perimeter. When risks materialise, a less complex regulatory framework can improve the accountability of regulators and supervisors and help clarify the responsible entities in developing a policy response.

The country-specific policy recommendations for regulatory reforms in Chapter 3 are summarised in Figure 1.39.

- The need for reforms to simplify regulatory processes is widely recommended, including for most OECD countries. For example, efforts to streamline regulatory processes for business registration are needed, including in Argentina, Brazil, Bulgaria, China, Colombia, Estonia, Hungary, Iceland, Ireland, Israel, Japan, Mexico, Norway, Poland, Peru, Romania, the Slovak Republic and Slovenia. In addition, harmonising regulations across levels of government would simplify the regulatory framework in Australia, Germany, India and Switzerland.
- Institutional arrangements for regulatory design and oversight need to be improved in several countries, including through more rigorous use of cost-benefit analysis of regulations in the euro area and China. In China, greater consumer protection is also needed along with better institutional oversight of regulations. Initiatives to improve regulatory enforcement are also recommended in some other emerging-market economies, including Argentina and Thailand.
- The need to lower regulatory barriers to product market entry is widely recommended. This appears to particularly be the case in services sectors in advanced economies, such as in France where there are high barriers to entry for architects and accountants and stringent practice controls for lawyers and real estate agents. Reforms that reduce restrictions on entry to professional services would similarly boost growth in Austria, Belgium, Brazil, Czechia, Estonia, Ireland, Israel, Luxembourg and the Slovak Republic. There is also scope for rationalising such barriers in network sectors in some countries, including in Canada, Korea, Lithuania and the United States. Regulatory barriers to inward foreign direct investments could also be eased, especially in emerging-market economies such as Costa Rica, Indonesia, Thailand and Viet Nam.
- To help facilitate firm exit and improve business dynamism, improved insolvency regulations are recommended for several European economies, including Belgium, Hungary, Iceland, the Netherlands and Romania, as well as in South Africa and Türkiye.
- Reforms to housing regulations are identified as a priority for several advanced economies, such as changes to spatial planning policies in Australia, the United Kingdom and the United States.

Figure 1.39. Simplifying regulations is a reform priority in many economies

Policy recommendations for regulatory reforms, number of countries



Note: Policy recommendations are taken from the Economic Outlook 118 country notes (see details in the Chapter 3 “Developments in individual OECD and selected non-member economies”) for 55 countries and the euro area. The figure shows the number of countries with policy recommendations for regulatory reforms in each given category.

Source: OECD Economic Outlook 118 database.

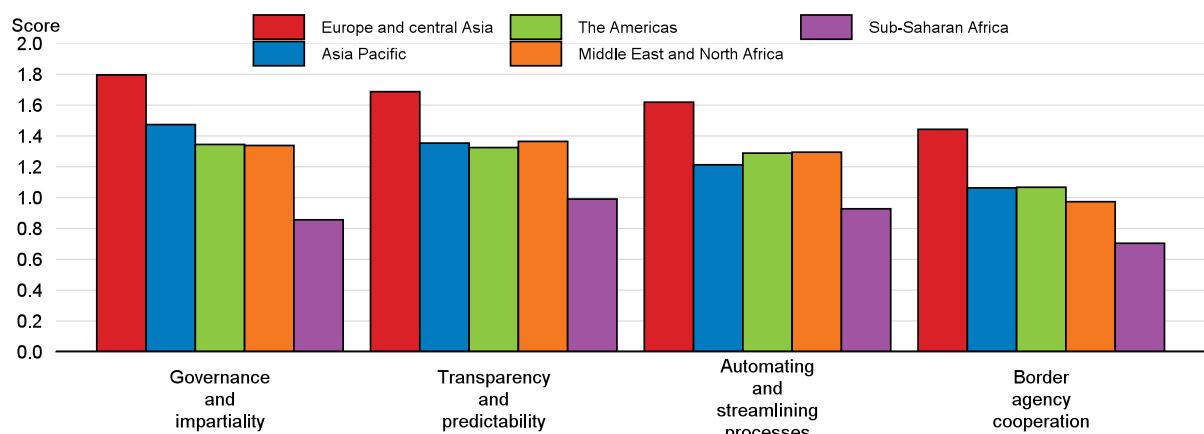
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As the complexity of global trade regulations increases, transparent, impartial and clear trade regulations would help firms navigate shifts in policy whilst supporting overall policy objectives. The OECD's trade facilitation index suggests that there is still considerable room to improve how goods cross borders, although with regional differences (Figure 1.40). Automation and simplification of border procedures, and improving the predictability of procedures are amongst the important steps countries can take to increase the potential productivity-enhancing effects of trade and lower costs for export of products reliant on imports. An important aspect of regulatory efficiency is the interoperability of different national regulatory and border management systems. Traded goods often require certification or authorisation from numerous domestic agencies such as health and safety, standards boards, and industry regulators, as well as customs administrations. Improving information sharing between these entities and ensuring compatible data standards and interoperable digital platforms, could significantly support trade (OECD, 2025f).

In addition, facilitating cross-border agency cooperation and recognition of domestic procedures will become increasingly relevant as companies grapple with the rising complexity of certification schemes at national borders. Aligning national regulatory standards would also support trade, including ongoing efforts to harmonise regulations between countries in the European Union.¹⁴ Given the growing diversity of certification and compliance schemes at national borders, there is an increasing need for mechanisms to ensure cross-border agency cooperation and enhanced use of international standards. Expanding mutual recognition arrangements offers a practical way to address differences in technical regulations while safeguarding public policy objectives such as consumer safety.

Figure 1.40. There is room to improve the regulatory framework for trade

Trade facilitation indicators by policy area



Note: A score of 2 is the maximum performance that can be achieved. Average scores are shown for countries in each region.

Source: OECD Trade Facilitation Indicators database, 2025.

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¹⁴ Eliminating differences in sub-national product and labour regulations, or technical standards between provinces, would also help goods and services to flow to where they are most needed, for example in countries such as Canada.

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

Fiscal policy settings for 2025-27 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 higher net expenditure has required, or is expected 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 received and spent by end-2026 at the latest and to be budget balance-neutral, increasing both capital tax and transfers receipts and government expenditure by the same amount. 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 November.

The projections assume unchanged exchange rates from those prevailing on 6 November 2025: one US dollar equals JPY 153.9, EUR 0.87 (or equivalently one euro equals USD 1.15) and 7.12 renminbi.

The price of a barrel of Brent crude oil is assumed to remain constant at USD 65 until the end of 2027. The TTF natural gas price is assumed to remain constant at EUR 35 MW/h until the end of 2027. Other commodity prices are assumed to be constant over the projection period at their average levels from October 2025.

The cut-off date for information used in the projections is 26 November 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. Time for a Regulatory Reset?

Summary

Over the past two decades, labour productivity growth has slowed across most OECD economies, underpinned by a pervasive decline in economic dynamism. A key concern is that a growing regulatory environment has diverted scarce resources from more productive activities, and, by raising the fixed costs of business operations, has weighed disproportionately on the prospects of young firms and potential entrants. These concerns are supported by new OECD evidence of a rising regulatory stock, a plateauing in the adoption of good regulatory practices, and empirical evidence linking the growing stock of regulation and specific regulatory features to weaker productivity growth and economic dynamism.

Regulations are – and will remain – essential to achieve societal objectives and can support economic activity when they address key market failures (e.g., information asymmetries). Still, the policy challenge is to meet those goals effectively while minimising the economic distortions generated by regulatory interventions. There is now a strong case for a regulatory reset in OECD countries to more effectively manage the current stock of regulations – e.g. removing unnecessary administrative burdens and streamlining redundant and overlapping regulations – and ensure that the design of new regulations is sufficiently responsive to an evolving economic environment. But there may also be a case for new regulations to enhance economic dynamism, notably to address the excessive use of non-compete clauses or to strengthen safeguards against excessive lobbying.

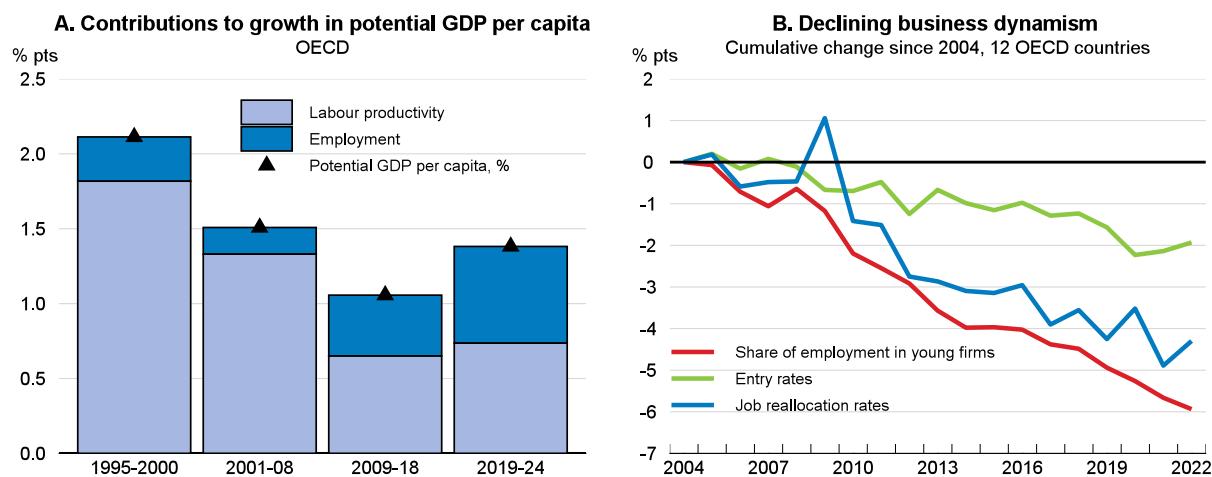
Drawing on an extensive body of OECD evidence, this chapter discusses the economic impact of regulation. It then proposes a five-pronged plan to confront the most material regulatory impediments to economic dynamism – via specific structural reforms and broader adjustments to regulatory policy – to clear the path to higher productivity growth. First, countries should make regulatory processes more effective and efficient – including through the application of new technologies – to better manage the stock of regulations, improve legal predictability, reduce regulatory fragmentation and balance better stakeholder engagement with stronger oversight of lobbying activities. Second, there is scope to ease anti-competitive product market regulations – especially in market services – and design smarter labour market regulations to support labour mobility while ensuring adequate protection to workers. Third, countries should prioritise sectors and regulatory tools in urgent need of simplification, such as housing, where barriers to construction and densification should be reduced to enhance affordability and worker mobility. Fourth, regulatory frameworks should be adapted to fully harness the productivity gains offered by digitalisation and artificial intelligence. Fifth, countries should ensure that regulatory settings are fit for purpose to realise the promise of energy abundance.

This chapter begins by framing the economic context and then reviews evidence that underscores the need for a regulatory reset. It then presents the five-pronged plan focused on a specific set of regulatory policies that can revive productivity growth via the economic dynamism channel. While there may be a case for regulatory reforms in other domains – e.g. financial regulation; see Chapter 1 – these fall outside the scope of this chapter.

The productivity slowdown has been underpinned by a decline in economic dynamism

This chapter is framed against a backdrop of a marked deterioration in medium-term economic growth prospects. Since the late 1990s, growth in potential output per capita has declined by about one percentage point across the OECD (Figure 2.1, Panel A), due to two key structural headwinds to labour productivity growth. First, business investment has been persistently weak in the aftermath of the financial crisis, with depressed capital deepening reducing potential growth in GDP per capita by half a percentage point (OECD, 2025c). Second, a longer-term reduction in multi-factor productivity growth raised questions about whether the forces of innovation and economic dynamism have been in retreat.

Figure 2.1. Productivity and economic dynamism have slowed in the last 20 years



Note: In Panel B, the figure reports the average of within-country-industry cumulative changes in percentage points relative to 2004. Estimates are based on data for 12 countries (Austria, Belgium, Finland, France, Germany, Italy, Hungary, Portugal, Slovenia, Spain, Türkiye and the United Kingdom) over the period 2004–2022.

Source: OECD Economic Outlook 118 database; Calvino, F., C. Criscuolo and R. Verlhc (2020); Cho, W. et al. (2024); and OECD calculations.

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The productivity slowdown has been underpinned by a decline in economic dynamism, which encompasses all the ways in which firms and workers have become less likely to explore new patterns of economic activity: starting new, innovative firms; switching jobs; and moving residence (Shambaugh, Nunn and Liu, 2018). On average, across selected OECD countries since 2004, the business entry rate has fallen by 2 percentage points, the employment share of young firms (defined as firms which are less than 5 years old) has fallen by 6 percentage points, and the job reallocation rate has fallen by over 4 percentage points (Figure 2.1, Panel B). Declining dynamism has reduced aggregate productivity growth by hindering the matching of skills to jobs and slowing the reallocation of workers to more productive firms (Decker et al., 2020), and also through various technological channels given that young firms possess a comparative advantage in radical innovation while placing indirect pressure on incumbents to innovate. It has also reduced worker wage bargaining power by limiting the frequency with which workers receive outside offers and make wage-enhancing job transitions (Shambaugh, Nunn and Liu, 2018).

While economic dynamism may have declined due to benign reasons, there is a sense that a growing regulatory environment has also sapped the vitality of OECD economies. Benign accounts typically stress the role of population ageing, which mechanically reduces firm entry and job mobility rates, or the rising importance of firm-specific human capital in the intangible economy that could lengthen job matches and lower job-to-job mobility without necessarily reducing efficiency. Alternatively, the decline in economic

dynamism could reflect a rise of adjustment frictions that rein in the creative destruction process (Decker et al., 2020), which is instrumental to economic growth (Aghion and Howitt, 1990). Central to this “frictions hypothesis” is the potential for a growing regulatory environment to disproportionately penalise new and small firms to the extent that regulation imposes fixed costs through compliance and the related administrative burden. A growing regulatory environment could also divert scarce labour and capital inputs away from more productive activities, stymieing productivity-enhancing reallocation. And these trends would be reinforced if large incumbent firms have an incentive to lobby for regulations which raise fixed costs and thus deter potential entrants (Macedoni and Weinberger, 2024).

The case for a regulatory reset

This section discusses the rationale for regulation, with a particular emphasis on the potential benefits and costs of regulatory interventions. It then presents new OECD empirical evidence that suggests that the resources dedicated to servicing regulatory compliance are material and that the growing regulatory environment has contributed to the decline in productivity growth and economic dynamism. What emerges is a strong *prima facie* case for a regulatory reset to revive potential growth prospects in OECD countries.

Regulatory policy entails important trade-offs

Regulatory policy sets the rules of the game for individuals and firms and is thus necessary to achieve economic and social objectives. It includes all laws, formal and informal orders, subordinate rules, administrative formalities, and rules issued by non-governmental or self-regulatory bodies to whom governments have delegated regulatory powers (OECD, 2018b). Regulations can have economic efficiency objectives when they are set to target market failures including externalities (e.g. pollution, innovation, financial risk), issues related with asymmetric information (e.g. adverse selection and moral hazard), or market power and natural monopolies. In that case, the deadweight loss induced by a regulation (as discussed below) can be partially or totally offset by reducing the distortion it targets. Regulations can also target other objectives such as distributional, safety, environmental, and rights-based objectives. While workplace safety regulations, for example, have the potential to reduce hazards without a negative impact on firm performance (Levine, Toffel and Johnson, 2012), trade-offs with economic efficiency may emerge when those regulatory interventions – even when well-intentioned in that dimension – raise adjustment frictions.

While typically aiming to improve societal goals, regulations also induce direct costs for the private sector. This includes compliance costs to ensure that the private entity adjusts its production process to satisfy the regulation, administrative costs representing the time and resources spent to monitor and report compliance, and the costs of delay and uncertainty (Cordes, Dudley and Washington, 2022). Firms incur fixed outlays to understand rules, redesign processes and products, invest in compliance-specific equipment and IT systems, and in the required staff training, which will particularly affect SMEs. They also face ongoing variable costs for reporting, audits, certification, and maintaining internal controls. Licensing and permitting generate fees and time costs that delay market entry and cash flows, raising inventory and financing needs. Those direct costs are linked not only to the degree of stringency of the rule, but also depend on how it is drafted, monitored, and enforced. For example, an important trade-off emerges between designing complex rules that might be harder to understand but provide more certainty on how various contingencies will be treated, while the strength of enforcement will determine the gap between *de jure* and *de facto* regulation intensity.

Beyond these direct costs to firms, the opportunity costs of regulatory distortions can be material. Complex or uncertain rules can deter entry and expansion, hampering competition, raising prices, and reducing consumer choice; they can also depress investment by increasing the option value of waiting for clarity. A higher focus on regulatory compliance can shift tasks from innovation to paperwork, slowing technology adoption – especially among young and small firms who lack scale to pay the burden of fixed costs (Draghi, 2024) – while encouraging defensive business models and regulatory arbitrage. Permit and licensing delays can act like non-tariff barriers within domestic markets, misallocating scarce resources across firms and regions and weakening agglomeration benefits. For example, barriers to services trade in the European Single Market raise cross border services trade costs by 10% (Benz and Jaax, 2020). Heavier rules may push activity into informality, erode tax bases and worker protections and spur rent-seeking that diverts productive resources to lobbying. Finally, complexity and discretionary enforcement can undermine trust in institutions, raising transaction costs to the detriment of entrepreneurial activity.

The regulatory environment has grown over recent decades

The regulatory environment has grown more complex (OECD, 2025f). While some deregulation has occurred in specific areas – for example, regulatory barriers to firm entry and competition in network sectors such as telecoms, energy and transport have declined over the last 30 years – other evidence suggests that the size and complexity of overall regulation has risen. In the United States, the total number of restrictions in the *Code of Federal Regulations* has increased by around 2% per annum over the past 50 years: 400 thousand restrictive words were present in 1970 against more than 1 million recently (QuantGov, 2025). The regulatory requirements in Canada's Federal legislation grew by a similar magnitude between 2006 and 2021 (Gu, 2025), while in Australia the number of restrictive terms in primary legislation has increased by 10% per year since 1977 (Wild and Hussey, 2019).

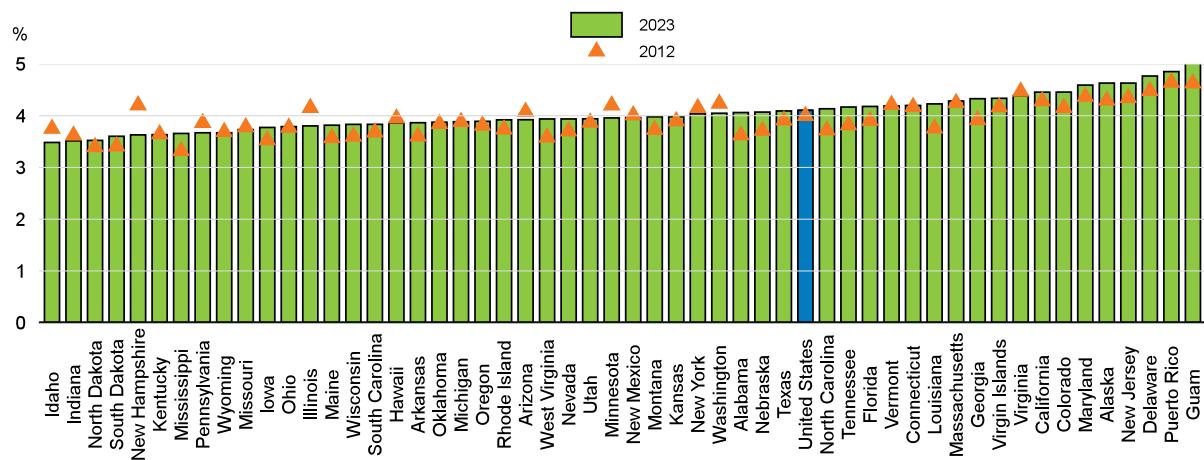
In the EU, the number of Commission legislative proposals has increased from 374 in the 1999-2004 to 431 in 2019-2024, while the average length of each proposal has almost doubled (Marcus, 2024) and the language has also become increasingly complex (Hurka, Haag and Kaplaner, 2021). In addition, overlapping and frequently-changing legislation and fragmented national transposition of EU directives into national laws represent large regulatory burdens for firms in the EU, and especially for SMEs (Draghi, 2024). Finally, the cost of compliance with new EU regulations, standards, or certifications has become the major obstacle to firms' trade-related activity while more than 60% of firms mentioned both business and labour market regulations as an obstacle to investment (EIB, 2025).

These concerns are supported by key findings from the recent OECD Simplifying for Success (S4S) survey of governments and business associations across 34 countries, including 28 OECD Members and 6 Accession countries (OECD, 2025f). The results suggest that most government respondents and business organisations view the level of regulation in their country as excessive. Administrative costs are also widely perceived to be rising, with business organisations in the large majority of countries reporting increases over the last three years. As a consequence, regulatory requirements and compliance emerge as one of the top three challenges by business organisations in more than 80% of surveyed countries, more than twice the share of other concerns like talent acquisition and retention (40%), taxation (37%), or geopolitical instability (37%).

New OECD estimates suggest that the real resources devoted to servicing regulatory compliance are material and rising (Andrews, Turban and Tyros, forthcoming). Using a task-based approach described in Box 2.1, the share of aggregate wages devoted to regulation-related tasks in the United States increased from 4.0% in 2012 to 4.2% in 2024 (Figure 2.2). In 2024, this amounted to USD 521 billion or 1.8% of GDP, noting that gross expenditure on more productive endeavours, such as domestic R&D, was only modestly higher at 2.7% of GDP (OECD, 2024e). Significant differences emerge across US states, with regulation-related tasks absorbing around 4.6% of the wage bill in states such as New Jersey and Alaska compared to 3.5% in Idaho and Indiana in 2023. Still, the broad trend has been upwards: over the past decade, the regulatory compliance burden has increased in 70% of US states and territories. Analysis of granular Australian data suggests that the share of aggregate wages devoted to compliance activities was higher than in the United States for much of the 2010s even though the gap has narrowed more recently (see Box 2.1, Figure 2.4, Panel C).

Figure 2.2. The share of labour costs devoted to regulatory tasks has increased in many US states and territories

Share of US state and territories' wages spent on regulatory tasks in 2012 and 2023



Note: See Box 2.1. US unweighted average in blue. The values for the District of Columbia are not displayed, for readability: the numbers were 7.8% in 2012 and 7.5% in 2023.

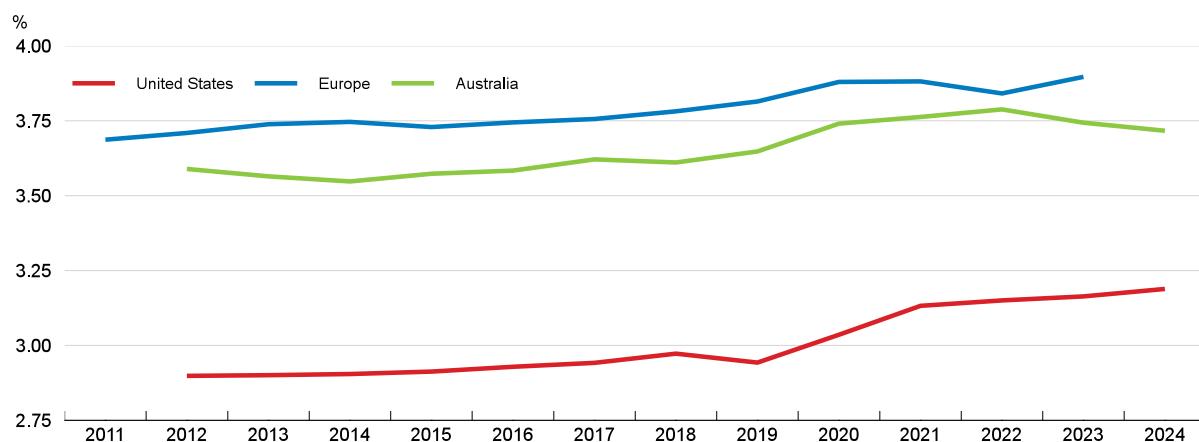
Source: Andrews, Turban and Tyros (forthcoming).

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While data limitations prevent the calculation of a wage-based index for Europe (see Box 2.1), the share of employment devoted to regulatory tasks has risen over the past decade in the average European country, as in Australia and in the United States (Figure 2.3). In 2023, 3.9% of aggregate employment was devoted to servicing regulatory compliance on average in the EU against 3.7% in 2011, with estimates as high as 5-6% in some parts of Europe (Figure 2.4, Panel A). This is material given that R&D personnel in the EU accounted for 1.7% of total employment in 2023 (Eurostat, 2024). By contrast, the share of employment dedicated to regulatory tasks in the United States stood at 3.2% in 2023 (and 2.9% in 2012), consistent with evidence suggesting that the regulatory burden is lighter in the United States than in Europe (Draghi, 2024).

Figure 2.3. The share of employment devoted to regulatory tasks has risen in selected OECD countries

Share of employment



Note: The index presented here is the employment-weighted sum of occupations' regulation task intensity scores in the three regions. "Europe" refers to the average score of EU countries except Bulgaria, Malta, and Slovenia, and includes the United Kingdom (data available up to 2019), Iceland, Norway, and Switzerland.

Source: Andrews, Turban and Tyros (forthcoming).

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Box 2.1. Estimating the resources dedicated to servicing regulatory compliance

A task-based approach to assess time spent on regulatory work by occupation

As detailed in Andrews, Turban and Tyros (forthcoming), a measure of regulatory compliance costs can be constructed by estimating the total amount of wages expended on regulatory tasks, or the share of employment in those tasks. One approach aims to identify regulation-related tasks in occupations, and use information on employment and wages by occupation to compute the total wage bill spent on regulatory tasks (Trebbi and Zhang, 2022). This approach is replicated here for the United States and broadened to other OECD countries, albeit with some modifications.

The wage costs of regulations in the United States

The index for the United States is constructed in three main steps, based on the idea that occupations are bundles of tasks which are more or less exposed to regulations. First, occupations' tasks are scored as exposed to regulation based on their description in the O*NET Database which contains hundreds of standardised task descriptions on almost 1 000 occupations for the entire U.S. economy. Those occupations are available at the 6-digit level of the Standard Occupational Classification (SOC) for which around 20 tasks are available. Among those, for example, the task "Advise retail managers on compliance with applicable codes, laws, regulations, or standards" among Loss Prevention Managers is marked as regulation-related.

Second, a score is computed for each occupation by aggregating the scores of its constituting tasks using the importance of those tasks for the occupation, as estimated in O*NET, within a rating range from "Not Important" (1) to "Extremely Important" (5). For example, the task "Identify compliance issues that require follow-up or investigation" is the second most important task among the constituent tasks for Compliance Managers but the least important task for Compliance Officers. This is because Compliance Managers lead

and run compliance programs, while Compliance Officers do the hands-on examinations, investigations, and licensing/enforcement work.

Third, a score is computed for each state or territory by aggregating the occupations' scores based on the distribution of employment or wages by occupation in the region, based on the information provided by the Bureau of Labor Statistics' Occupational Employment and Wage Statistics (OEWS).

A preliminary extension to other OECD countries

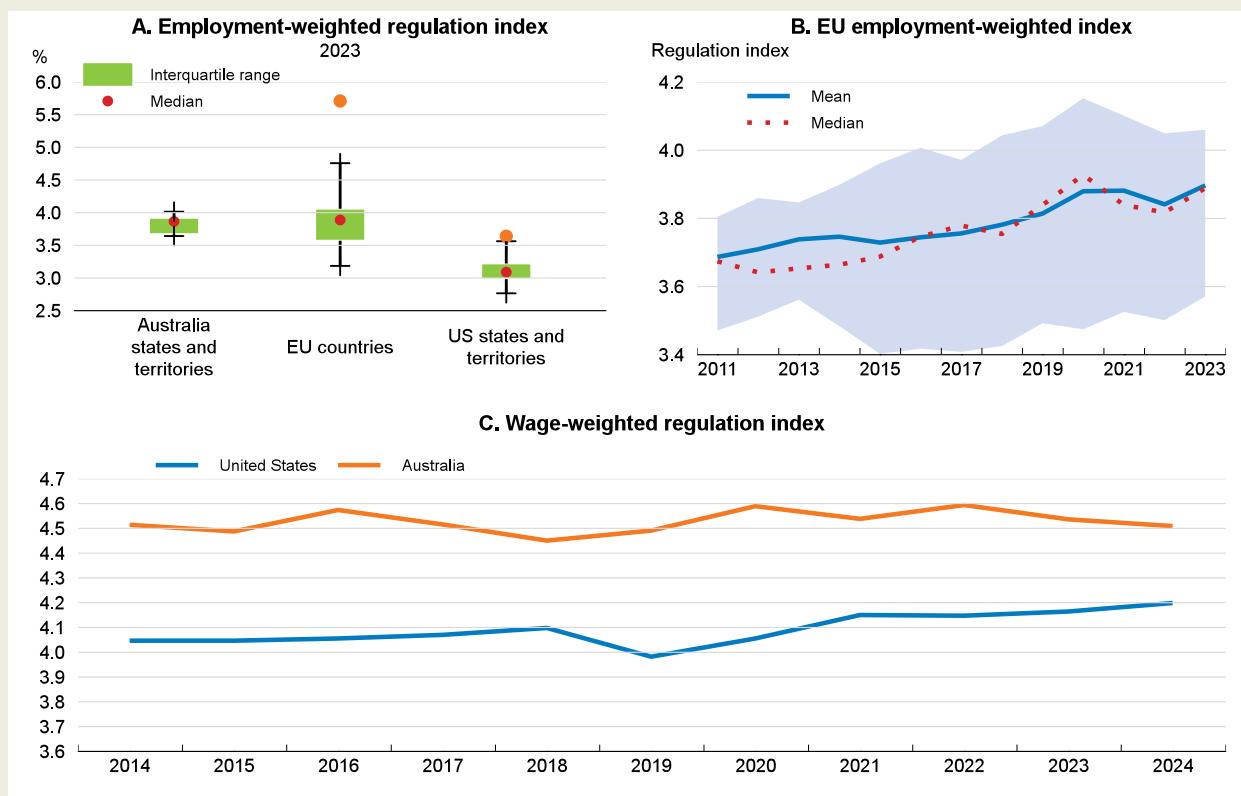
The construction of a similar index for other OECD countries using Labour Force Surveys is complicated by the lack of granular data on multiple dimensions. First, the international standard classification of occupations (ISCO) adopted in most countries provides less detail than the SOC, not only in terms of number of occupations, but also in the description of tasks and their importance for each occupation. Second, the microdata from labour force surveys typically provides information on employment at a less granular occupation breakdown than in OEWS. Third, the available information from EU labour force surveys for income only provides information on the income decile, and in after-income-tax terms.

To circumvent these challenges, an extension of the regulation index for EU countries and for Australia is computed based on the information on *employment levels* by occupations (ISCO in the EU and the Australia New Zealand Standard Classification of Occupations, or ANZSCO, for Australia) in labour force surveys. The scores are computed by using a many-to-many crosswalk from SOC to ISCO occupations (a lookup table connecting the two classifications where one item of each classification matches with multiple items of the other) and applying the methodology proposed by Dingel and Neiman (2020). This consists of using information on employment in the United States (which uses SOC) and another country of interest using ISCO to ensure that the same SOC is not double-counted because of the many-to-many matching between occupations (Scholl, Turban and Gal, 2023).

Based on this metric, 3.9% of aggregate employment was devoted to regulation-related tasks in the average EU country, against 3.7% in Australia and 3.2% in the US in 2023, although there is significant variability around this estimate within those three regions (Figure 2.4, Panel A). This level has been rising over the last ten years in all regions (Figure 2.3). In Australia, information on weekly earnings in the main job is available. Therefore, a wage-weighted measure comparable to the US measure in the main text is computable. It suggests that the share of wages devoted to regulation was higher than in the United States for much of the past decade (Figure 2.4, Panel C). In 2024, the share of wages devoted to regulation in Australia was around 4.5% of aggregate wages, the same level as in 2014.

While the scores eventually rely on O*NET data, an alternative approach to computing regulation scores can be applied by using the same coding approach done on task statements in O*NET to task statements in ISCO. The main drawbacks are that the task statements are less detailed (in turn yielding fewer identified regulatory tasks), less numerous, and there is no information on the importance of each task for an occupation. This approach yields slightly lower scores but similar increasing trends over time.

Figure 2.4. The costs of regulation in Europe and Australia are similar to the United States



Note: In Panel A, the boxplot displays the median as a red dot, and the first and third quartile as a box. The whiskers extend to the minimum or maximum values, unless they range out of +/- 1.5 times the interquartile range beyond the box. In that case, the observations are marked as outliers as orange dots. In the United States, the District of Columbia is excluded; in Australia, the Australian Capital Territory is excluded. In Panel B, the area represents the interquartile range. In Panels A and B, "EU countries" include all EU countries except Bulgaria, Malta, and Slovenia, and include Iceland, Norway, Switzerland, and the United Kingdom (data available up to 2019).

Source: Andrews, Turban and Tyros (forthcoming).

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These estimates probably underestimate the economic resources devoted to regulatory compliance for a few reasons. First, they do not account for the cost of capital devoted to regulatory compliance, which could raise the estimates by 20% (Trebby, Zhang and Simkovic, 2023). Second, these estimates are conservative compared to other approaches, such as the Dutch Ministry of Finance's Standard Cost Model (SCM), which has been adopted by many countries to measure the administrative burden. The SCM aims to identify each information obligation in the relevant laws, breaks them into administrative activities, and quantifies the time and costs (mostly the wages of employees performing administrative activities) for a "typical" regulated entity (OECD, 2010). Using the SCM, the European Commission estimated the administrative burden of national and international regulations to be 3.5% of GDP in EU countries on average in 2006 (European Commission, 2006). Finally, given that these estimates focus solely on regulatory compliance, they do not capture the higher costs that stem from regulatory constraints on production choices (e.g., bans on certain processes, technology, or equipment standards), set-up costs to develop regulatory systems within firms, or foregone profits from barred investments.

While the above estimates only consider the costs of regulatory compliance, it is important to assess the potential benefits of regulation. To do so, the analysis below relates regulatory compliance costs to measures of economic performance such as productivity (Coffey, McLaughlin and Peretto, 2020). If the cost of regulatory compliance outweighs any attendant benefits, then a negative relationship would be expected between regulatory compliance and productivity. While this would support the notion that

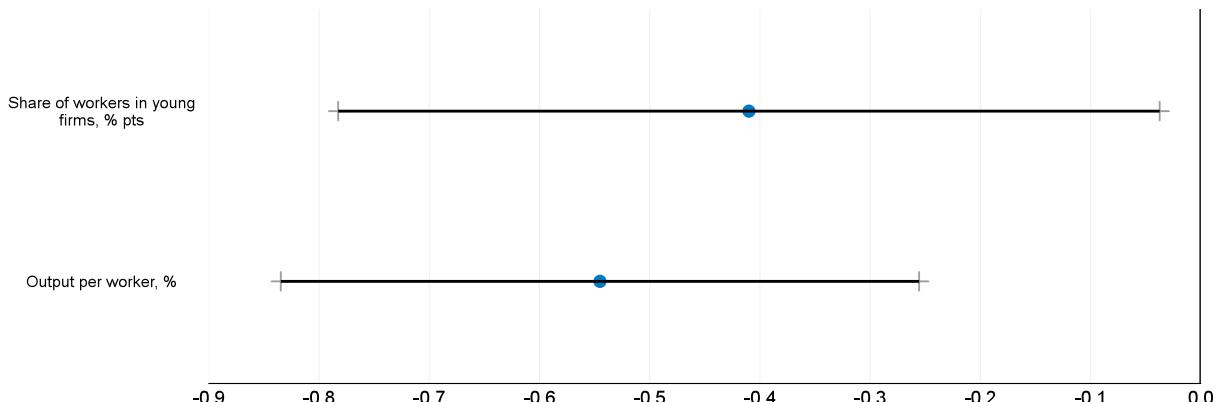
regulatory compliance costs are a net drag on economic activity – as measured by GDP – this clearly abstracts from other social benefits that are not reflected in national accounting. A full assessment of the net benefits of non-economic regulation would need to assign a value to the non-monetary benefits of regulations; for example, in the spirit of the quantifications made using valuations of statistical lives.

This growing regulatory environment has sapped productivity and dynamism

New OECD analysis suggests that the increase in regulatory compliance costs has stymied productivity growth in the United States. Estimations based on the long-run relationship between state-level changes in regulatory compliance expenses (see Box 2.1) and economic activity suggests that the average increase in compliance costs over the last 10 years (around 3%) is associated with a decline in labour productivity of 0.5% (Figure 2.5). But this average effect masks wide variation, given differing trends in the resources devoted to regulatory compliance across US states and territories in the last 10 years. Estimates suggest that the sharp rise in regulatory costs since 2012 in North Carolina (+11.2%), Alabama (+12.1%), and Louisiana (+12.6%) reduced labour productivity by almost 2%, relative to a counterfactual where regulatory costs had remained at their 2012 level (Figure 2.6). By contrast, the declining regulatory burden in states such as Idaho (-7.1%), Illinois (-8.4%), and New Hampshire (-13.6%) is estimated to have raised labour productivity by 1 to 2% by 2023, relative to the counterfactual scenario. While the costs induced by new regulations on economic activity is gradual, complementary empirical evidence suggests that shocks to regulatory compliance costs also reduce economic activity in the short run (Box 2.2, Figure 2.7).

Figure 2.5. Rising regulatory compliance costs is associated with lower productivity and business dynamism in the long run

Estimated impact of the state-level relative change in regulatory costs between 2012-2017 and 2018-2023



Note: The graph displays the estimated coefficients (dots) and their corresponding 90% confidence intervals. Estimation by regressing the state-level long difference (the difference between the average value between 2018-2023 between 2012-2017) of the outcome variable on the long difference in the regulation intensity measure. The graph shows the estimate $\hat{\beta}$ of the coefficient β in the cross-sectional regression $\Delta Y_s = \beta \cdot \Delta Regulation_s + \gamma \cdot Y_s^0 + \epsilon_s$ where Δ represent the long difference in average values, Y_s^0 is the initial level of the outcome measure in state s (to control for potential mean reversal for example) and ϵ_s is an error term. Young firms are defined as firms younger than five years old.

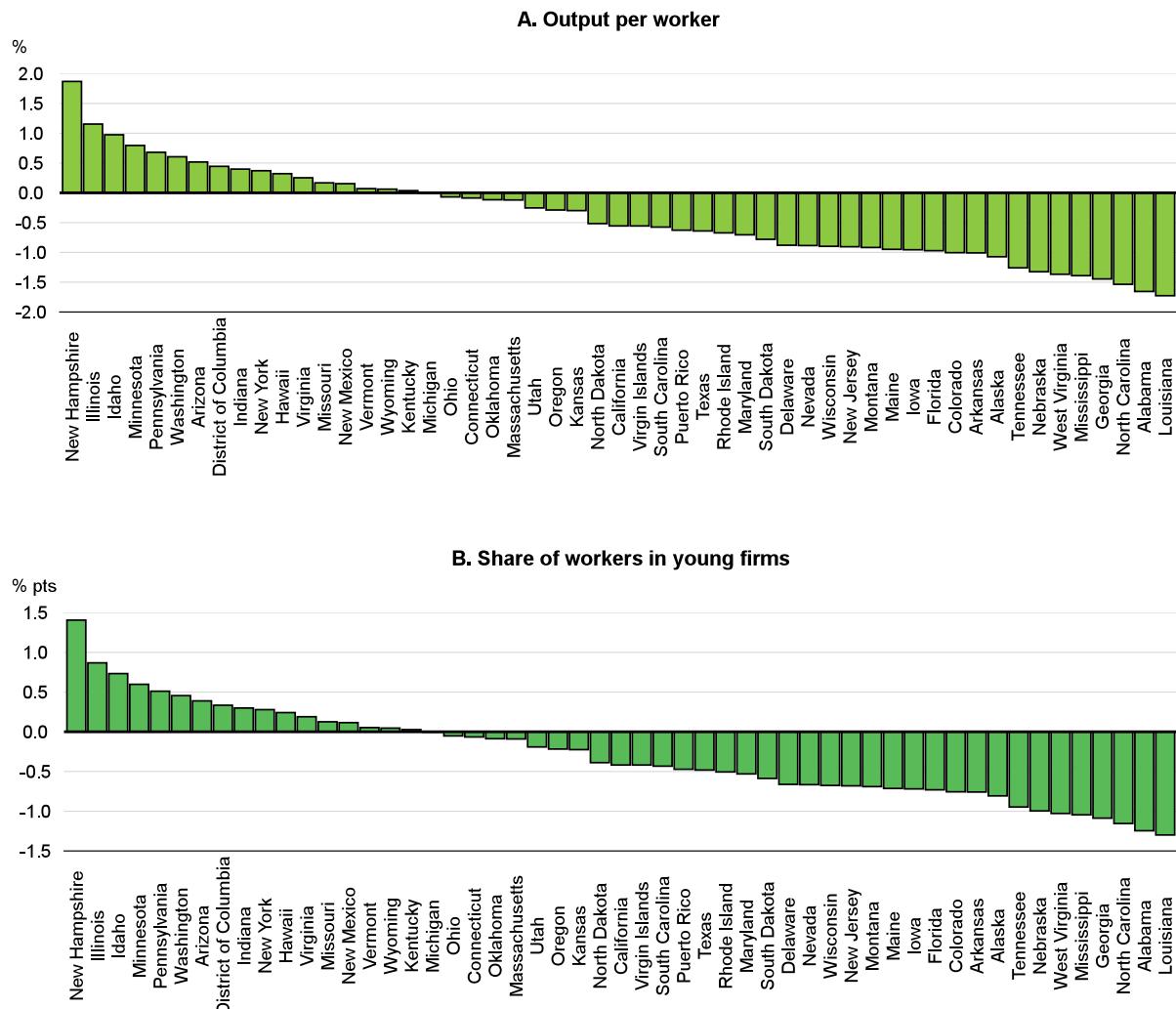
Source: Andrews, Turban and Tyros (forthcoming).

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The impact of regulatory compliance costs on aggregate productivity is partly driven by its effect on business dynamism. The average increase in compliance costs over the last 10 years is associated with an estimated reduction in the share of workers in young firms (i.e. firms younger than 5 years old) of almost 0.4 percentage points (Figure 2.5). This effect can take time to emerge but becomes apparent after 3 years (Box 2.2). Given the heterogeneity in regulation trends across states, there are again large variations between regions. The employment share of young firms would have been 1.3 percentage points higher in 2023 in Louisiana if the resources devoted to regulations had stayed at their 2012 levels but 1.4 percentage points lower in New Hampshire under the same baseline. These effects are material given that the median employment share of young firms across US States was 9.8% in 2023. And they provide strong support for the idea that regulatory compliance imposes fixed costs, which will disproportionately hamper young firms as well as curb market entry and reduce the incentive for incumbents to innovate.

Figure 2.6. Rising regulatory compliance costs have suppressed productivity and business dynamism in the United States over the past decade

Estimated contribution of changes in regulation to productivity and business dynamism between 2012 and 2023



Note: This graph applies the coefficient obtained in Figure 2.5 to the relative change in regulatory costs in each US state and territory between 2012 and 2023. Young firms are defined as firms younger than five years old.

Source: Andrews, Turban and Tyros (forthcoming).

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Box 2.2. The short-run impact of regulations on productivity and business dynamism in the United States

Estimating the short-term impact of regulations via local projections (LP)

The short-term response of productivity and business dynamism to changes in resources devoted to regulatory compliance is estimated through local projections with the following specification:

$$y_{s,t+h} - y_{s,t-1} = \beta_h \cdot \Delta \log (\text{Regulation}_{s,t}) + \chi_h (y_{s,t-1} - y_{s,t-2}) + \pi_h \cdot \Delta \text{unemployment_rate}_{s,t-1} + \delta_t + \epsilon'_{s,t,h}.$$

The dependent variable is either productivity or the share of workers in young firms in a given state or territory s and a given year t . Productivity is included as the logarithm of the level. The share of workers in young firms is included in levels. The state-level unemployment rate is included as an explanatory variable in order to control for the position in the business cycle, along with time fixed effects. The coefficient of interest is β_h , which assesses the impact of a yearly relative change in the resources devoted to regulations (as described in Box 2.1) on productivity and business dynamism h years after the change. The estimation is run on a panel data of all US states and territories between 2012 and 2023.

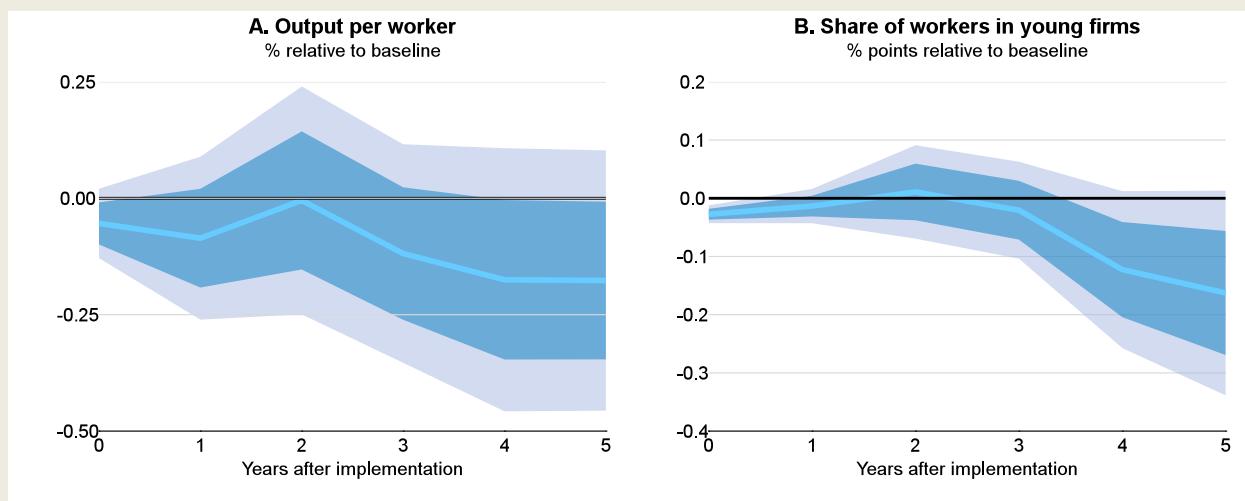
Increases in regulation gradually weigh on productivity, partly through business dynamism

Various technical factors attenuate the estimates (e.g. small sample size and the lack of large shocks to regulatory compliance costs at the annual frequency), but the evidence suggests that the cumulative impact of an increase in compliance costs on output per worker is gradual and significant (Andrews, Turban and Tyros, forthcoming). While the impact of regulatory shocks is not statistically significant in the first few years, the confidence bands of the impulse response function are significant at conventional levels (i.e. the 68% level) after 4 years. After 5 years, an average-sized annual increase in regulatory costs leads to a reduction in labour productivity of 0.18% (Figure 2.7, Panel A).¹ Based on those results, a cut in resources devoted to regulatory compliance in line with historical annual changes in every state could help raise productivity by more than 0.2% after 5 years.

The same increase in regulation-related costs appears to slow down the development of young firms. The share of workers employed in young firms diminishes after 3 years and falls by 0.16 percentage points after 5 years (Figure 2.7, Panel B). Based on those results, a cut in resources devoted to regulatory compliance in line with historical annual changes in every state could increase the share of workers in young firms by 0.1 percentage points at this horizon against a median share of 9.8% today.

Figure 2.7. Increases in resources devoted to regulation gradually reduce productivity and business dynamism

Effect of a median-sized annual shock to resources devoted to regulation compliance



Note: The dark shaded area is the 68% confidence interval, the light shaded area is the 90% confidence interval. The size of the shock is computed as the median annual absolute change in the log of the regulation index. Young firms are defined as firms younger than five years old.
Source: Andrews, Turban and Tyros (forthcoming).

¹ As standard in the LP literature, the impulse response functions are shown with confidence bands based on the confidence intervals at 68% and 90% for each horizon-specific estimate. Various papers have suggested that reporting a 68% confidence interval for impulse response functions is actually more useful than a 90 or 95% interval. The motivation is derived from Sims and Zha (1999), where it is highlighted that the goal of estimating impulse response functions is to provide an idea of the posterior distribution for the function. One standard intuition is that if one computes standard confidence intervals for each coefficient of the impulse response function, e.g. with 90 or 95% coverage, the probability that at least one of the intervals will contain 0 will be higher than 10 or 5% respectively.

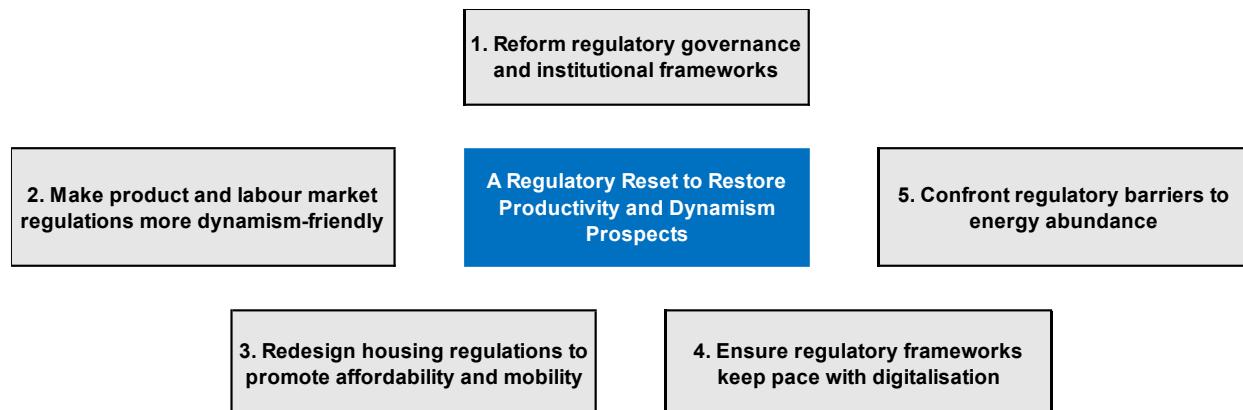
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These results are broadly in line with other studies that find a material aggregate cost of regulatory burdens. Estimates from the United States have linked the growth in the general size of the Code of Federal Regulations or in its number of restrictive phrases over the last 70 years to a significant reduction in economic growth over that period, via weaker labour productivity (Coffey, McLaughlin and Peretto, 2020; Dawson and Seater, 2013). The estimates in Figure 2.5 are smaller but still in the same ballpark as McLaughlin and Wong (2024), which found that the same relative increase in regulation costs of 3% between 2012 and 2023 in the US (but based on a different metric) would yield a reduction in productivity of 1.1%. Evidence based on business surveys for seven European countries suggests that administrative regulations distort investment decisions and reduce GDP by 0.8% (Pellegrino and Zheng, 2023). Finally, reviews of EU and Australian regulations in the mid-2000s suggested that cutting administrative costs by 20-25% could increase GDP by around 1.5% compared to baseline (European Commission, 2006; Australian Government Productivity Commission, 2006).

Executing the regulatory reset: a recipe to restore productivity and dynamism prospects

This section proposes a five-pronged plan to confront the most material regulatory impediments to economic dynamism, which encompasses specific structural reforms and broader adjustments to regulatory policy (Figure 2.8). First, countries should enhance regulatory governance and institutional frameworks to ensure that regulations remain fit for purpose and support a level playing field. Second, there is scope for product and labour market regulations to be more dynamism-friendly. Third, barriers to construction and densification should be reduced to enhance housing affordability and worker mobility. Fourth, regulatory frameworks should be adapted to fully harness the productivity gains offered by digitalisation and artificial intelligence. Fifth, countries should ensure that regulatory settings are fit for purpose to realise the promise of energy abundance. While there may be a case for regulatory reforms in other domains – e.g. financial regulation; see Chapter 1 – these fall outside the scope of this chapter.

Figure 2.8. A regulatory reset to restore productivity and dynamism prospects



Source: OECD Secretariat.

Step 1: Reform regulatory governance and institutional frameworks

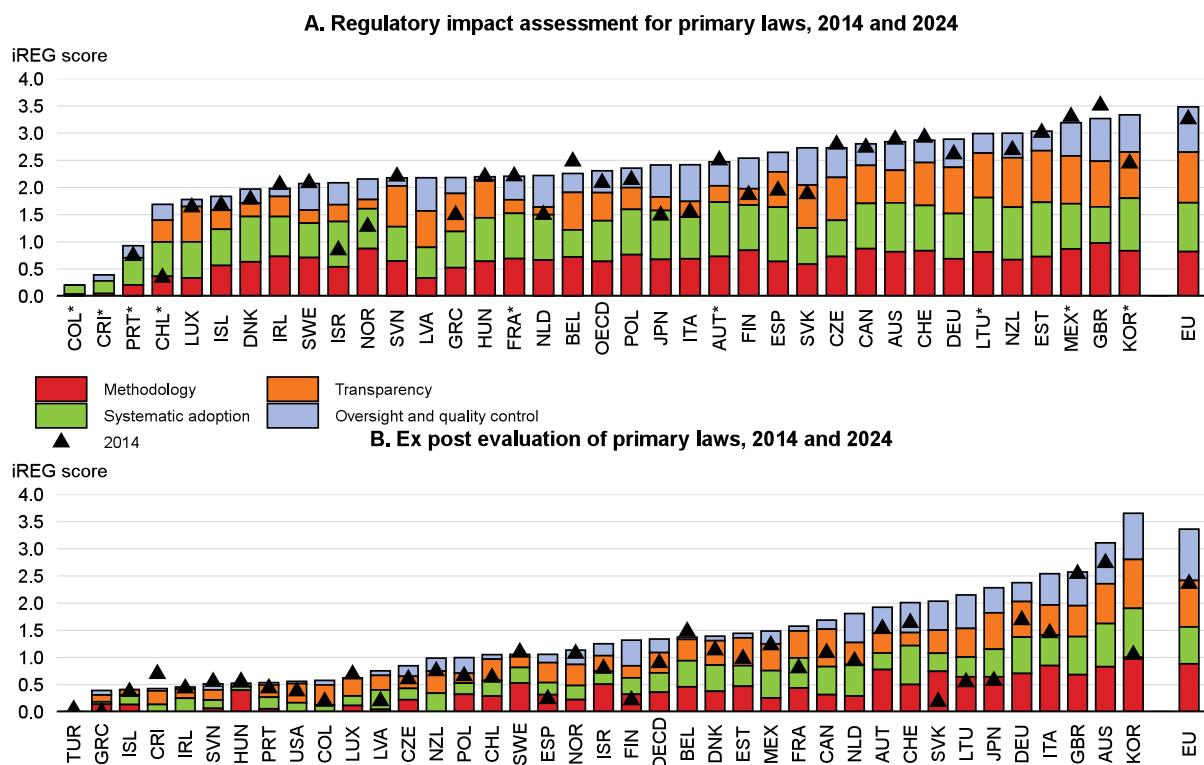
Managing the regulatory stock and promoting evidence-based regulatory experimentation

Regulatory governance and changes in the institutional regulatory framework are necessary to better manage the rising cumulative burden of the regulatory stock on growth. It is essential for regulations to be effective and efficient: they should achieve their stated objective as well as possible and result in the highest net benefit for society, in particular, by distorting economic activity as little as possible (Davidson, Kauffmann and de Liedekerke, 2021). This highlights, first, the need to move beyond the default tendency to regulate and to consider non-regulatory alternatives where feasible – including the use of market-based instruments, awareness-raising campaigns, or maintaining the status quo (OECD, 2025f) – and, second, the importance of ensuring good regulatory governance practices for new or existing regulations. For example, the adoption of regulatory impact assessments (RIA) has been linked to improvements in economic welfare, particularly when subject to independent external scrutiny (Parker and Kirkpatrick, 2012). Additionally, the implementation of RIAs and stakeholder engagement has been found to partially offset the detrimental downstream impact of regulatory policies that might inhibit competition in network industries (Demmou and Franco, 2020).

In the EU, despite ongoing efforts under the Better Regulation agenda – a framework aimed at guiding the management of EU legislative stock – the regulatory burden on European companies remains high and continues to grow, outpacing other economies like the US (Draghi, 2024). This persistent burden is partly explained by the lack of a common methodology to assess regulatory impacts, underscoring the continuing need for robust governance and the systematic evaluation of regulations. In that context, it is welcome that new proposals are emerging to maintain proportionality for SMEs and support a level playing field across all firms (e.g. a revamped competitiveness test in Draghi (2024)).

Regulatory assessments thus need to include better assessments of the stock of regulation. The quality of regulatory impact assessments has improved significantly over the past decade, and their use has expanded across a growing number of OECD countries and policy areas (Figure 2.9, Panel A and OECD (2025b)). Currently, more than 80% of OECD Members apply them on a systematic basis. But countries tend to focus on ex ante evaluations of the regulation (OECD, 2020b; OECD, 2025e). This is of particular concern given that existing regulations tend to greatly outnumber the flow of new regulations and given the scale and the trends in the resources devoted to regulatory compliance described above. Today, systematic requirements to undertake ex post evaluations of regulations exist in fewer than one-third of OECD Members. There has also been only limited progress in the last ten years (Figure 2.9, Panel B and OECD (2025b)).

Figure 2.9. While regulatory impact assessments are becoming more common, ex post evaluation tools remain underutilised



Note: The OECD Indicators of Regulatory Policy and Governance (iREG) measure OECD countries' progress in implementing regulatory policy practices as advocated in the 2012 Recommendation on Regulatory Policy and Governance (OECD, 2012). The scores range from 0–4, increasing in conformity with best practices. For more details, see OECD (2025b). Panel A: Data for 2014 do not include the four countries that were not in the OECD at the time (Colombia, Costa Rica, Latvia, and Lithuania). Only covers practices in the executive. Türkiye and the United States, where all primary laws are initiated by the legislature, are excluded. Asterisks (*) denote countries where a greater share of primary laws are initiated by the legislature. Panel B: 2014 data for Colombia, Costa Rica, Latvia, and Lithuania reflect 2017 scores.

Source: OECD Indicators of Regulatory Policy and Governance (iREG) Survey 2014, 2017 and 2024.

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Efforts to frequently monitor regulations and subsequently redesign and adapt regulatory regimes to incorporate the relevant lessons learnt are crucial (OECD, 2025e). For example, New Zealand's regulatory stewardship approach sets an expectation that ministries and agencies monitor and review the performance of their regulatory systems on an ongoing basis. However, it is important that ex post reviews contain practical recommendations for improvement, which could range from minor amendments to the regulations under review, to their removal or replacement. Clear governance, stakeholder consultation, adequate resources and political commitment are other key factors to ensure credible findings and continuous regulatory improvement via ex post regulatory evaluations (OECD, 2020b; OECD, 2012). A focus on the most affected sectors and regulatory domains would also help allocate limited fiscal and administrative resources where they matter most (OECD, 2025f).

In that context, administrative burden reduction programmes such as regulatory offset rules can be useful but should be carefully designed. Governments have been increasingly trying to limit the costs stemming from new regulations by offsetting the burden of new rules with a reduction of the existing regulatory stock, for example, via “One-in, X-out” rules (Trnka and Thuerer, 2019). While those can be useful in sharpening attention to compliance costs, they need to be designed and embedded in the broader regulatory governance system, tied to a systematic management of the regulatory stock, including ex post evaluation and targeted simplification. In particular, regulations slated for removal, if still “active”, should first undergo some form of assessment of their worth (OECD, 2020b), and the responsibility for finding offsets should be linked to the authorities in charge of the regulated area of concern. Simplification efforts focusing on the most affected sectors and regulatory domains are key to effectively prioritise interventions (OECD, 2025f).

Agile regulatory governance that embraces innovation is essential. For example, adopting horizon scanning and future scenario planning to detect weak signals of technological developments would allow policymakers to anticipate and prepare for future challenges (OECD, 2025e). The use of regulatory sandboxes – environments that enable the testing of innovations under temporarily reduced regulatory constraints – can provide policymakers with evidence to guide the design of adaptive regulatory frameworks (OECD, 2024f). Today, a third of OECD countries have in place regulatory sandboxes in the transport, energy, and ICT sectors (OECD, n.d.).

In addition, a more flexible regulatory design – such as a risk-based approach, where regulatory intensity depends on the level of risk in any given domain – would make policy resilient to the complexity of fast-moving changes like recent technological advancements. By guaranteeing that obligations imposed on regulated subjects are focused on mitigating and managing the most significant risks and keeping burdens proportionate and limited to what is necessary, risk-based regulation can help ensure that rules and their enforcement effectively achieve their desired policy objectives while supporting growth (OECD, 2025e; OECD, 2014). For example, under a risk-based approach, licensing and permitting should be reserved for activities that pose significant, potentially irreversible risks, rather than being applied by default (OECD, 2025g). However, today, more than half of OECD Members do not permit regulators to base their enforcement work on risk criteria.

Furthermore, using performance-based objectives rather than process-based objectives would help to achieve the regulations' objectives at the lowest costs. Evidence of the benefits of such flexibility to reduce administrative costs is clear when it comes to environmental policy (Cordes, Dudley and Washington, 2022). Regulatory governance can leverage modern tools to improve its resilience. Advanced data analytics and regulatory experimentation can support more evidence-based regulatory decisions. Moreover, digital tools can improve regulatory delivery by streamlining processes and enhancing the efficiency of compliance monitoring and enforcement. Today, only about one-third of OECD Members reports applying data-driven methods to monitor the impacts of laws and regulations (OECD, 2025e).

Strengthening legal certainty for regulatory clarity and predictability

Frequent regulatory changes are a major source of administrative burden (OECD, 2025f). In nearly half of the countries covered by the S4S surveys, business organisations cite such changes among the top three

cause of regulatory and administrative burdens, together with unclear rules or requirements, inconsistent or unpredictable enforcement, and weak co-ordination among regulatory bodies.

Reducing legal uncertainty is required to support growth. While excessive or unpredictable regulation can weigh on economic activity, clear and well-designed rules can support growth when regulatory frameworks are stable, and the overall stock of regulations remains manageable. For example, evidence for Italy suggests that the increasing complexity of legal texts appears to have generated uncertainty in the application of regulations for firms, which may have reduced GDP per capita by more than 3% over the last 20 years via lower firm growth and investment (Morelli et al., 2025). On the other hand, in the United States, states that increased their legislative outputs by borrowing legislative language from other states have grown faster, in particular when they started with a low existing stock of regulations (Ash, Morelli and Vannoni, 2025). This potentially reflects the adoption of “good practices” at a relatively low cost, especially for laws that specify contingencies (and thus reduce legal uncertainties) and that pertain to economic (as opposed to social) regulations.

Improving the predictability and transparency of rulemaking and delivery can support firms’ investment and entry decisions by reducing regulatory risk. For the regulatory authorities, this underlines the relevance of data-driven, evidence-based decision making – with clear explanations of how evidence is used – to increase the consistency and predictability of regulatory outcomes and the perceived reliability of regulators. For example, several authorities now measure and aim to reduce “noise” in inspections to cut unwarranted variability across similar cases, bolstering trust and the predictability of planning horizons for business. Predictability can also be improved upstream through anticipatory governance (horizon scanning, strategic foresight) that produces forward-looking visions, plans and roadmaps, giving businesses visibility on the timing and direction of future rules and transitions. Yet these tools remain underutilised: for example, only 25 of the 38 OECD Members publish an online list of primary laws expected to be prepared, amended, or repealed over the next six months or more, and only 16 countries do so for subordinate regulations (OECD, n.d.).

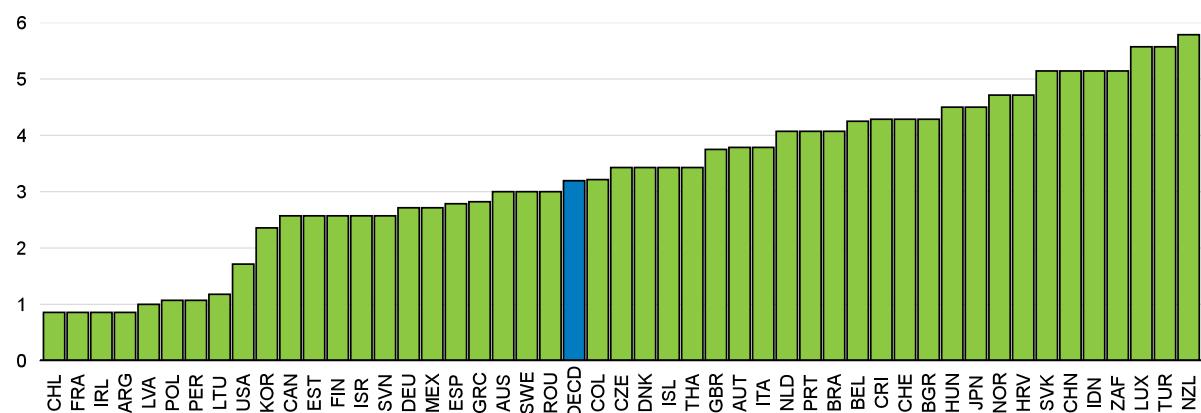
Promoting stakeholder engagement while minimising rent-seeking activities

Improving stakeholder engagement would help build better regulations. This could include extending consultation periods coupled with a broader use of advance notices for consultation. While more than three-quarters of OECD Members have introduced minimum consultation periods and around half have expanded consultation periods to at least four weeks, only a third provide direct feedback to stakeholders. And only two-fifths of OECD governments today currently inform people of forthcoming reviews of rules (OECD, 2025e). Greater use of early-stage consultations could also improve regulatory quality, as governments tend to consult more broadly on drafted regulations through late-stage consultations. But those consultations need to be carefully targeted in order to avoid consultation fatigue, minimise the burden on government resources and ensure the effective design of adaptive regulations. To ensure that stakeholders’ and governments’ resources are used efficiently, those consultations should thus be proportionate to the significance and impact of the rules being discussed. For example, Australia’s guidelines allow for targeted consultation through direct engagement or small-scale social media activities in cases where there is a small, well-defined group of affected stakeholders and where consultation efforts would be otherwise wasted if involving unaffected parties.

But the interactions of firms with policymakers need to be carefully monitored to prevent lobbying activity from stifling economic dynamism (OECD, 2021c). Such lobbying may originate from interest groups directly affected by the regulation or from third-party service providers seeking to shape rules to create demand for their services. In fact, regulatory frameworks to support transparency and accountability in the interactions between interest groups and public officials lag behind best practices in many countries (Figure 2.10). Basic integrity standards and transparency requirements for public officials are established in fewer than half of the countries surveyed for the OECD Product Market Indicators, underscoring a clear need to strengthen transparency (Vitale and Bitetti, 2025). For instance, two-thirds of countries do not require policymakers to disclose their meeting agendas or the identities of the interest groups they engage with. Additionally, half of the countries lack mandatory cooling-off periods for policymakers leaving their posts, and one-third have no comprehensive rules on conflicts of interest applicable to all public officials. These deficiencies in the regulatory framework matter now more than ever, as governments make greater use of industrial policies to support strategic sectors. Furthermore, against a backdrop of rising market concentration, there is a growing risk that unregulated lobbying activity may incentivise firms to lobby to entrench their market power (Akcigit, Baslandze and Lotti, 2023), especially in digital markets (Calligaris et al., 2024), reinforcing the decline in economic dynamism.

Figure 2.10. Most countries still lack comprehensive legislation on lobbying activities and fail to impose essential disclosure requirements

Regulation of lobbying activities, 2023/24



Note: Indicator values increase in the absence of relevant regulations. This figure shows the overall score for the questions that measure the quality of lobbying regulation. These questions are included in the low-level PMR indicator *Interaction with Stakeholders*.

Source: OECD Product Market Regulation Indicators 2023/24.

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Addressing the international fragmentation of regulations

Beyond improving domestic stakeholders' engagement, stronger international regulatory co-ordination and co-operation are essential, particularly in sectors with large cross-border spillovers. The consequences of a fragmented regulatory landscape – which raises compliance and enforcement costs – is evident in many domains. First, practices such as gold-plating – whereby additional and avoidable regulatory requirements are introduced when transposing EU directives into national laws – have undermined Europe's regulatory harmonisation efforts (Draghi, 2024). Second, heterogeneity in product market regulations negatively affects cross-border FDI (Fournier, 2015). Finally, fragmented and burdensome national procedures in the area of intellectual property rights (IPRs) can discourage innovators from filing patents, preventing especially young companies from fully benefiting from the Single Market, and hindering knowledge and innovation spillovers within the EU (Draghi, 2024).

To facilitate international co-ordination and co-operation, the OECD has developed Best Practice Principles on International Regulatory Co-operation. A key message is that governments can enhance the interoperability of laws and regulations – from information exchange to the harmonisation of rules (OECD, 2021b), helping collect more evidence, better detect risks, enhance compliance, and save time and resources for both businesses and administrations (OECD, 2025e). This approach calls for systematic consideration of foreign and international frameworks and stakeholders during the regulatory process, and for stronger bilateral, regional and international partnerships that promote ongoing collaboration and greater coherence, through measures such as participation in international fora, mutual recognition and alignment with global standards. Such efforts could, for example, help align regulatory approaches across jurisdictions where reasonable and relevant.

Step 2: Make product and labour market regulations more dynamism-friendly

Revive product market liberalisation efforts, especially in the services sectors

Pro-competitive product market reforms have yielded important economic growth dividends via various channels (see Box 2.3), but reform momentum has slowed more recently (Figure 2.11, Panel A). Reforms in sectors providing critical inputs to downstream industries, where spillovers to the broader economy are strong, are especially pro-growth. For example, it is estimated that deregulatory measures in network sectors such as energy, transport and communication – which supply almost 20% of downstream sectors' intermediate inputs on average across the OECD – boosted economy-wide labour productivity by around 5% in cumulative terms between 1980 and 2023 (Andrews et al., 2025). At the peak of the reform wave – which took place in the decade after 1995 in many OECD countries – network sector deregulation was contributing an estimated 0.25 percentage points to annual labour productivity growth. But its fading impact after 2005 suggests that the slowdown in network sector reform may explain up to one-sixth of the post-2005 productivity slowdown.

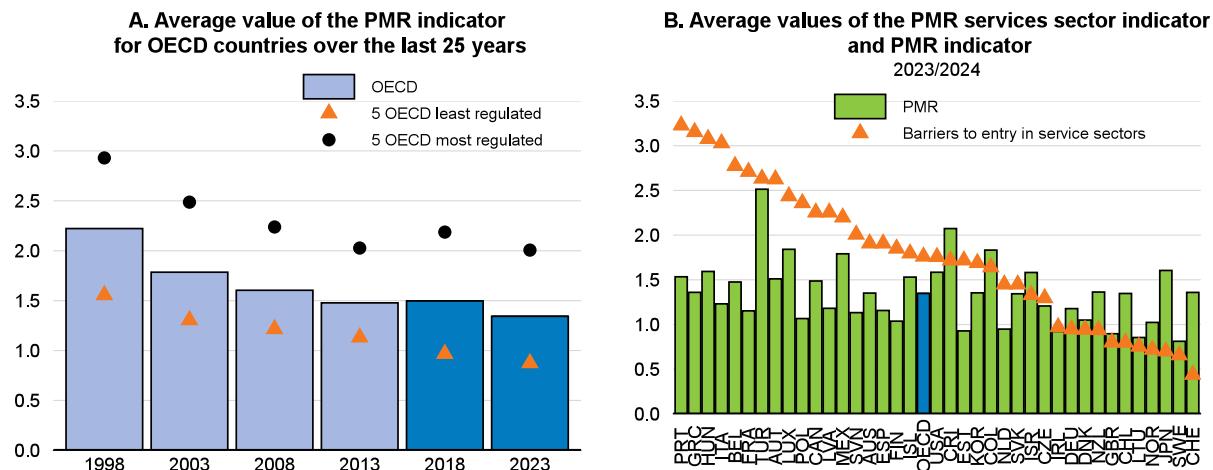
Box 2.3. Pro-competitive product market regulations support economic growth

Regulation that restricts entry or dulls competition has been generally associated with lower growth and productivity. Promoting competition is crucial for economic growth in the long run, notably by contributing to the efficient allocation of resources. By lowering barriers to entry, regulatory reforms may serve as a catalyst for innovation, stimulating the entry and growth of new innovative businesses (Calvino, Criscuolo and Verlhac, 2020; Rusu, 2025) and the exit of inefficient ones, while fostering the rapid dissemination of new technologies across firms (Andrews, Criscuolo and Gal, 2016) and within multinational enterprises (Zona Mattioli and Borowiecki, forthcoming). In the face of competition, incumbents are forced to develop new products and services, adopt new technologies, improve their production processes, and implement superior management practices (Van Reenen, 2011). In addition, cheaper and higher-quality intermediate inputs from network industries and services due to easier product market regulations can support higher productivity downstream (Bourlès et al., 2013).

Through these mechanisms, pro-competition regulatory environments have positive effects on productivity (Bourlès et al., 2013), innovation (Westmore, 2013), investment (Égert, 2018) and employment, particularly among women and young workers (Gal and Theising, 2015). In fact, the removal of regulatory barriers to competition has been a key factor driving economic growth in both OECD and non-OECD countries over the last three decades (Andrews et al., 2025).

Figure 2.11. Deregulation has recently slowed, yet large regulatory barriers remain in services sectors

0-6, higher values = more stringent regulation



Note: In panel A, the 2018 and 2023 estimates rely on an updated methodology and may therefore not be fully comparable with earlier years. In panel B, the services sector covers six professions (accountants, architects, civil engineers, estate agents, lawyers, and notaries), as well as two sectors in retail distribution (general retail trade and retail sales of medicines).

Source: OECD (2025), Key Takeaways from the updated PMR indicators, <https://www.oecd.org/en/topics/product-market-regulation.html>; and OECD Product Market Regulation Indicators 2023/2024.

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A redirection of product market reform efforts to key services sectors – which remain sheltered from competition (Figure 2.11, Panel B) – can deliver material productivity gains. As discussed in Box 2.4, there are various barriers to entry and regulatory restrictions on the conduct of activity in professional services that could be relaxed somewhat without compromising quality standards. In addition, the spread of licensing requirements beyond those occupations that require specialist training and expertise to meet public safety objectives – such as florists, interior designers, hairdressers and manicurists – is striking, with more than one-fifth of workers requiring a license in many OECD countries (Bambalaite, 2020). The economic consequences are significant, with a range of studies documenting the adverse impact of occupational entry restrictions on productivity growth, job mobility and social mobility (Bambalaite, 2020; Mocetti, Roma and Rubolino, 2022; Hermansen, 2019).

Box 2.4. Regulatory barriers in market services are extensive

Market entry, especially in professional services, is often limited by tight qualification requirements, compulsory membership in professional associations, and inadequate recognition of qualifications earned outside a jurisdiction (OECD, 2024c). A large share of OECD countries allows entry in six different professions only through a single pathway, while federal countries tend to feature limits in the movement of professionals across regions through differences in qualification requirements and lack of automatic recognition of licenses. More generally, the entry of foreign professionals is often thwarted by the lack of a clear process to recognise foreign qualifications.

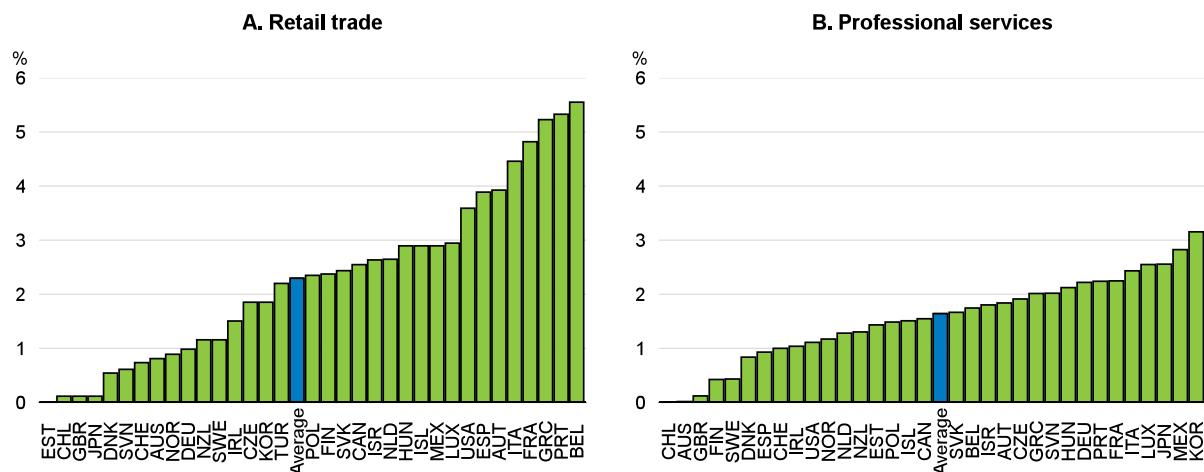
Alternatives to professional licensing could be considered. For example, voluntary certifications, combined with consumer information systems, could serve as an alternative to strict licensing requirements (OECD, 2025d). Countries can also create transparent license inventories, publishing requirements online, digitise applications, introduce “silence-is-consent” or deemed-approval where appropriate, and sunset or periodically review licenses to ensure their remaining adequacy. OECD guidance provides operational principles and roadmaps for one-stop shops and licensing simplification that countries can adapt (OECD, 2024d).

There is also scope to ease regulatory restrictions in the conduct of activity in the services sector, without compromising quality standards. For example, restrictions on ownership and organisational structure are frequent and can be relaxed without affecting entry requirements for professionals or the nature of licensing itself, which involves more detailed technical knowledge and assessment of risks. The OECD recommends assessing whether licensing and conduct requirements are necessary, proportionate, and the least restrictive means to achieve policy goals (OECD, 2024c). Some OECD countries have also successfully adopted less restrictive conduct regulation in the past – as restrictions on fee regulation, multi professional co-operation and limited liability have been relaxed in many countries in early 2000.

New OECD evidence finds that anticompetitive regulations in professional services and retail trade curbs labour productivity in downstream sectors (Andrews and Égert, forthcoming). On average across the OECD, reforms in retail trade and professional services between 1998 and 2023 are estimated to have raised the level of economy-wide labour productivity in 2023 by at least 0.5% and 1% respectively (noting that these two sectors account for almost 10% of downstream sectors intermediate inputs). Going forward, reducing product market regulation in retail trade and professional services equivalent to the level of the three least regulated countries in the OECD could raise the level of productivity by around 2 % each but the estimated gains are almost twice as large in heavily-regulated countries (Figure 2.12). Complementary research also finds evidence of direct negative effects of stringent product market regulations on the labour productivity growth of firms in retail trade and professional services, with the most technologically-advanced firms most harmed by stringent regulation in professional services (Burget, Castle and Romagnoli, forthcoming).

Figure 2.12. Labour productivity gains from easing regulations in retail and professional services would be significant

Impact of moving to the top three least regulated countries



Note: The charts illustrate potential productivity gains if countries were to converge to the regulatory performance of the three best-performing OECD countries in 2023. The estimates are based on country-sector observations. For each country and sector, the 2023 regulatory gap to the three best performers is calculated and multiplied by the coefficient estimate from time-series and country-sector-level regressions linking sectoral productivity to a regulatory indicator that captures both the level of regulation in retail trade and professional services and sectors' exposure to it through input-output linkages. Sectoral productivity gains are then aggregated to the country level using value-added weights across sectors.

Source: Andrews, D. and B. Égert, "Regulation and growth reloaded: Lessons from 25 years of retail trade and professional services reforms", OECD Economics Department Working Papers, forthcoming.

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Promote a more level-playing field between the private sector and State-Owned Enterprises

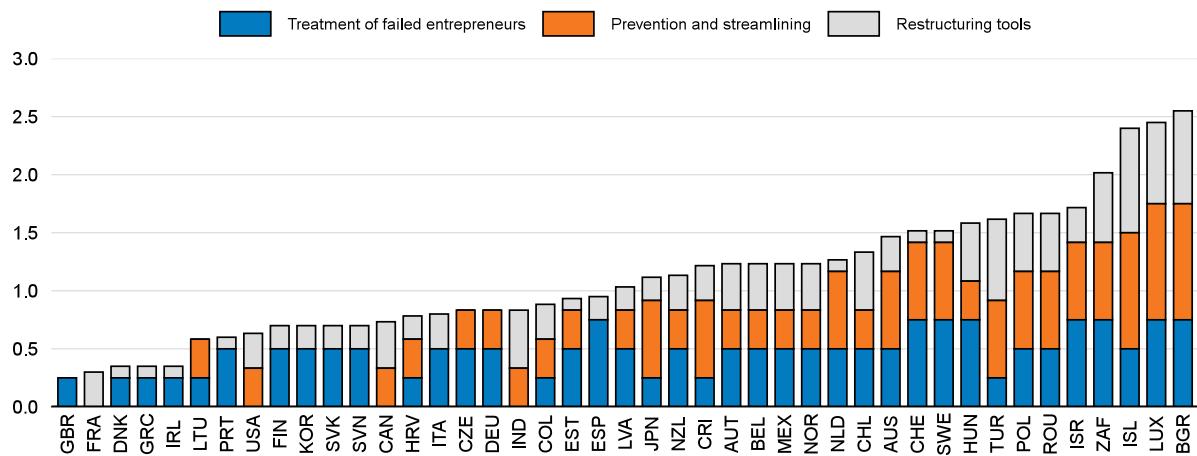
State ownership can help to achieve socio-economic objectives, but economic dynamism may be stymied if State-Owned Enterprises (SOEs) face different incentives to private firms. Having a legal framework in place that could *de jure* shield SOEs from political interference remains an important area for potential improvement in OECD countries. Most countries already require that SOEs be subject to the same or largely similar laws and regulations as private firms. But in about one third of OECD countries, SOEs still benefit from preferential financing – including access to funding from the state budget or state-owned financial institutions at below-market rates – and explicit state guarantees. The 2021 OECD Council Recommendation on Competitive Neutrality and the 2024 Toolkit provide concrete principles and implementation checklists that governments can use to safeguard competitive neutrality where the state participates in markets (OECD, 2024d).

Streamline insolvency regimes by reducing the costs of failure and corporate restructuring

There remains scope to improve the design of insolvency regimes to support productivity growth and business dynamism (Figure 2.13). In some OECD countries, a high time to discharge – which increases with the number of years a bankrupt debtor must wait until they are discharged from pre-bankruptcy indebtedness – is likely to raise the costs and stigma of failure. There is also scope for some countries to streamline procedures (e.g. roll out simplified and out-of-court insolvency procedures for SMEs) and reduce the barriers to corporate restructuring by improving restructuring tools and creditor/debtor incentives (e.g. allowing creditors to initiate restructuring, enabling the cramdown of dissenting creditors and prioritising new financing over unsecured creditors in repayment). Reforms to personal and corporate insolvency regimes in this direction could raise productivity growth by incentivising firm entry and experimentation with risky business strategies, as well as promote productivity-enhancing reallocation and the exit of non-viable firms (Andrews, Adalet McGowan and Millot, 2017).

Figure 2.13. Insolvency regimes are more dynamism-friendly in some countries than others

OECD insolvency indicator main sub-components, 2022



Note: Calculations based on the OECD questionnaire on insolvency regimes. The indicator increases with the extent to which the insolvency regime delays the initiation and resolution of proceedings.

Source: André and Demmou (2022); and Adalet McGowan and Andrews (2018).

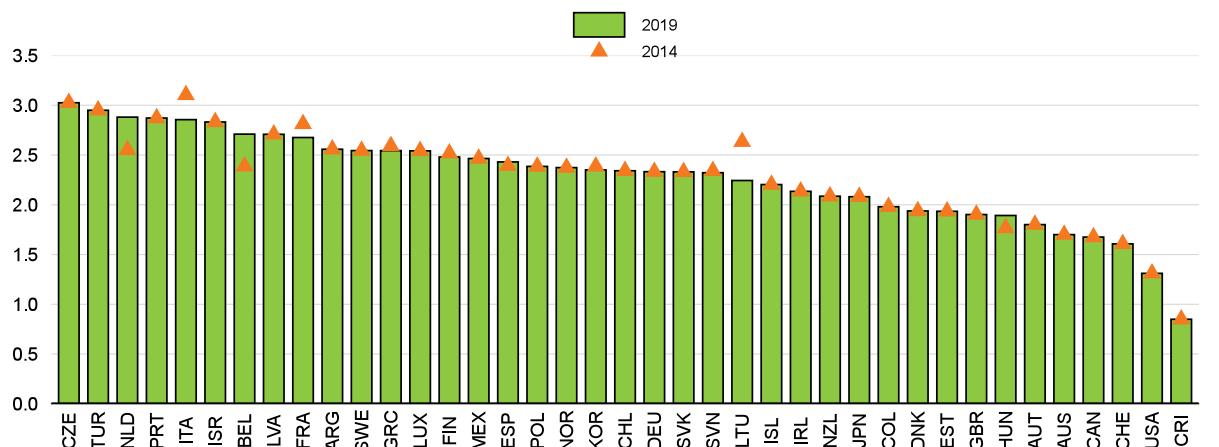
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Employment protection legislation should balance protection with flexibility

Employment Protection Legislation (EPL) aims to safeguard workers against arbitrary dismissal but needs to be carefully designed to ensure it does not harm productivity growth (OECD, 2025d). To be sure, job security provisions can support productivity by encouraging training or via the accumulation of firm-specific human capital (Belot, Boone and Van Ours, 2007). However, by raising labour adjustment costs, overly restrictive EPL can hamper productivity-enhancing job reallocation (Andrews and Cingano, 2014) and can limit firms' ability to respond to changes in demand, in turn lowering vacancy posting as firms become more cautious about hiring (Scarpetta, 2014). Strict protection of open-ended contracts can also incentivise excessive use of temporary work (OECD, 2025d), resulting in labour market duality (see below). Finally, higher labour adjustment costs – by raising the cost of failure – can also make firms more hesitant to adopt and experiment with radical technologies (André and Gal, 2024) such as artificial intelligence whose outcomes are highly uncertain (Coatanlem and Coste, 2024). Indeed, continental Europe's more stringent EPL (Figure 2.14) is emerging as a potential key reason for why it lags the United States in high-tech (Coatanlem and Coste, 2024).

Figure 2.14. The extent of labour protection varies across countries

Summary indicator for individual and collective dismissals of regular workers, 2014 and 2019



Source: EPRC, Version 4, OECD Employment Protection Legislation Database, 2020 edition.

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EPL should be designed carefully to protect workers against unfair dismissal without hampering growth. Governments should ensure workers are protected against unfair dismissal through clear and predictable rules that also support workplace learning and facilitate the reallocation of labour to its most productive uses (OECD, 2025d). In addition, governments should address the large protection gaps that persist between permanent and temporary jobs (OECD, 2020a) – that typically result from weaker protections for temporary workers – which fuels dualism and weighs on productivity (OECD, 2025d). These measures should be paired with effective activation policies and unemployment insurance to support labour market transitions. For example, employment stability can be promoted by having moderate and predictable employment protection provisions that provide security to all workers, and by strengthening the link between employers' unemployment insurance contributions and the cost of unemployment insurance benefits for displaced workers (OECD, 2018a).

A regulatory response to restrict the use of non-compete clauses may be required

Non-compete clauses are traditionally justified to protect legitimate business interests (e.g., trade secrets) but they are increasingly being deployed to restrict job mobility. Non-compete clauses are contractual provisions that limit employees' activities after they leave their current job. Their prevalence is high: non-compete clauses potentially cover up to one third of the workforce and are used by as many as half of firms, with usage possibly on the rise (Andrews and Garnero, 2025). While non-competes are especially common in knowledge-intensive fields, the fact that they are increasingly found in low-wage occupations where access to proprietary information and trade secrets is highly unlikely – such as among entry-level fast-food workers in the United States and childcare workers in Australia – has raised concerns that they are also being deployed to suppress job mobility and competition (Starr, 2023; Andrews and Jarvis, 2023; Boeri, Garnero and Luisetto, 2024). In fact, the balance of evidence suggests that non-compete clauses reduce job mobility, firm entry, wages, innovation and productivity, which more than offset any gains from enhanced incentives for firm-specific investment (Andrews and Garnero, 2025).

Given concerns about the excessive use of non-compete clauses and their consequences, several OECD countries have attempted to restrict their use (Andrews and Garnero, 2025; OECD, 2025d). A broad menu of regulatory options exists, ranging from outright bans to targeted safeguards that limit abuse while preserving legitimate business interests. These include sector-specific prohibitions (e.g. in healthcare), exemptions for certain groups (e.g. apprentices, interns, temporary workers), wage thresholds exempting

low-paid workers, minimum compensation requirements, maximum duration limits, obligations to provide advance disclosure or restrict enforceability to hiring, or restrictions on post-hiring changes without material benefits. Competition authorities in some countries have also acted against other restraint clauses (e.g. a ban on no-poaching clauses). Nevertheless, the evidence suggests that regulations limiting the enforceability of non-compete clauses may not suffice to prevent their unlawful use in the absence of significant penalties for their abuse by employers (Boeri, Garnero and Luisetto, 2024).

Step 3: Redesign housing regulations to promote affordability and mobility

Regulations that restrict housing supply have entailed large economic costs (Gyourko and Molloy, 2015). Housing affordability has become an increasingly prominent issue in OECD countries and there is increasing recognition that supply-side constraints have contributed (Glaeser and Gyourko, 2025; OECD, forthcoming). Boosting housing supply would thus support housing affordability but also long-term growth by increasing residential mobility and the efficiency of labour allocation (Hsieh and Moretti, 2019).

Strict regulations play a sizeable role in housing supply restrictions. In the United States, construction productivity has declined in the last 40 years, and in fact has declined the most in regions with tighter supply constraints, including long permitting times and stricter land use regulations (Garcia and Molloy, 2025; D'Amico et al., 2024). Construction productivity growth has been negative in many OECD countries over the last ten years and evidence suggests that easing regulations in the construction sector to the least regulated country could offset the TFP divergence with the manufacturing sector observed over the last 20 years (Kane and Lopez, 2023). As a consequence, the construction and real estate sector emerges as a priority for regulatory simplification and burden reduction among S4S survey respondents from both governments and business organisations, with construction and building permits most frequently cited among the top three areas where regulatory and administrative requirements should be eased (OECD, 2025f).

Spatial planning policies could be streamlined to boost housing supply. More flexible land-use and spatial planning policies – including by removing barriers to densification, repurposing non-residential areas, preferring mixed-use/flexible zoning over rigid single-use rules, and improving the availability of vacant land for housing purposes – would thus support productivity (OECD, forthcoming). In addition, a high degree of decentralisation of land-use decisions and a lot of responsibility overlaps are associated with more rigid housing supply (van Hoenselaar, Cournède and Dougherty, 2023). Efficient decision making would benefit from assigning land-use responsibilities to the level of government that is best aligned with the relevant areas and from avoiding overlap between levels of government (OECD, 2024a). Better co-ordination across subnational governments is crucial. In that context, for example, Israel created the Housing Headquarters committee within the Ministry of Finance to oversee and concentrate all relevant housing authorities, thus facilitating horizontal co-operation and co-ordination between governmental organisations related to housing (OECD, 2017).

Strict rent controls and tenant-landlord regulations have also contributed to supply restrictions. Rental housing supply is also influenced by a range of regulations covering rents and tenant-landlord relationships, which are often aimed at addressing market imperfections such as asymmetric information or unequal bargaining power between landlords and tenants (Andrews, Caldera Sánchez and Johansson, 2011). While potentially supporting affordability in the very short run, those regulations can reduce housing supply and economic growth significantly over longer horizons. The house price elasticity of residential construction is considerably lower in housing markets with stringent rental market regulation (Cavalleri, Cournède and Özsögüt, 2019; Diamond, McQuade and Qian, 2019). For example, rent control in San Francisco has been estimated to reduce housing supply by 15%. In the long run, higher rents and home prices tend to offset any short-term benefits for rent-paying low-income households (Favilukis, Mabille and Van Nieuwerburgh, 2022). Overly stringent rental regulation also reduces residential mobility, by locking in tenants. For example, very strict rent controls in Sweden induced a misallocation of housing in central Stockholm that is estimated to entail an annual welfare loss of 0.5% of GDP (Andersson and Söderberg, 2012). And reducing rent control from the strictest to the average level in the OECD could increase the residential mobility rate by one third (from 12% to 16%) (Andrews, Caldera Sánchez and Johansson, 2011).

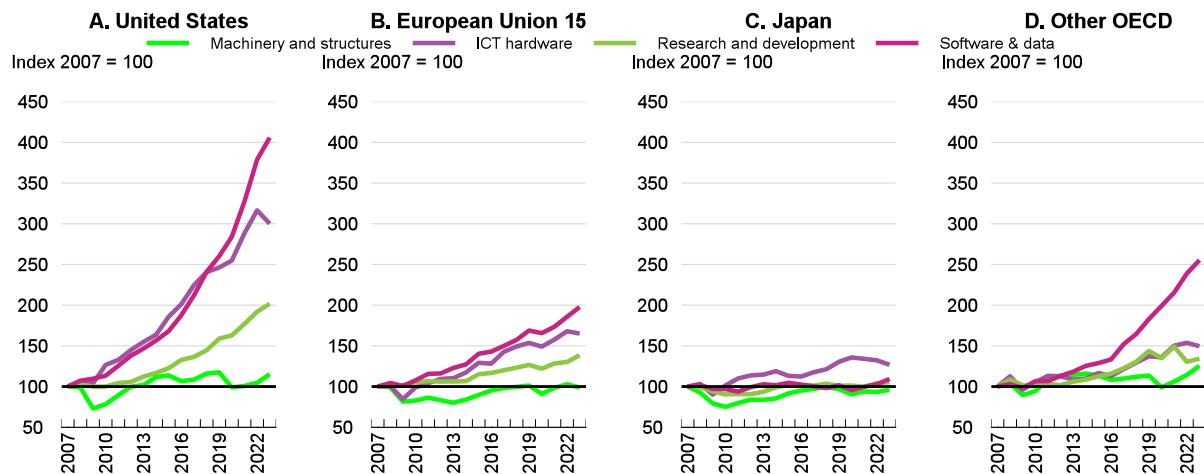
Rental market regulations should balance tenant protection and investment incentives. Rent controls could be phased out gradually, as part of a comprehensive policy package ensuring housing affordability. Finland provides a successful model of rental market deregulation: the country reduced rent price control in the private rental sector, which led to a liberalised market with no limits on initial rent or subsequent rent reviews. The supply of dwellings increased from 12% of the housing stock in 1990 to 17% in 2012, while it had decreased in the twenty years prior (de Boer and Bitetti, 2014). However, the phasing out of market regulations needs to acknowledge the short-term trade-offs, particularly in terms of housing affordability for vulnerable groups. Thus, it should be accompanied by other complementary policies to address potential drawbacks, including increasing the elasticity of housing supply to promote affordability via the streamlining of regulations discussed above and the construction of additional social housing. Housing allowances could also support labour mobility and affordability, provided housing supply is flexible enough to ensure that they are not passed through into house prices.

Step 4: Ensure regulatory frameworks keep pace with digitalisation

Artificial Intelligence is likely to improve productivity substantially, although the exact magnitude remains debated (Filippucci, Gal and Schief, 2024). Around 10% of the global population is reported to use AI tools, primarily for consumer applications (70% of usage) and, to a lesser extent, for business purposes (30%) (Chatterji et al., 2025), with significant variation across sectors and regions (Appel et al., 2025; Filippucci et al., 2025). AI adoption is most advanced in technologically pioneering countries, such as the United States. In those countries, large investments in digital infrastructure (Figure 2.15) (Appel et al., 2025), and a supportive regulatory environment foster not only digital business dynamism (Draghi, 2024; Pisu et al., 2021), but also the emergence of sector-specific AI companies and the efficient reallocation of resources towards innovative firms (Shetty et al., 2025).

Figure 2.15. Digital investment has outpaced other investment types across the OECD, most strongly in the United States

Real gross business investment by type of assets



Note: The European Union 15 includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the United Kingdom. The “Other OECD” includes Australia, Canada, Czechia, Estonia, Hungary, Israel, Latvia, Lithuania, Mexico, Norway, Poland, the Slovak Republic and Slovenia. Weights are based on GDP at PPP prices.

Source: OECD national accounts database; and OECD calculations. See Gal et al. (2025).

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Large-scale AI adoption requires robust investments in digital infrastructure that crucially depend on sound domestic regulation. Investments in tangible assets, such as digital connectivity and AI data centres, are critical for the diffusion of AI (OECD, 2023a). In addition, the projected electricity requirement to power them is expected to at least double by 2030 (IEA, 2025a), forcing regulators to step in to foster or limit this buildup. However, around 20% of the projected data centre additions by 2030 could be at risk of delay (IEA, 2025a) or cancellation in part due to regulations (Data Center Watch, 2025). These regulations include local zoning laws, binding power purchase agreements or water usage restrictions. National security concerns and data sovereignty laws have also imposed export and import restrictions on AI hardware and foreign ownership of computing capacities (Allen and Goldston, 2025) potentially limiting the foreign direct investment necessary to build national compute infrastructures (Barczentewicz, 2025).

Complementary investments in digital software and data (Corrado et al., 2022) are equally necessary for AI development and deployment (Villalobos et al., 2024). But their collection and use are highly dependent on the stringency of digital service regulations, consumer protection laws, and intellectual property frameworks (OECD/WTO, 2025). For example, the EU General Data Protection Regulation (GDPR), whose goal is to protect individuals' privacy, limits consumer data collection and may hamper the capacity of firms to accumulate valuable intangible assets. While recent evidence suggest that the GDPR prevented between EUR 585 million and EUR 1.4 billion in cyber damages in the EU by strengthening cybersecurity obligations (CNIL, 2025), it has also decreased data storage of EU firms by 26% and data processing by 15% relative to comparable US firms (Demirer et al., 2024). Institutions and regulations – ranging from intellectual property rights, antitrust regulations and barriers to services and digital trade – that were designed mostly for a “tangible era”, limit the exploitation in full of the potential of intangibles (André and Gal, 2024). Reallocation frictions – such as overly stringent EPL, uncompetitive markets, data foreclosure, or restrictions on capital mobility – can delay the deployment of new technologies.

Ensuring that existing regulations do not unduly constrain AI deployment and the diffusion of digital tools would thus be essential to fully realise potential productivity gains. Digitalisation is challenging governments' abilities to regulate (OECD, 2025a). The rapid pace of AI development makes timely adjustment of legislation challenging and legal uncertainties may delay adoption. The ubiquitous nature of AI complicates the development of regulations that tend to be designed sector-by-sector or technology-by-technology. The cross-border nature of digital technologies further complicates jurisdictional authority, as actions in one country can have significant impacts in another, requiring a collaborative approach to regulation that transcends national boundaries. Fragmented, uncoordinated, or overlapping regulations across jurisdictions or sectors can generate additional costs, regulatory uncertainty, diffusion delays and innovation constraints. For example, the complexity and risk of overlap and inconsistencies in the EU AI Act and GDPR, along with implementation and enforcement differences across member countries, can undermine AI developments in the EU (Draghi, 2024).

New digital regulations need to ensure the persistence of a competitive and innovative environment and adequately balance safety and incentives to innovate. During the period 2023–2025, the quality-adjusted price of AI dropped by an average of 80%, reflecting rapid improvements in hardware, software, and competitive pressure (André et al., 2025). This upward shift of the AI technology frontier has been driven by an oligopolistic market with less than ten companies from five countries, mostly from the United States, where the regulatory environment has historically been the most favourable to digital and AI innovation. Nevertheless, risks to competition persist and may entrench existing market power (OECD, 2024b) in a sector where concentration has been increasing over the last decades (Covarrubias, Gutiérrez and Philippon, 2020) and where innovation/competition policy trade-offs are high (Martens, 2024). For example, the need for increasing computing resources has forced AI startups to sign compute partnerships with digital incumbents to continue innovating, providing preferential access to their AI models while competing for downstream users in the platform layer.

Governments need to invest in building strong institutional capacity, to effectively manage future challenges, particularly those brought about by digital technologies. For instance, this concerns the institutional preparedness of regulatory agencies to deliver on their important roles in supervising and enforcing digital regulation. This requires governments to embed regulatory capacities within national strategies, to adapt institutional frameworks – in terms of mandates, powers and legal bases – to align new regulatory structures with evolving sectoral needs, and to establish central mechanisms for oversight, co-ordination and advice to ensure coherence across governments (OECD, 2025e). Arming regulators with the requisite technical expertise is also key but more than half of regulators in the OECD have difficulty hiring well-qualified staff, especially in the digital domain (OECD, 2022).

International co-operation will be essential in the regulation of digital technologies to avoid fragmentation and loopholes (OECD, 2021d). Coherence across jurisdictions can make it easier for positive digital technologies to scale internationally and to implement and enforce rules in an interconnected world. Rules to facilitate information sharing across borders, for instance, can prevent digital banks from exploiting siloed information to help individuals evade sanctions across jurisdictions (Europol, 2023).

Regulatory experimentation can help with regulatory outcomes by improving adaptive learning and evidence-based regulatory design. Experimentation allows limited testing of a new regulatory approach to see how it works in practice, which could be particularly helpful for innovation-induced disruptions like the fast emergence of artificial intelligence. Effective adoption of experimentation by the regulatory community is still relatively limited but when it has been implemented, it has often been done through the use of regulatory sandboxes (see above) which typically involve a limited form of regulatory waiver or flexibility so that innovations can be tested under reduced regulatory constraints. As such, they can help learn about the opportunities and risks that a particular innovation carries and develop the right regulatory environment eventually to accommodate it (OECD, 2024f). Still, regulatory experimentation needs to be limited in terms of scope and time span to avoid circumventing the standard regulatory process.

Step 5: Confront regulatory barriers to energy abundance

Leveraging the efficiency gains of electrification while meeting rising electricity demand from AI and digitalisation will require modernising outdated regulatory frameworks that create barriers to a stable energy supply. Electricity demand across the OECD is expected to increase significantly over the next decades (IEA, 2024). A growing share of this electricity is projected to come from renewable sources, in particular to achieve countries' greenhouse gas emissions targets. Beyond the environmental benefits, further electrification via renewables would also be desirable as the cost of generating electricity from renewables has fallen significantly, making them among the cheapest energy sources for new power generation (IEA, 2025b). But there is increasing recognition that regulatory barriers are hindering investment, flexibility, and the efficient deployment of energy infrastructure.

Unlike centralised thermal generation, renewable-based electricity systems require greater system flexibility. This includes storage, demand-side response, supply-side balancing, and enhanced interconnection across regions and countries. Legacy regulatory frameworks, designed for conventional, centralised systems, are ill-suited to the decentralised, variable, and diverse nature of modern renewable energy systems. They lag behind in accommodating the grid investments, flexibility measures, and business models essential for efficient system operation. This creates regulatory barriers to entry and deployment, especially when there are unclear legal frameworks, uncertain remuneration rules, cumbersome permitting processes, inefficient grid connection systems, and regulatory disincentives for innovation (Box 2.5). But streamlining regulatory frameworks and clarifying legal definitions can reduce uncertainty, accelerate project deployment and investment in clean energy infrastructure. Ensuring that grid connection rules, remuneration mechanisms, and permitting processes are transparent and predictable is also essential to realise the promise of energy abundance.

Box 2.5. Five key regulatory barriers to solar, wind, and pumped hydro storage

Several regulatory barriers to solar, wind, and pumped hydro storage limit the extent of electrification.

1. Unclear or limited legal definitions, rights and obligations create uncertainty and discourage market entry, especially of new solutions. Examples include restrictions on dual land use for agricultural land in most EU countries, which constrain the development of agrivoltaics (the integration of solar energy generation on agricultural land). In France and Italy, where such dual land use was made explicit in recent legislative changes, there has been significant increase in agrivoltaics projects.
2. Uncertain remuneration and cost treatment can also weaken incentives for market entry. For example, regulatory frameworks in most EU countries neither provide for, nor allow remuneration of new services (such as inertia services), which severely limits their deployment on a stand-alone basis. In response, countries like Ireland have recently introduced new market rules to create price signals for emerging inertia technologies and services.
3. Sub-par spatial planning and permitting processes, often governed at sub-national or even local levels, that are often outdated, complex and involve multiple authorities acting sequentially. This results in wide discretion, which is resource intensive, and also in excessive permitting timelines (commonly more than five years in the EU, and in some cases up to nine). Such delays significantly affect investment and efficient siting decisions. By contrast, simplifying rules has proven highly effective: during the energy crisis, emergency regulations drove double-digit increases in permit issuance across several EU Member States. In Flanders, for example, 300 MW of wind power was approved within eight months of the reforms – exceeding the total from the entire previous year. Likewise, Germany's 2023 Grid Expansion Acceleration Act produced a fourfold increase in approved power lines between 2024 and 2025.

4. Poor grid connection rules, which in many countries still operate on a first-come, first-served basis, create bottlenecks, allowing speculative projects to hold capacity while delaying or discouraging viable investments. Sweden has taken a different approach, adopting a project-maturity model, underpinned by an industry standard developed with the national Transmission System Operator. This approach allocates connections based on readiness, ensuring capacity is prioritised for projects with the highest likelihood of completion.
5. Structural disincentives in grid development. Current regulatory frameworks generally favour traditional capital-intensive expenditure, offering limited incentives for anticipatory investment or adoption of innovative grid-enhancing technologies or digital solutions. For instance, in many Member States, grid system operators lack regulatory scope to procure flexibility services or recover costs for non-wire alternatives, such as digitalisation investments, even when these are more efficient than conventional grid expansion.

Source: OECD (2025), *Diagnostic Toolkit for Reducing Regulatory Barriers to Solar, Wind and Pumped Hydro Storage in European Union: Empowering Policymakers at National, Regional and Local Levels*, OECD Publishing, Paris, <https://doi.org/10.1787/15f4aed4-en>.

More generally, environmental issues present governments with new challenges to their regulatory capacities. The large uncertainties surrounding environmental projections inherently induce regulatory gaps (OECD, 2023c; OECD, 2025e). For example, outdated risk assessments, complex site approval processes, and general regulatory uncertainty have stifled the development of hydrogen technology (OECD, 2023b). The complexity of environmental regulations – partly a product of unclear communication and information by governments – has also led to large compliance gaps. Governments and regulators also face conflicting policy objectives and can lack enforcement power. For example, almost one third of regulators take quantitative targets relating to environmental sustainability defined for the sector into account in their decision making, and one quarter do not consider such targets, even though such targets have been defined (OECD, 2024g); while less than half state that they have the legal powers to collect relevant data on environmental sustainability in the sector they oversee.

Some green regulations have hindered progress on environmental issues due to their complexity. To be sure, scarce high-quality evidence exist of a significant impact of environmental regulation on economic activity including dimensions of competitiveness and innovation (Dechezleprêtre et al., 2019; OECD, 2021a). But the design of environmental regulations presents sizeable challenges (Koźluk, 2014; Berestycki and Dechezleprêtre, 2020). Licensing and permitting systems – which cover a wide range of activities from efficiency requirements for vehicles and housing to the deployment of renewables infrastructure – are now under significant pressure, with an over-application of safeguards (such as the precautionary principle) potentially stifling the development and use of green innovations and new technologies (OECD, 2025e).

A lack of co-ordination when the regulations cut across diverse policy areas (horizontal co-ordination) or across jurisdictional levels (vertical co-ordination) creates added complexity. This is a particular issue for environmental policies where geographical spillovers (e.g. carbon emissions) are broad while policies are local: zoning regulations and infrastructure investments are typically subnational level policies, and on average in the OECD three fifths of public spending on environmental policies are done at the subnational level as well. Uncoordinated policies could lead to inefficient outcomes: overlapping regulations can increase distortions without any derived gain while partial coverage at different jurisdictional levels can lead to inefficient behavioural responses (e.g. carbon leakage).

Finally, reliable and comparable carbon accounting standards is key. Carbon intensity metrics, which depend on such standards, are increasingly embedded in climate and trade-related climate policies – from taxes and product standards to public procurement rules and border carbon adjustments. Yet, a proliferation of product-level accounting and reporting initiatives across sectors and jurisdictions risks fragmenting supply chains and raising compliance costs (OECD, 2024h). Producers of low-carbon goods may forgo exporting to markets with divergent reporting requirements, limiting the diffusion of cleaner products. Greater alignment across accounting and reporting standards is thus essential to reduce reporting burdens, preserve open markets, and ensure a level playing field (OECD, 2024h).

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

Argentina

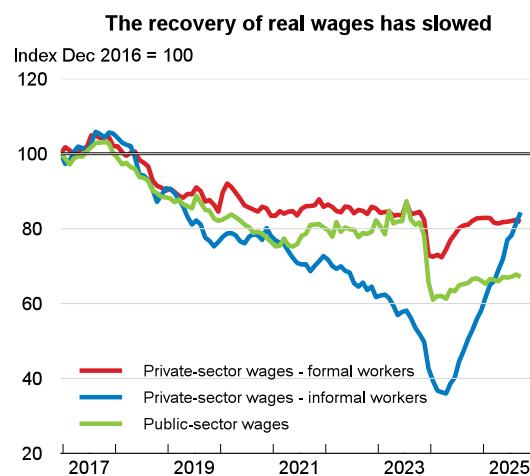
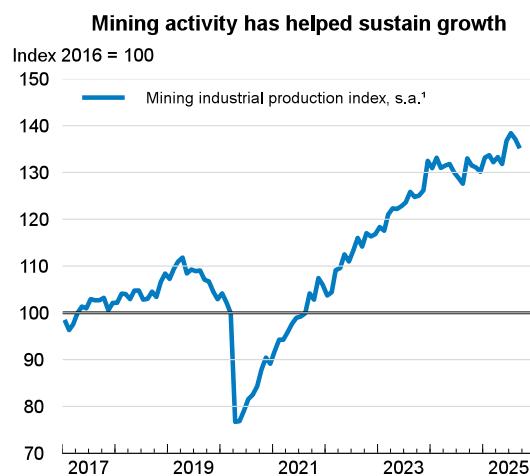
Real GDP growth is projected to be 4.2% in 2025 and 3% in 2026, before picking up again to 3.9% in 2027. Growth will be driven by investment and exports, due to an increasingly business-friendly environment, less burdensome regulations, and a buoyant energy and mining sector. Inflation has been declining and fiscal deficits have been closed, but growth has weakened recently and pressures on the exchange rate have illustrated remaining macroeconomic vulnerabilities and political uncertainty.

Expenditure restraint and higher tax revenues, supported by the economic recovery, have improved fiscal outcomes, but further reforms will be needed to sustain fiscal prudence while boosting potential growth. Reducing tax complexity and broadening tax bases would help to improve fiscal outcomes in the medium-term. Monetary policy should focus on keeping inflation on a declining path. Broad-based growth will hinge on further regulatory reform to strengthen domestic competition and promote international trade, while also expanding the offer of technical and vocational education.

Economic activity has slowed amid uncertainty

Following three quarters of strong growth, real GDP in the second quarter of 2025 declined 0.1% relative to the previous quarter, as domestic demand fell by 0.7%. The main monthly activity indicator decreased for three consecutive months before picking up slightly in August. Consumer confidence remains low, and supermarket sales have declined consistently since April. Despite softer growth, the labour market remains resilient. Real wages continue to recover, though the pace of this recovery has slowed. Despite exchange rate depreciation, annual inflation has picked up only slightly and remained at 31.8% in September.

Argentina



1. The mining industrial production index covers mining of metallic and non-metallic minerals, extraction of natural gas and crude oil, and support services for the extraction of crude oil and natural gas.

Source: INDEC.

Argentina: Demand, output and prices

	2022	2023	2024	2025	2026	2027
Argentina	Current prices ARS billion	Percentage changes, volume (2004 prices)				
GDP at market prices	82 810.0	-1.9	-1.3	4.2	3.0	3.9
Private consumption	54 595.5	1.0	-2.9	6.7	2.1	3.2
Government consumption	13 003.3	2.1	-3.8	0.0	0.8	0.4
Gross fixed capital formation	14 589.3	-2.0	-17.2	22.5	6.6	9.5
Final domestic demand	82 188.2	0.6	-5.8	8.2	2.6	3.8
Stockbuilding ¹	- 192.3	0.0	-1.5	2.5	0.0	0.0
Total domestic demand	81 995.9	0.6	-7.3	10.8	2.7	4.2
Exports of goods and services	13 482.9	-9.5	19.8	2.4	4.8	5.4
Imports of goods and services	12 668.7	1.9	-10.2	29.3	3.5	6.0
Net exports ¹	814.2	-1.8	4.0	-3.3	0.2	-0.1
<i>Memorandum items</i>						
GDP deflator	–	136.7	207.6	36.8	16.7	10.4
Consumer price index ²	–	133.5	219.9	41.7	17.6	10.0
Current account balance (% of GDP)	–	-3.0	0.8	-1.7	-1.0	-0.8

1. Contributions to changes in real GDP, actual amount in the first column.

2. Based on yearly averages.

Source: OECD Economic Outlook 118 database.

StatLink  <https://stat.link/63zxch>

The economic impact of the 10% tariff on Argentina's exports to the United States is expected to remain contained as the U.S. accounts for only 9% of Argentina's exports. The currency has come under pressure recently, prompting currency interventions and slowing the accumulation of international reserves. A recently announced USD 20 billion currency swap with the US Treasury is expected to strengthen Argentina's Central Bank reserves.

Tight monetary and fiscal policies should be maintained

Market-determined interest rates have risen sharply in recent months amid tight control of monetary aggregates. Monetary policy should remain restrictive to lower inflation in a durable manner. The domestic currency is expected to remain volatile amid residual policy uncertainty, but the pass-through from depreciation to inflation appears to have weakened. The government budget is expected to post surpluses in 2025-2027, despite new expenditure measures initiated by the legislative branch and the temporary suspension of agricultural export taxes.

The economic recovery is set to continue

Real GDP is expected to grow by 4.2% in 2025, 3.0% in 2026, and 3.9% in 2027. Growth will be mostly driven by investment, thanks to significant opportunities in the mining and energy sectors, an incentive regime for large investment projects and progress in reducing administrative burdens. Lower export taxes for some agricultural products will continue to support exports. Consumption will lose momentum due to slower real wage growth and high interest rates. Private consumption and investment growth will strengthen in 2027 after a gradual improvement in financial conditions. Lower import tariffs and easier import procedures will support import growth. Balanced public accounts and high real interest rates will contain demand pressures, allowing inflation to continue falling to a projected annual average rate of 41.7% in 2025, 17.6% in 2026 and 10.0% in 2027. Despite significant progress, macroeconomic vulnerabilities remain and expose the economy to potential swings in confidence, as evidenced by recent exchange rate

volatility. Bouts of volatility could return amid low currency reserves, still high inflation and the need for further structural reforms across a wide range of policy areas. A successful continuation of the current reform momentum, however, could lead to stronger than expected improvements in productivity, competitiveness and fiscal sustainability.

Building on recent efforts to improve regulation would boost productivity

Rebuilding international reserves should be a key priority to address remaining vulnerabilities and continue the stabilisation of the economy. Furthermore, a comprehensive tax reform, eliminating the most distortive taxes, reducing tax complexity and broadening tax bases, would help to improve the fiscal position in a sustainable manner while reducing distortions that hold back income growth. Over the last two years regulatory processes have been greatly simplified, and entry barriers have been lowered across many sectors. Further streamlining of business regulations has significant potential to raise productivity, especially by reducing entry barriers in services sectors and lowering administrative burdens for new firms. Continuing to adjust non-tariff trade barriers, including unwarranted technical regulations, can further ease access to foreign inputs. Creating a new independent, well-funded Competition Authority, as set forth in the competition law, is key to strengthen competition, and the selection of senior staff is currently ongoing. Expanding the supply of technical and vocational education, while cooperating with the private sector in the design of training curricula, would enhance workforce skills and facilitate additional productivity improvements.

Australia

Economic growth is now strengthening and becoming more private-sector-driven. GDP growth is projected to quicken to 2.3% in 2026 and 2027, up from 1.8% in 2025. This is consistent with a gradual closing of the small negative output gap, keeping unemployment low while allowing inflation to remain close to target. Risks are balanced, with downside risks from a greater-than-expected softening of labour market conditions while, on the upside, strengthening disposable income dynamics could yield a faster acceleration of private consumption.

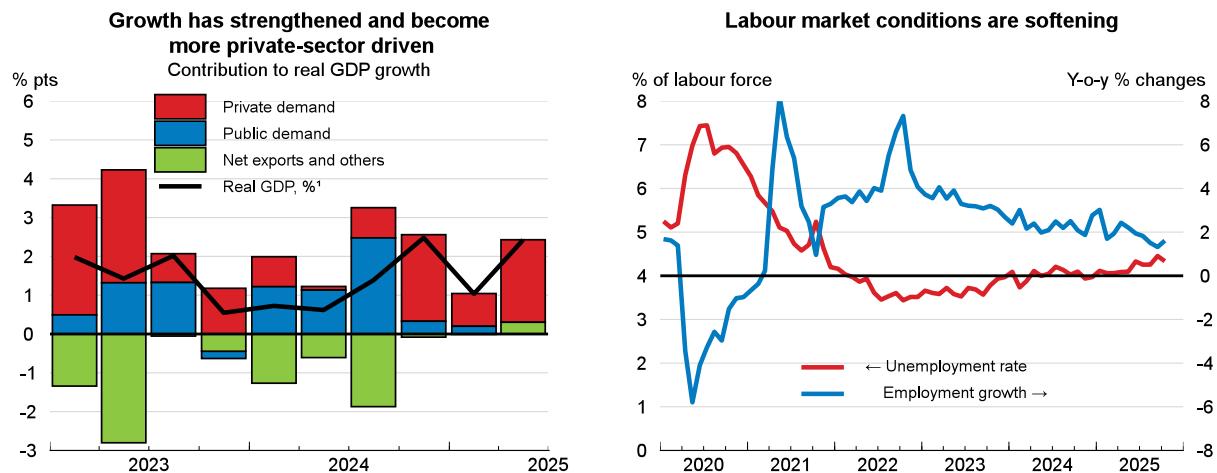
Monetary policy has become less restrictive this year as inflation returned to target, and limited further easing appears warranted despite a recent uptick in inflation. Combined with the planned modest tightening of fiscal policy in 2026-27, this would rebalance the macroeconomic policy mix while avoiding undue stimulus or contractionary impetus. The main fiscal priority is to progressively reduce structural deficits via greater spending control and well-designed revenue increases. Tax and regulatory reforms should be directed at improving competition, removing barriers to house-building and facilitating the net zero transition.

Growth is recovering as household incomes rebound

Year-on-year GDP growth, which bottomed out at 0.8% in the third quarter of 2024, picked up to 1.8% in the second quarter of 2025, with household consumption accounting for most of the improvement. This has yielded a rebalancing of growth from public demand to private, even though business investment has remained sluggish, possibly affected by the increase in uncertainty about external demand given global trade tensions. With interest rates falling this year, household disposable incomes recovering strongly from earlier falls and business sentiment indicators improving, private demand growth is expected to have continued to strengthen in the second half of 2025. Headline inflation fell to below the mid-point of the 2-3% target range in the second quarter, with the central bank's preferred measure of core inflation, the trimmed mean, falling to 2.7%, its lowest level since late 2021. Headline and core inflation both picked up in the third quarter, to 3.2% and 3.0% respectively, but the upturn partly reflects temporary factors and is not expected to represent a turning point. Labour markets have been surprisingly resilient to the growth slowdown over the past two years, but the unemployment rate, while remaining low, has moved up and vacancies continue to fall, while wage growth has slowed.

Sluggish external demand for Australia's main export commodities kept export volumes largely stagnant over the past year and resulted in a further small deterioration in the terms of trade. Growth of imports was modest through the first half of 2025, however, keeping the current account deficit little changed at around 2% of GDP. Notwithstanding international trade disruptions, Australia's main exports have so far remained broadly stable. The recent surge in the gold price will, if sustained, boost the terms of trade and place gold among Australia's largest exports by value.

Australia



1. Quarter-on-quarter annualized rates.

Source: OECD Economic Outlook 118 database; and Australian Bureau of Statistics.

StatLink <https://stat.link/69w5f1>

Australia: Demand, output and prices

Australia	2022	2023	2024	2025	2026	2027	Percentage changes, volume (2022/2023 prices)	
							Current prices AUD billion	
GDP at market prices								
Private consumption	2 483.6	2.0	1.1	1.8	2.3	2.3	1 232.3	2.4
Government consumption			0.7	2.0	2.3	2.3	532.5	1.9
Gross fixed capital formation			2.2	1.1	2.3	2.7	568.1	5.1
Final domestic demand	2 332.9	2.9	2.0	2.0	2.3	2.3		
Stockbuilding ¹	27.2	-0.9	0.1	0.1	0.0	0.0		
Total domestic demand	2 360.1	1.9	2.1	2.1	2.3	2.3		
Exports of goods and services	672.1	6.9	1.0	1.2	3.1	3.0		
Imports of goods and services	548.6	6.7	5.7	2.1	3.4	3.1		
Net exports ¹	123.5	0.4	-1.0	-0.2	0.0	0.0		
<i>Memorandum items</i>								
GDP deflator	—	3.5	2.7	2.4	2.2	2.4		
Consumer price index	—	5.6	3.2	2.7	2.7	2.5		
Core inflation index ²	—	5.4	3.7	2.9	2.6	2.5		
Unemployment rate (% of labour force)	—	3.7	4.0	4.2	4.4	4.5		
Household saving ratio, net (% of disposable income)	—	2.6	3.4	4.6	4.7	4.5		
General government financial balance (% of GDP)	—	-0.8	-2.7	-3.4	-2.8	-2.5		
General government gross debt (% of GDP)	—	55.3	57.6	59.8	61.3	62.3		
Current account balance (% of GDP)	—	-0.2	-1.9	-2.0	-2.2	-2.2		

1. Contributions to changes in real GDP, actual amount in the first column.

2. Data refer to trimmed mean inflation calculated by the Australian Bureau of Statistics, excluding the top and bottom 15% of the distribution of price changes.

Source: OECD Economic Outlook 118 database.

StatLink <https://stat.link/utfxcs>

A rebalancing of macroeconomic policies is in prospect

The Reserve Bank of Australia has cut its policy rate three times this year. With inflation expected to converge on the mid-point of the target range after the recent upturn and labour market conditions continuing to soften, two more policy rate cuts are projected over the coming year. The federal budget switched from surplus to deficit in the 2024-25 fiscal year (July-June), and the deficit is expected to widen by about 1 percentage point of GDP in FY2025-26 before narrowing in FY2026-27. The bulk of the general government deficit is currently at the sub-federal level, with some states facing marked strains, but according to state budgets for FY2025-26, aggregate state deficits will ease over the coming years. The general government deficit should peak in 2025 at around 3½ per cent of GDP before narrowing to about 2½ per cent of GDP in 2027.

Barring shocks, growth should move slightly above potential by 2027

The rebound in real disposable household incomes should be sustained as solid employment growth (largely driven by net immigration) continues, interest rates fall further and real wage growth remains positive. This is expected to underpin annual growth of private consumption of about 2¼ per cent in 2026-27. Stronger domestic demand growth and the further reduction in interest rates should also boost private investment. External demand conditions are projected to improve somewhat, allowing annual export volume growth to pick up to about 3% over 2026-27, but this will be broadly matched by import growth, leaving no net impetus from net exports. GDP growth is projected to be 2.3% in both 2026 and 2027, above estimated potential growth of about 2%, allowing the current small output gap to close. Despite a temporary pick-up in inflation in the second half of 2025, average annual inflation in 2026-27 is projected to be near the mid-point of the target range. Risks to the growth projections are broadly balanced. Downside risks include adverse external shocks, including further trade-restricting measures and possible sharp corrections in financial asset prices, as well as domestic developments such as a greater-than-expected softening of labour market conditions. On the upside, strengthening disposable income dynamics could yield a faster-than-projected acceleration of private consumption, while favourable external demand/terms-of-trade shocks are also possible.

Policies should aim to maintain macroeconomic stability while easing growth constraints

The medium-term fiscal consolidation planned at both federal and state levels will be needed to stabilise public debt ratios around their current levels, and will probably have to be sustained into the 2030s given spending pressures associated with population ageing, defence priorities and the net zero transition. Policies at all government levels to boost urban housing supply – especially via an easing of restrictive land-use regulation – are urgently needed, and these should be part of a broader structural reform effort to reinvigorate productivity growth and improve dynamism, including via strengthened competition. Reducing regulatory fragmentation within Australia's federal system would lower a significant barrier to competition.

Austria

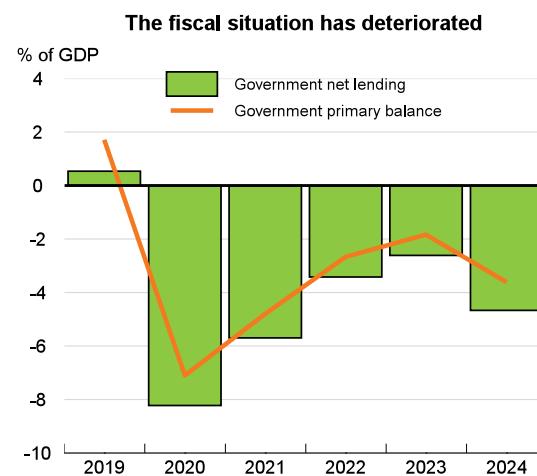
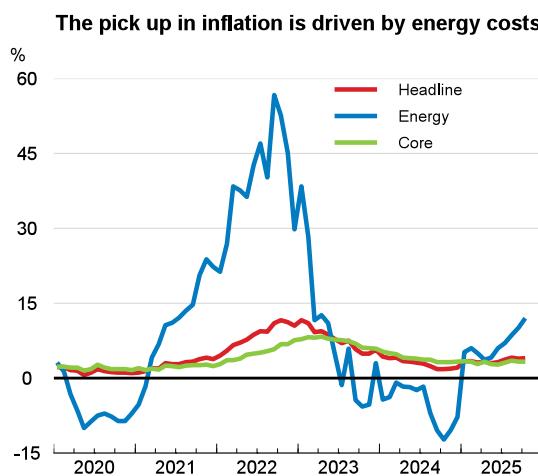
The economy is projected to recover progressively, growing by 0.3% in 2025, 0.9% in 2026 and 1.2% in 2027. Household consumption will pick up in 2026 and 2027, supported by declining inflation, a resilient labour market and lower savings. Investment will rise, driven by lower interest rates and capital replacement needs. Inflation is expected to approach 2% by end-2027. Ongoing fiscal consolidation will weigh modestly on demand, while slower European activity and further tariff shocks could restrain the recovery.

The budget deficit is set to fall gradually. Targeted public investment, despite a tighter fiscal stance, and reforms to boost business dynamism would enhance resilience. Energy policies to reduce high prices would help restore the competitiveness of energy-intensive industries. Accelerating digitalisation by expanding broadband, easing infrastructure regulations and introducing incentives for innovation would further support medium-term growth. Removing unnecessary or duplicative reporting requirements for firms, streamlining procedures, and full digitalisation of permit applications would further reduce red tape and support business dynamism.

Economic activity is picking up

Economic activity contracted by 0.1% in the second quarter of 2025, following a modest 0.2% increase in the first quarter. Growth in the first half of the year was driven by manufacturing output and services. On the demand side, investment led the recovery. In contrast, household consumption remained weak as savings continued to increase. The labour market has remained resilient despite economic weakness. Unemployment rose from 5.7% in the second quarter to 5.9% in August, while employee compensation is growing at a steady pace. Labour supply is expanding modestly due to population ageing, limiting unemployment increases. Inflation remains elevated, reaching 4.0% in October, driven mainly by higher energy, services, and food prices.

Austria



Source: Eurostat; and OECD Economic Outlook 118 database.

StatLink <https://stat.link/diupkh>

Austria: Demand, output and prices

	2022	2023	2024	2025	2026	2027
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
Austria						
GDP at market prices*	449.5	-0.7	-0.8	0.3	0.9	1.2
Private consumption	228.9	-0.2	1.0	0.7	0.9	1.2
Government consumption	92.2	0.8	3.8	2.9	0.4	0.1
Gross fixed capital formation	113.7	-1.4	-4.4	1.7	1.3	1.8
Final domestic demand	434.9	-0.3	0.2	1.4	0.9	1.1
Stockbuilding ¹	17.3	-2.6	-1.3	-0.2	-0.1	0.0
Total domestic demand	452.2	-2.9	-1.1	1.2	0.8	1.1
Exports of goods and services	276.5	-0.2	-2.8	-0.4	1.0	1.7
Imports of goods and services	279.1	-4.0	-2.9	1.6	0.9	1.4
Net exports ¹	-2.6	2.3	0.0	-1.1	0.0	0.2
<i>Memorandum items</i>						
GDP deflator	–	7.2	4.1	2.8	2.4	1.9
Harmonised index of consumer prices	–	7.7	2.9	3.6	2.6	2.2
Harmonised index of core inflation ²	–	7.3	3.9	3.1	2.6	2.2
Unemployment rate (% of labour force)	–	5.1	5.2	5.8	5.7	5.7
Household saving ratio, net (% of disposable income)	–	8.6	11.7	11.5	11.6	11.4
General government financial balance (% of GDP)	–	-2.6	-4.7	-4.5	-4.4	-4.1
General government gross debt (% of GDP)	–	86.2	88.2	90.7	92.8	94.7
General government debt, Maastricht definition ³ (% of GDP)	–	77.7	80.0	82.4	84.5	86.4
Current account balance (% of GDP)	–	1.6	1.5	1.1	0.8	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.

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 118 database.

StatLink  <https://stat.link/65v3q4>

Austria is a very open economy, with around two-thirds of its trade occurring within the European Union, where it is deeply integrated into regional value chains. New US tariffs on EU goods are expected to have a significant impact on Austrian exports. The United States accounts for about 8% of goods exports, but higher tariffs will also affect Austria indirectly through trade with other European partners. Around 21% of Austrian exports are inputs to foreign partners' exports. High energy prices continue to hinder competitiveness and production. Electricity prices for industrial use remain 40% above their level before Russia's war of aggression against Ukraine. Although natural gas prices have declined since 2022, they are still elevated. Industrial energy prices have increased more than in most other EU countries.

A gradual fiscal consolidation is under way

Ongoing fiscal consolidation aims to reduce the budget deficit from 4.7% of GDP in 2024 to below 3% by 2028 and bring back debt in a sustainable path. The deficit is projected to narrow to 4.5% in 2025 and 4.4% in 2026. Government revenues are expected to grow strongly in 2025 and 2026, outpacing nominal GDP growth, supported by a stable labour market and a range of revenue raising measures, including energy and banking sector levies, higher dividend taxes and higher health contributions from pensions. Spending will increase, but at a lower pace than GDP due to targeted spending cuts and moderate revenue increases of 1.3% of GDP in 2025 and 1.9% of GDP in 2026, mainly affecting current transfers to households, pensions, environmental and economic subsidies, and ministerial budgets. The consolidation plan beyond 2026 is not yet available and fiscal policy is assumed to be mildly restrictive in 2027.

The recovery is poised to strengthen gradually

Economic activity is projected to grow by 0.3% in 2025, strengthening to 0.9% and 1.2% in 2026 and 2027, respectively. Household consumption is expected to recover gradually as real wages rise and inflation declines, while improved economic prospects should allow households to reduce savings. Lower interest rates and capital replacement needs will support a rebound in private investment from 2026. Trade growth will remain modest due to broader regional conditions but should benefit in 2027 from higher government spending in Germany. Inflation is projected to decline steadily in 2026 and 2027 as the impact of energy support withdrawal fades. Risks are tilted to the downside. Persistently high energy prices could further weaken energy-intensive industries, while additional tariff increases or a more prolonged automotive sector crisis in Germany could undermine growth. Further fiscal consolidation may dampen activity more than expected, weighing on the recovery.

Public finance reforms are needed to ensure long-term sustainability

Beyond ongoing fiscal consolidation, further public finance reforms will be necessary to address rising pressures from population ageing, climate change and defence needs. Bold reforms of the pension system and social benefits are essential to ensure financial sustainability while maintaining the adequacy of the pension level. Boosting business dynamism by accelerating digitalisation through broadband expansion, reducing administrative burdens and lowering energy costs would further support medium-term growth. Reducing regulatory barriers—such as cutting red tape and lowering entry barriers in targeted sectors, particularly professional services—would strengthen competitiveness and boost business investment. Easing land-use regulations and removing other constraints in the housing market would improve supply and stimulate construction investment. Creating a more integrated and competitive energy supply market by having suppliers compete on a national basis instead of in the Länders, with more transparent and comparable contracts, would help lower energy prices and boost competitiveness.

Belgium

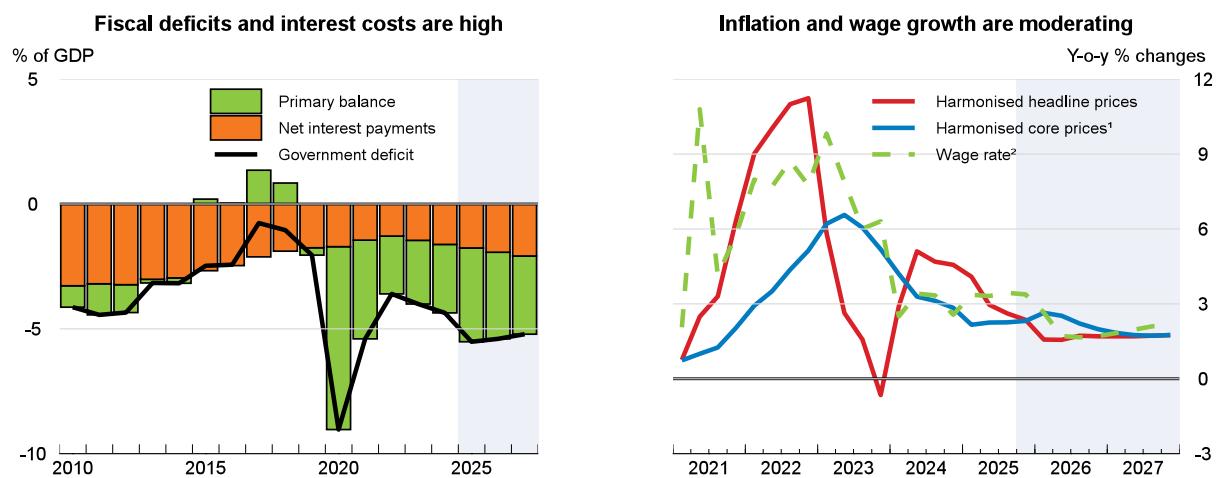
GDP growth is expected to remain modest, at 1.1% in 2026 and 1.2% in 2027. Household consumption is set to slow with the easing of income growth. Slowing global trade growth and policy uncertainty will weigh on exports and business investment. Disinflation will continue, pushing inflation below 2% in 2026 and 2027. Slow fiscal consolidation could increase debt servicing costs, while the increase in defence spending of NATO countries could boost the Belgian defence industry.

Stabilising the debt-to-GDP ratio and strengthening the fiscal framework remains a priority. Fiscal consolidation will resume in 2026. Shifting the tax burden away from labour and removing work disincentives could help increase employment and economic growth. Reducing regulatory burdens and the associated costs for businesses could additionally stimulate investment.

Economic growth is stable

GDP growth has been stable, at 0.3% in the third quarter of 2025. The weakness in exports and housing investment continued in the first half of the year. Private consumption moderated but remained the main growth driver, supported by disposable income growth. Business and consumer confidence rose in the third quarter. The number of building permits declined, and confidence in construction has been weak. The unemployment rate declined slightly from its March 2025 peak of 6.2% to 5.9% in September. Disinflation has continued, on the back of falling energy prices and slower wage growth, with headline inflation at 2.5% and core inflation at 2.6% in October, but services inflation remained sticky (3.7% in October).

Belgium



1. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

2. The nominal wages are divided by the number of dependent employments for the total economy. Projections since the third quarter of 2025.

Source: OECD Economic Outlook 118 database.

Belgium: Demand, output and prices

	2022	2023	2024	2025	2026	2027
	Current prices EUR billion	Percentage changes, volume (2020 prices)				
Belgium						
GDP at market prices	561.3	1.7	1.1	1.1	1.1	1.2
Private consumption	289.7	1.1	2.0	1.9	1.1	0.9
Government consumption	131.6	2.7	1.8	1.0	1.0	0.5
Gross fixed capital formation	134.3	3.1	2.0	-1.1	1.1	1.4
Final domestic demand	555.6	1.9	2.0	0.9	1.1	0.9
Stockbuilding ¹	18.8	-0.8	-0.5	0.4	0.0	0.0
Total domestic demand	574.4	1.1	1.4	1.4	1.1	0.9
Exports of goods and services	530.0	-7.2	-1.7	-0.4	1.1	2.2
Imports of goods and services	543.1	-7.6	-1.3	0.0	1.1	1.8
Net exports ¹	-13.1	0.6	-0.3	-0.3	-0.1	0.3
<i>Memorandum items</i>						
GDP deflator	—	5.5	1.9	2.4	1.5	1.8
Harmonised index of consumer prices	—	2.3	4.3	3.0	1.6	1.7
Harmonised index of core inflation ²	—	6.0	3.4	2.2	2.3	1.8
Unemployment rate (% of labour force)	—	5.5	5.7	6.0	6.0	5.9
Household saving ratio, net (% of disposable income)	—	7.7	6.4	6.5	6.3	6.2
General government financial balance (% of GDP)	—	-4.0	-4.4	-5.5	-5.4	-5.2
General government gross debt (% of GDP)	—	104.4	103.9	106.4	109.5	111.9
General government debt, Maastricht definition ³ (% of GDP)	—	102.4	103.9	106.4	109.5	111.9
Current account balance (% of GDP)	—	0.2	-0.4	-1.4	-1.2	-0.8

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 118 database.

StatLink  <https://stat.link/urpo7d>

Belgium is a very open economy, exposed to trade shocks. The United States is a major trading partner, accounting for almost 8% of Belgian goods exports in 2024. More than half of the goods exports to the United States are pharmaceuticals followed by machinery, other chemicals and vehicles. Only a small part of pharmaceuticals are generic medicines exempt from the US tariffs on imports from the European Union. Past wage increases have eroded Belgium's price competitiveness, making the country more vulnerable to a trade slowdown.

Fiscal consolidation is needed but has been slow

Consolidation has been delayed by political uncertainty. The primary budget deficit is projected to rise in 2025 to 3.8% of GDP, partly due to a planned increase in defence spending (from 1.3% in 2024 to 2% of GDP by 2026). The projections assume a structural primary balance improvement of 0.5% of GDP in both 2026 and 2027. Stronger consolidation efforts will be needed to bring the general government deficit to 3% of GDP by 2029, as originally envisaged. Consequently, the debt ratio is expected to rise to 111.9% of GDP by 2027. Policy measures already approved, intended to lift employment, include a cap on employer's social security benefits and on the maximum duration of unemployment benefits at 2 years from 2026. In addition, the increase of statutory pension age from 65 to 66 in 2025 is expected to raise labour force participation of older workers.

Trade uncertainty, wage moderation and consolidation will weigh on growth

Economic growth is projected to remain subdued, at 1.1% in 2026 and 1.2% in 2027. Wage growth will moderate due to a mechanism restricting wage growth beyond inflation to preserve price competitiveness, leading to softening private consumption growth. Global trade uncertainty will weigh on investment, which will pick up only slowly over the next two years. Exports will recover gradually as foreign demand strengthens and price competitiveness improves. Labour force and employment growth are expected to persist, supported by policy measures, though at a slower pace than in previous years. Disinflation will continue, with headline inflation falling below 2% in 2026 as wage growth moderates. Core inflation will decline more gradually, due to persistent services inflation. Given the sizeable debt, delaying consolidation could lead to higher debt servicing costs. Conversely, increased European defence expenditure could potentially benefit the Belgian defence industry and modestly boost exports.

Structural reforms are needed to bring down debt and revive the economy

High public debt and growing spending pressures call for credible medium-term fiscal consolidation that prioritises spending efficiency, especially in healthcare, long-term care and pensions. Binding expenditure rules for federal and regional governments, and ensuring budgetary coordination between government levels are essential for fiscal discipline. Shifting the tax burden away from labour and removing work disincentives could boost employment rates and help address labour shortages. Burdensome regulations, exacerbated by interregional regulatory differences, impose significant costs on businesses. Adopting a whole-of-government approach to reduce administrative costs for businesses, streamlining entry requirements in professional services and insolvency procedures could foster business dynamism and investment.

Brazil

Real GDP is projected to grow by 2.4% in 2025, before moderating to 1.7% in 2026, and rebounding to 2.2% in 2027. Domestic demand will be the main driver of growth. Private consumption will be supported by continued job creation and strong wage growth. High interest rates and global policy uncertainty will continue to weigh on investment in 2026, and higher tariffs on many exports to the United States, if maintained, will eventually weigh on exports. Inflation is expected to ease gradually, remaining above target but within the upper bound of the tolerance band from the second quarter of 2026.

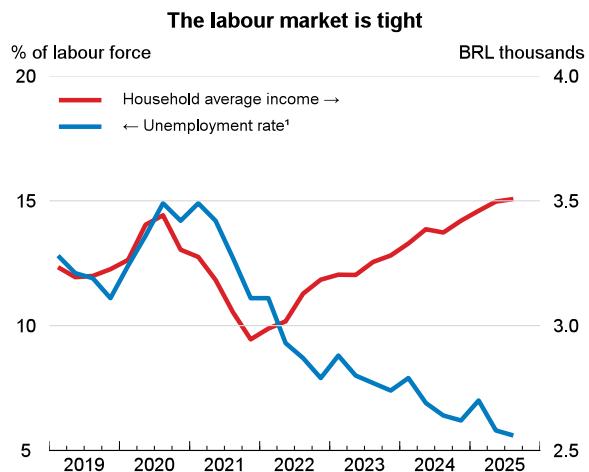
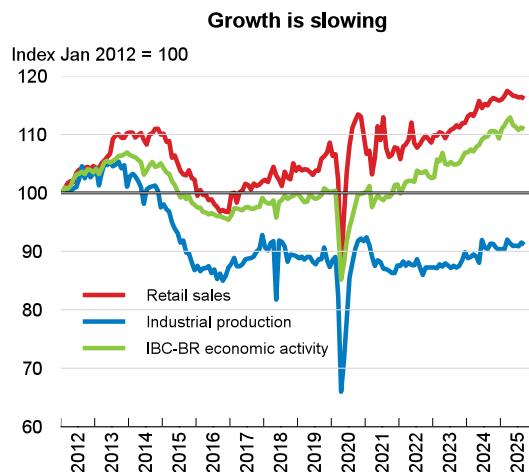
Meeting fiscal targets will be key to maintaining public debt on a sustainable path, reducing inflationary pressures and strengthening confidence. This will require additional efforts to identify durable consolidation measures, including on the expenditure side, and more structural fiscal reforms to reduce budget rigidities. Monetary policy will remain tight amid persistent inflationary pressures but is expected to ease gradually from 2026. Structural reforms to remove regulatory bottlenecks in professional services, network industries and digital markets will be crucial to boost productivity and long-term growth.

Growth is losing momentum

The economy recorded solid growth in the first half of 2025, particularly in the first quarter. A strong harvest boosted agricultural output, which is expected to record an annual increase of 17% in 2025. However, recent indicators point to a gradual loss of overall growth momentum in the second half of the year, with the monthly economic activity index falling by 1.8% since April. Retail sales and industrial output saw modest monthly gains in August, after four consecutive months of contraction, before declining again in September. Services output stagnated in August, following strong momentum earlier in the year. Business sentiment has weakened, with the confidence index falling by over 9% in the past year. In contrast, the labour market remains resilient. Unemployment stood at 5.6% in the third quarter of 2025, marking a historic low, while real household earnings grew by 3.3% year-on-year.

After peaking at 5.5% in April, headline inflation eased to 4.7% in October, amid a reduction in residential electricity bills. Residential electricity prices —up 16% since the beginning of the year— have been a major driver of inflation, alongside food and beverages, and services. The impact of high effective US tariffs of over 30% on imports from Brazil has so far been limited, as a strong agricultural harvest and a successful diversification of export markets have mitigated the tariff impact for now.

Brazil 1



1. Moving quarterly data.

Source: CEIC; Banco Central do Brasil; IBGE; and OECD calculations.

StatLink <https://stat.link/d8hscv>

Brazil: Demand, output and prices

Brazil	2022	2023	2024	2025	2026	2027	Current prices	Percentage changes, volume	
							BRL billion	(2000 prices)	
GDP at market prices									
Private consumption	10 079.7	3.2	3.4	2.4	1.7	2.2	6 356.7	3.3	4.8
Government consumption	1 854.9	3.8	1.9	0.0	0.8	1.3	1 794.2	-2.9	7.2
Gross fixed capital formation	1 794.2	-2.9	7.2	3.3	1.2	3.7	10 005.8	2.3	4.6
Final domestic demand	10 005.8	2.3	4.6	1.7	1.6	2.3	29.0	-0.9	0.5
Stockbuilding ¹	29.0	-0.9	0.5	1.4	0.0	0.0	10 034.8	1.3	5.2
Total domestic demand	10 034.8	1.3	5.2	3.2	1.6	2.3	1 978.7	8.9	2.2
Exports of goods and services	1 978.7	8.9	2.2	2.3	0.9	2.2	1 933.8	-1.1	13.6
Imports of goods and services	1 933.8	-1.1	13.6	6.5	0.5	2.3	44.9	2.0	-1.7
Net exports ¹	44.9	2.0	-1.7	-0.7	0.1	0.0	—	—	—
<i>Memorandum items</i>									
GDP deflator	—	5.2	3.8	5.5	5.0	4.6	—	—	—
Consumer price index	—	4.6	4.4	5.1	4.2	3.8	—	—	—
Private consumption deflator	—	4.9	3.8	6.0	5.1	4.9	—	—	—
Government financial balance ² (% of GDP)	—	-7.7	-6.2	-6.2	-6.5	-6.4	73.8	76.5	77.7
Government gross debt ² (% of GDP)	—	73.8	76.5	77.7	80.1	82.2	—	—	—
Current account balance (% of GDP)	—	-1.2	-3.1	-3.3	-2.7	-2.4	—	—	—

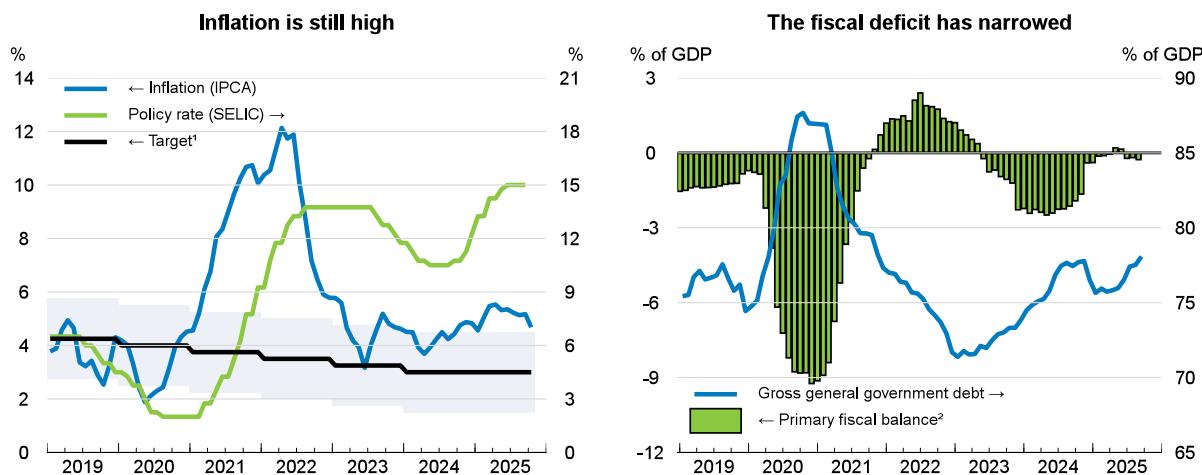
1. Contributions to changes in real GDP, actual amount in the first column.

2. Data refer to general government.

Source: OECD Economic Outlook 118 database.

StatLink <https://stat.link/2uqwjz>

Brazil 2



1. The shaded area corresponds to the inflation tolerance band.

2. Flows accumulated in 12 months.

Source: OECD Economic Outlook 118 database; and Banco Central do Brasil.

StatLink  <https://stat.link/iph1nm>

Monetary policy is tight and additional fiscal consolidation is likely

The Central Bank has continued to tighten monetary policy amid persistently high inflation, raising the key policy rate to 15% in July 2025, from 11½% in November 2024. A tight labour market, robust wage growth and a sizeable fiscal deficit are fuelling inflationary pressures. Inflation expectations of 4.2% for 2026 and 3.8% for 2027 remain above the Central Bank's inflation target mid-point of 3%. From 2026 onward, inflationary pressures are projected to ease as demand weakens. This will allow the policy rate to decline gradually towards 10% per cent by the end of 2027.

Additional fiscal consolidation is needed to meet the government's fiscal targets. The fiscal framework has set a balanced primary target for 2025, followed by surpluses of 0.25% and 0.5% in 2026 and 2027, respectively, with a tolerance band of 0.25 percentage points. The projections assume that these targets are met, but are subject to risks, as achieving this outcome depends on revenue measures still awaiting congressional approval, and the successful implementation of other consolidation measures. A recently approved income tax reform is designed to be revenue-neutral. Meanwhile, automatic indexation of social benefit spending and minimum spending requirements on other budget items continue to strain the budget and erode fiscal space, crowding out public investment. Gross public debt, currently at 77.7% of GDP, is projected to rise further, reflecting higher interest costs.

Growth will moderate

Economic growth is projected to ease on the back of weaker domestic demand and a more challenging outlook for exports. Private consumption, boosted by rising wages and strong employment, will support domestic demand, but face headwinds from high inflation. After several years of robust expansion, private investment is expected to weaken due to elevated interest rates and increased uncertainty. Higher US tariffs will weigh on Brazilian exports, if maintained, though Brazil will benefit from strong agricultural output

and rising food prices this year. Inflation is projected to be 5.1% in 2025, before declining to 4.2% in 2026 and 3.8% in 2027 as demand weakens.

The outlook is subject to several risks. Above-target inflation expectations harbour risks that could delay the start of monetary policy easing, slowing domestic demand. A failure to comply with fiscal targets could undermine confidence in medium-term fiscal prospects and dampen investment. Heightened global uncertainty and weaker demand from China would adversely affect Brazilian exports and growth prospects. On the upside, real income gains and easing financial conditions could lead to stronger than expected private consumption, and investment in sustainability-focused projects could exceed expectations amid recent policy efforts to promote blended-finance instruments.

Regulatory reforms would boost productivity growth

Structural fiscal reforms, including to public expenditure, are needed to help meet fiscal targets over the next few years, safeguard debt sustainability and strengthen confidence. The scope for raising the efficiency of public expenditures should be explored across a wide range of spending areas, including social benefits, while a systematic review of tax expenditures could also help to improve fiscal outcomes. Greater flexibility in public spending is needed to better align budget policy priorities with long-term investment needs. Lowering non-wage labour costs could help to reduce labour informality and provide better jobs, and improving access to early-childhood education and vocational education would improve labour market opportunities across different socio-economic groups. Similarly, strengthening active labour market policies and access to training would help to bridge the skills gap. Although past reforms have trimmed unnecessary bureaucracy, and the 2025 consumption-tax reform will reduce compliance costs for businesses, Brazil would benefit from further aligning regulatory policies affecting product markets and services to international best practices. Reducing regulatory burdens and licensing requirements would strengthen competition, foster innovation and boost productivity. This includes easing entry restrictions in professional services, notably for lawyers and accountants, and abolishing exclusive rights for certain ancillary tasks, which could lower the cost of doing business. Moreover, lowering existing trade barriers, including in the context of new bilateral trade agreements, could open new export opportunities, improve access to intermediate inputs and strengthen competitiveness. Reviewing non-tariff trade barriers, including local content requirements, could also strengthen global trade integration. Brazil has made significant progress in tackling climate-change challenges, including by reining in illegal deforestation over recent years, and building on this progress will be important to make growth more sustainable.

Bulgaria

Economic growth will remain strong, at 3.0% in 2025, before moderating to 2.6% in 2026 and 2.4% in 2027. Household and government consumption will continue to drive growth. Investment will be supported by remaining EU fund disbursement and improved confidence linked to euro adoption in 2026. Export growth will track demand in key European markets. Headline inflation has risen due to wage pressures, restored VAT rates and higher utility prices but will moderate as wage growth slows. Persistent wage increases, however, could delay disinflation.

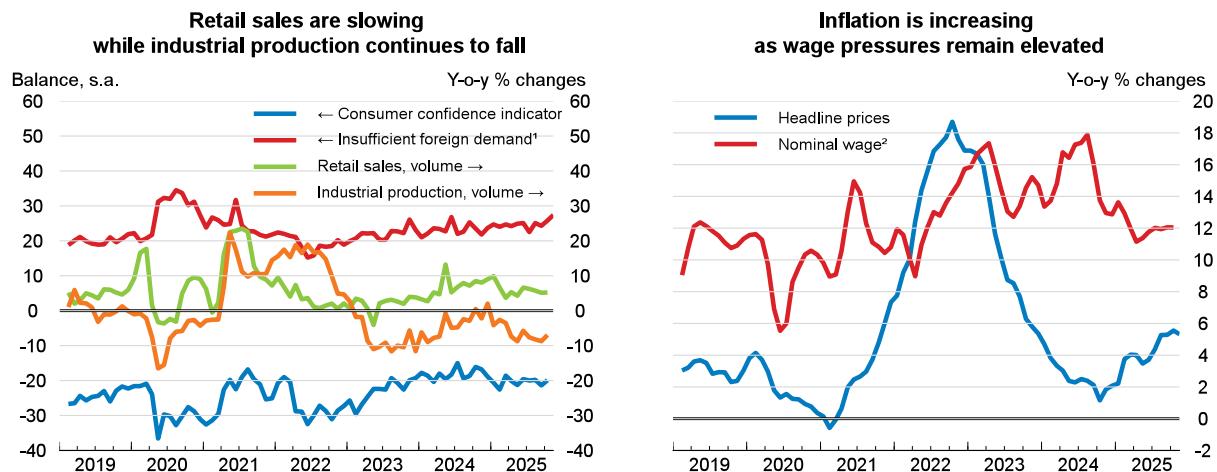
Strong increases in pensions, public sector salaries, social transfers and investment spending, but weaker-than-planned revenues may require spending adjustments to maintain the budget deficit within EU limits. A moderate fiscal consolidation and more emphasis on growth-enhancing spending would help reduce inflationary pressures and support economic growth. Structural reforms to streamline renewable energy development and grid access permit procedures, business registration, licencing and utility connections would accelerate the green transition and improve the business climate.

Economic growth has strengthened

Annual GDP growth reached to 3.2% in the third quarter of 2025 according to the flash estimate. Private and government consumption remain the key drivers, supported by rising real incomes, including public sector wages, particularly in security and defence, credit and social transfers growth. Consumer confidence remains high, and retail sales continue to grow albeit at a slower pace. Investment growth has strengthened, with the implementation of EU projects gaining pace after the formation of a new government. The unemployment rate has fallen to 3.4%, reflecting continued job creation amid strong economic growth. Annual headline CPI inflation reached to 5.3% in October, reflecting wage-driven cost pressures and strong demand, underpinned by a tight labour market and indexation of minimum wages and pensions, restored VAT rates, and higher utility prices. With labour costs rising faster than productivity, the pass-through from wages to prices has strengthened.

Annual industrial production growth has continued to contract in 2025, though it showed a slight improvement in September. Confidence remains subdued, and an increasing number of firms report insufficient foreign demand. Export growth has been held back by weak demand in key markets, particularly Germany. Import growth has turned negative despite strong consumption and investment growth, with a rundown of inventories accumulated since mid-2024. Recent global trade policy changes, including higher US import tariffs on EU goods, will have a modest indirect impact, mainly through weaker EU demand, given Bulgaria's limited direct trade linkages with the United States.

Bulgaria



1. Insufficient Foreign Demand indicator represents the percentage of industrial firms reporting weak or insufficient external demand as a limiting factor to their production growth.

2. 3-month moving average.

Source: NSI; and Eurostat.

StatLink  <https://stat.link/gcifyh>

Bulgaria: Demand, output and prices

	2022	2023	2024	2025	2026	2027
Bulgaria	Current prices BGN billion	Percentage changes, volume (2020 prices)				
GDP at market prices						
Private consumption	168.4	1.7	3.4	3.0	2.6	2.4
Government consumption	97.5	1.1	4.9	6.7	3.0	2.3
Gross fixed capital formation	30.8	1.1	3.6	8.2	4.4	3.3
Final domestic demand	28.6	10.2	1.5	7.0	4.7	3.5
Stockbuilding ¹	156.9	2.7	4.0	7.0	3.7	2.7
Total domestic demand	9.6	-4.6	0.8	-0.6	-0.2	0.0
Exports of goods and services	166.5	-2.2	4.8	6.3	3.3	2.7
Imports of goods and services	117.8	0.0	1.8	-3.1	1.8	2.2
Net exports ¹	115.9	-5.5	3.9	2.1	2.7	2.7
Memorandum items	1.9	3.8	-1.2	-2.9	-0.5	-0.3
GDP deflator	—	8.0	7.2	5.0	5.5	2.5
Consumer price index	—	9.5	2.4	3.8	2.7	2.4
Core consumer price index ²	—	8.9	3.1	2.8	2.8	2.4
Unemployment rate (% of labour force)	—	4.3	4.2	3.5	3.5	3.5
Household saving ratio, net (% of disposable income)	—	-2.2	0.4	0.6	0.5	0.5
General government financial balance (% of GDP)	—	-2.0	-3.0	-3.0	-3.0	-3.0
General government gross debt (% of GDP)	—	32.2	32.6	34.1	35.5	37.4
General government debt, Maastricht definition ³ (% of GDP)	—	22.9	23.8	25.4	26.7	28.6
Current account balance (% of GDP)	—	-0.9	-1.6	-4.4	-4.5	-4.4

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 118 database.

StatLink  <https://stat.link/8vebfy>

Fiscal consolidation is set to occur

Lower-than-planned VAT revenue collection may leave limited fiscal room to implement all spending plans as intended. Given spending commitments on civil servant salaries, pensions and social benefits, capital expenditure may be reduced to maintain the budget deficit within the EU's 3% GDP ceiling. Fiscal consolidation is projected over 2026-2027, curbing growth in current spending on public sector wages and social benefits alongside reductions in capital expenditure. Under NATO commitments, defence spending will increase to 5% of GDP by 2035. The European Commission has authorised Bulgaria to temporarily exceed the 3% deficit threshold until 2028 under the exceptional circumstances clause, expected to be used from 2026 onwards. The withdrawal of energy subsidies for business in sectors such as hospitality and personal services from July 2025 could add short-term upward inflationary pressures. Monetary conditions remain broadly aligned with the euro area, but high banking sector liquidity and intense competition keep interest rates for consumer loans below euro area averages and support credit growth. Following euro area accession in 2026, liquidity may increase further as minimum reserve requirements will fall from 12% to 1%, potentially requiring stricter macroprudential measures. Greater liquidity, combined with improved investor confidence, could support investment lending.

Growth is set to moderate

Growth is projected to remain strong at 3.0% in 2025 before moderating in 2026 and 2027. Household and government consumption growth will continue to support demand but to a lesser extent as wage and social transfers growth eases. Investment growth will moderate after a temporary increase due to faster implementation of EU projects ahead of the August 2026 Recovery and Resilience Facility (RRF) deadline and be supported by remaining RRF fund disbursements and improved investor confidence following euro adoption. This has already been reflected in an improved credit rating and narrower sovereign spreads. Export demand will be subdued due to weakness in key export markets, while import growth will track domestic demand. Slower domestic demand growth will help annual headline inflation ease to 2.4% in 2027, though risks are tilted to the upside. While euro–leva dual pricing and price monitoring will help mitigate rounding-up risks in the near term, stronger-than-expected wage growth could further boost consumption and delay disinflation.

Prudent fiscal policy and structural reforms are needed

A moderate fiscal consolidation, combined with a stronger focus on growth-enhancing public investment in education and infrastructure, measures to attract Bulgarian emigrants to return and labour market activation would help contain inflationary pressures, address long-term pressures from population ageing, create space for spending on the green transition and defence, and boost economic growth. Streamlining lengthy and complex permit requirements for renewable energy installations and grid access with a digital one-stop-shop would accelerate the green transition. Improving the business environment by simplifying and digitising procedures for business registration, licencing and utility connections would lower the cost of doing business and attract more capital, domestic and foreign.

Canada

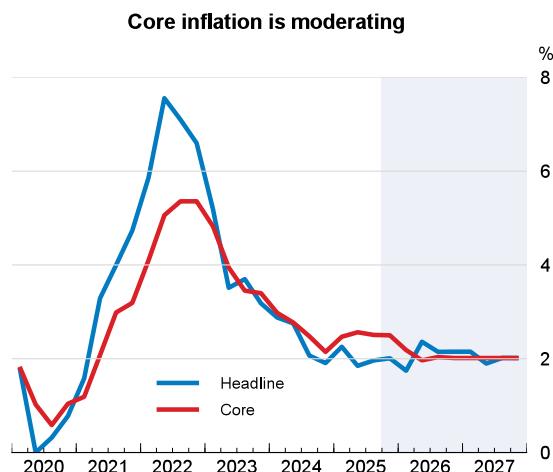
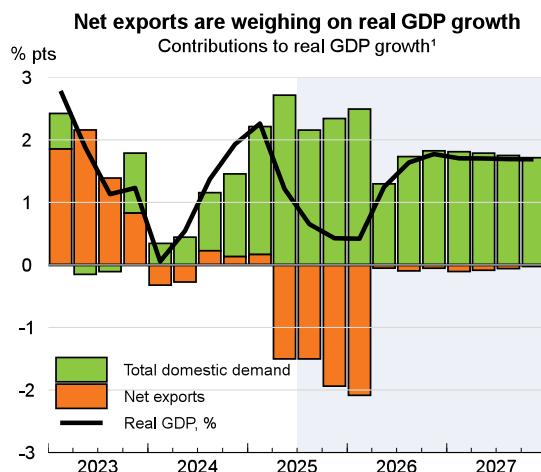
GDP growth is projected to strengthen over 2026 and 2027, reaching 1.3% and 1.7% respectively, as the economy recovers from the trade slowdown in 2025 following higher US tariffs. A rebound in trade is expected to support a gradual pickup in business investment, while household consumption picks up as uncertainty fades. Headline inflation is expected to remain close to 2%, with a temporary uptick in 2026 as the downward impact of the fuel charge removal disappears. Core inflation is projected to continue moderating, reflecting lower wage growth and a widening output gap.

With inflation pressures easing, the Bank of Canada has resumed rate cuts, but no further cuts are expected at this stage. Fiscal policy has become more accommodative, reflecting targeted support for sectors most affected by tariffs, broader tax reductions and increased defence and infrastructure spending. A key policy priority remains strengthening Canada's weak productivity growth by fostering investment, promoting innovation, and advancing digitalisation.

Economic activity has moderated amid headwinds from higher tariffs

Real GDP contracted by 0.4% in the second quarter of 2025, following solid growth in the first quarter (+0.5%). The downturn was driven by sharp declines in exports and business investment, as tariffs on trade with the United States took effect. Strong household consumption growth, supported by a marked decline in the savings ratio, and inventory accumulation provided some offsetting support to GDP. Residential investment also rebounded after a previous decline. Leading indicators suggest continued weakness in the third quarter. Business and consumer confidence remain subdued, despite a slight recovery from mid-year lows. The labour market has weakened alongside the broader slowdown, with unemployment reaching 6.9% in October 2025. Headline inflation stood at 2.2% in October 2025. Upward price pressures from tariffs on headline inflation are being offset by excess supply and the removal of the federal fuel charge. Core inflation rose to 2.7%.

Canada 1



1. Year-on-year growth rates.

Source: OECD Economic Outlook 118 database.

Canada: Demand, output and prices

	2022	2023	2024	2025	2026	2027
Canada	Current prices CAD billion	Percentage changes, volume (2017 prices)				
GDP at market prices	2 861.4	1.8	1.0	1.1	1.3	1.7
Private consumption	1 552.2	1.2	1.7	2.5	1.3	1.4
Government consumption	581.0	3.0	3.2	2.9	2.7	2.1
Gross fixed capital formation	661.3	-1.4	-1.4	0.2	1.6	2.4
Final domestic demand	2 794.5	1.0	1.3	2.1	1.7	1.7
Stockbuilding ¹	50.7	-0.7	-0.5	0.2	0.2	0.0
Total domestic demand	2 845.2	0.3	0.8	2.3	1.8	1.7
Exports of goods and services	967.7	5.0	0.6	-3.7	-0.7	2.7
Imports of goods and services	951.5	0.3	0.7	0.0	1.1	2.7
Net exports ¹	16.2	1.6	-0.1	-1.2	-0.6	-0.1
<i>Memorandum items</i>						
GDP deflator	—	1.3	3.1	2.4	1.9	1.9
Consumer price index	—	3.9	2.4	2.0	2.1	2.0
Core consumer price index ²	—	3.9	2.6	2.5	2.0	2.0
Unemployment rate (% of labour force)	—	5.4	6.4	6.9	6.9	6.5
Household saving ratio, net (% of disposable income)	—	3.6	5.9	4.9	4.2	4.2
General government financial balance (% of GDP)	—	0.1	-2.0	-1.9	-2.3	-1.9
General government gross debt (% of GDP)	—	103.4	107.8	109.7	110.1	110.0
Current account balance (% of GDP)	—	-0.6	-0.5	-2.0	-2.5	-2.6

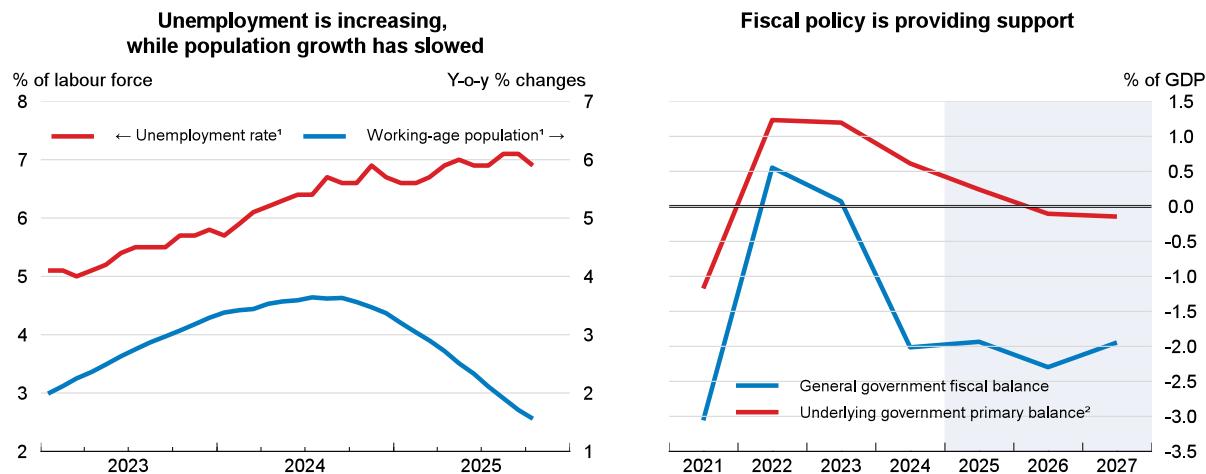
1. Contributions to changes in real GDP, actual amount in the first column.

2. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 118 database.

StatLink  <https://stat.link/u5xg9s>

Canada 2



1. Refers to population aged 15 years and over.

2. As percentage of potential GDP.

Source: Statistics Canada; and OECD Economic Outlook 118 database.

StatLink  <https://stat.link/w8zodi>

The Canadian economy has slowed due to higher US tariffs, reflecting the depth of bilateral trade linkages. Nonetheless, signs of resilience have emerged, and the contraction appears broadly contained. Canada removed most retaliatory tariffs in September 2025, except on steel, aluminium, copper and US-sourced automotive content, which is expected to ease inflationary pressures and further limit the drag on economic activity. US tariff rates rose to 35% in August 2025 (up from 25%) for non-energy goods outside the United States-Mexico-Canada Agreement (USMCA). However, effective USMCA compliance has increased over recent months, with around 80% of Canadian exports now benefiting from preferential tariff-free treatment. A slightly higher oil price should also provide modest support to the Canadian economy.

Macroeconomic policies are set to ease as growth slows and inflation remains around target

The Bank of Canada lowered interest rates between June 2024 and March 2025 as inflation approached its 2% target. Rate cuts were then paused amid tariff-related uncertainty, before two further 25 basis point cuts to 2.25% were implemented in September and October 2025. These cuts reflect subsidizing inflationary impacts from tariffs, following the removal of most of the retaliatory tariffs, and a broader easing of underlying price pressures. The policy rate is expected to remain unchanged at its current level. The pass-through from lower policy rates to bank lending rates has advanced, and its effects on the real economy are expected to become more visible in 2026, as uncertainty diminishes.

The general government budget balance had a deficit of 2.0% of GDP in 2024, driven by a one-off compensation payment (0.7% of GDP), higher interest payments and increased discretionary spending, particularly on social programmes and affordable housing. The expiry of the 2024 one-off payment (for those harmed by underfunding of First Nations Child and Family Services) will slightly reduce the headline deficit in 2025, which is partly offset by a deteriorating underlying balance due to fiscal support for sectors most affected by tariffs and broader tax cuts. A sustained increase in defence spending of about 0.2% of GDP will also weigh on the fiscal balance. Some further mild easing is expected in 2026, driven partly by higher infrastructure investment, while a more neutral stance is projected for 2027.

Activity is poised to recover from the trade-induced slowdown

A gradual recovery is expected to begin in late 2025 and continue through 2026, as the economy adjusts to the new trade environment and uncertainty diminishes. Exports should rebound from the lower 2025 levels as the highest-tariffed sectors adjust, supporting a gradual pickup in business investment. Household consumption is projected to expand only modestly in the latter half of 2025 due to weaker income prospects before firming again in 2026 and 2027 as incomes strengthen. Residential investment is set to gather momentum in 2026, supported by housing support measures and lower lending rates. The labour market is expected to improve gradually over 2026 and 2027. Headline inflation is projected to remain close to 2%, with a slight uptick in the second quarter of 2026 as the dampening effect of the federal fuel charge removal disappears. Core inflation is expected to moderate further to 2%, reflecting subdued wage growth and a widening output gap.

Risks to the outlook are broadly balanced. A renewed rise in trade uncertainty could delay the recovery in business investment and exports. A sharper-than-expected deterioration in labour market conditions, driven by a stronger impact from trade, would weigh on household incomes and dampen domestic demand. On the upside, household consumption and residential investment could outperform expectations, particularly if households draw more heavily on accumulated savings. Overall, uncertainty remains elevated, notably due to the unclear trajectory of US tariffs and the upcoming mid-2026 review of the USMCA agreement.

Reforms are needed to strengthen productivity growth

Policy priorities in Canada should focus on revitalising subdued productivity growth. This entails promoting investment in productive assets, particularly digital technologies, and strengthening innovation. Progress in improving the internal market through the removal of Canadian Free Trade Agreement (CFTA) exemptions is welcome and should continue. Labour mobility would further benefit from nationwide recognition of professional qualifications, including foreign credentials. Entry barriers in services and network industries also remain elevated and should be lowered, for example by reducing foreign-ownership restrictions in telecommunications. Existing R&D tax incentives could be streamlined for smaller and larger firms and complemented by more direct support. Expanding the supply of housing, especially affordable rental housing, also remains a priority.

Chile

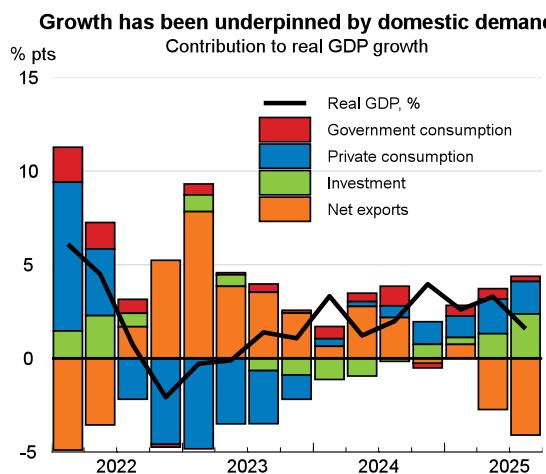
GDP growth is projected to be 2.4% in 2025, and 2.2% in 2026 and 2027. Consumption growth will moderate but remain supported by rising real incomes and employment. Investment is expected to ease but remain robust. Net exports are set to contribute positively to growth over 2026-27. Headline inflation continues to fall and is expected to get close to 3% by the end of 2026 and stabilise thereafter.

Sustaining fiscal consolidation is essential to keep public debt below the debt ceiling. Despite recent efforts to comply with the fiscal rule, Chile needs to strengthen revenues and further improve the efficiency of public spending, including by implementing spending reviews, limiting the growth of current spending and broadening the tax base. The recently approved reform to speed up investment permits and improve regulatory predictability will support investment. The successful adoption of digital government tools can also help reduce business costs, crowd in private investment, and lift productivity.

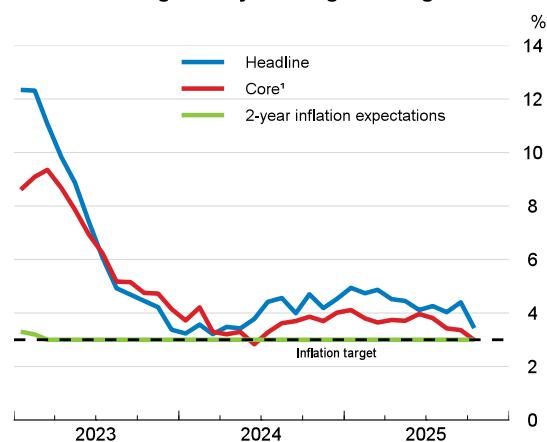
A strong growth momentum

Real GDP grew 1.6% in the third quarter of 2025, supported by domestic demand, which expanded 5.8% year-on-year. Investment was driven by the machinery and equipment component, while private consumption benefited from strong real wage growth. Consumer and business confidence remain relatively high, and financing conditions have eased recently. Headline inflation fell to 3.4% in October, within the central bank's band.

Chile



Inflation gradually converged to target



1. Consumer Price Index excluding energy and food.

Source: Central Bank of Chile; and INE.

Chile: Demand, output and prices

	2022	2023	2024	2025	2026	2027
	Current prices CLP billion	Percentage changes, volume (2018 prices)				
Chile						
GDP at market prices*	263 104.8	0.6	2.4	2.4	2.2	2.2
Private consumption	166 968.0	-4.8	0.9	2.7	1.7	1.5
Government consumption	38 686.1	2.4	3.2	4.8	3.4	2.3
Gross fixed capital formation	67 404.4	0.3	-1.8	6.8	5.1	3.0
Final domestic demand	273 058.6	-2.5	0.6	4.1	2.8	2.0
Stockbuilding ¹	566.5	-1.1	0.4	0.7	-0.3	0.0
Total domestic demand	273 625.0	-3.5	1.1	4.9	2.6	2.0
Exports of goods and services	93 653.1	0.4	6.3	3.5	1.3	2.3
Imports of goods and services	104 173.4	-10.6	1.9	11.3	2.4	1.5
Net exports ¹	-10 520.2	4.3	1.4	-2.2	-0.3	0.3
<i>Memorandum items</i>						
GDP deflator	—	6.6	7.7	6.1	3.7	3.1
Consumer price index	—	7.6	4.3	4.4	3.4	3.0
Private consumption deflator	—	7.3	5.2	4.3	3.7	3.3
Unemployment rate (% of labour force)	—	8.7	8.5	8.4	8.1	8.1
Central government financial balance (% of GDP)	—	-2.4	-2.9	-2.0	-1.5	-1.2
Central government gross debt (% of GDP)	—	39.4	41.7	41.6	40.8	40.8
Current account balance (% of GDP)	—	-3.0	-1.8	-2.6	-2.4	-1.7

* 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 118 database.

StatLink  <https://stat.link/dpyrm2>

Global financial conditions have eased over the past year, supporting Chile's external environment. The terms of trade have improved, driven by rising copper prices, which are expected to remain high over 2026-27. At the same time, energy import costs have fallen, further easing pressures. The direct macroeconomic effects of the 10% tariffs imposed by the United States on imports from Chile is expected to be limited. Exports to the United States represent 15% of Chile's total exports, and there is a tariff exemption on Chile's primary copper and wood exports to the United States, which represent around 45% of the value of merchandise exports to the United States.

Gradual fiscal consolidation paired with monetary easing

The fiscal stance is set to tighten gradually over 2025-27, in line with the fiscal rule and the government's medium term fiscal plan. A steady consolidation of around 1% of GDP is assumed over this period through a balanced mix of restrained current spending growth, mainly administrative and non-social expenditures, and higher tax revenues as a result of tax broadening measures and strengthened anti-evasion procedures. With inflation projected to get close to 3% by the end of 2026, a gradual easing of the currently slightly restrictive monetary policy is projected, including three additional rate cuts that will bring the policy rate within its estimated neutral range close to 4% in 2027. This outlook reflects ongoing disinflation and firmly anchored inflation expectations.

Growth holds near potential as disinflation continues

Real GDP growth is projected to be 2.4% in 2025, 2.2% in 2026 and 2027, driven by resilient domestic demand, on the back of easier financial conditions, gradual fiscal consolidation, and a rising real wage bill that supports consumption. A revival in the investment pipeline, particularly in mining, energy and related

capital goods, will also support growth. Exports are set to add modestly to growth, with export growth recovering through 2026 and 2027 while import growth will slow sharply. The current account deficit is projected to narrow slightly by 2027. Headline inflation is expected to continue declining, converging towards the 3% target in 2026. On the upside, growth could exceed expectations if investment projects accelerate due to permit reform, copper export volumes normalise, or copper prices rise. Chile's membership in the Trans-Pacific Partnership free trade area (CPTPP) and relatively low effective US tariffs could support export growth to other markets if US trade tensions rise. Downside risks include weaker-than-expected global metals demand, a slower deployment of mining investment projects, tighter global financial conditions that weaken the peso and raise funding costs, and higher energy prices that could weigh on exports and inflation.

Preserving stability via consolidation, and accelerating regulatory reforms

The government has outlined a fiscal consolidation plan for 2025-27. Following the deviation from the structural target in 2024 because of revenue shortfalls, meeting the fiscal rule will require firm implementation of spending restraint and revenue-enhancing measures. Recent pro-investment permitting reforms are expected to streamline procedures, reduce costs, time and uncertainty. Chile's rapid digital-government rollout can be leveraged to deliver services faster. Integrating platforms such as the one-stop digital platform into a broader whole-of-government strategy would cut red tape further, lower compliance costs, and crowd in private innovation and investment. Complementary efforts to strengthen workforce skills and align training with emerging industry needs, such as harnessing the potential of AI and adapting industries to climate change, would reinforce productivity and sustain medium-term growth.

China

Economic growth will remain unchanged from 2024 at 5% in 2025 and weaken to 4.4% in 2026 and 4.3% in 2027. Consumption will be dampened by high precautionary savings and the payback effect of the trade-in programme that had led to front-loading of purchases of durable goods to benefit from lower prices. Real estate investment will continue to contract, and prices fall as excess capacity is worked off. The anti-involution campaign, aiming at addressing high competition and excess capacity, is expected to weigh on business investment, but infrastructure investment should pick up with the new Five-Year Plan. Exports will be constrained by the US tariff increase. Anti-involution policies will likely help CPI inflation to remain positive and contain the fall of producer prices. The main risks stem from trade uncertainties and how overcapacity is managed, while reforms and new projects could invigorate private investment more strongly.

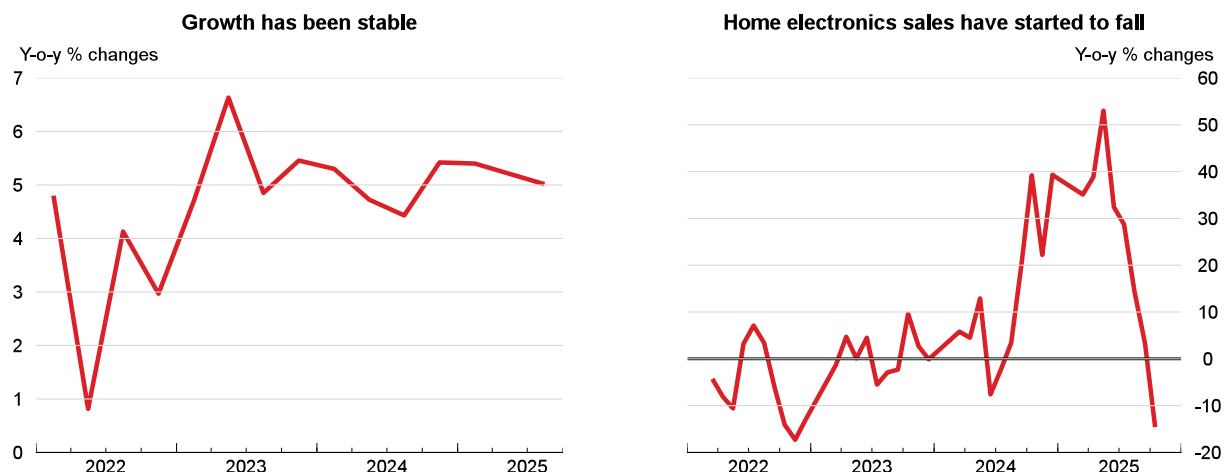
Monetary policy remains supportive, though the scope for further rate cuts is limited as they hurt bank profitability amidst asset quality concerns. Fiscal policies have become more supportive in 2025 with the deficit target increased by a percentage point of GDP. Wide-ranging reforms are needed to ensure sufficient competition in all industries, reduce the regulatory burden and strengthen market access for private companies and strengthen social protection.

Growth has been strong, but headwinds are strengthening

Annual growth was 5.2% in the first three quarters of 2025. Consumption has been supported by the expansion of a trade-in programme, including cars and home electronics, although in the second half of the year the payback effect has started to materialise with leading indicators and factory production plans foreshadowing a slowing. Overall investment has been weak, as real estate construction continues to contract, business investment in industries affected by excess capacity has been hit by the anti-involution campaign, and infrastructure projects are being completed as the end of the planning period is reached. Industry capacity utilisation rates are at relatively low levels, further weighing on business investment. Reduced food price deflation and higher inflation of non-food goods and many services helped CPI inflation turn positive in October. Producer prices have continued to fall, though to a lesser extent as the anti-involution measures have begun to have an impact.

After having benefitted from front-loading in anticipation of new tariffs early in 2025, exports to the United States have subsequently declined. The US share of Chinese merchandise exports shrank to 11.4% in the first three quarters of 2025, falling four percentage points in the past two years, whereas exports to most other destinations have been expanding rapidly. China's temporary imposition of additional export controls on rare earth metals in April and October contributed to risks of supply-chain disruptions, raising uncertainty. The current account deficit is expected to reach around 3% of GDP.

China 1



Source: CEIC.

StatLink  <https://stat.link/5sqnf4>

China: Demand, output and prices

China	2022	2023	2024	2025	2026	2027	Current prices	Percentage changes, volume	
							CNY trillion	(2015 prices)	
GDP at market prices									
Total domestic demand	123.4	5.4	5.0	5.0	4.4	4.3	119.5	6.2	2.7
Exports of goods and services							25.0	4.0	16.8
Imports of goods and services							21.1	8.8	4.9
Net exports ¹	3.9	-0.5	2.4	1.8	0.3	0.5			
<i>Memorandum items</i>									
GDP deflator	—	-0.5	-0.7	-0.9	0.3	1.0			
Consumer price index	—	0.3	0.2	-0.2	0.3	0.8			
General government financial balance ² (% of GDP)	—	-5.9	-6.5	-7.1	-7.0	-6.8			
Headline government financial balance ³ (% of GDP)	—	-3.3	-3.5	-4.0	-4.1	-4.1			
Current account balance (% of GDP)	—	1.4	2.3	3.5	3.1	3.4			

1. Contributions to changes in real GDP, actual amount in the first column.

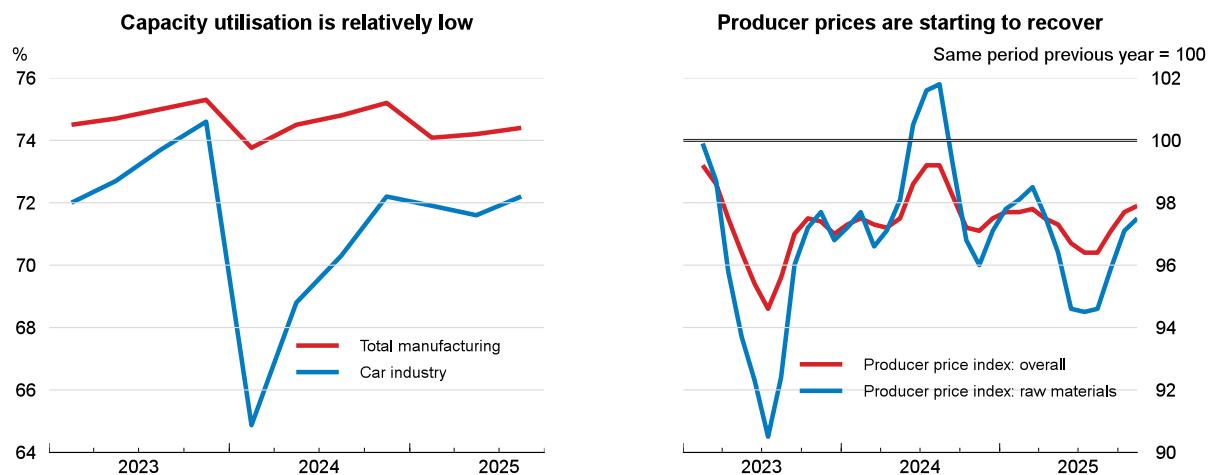
2. Encompasses the balances of all four budget accounts (general account, government managed funds, social security funds and the state-owned capital management account).

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 118 database.

StatLink  <https://stat.link/ubhac5>

China 2



Source: CEIC.

StatLink  <https://stat.link/8pei3l>

Fiscal and monetary policies remain supportive

Fiscal policy has been expansionary in 2025 with the introduction of a number of measures to support incomes and boost consumption, in addition to the trade-in programme for cars and household appliances. The stock market boom has boosted fiscal revenues through stamp duties and higher tax collection. The next Five-Year Plan, starting in 2026, will bring about new infrastructure projects, including the mega-size dam on the Yarlung Tsangbo river in Tibet. Spending on this project represents around 1% of GDP each year in the next five years and will be completed by 2030. Use by local governments of special bonds will be more flexible, boosting infrastructure spending, but more stringent accounting rules will seek to raise accountability and efficiency. A recent measure injects capital into new projects and thus kickstarts more investment projects.

The monetary policy rate will remain unchanged and room for cuts in other rates, such as the effective lending rate, is shrinking in the context of asset quality concerns. Deposit rate cuts particularly hurt smaller banks with a narrower deposit base. The stock market boom may have a limited effect on consumption. The requirement for banks to publish all loan-related costs in a transparent manner will improve access to financing.

Growth is expected to remain broadly stable over the next two years

Growth is expected to ease from 5% in 2025 to 4.4% in 2026 and 4.3% 2027 due the payback effect of the trade-in programme, continuing adjustment in the real estate sector, the unfolding of the anti-involution campaign and higher trade barriers. Consumption will be supported by higher social transfers, higher incomes due to wage progression rules and the introduction of more public holidays, although household savings will remain high in the absence of a stronger social safety net. A series of new infrastructure projects will mitigate at least in part the impact of real estate adjustment and the anti-involution campaign on investment. Higher tariffs on trade with the United States will contribute to lowering exports and imports, though the impact will be mitigated by lower administrative burdens on firms, a full VAT refund on exports,

the critical nature of some trade and through stronger exports to other markets. Inflation will remain low, with CPI inflation turning positive and PPI inflation less negative as the anti-involution campaign unfolds.

Risks to growth are broadly balanced. Anti-involution measures may lower investment in industries with overcapacity by more than expected. A further increase in tariffs and heightening trade uncertainties could take a toll on exports. Some measures aimed at boosting consumption, such as more public holidays, may not bring about the desired impact as higher incomes and a stronger social safety remain key factors in spending decision. In contrast, reducing the mortgage burden and targeting low-income groups with transfers may result in somewhat higher consumption. Delaying addressing the funding gap at sub-national government levels may lead to further accumulation of implicit debt and costlier resolution later.

Ambitious structural reforms are needed to rebalance growth

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. Cut-throat competition, excess capacities and erosion of profit margins in manufacturing are now being addressed, but greater consumer protection, more stringent implementation of environmental regulations and enhanced product quality control could ensure that enterprises do not cut costs at the expense of ignoring those regulations, and that they engage in orderly competition. To boost competition and efficiency in services, strengthening the Fair Competition Review Mechanism (subjecting all new and existing regulations to competition principles) and abolishing local protectionism in the form of administrative monopolies should be pursued. Contracts to deliver infrastructure projects should be broken up to the extent possible as long as project feasibility and efficiency are not affected. Subsidies announced to boost investment should be subject to cost-benefit analysis and a fair competition review. The process to establish a company should be simplified, including all steps in the existing online one-stop shops. Expanded social transfers will boost consumption, but to exploit its potential, bolder social security reforms are needed. Unemployment insurance coverage needs to be extended to all, and pensions 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

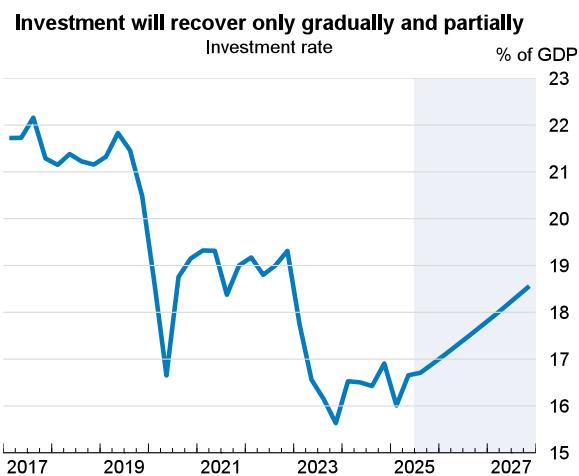
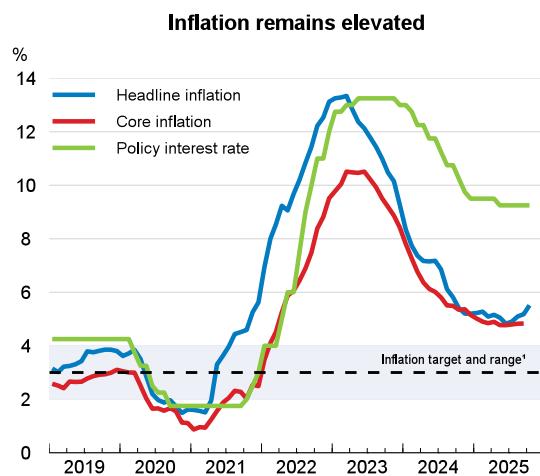
The economy will grow by 2.8% this year, 2.8% in 2026, and 2.9% in 2027. Investment will resume its gradual and partial recovery as financial conditions ease, but uncertainty will keep it muted. Private consumption will be sustained by lower inflation, a strong labour market and robust remittances. The external sector will contribute less, as oil and mining exports are constrained by domestic production and low oil prices, and imports are strong. Inflation is expected to fall but remain above the 3% target through 2027.

Monetary policy is projected to be tight to ensure a return of inflation to target. While fiscal consolidation will resume, fiscal deficits are projected to remain well above 4% of GDP as the fiscal rule remains suspended. To stabilise debt and restore investor confidence, a more ambitious consolidation strategy is needed, including a comprehensive tax reform and reducing budget rigidities. A return to the fiscal rule and the re-establishment of a credible medium-term debt anchor will also be key.

Growth has been sustained, inflation is rising again

In the third quarter, the economy grew by a seasonally adjusted 3.4% year-on-year (and 5% in annualised quarterly rates) led by buoyant private consumption and government spending and a continued, though volatile, recovery of investment. This was a further improvement from the 2.5% year-on-year growth in the second quarter. Consumer sentiment for October suggests this momentum has been sustained. The labour market remains strong, with unemployment at or below 9% since March. Headline inflation remains high at 5.5% in October, increasing for a fifth consecutive month. Price increases are broad-based, with core inflation at 5%.

Colombia



1. The horizontal dashed black line indicates the target inflation rate (3%), and the shaded area the tolerance band around the target.

Source: Central Bank of Colombia; DANE; and OECD Economic Outlook 118 database.

Colombia: Demand, output and prices

	2022	2023	2024	2025	2026	2027
Colombia	Current prices COP trillion	Percentage changes, volume (2015 prices)				
GDP at market prices	1 471.1	0.7	1.6	2.8	2.8	2.9
Private consumption	1 084.4	0.4	1.6	3.9	2.2	2.0
Government consumption	206.0	1.6	0.7	6.7	2.9	1.0
Gross fixed capital formation	280.5	-12.7	3.2	2.6	9.1	8.7
Final domestic demand	1 571.0	-1.8	1.7	4.1	3.4	3.0
Stockbuilding ¹	10.5	-0.7	0.3	0.4	-0.3	0.0
Total domestic demand	1 581.5	-2.5	2.0	4.6	3.5	2.9
Exports of goods and services	299.9	3.1	2.5	1.1	2.6	2.7
Imports of goods and services	410.3	-9.9	4.4	10.2	4.8	3.1
Net exports ¹	-110.4	3.4	-0.5	-2.0	-0.6	-0.2
<i>Memorandum items</i>						
GDP deflator	—	7.0	6.0	5.9	4.9	3.8
Consumer price index	—	11.7	6.6	5.1	4.6	3.8
Core inflation index ²	—	9.8	6.1	4.8	4.5	3.8
Unemployment rate (% of labour force)	—	10.2	10.2	9.0	8.9	8.8
Central government financial balance (% of GDP)	—	-4.2	-6.7	-7.1	-6.2	-4.9
Central government gross debt (% of GDP)	—	56.3	59.5	61.8	63.4	64.3
Current account balance (% of GDP)	—	-2.3	-1.7	-2.4	-2.5	-2.5

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 118 database.

StatLink  <https://stat.link/5n2hq1>

Goods exports to the United States (28% of total) are subject to an effective tariff rate of around 5% (and a statutory rate of mostly 10%), with so far limited impact although trade policy uncertainty remains high. The peso has appreciated against the US dollar, by about 7% since early September. While adequate international reserves and a flexible exchange rate provide buffers, the cancellation of the Flexible Credit Line with the IMF heightens vulnerability to global risks. The country risk premium remains elevated relative to regional peers.

Monetary policy is restrictive and fiscal consolidation is planned, but deficits are very high

In 2024 the deficit rose to 6.7% of GDP and in June 2025 the government invoked the escape clause to temporarily suspend the fiscal rule to preserve spending on social programmes and public investment amid weaker revenues and lower-than-expected growth. Headline deficits are projected to reach 7.1% of GDP in 2025, 6.2% in 2026 and 4.9% in 2027, in line with the government medium-term fiscal plans of a return to the fiscal rule in 2028. However, deficits will remain large over 2026-27, and there are significant risks of fiscal slippage, as the government plans require immediate spending cuts, revenue performance is uncertain, and recent debt management operations have increased currency risk. The central bank has reduced the policy rate once this year, by 25 basis points in April to 9.25%. Monetary policy is expected to remain appropriately restrictive, as inflation is projected to stay above target throughout 2026-27, and there are risks from expansionary fiscal policy and a significant increase of the real minimum wage leading to higher inflation. Further policy rate reductions are projected from mid-2026 when inflation is on a sustained downward path, with the rate declining to 6.5% by the end of 2027.

The economy will grow at a moderate pace, but risks abound

The economy will grow at a moderate pace, close to its potential. The gradual recovery of investment will continue but remain partial and significantly below the pre-pandemic investment rate of 21-22% of GDP, reflecting uncertainty and poor performance of the construction sector. Private consumption will remain solid, and exports subdued, due to supply constraints and high international uncertainty. Fiscal consolidation will be felt in subdued government consumption and investment. In 2027, the effects of monetary easing and a normalisation of trade will support growth. Risks are tilted to the downside, including continued fiscal slippages, which would further raise borrowing costs and dampen business and consumer confidence. Persistently large fiscal deficits also heighten vulnerability to shifts in global financial conditions, which could trigger capital outflows, higher risk premia and exchange rate pressures. Further changes in US trade policy could weigh on exports. Domestic policy uncertainty might increase in the lead-up to the 2026 general elections. Higher oil prices would support export and fiscal earnings and might incentivise additional investment in production.

Restoring fiscal discipline is essential to sustain growth

Given the substantial increase of the fiscal deficit and the suspension of the fiscal rule, decisive and credible fiscal consolidation over 2025-27 is needed to stabilise debt and preserve the credibility of the fiscal framework and investor confidence. Consolidation could be achieved through higher and more efficient revenue mobilisation and better spending prioritisation, including by phasing out low-impact subsidies and improving the targeting of social programmes, while protecting public investment. A comprehensive tax reform, gradually implemented to improve predictability, would include reductions in inefficient tax expenditures, a shift from corporate to personal income taxes, tackling tax evasion and reducing budget rigidities, including by reforming the fiscal transfer system. The tax bill debated in Congress goes in the right direction by eliminating distortive tax expenditures and exemptions, expanding carbon taxes, slightly broadening personal taxation and strengthening the tax administration. Reducing the cost of doing business through simpler business registration procedures, tax, and insolvency regimes for small businesses, would reduce informality and foster productivity.

Costa Rica

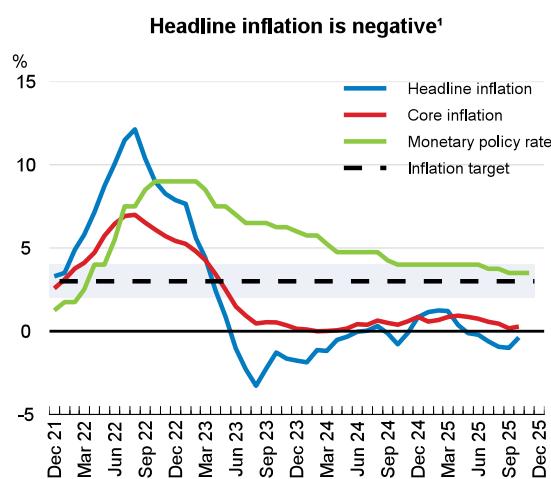
GDP growth is projected to remain broadly stable, easing from 4.2% in 2025 to 3.5% in 2026 and 3.4% in 2027. The contribution of external demand is expected to gradually weaken due to increased tariffs on Costa Rican exports to the United States, the country's main trading partner. Private consumption is set to remain resilient, supported by moderate gains in disposable income. After turning negative in May 2025, inflation is expected to rise very gradually toward the 3% target, reaching 0.8% in 2026 and 2.1% in 2027.

The fiscal situation has improved but ensuring fiscal sustainability requires maintaining strict adherence to the fiscal rule to contain public spending, introducing spending reviews to improve public spending efficiency and raising more tax revenues by expanding tax bases. Continuing to expand export opportunities via trade agreements that open new markets would help diversify Costa Rica's concentrated export markets.

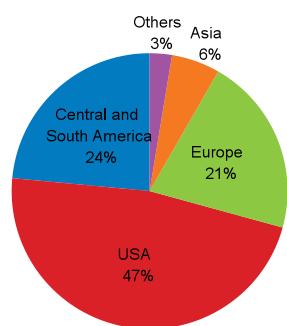
Growth remains solid

GDP growth averaged 4.4% in the first three quarters of 2025, in line with 4.3% in 2024. Household consumption remained solid, supported by robust credit consumption growth and a sharp increase in real wages, although employment creation was stagnant. Investment momentum has weakened, with a drop in FDI inflows in the first half of 2025. Economic activity remains robust, with the Monthly Index of Economic Activity increasing by 4.4% over the year to September 2025, driven primarily by exports manufactured under the special regime. Traditional sectors saw more moderate growth, despite a contraction in agriculture. Headline inflation dropped to -0.4% (year-on-year) in October 2025. Core inflation remained positive but subdued.

Costa Rica



The United States is a major export market for Costa Rica
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/zkrcho>

Costa Rica: Demand, output and prices

Costa Rica	Current prices CRC trillion	Percentage changes, volume (2017 prices)				
		2022	2023	2024	2025	2026
GDP at market prices	44.8	5.1	4.3	4.2	3.5	3.4
Private consumption	28.8	5.0	4.0	3.3	3.5	3.4
Government consumption	6.9	0.1	0.7	2.0	1.0	1.0
Gross fixed capital formation	7.6	8.6	4.3	2.6	3.6	3.7
Final domestic demand	43.3	4.9	3.5	3.0	3.1	3.1
Stockbuilding ¹	0.3	-1.6	0.7	-0.2	0.1	0.0
Total domestic demand	43.7	3.1	4.3	2.7	3.0	3.1
Exports of goods and services	19.0	10.0	5.8	9.7	7.0	4.6
Imports of goods and services	17.8	5.2	6.0	6.7	6.7	4.3
Net exports ¹	1.2	2.2	0.4	1.8	0.8	0.6
<i>Memorandum items</i>						
GDP deflator	—	-0.1	0.0	-0.3	1.1	2.1
Consumer price index	—	0.5	-0.4	-0.1	0.8	2.1
Core inflation index ²	—	1.0	0.0	-0.1	0.8	2.1
Unemployment rate (% of labour force)	—	8.9	7.4	6.6	6.0	6.1
Central government financial balance (% of GDP)	—	-3.3	-3.8	-3.1	-3.3	-3.1
Central government gross debt (% of GDP)	—	61.1	59.8	59.7	59.5	58.8
Current account balance (% of GDP)	—	-1.4	-1.5	-1.3	-1.7	-1.2

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 118 database.

StatLink  <https://stat.link/1jzv3b>

In July 2025, the tariff applied to Costa Rica's goods exports to the United States rose to 15%. The United States accounts for around 16.2% of total exports and 47% of goods exports. Tourism and business services, which are Costa Rica main service exports, and semiconductors, a sizable part of Costa Rican exports to the United States, are currently not subject to tariffs.

Monetary policy will ease while fiscal consolidation continues

The Central Bank reduced the monetary policy rate to 3.5% through two 25 basis point cuts in July and September 2025. A further quarter-point reduction is projected in the first half of 2026, after which the rate is expected to remain stable as inflation slowly increases toward the 3% target. The central government is projected to maintain a primary surplus of 1.3% of GDP in both 2026 and 2027, supported by expenditure growth control under the fiscal rule. The central government budget deficit is projected to reach 3.3% of GDP in 2026 and 3.1% in 2027, reflecting large public debt servicing costs estimated at around 4.6% of GDP in 2026 and 4.3% in 2027. Central government debt is expected to continue its gradual decline, reaching 59.5% of GDP by the end of 2026.

Growth will be held back by global uncertainty and trade tensions

GDP growth is projected at 3.5% in 2026 and 3.4% in 2027, held back by weaker net exports and investment following increased global uncertainty and the US tariff increase. Economic and trade policy uncertainty will reduce foreign direct investment inflows, while public investment will remain constrained by limited fiscal space. Real wage growth will support private consumption, though its impact will be partially offset by weak employment creation. Risks to the outlook are tilted to the downside. A pending US investigation could lead, by spring 2026, to increased tariffs on US imports of medical devices, a key

exporting sector for Costa Rica that is heavily reliant on demand from the United States. Costa Rica's high level of dollarisation exposes the country to external funding and exchange rate vulnerabilities. On the upside, renewed efforts to deepen trade integration and diversify export markets might strengthen net exports.

Structural reforms remain a priority to ensure sustainable growth

Continuing efforts to open new markets for exports via trade agreements would help export diversification. Improving port infrastructure and increasing capacity on the Pacific coast would support trade growth, facilitate expansion of exports towards Asia and help diversify trade. 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. Eliminating regulatory 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 for electricity.

Croatia

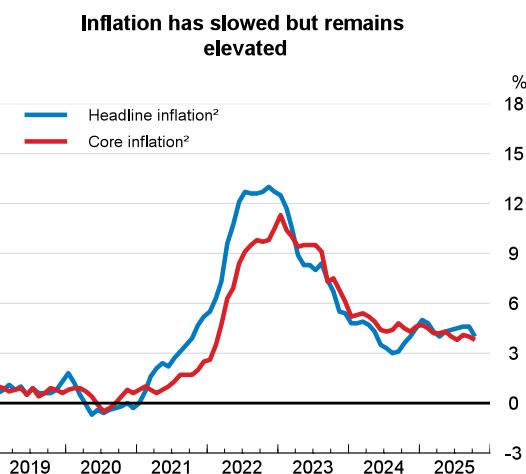
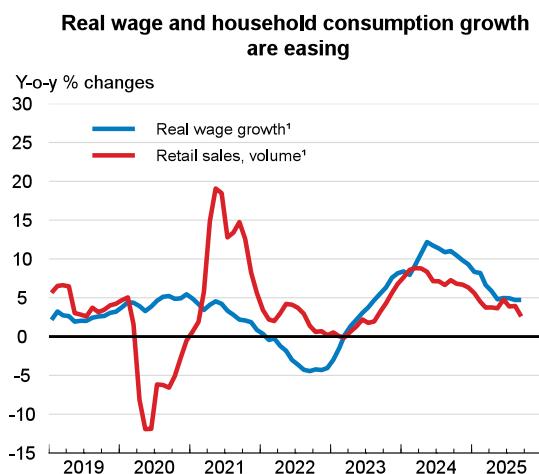
Real GDP is projected to grow by 3.2% in 2025, 2.7% in 2026 and 2.4% in 2027. Private consumption growth will slow as real income growth moderates. Investment will remain strong in 2026 but ease in 2027 as the EU Recovery and Resilience Facility ends. Exports will pick up moderately as foreign demand strengthens. Risks are related to an escalation in geopolitical and trade tensions, which would slow growth through weakening demand from key European trading partners.

A return to fiscal prudence is needed to support disinflation, rebuild fiscal buffers and prepare for medium-to long-term spending pressures. Addressing regulatory barriers to accelerate renewables deployment, including by streamlining permitting procedures, would speed up the energy transition. Enhancing land use planning and tenant-landlord regulations would raise housing affordability, residential mobility and productivity.

Domestic demand continues to support economic growth

GDP growth was strong in the second quarter of 2025, at 1.1% quarter-on-quarter (non-annualised), driven by robust domestic demand. High frequency indicators suggest sustained, though more moderate growth in the near term. Retail sales growth moderated in the third quarter relative to the second quarter of 2025 and consumer confidence remains subdued. Surveys of expected export orders remain weak. Harmonised consumer price inflation moderated to 4% (year-on-year) in October as food and energy price inflation slowed. Annual core inflation is easing but remains elevated at 3.8%, reflecting sticky service prices inflation. The labour market is tight but continues to show signs of cooling. The unemployment rate, at 4.7% in September, is close to its historical low, though job vacancies have decreased. Nominal wage growth is strong but slowing.

Croatia



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/g8dj6l>

Croatia: Demand, output and prices

	2022	2023	2024	2025	2026	2027
	Current prices EUR billion	Percentage changes, volume (2021 prices)				
Croatia						
GDP at market prices	67.6	3.8	3.8	3.2	2.7	2.4
Private consumption	39.9	3.3	6.0	3.0	2.6	1.9
Government consumption	14.3	6.6	7.3	3.0	2.2	1.7
Gross fixed capital formation	14.6	22.7	5.3	5.5	4.5	2.6
Final domestic demand	68.8	8.1	6.1	3.6	3.0	2.0
Stockbuilding ¹	3.1	-6.4	1.3	0.2	-0.3	0.0
Total domestic demand	71.9	2.0	7.5	4.0	2.8	2.1
Exports of goods and services	40.2	-1.4	1.6	2.3	1.2	2.7
Imports of goods and services	44.6	-4.2	8.4	2.3	1.3	2.1
Net exports ¹	-4.3	1.9	-3.8	-0.1	-0.1	0.2
<i>Memorandum items</i>						
GDP deflator	—	12.9	4.5	3.9	3.5	2.3
Harmonised index of consumer prices	—	8.4	4.0	4.4	3.3	2.5
Harmonised index of core inflation ²	—	8.8	4.8	4.1	3.2	2.5
Unemployment rate (% of labour force)	—	6.1	5.0	4.8	4.8	4.9
Household saving ratio, net (% of disposable income)	—	2.6	4.3	5.2	4.7	4.5
General government financial balance (% of GDP)	—	-0.8	-1.9	-2.9	-2.9	-2.7
General government gross debt (% of GDP)	—	80.5	75.7	75.0	74.7	75.1
General government debt, Maastricht definition ³ (% of GDP)	—	60.9	57.4	56.7	56.4	56.8
Current account balance (% of GDP)	—	0.1	-2.2	-2.7	-2.6	-2.4

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 118 database.

StatLink  <https://stat.link/q1yohb>

Growth of goods exports (year-on-year) outpaced that of imports in August and September. Direct trade exposure to the United States is limited, but Croatia is indirectly affected by the introduction of tariffs through weaker demand from key European partners. Tourist stays slowed during the high season compared to last year, but stronger pre-season activity kept cumulative growth from January to August steady. Bank lending to the private sector is strong. However, demand for consumer and housing loans has started to moderate following the introduction of borrower-based macroprudential tools by the central bank in July.

Mild fiscal consolidation is set to start in 2026

The fiscal stance remained expansionary in 2025. In October 2025, the government revised the general government deficit target for 2025 up to 2.9% of GDP, following a deficit of 1.9% of GDP in 2024. In September 2025, the government extended cost-of-living support measures, such as energy price caps, until March 2026, albeit with a reduced overall envelope (0.2% of GDP). In November 2025, the government approved a draft budget for 2026, targeting a general government deficit of 2.9% of GDP. The projections assume moderate structural consolidation in 2026 and 2027, in line with the medium-term fiscal-structural plan. Fiscal tightening is stronger in 2027 as the drawing of EU Recovery and Resilience Facility funds comes to an end and is only partly offset by additional drawing of EU structural funds. The national bank has announced plans to raise the countercyclical capital buffer rate from 1.5% to 2% as of January 2027.

Growth is set to moderate as domestic demand softens

Private consumption growth will moderate as disposable income growth slows, partly due to the fading effects of the public sector wage reform. Investment growth will remain strong in 2026 but slow in 2027 as funding from the EU Recovery and Resilience Facility comes to an end, which will be only partly offset by stronger drawing of EU cohesion funds. The gradual strengthening of foreign demand will support exports. Core inflation will ease as wage growth moderates and productivity picks up. Risks are tilted to the downside. An escalation of trade tensions would dampen demand from European trading partners. Potential bottlenecks in the construction sector could delay the absorption of EU funds. Continued expansionary fiscal policy could slow the pace of disinflation.

Fiscal prudence and structural reforms are needed to support sustainable growth

A tighter fiscal policy stance is needed to support the disinflation process and build fiscal buffers for future spending pressures. To this end, consolidation measures should be specified to meet medium-term fiscal targets. Ad hoc energy and food price support measures should be phased out, while protecting vulnerable households through standard targeted income support. Streamlining the permitting process or launching one-stop shops can help accelerate investment in renewable energy. Improving land use policy and construction-related administrative procedures would strengthen housing supply and improve housing affordability. Reforming tenant–landlord regulations to better balance rights could help expand the rental market, supporting greater residential and labour mobility and productivity.

Czechia

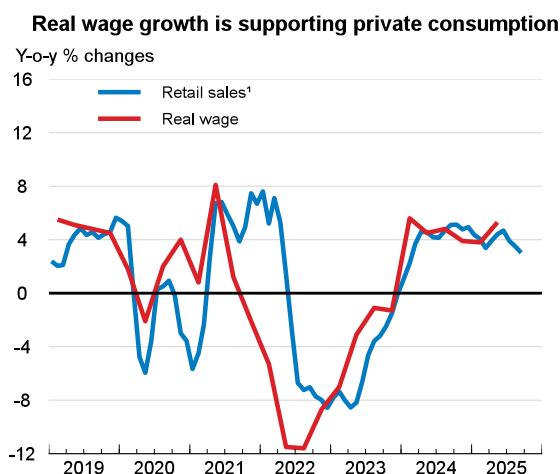
GDP growth is projected to reach 2.4% in 2025, 2% in 2026 and 2.1% in 2027. Strong private consumption will remain the main growth driver. Investment is expected to rise, supported by Recovery and Resilience funds until the end of 2026. Export growth will be subdued in the near term due to trade restrictions but should strengthen as foreign demand—particularly from Germany—recovers. Risks to the outlook include escalating trade and geopolitical tensions, which could dampen growth, and more expansionary domestic fiscal policy, which may lead to higher inflation.

Monetary policy must remain vigilant amid uncertainty around trade and fiscal developments. Prudent fiscal policy is needed to build buffers for future shocks and address spending pressures from defence, population ageing and the green transition. Structural reforms—such as easing entry barriers in professional services and improving regulatory impact assessments—can enhance competition and productivity.

Private consumption is driving robust economic growth

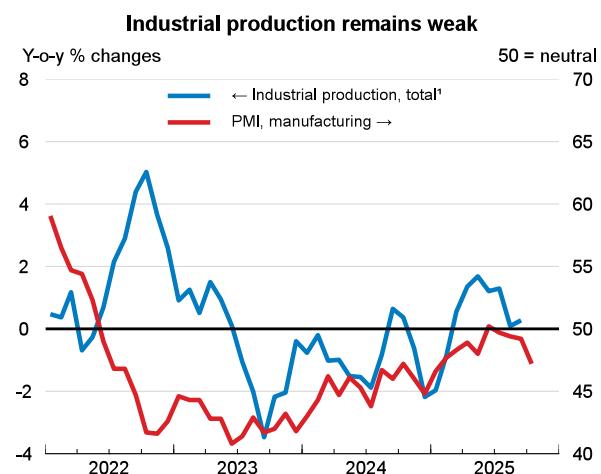
Economic activity continued to expand robustly in the third quarter of 2025, at 2.7% year-on-year, driven by household consumption and gross capital formation. High frequency indicators point to some moderation of growth in the near term: retail sales growth remained solid but moderated in the third quarter, industrial production increased slightly in September but remains subdued, and the manufacturing purchasing managers index further weakened in October. Consumer price inflation stood at 2.5% in October, while core inflation (excluding food and energy prices) remained elevated at 3.3%. Despite some cooling, the labour market remains tight. While the number of vacancies per jobseeker continued to decline, the unemployment rate, at 3% in September, remains one of the lowest in the OECD and labour shortages persist, contributing to strong nominal wage growth.

Czechia



1.3-month moving average

Source: Czech Statistical Office; and S&P Global.



StatLink <https://stat.link/ia2cuy>

Czechia: Demand, output and prices

	2022	2023	2024	2025	2026	2027
	Current prices CZK billion	Percentage changes, volume (2020 prices)				
Czechia						
GDP at market prices	7 048.4	0.2	1.1	2.4	2.0	2.1
Private consumption	3 423.4	-2.5	2.4	3.1	2.9	2.2
Government consumption	1 381.4	3.2	3.2	2.1	1.5	1.5
Gross fixed capital formation	1 951.3	4.5	-3.1	0.2	2.9	2.1
Final domestic demand	6 756.1	0.7	0.9	2.1	2.6	2.0
Stockbuilding ¹	236.4	-3.1	-0.4	1.0	-0.1	0.0
Total domestic demand	6 992.4	-2.4	0.5	3.1	2.5	2.0
Exports of goods and services	5 100.7	2.8	1.1	3.7	2.0	2.5
Imports of goods and services	5 044.7	-0.9	0.2	4.8	2.6	2.4
Net exports ¹	56.0	2.6	0.6	-0.5	-0.3	0.2
<i>Memorandum items</i>						
GDP deflator	—	8.6	3.9	3.2	2.3	1.9
Consumer price index	—	10.7	2.4	2.4	2.4	2.1
Core inflation index ²	—	7.7	4.0	3.3	2.5	2.1
Unemployment rate (% of labour force)	—	2.6	2.6	2.7	2.7	2.6
Household saving ratio, net (% of disposable income)	—	14.5	13.7	12.6	11.3	11.3
General government financial balance (% of GDP)	—	-3.7	-2.0	-1.9	-2.0	-2.0
General government gross debt (% of GDP)	—	48.4	49.2	49.3	49.9	50.6
General government debt, Maastricht definition ³ (% of GDP)	—	42.2	43.3	43.5	44.0	44.7
Current account balance (% of GDP)	—	-0.1	1.7	1.3	1.1	1.3

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 118 database.

StatLink  <https://stat.link/dazwhe>

After some front-loading of exports to the United States in the first quarter of 2025 ahead of the tariff increases, foreign demand remains weak. The US tariffs affect the Czech economy mainly via European manufacturing supply chains, especially for automotive parts. Industrial production is subdued and export orders have been volatile, especially in the automotive sector. The koruna exchange rate has appreciated vis-à-vis the euro since the beginning of 2025.

Monetary policy is slightly restrictive while fiscal policy uncertainty is high

The central bank lowered its policy rate from 7% to 3.5% between December 2023 and May 2025 and has kept it unchanged since then. Monetary policy is projected to remain slightly restrictive in 2025 and broadly neutral in 2026 and 2027, with the policy rate declining to 3%. The fiscal stance is estimated to be broadly neutral in 2025. Given the political uncertainty, the projections also assume a broadly neutral fiscal stance in 2026, while the stance is slightly restrictive in 2027, due to the end of drawing of EU recovery and resilience funds which is only partly offset by higher usage of EU structural funds.

Growth is set to moderate slightly

Robust household consumption is expected to remain the main driver of GDP growth, albeit at a slightly more moderate pace due to a projected slowdown in wage growth. Investment is expected to rise in 2026, driven by increased use of recovery and resilience funds, before easing in 2027 as the disbursement period ends. Export growth will remain subdued in the near term, reflecting rising trade restrictions, but is projected

to strengthen gradually as foreign demand recovers—partly bolstered by fiscal expansion in Germany. Core inflation is set to decline gradually towards the 2% target, in line with moderating labour cost growth. Risks to the GDP growth outlook are tilted to the downside. A further escalation in trade and geopolitical tensions could undermine confidence and dampen foreign demand. Moreover, the anticipated positive spillovers from Germany's fiscal stimulus may be delayed. Conversely, a more expansionary domestic fiscal stance than currently assumed could fuel inflationary pressures and prompt monetary tightening.

Fiscal policy should remain prudent while easing regulations can spur growth

Monetary policy needs to remain vigilant given uncertainty about future trade policy and domestic fiscal policy. If inflationary pressures durably subside, the central bank should further ease monetary restrictiveness. Fiscal prudence is needed to build buffers for future shocks and spending pressures related to military spending, population ageing and the green transition. Recent reforms to improve the overall sustainability of the pension system should be fully implemented. Regulations in professional services remain more restrictive than in other OECD countries. Easing entry and conduct regulations in professional services can boost competition, business dynamism and productivity growth. Moreover, the role of the Regulatory Impact Assessment (RIA) Board, a watchdog, could be strengthened to ensure high quality RIAs.

Denmark

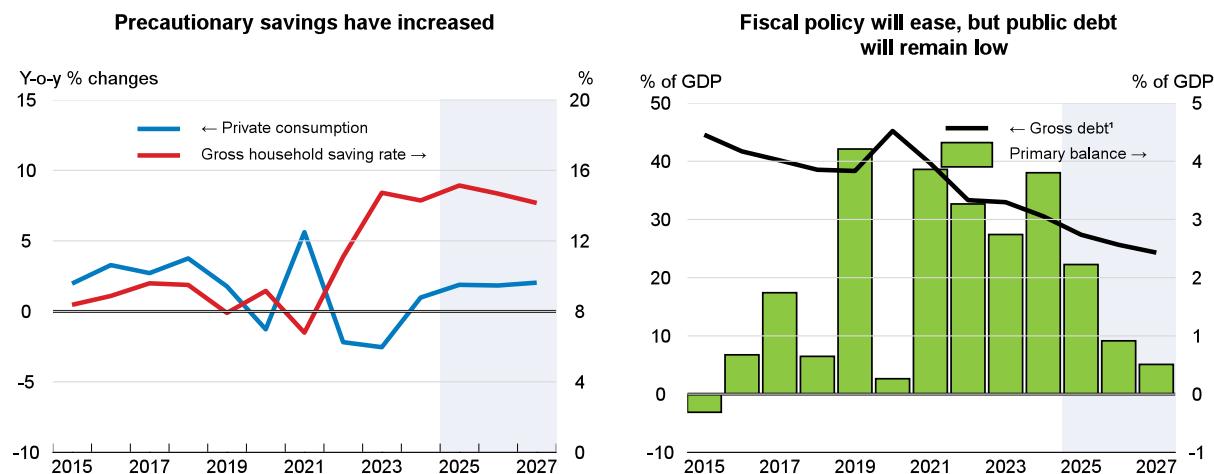
GDP growth is projected to moderate from 2.4% in 2025 to 1.8% in 2027. Weakening growth prospects in the pharmaceutical sector and slower global trade growth will weigh on the business sector. A resilient labour market, fiscal policy easing and low inflation will sustain household demand. Cuts in indirect taxes will help to reduce inflation from 1.9% in 2025 to 1.1% in 2026 before it returns closer to 2% in 2027. The main risks relate to developments in key export activities and a faster-than-expected unwinding of the elevated level of household savings.

The central bank is projected to keep policy rates unchanged in line with the ECB. Fiscal policy will shift to an expansionary stance in 2025-26 consistent with the government's objective of reducing the budget surplus within the fiscal rules. A gradual fiscal easing is appropriate given low public debt and the need to fund higher defence spending. Policies supporting business investment and reductions in regulatory costs would help diversify the drivers of growth and reduce exposure to sector-specific shocks.

GDP growth has been volatile

After a drop in the first quarter of this year, GDP growth has rebounded in the following two quarters, reflecting volatility in the pharmaceutical industry. Industrial production has picked up and business sentiment has remained close to its historical average over the third quarter, but a growing share of firms have reported insufficient demand. Rising household purchasing power has sustained private consumption and the housing market recovery, but low consumer confidence kept precautionary savings high. Employment and wage growth have moderated but remain robust, and unemployment has been broadly stable since the beginning of the year. Inflation has strengthened from around 1.7% during the first half of the year to over 2% since July due to rising rents and food prices.

Denmark



1. Maastricht definition.

Source: OECD Economic Outlook 118 database.

StatLink <https://stat.link/hs5o3m>

Denmark: Demand, output and prices

	2022	2023	2024	2025	2026	2027
	Current prices DKK billion	Percentage changes, volume (2020 prices)				
Denmark						
GDP at market prices	2 831.3	0.6	3.5	2.4	2.0	1.8
Private consumption	1 235.9	-2.5	1.0	1.9	1.8	2.0
Government consumption	624.5	0.2	1.0	-0.1	2.1	1.1
Gross fixed capital formation	653.7	-3.8	3.0	-2.6	2.4	2.4
Final domestic demand	2 514.1	-2.2	1.5	0.1	2.1	1.9
Stockbuilding ¹	47.8	-1.4	-0.3	0.1	-0.7	0.0
Total domestic demand	2 561.9	-3.9	1.3	0.4	1.3	1.9
Exports of goods and services	2 003.3	7.8	7.1	2.5	3.1	2.5
Imports of goods and services	1 733.9	2.5	4.1	-0.8	2.6	2.8
Net exports ¹	269.4	4.0	2.4	2.3	0.6	0.1
<i>Memorandum items</i>						
GDP deflator	–	-2.1	1.5	1.2	0.6	1.8
Consumer price index	–	3.3	1.4	1.9	1.1	1.7
Core inflation index ²	–	4.3	1.4	1.6	1.6	1.7
Unemployment rate (% of labour force)	–	5.2	6.3	6.5	6.4	6.0
Household saving ratio, net (% of disposable income)	–	9.1	8.5	9.7	9.1	8.5
General government financial balance (% of GDP)	–	3.4	4.5	2.9	1.6	1.2
General government gross debt (% of GDP)	–	40.7	38.5	35.4	33.6	32.3
General government debt, Maastricht definition ³ (% of GDP)	–	33.0	30.5	27.4	25.6	24.3
Current account balance (% of GDP)	–	11.0	12.2	12.1	11.9	11.6

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 118 database.

StatLink  <https://stat.link/ui8eyv>

Exports in sectors exposed to rising tariffs strengthened in the first half of the year, but Danish exporters expect trade policy changes to dampen future prospects. Weakening global trade is projected to hit maritime transport. Growth prospects in the pharmaceutical sector have been revised downward and layoffs announced due to intensifying competition in the obesity drug market and pricing pressures. US tariffs should have a limited impact as a large share of pharmaceuticals exported to the United States are produced locally under contract manufacturing. In line with NATO commitments, Denmark intends to raise defence spending above 3% of GDP by 2026.

Fiscal policy will support domestic demand

Following the ECB, Denmark's Nationalbank kept its policy rates unchanged in September 2025. It is expected to continue to follow ECB policy to maintain the peg of the Danish krone to the euro. Fiscal policy is projected to ease substantially while remaining in line with fiscal rules. Higher spending on defence (of around 1% of GDP), substantial increases in grants to municipalities, indexation of social benefits to past wage growth, as well as tax cuts on personal income, electricity and specific food items will contribute to reducing the budget surplus from 4.5% of GDP in 2024 to a projected 1.2% in 2027. The high import content of defence-related spending is expected to limit the stimulus impact of the expansionary fiscal policy in 2025 and 2026 on domestic activity, while the fiscal stance is projected to be broadly neutral in 2027.

A recovery in domestic demand will partly offset weaker exports

Export growth is projected to moderate due to weaker growth prospects in the pharmaceutical industry and slowing foreign demand. Slower but positive employment and wage growth, tax cuts and lower inflation should support a recovery in private consumption, while fiscal policy easing will boost public expenditure. Planned cuts in electricity tax and excise duties on selected food items will help reduce inflation to 1.1% in 2026 from 1.9% in 2025. Wage moderation will keep inflation below 2% across 2027. Geopolitical tensions and related high uncertainty will continue to weigh on business investment and keep precautionary savings above their historical average. Positive risks to the outlook include stronger consumer confidence and faster decline in the savings rate. Further tariffs or regulatory barriers on pharmaceuticals or maritime services could hit GDP and tax revenues.

Fiscal and regulatory policies should sustain business investment

With robust public finances and a business-friendly regulatory environment, Denmark is well positioned to manage economic turbulence. Fiscal space will help to address pressing spending needs on defence, while pursuing other policy objectives, such as achieving the green and digital transitions. In the longer term, while the fiscal framework is strong, efficiency gains and spending prioritisation would help to address spending pressures from population ageing and climate change as fiscal space diminishes. Regulatory requirements have generated significant costs to businesses and have delayed investments, notably in network infrastructure. Further simplifying and streamlining procedures, while ensuring regulatory assessment better keeps up with structural transformations of the economy, can support business investment, help diversify growth drivers and reduce economic risks.

Estonia

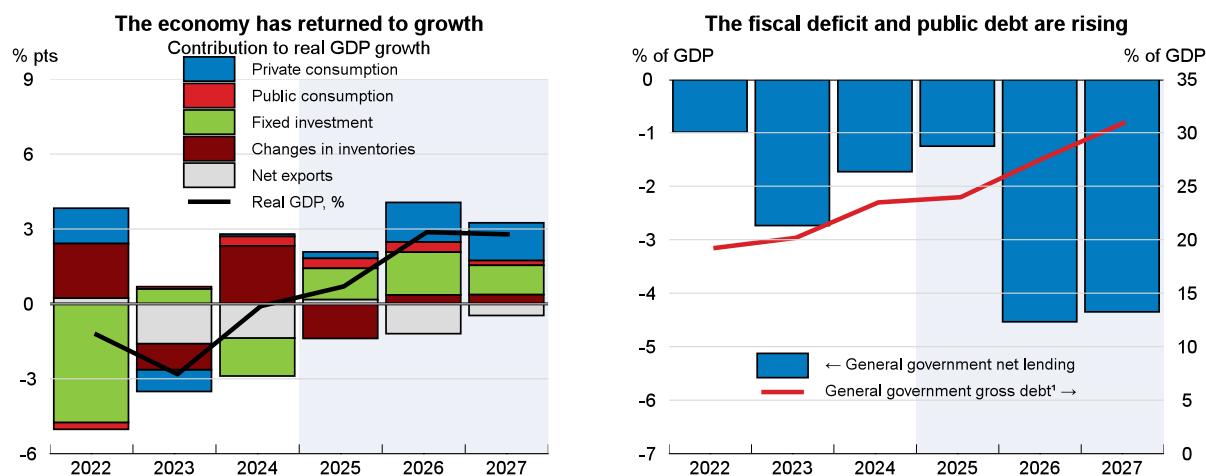
The Estonian economy began to recover in 2025, and growth is projected to strengthen to 2.9% in 2026 and 2.8% in 2027, supported by stronger household incomes and fiscal expansion. Improved financial conditions and an upturn in external demand will further sustain the recovery. Consumption may surprise on the upside if consumer confidence rebounds more strongly, while an increase in geopolitical tensions around the Baltic and a slower recovery in Nordic partners could slow the recovery.

Lower euro area interest rates are supporting the recovery. The fiscal deficit has widened sharply, reflecting a large increase in defence spending but also other expenditure pressures and cancellation of planned tax increases. As the economy recovers, fiscal consolidation is required to narrow the deficit, while a longer-term plan is needed to finance long-term defence spending, population ageing and climate pressures. Digitalisation can speed convergence if infrastructure and adoption improve. Easing rules for notaries and lawyers and obtaining licences and permits would improve the regulatory environment.

Growth is gradually recovering

The economy returned to growth in the first three quarters of 2025, following almost three years of recession. Household consumption is recovering on higher incomes, though the July 2025 VAT increase will curb spending. Food remains the main contributor to inflation, projected at around 5% this year. Pressures remain in services prices, pushing core inflation to around 6%. Excluding tax changes, core inflation is broadly stable at below 4%. The unemployment rate has risen, but survey-based employment expectations are now at their highest level since 2022. Investment edged up in the first half of 2025, led by machinery and equipment.

Estonia



1. Maastricht definition.

Source: OECD Outlook 118 database.

StatLink <https://stat.link/71eiwj>

Estonia: Demand, output and prices

	2022	2023	2024	2025	2026	2027
	Current prices EUR billion	Percentage changes, volume (2020 prices)				
Estonia						
GDP at market prices	36.3	-2.8	-0.1	0.7	2.9	2.8
Private consumption	19.1	-1.7	0.2	0.5	3.0	2.9
Government consumption	7.0	0.5	1.9	1.9	1.9	0.9
Gross fixed capital formation	9.0	2.4	-6.0	5.2	7.2	4.7
Final domestic demand	35.1	-0.1	-1.0	2.0	3.8	2.9
Stockbuilding ¹	1.4	-2.5	0.8	-0.3	0.0	0.0
Total domestic demand	36.5	-2.5	-0.2	1.7	3.7	2.9
Exports of goods and services	31.7	-9.1	-1.5	3.2	1.4	2.5
Imports of goods and services	32.0	-7.2	0.2	3.0	3.0	3.2
Net exports ¹	-0.3	-1.6	-1.4	0.2	-1.2	-0.5
<i>Memorandum items</i>						
GDP deflator	—	8.8	3.9	4.7	3.3	2.5
Harmonised index of consumer prices	—	9.1	3.7	5.0	3.5	2.3
Harmonised index of core inflation ²	—	8.7	5.1	6.1	3.6	2.3
Unemployment rate (% of labour force)	—	6.4	7.5	7.5	6.6	6.0
Household saving ratio, net (% of disposable income)	—	-0.8	3.0	4.0	5.7	5.0
General government financial balance (% of GDP)	—	-2.7	-1.7	-1.3	-4.5	-4.3
General government gross debt (% of GDP)	—	28.8	33.0	33.5	37.1	40.5
General government debt, Maastricht definition ³ (% of GDP)	—	20.2	23.5	24.0	27.6	31.0
Current account balance (% of GDP)	—	-1.6	-1.6	-0.1	-0.8	-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. 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 118 database.

StatLink  <https://stat.link/g3zor8>

Exports have partly recovered amid diversification into faster-growing markets, and export orders are improving. Improvements in export growth has been broad-based, including the largest items – exports of wood, and machinery and equipment. Nordic demand remains weak, while sales to Poland and Lithuania rose sharply. Estonian-origin exports to the United States - one third of which is telecommunication equipment - represent 5% of total Estonian-origin exports.

The budget deficit will widen significantly

The fiscal deficit is projected to widen from 1.3% in 2025 to around 4.5% of GDP in 2026, driven by defence expenditure rising from 3.4% in 2025 to 5% of GDP and the scrapping of planned income-tax increases, and higher non-defence spending. Changes to the basic tax allowance will lower the tax burden on labour and boost households' purchasing power. Government investment will rise by around 32%, mainly due to higher defence-related outlays. The fiscal policy stance will be strongly expansionary, though higher imports will mute GDP effects. Ministry of Defence funding will rise by around 54%. Over half of this will go to special-purpose defence equipment, mostly imported. Around half of total public investment is real estate, with a larger impact on GDP. Fiscal policy is assumed to remain broadly neutral in 2027. Public debt is projected to rise from 23.5% in 2024 to 31% of GDP in 2027, still among the lowest in the EU.

Growth will strengthen amid strong fiscal stimulus

Growth is expected to pick up to just under 3% in 2026-27. Changes to the basic tax allowance will lift real household purchasing power and support the gradual recovery in household consumption. Wage growth is projected to moderate to around 5% in 2026-27, down from 6% in 2025, easing inflationary pressures. Despite the economic recovery, employment growth will be modest, reflecting a declining labour force and labour hoarding by firms. Strong public investment will support activity in 2026. Private investment is projected to pick up gradually, supported by easing financial conditions, improving demand for exports, and rising capacity utilisation. Downside risks include an increase in geopolitical tensions around the Baltic, elevated inflation due to faster-than-expected wage growth and a slower recovery in the Nordics, who are key trading partners. On the upside, consumption may surprise if consumer confidence rebounds more strongly.

Reforms are needed to increase budget revenues and sustainable growth

As the economy recovers, fiscal consolidation is required to narrow the deficit, while a longer-term plan is needed to finance long-term defence spending, population ageing and climate pressures. Profit and property taxation offer some untapped revenue potential. Digitalisation can accelerate convergence, but this will require enhanced infrastructure and broader adoption across traditional sectors of the economy. Regulation of professional services is generally less restrictive than the OECD average, but rules for notaries and lawyers—such as advertising bans, ownership limits, fees and territorial constraints—could be eased. Obtaining licences and permits can be cumbersome and streamlining via regular licence-inventory reviews, a “silence is consent” rule, and tailoring procedures to risk would help.

Euro area

GDP growth is projected to pick up gradually from 1.3% in 2025 and 1.2% in 2026 to 1.4% in 2027 as domestic demand strengthens and trade rebounds. Private consumption will be supported by resilient labour markets and increasing real incomes. Private investment will be constrained by uncertainty but will benefit from improved financing conditions, while public investment will be supported in 2026 by the Recovery and Resilience Facility funds. Wage growth is projected to ease gradually, helping inflation to remain broadly on target.

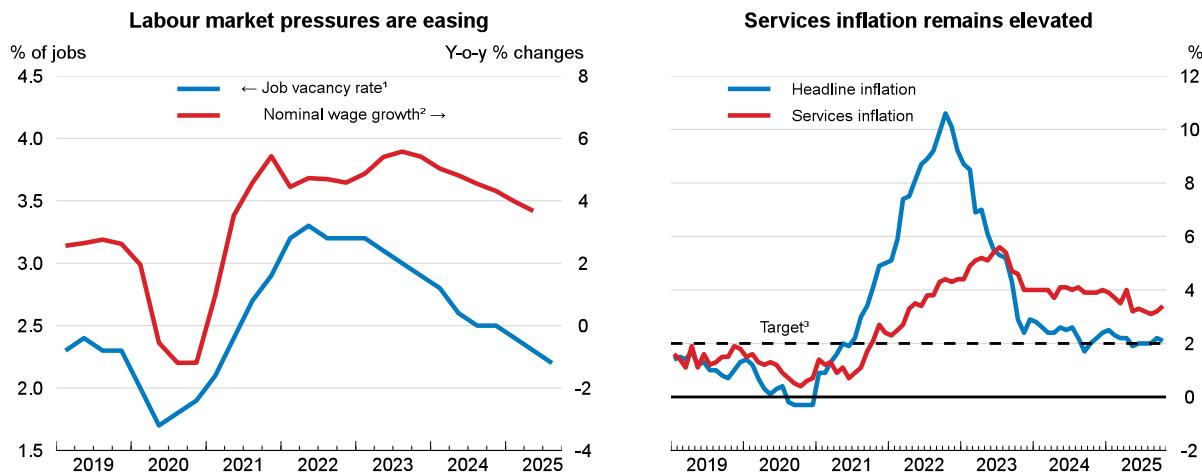
Fiscal policy is expected to remain broadly neutral in 2026 and 2027. Although defence spending is set to increase, using debt financing in the short term, prudent fiscal policy is needed to ensure medium-term fiscal sustainability. Amid elevated uncertainty, monetary policy should also remain prudent to ensure that inflation is durably reduced to target. To help lift productivity, regulatory burdens on businesses should be reduced and costs and benefits of new regulatory proposals systematically scrutinised.

Economic growth is resilient amid high uncertainty

GDP grew by 0.2% quarter on quarter in the third quarter of 2025. Recent indicators suggest improved sentiment and the composite PMI increased in October, due to improving demand for services. Headline inflation stood at 2.1% in October, while core inflation remained at 2.4%, mainly reflecting elevated services price inflation, which has exceeded 3% since May. At the same time, the euro has appreciated strongly in real terms against a basket of 41 currencies, and market and survey-based inflation expectations have remained broadly stable around the 2% target since the beginning of the year. The labour market is gradually normalising, with both employment growth and nominal wage growth slowing in the second quarter of 2025. The seasonally adjusted unemployment rate remained close to its historic low, at 6.3% in September. Financial conditions have eased further and growth in loans to firms and households continues to recover but remains below historical averages, partly held back by elevated uncertainty.

The goods trade surplus rose in September, driven by lower energy prices and a surplus in chemicals trade. At the same time, the balance of services trade remained positive and the current account surplus for the last four quarters stood at 2.1% of GDP in the second quarter of 2025. In August, the US introduced a 15% tariff on imports of EU goods, including cars and parts, with a 50% tariff on imports of steel and aluminium as well as products made of these metals. The EU has stopped applying a 10% levy on US car imports while considering further measures to protect European steel and other industry. In support of Ukraine, EU countries have extended temporary protection to more than 4 million refugees until March 2027, helping to reduce labour shortages in low-wage sectors in some EU countries. The EU has disbursed more than EUR 31 billion (0.2% of euro area GDP) from the EUR 50 billion Ukraine Facility so far and provided about EUR 17 billion (0.1% of euro area GDP) since the beginning of the war to help EU countries address the needs of Ukrainian refugees.

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.

2. Three-month moving average.

3. The dashed line indicates the ECB's inflation target of 2%.

Source: Eurostat Job vacancy statistics database; OECD Economic Outlook 118 database; and Eurostat Harmonised index of consumer prices (HICP) database.

StatLink <https://stat.link/sohe47>

Euro area: Demand, output and prices

Euro area	2022	2023	2024	2025	2026	2027	Current prices	Percentage changes, volume
							EUR billion	(2021 prices)
GDP at market prices								
Private consumption	13 634.9	0.5	0.8	1.3	1.2	1.4	7 188.7	0.5
Government consumption	2 918.6	1.5	2.2	1.6	1.2	1.0	2 988.8	2.5
Gross fixed capital formation	13 096.1	1.2	0.7	1.5	1.3	1.4	267.9	-1.0
Final domestic demand	13 364.0	0.1	0.6	1.9	1.2	1.3	270.9	0.4
Stockbuilding ¹								
Total domestic demand								
Net exports ¹								
<i>Memorandum items</i>								
GDP deflator	—	6.1	2.9	2.3	1.9	1.9	—	5.4
Harmonised index of consumer prices	—	5.4	2.4	2.1	1.9	2.0	—	4.9
Harmonised index of core inflation ²	—	4.9	2.8	2.4	2.1	2.0	—	6.6
Unemployment rate (% of labour force)	—	6.6	6.4	6.4	6.3	6.1	—	7.9
Household saving ratio, net (% of disposable income)	—	7.9	9.1	9.4	9.4	9.2	—	-3.5
General government financial balance (% of GDP)	—	-3.5	-3.1	-3.1	-3.2	-3.3	—	94.4
General government gross debt (% of GDP)	—	94.4	93.6	94.3	95.5	96.5	—	88.7
General government debt, Maastricht definition ³ (% of GDP)	—	88.7	88.8	89.5	90.7	91.6	—	2.6
Current account balance (% of GDP)	—	2.6	3.4	2.8	2.8	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.

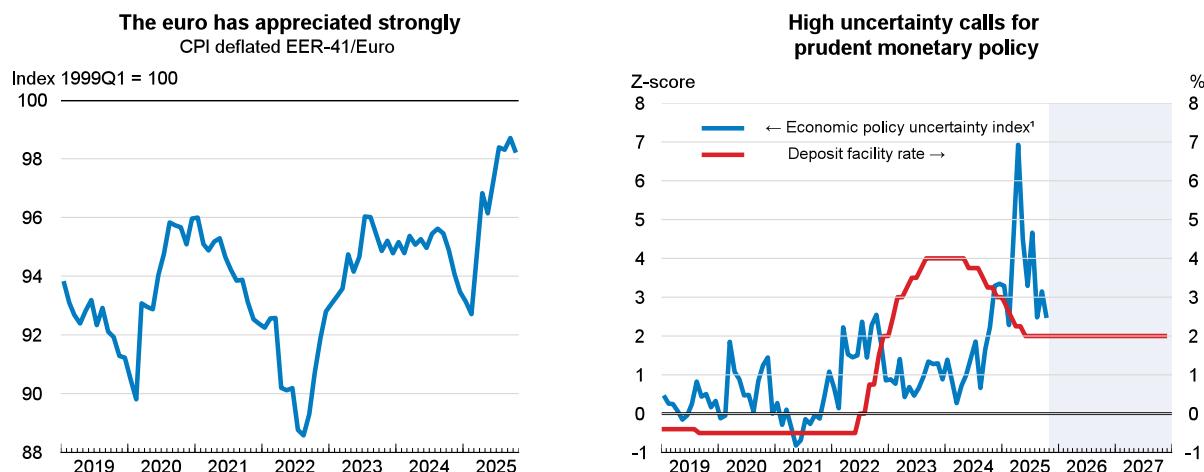
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

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 118 database.

StatLink <https://stat.link/mxkpus>

Euro area 2



Note: The economic policy uncertainty index for Europe, developed by Baker, Bloom, and Davis (2016), measures policy-related uncertainty by tracking the newspapers' coverage of economic policy-related uncertainty for 4 European economies (Germany, France, Italy, and Spain) and the United Kingdom. The indicator is standardised to show the number of standard deviations above or below their average value (Z-score) over the period 2007-2024. A positive (negative) value indicates high (low) systemic stress in the financial markets.

Source: European Central Bank (ECB); US Federal Reserve; and OECD Economic Outlook 118 database.

StatLink <https://stat.link/b4efj8>

Macroeconomic policy will remain broadly neutral

The aggregate euro area fiscal stance is projected to tighten by about $\frac{1}{4}$ per cent of GDP in 2025 and be broadly neutral in 2026 and 2027. Spending under the NextGenerationEU (NGEU) programme provided support of about 0.5% of GDP in 2025 and could do so again in 2026. Russia's war of aggression against Ukraine has triggered additional military spending and the coordinated use of national escape clauses under EU fiscal rules. In the countries that applied for this flexibility, the additional defence spending could amount to more than 1% of GDP by 2027. In addition, EU countries already expressed interest in borrowing at least EUR 127 billion out of the total envelope of EUR 150 billion made available under the Security Action for Europe (SAFE) instrument to facilitate the increase in defence spending.

The European Central Bank's monetary policy stance has become broadly neutral, as the deposit facility rate has been cut by a cumulative 200 basis points since June 2024, to 2% in June 2025. The policy rate is projected to remain unchanged at 2% in the next two years, reflecting the balance of risks in a highly uncertain environment. Monetary policy needs to remain prudent, to ensure that inflation is durably reduced to the 2% target. While the euro appreciation places downward pressure on inflation, short-term upward inflationary pressures still stem from ongoing labour shortages and additional public expenditure under the NGEU programme.

Economic growth will strengthen as external trade rebounds

Growth is projected to strengthen, supported by robust private consumption and a rebound in trade. The labour market will remain tight, with labour shortages in some sectors and historically low unemployment slowing down wage growth normalisation. Growing real disposable incomes and a decline in the saving rate should support private consumption. Elevated trade uncertainty will weigh on private investment, but public investment will be supported by spending under the NGEU programme in 2026. Headline and core inflation are projected to moderate further towards the target in 2026 and 2027, as labour cost pressures gradually dissipate.

Risks to the projections remain tilted to the downside. Worsening trade tensions would weigh on external demand, while trade deflected towards the European Union by the tariffs applied by the United States could reduce demand for domestically produced goods. Trade retaliation measures by the EU could add to inflationary pressures. Financial stability risks associated with a rapidly shifting geopolitical environment can be amplified by weaknesses in the non-bank sector or by an abrupt repricing of sovereign risk. 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 help lift external demand and expedite disinflation.

Structural reforms need to accompany prudent macroeconomic policies

The investment needs associated with defence and continuing decarbonisation are considerable. Increasing defence spending should not be financed by debt issuance in the long term. Reprioritisation of spending and prudent fiscal policy will be needed to rebuild fiscal buffers and address other spending pressures, such as population ageing. The EU fiscal rules encourage structural reforms and safeguard for medium-term fiscal sustainability, but the activation of the national escape clauses may further delay reduction of existing excessive deficits. The monetary policy stance should not be eased prematurely and macroprudential instruments should be used to address potential financial stability risks. To boost productivity growth, the EU regulatory burden, such as documentation requirements and reporting obligations for businesses, should be reduced and all EU regulatory proposals subjected to rigorous cost-benefit analysis. To ensure supply flexibility in cross-border electricity markets, the EU state-aid framework should channel government subsidies to low-carbon technologies without muting market price signals.

Finland

After a recession in 2025, the Finnish economy is set for a gradual investment-led recovery, with GDP growth of 0.9% in 2026 and 1.7% in 2027. Lower interest rates, a stabilising housing market, rising defence spending and stronger trading partner growth will support the rebound. However, United States tariffs, global insecurity, and fiscal consolidation remain headwinds. Spare capacity will keep inflation below 2% in 2026 and 2027, while improving activity will gradually reduce unemployment.

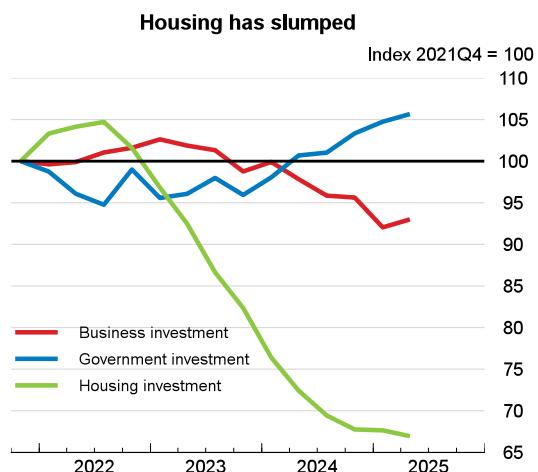
The government should pursue gradual fiscal consolidation to stabilise and reduce high and rising public debt. Finland's low electricity prices, strong engineering capabilities and Germany's recovery provide an important window for industrial and infrastructure investment. Rather than broad tax cuts, targeted incentives and fast-tracking approvals should support R&D, defence, green industry and AI projects.

The economy is under pressure

Weak consumer confidence and plummeting housing construction to correct oversupply have been heavily weighing on growth. Private consumption contracted by an average of 0.3% quarter on quarter in the year to June 2025. Residential investment fell 19% in 2023 and 18% in 2024, and contracted further in the first half of 2025, albeit at a slower pace. Lower interest rates are expected to at least stabilise the market and there are tentative signs the housing market and construction activity are bottoming out. Employment growth is weak, and the unemployment rate continues to rise, reaching 9.9% in the third quarter of 2025. Reflecting feeble activity, lower input costs and the dropping out of the 2024 VAT effect from the annual rate, core inflation (excluding food and energy) has continued to decline to 1.9% year-on-year in October 2025.

A series of negative international shocks have hit the economy hard. Russia's war of aggression against Ukraine and hybrid warfare against Europe led to the indefinite closure of the border with Russia, cessation of exports to Russia and a sharp decline in tourism from Asia due to Russian airspace closures. This has been compounded by persistently anaemic growth in Germany, a major destination for Finland's industrial exports. Companies have been able to find new markets, including by expanding exports to the United States. However, since mid-2025, Finland, like all EU countries, faces tariffs of 15% in the US market for non-exempt goods.

Finland



Source: Statistics Finland; and OECD Economic Outlook 118 database.

StatLink  <https://stat.link/q2kj6w>

Finland: Demand, output and prices

Finland	2022	2023	2024	2025	2026	2027	Current prices	Percentage changes, volume	
							EUR billion	(2015 prices)	
GDP at market prices									
Private consumption	266.1	-0.9	0.4	0.0	0.9	1.7	134.5	0.0	-0.4
Government consumption							64.3	2.6	1.7
Gross fixed capital formation							65.6	-7.4	-5.0
Final domestic demand	264.5	-1.3	-0.9	-1.2	0.7	1.5			
Stockbuilding ^{1,2}	7.0	-3.0	0.6	0.6	0.0	0.0			
Total domestic demand	271.4	-4.2	-0.1	-0.6	0.7	1.5			
Exports of goods and services	123.2	-0.4	1.8	3.6	2.1	2.5			
Imports of goods and services	128.5	-6.7	-0.8	0.9	2.2	2.1			
Net exports ¹	-5.3	3.0	1.1	1.1	0.0	0.2			
<i>Memorandum items</i>									
GDP deflator	-	3.5	0.7	1.6	1.7	1.2			
Harmonised index of consumer prices	-	4.3	1.0	1.9	1.8	1.6			
Harmonised index of core inflation ³	-	4.1	2.2	2.4	1.7	1.6			
Unemployment rate (% of labour force)	-	7.2	8.4	9.6	9.8	9.5			
Household saving ratio, net (% of disposable income)	-	2.1	4.3	8.1	9.2	9.4			
General government financial balance (% of GDP)	-	-2.9	-4.4	-4.6	-4.4	-3.9			
General government gross debt (% of GDP)	-	85.0	90.2	94.5	98.4	101.6			
General government debt, Maastricht definition ⁴ (% of GDP)	-	77.1	82.5	86.8	90.6	93.9			
Current account balance (% of GDP)	-	-0.8	-1.0	0.9	0.9	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 118 database.

StatLink  <https://stat.link/xlwoy2>

Lower interest rates will help offset fiscal consolidation and revive growth

The large reduction in the ECB's benchmark policy rate over the past two years will help boost growth with a lag. This will help offset the drag from ongoing fiscal consolidation. The fiscal deficit is high, reaching 4.4% of GDP in 2024, and public debt (Maastricht definition) is high and rising, and was around 83% of GDP in 2024, necessitating fiscal consolidation. A total of net EUR 10 billion (3.6% of GDP) in consolidation measures is planned through to 2027. This is expected to reduce the structural primary deficit by 0.7% of GDP between 2025 and 2027. Measures include tax increases and spending cuts in social welfare programmes, and the introduction of regular spending reviews. However, from 2026, there will also be personal income tax cuts, and the corporate tax rate will be reduced in 2027 from 20% to 18%. New fiscal rules introduced in November 2025 with broad political support will help maintain consolidation momentum. The new rules require the government to set an end-of-parliamentary-term target for the fiscal deficit below 3% of GDP and reduce the public debt-to-GDP ratio by at least 0.75 percentage points of GDP per year on average over 8 years.

The recovery is expected to gradually strengthen

Finland's economy is expected to strengthen gradually, with GDP projected to rise by 0.9% in 2026 and 1.7% in 2027. Policy rate cuts, a recovery in construction, increased defence spending (rising to 3% of GDP by 2029), and stronger European growth, notably in Germany, are expected to offset persisting geopolitical and trade risks. This is expected to reduce the net drag of international shocks on the economy by around 1% of GDP. The volatile geopolitical environment remains a key downside risk, with growth significantly lower if tensions escalated. On the upside, Finland's innovative industry and low electricity prices position it well to supply rising defence and green industrial demand, potentially boosting investment and exports more than projected. Finland is a global leader in icebreaker construction and further deals could follow the recent EUR 5.2 billion deal to supply 11 (four built in Finland and seven in the United States) icebreakers to the United States to use in patrolling the Arctic.

Targeted fiscal support and regulatory reform would help reinforce the investment-led recovery

To reduce high public debt, Finland should continue gradual fiscal consolidation, given the difficult international environment and significant spare capacity. The automatic stabilisers should be allowed to operate if the recovery falters. The key to maintaining fiscal policy credibility is implementing the government's pre-announced and coherent programme. To reinforce the recovery, it is important to keep using well-targeted measures to crowd-in private sector investment, R&D and innovation in the AI, digital, defence and green industries. Streamlining permitting, especially for grid infrastructure, and regulatory reform to fully recognise the benefits of advanced emissions reduction technologies would accelerate the green transition.

France

GDP growth is projected to decrease to 0.8% in 2025, before increasing to 1% in 2026 and 2027. Domestic and international uncertainty have weighed on growth in 2025, delaying consumption and investment decisions, though strong exports from the aeronautics sector have provided some offset. Assuming a new budget is adopted by late 2025, reduced uncertainty will improve growth prospects in 2026 and 2027. Inflation is expected to edge up as earlier downward pressures from energy and telecommunications prices ease, but remain contained, reaching 1.6% in 2027.

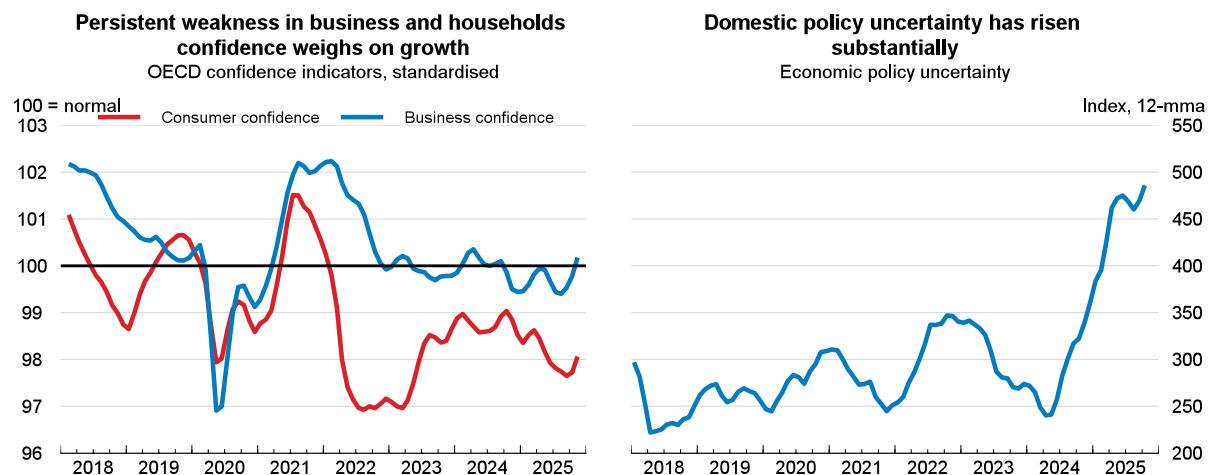
The fiscal deficit is projected to fall from 5.8% of GDP in 2024 to 5.4% of GDP in 2025. Further consolidation is planned for 2026 and 2027, bringing the fiscal deficit to 5.2% of GDP and 5% of GDP, respectively, mainly through increased revenue measures. Despite these efforts, public debt will rise to 122.5% of GDP by 2027. Stabilising debt by 2030 will require deeper fiscal adjustments and structural reforms to boost investment, especially through improved digital adoption, innovation support for SMEs, and education and training.

Policy uncertainty weighs on economic growth

Elevated domestic uncertainty in 2025, marked by two Prime Ministerial resignations, has weighed on growth, though economic activity picked up in the third quarter, driven primarily by strong aeronautics exports and business investment. Business lending has continued to expand, with outstanding financing to non-financial corporations up 2.9% year-on-year in September 2025. Housing loans have also risen steadily since January 2025, returning to February 2023 levels by September, driven mainly by new demand. Other short-term indicators are mixed. The business confidence indicator has returned to its long-term average while consumer confidence has remained significantly below it. The labour market weakened in the third quarter, but remains broadly resilient, with employment still above pre-pandemic levels. The INSEE employment climate indicator also improved slightly in October–November. Inflation fell faster than expected during the first half of 2025 and was 0.8% in October, driven by lower regulated energy prices, slower wage growth, and increased competition in telecoms.

Direct exposure to US tariffs on imports is limited, with the United States accounting for just 5% of both exports and imports, but France remains vulnerable to a broader slowdown in global demand, particularly in Europe which absorbs 55% of French exports. However, rising defence spending across the EU presents opportunities for domestic companies, especially in aerospace and advanced manufacturing.

France 1



Source: OECD Main Economic Indicators database; and <https://policyuncertainty.com>.

StatLink  <https://stat.link/fgd267>

France: Demand, output and prices

France	2022	2023	2024	2025	2026	2027	Current prices	Percentage changes, volume			
							EUR billion	(2020 prices)			
GDP at market prices	2 652.8	1.6	1.1	0.8	1.0	1.0					
Private consumption	1 434.6	0.8	1.0	0.4	0.7	1.1					
Government consumption	653.5	1.5	1.4	1.4	0.7	0.4					
Gross fixed capital formation	622.8	0.7	-1.3	-0.2	0.6	1.0					
Final domestic demand	2 710.9	0.9	0.6	0.5	0.7	0.9					
Stockbuilding ¹	14.4	-0.4	-0.8	0.7	-0.6	0.0					
Total domestic demand	2 725.3	0.6	-0.2	1.1	0.1	0.9					
Exports of goods and services	970.7	2.8	2.4	1.1	3.5	2.3					
Imports of goods and services	1 043.3	0.1	-1.3	2.0	1.0	2.2					
Net exports ¹	- 72.6	1.0	1.3	-0.3	0.8	0.0					
<i>Memorandum items</i>											
GDP deflator	—	5.0	2.1	1.2	1.1	1.4					
Harmonised index of consumer prices	—	5.7	2.3	1.0	1.3	1.6					
Harmonised index of core inflation ²	—	4.0	2.3	1.7	1.4	1.6					
Unemployment rate ³ (% of labour force)	—	7.4	7.4	7.6	7.7	7.4					
Household saving ratio, gross (% of disposable income)	—	16.7	17.9	18.2	17.9	17.3					
General government financial balance (% of GDP)	—	-5.4	-5.8	-5.4	-5.2	-5.0					
General government gross debt (% of GDP)	—	116.2	116.6	120.1	123.4	126.0					
General government debt, Maastricht definition ⁴ (% of GDP)	—	109.6	113.1	116.6	119.9	122.5					
Current account balance (% of GDP)	—	-1.0	0.1	-0.2	-0.1	-0.2					

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.

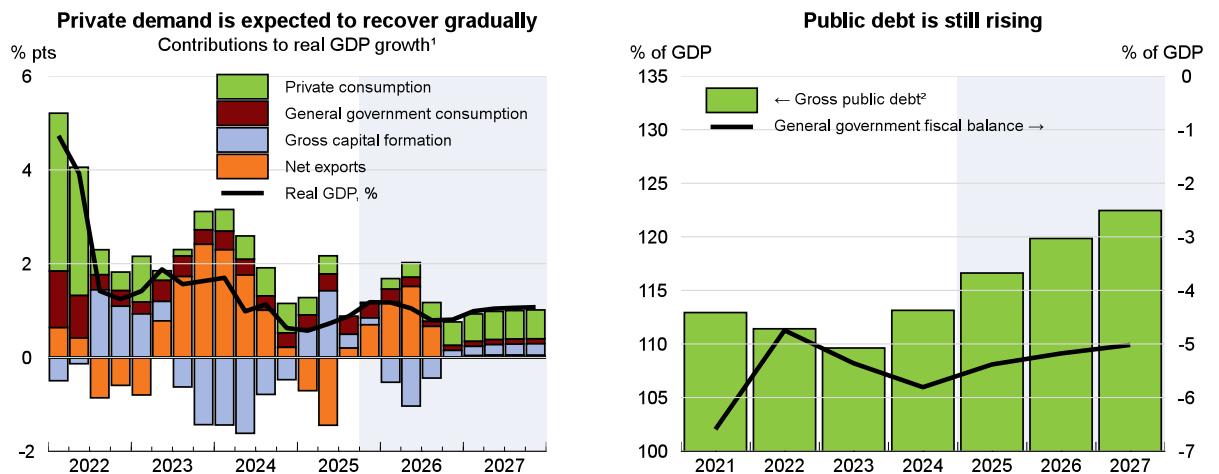
3. National unemployment rate, includes overseas departments.

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 118 database.

StatLink  <https://stat.link/24qz6h>

France 2



1. Year-on-year growth rates.

2. Maastricht definition.

Source: OECD Economic Outlook 118 database.

StatLink <https://stat.link/wczb6e>

The expected reduction in the deficit will be insufficient to stabilise debt

The fiscal deficit is expected to fall from 5.8% of GDP in 2024 to 5.4% of GDP in 2025, reflecting an almost 1% adjustment in the underlying primary balance, the largest in a decade, excluding the post-pandemic correction in 2022. This has mainly been achieved through higher taxes. The government aims for a deficit of 4.7% of GDP in 2026, requiring a similar consolidation effort. Planned measures include extended taxes on large firms and high earners, a new tax on holding companies, spending cuts at all government levels, slower health spending growth, and freezes on pensions and benefits. Due to the political uncertainty, the deficit is projected to reach 5.2% of GDP in 2026, with a less ambitious adjustment in the underlying primary balance of 0.4% of potential GDP. There is no detailed plan for 2027 yet, but a stronger 0.6% of GDP consolidation effort is assumed, which is closer to the 0.7% of GDP target in the medium-term budgetary plan. This results in a 5% of GDP deficit in 2027. Room for further consolidation is limited by a wider output gap, the end of EU recovery funds, and persistent political uncertainty. The cost of public debt has increased significantly, reflecting persistent concerns over policy uncertainty and the government's ability to manage public debt.

Monetary easing since mid-2024 has eased lending conditions, gradually supporting business and housing investment. However, pass-through to long-term rates remains incomplete, as seen in the continued lag in new housing loan growth relative to the euro-area average.

Renewed uncertainty will further delay the rebound in growth

After a sharp slowdown in 2025, GDP growth is expected to increase in 2026 and 2027, though ongoing policy uncertainty will dampen domestic demand for some time. Exports will surge in late 2025, led by a rebound in aeronautics and shipbuilding, but will be significantly offset by inventory depletion. Aeronautics, which accounts for 10% of exports, will continue to support export growth, driven by record orders, expanded overseas production and tariff exemptions. Domestic demand is set to weaken at the end of 2025 as confidence has dropped, following the political turmoil and uncertainty over the budget, leading to job losses. Consumption and investment are expected to recover gradually as fiscal clarity improves. After

having reached almost 19% in the second quarter, the highest level since 1979 (excluding the pandemic period), the household gross saving rate will remain exceptionally high but gradually decline as consumption strengthens. Residential investment will continue to rise, driven by building permits issued since late 2024. Business investment will remain subdued until early 2026 before accelerating. Fiscal consolidation in 2026 and 2027 will weigh on growth, partly offset by the delayed effects of monetary easing and a positive contribution of government consumption to growth. Inflation will stay below the euro area average through 2026 due to weak growth, despite food price pressures and will slightly increase in 2027.

Risks are tilted to the downside. Renewed policy uncertainty if no budget is voted at the end of the year due to the absence of a clear majority in parliament may further constrain households and firms' investment decisions. 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 rise in defence spending in Europe could benefit French producers sooner than expected and further support exports.

Containing debt and boosting potential output require comprehensive reforms

Sticking to fiscal consolidation is vital for France to stabilise and reduce public debt eventually. Achieving the deficit target of 3% of GDP by 2030 will require a broad strategy: spending cuts, a shift towards less distortive taxation and structural reforms to boost potential growth. Accelerating technology adoption, including Artificial Intelligence, is key to unlocking productivity gains. This calls for stronger support to small and medium-sized enterprises (SMEs) and efforts to improve technological skills, particularly through better education for disadvantaged students and increased training for the less qualified. Innovation performance can also be enhanced by redirecting support to high-potential SMEs, improving public research commercialisation and reducing barriers to scale for medium-sized companies. France maintains generally competition-friendly product market regulations, especially in digital markets, supporting the business environment. However, France's strictest regulations are in the services sector, unchanged since 2018, with high barriers for architects and accountants and significant practice controls for lawyers and real estate agents. Retail and medicine distribution also remain tightly regulated.

Germany

The economy is projected to grow by 0.3% in 2025, 1% in 2026 and 1.5% in 2027 (GDP with working day adjustments). Private consumption will increase due to low inflation, rising nominal wages and decreasing domestic policy uncertainty. High trade policy uncertainty and US tariffs will hamper investment in export-oriented manufacturing and foreign demand. Private investment will pick up, supported by high corporate savings, declining interest rates and lower domestic policy uncertainty. Public spending on defence and infrastructure will rise strongly due to the increased flexibility in the fiscal rules and large investment needs.

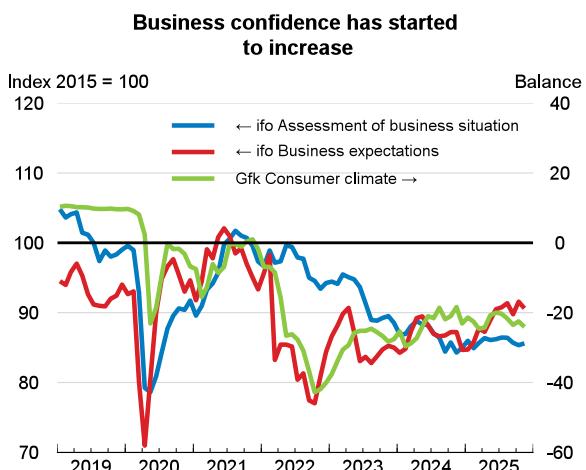
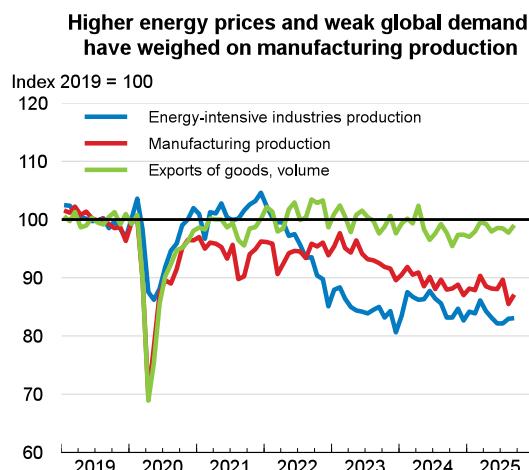
Ensuring medium-term fiscal sustainability requires improved public spending efficiency, reallocation of spending and broadening the tax base, and addressing rising spending pressures due to rapid population ageing. Continuing to reduce administrative burdens, digitalise the public administration and 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 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 stagnated in the third quarter of 2025. Exports decreased compared to the second quarter, while private investments in machinery and equipment increased. Energy prices remain higher than before the onset of war in Ukraine, particularly affecting output in energy-intensive industries. Monthly industrial production decreased in August, due to declines in automotive, machinery and equipment and pharmaceuticals output, and only partly recovered in September. Despite rising real wages, 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, domestic policy uncertainty has declined. The ifo business expectations indicator has increased since March, despite higher trade policy uncertainty. In September, retail sale volumes stood at 0.2% above the previous year's level. Annual headline inflation eased to 2.3% in October. Core inflation remains sticky, at 2.8% in October, mainly driven by rising service price inflation, fuelled by strongly rising nominal wages. Although labour markets have cooled, unemployment remains low.

Rising trade protection and increasing competition from China in key export markets have weighed on export volumes. The rise in uncertainty about future US trade policy led to front-loading and a strong increase of exports in the first quarter of 2025, with export volumes remaining at that level in the second quarter despite a strong decline in nominal exports to the United States. Export values increased by 1.4% in September and stood 2% above the previous year's level, but export volumes have started to decline.

Germany 1



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

StatLink <https://stat.link/btrik0>

Germany: Demand, output and prices

Germany	2022	2023	2024	2025	2026	2027	Current prices	Percentage changes, volume			
							EUR billion	(2020 prices)			
GDP at market prices											
Private consumption	3 982.8	-0.7	-0.5	0.3	1.0	1.5	2 090.6	-0.5	0.5	1.1	0.9
Government consumption	868.2	-0.2	2.6	2.2	1.7	1.5	858.1	-1.6	-3.2	-0.5	2.2
Gross fixed capital formation	3 816.9	-0.7	0.2	1.0	1.4	1.7	69.8	-0.1	0.0	0.7	0.1
Final domestic demand	3 886.7	-0.7	0.2	1.7	1.5	1.6	1 811.9	-0.9	-1.9	0.0	1.0
Stockbuilding ¹	1 715.9	-1.0	-0.4	3.7	2.2	2.6	96.0	0.0	-0.7	-1.4	-0.4
Total domestic demand	96.0	0.0	-0.7	-1.4	-0.4	-0.1	Net exports ¹				
<i>Memorandum items</i>											
GDP without working day adjustments	3 989.5	-0.9	-0.5	0.2	1.3	1.6	GDP deflator	—	6.7	3.1	2.8
Harmonised index of consumer prices	—	6.0	2.5	2.2	2.1	2.3	Harmonised index of core inflation ²	—	5.1	3.2	2.7
Unemployment rate (% of labour force)	—	3.1	3.4	3.7	3.6	3.5	Household saving ratio, net (% of disposable income)	—	10.4	11.2	11.2
General government financial balance (% of GDP)	—	-2.5	-2.7	-2.5	-3.0	-3.7	General government gross debt (% of GDP)	—	63.3	62.8	64.1
General government debt, Maastricht definition ³ (% of GDP)	—	62.3	62.2	63.4	65.0	67.6	Current account balance (% of GDP)	—	5.5	5.7	4.8

1. Contributions to changes in real GDP, actual amount in the first column.

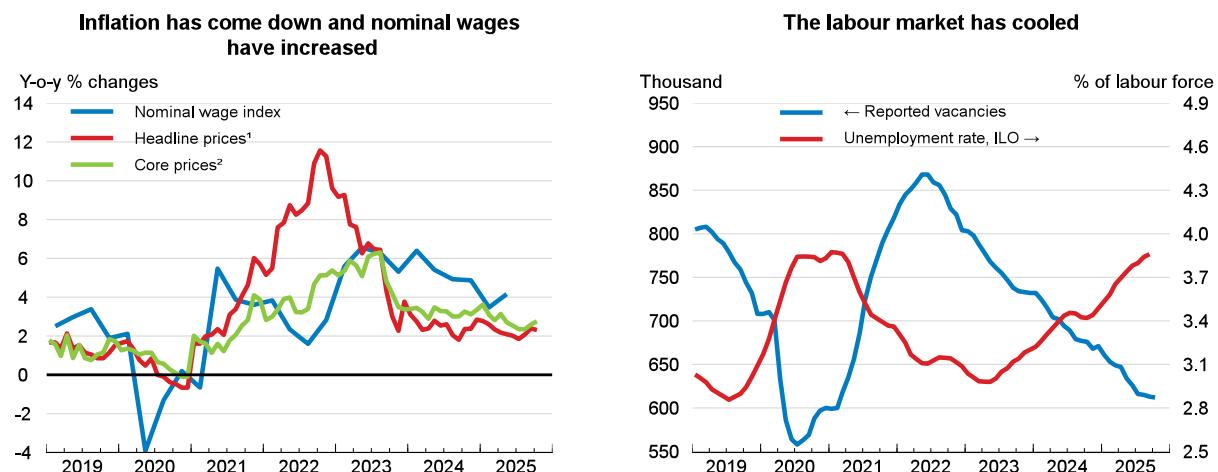
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

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 118 database.

StatLink <https://stat.link/4p7ye1>

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/6fc1va>

Defence spending and infrastructure investment are set to increase strongly

After tightening by 0.4% of GDP in 2025, the fiscal stance will strongly expand by 0.5% of GDP in 2026 and 0.9% of GDP in 2027. Due to the fall of the previous coalition government and failure to conclude negotiations on the 2025 budget, a provisional budget restricted public spending until early October, when the 2025 budget and spending plans for special funds were approved by the new federal government. A reform of the national fiscal rules in March allows higher investments in defence and infrastructure over the coming years. The government plans to increase defence spending from 2.1% in 2024 to 3.5% of GDP by 2029, which will be financed by issuing public debt. Moreover, a debt-financed special infrastructure fund will provide up to about 12% of GDP for additional investment in infrastructure and the green transition over the next 12 years. As infrastructure planning and approval procedures will take time, public investment is expected to increase gradually from 3.1% of GDP in 2025 to 3.5% in 2027. Together with the existing climate and transformation fund, the new infrastructure fund will also finance support measures to crowd in private investment and accelerate the green transition.

Other measures are planned to revive the stagnating economy, modernise the public administration and address skilled labour shortages. Depreciation allowances for investment in equipment will be raised starting from 2026. It is also planned to reduce the electricity tax and network charges and raise subsidies for energy-intensive firms. The government has committed to reducing administrative burdens and accelerating the digitalisation of the public administration, including for example the establishment of a one-stop shop for setting up a firm. Moreover, labour supply incentives are to be raised by partially exempting from income taxes additional income from working extra-hours and earnings of workers above the statutory retirement age.

The recovery will be driven by domestic demand

GDP will grow by 0.3% in 2025, 1% in 2026 and 1.5% in 2027 (0.2%, 1.3% and 1.6%, respectively, without working day adjustments). Lower domestic policy uncertainty will support private domestic demand, with private consumption also helped by low inflation and rising nominal wages. Private investment will pick up due to high corporate savings, declining interest rates, tax incentives for equipment investments and measures to support firms during the green transition. However, high trade policy uncertainty and US tariffs will hamper investment in export-oriented manufacturing and weigh on foreign demand. Public investment in defence and infrastructure will rise strongly due to the increased flexibility in the fiscal rules and large investment needs, with potential for crowding in private investment. Headline and core inflation will start to rise in 2026 due to strongly increasing domestic demand.

A further escalation in trade policy tensions would weigh on GDP, as the manufacturing sector is strongly integrated in global supply chains. If public procurement and infrastructure planning and approval procedures are not accelerated, the implementation of public investment and other spending projects would be delayed, reducing GDP growth in 2026 and 2027. Moreover, if structural reforms to support the supply side of the economy are not implemented, the significant fiscal easing may lead to strongly rising inflationary pressures.

Structural reforms should complement the reform of fiscal rules

To ensure a quick and efficient implementation of public investment and defence spending, it is key to simplify and harmonise public procurement and infrastructure planning and approval procedures. This should be combined with improvements to public administration capacity, particularly at the local level. To avoid rising inflationary pressures, the reform of fiscal rules should be combined 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 digitalisation in 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, particularly in the construction sector, 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 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 through increased support for completion of formal VET degrees.

Greece

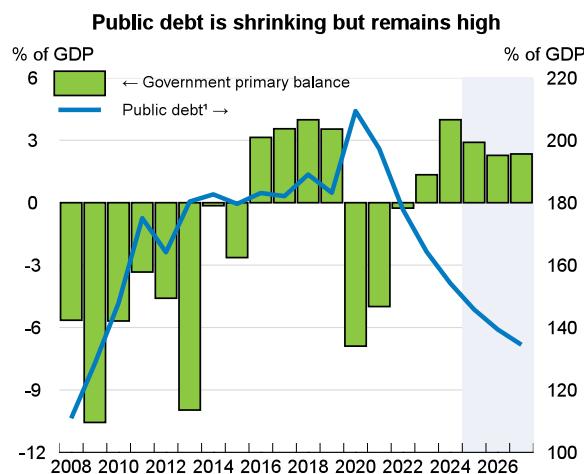
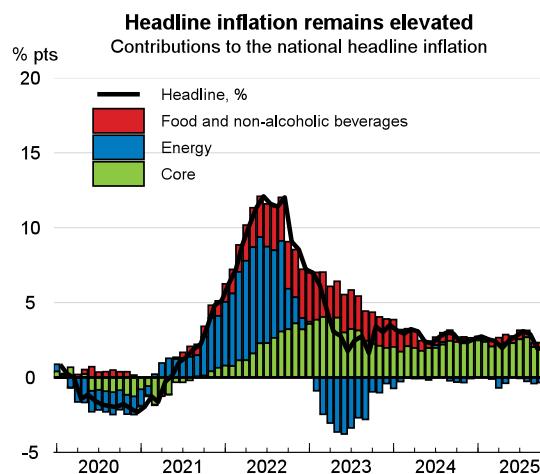
GDP growth is projected to be 2.1% in 2025 and 2.2% in 2026, before easing to 1.8% in 2027 as strong investment growth moderates. The slowdown of investment is due to the phasing-out of disbursements of Recovery and Resilience funds, while consumption will remain strong, supported by employment gains and growing real wages. Exports are set to improve with a recovery in international demand. Headline inflation will ease slowly to 2.1% in 2027 amidst tight labour markets. Wage growth exceeding productivity gains, renewed extreme weather events, and the incomplete implementation of EU funds could dampen the outlook.

Sizeable primary fiscal surpluses from 2.3% to 2.9% of GDP are projected in 2025-2027. Keeping public debt on a firmly declining path should remain a priority as ageing costs and investment needs will remain high. Pursuing efforts to make regulations more business-friendly, reducing restrictions on professional services, and easing labour shortages, are key priorities to sustain strong growth and reduce further the public debt-to-GDP ratio.

Growth remains robust

The economy grew by 1.7% in the year to the second quarter of 2025, driven by investment, private consumption and net exports. Employment grew by 0.6% in the first half of 2025. High frequency indicators continue to point towards expansion in the second half of 2025. Inflation remained persistent at close to 3% in the third quarter of 2025, as services and food price increases outweighed lower energy prices, but declined sharply to 1.6% in October 2025. Labour shortages remain high as the unemployment rate fell to 8.2% in September 2025. Growth of wage costs strengthened to 8.7% in the year to the second quarter of 2025, up from 4.9% a year earlier.

Greece



1. Gross public debt, Maastricht definition.

Source: OECD Consumer Prices database; and OECD Economic Outlook 118 database.

Greece: Demand, output and prices

	2022	2023	2024	2025	2026	2027
	Current prices EUR billion	Percentage changes, volume (2020 prices)				
Greece						
GDP at market prices	207.0	2.1	2.1	2.1	2.2	1.8
Private consumption	146.9	2.3	2.4	2.0	2.0	1.9
Government consumption	41.2	2.8	-2.6	1.4	1.7	0.4
Gross fixed capital formation	32.5	6.5	4.5	6.0	8.8	1.5
Final domestic demand	220.6	3.0	1.8	2.5	3.0	1.6
Stockbuilding ^{1,2}	6.4	-2.1	2.1	-1.9	0.2	0.0
Total domestic demand	227.0	0.8	3.8	0.7	3.2	1.5
Exports of goods and services	101.9	2.2	1.0	2.4	2.5	3.0
Imports of goods and services	121.9	0.0	4.8	1.1	4.3	2.3
Net exports ¹	-20.0	1.0	-1.9	0.5	-1.0	0.1
<i>Memorandum items</i>						
GDP deflator	—	6.3	3.2	3.5	2.7	2.2
Harmonised index of consumer prices	—	4.2	3.0	2.9	2.2	2.1
Harmonised index of core inflation ³	—	5.3	3.6	3.7	2.3	2.1
Unemployment rate (% of labour force)	—	11.1	10.1	8.7	8.2	8.1
General government financial balance ⁴ (% of GDP)	—	-1.4	1.2	0.5	-0.1	-0.1
General government gross debt (% of GDP)	—	180.8	170.3	161.9	155.5	150.6
General government debt, Maastricht definition ⁵ (% of GDP)	—	164.3	154.2	145.8	139.4	134.5
Current account balance ⁶ (% of GDP)	—	-7.2	-7.3	-6.3	-6.7	-5.9

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. 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 118 database.

StatLink  <https://stat.link/f5s4km>

Credit to businesses continued to expand as interest rates for new loans to non-financial corporations decreased from 4.7% in January 2025 to 4% in September 2025. Growth in tourism has been strong, with travel receipts over the first half of 2025 11% higher compared to the same period in 2024. Limited trade links are mitigating the impact of US tariffs, but US tariffs will also weigh on exports by lowering demand from trading partners, such as Germany. Interest rates on 10-year government bonds decreased by 5 basis points from January 2025 to October 2025, while the spread to German bonds fell by 19 basis points over the same period.

High fiscal revenues will support further debt reductions

The primary budget surplus is projected to remain sizeable at 2.3-2.9% of GDP in 2025-2027, in line with the government targets. Stronger-than-expected revenues underpinned a primary surplus of 4% of GDP in 2024 and created room for some additional spending. New fiscal measures amount to 0.7% of GDP in 2026, rising to 0.9% of GDP in 2027, mostly reflecting a personal income tax reform for employees, pensioners, farmers, the self-employed and families, increasing spending on defence and security, and new rental support from November 2025 onwards. Planned minimum wage increases, by 8% cumulatively until April 2027, will provide additional income support. Expenditure financed by Recovery and Resilience funds is projected to rise from 2.1% of GDP in 2025 to 4% of GDP in 2026 before being phased-out, which will moderate investment growth.

Growth will remain resilient

GDP growth is projected to remain resilient at 2.1% in 2025, 2.2% in 2026 and 1.8% in 2027. Growing disposable incomes, reflecting continued expansion of employment and rising real wages, will support consumption. Strong investment growth until 2026 is projected to slow in 2027 with the phase-out of the Recovery and Resilience funds. Export growth will pick up gradually as external demand strengthens. Headline inflation is projected to ease gradually amidst tight labour markets, returning close to target in 2027. Wage growth outpacing productivity gains, extreme weather events, or incomplete implementation of the Recovery and Resilience Plan “Greece 2.0” could dampen the outlook.

Reform momentum needs to be maintained to foster growth and reduce debt

Keeping the public debt-to-GDP ratio on a declining path remains key given the still high debt level and high future spending pressures, from high investment needs, climate change and population ageing. Sustained, strong growth will be needed to raise living standards and meet spending needs while reducing debt. With Greece’s population ageing, improving the business environment further and easing skills shortages are key priorities. Continuing recent measures to make the regulatory framework more business-friendly would strengthen competition and boost investments. There remains scope to reduce regulatory burdens by formalising and accelerating the review of existing business regulations, ensuring an effective consultation of stakeholders on new legislation, and easing restrictions on professional services, notably notaries and lawyers. Strengthening vocational training, rebalancing labour market policies towards training and counselling for unemployed workers, while ensuring high training quality, would reduce skill mismatches and better meet firms’ labour needs. Improving access to childcare by shifting public spending from birth grants towards childcare facilities would help encourage female labour force participation.

Hungary

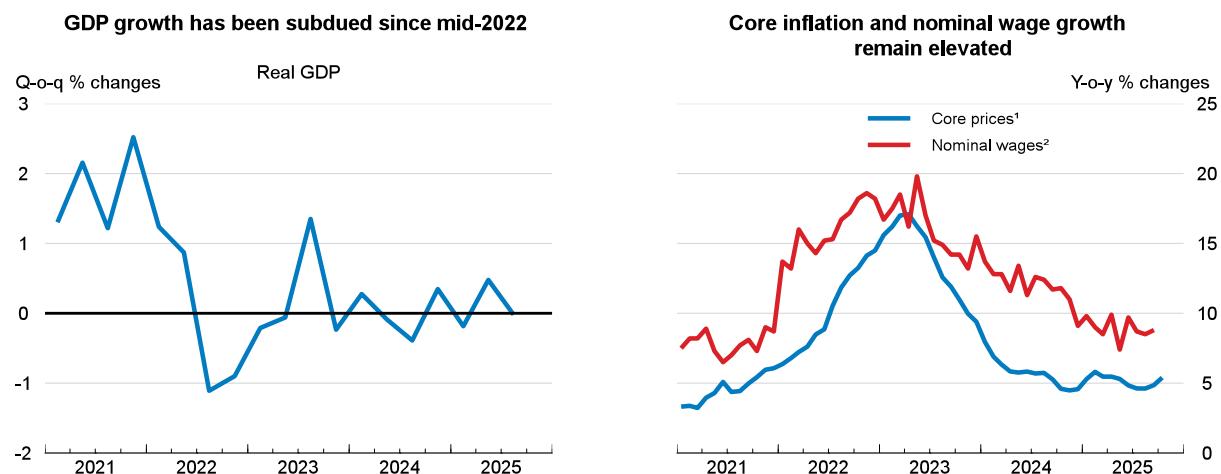
Due to subdued activity in 2024 and early 2025, Hungary's GDP growth will reach 0.3% in 2025 and pick up to 1.9% in 2026 and 2.3% in 2027. Private consumption, supported by strong real wage growth and personal income tax cuts in 2026, will be the main engine of growth. After dropping by around 20% over the last two years, investment is expected to broadly stabilise in 2026 and rebound in 2027. Exports are projected to pick up, but sluggish growth in the euro area, particularly Germany, will bear down on the outlook for Hungary.

While core inflation is still above 5%, monetary policy is only projected to ease at a moderate pace to ensure that inflation durably reverts to 3%. While fiscal consolidation has been significant since 2022, fiscal policy is expected to become more accommodative from 2026. Reverting to a tighter fiscal policy will be necessary to prepare for rising spending related to ageing, and climate mitigation and adaptation.

Economic activity is weak

Growth has been subdued since mid-2022. While strong real wage growth is supporting private consumption, investment has declined by 18% since early 2023 amid low business confidence, low capacity utilisation and trade policy uncertainty. Headline inflation has declined from 5.5% in January 2025 to 4.3% in October, but core inflation excluding food and energy remains at 5.4%. Despite subdued economic activity, unemployment rose only moderately to 4.5% in September. Nevertheless, the labour market is becoming less tight as job vacancies have decreased by 20% since early 2025. As a ratio to unemployment, they are now below pre-pandemic levels.

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.

Hungary: Demand, output and prices

	2022	2023	2024	2025	2026	2027
	Current prices HUF billion	Percentage changes, volume (2021 prices)				
Hungary						
GDP at market prices	65 950.4	-0.8	0.6	0.3	1.9	2.3
Private consumption	33 233.8	-2.3	5.6	3.6	4.5	3.5
Government consumption	13 653.7	3.3	-1.8	1.2	2.5	1.3
Gross fixed capital formation	18 161.3	-6.7	-9.9	-6.5	-0.5	4.7
Final domestic demand	65 048.7	-2.4	-0.2	0.6	2.9	3.3
Stockbuilding ¹	4 500.2	-6.2	-1.6	1.1	-0.1	0.0
Total domestic demand	69 548.9	-7.8	-2.0	1.8	2.8	3.3
Exports of goods and services	59 205.0	17.4	-0.9	-0.8	2.5	2.5
Imports of goods and services	62 803.4	8.3	-3.9	1.0	4.1	4.0
Net exports ¹	-3 598.5	7.7	2.3	-1.3	-0.9	-0.9
<i>Memorandum items</i>						
GDP deflator	—	15.1	7.6	6.0	4.4	2.8
Consumer price index	—	17.1	3.7	4.6	3.8	3.4
Core inflation index ²	—	13.8	5.7	5.1	3.7	3.1
Unemployment rate (% of labour force)	—	4.1	4.5	4.4	4.2	4.0
Household saving ratio, net (% of disposable income)	—	15.8	14.3	12.4	13.4	12.7
General government financial balance (% of GDP)	—	-6.8	-5.0	-5.0	-5.0	-4.5
General government gross debt (% of GDP)	—	82.2	82.4	82.5	83.9	84.2
General government debt, Maastricht definition ³ (% of GDP)	—	73.2	73.5	74.2	76.1	76.8
Current account balance (% of GDP)	—	-0.1	1.5	1.5	1.0	0.2

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 118 database.

StatLink  <https://stat.link/g0at97>

While only 5% of Hungarian exports of goods and services are directly shipped to the United States, Hungarian firms are integrated into global value chains of European countries that are also exposed to US tariffs, especially in the automotive sector. Higher US tariffs on EU goods will thus indirectly weigh on Hungary through reduced activity in the European Union, representing 65% of Hungarian exports.

Monetary policy is expected to continue easing moderately, and fiscal policy to become more accommodative

Given the continued strong underlying inflation developments, the Central Bank has kept its policy rate at 6.5% since September 2024. Looking ahead, it is expected to implement further policy rate cuts at a moderate pace to ensure that inflation reverts back to its 3% target. The policy rate is projected to settle around 5.5% by the end of 2027. The headline fiscal deficit is expected to stabilise at 5.0% in 2025 and 2026 before narrowing to 4.5% in 2027, amid personal income tax (PIT) cuts and one-off public wage premia, but also declining public investment and debt servicing costs as a share of GDP.

Growth is expected to strengthen, mainly supported by private consumption

GDP growth is expected to increase to 1.9% in 2026 and 2.3% in 2027, while inflation is projected to revert to the 3% target by mid-2027. Private consumption will be supported by strong real wage growth and PIT cuts in 2026. Despite the decline in investment since early 2023, banks do not anticipate any quick rebound

in corporate credit and public investment is constrained by blocked EU funds. Investment is set to broadly stabilise in 2026 and to rebound progressively in 2027. Exports are projected to pick up but will remain closely connected to external demand growth, especially from Germany. In theory, the availability of new manufacturing capacity may provide a further boost to Hungarian exports over 2026-27. Nevertheless, industrial capacity utilisation is low and the potential of the new factories will be fully exploited only if external demand picks up significantly.

Structural reforms are needed to improve fiscal sustainability and growth

Reforming public pensions – for example by tightening eligibility conditions and adjusting benefit levels – would limit the increase in ageing-related spending, which is projected to exceed 5% of GDP by 2070. However, financing future pensions will also require additional fiscal space, which calls for consolidation. Restructuring energy support by moving from price caps to targeted cash transfers to vulnerable households would increase incentives for saving energy and renovating dwellings, reduce the exposure of public finances to fluctuations in energy prices, and lower dependence on energy imports. Simplifying administrative procedures and reducing costs for business creation, improving the insolvency framework to facilitate the reallocation of capital across firms, and ensuring a favourable business environment by strengthening the fight against corruption would support business dynamism, competition and productivity, which is lagging behind OECD peers.

Iceland

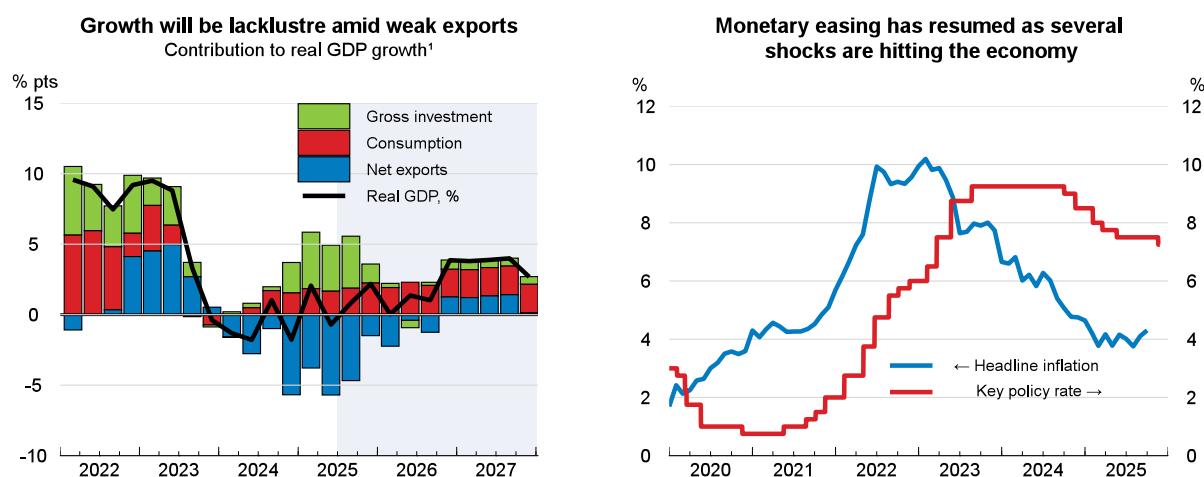
GDP growth is set to increase from 1.1% in 2025 to 1.6% in 2026 and 3.6% in 2027, driven by robust private consumption and a rebound of exports. Business investment growth will decline from a high level. The unemployment rate will edge up above 4%, but the labour market will remain tight. Inflation currently hovers around 4% and is expected to reach the target by the second half of 2026. Major risks include a violent volcanic eruption and further tariff escalation affecting Iceland's main export goods.

The central bank is expected to continue lowering the policy rate in early 2026 and cut it further until it reaches around 5% in 2027, which is appropriate. Fiscal policy is tight and set to remain so over 2026-27, which will help underpin disinflation and build up fiscal space. Reforming the stringent regulatory framework and fostering competition will strengthen business dynamism and raise productivity.

Growth remains sluggish

Activity remains subdued amid persistently tight monetary policy and elevated global uncertainty. Export growth is held back by several shocks in late 2025, among them the failure of an electric interconnector at a large aluminium plant and the bankruptcy of a low-cost airline. Private consumption is recovering only gradually, constrained by fragile and volatile consumer sentiment despite a steady increase in real wages. After strong growth in the second quarter of 2025, business investment is weakening as demand for AI-related infrastructure and equipment has reached a peak. Housing investment has moderated, reflecting slowing population growth and restrictive financial conditions. The unemployment rate has started to rise, although the labour market remains tight overall. Headline consumer price inflation remains high at around 4%, significantly above the 2.5% target. It is driven primarily by food and domestic service prices, with the contribution from housing gradually diminishing.

Iceland



Source: OECD Economic Outlook 118 database; Statistics Iceland; and Central Bank of Iceland.

StatLink <https://stat.link/2mw1z>

Iceland: Demand, output and prices

	2022	2023	2024	2025	2026	2027
	Current prices ISK billion	Percentage changes, volume (2020 prices)				
Iceland						
GDP at market prices	3 945.6	5.2	-1.0	1.1	1.6	3.6
Private consumption	1 963.2	0.6	0.9	3.2	3.1	3.1
Government consumption	1 008.4	2.4	1.9	1.2	1.9	1.8
Gross fixed capital formation	937.6	4.8	7.6	8.8	0.6	2.1
Final domestic demand	3 909.2	2.1	2.9	4.2	2.2	2.5
Stockbuilding ¹	19.2	0.2	-1.1	0.7	0.0	0.0
Total domestic demand	3 928.4	2.4	1.7	5.0	2.2	2.5
Exports of goods and services	1 844.2	4.7	-2.3	1.2	-1.6	5.3
Imports of goods and services	1 827.1	-2.0	4.0	10.1	0.0	2.5
Net exports ¹	17.1	3.1	-2.7	-3.9	-0.7	1.0
<i>Memorandum items</i>						
GDP deflator	–	5.3	6.0	5.7	3.5	2.3
Consumer price index	–	8.7	5.9	4.1	3.3	2.5
Core inflation index ²	–	8.4	6.1	3.9	3.2	2.5
Unemployment rate (% of labour force)	–	3.4	3.4	3.6	3.7	4.2
General government financial balance (% of GDP)	–	-2.2	-3.6	-2.9	-2.4	-1.6
General government gross debt ³	–	78.3	80.9	82.3	83.5	83.6
Current account balance (% of GDP)	–	-1.1	-2.6	-4.1	-2.8	-1.8

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 118 database.

StatLink  <https://stat.link/pzumtk>

The external balance continues to deteriorate, reflecting sustained import demand, particularly for data centre-related capital goods sourced from abroad. As a result, both the current account balance and the net export contribution to growth have turned increasingly negative. Since August 2025 Icelandic exports face a general 15% import tariff from the United States, especially affecting seafood exports. The increase in US tariffs on aluminium imports from 10% to 25% in March and 50% in June triggered a sharp, albeit temporary decline in global aluminium prices. While Iceland does not export aluminium directly to the United States, the price shock has weighed on export revenues.

Macroeconomic policy will remain tight

The central bank has reduced its policy rate from 9.25% in September 2024 to 7.25% by November 2025. Given the slowing pace of disinflation, with inflation expected to reach the target by mid-2026, further rate cuts are projected to restart in early 2026. The trade-weighted exchange rate has appreciated since summer 2025, largely due to a weaker US dollar. Fiscal policy is set to tighten further, with the underlying primary balance improving by 1.2% of GDP between 2025 and 2027, primarily through better tax collection. Fiscal tightening will support disinflation and broaden fiscal space.

The economy will rebound gradually

The economy is projected to grow by 1.6% in 2026 and 3.6% in 2027. Private consumption will strengthen, underpinned by continued gains in real wages. Exports are projected to remain weak through to late 2026, reflecting lower fishing quotas but are expected to strengthen thereafter as production at the aluminium plant resumes. Residential investment will rebound as financial conditions ease and disposable income

rises, despite a Supreme Court ruling prohibiting indexed mortgages. Business investment growth will moderate, as demand for computer equipment will weaken further. Consequently, capital goods imports will also decline. The unemployment rate will edge up above 4% by 2027. Headline inflation is projected to decline in the face of still tight macroeconomic policies but to stay above target until mid-2026. Upside risks to inflation persist, particularly if wage growth exceeds the rates agreed in 2024. An escalating tariff war could constrain goods exports. Volcanic activity could cause new infrastructure damage and require additional public spending on relief and resettlement.

Reforming the regulatory framework would help raise productivity

Implementing trade facilitation measures and reducing trade costs would promote international trade. Simplifying administrative procedures for start-ups would increase business dynamism. Easing the stringent regulations for foreign direct investment would accelerate access to the global technological frontier and strengthen business investment. Reforming the insolvency framework would contribute to the restructuring of viable firms and the exit of unviable ones. Reducing exemptions in the value-added tax (VAT) system, notably by subjecting tourism services to the standard VAT rate, would improve tax collection. Carrying out spending reviews, building on earlier experiences, and expanding the mandate of the Fiscal Council, could make public spending more efficient.

India

Real GDP is projected to grow by 6.7% in fiscal year 2025-26, 6.2% in 2026-27 and 6.4% in 2027-28. Higher tariffs applied by the United States are expected to weigh on exports, but private consumption will be supported by rising real incomes as inflation remains low and consumption taxes decline. Buoyant investment will be sustained by declining borrowing costs and strong public capital expenditure. Current low headline inflation is projected to gradually converge towards the 4% target. Risks are broadly balanced. Bilateral negotiations with the United States could lead to lower tariffs and boost exports and investment, while higher oil import prices could create inflation pressures.

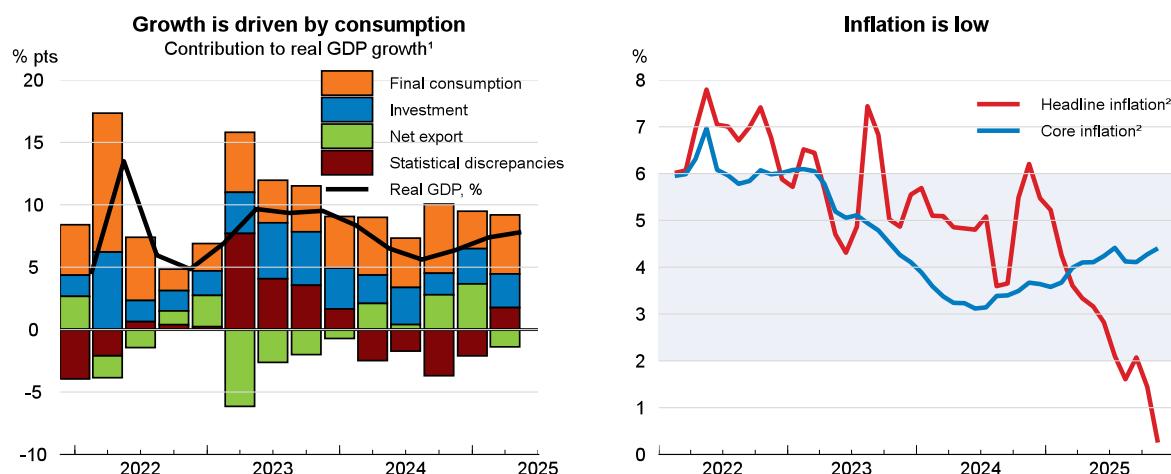
The current broadly neutral fiscal stance balances support to growth in the face of global trade headwinds with the need to rebuild fiscal buffers and bring public debt to a more prudent path. Monetary policy has eased since the beginning of the year, but with below-target inflation and below-trend growth, there is room for further cuts in the policy rate. Sustaining strong public investment and encouraging private participation through enhanced public-private partnerships would speed up infrastructure development and ease persistent bottlenecks.

Economic momentum remains strong, but the trade deficit is rising

The economy remains on a robust growth trajectory. Real GDP expanded by 7.8% year-on-year in the quarter ending in June, which was the first quarter of the fiscal year 2025-26. Private consumption remained the main growth driver, with government consumption also contributing positively. Investment was sustained by easing financial conditions and continued public capital spending. Manufacturing output has grown steadily, reflecting robust demand for capital goods and steady growth in exports of engineering products. The services sector was a major contributor to growth, led by robust performance in finance, trade, transport, and information technology. High-frequency indicators suggest strong industrial activity and improving labour-market conditions, with rising labour force participation and employment rates. Business surveys report sustained optimism. However, the goods trade deficit widened in September, as merchandise exports to the United States fell on the back of higher tariffs.

Headline inflation fell to 0.3% in October 2025, driven by lower Goods and Services Tax (GST) rates, easing food prices, which constitute nearly half of the CPI basket, and lower energy costs. Core inflation remains around 4%. Good harvest outcomes have contributed to declining food prices, while lower crude oil prices have reduced energy costs, easing pressures on transport and industrial production. The rupee has remained broadly stable against the US dollar, supported by strong capital inflows and a narrowing current account deficit, helping to contain imported inflation. Wage growth is moderate, but central bank survey data signal some upward pressure on input costs and wages. The new 50% bilateral tariffs imposed by the United States are expected to weigh on exports and investment, especially in labour-intensive and export-oriented sectors such as textiles, chemicals, and engineering goods, although some products are exempt, lowering the effective tariff rate. Merchandise exports to the US account for about 2% of Indian 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 tolerance band around the central bank's inflation target.

Source: OECD Economic Outlook 118 database; and RBI.

StatLink <https://stat.link/o9eau7>

India: Demand, output and prices

India	2022	2023	2024	2025	2026	2027	Current prices	Percentage changes, volume
							INR trillion	(2011/2012 prices)
GDP at market prices								
Private consumption	268.9	9.2	6.5	6.7	6.2	6.4	165.3	5.6
Government consumption			7.2	5.6	6.0	6.4	27.6	8.1
Gross fixed capital formation			2.3	5.2	4.7	4.9	84.0	8.8
Final domestic demand	276.8	6.8	6.6	5.9	6.0	6.4	276.8	6.8
Stockbuilding ^{1,2}	1.7	0.7	0.1	-0.1	0.0	0.0		
Total domestic demand	278.5	11.9	4.1	9.2	5.9	6.4	278.5	11.9
Exports of goods and services	62.5	2.2	6.3	2.3	2.6	3.2		
Imports of goods and services	72.1	13.8	-3.7	13.5	2.0	3.2		
Net exports ¹	-9.6	-2.8	2.3	-2.5	0.1	-0.1		
<i>Memorandum items</i>								
GDP deflator	—	2.6	3.1	1.2	3.1	3.6		
Consumer price index	—	5.4	4.6	1.9	3.4	4.0		
Central government financial balance (% of GDP)	—	-5.5	-4.9	-4.5	-4.4	-4.4		
Central government gross debt (% of GDP)	—	57.6	57.3	57.6	57.0	56.1		
General government financial balance (% of GDP)	—	-8.8	-7.5	-7.5	-7.4	-7.1		
General government gross debt (% of GDP)	—	81.8	80.8	81.8	81.8	81.0		
Current account balance (% of GDP)	—	-0.7	-0.6	-1.1	-1.6	-1.5		

Note: Data refer to fiscal years starting in April.

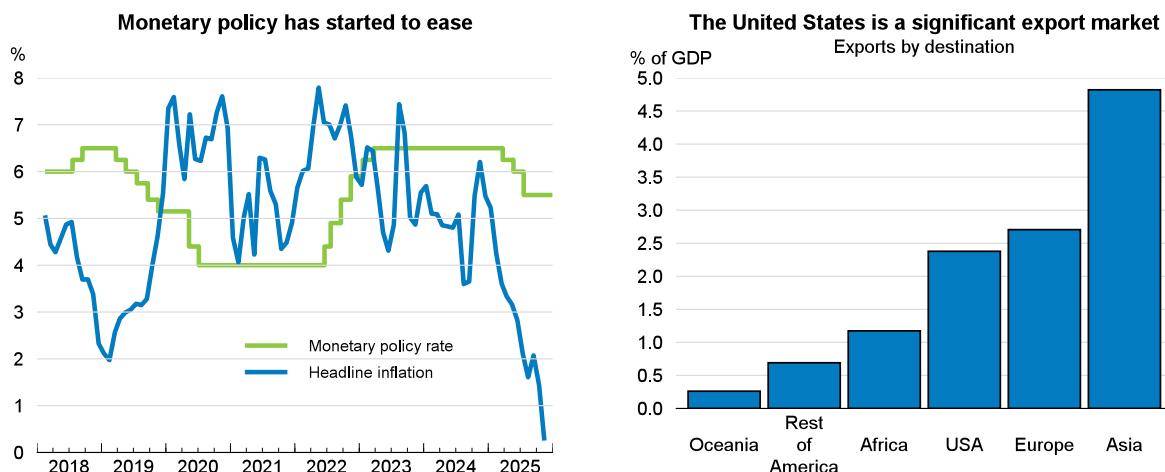
1. Contributions to changes in real GDP, actual amount in the first column.

2. Actual amount in first column includes statistical discrepancies and valuates.

Source: OECD Economic Outlook 118 database.

StatLink <https://stat.link/zgsy63>

India 2



Source: OECD Economic Outlook 118 database; RBI; and Indian Ministry of Commerce and Industry.

StatLink <https://stat.link/avj70n>

Monetary easing and tax reform support growth

The policy interest rate has declined from 6.5% in January to 5.5% in September 2025, with average lending rates on fresh and outstanding loans falling by about 0.6 percentage points. Bank credit growth has been sustained by easing financial conditions and stronger bank balance sheets. With inflation below the central bank's 4% inflation target, the central bank has room to extend the easing cycle. If inflation remains within the target range and inflation expectations remain well anchored, the policy rate could gradually decline toward 5% by fiscal year 2026–27.

The central government budget deficit is expected to decline from 4.9% of GDP in fiscal year 2024-25 to 4.5% of GDP in 2025-26 and remain broadly constant over the following years. The Goods and Services Tax (GST) reform that consolidates multiple tiers into two main rates and a special rate for luxury and so called "demerit goods" (products considered harmful to health and society) is expected to reduce fiscal revenues by around 0.1% of GDP in fiscal year 2025-26 and 0.2% of GDP per year in the following years. This will likely be offset by higher revenues from the pick-up in GDP growth and the positive impact of tax code simplification and digitalisation on compliance, as well as lower expenditure on subsidies. Overall tax revenues are projected to increase by 0.3% of GDP, while total spending is set to decline by 0.1% of GDP. The broadly neutral fiscal stance balances support to growth in the face of global trade headwinds with the need to rebuild fiscal buffers and bring public debt on a more prudent path.

Stable inflation and strong investment sustain growth despite trade tensions

Real GDP is projected to grow by 6.7% in FY2025-26, 6.2% in FY2026-27, and 6.4% in 2027-28. Strong growth in FY2025–26 partly reflects robust growth recorded in the first quarter of the fiscal year. Weaker export growth due to the US tariffs is expected to dent GDP growth in FY2025-26 by about 0.4 percentage points in fiscal year 2025-26 and by about 0.3 percentage points in fiscal year 2026-27, while the launch of the GST reform in September 2025 could boost growth by 0.1 percentage point. Growth is projected to recover in subsequent years as the temporary effects of higher US tariffs dissipate and the efficiency gains

from the GST reform materialise fully. As base effects from favourable food and energy price shocks fade, headline inflation is expected to gradually converge to core inflation, reaching around 4% in FY2026-27.

Risks are broadly balanced. On the upside, successful negotiations with the United States to roll back the recently imposed tariffs would ease trade uncertainty, improve confidence and bolster manufacturing exports. The Northeast Monsoon (October–December) is projected to be normal, but an exceptionally good monsoon would strengthen rural incomes and demand. On the downside, higher oil import prices could raise inflation, weighing on private consumption and industrial production.

Infrastructure, education, and trade reforms are needed for sustained growth

Persistent infrastructure bottlenecks, such as unreliable electricity, inadequate transport networks, and limited digital access, continue to constrain competitiveness and widen regional disparities. Enhanced regulatory frameworks for public-private partnerships and improved risk-sharing, would accelerate infrastructure upgrading. The business environment remains hampered by regulatory complexity and red tape. Despite advances in digitalisation and procedural simplification, firms still navigate multiple approval requirements, licences, and inspections across jurisdictions. Streamlining and harmonising regulations, improving coordination across different levels of government and expanding single-window digital platforms would lower administrative burdens, boost transparency and foster a more competitive business environment. Skill shortages remain a major constraint as many workers lack the training needed for high-growth sectors, such as advanced manufacturing and information technology, and the persistent brain drain exacerbates the problem. Expanding access to technical and vocational education and promoting stronger collaboration between industry and educational institutions would help to close skill gaps and raise job quality. Enhanced support for research and development and advanced technical training would also foster innovation and help retain skilled workers. India's limited integration into global value chains constrains its ability to capitalise on global trade trends and technological diffusion. India has scope to deepen trade integration by actively pursuing new preferential and bilateral trade agreements, while continuing to simplify customs procedures and reduce tariffs.

Indonesia

Real GDP is projected to grow by 5.0% in both 2025 and 2026, before picking up to 5.1% in 2027. Low inflation and easing financial conditions will spur private consumption and investment. However, slowing export growth amid rising global trade frictions is expected to weigh on activity. Inflation is projected to decline to 1.9% in 2025 on the back of limited demand pressures and low energy prices but will pick up to 3.1% in 2026 and 3.2% in 2027, as energy prices normalise and the depreciation of the currency since the beginning of the year gradually feeds into domestic prices. The current account deficit is expected to widen only modestly, but a further decline in commodity prices could exacerbate this by driving down export revenues.

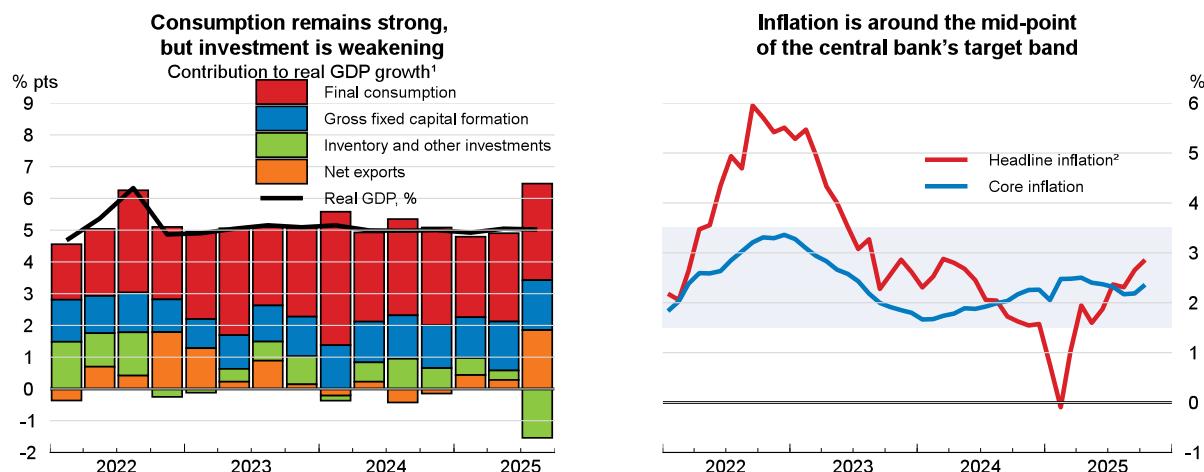
With inflation comfortably within the central bank's target band of 1.5-3.5% and growth around trend, monetary policy is expected to ease further. Fiscal policy is projected to have been moderately expansionary in 2025 as increased spending on a free meals programme and the creation a new sovereign wealth fund will only partially be financed by spending cuts elsewhere, before turning broadly neutral over 2026-27. Raising the efficiency of public spending is a key policy priority, including through improved targeting of social benefits to vulnerable households. Strengthening the governance of public investment through improved planning, monitoring and evaluation would help ensure that infrastructure spending delivers stronger growth outcomes.

The economy has regained momentum

Real GDP grew by 5.0% in the third quarter of 2025, year-over-year and without seasonal adjustment, amid robust household consumption and a positive contribution from net exports. While gross fixed capital formation remained broadly stable, inventory drawdowns contributed negatively to growth. Business sentiment has stabilised, and prices of key export commodities have increased, but elevated borrowing costs and the pick-up in unemployment are weighing on consumer sentiment despite low inflation. Inflation has picked up to 2.9% in October from an average of 0.6% in the first quarter, on the back of the phase-out of a temporary electricity price discount. But overall price pressures remain contained with core inflation of 2.4% in October remaining around the mid-point of the central bank's target band.

Under the preliminary bilateral trade deal with the United States announced in July 2025, a 19% tariff will apply to Indonesian exports, replacing a previously planned 32% rate. The direct effect on growth is expected to be mild, as goods exports to the United States represent less than 2% of GDP. Indirect channels are more significant, as the economy is closely tied to global commodity cycles, with commodity exports amounting to around one-third of total goods exports. Imports from China account for about 30% of imports, helping contain inflation pressures amid heightened global trade frictions.

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 118 database.

StatLink <https://stat.link/yv13gk>

Indonesia: Demand, output and prices

Indonesia	2022	2023	2024	2025	2026	2027	Current prices	Percentage changes, volume
							IDR trillion	(2010 prices)
GDP at market prices								
Private consumption	19 588.5	5.0	5.0	5.0	5.0	5.1	10 390.7	4.9
Government consumption	1 506.3	3.0	6.6	1.6	4.5	6.1	5 697.3	3.8
Gross fixed capital formation	5 697.3	4.6	5.2	5.9	6.1	6.1	17 594.3	4.4
Final domestic demand	17 594.3	4.4	5.1	4.8	5.5	5.8	1 300.5	0.3
Stockbuilding ¹	1 300.5	0.3	0.4	-0.6	-0.4	0.0	18 894.8	4.6
Total domestic demand	18 894.8	5.3	3.9	4.9	5.7	5.7	4 799.7	1.3
Exports of goods and services	4 799.7	6.5	8.9	4.5	3.1	3.1	4 106.1	-1.6
Imports of goods and services	4 106.1	7.9	4.6	3.8	5.2	5.2	693.7	0.7
Net exports ¹	693.7	0.0	1.2	0.4	-0.3			
<i>Memorandum items</i>								
GDP deflator	—	1.5	0.9	2.3	2.2	2.4	—	—
Consumer price index	—	3.7	2.2	1.9	3.1	3.2	—	—
Private consumption deflator	—	4.3	2.6	2.0	2.7	3.8	—	—
Government financial balance ² (% of GDP)	—	-1.6	-2.3	-2.9	-2.9	-2.9	—	—
Government gross debt ² (% of GDP)	—	39.6	40.2	40.5	40.8	40.9	—	—
Current account balance (% of GDP)	—	-0.1	-0.6	0.5	1.3	0.9	—	—

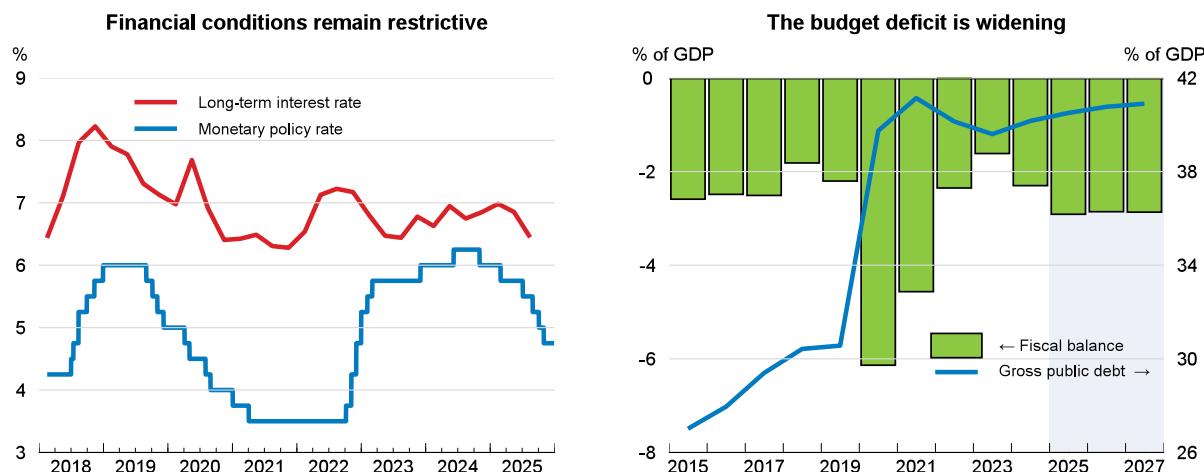
1. Contributions to changes in real GDP, actual amount in the first column.

2. Data refer to general government.

Source: OECD Economic Outlook 118 database.

StatLink <https://stat.link/ryplb6>

Indonesia 2



Source: OECD Economic Outlook 118 database; and CEIC.

StatLink <https://stat.link/ihk2am>

Macroeconomic policies are becoming supportive

Monetary policy is expected to ease further. The ongoing easing cycle has brought the policy rate from 6.25% in August 2024 to 4.75%, but only part of this has been transmitted to bank lending rates and corporate bond spreads, which are only marginally lower than before the easing cycle. Lending growth remains well below the pre-easing and pre-pandemic averages. With stable inflation expectations and domestic demand growth projected to be around trend, there is room for the central bank to reduce the policy rate further by around 50 basis points towards a more accommodative level. Pursuing a data-dependent approach that balances support to economic growth and close monitoring of price pressures from the currency depreciation of around 3% against the US dollar since the beginning of the year – driven partly by narrower rate differentials – is key to durably maintain inflation within target.

The government budget deficit is expected to increase from 2.3% of GDP in 2024 to 2.9% over 2025-27. The expansion of a free meals programme for schoolchildren and pregnant women, the creation of a new sovereign wealth fund and various fiscal stimulus programmes – including energy, wage and transport subsidies – will raise expenditure by about 0.9% of GDP. This will be mitigated by across-the-board spending cuts amounting to around 0.3% of GDP, maintaining the budget deficit below the statutory limit of 3% of GDP. Despite the rising budget deficit and off-budget stimulus measures, such as the transfer of government cash balances to state-owned banks, the fiscal policy stance is only modestly supportive in 2025, as only part of the funds transferred to the new sovereign wealth fund translate into new investment outlays this year. Accelerating disbursements from the fund over 2026-27 are expected to support growth amid headwinds from the global trade slowdown. Public debt is expected to remain around 40% of GDP, with higher revenues needed to put it on a declining path.

Growth is expected to remain stable in the near term

Real GDP growth is expected to be 5.0% in both 2025 and 2026 before picking up slightly to 5.1% in 2027, driven by domestic demand. The reduction in tariff uncertainty following the bilateral trade deal with the United States and easier financial conditions will boost private investment, complemented by rising public

investment outlays from the new sovereign wealth fund. Fiscal stimulus measures will support private consumption over the next few quarters. The increase in trade barriers is expected to weigh on external demand and export revenues. Inflation is expected to remain within the central bank's target range, gradually rising to its mid-point as domestic demand growth normalises and the depreciation of the currency has fed 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 through higher import costs. Additionally, a larger-than-expected slowdown in China – Indonesia's largest trading partner – would further weigh on exports, reduce import prices and raise imports from China. On the upside, a 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 eased some restrictions on foreign investment, but substantial barriers to foreign equity ownership persist, particularly in the telecommunications and transportation sectors. The broader investment climate also continues to be shaped by overlapping regulations, uneven policy implementation, and limited coordination across government agencies. Further progress in all of these areas will become increasingly important amid shifting global trade patterns and the reconfiguration of supply chains. At the same time, social initiatives such as the free meals programme can help reduce child malnutrition and strengthen public health, but more effective cost control and better targeting of vulnerable households would contain fiscal costs. Reducing labour-market informality would broaden the tax base and create fiscal space for expanding public investment in transport infrastructure, clean energy, health, and education. Strengthening the governance of public investment — through better project planning, monitoring, and evaluation — would help ensure that infrastructure spending translates into stronger and more inclusive growth outcomes.

Ireland

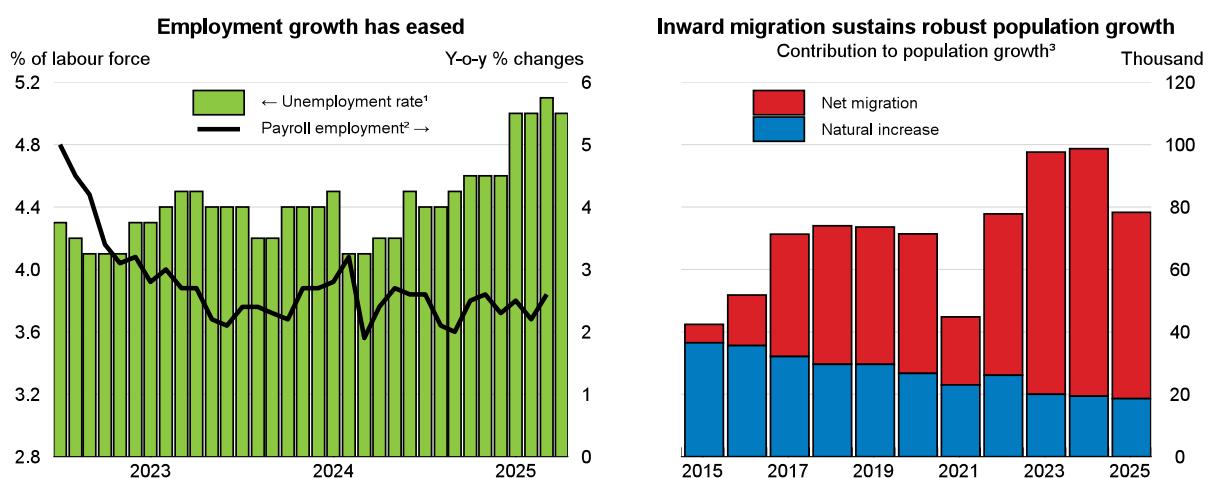
Projected to expand by 10.2% in 2025, driven by front-loaded pharmaceutical exports ahead of US tariffs, real GDP growth will slow to 2.1% in 2026, reflecting the unwinding of these effects and higher trade barriers, before strengthening to 2.8% in 2027, as uncertainty eases somewhat. Supported by continued, though moderating job creation, domestic demand, net of the most volatile multinational activities, is projected to grow by 3.7% in 2025, 2.3% in 2026 and 2.6% in 2027.

A binding domestic fiscal rule will be key to ensure sustainable public finances over the medium-term. Tax receipts are projected to rise but will remain vulnerable to sudden reversals, were additional tariffs to reduce large multinationals' earnings. Enhancing SMEs' access to innovation and technology-adoption support, together with eased restrictions in legal services, could strengthen productivity growth and reduce cost pressures on businesses.

Tariff-related uncertainties persist

Heavy front-loading of goods exports, largely pharmaceuticals, drove strong GDP growth in the first half of 2025, while preliminary – and historically volatile – estimates suggest a marginal decline in the third quarter. Despite high uncertainty, high-frequency data point to resilient new business growth in recent months, although momentum was more moderate in manufacturing. With unemployment steady around 5.0% since June, the labour market remains relatively tight, even though trends in job creation and wage growth are easing. Retail sales and card payments suggest a mild moderation in consumer spending despite solid real income gains. The re-emergence of price pressures for food, energy, and some service components has pushed both headline and core harmonised consumer price inflation above 2.5%.

Ireland



1. Unemployment rate of 15-74 year-olds, seasonally adjusted.

2. Annual percentage change in the number of employees, seasonally adjusted. Based on administrative data.

3. Estimates as of April of each year.

Source: Central Statistics Office

Ireland: Demand, output and prices

	2022	2023	2024	2025	2026	2027
	Current prices EUR billion	Percentage changes, volume (2023 prices)				
Ireland						
GDP at market prices	520.8	-2.6	2.6	10.2	2.1	2.8
Private consumption	126.5	4.5	3.0	2.8	2.1	2.6
Government consumption	57.1	6.3	4.8	4.0	3.1	2.1
Gross fixed capital formation	110.1	13.5	-28.6	20.5	-8.6	3.2
Final domestic demand	293.7	8.3	-8.0	10.1	-1.2	2.7
Stockbuilding ¹	11.9	0.1	-1.0	-0.9	1.1	0.0
Total domestic demand	305.6	8.3	-8.0	8.9	0.7	2.6
Exports of goods and services	726.2	-4.1	8.9	8.5	1.8	3.2
Imports of goods and services	511.0	2.3	2.9	4.6	0.7	3.3
Net exports ¹	215.2	-8.0	9.2	7.5	1.9	1.4
<i>Memorandum items</i>						
Modified final domestic demand ² , volume	–	6.2	1.7	3.7	2.3	2.6
GDP deflator	–	3.5	4.5	2.0	2.4	1.8
Harmonised index of consumer prices	–	5.2	1.3	2.0	2.2	1.8
Harmonised index of core inflation ³	–	4.4	2.3	1.9	1.9	1.8
Unemployment rate (% of labour force)	–	4.3	4.3	4.6	4.7	4.8
Household saving ratio, net (% of disposable income)	–	6.6	8.7	10.1	10.5	9.8
General government financial balance (% of GDP)	–	1.4	4.0	1.5	0.6	0.5
General government gross debt (% of GDP)	–	44.6	38.5	33.9	32.3	30.8
General government debt, Maastricht definition ⁴ (% of GDP)	–	41.7	38.3	33.6	32.0	30.6
Current account balance (% of GDP)	–	7.0	16.2	9.8	12.1	12.9

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 118 database.

StatLink  <https://stat.link/gx25nl>

Amid significant volatility, and large export front-loading in early 2025, the effects of changes in US tariffs are difficult to gauge. Pharmaceutical exports to the United States declined from March to August, partly offset by a rebalancing towards EU markets, but spiked up again in September. Meanwhile, computer services exports have remained robust. Pharmaceutical exports to the US remain exempt from higher tariffs and are expected to stay relatively resilient, even if pharmaceutical companies were to lose their exemption, given the sector's high margins and low price elasticities.

Fiscal policy is expansionary

Ireland's solid headline fiscal position masks growing underlying deficits once windfall corporate tax receipts are excluded. However, the fiscal stance is set to be expansionary in 2025-26, before turning broadly neutral in 2027. Over 85% of the Budget 2026 package of EUR 9.4 billion (1.7% of 2024 GDP; 2.9% of GNI*) is higher expenditures. These include sizeable capital outlays for social housing, healthcare and transport, alongside significant increases in current spending to expand public services in line with population growth and raise welfare payments. Multi-annual rollovers of the Rent Tax Credit and the 9% reduced VAT rate on gas and electricity, and an extension of the lower VAT rate to food, catering and hairdressing services (from July 2026) and to apartment sales, are among the main tax measures. Such a narrowing of the tax base heightens reliance on tax revenues from a small number of large multinationals. Gross public debt is projected to fall below 60% of GNI* (31% of GDP) by 2027.

Labour market resilience will support growth

As the positive carryover from early-2025 export front-loading fades, GDP growth is projected to slow to 2.1% in 2026, before recovering to 2.8% in 2027, as reduced volatility strengthens confidence. Given labour shortages, the labour market is projected to ease only gradually, with moderating employment and wage growth. Despite solid real income gains, households will remain cautious in 2025-26, leading modified domestic demand growth to slow to 2.3% in 2026, before edging up to 2.6% in 2027. Driven by food price pressures, and capacity constraints, headline inflation is projected to edge above 2% in 2026, before falling to 1.8% in 2027 as supply chains rebalance. Stronger capacity bottlenecks in infrastructure and housing could rekindle inflation. Continued tariff uncertainty and tighter non-tariff barriers on services could weaken investment and profitability, particularly among large multinationals, with knock-on effects on public finances. A faster-than-expected rebalancing of supply chains could ease uncertainty, supporting stronger growth.

Balancing fiscal prudence and structural reforms

With the economy operating near full capacity, pro-cyclical fiscal policy in 2025-26 risks amplifying inflation and output volatility. With a budget surplus and public debt below 60% of GDP, the EU rules are not currently a binding constraint. While higher spending is partly justified by rapid population growth and infrastructure gaps, a binding and credible domestic fiscal rule is needed. Improving spending efficiency and the continued allocation of windfall corporate tax receipts to long-term savings funds remain essential. Closing the innovation gap between multinationals and small and medium-size domestic firms should be prioritised to boost productivity. Easing regulatory constraints to lower costs in key professional services, including by allowing the establishment of multidisciplinary legal practices with a limited liability partnership status, is needed. Expediting permitting processes is key to reaching housing and climate targets.

Israel

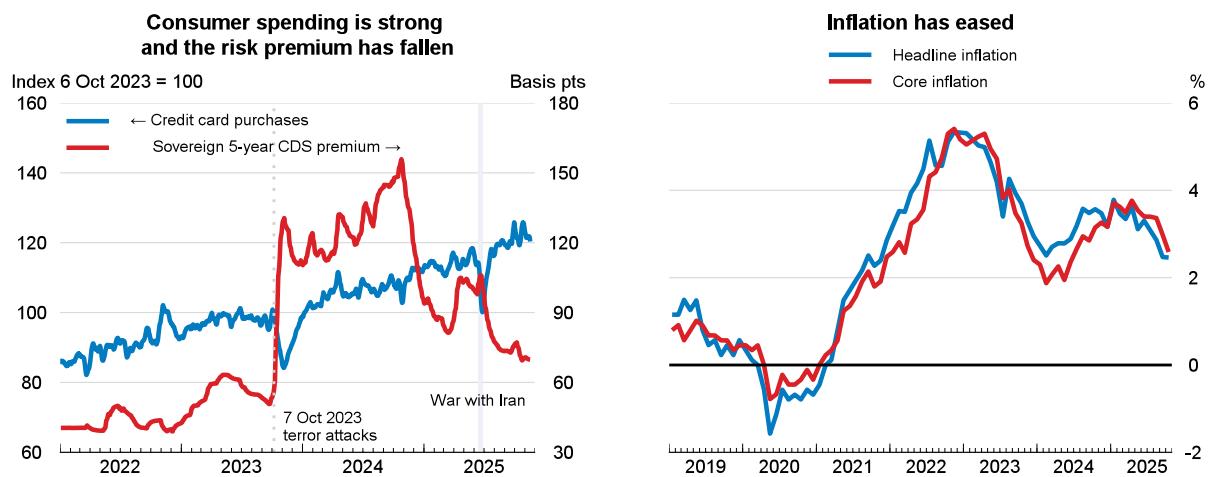
Growth is projected to pick up from 3.3% in 2025 to 4.9% in 2026 and remain strong at 4.6% in 2027, following the release of the hostages and the ceasefire. The private sector will lead the economic expansion as military expenditure contracts. With supply constraints easing, inflation is expected to subside from 3.1% in 2025 to 2.4% in 2026 and 2.0% in 2027.

Continued fiscal consolidation and monetary stability are key to private-sector-based growth. Efforts to balance public accounts should favour the most growth-compatible measures. This involves shifting from overall spending curbs to expenditure cuts based on a prioritisation exercise, safeguarding education and infrastructure, while increasing the least distortive taxes. Stabilising inflation at 2% while supply conditions improve calls for moderately further relaxing the monetary policy stance. Long-term growth would benefit from intensifying regulatory reforms.

Geopolitical improvements support a stronger economic expansion

The ceasefire has important economic ramifications, including a lower risk premium. Credit default swap rates came down by 30 basis points after the 12-day war with Iran in June. After the 12-day war brought economic activity to a standstill with GDP contracting by 1.1% in the second quarter, activity strongly bounced back with 3.0% growth in the third quarter. Subsequently, credit card purchases, a high-frequency indicator of consumer spending, bounced back strongly. Business sentiment had already improved before the ceasefire, with a positive balance (+21%) of respondents anticipating improvement in October. The labour market is robust with a 3.0% unemployment rate in September.

Israel



1. Daily data shown after exponential smoothing with half-lives of 10 and 5 days for purchases and Credit Default Swap (CDS) respectively.
Source: LSEG; Bank of Israel; OECD Prices Statistics database; and OECD calculations.

Israel: Demand, output and prices

	2022	2023	2024	2025	2026	2027
	Current prices NIS billion	Percentage changes, volume (2015 prices)				
Israel						
GDP at market prices	1 764.4	1.8	1.0	3.3	4.9	4.6
Private consumption	876.2	-1.2	3.7	3.4	6.6	5.3
Government consumption	369.3	7.9	13.8	2.2	0.2	0.5
Gross fixed capital formation	439.5	-1.8	-6.4	10.1	8.3	6.0
Final domestic demand	1 685.0	0.7	3.8	4.7	5.3	4.3
Stockbuilding ¹	41.9	-0.6	-1.0	-0.1	-0.1	0.0
Total domestic demand	1 726.9	0.1	2.8	4.6	5.2	4.2
Exports of goods and services	553.8	-1.1	-4.9	5.1	7.7	6.1
Imports of goods and services	516.3	-7.5	-0.4	9.3	6.3	4.7
Net exports ¹	37.5	1.8	-1.4	-1.0	0.5	0.5
<i>Memorandum items</i>						
GDP deflator	–	4.5	5.4	1.6	2.2	2.1
Consumer price index	–	4.2	3.1	3.1	2.4	2.0
Core inflation index ²	–	4.2	2.6	3.4	2.5	2.0
Unemployment rate (% of labour force)	–	3.4	3.0	2.9	2.8	2.8
General government financial balance (% of GDP)	–	-5.1	-8.1	-5.4	-4.1	-2.7
General government gross debt (% of GDP)	–	61.6	66.1	68.3	67.9	66.3
Current account balance (% of GDP)	–	3.2	2.8	2.0	2.0	2.3

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 118 database.

StatLink  <https://stat.link/h9jm72>

International trade will gain from better geopolitical conditions and Israel's industrial specialisation. The ceasefire should remove a source of reluctance to doing business with Israel. Merchandise exports expanded by 5.8% in August-October 2025 over the previous three months. The 10.2% effective tariff rate on Israeli merchandise exports to the United States is a moderate brake on goods exports. Trade in services is solid, with exports over January-August 2025 8.0% above their level a year earlier. Services exports to the United States, which are dominated by high-tech R&D and ICT, remain tariff-free. Looking ahead, the global boom in defence and cybersecurity will benefit exports.

Fiscal consolidation amid fading supply constraints enables monetary easing

The primary fiscal balance will tighten in 2026 and 2027 by a projected 2.6% of GDP. After the 7 October 2023 terrorist attacks, expenditures on displaced people and defence took the general government fiscal balance from a 0.3% of GDP surplus in 2022 to an 8.1% deficit in 2024. Revenue increases and non-defence spending curbs enabled the deficit to fall to 5.4% of GDP in 2025 despite intense military activity. The geopolitical improvement will allow a reduction in defence expenditure by two percentage points over 2026-2027. This reduction, alongside non-defence spending moderation and already planned revenue measures, is anticipated to help narrow the deficit to 4.1% of GDP in 2026 and 2.7% in 2027. The ceasefire also allows a gradual return of reservists to civilian employment, alleviating labour shortages. A better geopolitical situation moreover makes it easier to attract foreign workers. After two years of tight monetary policy, annual headline and core inflation fell to 2.5% and 2.2% in October 2025. The currency appreciated by 5.5% in effective terms over January-October 2025. These developments, alongside supply-side improvements and fiscal consolidation, pave the way for the Bank of Israel to continue lowering its policy interest rate from 4.25% in November 2025 to 3.75% through 2026.

Private-sector dynamism will fuel activity

Growth is projected to rise from 3.3% in 2025 to 4.9% in 2026 and remain robust at 4.6% in 2027. Investment will be strong given the backlog accumulated during the war. Improved household confidence amid more peaceful conditions will support private consumption. Better conditions for international business will allow exports to regain some of the market share lost during the war. Inflation will moderate to 2.4% in 2026 and 2.0% in 2027 owing to lighter supply constraints and recent currency appreciation. Risks are broadly balanced: on the downside, returning warfare would widen the budget deficit and hurt private demand. On the upside, completing the peace agreement beyond the ceasefire could strongly boost growth, particularly in 2027, especially if new trade agreements were signed with large Middle-Eastern countries.

Market regulation reforms should accompany fiscal consolidation

Sustaining private-led growth requires continued household and business confidence. Fiscal consolidation efforts should be completed and designed to preserve growth. On the expenditure side, this calls for shifting from across-the-board restraints to more targeted cuts, such as on transfers to religious students that discourage their labour market participation, while prioritising spending on infrastructure and education. Revenue-side measures should favour options such as raising carbon tax rates, removing VAT exemptions, implementing a mileage tax and taxing unused land, sugary drinks and single-use plastic items. Private-sector growth would strongly benefit from accelerating initiatives to unleash business dynamism, starting by cutting red tape on business creation, reducing entry barriers for professionals and importers, and streamlining building permitting procedures.

Italy

GDP growth is projected to pick-up slightly from 0.5% in 2025 to 0.6% in 2026 and 0.7% in 2027. Weak exports following higher global tariffs and subdued household consumption, despite rising real incomes, will drag on near-term growth. Rising public investment is projected to support growth through 2026, buoyed by accelerating disbursement of the National Recovery and Resilience Programme funds ahead of its deadline, before slowing in 2027. Improved confidence and stronger growth in export markets will support a modest pick-up in private consumption and investment, lifting growth. Risks are broadly balanced. If recent improvements in fiscal sustainability prove short-lived and interest rate spreads widen again, or weakness in key trading partners is prolonged, the outlook would deteriorate. Conversely, stronger than expected structural improvements in investment conditions could boost growth.

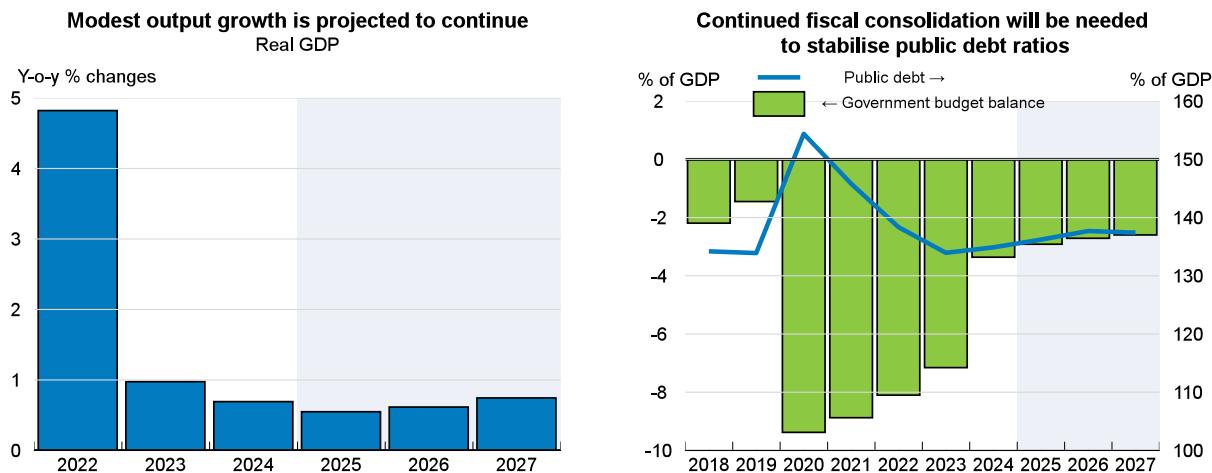
Further narrowing the budget deficit and stabilising the public debt ratio, in line with the medium-term fiscal-structural strategy and European commitments, would reduce Italian borrowing costs, and support fiscal sustainability and inter-generational equity. This will require maintaining revenues, improving spending efficiency, and retaining earlier measures to contain pension expenditure. Improving the tax policy mix can support household spending and encourage employment. Greater certainty over regulations and approval processes, notably for renewable generation and transmission infrastructure, can lift private investment.

Global trade restrictions are weighing on exports and activity

GDP in the third quarter of 2025 was 0.4% higher than a year earlier. Output stagnated in the second and third quarters as weaker exports and heightened uncertainty weighed on activity and spending. Rising capital investment, buoyed by accelerating spending on the National Recovery and Resilience Plan projects, has driven output growth. Industrial production stabilised mid-year following an extended period of broadly-based falls, with output rising for most goods with the notable exception of transport equipment. Construction activity continued to grow, despite the withdrawal of various tax incentives. Household consumption volumes stalled in the middle of the year and households increased their savings rates. This was despite solid labour market conditions and rising real incomes, with employment rising by 0.7% in the year to September 2025, the labour force by 1.1% and the average wage rate by 3.3%. Labour cost increases contributed to underlying inflation, with core inflation at 2.1% in the year to October 2025. Headline inflation slowed to 1.3% over the same period, as falls in energy prices offset higher food prices.

Trade flows weakened over the first eight months of 2025, with export values holding up better than import values. Over this period, trade flows with the US rose in both directions, in part due to the front-loading of trade in anticipation of higher tariffs, while imports from China increased by 25%. The current account surplus expanded over the first three quarters of 2025 as the trade surplus widened and as interest payments on Italy's external short-term debt fell.

Italy 1



Source: OECD Economic Outlook 118 database.

StatLink <https://stat.link/p47tux>

Italy: Demand, output and prices

Italy	2022	2023	2024	2025	2026	2027	Current prices	Percentage changes, volume	
							EUR billion	(2020 prices)	
GDP at market prices									
Private consumption	1 998.1	1.0	0.7	0.5	0.6	0.7	1 166.5	0.6	0.4
Government consumption	376.4	1.1	1.0	0.2	0.7	0.7	435.1	10.1	3.3
Gross fixed capital formation	435.1	10.1	0.5	3.3	2.2	0.9	1 978.0	2.7	1.1
Final domestic demand	1 978.0	2.7	0.6	1.1	0.9	0.7	56.4	-2.3	0.3
Stockbuilding ¹	56.4	-2.3	0.0	0.3	0.0	0.0	2 034.4	0.4	1.4
Total domestic demand	2 034.4	0.4	0.6	1.4	0.9	0.7	701.3	-0.2	0.1
Exports of goods and services	701.3	-0.2	0.0	0.1	-0.1	1.2	737.6	-1.9	-0.4
Imports of goods and services	737.6	-1.9	-0.4	2.7	0.8	1.1	- 36.3	0.6	-0.8
Net exports ¹	- 36.3	0.6	0.1	-0.8	-0.3	0.1			
<i>Memorandum items</i>									
GDP deflator	—	6.2	2.0	2.0	2.0	2.0	—	2.0	2.0
Harmonised index of consumer prices	—	5.9	1.1	1.8	1.7	1.8	—	4.5	2.2
Harmonised index of core inflation ²	—	4.5	2.2	2.0	1.9	1.8	—	7.7	6.5
Unemployment rate (% of labour force)	—	7.7	6.5	6.2	6.0	6.0	—	3.3	4.2
Household saving ratio, net (% of disposable income)	—	3.3	4.2	5.3	6.2	5.8	—	-7.2	-3.4
General government financial balance (% of GDP)	—	-7.2	-3.4	-2.9	-2.7	-2.6	—	147.5	148.1
General government gross debt (% of GDP)	—	147.5	148.1	149.4	150.9	150.6	—	133.9	134.9
General government debt, Maastricht definition ³ (% of GDP)	—	133.9	134.9	136.2	137.7	137.4	—	0.2	1.1
Current account balance (% of GDP)	—	0.2	1.1	1.6	1.4	1.4	—		

1. Contributions to changes in real GDP, actual amount in the first column.

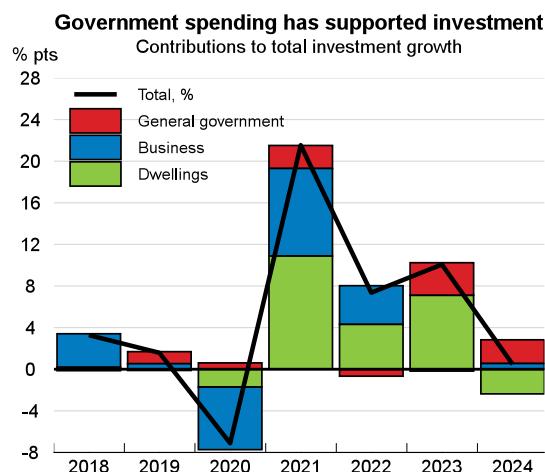
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

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.

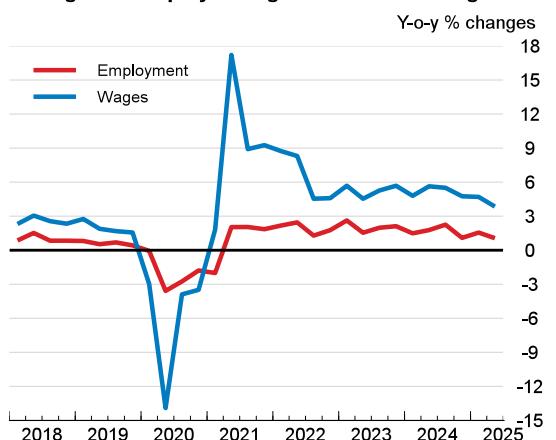
Source: OECD Economic Outlook 118 database.

StatLink <https://stat.link/icgwd0>

Italy 2



Wage and employment growth is moderating



Source: OECD Economic Outlook 118 database.

StatLink  <https://stat.link/rx3ksp>

Fiscal consolidation continues, supporting lower borrowing costs

The fiscal deficit is projected to have declined to 2.9% of GDP in 2025, following the return of the primary budget balance to surplus in 2024, mostly thanks to rising personal income tax revenues and social security receipts due to the labour market's strength and less-than-planned spending, notably on construction incentives. The deficit is projected to decline to 2.6% of GDP in 2027 through slower growth in public investment and public payrolls. The primary budget surplus is projected to rise by 0.6% of GDP between 2025 and 2027 to 1.3% of GDP, consistent with the path laid out in the medium-term structural-fiscal strategy for a structural primary budget surplus of 2.1% of GDP by 2029. Public debt will exceed 137% of GDP in 2027 as the SuperBonus housing renovation tax credits are recorded in the stock of debt. The disbursement of the National Recovery and Reconstruction Plan (NRRP) is projected to accelerate ahead of the late 2026 spending deadlines, although other public investment may pick up in 2027, attenuating the decline in public investment following the NRRP. The draft 2026 budget aims to reduce the deficit, but lightens some taxes on employment and extends some incentives, financed through one-off and ongoing revenue sources. The budget cuts personal income tax rates for middle income earners, workers working unusual hours and with small bonus payments, expands some social benefits, and encourages renewal of low-wage contracts. It extends certain tax incentives for businesses, and tax credits for housing renovations. These measures are funded in part through extra taxes on banks and insurance companies (worth 0.2% of GDP), and by raising the lump-sum 'flat tax' on new residents' foreign income by 50%.

Borrowing costs have fallen following the cuts in the euro area policy interest rate, and a lower risk premium on Italian debt. Agencies have upgraded their ratings of Italy's sovereign debt and of some subnational governments and major enterprises, due to banks' improved health and progress in fiscal consolidation. Easier borrowing conditions have contributed to rising credit growth, with businesses' borrowing rising over the year to mid-2025, for the first time in over 2½ years. Monetary policy rates are expected to stabilise, but further upgrading of Italy will help attract more external financing, expanding access to credit and lowering borrowing costs to support private investment. Structural reforms, accelerated by the NRRP, are also improving investment conditions, especially in lagging regions, such as by reorganising and better resourcing judicial processes to reduce civil court backlogs and the length of proceedings.

Growth will slightly pick up with reduced global policy uncertainty

Real GDP growth is projected to pick up slightly to 0.6% in 2026 and 0.7% in 2027. Weak export growth and the effects of global policy uncertainty are expected to drag down activity into the first half of 2026, before exports and activity pick up as conditions stabilise and external demand improves. Greater certainty, improved borrowing conditions, and ongoing implementation of the National Recovery and Resilience Plan (NRRP) projects are expected to nurture greater business investment and consumer demand in 2027, offsetting the winding back in public investment spending. Inflation is expected to remain modest, as wage pressures abate with slower employment growth than in recent years.

While uncertainty is high, risks to growth are broadly balanced. Trade policy restrictions, enhanced competition from the potential deflection of trade away from the United States towards Italy, and uncertainty may create a deeper drag on exports, activity, investment and employment than anticipated, amplified by households' increasing their precautionary savings. On the other hand, government reforms and investments, ranging from infrastructure to skill development, may encourage businesses to invest more than expected, making use of their improved balance sheets and liquidity.

Improving regulations' clarity and implementation can support investment

Pursuing fiscal consolidation, including by maintaining policies to contain pension spending, will be necessary to start reducing the public debt burden, contain interest costs and address long-term challenges from population ageing, the climate transition and higher defence spending. Revenues can be supported by further improving collection, while shifting the tax burden from employment towards immobile property. Ensuring major new public investments undergo robust design, cost-benefit assessments and contract awarding can help continue to improve public infrastructure beyond the NRRP within the limited fiscal space. Improving regulatory and project approval processes, for example through consolidating and better coordinating across levels of government and agencies, can encourage greater private investment, especially renewable generation and transmission infrastructure. Clearer regulations less susceptible to judicial appeals would improve regulations' enforcement and certainty for investors. Improving the clarity and certainty over business investment support programmes, including by tapering size thresholds for eligibility would encourage take-up and firms to grow.

Japan

After growing robustly at 1.3% in 2025, real GDP growth is projected to slow to 0.9% per annum in 2026-27. Domestic demand will be the main driver of growth, with external demand exerting a slight drag on activity, reflecting the US tariffs. Private consumption will be supported by wage gains pushing up real disposable incomes. Robust corporate profits and government subsidies will support business investment. The new fiscal stimulus package will support public consumption and investment. Headline consumer price inflation will slow down to around the 2% target in 2026-27, following the easing of food inflation.

A gradual withdrawal of monetary accommodation is appropriate, given projections of sustained inflation around the 2% target and solid wage growth. The projected temporary easing in the fiscal stance in 2026 reflects the new fiscal stimulus package and the corresponding supplementary budget, which should be restricted to periods of large-scale shocks. Designing and implementing a medium-term fiscal consolidation path, with concrete revenue and expenditure measures, is needed for medium-term fiscal sustainability. Reducing the complexity of regulations, by streamlining requirements for businesses through enhanced digitalisation of public services, would boost firm entry and productivity growth.

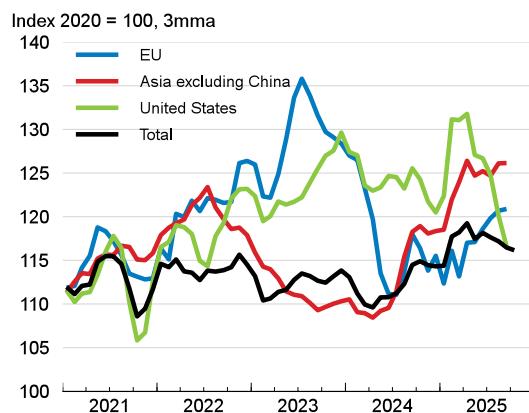
The economy remains relatively resilient amid global headwinds

Real GDP grew in the first half of 2025, reflecting robust domestic demand and front-loading of exports to the United States, before contracting by 0.4% in the third quarter. This fall was driven by weaker exports and a temporary decline in housing investment due to policy factors, with private consumption and business investment remaining resilient. Labour shortages remain in many sectors, which will further support wage increases and investment in labour-saving technologies. Nominal wage growth has gained momentum, with robust summer bonuses and the strong results of the *Shunto* wage negotiations for FY2025, with the largest union announcing they will seek similar wage increases of 5% for FY2026. Headline consumer price inflation has eased, mainly due to energy subsidies but remains above the 2% target, at 3.0% in October. According to the Bank of Japan's September *Tankan Survey*, business sentiment, profit expectations and investment plans for FY2025 remain solid.

According to the July agreement with the United States, which is applicable from early August, Japanese exports are subject to a flat tariff rate of 15%. Despite some volatility due to front-loading, total exports and industrial production have been supported by robust exports to non-US destinations. Exports to the United States have been declining even though automobile exporters have absorbed most of the tariffs by lowering export prices. The growth of inbound tourism has eased somewhat but remains elevated, with spending by tourists up by 11.1% from the previous year in the third quarter of 2025.

Japan 1

Despite some volatility, overall exports remained resilient



Business sentiment is robust, especially in non-manufacturing¹



1. The diffusion index subtracts the number of firms responding “unfavourable” from those responding “favourable” to questions on business conditions at their firm.

Source: Bank of Japan; and OECD calculations.

StatLink  <https://stat.link/jgpw4x>

Japan: Demand, output and prices

Japan	2022	2023	2024	2025	2026	2027	Current prices	Percentage changes, volume	
							YEN trillion	(2015 prices)	
GDP at market prices									
Private consumption	560.6	1.2	-0.2	1.3	0.9	0.9	310.5	0.8	-0.2
Government consumption	120.8	-0.3	0.8	0.5	2.5	1.9	147.3	0.9	-0.2
Gross fixed capital formation	147.3	0.9	-0.2	1.7	1.4	1.1	578.6	0.6	0.0
Final domestic demand	581.5	0.3	-0.1	1.5	1.1	0.9	2.8	-0.3	-0.1
Stockbuilding ¹	120.8	3.3	0.7	3.4	0.9	1.7	141.6	-0.8	1.0
Total domestic demand	141.6	-0.8	1.0	4.2	1.6	1.9	-20.9	0.9	-0.1
Exports of goods and services	581.5	0.3	-0.1	1.5	1.1	0.9	120.8	3.3	0.7
Imports of goods and services	120.8	3.3	0.7	3.4	0.9	1.7	141.6	-0.8	1.0
Net exports ¹	141.6	-0.8	1.0	4.2	1.6	1.9	-20.9	0.9	-0.1
<i>Memorandum items</i>									
GDP deflator	—	4.1	3.1	3.0	2.3	2.0	—	3.3	2.7
Consumer price index	—	3.3	2.7	3.2	2.2	2.1	—	2.7	2.0
Core consumer price index ²	—	2.7	2.0	1.7	1.6	1.9	—	2.6	2.5
Unemployment rate (% of labour force)	—	2.6	2.5	2.5	2.4	2.4	—	0.9	3.3
Household saving ratio, net (% of disposable income)	—	0.9	3.3	2.0	3.7	3.4	—	-2.3	-1.4
General government financial balance (% of GDP)	—	-2.3	-1.4	-0.6	-1.6	-1.0	—	227.0	222.0
General government gross debt (% of GDP)	—	227.0	222.0	213.3	208.3	203.4	—	3.8	4.7
Current account balance (% of GDP)	—	3.8	4.7	5.0	5.1	4.8	—	—	—

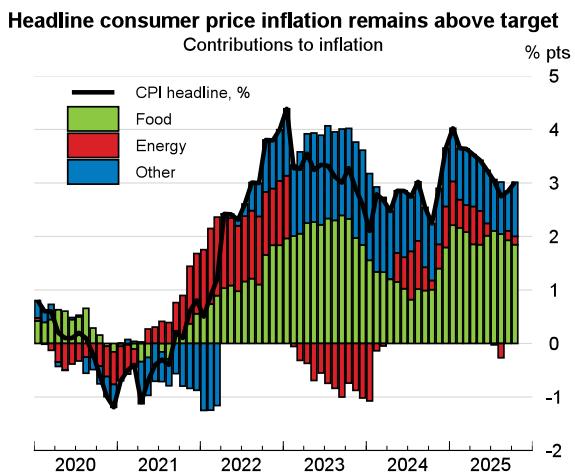
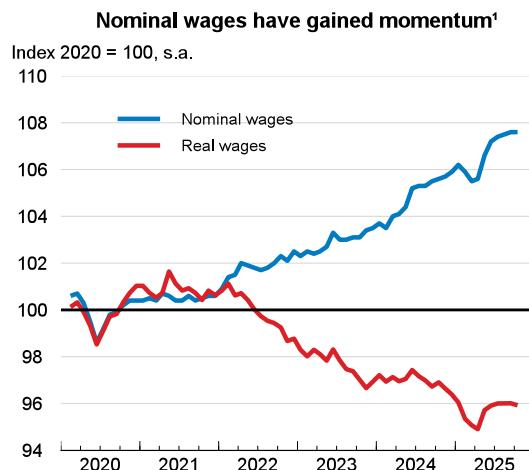
1. Contributions to changes in real GDP, actual amount in the first column.

2. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 118 database.

StatLink  <https://stat.link/m7vxsk>

Japan 2



1. Contractual cash earnings, excluding bonuses. Nominal values are divided by the headline consumer price index.

Source: Ministry of Health, Labour, and Welfare; Ministry of Internal Affairs and OECD calculations.

StatLink <https://stat.link/f6c7on>

Monetary policy is projected to be tighter, while fiscal policy will support growth in 2026

The policy interest rate has been around 0.5% since January. The Bank of Japan has been reducing its monthly purchases of Japanese government bonds (JGBs) by around JPY 400 billion each quarter since July 2024. The pace of reduction will change to JPY 200 billion from April 2026, resulting in roughly a 16–17% reduction in JGB holdings by March 2027. In September, the Bank of Japan decided to gradually sell its holdings of exchange-traded funds and Japan real estate investment trusts, a further step in its monetary policy normalisation. Firms expect stable inflation above the target, at 2.4% for all horizons up to five years, according to the September *Tankan Survey*, and the breakeven inflation rate on 10-year JGBs has been trending up and was 1.57% at the end of October. Given inflation and wage developments, monetary accommodation should continue to be withdrawn gradually, with the policy rate projected to reach 2% at the end of 2027.

The fiscal stance is temporarily expansionary in 2026, reflecting the large fiscal stimulus package announced in November, before turning contractionary in 2027, assuming no supplementary budget in FY2026. The overall fiscal stance between 2025 and 2027 will be broadly neutral. The fiscal package includes measures to support medium-term investment in several areas (JPY 7.2 trillion, 1.1% of GDP), such as artificial intelligence and semiconductors and to strengthen defence capabilities and diplomatic effectiveness (JPY 1.7 trillion, 0.3% of GDP). To moderate the impact of high prices, the package also has cash handouts to households with children and support for households through local governments (JPY 2.4 trillion, 0.4% of GDP) and subsidies for electricity, city gas and gasoline (JPY 1.5 trillion, 0.3% of GDP). The latter will be switched to a permanent tax cut in January. The higher income deduction in the personal income tax from FY2025 will reduce tax revenues (JPY 1.2 trillion, 0.2% of GDP). OECD projections also assume an increase in public investment to mitigate the impact of future disasters by 0.2% of GDP in FY2026, and additional spending on high school tuition assistance (0.1% of GDP). A special corporate tax surcharge of 4% for tax liabilities exceeding JPY 5 million will be introduced in April 2026 to partly finance the increase in the defence budget. The gross public debt-to-GDP ratio is projected to decrease from 222% in 2024 to 203% in 2027, as nominal growth currently remains higher than debt servicing costs.

Domestic demand will drive growth

Real GDP is projected to moderate to 0.9% in 2026 and 2027. Growth will be mainly driven by domestic demand, with a negative contribution from net exports over the projection period. Business investment is projected to remain robust, reflecting solid corporate profits and historically high order backlogs in machinery and construction, and supported by government subsidies. High corporate profits will enable continued wage growth, which together with easing inflation, will support private consumption. The new fiscal package will support public consumption and investment. Headline consumer price inflation is projected to moderate towards the 2% target as food inflation eases.

The main downside risk is weaker-than-expected external demand due to geopolitical tensions. Sharp movements in bond and equity prices could destabilise financial markets and hurt the balance sheets of financial institutions and the government. 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. Stickier food inflation could delay the recovery of private consumption. On the upside, a faster-than-expected reconstruction of global supply chains and the development of new export channels could further boost exports and support growth.

Rebuilding fiscal buffers and boosting potential growth are priorities

With rising government bond yields and mounting expenditure pressures from health and long-term care in an ageing society, ensuring medium-term fiscal sustainability should be prioritised. A clear medium-term fiscal framework, underpinned by concrete revenue and expenditure measures, would increase fiscal buffers. The use of unscheduled supplementary budgets should be restricted to large-scale shocks, which should be well-defined. Addressing demographic headwinds requires further increasing labour supply and reinvigorating productivity growth. Reducing labour market dualism between regular and non-regular workers would raise the labour participation of female and older workers. Raising the pension eligibility age beyond 65, in line with rising life expectancy, would strengthen work incentives among the elderly and help contain fiscal costs. Simplifying business regulations, such as reducing the number of procedures required to register new firms, would foster business entry and inward foreign direct investment. Streamlined permitting processes are needed to increase the share of renewables in electricity production, boosting energy security.

Korea

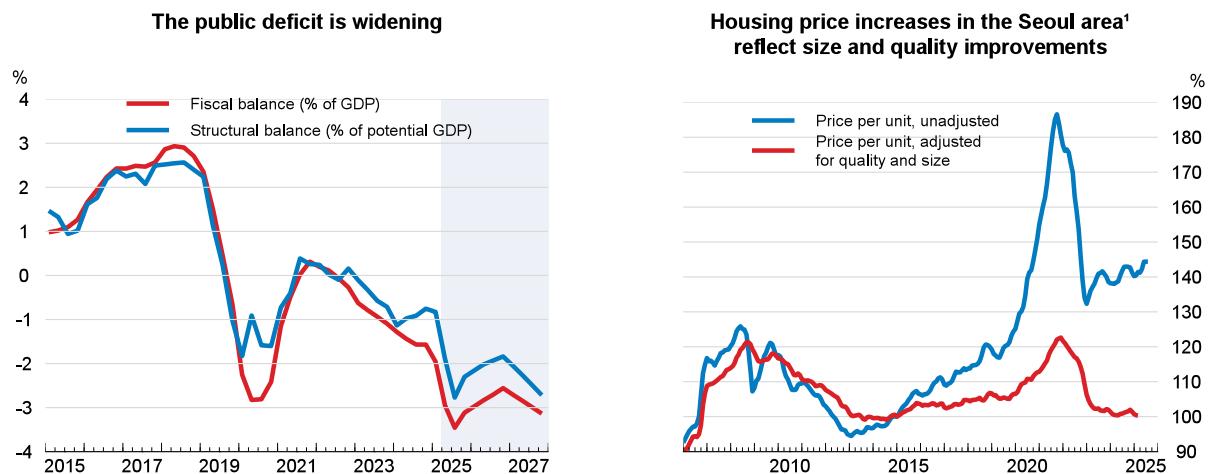
GDP growth is projected to weaken to 1.0% in 2025, before picking up to 2.1% in 2026 and 2027. Private consumption is supported by fiscal and monetary easing and rising real wages. Increased female and elderly labour market participation will expand employment, and the unemployment rate will remain low. Headline consumer price inflation will remain in line with the 2% target. Exports are supporting growth but are expected to slow in the medium term. Uncertainty over tariff negotiations and structural shifts in global supply chains could weigh on exports and dampen business investment.

The Bank of Korea cut the policy rate to 2.5% in May and is assumed to lower it further to 2.25% by mid-2026 amid weak domestic demand. Two supplementary budgets provided ample fiscal stimulus in 2025, but should be complemented by a sustainable long-term fiscal framework. Regulatory reform, including lowering barriers to trade and foreign direct investment and opening up sectors with heavy state involvement to competition, could boost growth.

Growth is picking up

After a contraction in the first quarter, growth picked up to 2.7% (annualised rate) in the second quarter and 5.5% in the third. The new administration enacted a supplementary budget heavily tilted towards consumption coupons. This boosted consumer sentiment, which has remained at elevated levels over the summer, notably inflating spending plans. Business sentiment has improved since early 2025 but remains low. Employment fell by 0.5% in October, unwinding gains in September likely related to the timing of the lunar holiday, while the unemployment rate has stabilised at historically low levels of around 2.5%. House price increases in the Seoul area have triggered two rounds of tightened lending limits in pressure areas.

Korea



1. Data refers to Seoul Metropolitan Area.

Source: OECD Economic Outlook 118 database; and KOSIS.

Korea: Demand, output and prices

	2022	2023	2024	2025	2026	2027
Korea	Current prices KRW trillion	Percentage changes, volume (2020 prices)				
GDP at market prices	2 323.8	1.6	2.0	1.0	2.1	2.1
Private consumption	1 139.4	2.0	1.1	1.2	2.0	2.2
Government consumption	409.9	1.9	2.1	2.8	3.4	2.8
Gross fixed capital formation	742.1	-0.2	-0.8	-2.7	1.5	2.1
Final domestic demand	2 291.3	1.3	0.7	0.3	2.1	2.3
Stockbuilding ¹	32.3	0.1	-0.5	0.4	0.0	0.0
Total domestic demand	2 323.7	1.4	0.2	0.7	2.1	2.3
Exports of goods and services	1 052.6	3.4	6.8	4.5	3.6	2.1
Imports of goods and services	1 052.4	3.0	2.5	4.1	3.8	2.4
Net exports ¹	0.1	0.2	1.8	0.3	0.1	0.0
<i>Memorandum items</i>						
GDP deflator	–	2.0	4.1	2.6	1.9	1.9
Consumer price index	–	3.6	2.3	2.0	1.8	2.0
Core inflation index ²	–	3.4	2.2	1.9	1.8	2.0
Unemployment rate (% of labour force)	–	2.7	2.8	2.6	2.5	2.5
Household saving ratio, net (% of disposable income)	–	7.3	9.6	10.8	11.1	11.0
General government financial balance (% of GDP)	–	-0.9	-1.5	-2.9	-2.8	-2.9
General government gross debt (% of GDP)	–	48.6	46.0	49.2	52.0	55.0
Current account balance (% of GDP)	–	1.8	5.3	6.4	6.4	6.2

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 118 database.

StatLink  <https://stat.link/gqi52s>

Korea has considerable trade exposure to the United States, directly and through its participation in global value chains. Under the Korea Strategic Trade and Investment deal, tariff rates on most Korean exports to the United States have increased from 0% under the US-Korea Trade Agreement to 15%. This is conditional on USD 350 billion of Korean direct investment in the United States, of which USD 150 billion relates to on-going cooperation on shipbuilding. The remaining investments are subject to the identification of viable projects and capped at USD 20 billion per year. Industrial production expanded considerably in August and September, and exports showed strong gains, particularly in the non-tech sector.

Fiscal policy has turned supportive, while monetary easing is set to continue

Two supplementary budgets, together amounting to approximately 1% of GDP, have turned fiscal policy expansionary. Around half of the stimulus came in the form of consumption coupons, with a direct although temporary boost to growth. No consolidation plan exists, and the government projects fiscal deficits, excluding surpluses from social security funds, to remain above 4% of GDP in the years to come, despite a forecasted cyclical increase of corporate income tax receipts. The Bank of Korea cut the policy rate to 2.5% in May. A further 0.25% rate cut is expected in the first half of 2026.

Growth is set to strengthen

GDP is projected to grow by 1.0% in 2025, strengthening to 2.1% in 2026 and 2027. Headline inflation is set to remain close to the 2% target. Employment will continue to expand, largely due to increased labour market participation of women and older workers. The unemployment rate will stabilise at current low levels. Consumption coupons will boost household spending in the short term, while monetary easing,

rising real incomes and a resilient labour market will sustain consumption in 2026-27. Exports will support growth in the short term, despite increased tariffs, but are expected to slow in the medium term. Growth could be higher than projected if households consume a larger share of their rising income and public transfers than assumed. Conversely, uncertainty over tariff negotiations and structural shifts in global supply chains could weigh more heavily on exports and dampen business investment.

Short-term support should not end up in long-term fiscal slippage

Further monetary policy loosening is warranted considering weak domestic demand. Ageing will exert considerable future spending pressures. Spending plans should therefore be followed by a bipartisan commitment to putting public finances on a sustainable path. Lowering barriers to trade and foreign direct investment, opening up sectors with heavy state involvement to competition, and speeding up the wider application of regulatory inventions successfully trialled in Korea's well-developed regulatory sandbox system can boost productivity. Over time, housing price increases in and around Seoul reflect that the size and quality of sold housing units have increased. The recent tightening of macroprudential regulations in these areas from already stringent levels may come with diminishing returns and increasing costs to growth. Furthermore, it restricts access to segments of attractive housing for all but high-wealth individuals. 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 1.2% in 2025, 2.1% in 2026 and 2.5% in 2027. Slowly declining inflation and improving consumer confidence will support the recovery of private consumption. Strongly increasing public investment will crowd in business investment and strengthen domestic demand, with export demand remaining weak due to high trade barriers. Core inflation will remain high in 2026 due to strong wage growth, before easing as public wage growth moderates. Delays in the absorption of EU funds could adversely affect the recovery in domestic demand.

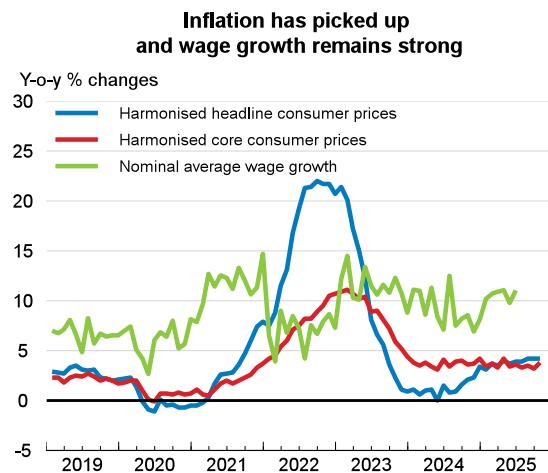
Increasing revenue and reallocating spending to finance rising defence expenditures are key to ensure medium-term fiscal sustainability. Accelerating the modernisation of the public administration, reducing administrative burdens and enhancing policy impact evaluation would raise spending efficiency and support growth. Listing large state-owned enterprises could help deepen capital markets and improve access to finance for firms. Strengthening competition enforcement and addressing skills shortages by improving training opportunities and facilitating skilled immigration would support business dynamism.

Weak investment and exports have weighed on growth

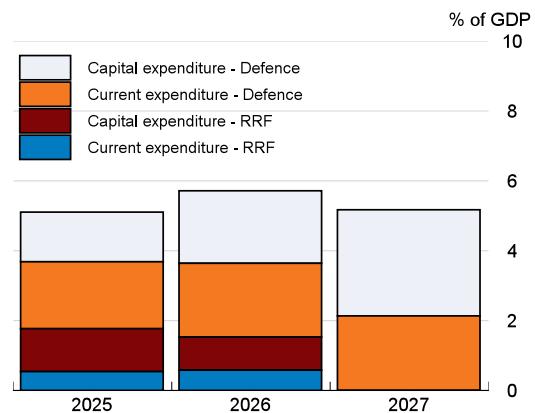
GDP growth slowed in the second quarter of 2025, driven by falling exports and investment. Strong real wage growth, related to increasing minimum and public wages as well as significant labour shortages, supported private consumption. Industrial production rose by 1.7% in September compared to August and was 6½ per cent higher than a year earlier. Annual inflation stood at 4.3% in October due to rising food and energy prices, and core inflation rose to 3.8% from 3.2% in September due to rising services prices. The unemployment rate was 6.4% in September, and the vacancy rate was 2.2% in the second quarter of 2025, reflecting increased shortages of technicians, professionals, craft workers and tradespeople.

Export volumes fell in the second quarter of 2025 due to weak external demand, while import volumes rose, reflecting increasing demand for defence equipment and leading to strong inventory build-up. The merchandise trade deficit widened in the third quarter of 2025, with import values rising by 10% year-on-year in September. Although less than 4% of goods and services exports go to the United States, tariff increases could hurt exports in certain industries such as wood products. Mortgage rates have fallen 145 basis points from a year ago, supported by euro area monetary easing and recent reforms to reduce costs for refinancing loans and strengthen competition in financial markets.

Latvia



Recovery and Resilience Facility funds and defence spending will support domestic demand



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 and defence spending in line with Latvia's national escape clause from EU fiscal rules, which was approved by the European Union Council in July 2025.

Source: OECD Prices database; Eurostat; Statistical Central Bureau of Latvia; Ministry of Finance of Latvia; OECD Economic Outlook 118 database; and OECD calculations.

StatLink <https://stat.link/yupwdn>

Latvia: Demand, output and prices

Latvia	2022	2023	2024	2025	2026	2027	Current prices	Percentage changes, volume	
							EUR billion	(2020 prices)	
GDP at market prices									
Private consumption	36.1	-0.9	0.0	1.2	2.1	2.5			
Government consumption	21.5	-0.9	0.1	0.0	1.3	1.9			
Gross fixed capital formation	7.5	2.5	-0.4	2.2	2.1	1.7			
Final domestic demand	8.4	5.0	-7.0	10.5	3.5	4.5			
Stockbuilding ¹	37.4	1.1	-1.6	2.8	2.0	2.5			
Total domestic demand	0.5	-0.6	0.8	2.1	0.5	0.0			
Exports of goods and services	37.9	0.4	-1.2	5.0	2.4	2.4			
Imports of goods and services	28.0	-7.0	0.1	-0.3	1.1	2.4			
Net exports ¹	29.7	-5.0	-1.8	5.5	1.8	2.4			
<i>Memorandum items</i>									
GDP deflator	-	10.7	2.1	3.3	2.5	2.1			
Harmonised index of consumer prices	-	9.1	1.3	3.8	2.5	2.1			
Harmonised index of core inflation ²	-	8.4	3.7	3.5	2.7	2.1			
Unemployment rate (% of labour force)	-	6.5	6.9	6.7	6.5	6.4			
Household saving ratio, net (% of disposable income)	-	-1.3	2.5	4.0	3.4	3.2			
General government financial balance (% of GDP)	-	-2.4	-1.8	-3.0	-3.2	-4.1			
General government gross debt (% of GDP)	-	54.4	57.7	59.0	60.6	62.9			
General government debt, Maastricht definition ³ (% of GDP)	-	44.4	46.6	47.9	49.4	51.7			
Current account balance (% of GDP)	-	-3.8	-1.6	-2.4	-3.3	-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 118 database.

StatLink <https://stat.link/8by5xm>

Fiscal policy will tighten gradually

Fiscal policy will strongly ease by 1.5% of GDP in 2025 before tightening by 0.7% of GDP over 2026-27, leading to an increase in public debt. EU Recovery and Resilience Facility grants will finance public investment and measures to improve training and digital adoption in small businesses in 2025 and 2026. Their phase-out will offset the increase in defence spending by 0.8% of GDP in 2026 and a further 1% of GDP in 2027. About half of the forthcoming defence spending is public investment, which will also increase due to Rail Baltica related investments. Planned expenditures in education, health and social benefits, 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 as well as reduced tax revenue due to a recent personal income tax reform.

The recovery will be driven by domestic demand

Real GDP growth is expected to rise from 1.2% in 2025 to 2.1% in 2026 and 2.5% in 2027. Private consumption will recover gradually as confidence improves and inflation falls. Public consumption will grow robustly due to rising spending on defence, health and education. Business investment will improve due to strong public investment growth, improving confidence and broadly neutral monetary policy in the euro area. Trade policy uncertainty will weigh on exports. Despite planned increases in minimum wages, a cap on public sector salary growth will moderate wage increases and ease headline and core inflation. Delays in the absorption of EU funds due to labour shortages, rising input 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.

Reducing administrative burdens and improving the capacity of the public administration would support growth

To address rising spending pressures in defence, health and education and stabilise public debt, it is key to raise spending efficiency, reallocate spending and increase tax revenue from income and property taxes. Improving the data infrastructure and knowledge about methodologies for cost-benefit and impact analysis of policies, and greater cooperation across the public sector are key for increasing the quality of public services and spending efficiency, and reducing administrative burdens. Plans to simplify and accelerate public procurement procedures should be combined with increasing transparency, and further centralisation of procurement for standardised goods and services. Listing large state-owned enterprises would help improve their governance and deepen capital markets. Strengthening the powers of the Competition Council to conduct market investigations and enforce competitive neutrality of state-owned enterprises would help foster business dynamism. Lowering occupation-specific restrictions and facilitating administrative procedures for migrants can help to reduce skilled labour shortages, while investing more in childcare facilities would help increase the labour supply of women.

Lithuania

GDP growth is projected to increase from 2.5% in 2025 to 3.1% in 2026, before declining to 2.0% in 2027. These projections are largely shaped by household consumption. Strong real wage gains are expected to be compounded by one-off withdrawals from private pension savings in 2026, but both effects will fade in 2027. After a decline in 2024, investment will be supported by improving business conditions, capacity utilisation and financing conditions. Inflation is expected to rise temporarily to 3.5% in 2025, reflecting wage growth and increased excise duties before easing to 3.0% in 2026 and 2.5% in 2027, in line with unit labour cost growth.

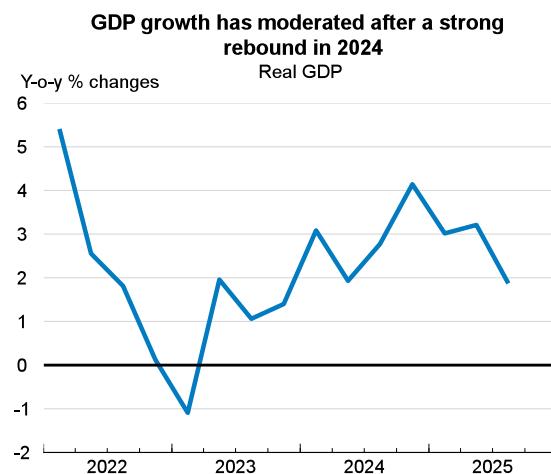
The fiscal stance is expected to loosen over the next two years, mainly due to increasing defence and pension spending. Creating additional fiscal space will be key to finance upcoming spending needs. This could be achieved by improving public spending efficiency, broadening the tax base and encouraging formal economic activity. Deepening capital markets by increasing the supply and demand of non-bank capital, leveraging digital financing, and softening the investment rules applicable to pension funds would help alleviate the financial constraints that many firms are facing and support productivity growth.

Growth has recently declined

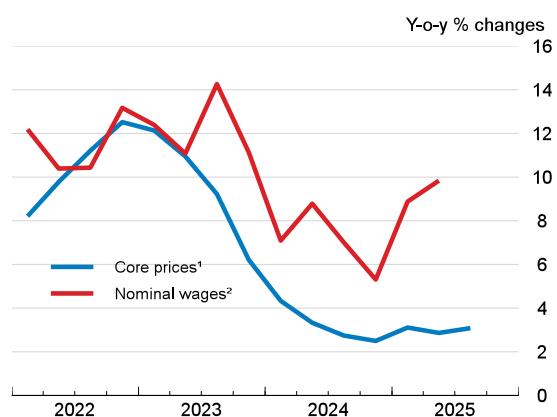
GDP growth has declined since the end of 2024, amid low capacity utilisation and subdued confidence driving down investment growth. Against a backdrop of weak industrial confidence and a decline in retail sales in September, GDP fell in the third quarter of 2025. Construction output dropped sharply in August before recovering in September, while consumer confidence strengthened in September and October. The labour market remains tight, with labour shortages contributing to strong wage growth in the first half of 2025. The unemployment rate remained at 7.0% in September, below its long-term average. Headline inflation has edged up, reaching 3.7% in October, partly due to the increase in excise duties on fuels, alcohol and tobacco. Core inflation has remained broadly stable since early 2025 and reached 3.0% in October.

While only 6% of Lithuanian exports are directly shipped to the US, 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 Lithuanian exports.

Lithuania



Wage growth remains strong while inflation has continued to ease



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/i4bq3o>

Lithuania: Demand, output and prices

Lithuania	2022	2023	2024	2025	2026	2027	Percentage changes, volume (2021 prices)	
							Current prices EUR billion	
GDP at market prices	67.1	0.7	3.0	2.5	3.1	2.0		
Private consumption	38.4	-0.1	3.1	3.1	5.9	1.1		
Government consumption	11.5	0.0	1.6	1.9	1.9	2.0		
Gross fixed capital formation	15.1	11.3	-1.7	6.6	5.1	4.9		
Final domestic demand	64.9	2.5	1.7	3.7	4.9	2.2		
Stockbuilding ¹	3.6	-3.5	1.2	1.7	0.0	0.0		
Total domestic demand	68.5	-0.8	2.8	5.5	4.9	2.2		
Exports of goods and services	58.5	-3.3	2.6	5.2	2.9	2.9		
Imports of goods and services	59.9	-5.3	2.4	8.5	4.2	3.2		
Net exports ¹	-1.4	1.8	0.2	-1.9	-0.8	-0.2		
<i>Memorandum items</i>								
GDP deflator	—	10.0	3.2	3.7	3.3	2.3		
Harmonised index of consumer prices	—	8.7	0.9	3.5	3.0	2.5		
Harmonised index of core inflation ²	—	9.6	3.2	3.1	2.9	2.5		
Unemployment rate (% of labour force)	—	6.8	7.1	7.2	6.9	6.8		
Household saving ratio, net (% of disposable income)	—	1.8	3.8	6.6	6.9	6.7		
General government financial balance (% of GDP)	—	-0.7	-1.3	-2.3	-2.8	-2.9		
General government gross debt (% of GDP)	—	38.3	40.1	41.8	47.1	50.9		
General government debt, Maastricht definition ³ (% of GDP)	—	37.1	38.0	39.8	45.2	49.1		
Current account balance (% of GDP)	—	1.1	3.0	0.3	-0.8	-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 118 database.

StatLink <https://stat.link/sxrgo7>

Fiscal policy is becoming more accommodative

The fiscal stance has loosened in 2025, and a further easing is expected in 2026. The general government fiscal deficit is expected to increase from 1.3% in 2024 to 2.3% in 2025, 2.8% in 2026 and 2.9% in 2027. The main factor is an increase in total expenditures, driven by pension benefits, public wage growth and defence spending. Defence spending notably is expected to increase from 2.8% of GDP in 2024 to 3.2% in 2025 and close to 4% in 2027 on an accruals basis. On a cash basis, defence spending already represents 4% of GDP in 2025 and is expected to exceed 5% in 2027, consistent with the government target of 5-6% of GDP spent on defence over 2026-30.

Private consumption will continue to support growth

Real wage gains and improving consumer confidence are expected to continue supporting consumption, especially in 2026. Moreover, the government has opened a window for Lithuanians to withdraw cash from their private pension saving accounts in 2026-27. Most withdrawals are expected to occur in 2026 and to provide a temporary boost of around 2 percentage points to private consumption growth. While total investment declined in 2024 and construction stalled in the first half of 2025, investment is expected to rebound, especially in 2026 as EU-funds and financing conditions improve. The unemployment rate is projected to continue declining, despite stagnant employment, reflecting a shrinking labour force. Exports are expected to grow in line with external demand. Growth in the euro area is thus a key risk for Lithuania, along with global energy prices and geopolitical tensions. Headline inflation is expected to ease at the end of 2025 due to lower energy prices and settle at 3.0% in 2026 and 2.5% in 2027, in line with core inflation. This inflation projection is subject to an upward risk as wage growth could be higher than expected.

Structural reforms would improve fiscal sustainability and support investment

Lithuania will face a major demographic shock that will increase pension-related costs. The private pension savings reform risks further undermining the adequacy of the pension system. In this context, building additional fiscal space is needed to ensure fiscal sustainability. This will require improving the efficiency of public spending, mobilising additional tax revenues and encouraging formal economic activity. Strengthening productivity growth will help offset the negative impact of population ageing on living standards. While Lithuania's product market regulations and insolvency framework are among the most conducive to productivity growth in the OECD, competition in retail energy markets could be reinforced by deregulating electricity and gas prices. Moreover, many firms are facing financial constraints. A deepening 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, softening the investment rules applicable to pension funds, leveraging digital financing by improving financial literacy, 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 growth is projected to pick up from 0.8% in 2025, to 1.9% in 2026 and 2.0% in 2027, supported by business investment and recovering financial sector activity. Private consumption will remain robust as wage indexation and receding inflation bolster households' real disposable income. Lower interest rates will stimulate financial and construction activity. Risks are broadly balanced. Construction and the financial sector may recover faster than expected, but weaker activity in trading partner countries may dampen activity.

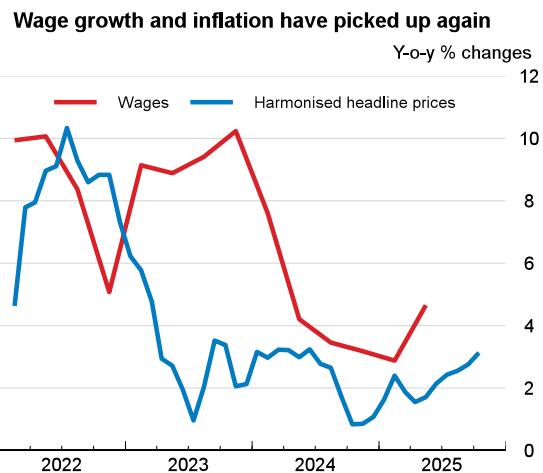
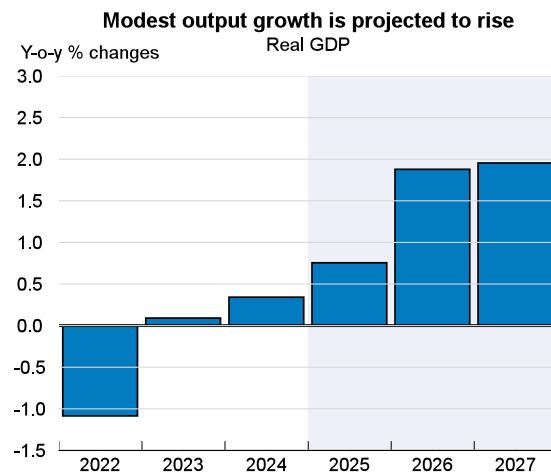
The phasing out of energy price subsidies and further adjustments of the effective retirement age and benefits would help maintain fiscal prudence and the long-run sustainability of public finances. Housing affordability, central to expanding the labour force, should be tackled by simplifying the permitting process and revising the property surtax on unused land to boost housing supply. Fostering public-private research partnerships, reforming adult training accreditation standards and reducing barriers to entry in professional services could boost productivity growth.

Growth has picked up

After three years of subdued growth, GDP growth picked up through the first half of 2025 due to higher government consumption and exports. Short-term indicators point to a nascent recovery in the manufacturing sector to persisting difficulties in construction. Lower interest rates have supported the recovery of activity in the financial and insurance services sectors, but by less than expected. Consumer confidence and business confidence in the construction sector have been gradually recovering through 2025. Growth in retail trade turnover has remained positive but modest. Inflation has been higher than expected this year, reaching 3.0% in the year to October 2025, partly due to automatic wage indexation supporting services price increases.

The direct and indirect impact of US trade restrictions has been limited up to September 2025, partially absorbed by changes in inventories. The increase in non-financial services exports was compensated by declines in exports of goods and of financial services, Luxembourg's main exports. Luxembourg's trade exposure to the United States is relatively low, at 3% of total goods exports and 5% of total services exports. Subdued activity in Germany, Luxembourg's largest trading partner, has negatively affected exports.

Luxembourg



Source: OECD Economic Outlook 118 database.

StatLink  <https://stat.link/8o3vw6>

Luxembourg: Demand, output and prices

Luxembourg	2022	2023	2024	2025	2026	2027	Current prices	Percentage changes, volume
							EUR billion	(2015 prices)
GDP at market prices								
Private consumption	76.9	0.1	0.3	0.8	1.9	2.0	24.9	2.0
Government consumption							13.8	2.0
Gross fixed capital formation							12.7	1.8
Final domestic demand							51.5	3.0
Stockbuilding ¹							0.5	2.2
Total domestic demand							52.0	2.2
Exports of goods and services							170.6	1.9
Imports of goods and services							145.7	2.0
Net exports ¹							24.9	0.4
<i>Memorandum items</i>								
GDP deflator		7.1	3.5	2.5	0.6	1.1	–	
Harmonised index of consumer prices		2.9	2.3	2.5	2.1	1.9	–	
Harmonised index of core inflation ²		3.9	2.5	1.9	2.1	1.9	–	
Unemployment rate (% of labour force)		5.2	5.8	5.9	5.8	5.7	–	
Household saving ratio, net (% of disposable income)		5.7	5.0	5.1	4.1	3.7	–	
General government financial balance (% of GDP)		-0.8	1.0	-0.6	-0.4	-0.3	–	
General government gross debt (% of GDP)		30.3	32.0	32.9	33.5	34.0	–	
General government debt, Maastricht definition ³ (% of GDP)		24.6	26.4	27.3	28.0	28.5	–	
Current account balance (% of GDP)		6.8	4.3	5.1	3.5	2.7	–	

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 118 database.

StatLink  <https://stat.link/2xvgt4>

The fiscal stance is projected to remain broadly neutral

The draft 2025 medium-term budget plan aims to maintain a very modest general government deficit in the coming years, consistent with maintaining the gross debt ratio around its current level. Fiscal revenues will be negatively affected by the recent revision of personal income tax brackets, which include tax relief for lower income workers, and the announced energy price subsidies. At the same time, expenditures will increase due to public investments in digital and green innovation and productivity-enhancing measures, and possibly defence spending. In the longer run, the pension reform may bring fiscal relief by increasing the effective retirement age.

A recovery of investment and financial activities will boost growth

GDP growth is expected to reach 0.8% in 2025 and to gradually increase in 2026 and 2027. The strengthening will be driven by an improvement in financial sector activities, supported by lower monetary policy rates, and by private investment, especially in transport and logistics. Employment is expected to expand gradually through 2027. Wage indexations in May 2025 and mid-2026 will boost services inflation and support domestic demand, even as household saving rates remain near historical highs. While headline inflation is expected to gradually decrease in 2026 and 2027, some increases in energy prices represent an upward risk to the projection. A stronger recovery in housing and construction, which have so far been subdued, would further strengthen growth.

Supporting skills, innovation and the supply of housing would support productivity growth

A comprehensive policy plan to improve the relevance of vocational training courses to labour market needs, to facilitate entry into service sectors and to bolster innovation through project-based R&D funding and public-private research partnerships would support productivity and output growth. Simplifying the bureaucratic procedures to obtain construction permits could boost activity in the housing sector and enhance housing affordability, improving Luxembourg's attractiveness for foreign workers. To improve energy security, efforts should be focused on decarbonising the transport sector and enhancing the electricity transmission grid, with particular attention to the integration of renewable sources. The phasing out of energy price subsidies, a gradual increase of taxes on value added and immoveable property and a more ambitious reform of effective retirement age and benefits would help maintain a prudent fiscal stance while boosting the economy's potential.

Malaysia

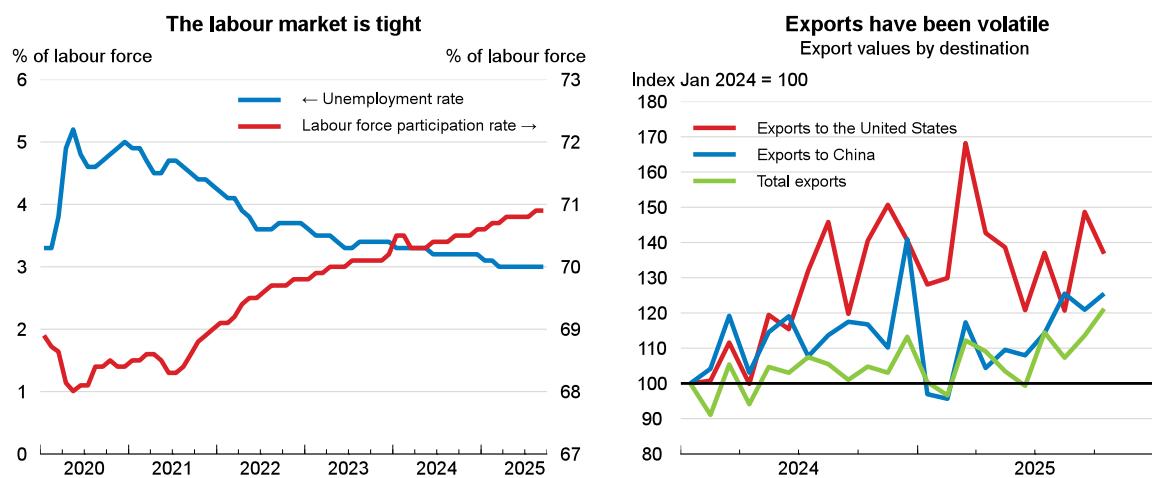
GDP is projected to grow by 5.0% in 2025, 4.4% in 2026 and 4.1% in 2027, supported by resilient domestic demand. Private consumption is expected to remain robust, underpinned by favourable labour market conditions and income support policies. Investment will gain momentum especially in technology-intensive sectors including semiconductors and green energy. External demand is set to weaken amid higher tariffs and significant policy uncertainty. Prolonged global trade tensions, especially higher taxes on semiconductors, are a key risk to the outlook. Inflation is contained but could rise amid strong wage growth.

Following the planned reduction in the fiscal deficit to 3.9% of GDP in 2025, continuous fiscal consolidation will be required to rebuild fiscal space and reduce public debt, including by mobilising more tax revenues and phasing out energy subsidies. Amid external headwinds to growth and contained inflation, the current mildly accommodative monetary policy stance should be maintained, while carefully monitoring emerging inflationary pressures. Structural reforms could boost growth by reducing regulatory barriers on product markets. These include administrative burdens, entry restrictions and price ceilings, which hamper competition and give rise to high compliance costs, especially for smaller firms.

Growth has strengthened

Real GDP growth strengthened significantly to 5.2% year-on-year in the third quarter of 2025, largely driven by increased investment and private consumption. Inflation has been contained, with headline inflation standing at 1.3% in October and core inflation at 2.2%. Meanwhile, the labour market is tight with buoyant wage growth and unemployment at 3.0% since April 2025, its lowest level since April 2015. Labour force participation was also at an all-time high of 70.9% in September.

Malaysia



Source: CEIC.

StatLink <https://stat.link/z9uwvf>

Malaysia: Demand, output and prices

	2022	2023	2024	2025	2026	2027
	Current prices MYR billion	Percentage changes, volume (2015 prices)				
Malaysia						
GDP at market prices	1 794.9	3.5	5.1	5.0	4.4	4.1
Private consumption	1 034.0	4.6	5.1	5.1	4.2	4.9
Government consumption	208.4	3.4	4.7	6.6	6.6	4.0
Gross fixed capital formation	326.8	5.4	12.0	9.3	5.0	5.2
Final domestic demand	1 569.3	4.6	6.5	6.3	4.7	4.9
Stockbuilding ¹	96.5	0.5	-1.4	-0.7	0.0	0.0
Total domestic demand	1 665.8	5.0	4.9	5.5	4.8	4.9
Exports of goods and services	1 378.6	-7.9	8.3	2.8	3.2	3.6
Imports of goods and services	1 249.5	-6.8	8.2	3.5	3.7	4.8
Net exports ¹	129.1	-1.2	0.4	-0.3	-0.2	-0.6
<i>Memorandum items</i>						
GDP deflator	–	-1.8	0.8	-0.2	3.0	2.3
Consumer price index	–	2.5	1.8	1.4	2.3	2.4
Core inflation index ²	–	3.0	1.8	2.0	2.3	2.4
Federal government financial balance (% of GDP)	–	-5.0	-4.1	-3.9	-3.8	-3.5
Federal government gross debt (% of GDP)	–	64.3	64.6	65.6	64.9	64.4
Current account balance (% of GDP)	–	1.1	1.4	2.2	2.7	2.5

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 118 database.

StatLink  <https://stat.link/zexwf2>

Merchandise export growth exhibited significant volatility in 2025, as exports to the United States, Malaysia's third largest export destination, surged strongly in March, followed by a decline towards mid-year and a rebound in September. Most Malaysian merchandise exports to the United States now face an additional tariff of 19%, although once ratified, the new trade agreement with the United States would result in a wider range of exempt products which could lower the effective tariff. Exports to China have surged since May 2025.

Fiscal consolidation is set to continue as monetary policy remains mildly accommodative

The fiscal deficit fell from 5.0% at the end of 2023 to 4.2% of GDP in June 2025. Further fiscal consolidation plans include spending and revenue measures, such as a better targeting of fuel subsidies and higher revenues from the Sales and Service Tax (SST), whose tax base was broadened in July 2025. The lower deficit will help bring down government debt to 65.6% of GDP by the end of 2025 and create fiscal space to address rising long-term spending pressures related to social protection and climate-change challenges. The current monetary policy stance is mildly accommodative after a 25 basis points cut to 2.75% in July 2025. This stance appears broadly appropriate and should be maintained amid external headwinds to growth, while closely monitoring potential inflationary pressures from the continued withdrawal of fuel subsidies, increases in the minimum wage and civil servant salaries, and the tight labour market.

The economy will grow moderately, but faces significant downside risks

GDP is projected to grow by 4.4% in 2026 and 4.1% in 2027. Private consumption will be buoyed by favourable labour market conditions. The withdrawal of fuel subsidies will eventually weigh on the real purchasing power of some households, but this will initially affect only those with higher incomes who are unlikely to reduce consumption visibly. Private investment will gain momentum especially in technology-intensive sectors like semiconductors and green energy. Infrastructure projects and investments by public corporations will support public investment. Inflation is projected to rise, reflecting solid wage increases, the one-off effect from the expansion of the sales and service tax and gradual progress in fuel subsidy withdrawal. Export growth will be tempered by global trade tensions and high levels of uncertainty, which could have more negative effects than currently assumed, particularly if tariff rates rise further. Stronger than expected inflationary pressures also remain a downside risk.

Regulatory reforms can improve growth prospects, especially for small firms

Regulations affecting product markets are relatively restrictive, limiting competition and entry. Compliance costs with licenses and permits, estimated at 2.3% of GDP, fall disproportionately on smaller firms and can be an obstacle to formalisation. Further regulatory reforms could ease these barriers and strengthen growth, especially in services such as retail trade where price ceilings on essential goods limit competition. There is also scope for re-evaluating the costs and benefits of state-owned enterprises (SOEs) in sectors where the private sector is operating efficiently while creating a more level playing field by improving SOE governance. Support to small and medium enterprises, whose productivity is lagging, could be streamlined and consolidated to increase efficiency and reduce duplication. Public sector efficiency could be enhanced by fully implementing the Government Service Efficiency Commitment Act 2025, streamlining bureaucracy, and expanding digital government services.

Mexico

The economy is projected to grow by 1.2% in 2026 and 1.7% in 2027, after 0.7% in 2025. Low unemployment and easing inflation will support consumption. Public consumption and investment will remain subdued, given ongoing fiscal consolidation. Exports will be dampened by higher tariffs and uncertainty. Declining interest rates will provide some support to investment, but its recovery is expected to be gradual, reflecting persistent domestic and international uncertainty.

Implementing a medium-term fiscal framework would help reduce the deficit and create space for productivity-enhancing investments, particularly in education. To ensure that inflation decreases towards the 3% target, the central bank should maintain a prudent and data-dependant easing cycle. Streamlining and digitalising business regulations would facilitate firm creation and growth, foster competition and support job creation.

Activity is softening

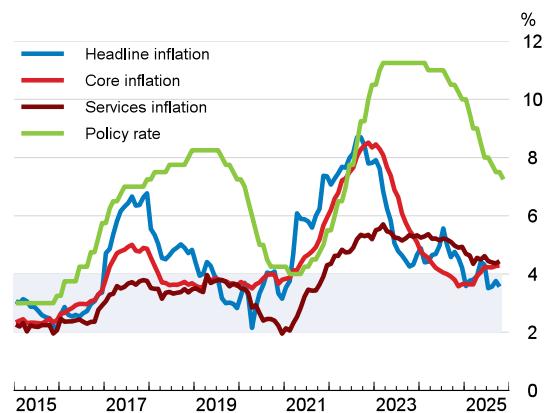
After remaining resilient during the first half of 2025 despite heightened global uncertainty, economic activity has weakened, with GDP contracting by 0.3% in the third quarter (seasonally adjusted). Private consumption is moderating in line with a slowdown in formal job creation, particularly within the manufacturing sector. Automotive exports have weakened, whereas non-automotive manufacturing exports have been resilient so far, supported by solid demand from the United States. Private investment continues to be subdued, reflecting high uncertainty. Headline inflation eased to 3.6% in October (year-on-year), while core inflation has stabilised above 4%, the upper limit of the inflation target range. Goods inflation has edged up, whereas services inflation is trending down, albeit gradually. Unemployment, at 3.0% in September, remains near historically low levels, although labour force participation has recently declined. The informality rate remains close to 55% of total employment.

Mexico is an open economy with strong trade linkages to the United States, which accounts for over 80% of exports. The United States–Mexico–Canada Agreement (USMCA) has served as an important shield against rising trade restrictions and ongoing uncertainty. Most exports compliant with the USMCA face a 0% tariff, with their share increasing from 50% at the beginning of the year to close to 80% recently. Non-compliant exports are assumed to continue facing a 25% tariff throughout 2026-27. Automobiles, automobile parts, trucks and trucks components are also assumed to be subject to a 25% tariff rate. The projections also assume a 50% tariff on United States imports of steel and aluminium products and on semi-finished copper products and derivative products intensive in copper.

Mexico



Headline inflation has recently eased while core inflation has picked up²



1. Data shows 3-month centered moving averages.

2. The shaded area represents the central bank's inflation target range.

Source: Banxico.

StatLink  <https://stat.link/bn763d>

Mexico: Demand, output and prices

Mexico	2022	2023	2024	2025	2026	2027	Current prices	Percentage changes, volume
							MXN billion	(2018 prices)
GDP at market prices								
Private consumption	29 525.5	3.4	1.4	0.7	1.2	1.7	20 832.8	2.4
Government consumption	3 286.5	2.3	1.6	0.8	0.1	0.4	6 620.7	1.6
Gross fixed capital formation	6 620.7	16.7	3.4	-5.7	0.9	1.6	30 740.0	2.0
Final domestic demand	30 740.0	6.7	2.8	-1.0	1.6	2.0	-348.3	0.0
Stockbuilding ¹	-348.3	-0.2	0.0	0.0	0.0	0.0	Total domestic demand	2.0
Total domestic demand	30 391.8	6.3	2.8	-0.8	1.7	2.0	12 676.0	2.6
Exports of goods and services	12 676.0	-7.2	3.3	8.5	1.8	2.6	13 542.2	3.4
Imports of goods and services	13 542.2	3.7	2.8	1.0	3.7	3.4	-866.3	-0.5
Net exports ¹	-866.3	-4.8	0.0	2.9	-0.9	-0.5		
<i>Memorandum items</i>								
GDP deflator	—	4.7	4.9	5.1	3.1	2.7		
Consumer price index	—	5.5	4.7	3.8	3.3	2.9		
Core inflation index ²	—	6.7	4.1	4.1	3.5	2.9		
Unemployment rate ³ (% of labour force)	—	2.8	2.7	2.7	2.9	2.8		
Government financial balance ⁴ (% of GDP)	—	-3.4	-4.9	-3.6	-3.6	-3.2		
Government gross debt ⁴ (% of GDP)	—	47.2	53.3	57.4	58.7	59.4		
Current account balance (% of GDP)	—	-0.7	-0.7	-0.5	-0.9	-0.8		

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 118 database.

StatLink  <https://stat.link/108ebk>

Monetary policy is easing and fiscal consolidation has started

The central bank has continued its monetary easing cycle, lowering the policy rate to 7.25% in November. As economic activity moderates, price pressures are expected to ease, although further reductions in the policy rate should remain data-dependent and proceed once there is clear evidence that inflation is on a path back to the 3% target. Based on OECD inflation projections, the policy rate could reach 6.25% by the end of 2026. After widening to 4.9% of GDP in 2024, the highest level in 35 years, the budget deficit is expected to narrow to 3.6% in 2025 and 3.2% by 2027.

Growth will remain modest amid high uncertainty

The economy is projected to expand by 1.2% in 2026 and 1.7% in 2027. 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. Export growth will be dampened by trade tariffs and high global uncertainty. Inflation will fall gradually. However, the outlook for both growth and inflation remains uncertain. Given Mexico's high exposure to the US market, the projected US slowdown and tighter financial conditions may weigh more heavily than anticipated on exports and investment. Moreover, increased global risk aversion and exchange rate volatility could raise sovereign borrowing costs and further limit fiscal space. Potential tariff increases on Mexico's imports from countries without trade agreements may generate additional price pressures. 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, reduce the deficit, and create fiscal space for additional spending in productivity-enhancing areas, such as education or digitalisation. Expanding vocational training would strengthen the availability of technical skills, boosting competitiveness and facilitating access to formal jobs. Streamlining and digitalising business regulations would facilitate firm creation and growth, foster competition and support job creation. Systematically applying cost-benefit analysis to infrastructure projects and targeting social programmes would enhance the efficiency of public spending. Given Mexico's high vulnerability to climate change, strengthening adaptation, including by enhancing early warning systems and expanding climate risk insurance coverage, is a priority.

Morocco

Real GDP growth in Morocco is projected to reach 4.5% in 2025, 4.2% in 2026 and 4.0% in 2027. Robust domestic demand will be the primary driver, with consumption supported by higher real incomes and infrastructure investment bolstered by the hosting of major international sporting events. The agricultural sector has strongly rebounded after the 2023-2024 drought, and tourism continues to grow vigorously. Risks are slightly skewed to the downside. The industrial sector may grow faster than expected, but agriculture remains vulnerable to climate shocks. Uncertainty, tariffs, and geopolitical tensions could suppress external demand further and widen the trade deficit.

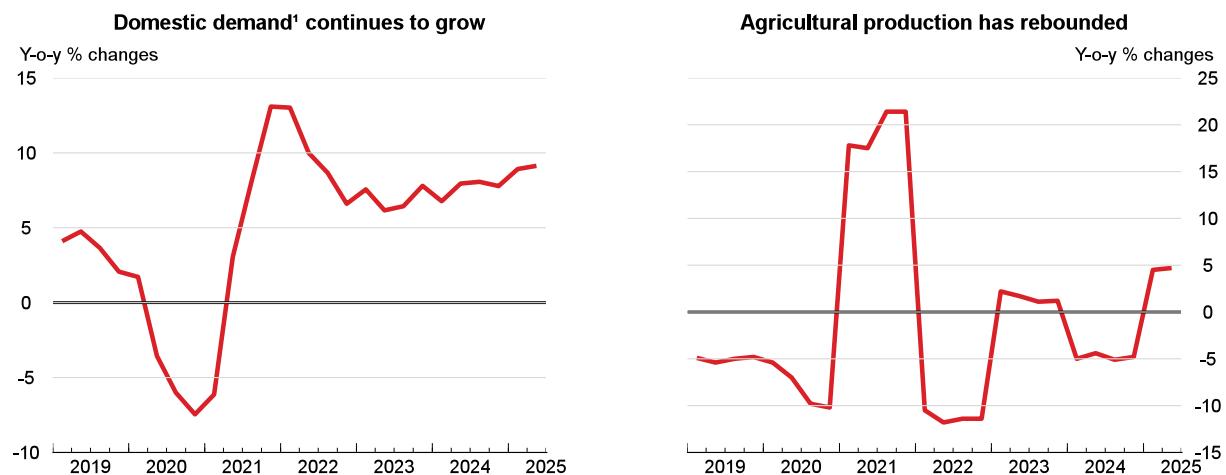
The recent fiscal reform has helped to narrow the fiscal deficit, which is expected to approach 3% of GDP in 2027. The gradual fiscal consolidation will help strengthen macroeconomic stability. Maintaining monetary policy interest rates at their current level is appropriate given expected inflation dynamics. Decisive policies are needed to tackle informality and corruption and enhance competition.

Domestic demand has sustained growth

Consumption grew substantially in the first two quarters of 2025, supported by rising purchasing power and greater consumer confidence as inflation eased. Infrastructure investment continues to drive overall investment growth, boosted by Morocco's role as host of major events. The tourism sector has maintained robust momentum, with more than 16 million tourists visiting in the first ten months of 2025. The agricultural sector has rebounded in 2025 after drought conditions in 2023 and 2024, but remains highly vulnerable to climate shocks. Lower oil and food prices have pushed inflation down, with annual headline inflation averaging 0.9% and core inflation 1.2% over the first ten months of the year.

Robust domestic demand and subdued global demand due to uncertainty and geopolitical tensions have caused imports to outpace exports, widening the current account deficit. Both import and export growth are expected to remain vigorous. Vibrant household consumption has boosted imports of consumer goods, and the expansion of the manufacturing sector has increased imports of energy and intermediate inputs. The rebound in agricultural products has revitalised food exports, while a diversification of export markets has enhanced export resilience.

Morocco



1. Four quarters moving average.

Source: OECD Economic Outlook 118 database; and Haut commissariat au Plan, DCN.

StatLink <https://stat.link/ryce5w>

Morocco: Demand, output and prices

Morocco	2022	2023	2024	2025	2026	2027	Percentage changes, volume (2014 prices)	
							Current prices MAD billion	
GDP at market prices	1 333.5	3.7	3.8	4.5	4.2	4.0		
Private consumption	827.9	4.8	3.4	4.3	3.6	3.3		
Government consumption	252.6	6.1	5.6	5.4	4.0	3.8		
Gross fixed capital formation	354.9	3.0	13.2	12.0	7.3	7.4		
Final domestic demand	1 435.4	4.7	6.2	6.5	4.7	4.4		
Stockbuilding ¹	51.3	0.6	-0.1	1.2	0.5	0.0		
Total domestic demand	1 486.7	4.9	5.7	7.2	4.9	4.3		
Exports of goods and services	596.2	7.9	8.0	5.0	6.3	5.9		
Imports of goods and services	749.4	9.5	11.6	11.2	7.5	6.1		
Net exports ¹	-153.1	-1.8	-2.5	-3.6	-1.1	-0.6		
<i>Memorandum items</i>								
GDP deflator	—	7.1	4.0	1.9	2.4	1.7		
Consumer price index	—	6.1	1.0	1.1	1.9	1.9		
Current account balance (% of GDP)	—	-1.0	-1.2	-2.0	-2.0	-2.2		

1. Contributions to changes in real GDP, actual amount in the first column.

Source: OECD Economic Outlook 118 database.

StatLink <https://stat.link/6ptr2h>

The fiscal deficit is expected to narrow gradually, while monetary policy interest rates are on hold

After bringing the policy rate to 2.25% in March 2025, the central bank paused its easing cycle despite inflation declining substantially in 2025. Given that both headline and core inflation could rebound in 2026 and 2027 as some disinflationary factors subside, the central bank should maintain the present interest rate and continue to follow a data-driven approach. The fiscal deficit is expected to be around 3.7% of GDP in 2025 and then narrow gradually despite robust spending growth driven by public infrastructure

investment and the extension of health care coverage. This downward trajectory is projected to bring the deficit to 3.2% of GDP by 2027, helped by sustained economic growth and the fiscal reform recently implemented by the government that has increased fiscal revenues. These factors are also expected to contribute to the gradual reduction of the public debt, which stands around 67% of GDP in 2025.

Growth is projected to remain strong in 2026 and 2027

Economic activity is expected to grow by 4.2% in 2026 and 4.0% in 2027. Consumption growth is projected to remain robust but moderate slightly as inflationary pressures, mainly due to external factors, weaken disposable income growth. Infrastructure investment will continue to support domestic demand and underpin expansion in the manufacturing and construction sectors. Strong growth in tourist arrivals and receipts is expected to persist. Formal employment is gradually increasing, with the unemployment rate projected to decline to 12.6% by 2027. However, persistently high youth and female unemployment remains a challenge. Risks are slightly tilted to the downside. On the positive side, the manufacturing sector may grow faster than expected. On the negative side, uncertainty, tariffs and geopolitical tensions may weaken projected external demand and widen the trade deficit. The agricultural sector could suffer heavily in the event of new droughts.

Levelling the playing field would foster stronger growth

Enhancing market competition by continuing to reform State-owned enterprises (SOEs) and tackling corruption and informality is key for Morocco. Rationalising budgetary transfers to SOEs and enhancing their performance will also augment dividends to the State budget and contribute to levelling the playing field. Adopting legislation regulating lobbying activities would strengthen transparency, while promoting further digitalisation would reduce the need for face-to-face interactions and keep record of all transactions. Requiring the division of large public contracts into smaller lots would help tackle corruption and favour competition in the large public procurement market. Increasing the flexibility of labour contracts and reducing employer contribution rates for those on low wages would help to tackle informality, and efficiency-enhancing competition would be fostered also by strengthening competition policy enforcement.

Netherlands

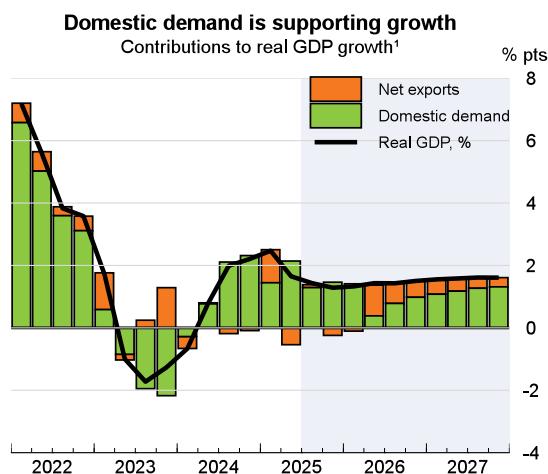
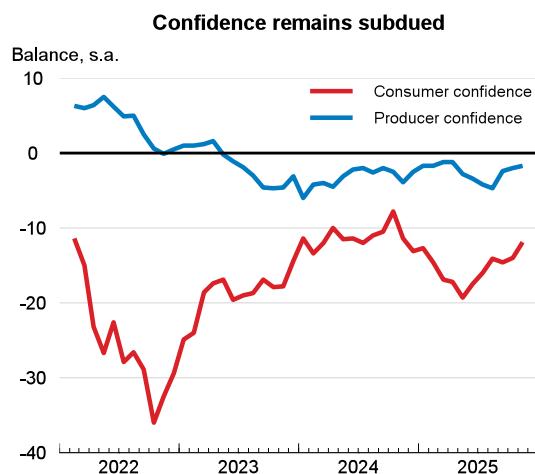
GDP is projected to grow by 1.4% in 2026, before strengthening to 1.6% in 2027 supported by domestic consumption and a gradually improving global trade environment. Investment will pick up as the delayed effects of monetary easing and lower borrowing costs feed through. Annual headline inflation is set to fall from 2.9% in 2025 to 2.1% in 2027, with underlying price pressures easing as nominal wage growth moderates. Labour market conditions will remain tight, with unemployment rising marginally from 3.9% in 2025 to 4.1% by end-2027.

The fiscal stance is expected to remain broadly neutral over 2025–27, reflecting lower personal and environmental taxes alongside a shift of planned expenditure to later years. To support growth amidst constrained labour supply, the government should prioritise productivity-enhancing investment and foster a more dynamic business environment by simplifying business registration and strengthening the insolvency framework.

The economy remains resilient

GDP grew by 0.4% quarter-on-quarter in the third quarter, up from 0.3% in the second quarter, driven mainly by higher public consumption and improved net exports. Export growth picked up while imports slowed, resulting in a larger trade surplus. Headline inflation remained at 3% in October, reflecting price pressures from energy and food. The labour market remained tight but showed signs of cooling, with job vacancies declining and unemployment edging up slightly to 4% in September. Consumer and business confidence have both improved since April but remain below long-term averages amidst persistent uncertainty.

Netherlands



1. Year-on-year growth rates.

Source: OECD Economic Outlook 118 database.

StatLink <https://stat.link/zvtmfw>

Netherlands: Demand, output and prices

	2022	2023	2024	2025	2026	2027
	Current prices EUR billion	Percentage changes, volume (2021 prices)				
Netherlands						
GDP at market prices	993.5	-0.6	1.1	1.7	1.4	1.6
Private consumption	437.4	0.7	1.0	1.5	1.0	1.1
Government consumption	241.7	2.8	3.6	2.6	1.7	1.9
Gross fixed capital formation	203.6	1.3	-0.4	0.5	0.0	1.2
Final domestic demand	882.7	1.4	1.4	1.6	1.0	1.4
Stockbuilding ¹	23.6	-2.4	0.0	0.2	0.0	0.0
Total domestic demand	906.3	-1.1	1.4	1.8	1.0	1.4
Exports of goods and services	958.8	-2.9	-0.2	2.2	2.3	2.3
Imports of goods and services	871.6	-3.9	0.0	2.4	1.9	2.1
Net exports ¹	87.2	0.6	-0.2	0.1	0.5	0.4
<i>Memorandum items</i>						
GDP deflator	–	6.3	5.8	3.1	1.7	1.6
Harmonised index of consumer prices	–	4.1	3.2	2.9	2.2	2.1
Harmonised index of core inflation ²	–	6.4	3.2	2.8	2.4	2.1
Unemployment rate (% of labour force)	–	3.5	3.7	3.9	4.0	4.1
Household saving ratio, net ³ (% of disposable income)	–	7.8	9.5	11.0	10.5	10.2
General government financial balance (% of GDP)	–	-0.4	-0.9	-2.3	-3.0	-2.3
General government gross debt (% of GDP)	–	50.9	48.2	48.9	50.8	52.0
General government debt, Maastricht definition ⁴ (% of GDP)	–	45.9	43.7	44.4	46.4	47.5
Current account balance (% of GDP)	–	9.4	9.1	7.9	8.7	8.6

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 118 database.

StatLink  <https://stat.link/zyn782>

As a highly trade-dependent economy, the Netherlands is exposed to shifts in global trade dynamics. About 5.7% of Dutch goods exports were shipped to the United States in 2024, but major export products such as semiconductor manufacturing equipment remain exempt from recently increased US tariffs on EU goods. Dutch trade continues to benefit from its strong integration within the EU single market, but activity is nonetheless indirectly affected by subdued global trade due to the Netherlands central role in European logistics and deep integration in global value chains.

Fiscal discipline is maintained in the short term

Fiscal policy is assumed to remain broadly neutral over 2025-27, as the caretaker government is expected to avoid major policy decisions until a new government is formed following the October 2025 general election. The budget deficit is projected to widen from 2.3% of GDP in 2025 to 3% in 2026 due to a one-off transfer of military pensions to the Dutch civil service pension fund, before narrowing again to 2.3% in 2027. The reduced income tax bracket beginning in 2025 and the extension of the fuel tax cut into 2026 are set to reduce revenues, and while defence spending is set to rise, some expenditure has been deferred to later years amid persisting labour shortages. Public debt (Maastricht definition) is projected to rise from 44.4% of GDP in 2025 to 47.5% in 2027.

Growth is set to improve but domestic uncertainty persists

Real GDP is forecast to rise by 1.7% in 2025 and 1.4% in 2026, before strengthening by 1.6% in 2027. This strengthening is supported by net exports as global trade improves and private consumption, which will benefit from government measures introduced at the beginning of 2025 to boost purchasing power and rising real incomes as inflation eases. Investment growth is projected to increase gradually, as the delayed effects of monetary easing and lower borrowing costs feed through, alongside rising defence spending. Annual headline inflation is expected to fall from 2.9% in 2025 to 2.1% in 2027. Labour market conditions will remain tight, with unemployment rising slightly from 3.9% in 2025 to 4.1% by end-2027 as employment growth slows. The outlook is surrounded by significant risks. Prolonged coalition talks after the general election could heighten policy uncertainty and delay investment. The direction of fiscal policy under a new coalition adds further uncertainty. Measures aimed at supporting household purchasing power could raise inflation, potentially eroding price competitiveness, reducing real incomes, and slowing private consumption.

A more dynamic business environment would support growth

The Netherlands maintains a strong fiscal position, but medium-term sustainability will come under pressure from population ageing, the substantial investments required for the green transition and supply constraints weighing on potential growth and revenues. Amidst persistent labour shortages, a more dynamic and innovative business environment is needed to support productivity growth. Simplifying business registration and reducing unnecessary regulatory complexity, such as removing potential duplication, would particularly benefit small and medium-sized enterprises, which often face higher compliance burdens due to limited administrative capacity. Further strengthening the insolvency framework could lower the cost of business failure and foster a more dynamic entrepreneurial environment. In parallel, improving digital skills and encouraging the uptake of digital technologies particularly among smaller firms would help to support productivity growth and competitiveness over the longer term.

New Zealand

After contracting in 2024, the New Zealand economy is projected to expand by 0.7% in 2025, 1.8% in 2026 and 2.8% in 2027. Growth will be supported by lower interest rates, improving household real incomes, buoyant tourism, and firm commodity export earnings. However, weak confidence, high energy costs, easing net immigration, and elevated uncertainty surrounding trade restrictions are expected to remain headwinds to the near-term recovery. Inflation is projected to remain within the central bank's target band, easing towards 2%. The unemployment rate is projected to decline from its peak in 2025.

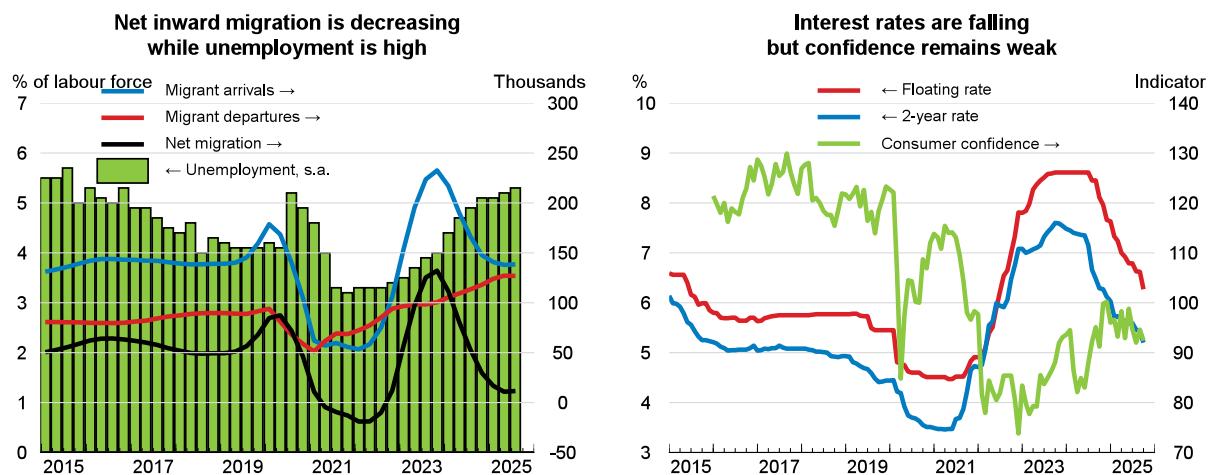
Fiscal consolidation needs to proceed steadily to ensure fiscal sustainability, while safeguarding investment in infrastructure and climate resilience. With activity well below capacity and inflation expectations well-anchored, the central bank could continue easing in the near term, with scope to adjust the pace. Structural reforms are required to lift persistently weak productivity growth, including securing a more reliable and affordable energy supply, deepening the capital market, fostering a more open regulatory environment, and improving health sector efficiency to manage ageing-related pressures.

Modest recovery is underway amid easier financial conditions

Recent monthly indicators point to signs of a gradual improvement, supported by lower interest rates and strong earnings from commodity exports. Headline inflation has remained within the central bank's 1–3% target band, albeit at the upper end, reflecting higher food and electricity prices. Business and consumer confidence remain weak, weighed down by persistent uncertainty and continued labour market slack. The unemployment rate reached 5.3% in the third quarter of 2025, the highest since 2020, while net inward migration has rapidly declined. Nevertheless, tourism continues to strengthen, and housing activity and construction are showing early signs of recovery in line with lower borrowing costs.

Trade restrictions, including the additional 10% minimum tariff imposed by the United States in April 2025 and the subsequent increase to 15% in August, have weighed on export price expectations. However, the immediate impact was partly offset by a weaker exchange rate, and the dairy and meat sectors, including beef, remain supported by solid external demand. The rollback of the US tariff on beef in November will help further mitigate the impact on exports to the United States. Although elevated electricity prices and high transport costs continue to erode competitiveness, trade diversion effects have helped lower some import prices.

New Zealand



Source: Statistics New Zealand; Reserve Bank of New Zealand; and ANZ.

StatLink <https://stat.link/avuprb>

New Zealand: Demand, output and prices

	2022	2023	2024	2025	2026	2027
New Zealand	Current prices NZD billion	Percentage changes, volume (2009/2010 prices)				
GDP at market prices						
Private consumption	224.0	0.9	-0.3	1.9	2.4	3.3
Government consumption	81.9	0.1	0.4	2.2	0.5	0.1
Gross fixed capital formation	98.0	-0.4	-5.1	-1.4	2.4	3.9
Final domestic demand	403.9	0.5	-1.3	1.2	2.0	2.7
Stockbuilding ¹	3.7	-1.5	0.2	-0.1	0.1	0.0
Total domestic demand	407.6	-1.0	-1.2	1.1	2.1	2.8
Exports of goods and services	90.1	11.5	4.7	1.4	1.2	2.0
Imports of goods and services	112.0	-0.7	1.6	1.6	1.6	2.0
Net exports ¹	-21.9	2.9	0.7	-0.1	-0.1	0.0
<i>Memorandum items</i>						
GDP deflator	—	4.9	4.0	3.8	2.5	2.1
Consumer price index	—	5.7	2.9	2.8	2.3	2.1
Core inflation index ²	—	5.6	3.5	2.5	2.2	2.1
Unemployment rate (% of labour force)	—	3.8	4.8	5.2	5.0	4.4
Household saving ratio, net (% of disposable income)	—	1.0	2.7	2.7	2.7	2.8
General government financial balance (% of GDP)	—	-3.5	-3.2	-3.4	-3.5	-3.0
General government gross debt (% of GDP)	—	54.8	57.8	59.6	61.5	62.7
Current account balance (% of GDP)	—	-6.3	-4.7	-3.2	-2.7	-2.6

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 118 database.

StatLink <https://stat.link/v4cx02>

Monetary policy is easing, while fiscal policy will remain broadly neutral

With inflation within the target range and expectations well-anchored, the central bank has reduced the official cash rate by a cumulative 325 basis points since mid-2024 to 2.25% in November 2025. Further monetary easing could be warranted should activity remain weak. On the fiscal side, Treasury's long-term projection warns that government debt could rise to around 200% of GDP by 2065, underscoring the importance of credible fiscal reform. The fiscal stance is expected to remain broadly neutral, while persistent spending pressures slow the pace of adjustment. Stronger growth is projected to reduce the government deficit by around 0.4 percentage points over 2025–27.

A gradual recovery is expected but risks remain elevated

Economic growth is projected to be modest, at 0.7% in 2025, before the recovery gathers pace to 1.8% in 2026 and 2.8% in 2027, as lower interest rates, gradually improving real household incomes, and rising confidence strengthen private consumption and investment. Despite elevated trade restrictions, exports are expected to benefit partly from buoyant tourism and solid demand for dairy and meat. Inflation is projected to be 2.8% in 2025, before easing towards the 2% midpoint of the target band, reflecting spare capacity and easing tradables inflation pressures. Risks include a further escalation of trade tensions or climate-related events such as floods or droughts, which could weaken exports and constrain agriculture and hydro-electric generation. On the upside, a faster-than-expected pass-through of monetary easing and a quicker pickup in business investment, helped by the "Investment Boost" introduced in May 2025, may lift growth more rapidly.

Deepening capital markets and attracting foreign investment are crucial for enhancing productivity

Ensuring fiscal sustainability while supporting investment and productivity growth remains a key priority. The government should continue a steady pace of consolidation to place public debt on a firm downward path, while preserving room for supporting R&D and innovation, capital market development, and green, digital and transport infrastructure. Improving spending efficiency, particularly in the health sector, and managing ageing-related fiscal costs will be essential to rebuild fiscal buffers. Reviving productivity will require deeper and more competitive capital markets and a more open, predictable regulatory environment to improve access to long-term financing and attract foreign investment. Increasing competition and easing market-entry barriers in banking, gas and electricity markets would help boost investment and foster innovation, while accelerating investment in firming capacity, renewable generation, and transmission infrastructure is vital to ensure a reliable and affordable energy supply.

Norway

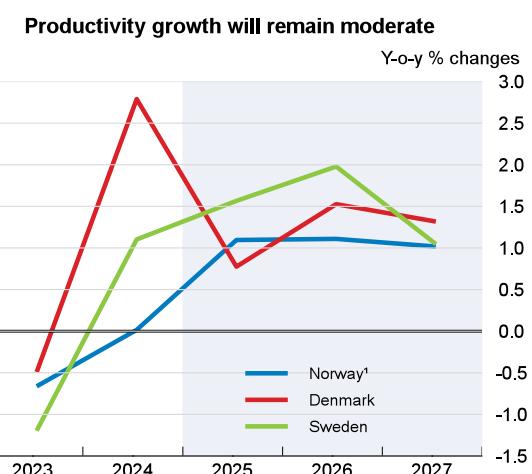
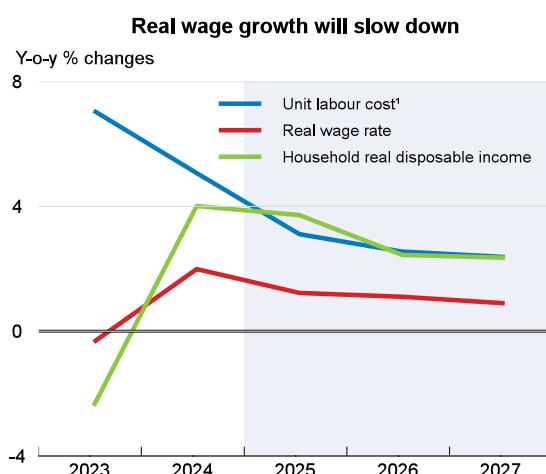
Mainland GDP is projected to increase by 1.7% in 2026 and 1.5% in 2027. Solid growth in household disposable income will support private consumption. Non-oil business investment will be held back for some time due to heightened uncertainty. Lower demand from trading partners is affecting mainland exports. Wage pressures will remain strong compared with productivity growth, slowing the disinflation process.

The central bank began cutting the policy rate in mid-2025, and the monetary policy stance should gradually become less restrictive, as inflation declines. Fiscal policy is set to remain very expansionary in 2026, further worsening the structural non-oil budget balance. A gradual tightening should start in 2027. Reducing administrative burdens for firm start-ups would spur productivity, while reducing regulatory uncertainty would help firms to undertake innovations and achieve environmental objectives.

Mainland activity has picked up

Mainland activity picked up in the first half of 2025, mainly driven by private consumption, while business surveys point to continued strong household demand. After turning positive in 2024, real wage growth has increased over the past quarters, driven by high nominal wages resulting from collective bargaining. Household disposable income was also supported by pension fund savings. After having declined markedly, headline inflation has been volatile in recent months, mainly due to fluctuations in food and energy prices. Housing investment has ceased contracting, with rising housing starts and permits. Business investment has remained sluggish, as indicated by investment intention surveys. Government spending has continued to support mainland activity.

Norway



1. Productivity and unit labour costs are calculated using the data for mainland GDP.

Source: OECD Economic Outlook 118 database

Norway: Demand, output and prices

	2022	2023	2024	2025	2026	2027
	Current prices NOK billion	Percentage changes, volume (2022 prices)				
Norway						
Mainland GDP at market prices¹	3 678.7	0.7	0.6	1.7	1.7	1.5
GDP at market prices	5 732.9	0.1	2.1	0.2	1.5	1.4
Private consumption	1 856.5	-1.2	1.4	2.9	2.1	1.9
Government consumption	1 034.7	3.4	2.4	2.1	2.3	2.1
Gross fixed capital formation	1 053.5	-1.5	-1.4	1.9	2.8	2.6
Final domestic demand	3 944.7	-0.2	0.9	2.4	2.4	2.1
Stockbuilding ²	160.6	-0.5	-0.4	-0.8	-0.2	0.0
Total domestic demand	4 105.3	-0.8	0.4	1.4	2.1	2.1
Exports of goods and services	3 181.8	0.4	5.2	-1.8	1.0	1.1
Imports of goods and services	1 554.2	-1.5	4.3	-0.6	2.1	3.1
Net exports ²	1 627.6	0.7	1.1	-0.6	-0.2	-0.5
<i>Memorandum items</i>						
GDP deflator	–	-11.1	-0.2	4.0	0.8	2.2
Consumer price index	–	5.5	3.1	3.0	2.3	2.4
Core inflation index ³	–	5.8	3.5	2.7	2.5	2.3
Unemployment rate (% of labour force)	–	3.6	4.0	4.5	4.4	4.3
Household saving ratio, net (% of disposable income)	–	4.0	7.1	7.7	7.8	8.1
General government financial balance (% of GDP)	–	16.5	13.1	9.7	8.1	8.3
General government gross debt (% of GDP)	–	51.0	62.1	60.5	59.8	58.4
Current account balance (% of GDP)	–	17.2	14.7	15.2	14.5	13.7

Note: The numbers do not reflect the 26 November national accounts revisions nor the first estimates for the outcome of 2025Q3.

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 118 database.

StatLink  <https://stat.link/rvgbnl>

The United States has imposed cumulative additional tariffs of 15% this year on goods imported from Norway. Direct exposure to the United States is limited, as it accounts for around 3% of Norway's total exports. However, Norway is affected indirectly, as near-term demand from trading partners has weakened. Oil prices for the full year 2025 are set to decline sharply compared to the previous year, reducing export and government revenues.

Macroeconomic policies will be supportive

The central bank began cutting the policy interest rate in June, followed by another cut in September. However, the monetary policy stance remains restrictive, with the policy rate currently at 4.0%. As inflation is expected to gradually approach the 2% target, the policy rate is projected to be lowered to 3.25% by late 2027. The fiscal stance will ease further in 2026, before tightening modestly in 2027. According to Budget 2026, defence spending will increase to 3.4% of GDP in 2026, while personal income tax and social security contributions will be further reduced. Budget 2026 also introduces a new electricity support package. Overall, the structural non-oil budget deficit is expected to widen by around ½ percentage point of mainland GDP in 2026. The fiscal stimulus from this budget is expected to be limited, but the cumulative effects of past fiscal measures remain strong, which adds to cost pressures. The structural non-oil deficit in 2026 is still expected to remain below the threshold of 3% of the value of the Government Pension Fund Global (GPFG), the government's oil fund, which has increased significantly due to substantial growth in GPFG assets over time.

Expansion continues, but at a slower pace

Mainland GDP is projected to grow above trend in both 2025 and 2026, before moderating towards trend growth in 2027. Headline inflation will continue to decline but is expected to remain above the 2% target, primarily driven by wage costs. Total GDP will expand more slowly, as offshore petroleum activity is expected to remain virtually flat in 2026-27. Lower interest rates will support both housing and business investment. However, high construction costs will constrain housing investment, while global uncertainty will weigh on business investment. Household disposable incomes are expected to grow more moderately, slowing private consumption growth. This mainly reflects a slowdown in real wage growth, corresponding to sluggish underlying productivity growth. Buoyant international financial markets have boosted the value of the government oil fund and private pension funds, strengthening the financial position of both the government and households, which may intensify further, leading to even more fiscal stimulus. Conversely, a sharp drop in their value could abruptly reduce fiscal space and household demand.

Reforming regulations would make growth sustainable

The economy has been bolstered by offshore activity and government spending over the past two years. As petroleum revenues are expected to decline in the medium term, the high structural non-oil budget deficit needs to be gradually reduced by curbing public spending and improving spending efficiency. Untargeted measures to alleviate large electricity price fluctuations should be phased out, while electricity generation and transmission capacities should be strengthened. The increasing number of regulations needs to be assessed and streamlined to reduce compliance costs and regulatory uncertainty. Reducing major obstacles faced by businesses, notably regulatory burdens and labour shortages, would help spur private investment and productivity, thereby making growth more sustainable.

Peru

GDP is projected to grow by 3.1% in 2025, 2.8% in 2026 and 2.7% in 2027, amid high domestic and international uncertainty. Low inflation, high copper prices, new infrastructure projects and regulatory simplification will support consumption, investment, and exports. Inflation is expected to remain close to the central bank's 2% target.

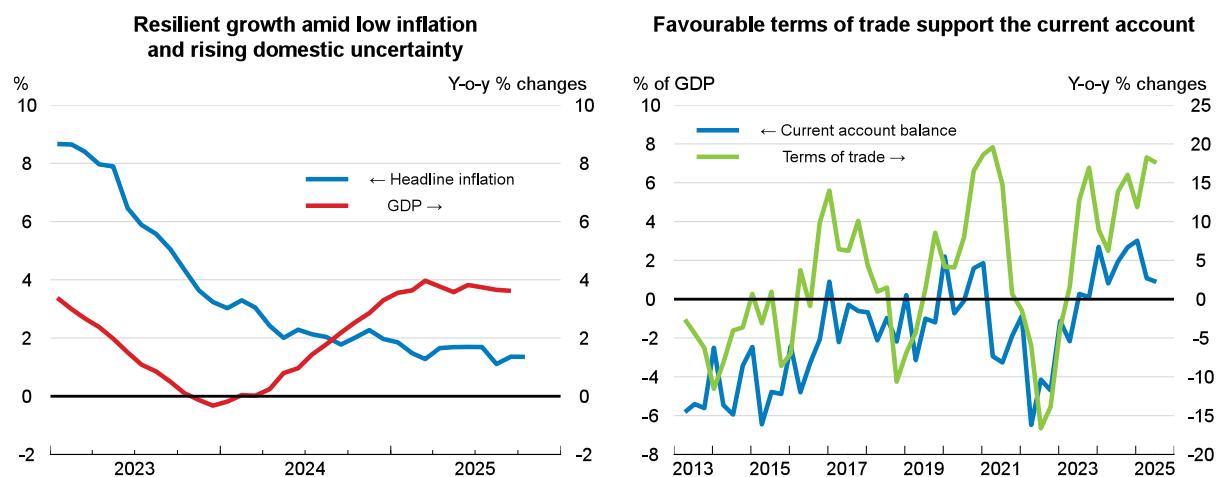
The neutral monetary stance is appropriate and should remain cautious and data-driven. Fiscal consolidation has resumed, but stronger measures are needed to ensure compliance with the fiscal rule and debt sustainability, combining better spending efficiency with a comprehensive tax reform to raise revenues and fund education, social protection, and resilient infrastructure needs. Simplifying tax regimes for small firms, streamlining business licensing and permits, and improving regulatory predictability would boost formalisation, investment, and productivity growth.

Domestic demand is driving growth

GDP growth has been resilient in 2025, expanding by 3.3% year-on-year in the three quarters of the year, despite domestic and global uncertainty. Private consumption benefited from higher real incomes and a stronger labour market. Private investment rose by 9.0% year-on-year, reflecting improved business sentiment, looser financial conditions, and newly awarded Public-Private Partnership contracts. However, public investment moderated after double-digit growth in 2024, and net exports weakened as import demand outpaced exports. Monthly GDP increased by 3.9% year-on-year in September, highlighting resilience into the third quarter. Inflation remains well anchored within the central bank's 1–3% target band, with headline and core inflation at 1.4% and 1.8% year-on-year in October, and one-year ahead expectations close to 2%. Employment grew by 0.8% year-on-year in the second quarter, and real wages in formal jobs rose 1.6% year-on-year in January–August 2025, though both labour force participation and formal wages remain below pre-pandemic levels.

Historically high terms of trade, driven mainly by copper prices, are supporting the current account, but global and domestic political uncertainty are weighing on activity. The sol has appreciated by 10% since early 2025 despite heightened domestic political uncertainty, supported by strong revenues from mining exports and remittances, and portfolio inflows attracted by still-elevated interest rate differentials. Ample currency reserves and low public debt provide resilience against shocks. The overall impact of the US tariffs of 10% on most products is projected to be modest, as raw copper exports remain unaffected and off-season production and lower tariffs than those faced by main competitors are expected to mitigate effects on agro-industrial and textile exports, which represent half of exports to the United States.

Peru



Note: Inflation refers to Metropolitan Lima area. Data on GDP refer to 12-month moving averages of seasonally adjusted data.
Source: INEI; and BCRP.

StatLink  <https://stat.link/a1cjr3>

Peru: Demand, output and prices

Peru	2022	2023	2024	2025	2026	2027	Current prices	Percentage changes, volume
							PEN billion	(2007 prices)
GDP at market prices	943.4	-0.4	3.3	3.1	2.8	2.7		
Private consumption	602.5	0.1	2.7	3.1	3.0	2.8		
Government consumption	126.3	3.3	3.5	4.2	2.0	1.6		
Gross fixed capital formation	219.6	-5.6	5.2	7.5	2.2	2.7		
Final domestic demand	948.4	-0.8	3.3	4.2	2.7	2.6		
Stockbuilding ¹	- 9.4	-1.1	0.6	0.4	0.3	0.0		
Total domestic demand	939.0	-1.8	4.1	4.7	3.0	2.6		
Exports of goods and services	272.8	3.8	5.3	4.7	1.4	2.7		
Imports of goods and services	268.4	-1.7	7.9	10.2	2.1	2.6		
Net exports ¹	4.4	1.5	-0.8	-1.8	-0.3	-0.1		
<i>Memorandum items</i>								
GDP deflator	—	6.3	5.1	4.8	2.8	2.4		
Consumer price index	—	6.3	2.4	1.5	1.7	2.0		
Core inflation index ²	—	4.4	2.9	1.9	1.9	2.0		
Unemployment rate (% of labour force)	—	5.4	5.6	4.9	4.2	3.9		
Government financial balance ³ (% of GDP)	—	-2.8	-3.5	-2.3	-2.2	-1.8		
Government gross debt ³ (% of GDP)	—	33.0	32.7	32.6	33.0	33.2		
Current account balance (% of GDP)	—	0.3	2.2	2.2	2.2	2.2		

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 118 database.

StatLink  <https://stat.link/wmpbvl>

Fiscal policy should continue consolidating, while monetary policy remains appropriately neutral

Fiscal consolidation is planned for 2025–2027. High metal prices will support revenues and help narrow the deficit. The government has also recently announced austerity measures, including cuts to non-essential current spending amounting to around 0.1 % of GDP. However, additional measures will be needed, particularly from 2026, to meet fiscal rule targets, given the narrow tax base and rising spending pressures. Newly approved tax exemptions will weaken revenues and exacerbate distortions, while higher spending on the public sector wage bill, security, infrastructure and social programmes, and renewed financial support to the financially distressed state-owned oil company Petroperú add to fiscal pressures. The neutral monetary policy stance is warranted given anchored inflation expectations. After the recent cut to 4.25%, the policy rate is expected to stay unchanged through to 2027.

Growth is expected to ease

GDP is projected to expand by 3.1% in 2025, 2.8% in 2026 and 2.7% in 2027, while inflation is expected to remain close to the 2% target. The eighth extraordinary private pension fund withdrawal will temporarily lift private consumption but reduce future pension benefits and capital market depth, and threaten fiscal sustainability. Growth will ease in 2026 and 2027 as the effect of private pension withdrawals fades, fiscal consolidation limits public spending with the economy gradually returning to a slower underlying growth trend. The main risks to the outlook are tilted to the downside. Domestic risks include rising political uncertainty ahead of the 2026 general elections, renewed social unrest driven by higher insecurity and crime, and delays in large investment projects. Weaker growth in China, Peru's main trading partner, and lower copper prices would reduce exports, fiscal revenues, and private investment, and renewed global financial volatility or a slower-than-expected easing by major central banks could raise financing costs and dampen confidence.

Preserving the strong fiscal framework and boosting productivity are key

Maintaining the strong fiscal framework requires continued fiscal consolidation to meet fiscal rules, safeguard debt sustainability and rebuild fiscal buffers. Containing current spending, particularly the growth in the public wage bill, is needed to protect space for public investment. Improving spending efficiency by strengthening budget planning, improving public investment management and enhancing subnational implementation capacity would increase fiscal space. Addressing informality, improving the tax administration and eliminating ineffective tax exemptions are critical to broaden the tax base. Simplifying tax regimes for small firms could boost formalisation, support productivity growth and generate additional revenues. Phasing out fossil fuel subsidies and introducing a carbon tax would aid both fiscal and environmental goals. Simplifying complex and overlapping business regulations, reducing the cost and time to obtain permits, and improving coordination across levels of government would ease firms' formalisation and support investment. Complementing these reforms with lower non-wage labour costs for low-income workers, and better skills would further support productivity and job quality.

Philippines

Real GDP is projected to grow by 4.7% in 2025, 5.1% in 2026, and 5.8% in 2027. Private consumption is supported by a strong labour market and contained inflation, but investment has weakened as the execution of public infrastructure projects has slowed on the back of a corruption scandal linked to public works. Inflation is anticipated to fall to 1.6% in 2025, before gradually reverting to the mid-point of the central bank's 2-4% target band as favourable food and energy price shocks fade and domestic demand recovers. Risks include a more persistent than expected weakness in public investment amid tighter corruption controls and further declines in investor confidence. The exposure to higher US tariffs is limited.

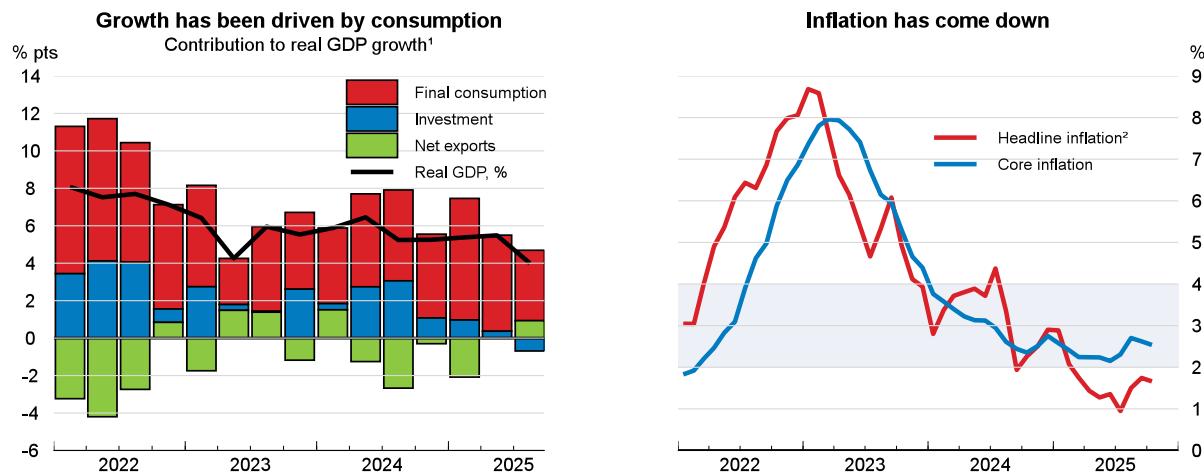
Monetary policy easing started late in 2024 and has room to continue as inflationary pressures remain subdued and growth will remain below trend in the near term. Fiscal policy is moderately restrictive but accelerating the pace of fiscal consolidation would help re-build fiscal buffers and place debt on a more prudent path. Regulatory reforms including lowering barriers to foreign investment and trade, fostering competition in electricity, telecommunications, and ports, and streamlining economy-wide regulations could raise investment and productivity.

Economic growth has weakened

Following strong growth in the first half of 2025, momentum weakened in the third quarter, with growth slowing to 4.0% year-on-year. Private consumption has remained resilient, underpinned by a strong labour market, with the unemployment rate at close to 4% in September, close to the lowest levels recorded in recent years. However, investment has slowed markedly due to a sharp contraction in public construction amid a corruption scandal linked to public works, with government construction down 26% year-on-year in the third quarter. While industrial production and merchandise exports have moderated, tourist arrivals have partly recovered after a mild slowdown earlier in the year. Consumer sentiment has shown some improvement, but business confidence has weakened. Low inflation and improving financing conditions remain supportive.

Headline inflation remained at 1.7% in October while core inflation eased to 2.5%, with both below the mid-point of the central bank's 2-4% target range. Commodity prices have eased, containing external price pressures, but the currency has depreciated by about 6% over the past 6 months. Exposure to higher US tariffs is relatively limited, with merchandise exports to the United States amounting to around 2½ per cent of GDP.

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/sp0rh1>

Philippines: Demand, output and prices

Philippines	2022	2023	2024	2025	2026	2027	Percentage changes, volume (2018 prices)	
							Current prices PHP billion	
GDP at market prices								
Private consumption	22 028.3	5.5	5.7	4.7	5.1	5.8	16 725.0	5.5
Government consumption		0.3	7.3	9.3	2.7	4.5	3 313.9	
Gross fixed capital formation		8.2	6.3	2.7	2.4	5.3	5 142.7	
Final domestic demand	25 181.6	5.4	5.5	4.9	4.2	5.6		
Stockbuilding ¹	295.2	-0.4	0.3	-0.3	0.0	0.0		
Total domestic demand	25 476.8	5.0	5.8	4.6	4.3	5.6		
Exports of goods and services	6 253.3	1.3	3.3	6.0	3.9	4.7		
Imports of goods and services	9 701.8	1.0	4.2	5.2	1.9	4.3		
Net exports ¹	-3 448.5	0.0	-0.7	-0.4	0.4	-0.3		
<i>Memorandum items</i>								
GDP deflator		4.6	2.9	1.5	3.1	3.6	—	
Consumer price index		6.0	3.2	1.6	2.6	3.0	—	
Government financial balance ² (% of GDP)		-6.2	-5.7	-5.4	-5.2	-4.8	—	
Government gross debt ² (% of GDP)		60.1	60.7	62.2	62.4	61.6	—	
Current account balance (% of GDP)		-2.8	-4.0	-3.3	-2.7	-2.6	—	

1. Contributions to changes in real GDP, actual amount in the first column.

2. Data refer to national government.

Source: OECD Economic Outlook 118 database.

StatLink <https://stat.link/ynx4vo>

Monetary easing is supporting the economy amid fiscal consolidation

The central bank initiated the ongoing monetary easing cycle in August 2024, lowering the policy rate from 6.5% to 4.75% by October 2025, giving a broadly neutral monetary policy stance. With inflation remaining below target, demand-side pressures subdued, and growth projected to stay slightly below trend, monetary policy is expected to ease further, with policy rates declining to 4 1/4% in 2026. Fiscal policy will be moderately restrictive over 2025–27 as the government aims to reduce the budget deficit from about 5.7% of GDP in 2024 to 4.8% in 2027. The pace of this consolidation could be stepped up in 2026 to put public debt on a firmer downward path. The overall macroeconomic policy mix is broadly appropriate given that fiscal policy turns moderately more restrictive in 2026.

Growth will gradually return to trend, but risks are tilted to the downside

Real GDP is expected to grow by 4.7% in 2025, 5.1% in 2026, and 5.8% in 2027. Household consumption is expected to remain robust, as strong labour market performance supports real incomes amid contained inflation. Investment is expected to recover modestly over the coming quarters as borrowing costs decline and public investment picks up, but slower export momentum amid ongoing external uncertainties and softening global demand may temper gains. Inflation will remain contained in the near term amid weak domestic demand but will gradually return to the mid-point of the central bank's target range as food and energy price effects fade, the recent depreciation of the currency is transmitted to domestic prices, and growth gradually recovers. Risks are tilted to the downside. A more persistent-than-expected weakness in public investment related to tighter corruption controls and weaker investor confidence could weigh on domestic demand over 2026. On the upside, the recent liberalisation of foreign investment rules could help offset headwinds from exports with higher capital inflows.

Building on recent regulatory reforms can boost growth

Recent regulatory reforms have strengthened market competition, and additional reforms could build on this progress by further simplifying and harmonising regulations in key network sectors such as energy, telecommunications, and transport. Streamlined regulatory frameworks in these industries would help lower entry barriers and attract more private investment. Tackling labour market challenges remains essential to raise productivity and enhance employment security. This entails measures to reduce non-wage labour costs and increase flexibility in labour regulations, thereby encouraging formal job creation. Enhancing women's participation in the workforce would make better use of existing human capital, for example by addressing restrictive social norms and stereotypes, while promoting flexible and remote work opportunities for women.

Poland

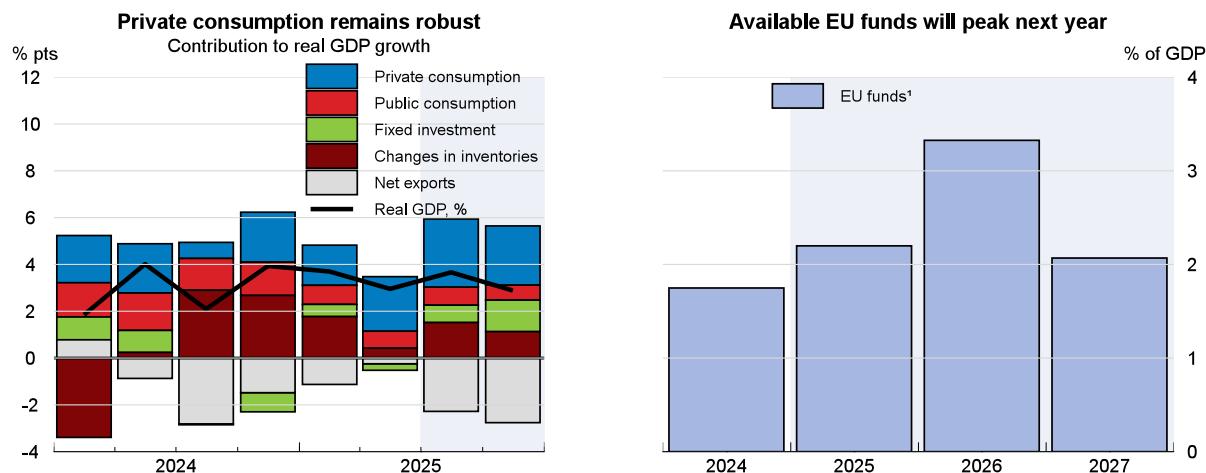
The economy is projected to grow by 3.3% this year, 3.4% in 2026 and 2.7% in 2027. With falling inflation, large EU-funded projects and easing financial conditions, household consumption and investment will remain strong next year. Fiscal consolidation and the end of the EU's Recovery and Resilience funding in 2026 will moderate demand in the following years. Inflation will ease to 2.9% in 2026 and 2.7% in 2027. Greater weakness in the euro area, global trade and deeper geopolitical tensions could weaken growth, while stronger wage growth and labour demand could lead to more inflation.

Monetary policy easing should continue at a slower pace. Although partly attributable to increased defence spending, significant fiscal deficits reflect higher social spending and need to be addressed. To rebuild fiscal buffers and set the debt ratio on a downward path, steady fiscal tightening through both spending and revenue measures should be implemented over the coming years. Implementation of wide-ranging measures to reduce red tape should continue.

Economic momentum remains strong

Strong GDP growth in the first half of the year was underpinned by household consumption, disinflation and easing financial conditions. This momentum continued into the third quarter of the year, with the flash estimate showing seasonally adjusted year-on-year growth of 3.7%. The services sector performed well but activity in the industry has been weak. There are nevertheless some signs of a turnaround, with an improvement in manufacturing and in the purchasing managers' index in November. Inflation has receded throughout the year. Annual headline inflation was 2.8% in October, and core inflation stood at 3%. Lower interest rates have helped to ease financial conditions and boost domestic demand.

Poland



1. Data are estimates.

Source: OECD Economic Outlook 118 database.

Poland: Demand, output and prices

	2022	2023	2024	2025	2026	2027
	Current prices PLN billion	Percentage changes, volume (2020 prices)				
Poland						
GDP at market prices	3 095.8	0.1	3.0	3.3	3.4	2.7
Private consumption	1 803.2	-0.2	3.0	4.1	3.6	2.9
Government consumption	561.1	4.7	7.7	3.6	3.6	2.4
Gross fixed capital formation	509.7	10.6	1.4	3.4	11.7	5.6
Final domestic demand	2 874.0	2.7	3.7	3.9	5.0	3.3
Stockbuilding ¹	168.3	-5.4	0.2	1.3	0.3	0.0
Total domestic demand	3 042.3	-2.9	3.9	5.2	5.3	3.2
Exports of goods and services	1 932.5	3.7	2.0	2.2	2.3	2.5
Imports of goods and services	1 879.0	-1.4	4.5	5.7	6.7	3.6
Net exports ¹	53.4	3.2	-1.2	-1.6	-2.1	-0.5
<i>Memorandum items</i>						
GDP deflator	—	10.1	3.8	2.7	3.1	2.8
Consumer price index	—	11.5	3.8	3.8	2.9	2.7
Core inflation index ²	—	9.9	4.4	3.5	3.1	2.7
Unemployment rate (% of labour force)	—	2.8	2.9	3.0	3.1	3.1
Household saving ratio, net (% of disposable income)	—	2.9	6.1	6.0	4.5	3.5
General government financial balance (% of GDP)	—	-5.2	-6.5	-6.8	-6.6	-6.1
General government debt, Maastricht definition ³ (% of GDP)	—	49.6	55.2	59.3	65.2	69.3
Current account balance (% of GDP)	—	1.6	0.3	-1.0	-1.1	-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 118 database.

StatLink  <https://stat.link/9c63e5>

Export growth strengthened in the second quarter of the year, but the increase of imports was considerably stronger. Exports to the USA represent around 3.5% of total exports. With export demand constrained by rising trade barriers, trade is acting as a drag on activity.

Monetary policy will ease while fiscal policy will tighten

The policy rate has been reduced by 150 basis points since the spring and the easing is assumed to continue gradually, with a further decrease of 75 basis points during 2026-27. The fiscal deficit has remained elevated since the pandemic due to higher social spending, public sector wages and rising defence spending, reaching more than 6½% of GDP in 2024 and 2025. Defence spending is set to reach 4.7% of GDP in 2025 and 5% of GDP in 2027. Fiscal policy will tighten considerably over 2026-27. Next year, consolidation measures include a new bank tax, 'bracket creep' in personal income taxation, increases in excise taxes and a nominal freeze of family benefits. The general government deficit will narrow only modestly due to the increases in defence spending. General government gross debt as a share of GDP is projected to increase by more than 10 percentage points between 2024 and 2027. Near-term growth should be helped by robust public investment, supported by EU funds.

Strong growth will moderate in 2027

GDP growth will reach 3.3% this year, 3.4% in 2026 and moderate to 2.7% in 2027. Private consumption will remain solid, as will public investment, supported by the EU funds and increased defence expenditures. Fiscal consolidation measures and weak trade will act as a drag on growth. Annual headline inflation will

moderate to 2.9% in 2026 and 2.7% in 2027, falling within the central bank's target range. Risks are broadly balanced. On the upside, inflation pressures could prove stronger than assumed if strong wage growth persists. Spillovers from defence spending could add to GDP growth. On the downside, greater weakness in the euro area and global trade, deeper geopolitical tensions and delays in the implementation of the EU funds could weaken growth.

Fiscal consolidation is needed, along with reforms to boost productivity and skills

The easing of monetary policy should continue at a gradual pace as inflation stabilises around the target and takes into account underlying inflation pressures. Steady fiscal consolidation, planned until 2028, is ambitious, and could lead to slippage. Measures should include increasing property and environmental taxation as well as comprehensive spending reviews. To increase fiscal transparency, continued reliance on off-budgetary funds should be phased out. Plans for the launch of the fiscal council next year are welcome. In addition to the planned consolidation, a long-term plan is required to finance the higher level of defence spending, address ageing costs and the climate transition on a sustainable basis. Implementation of measures to streamline business regulations and cut red tape for entrepreneurs, such as digitalisation of public proceedings, should continue. Given population ageing and wage pressures, greater upskilling and increasing the statutory retirement age could help to keep more people in the labour market.

Portugal

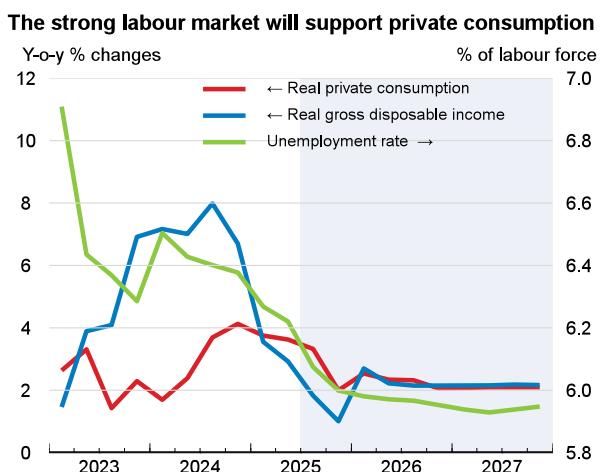
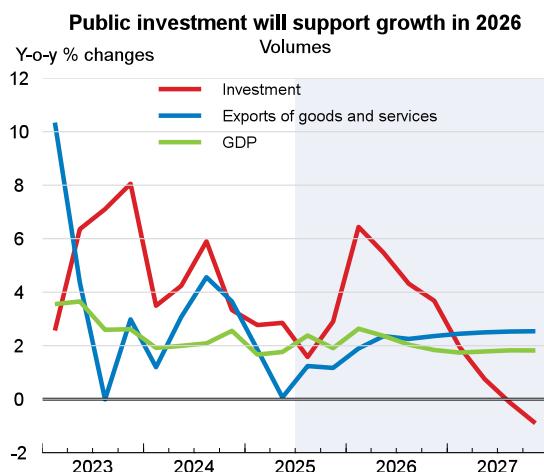
Real GDP growth is projected to reach 1.9% in 2025 and 2.2% in 2026, before easing to 1.8% in 2027. A tight labour market, increases in the minimum wage and a personal income tax cut are expected to support private consumption. Increasing disbursements of Recovery and Resilience Funds will contribute to higher public investment in 2026. Export growth will remain subdued reflecting weak external demand amidst higher US tariffs and high uncertainty. As labour demand remains strong, inflation will moderate only slowly to 2.0% in 2027.

Fiscal policy will remain expansionary in 2026 and turn contractionary in 2027, mainly reflecting the end of the implementation of the Recovery and Resilience Plan (RRP) in 2026. Fiscal prudence and structural reforms are key to sustain growth and maintain public debt on a firmly declining path. Over the medium term, containing ageing-related spending pressures and reducing inefficient tax expenditures would make room for needed productivity-enhancing public investments. Continuing to lower entry barriers and streamline regulations in the retail sector and professional services would also support growth and productivity.

Growth has been resilient

GDP grew 2.4% over the year to the third quarter of 2025. Private consumption and investment remained strong in the first three quarters of 2025. Employment grew by 3.7% year-on-year in the third quarter of 2025, and labour costs per hour worked for employees increased by 4.7%. Tax cuts, a one-off pension top-up and moderate inflation have supported real disposable income growth. Business confidence strengthened in August and September and stood close to levels last observed at the end of 2024 in October 2025.

Portugal



Source: OECD Economic Outlook 118 database.

StatLink  <https://stat.link/fra2gv>

Portugal: Demand, output and prices

	2022	2023	2024	2025	2026	2027
	Current prices EUR billion	Percentage changes, volume (2021 prices)				
Portugal						
GDP at market prices	244.0	3.1	2.1	1.9	2.2	1.8
Private consumption	155.2	2.4	3.0	3.2	2.3	2.1
Government consumption	42.5	1.8	1.5	1.6	2.4	1.0
Gross fixed capital formation	50.2	6.0	4.2	2.5	5.0	0.4
Final domestic demand	247.9	3.0	3.0	2.8	2.9	1.6
Stockbuilding ¹	2.0	-0.8	-0.1	0.6	0.0	0.0
Total domestic demand	249.8	2.2	2.9	3.4	2.8	1.5
Exports of goods and services	120.7	4.3	3.1	1.1	2.2	2.5
Imports of goods and services	126.6	2.3	4.8	4.3	3.6	1.9
Net exports ¹	-5.9	0.9	-0.7	-1.4	-0.6	0.3
<i>Memorandum items</i>						
GDP deflator	—	7.5	4.8	3.7	2.4	2.1
Harmonised index of consumer prices	—	5.3	2.7	2.2	2.2	2.0
Harmonised index of core inflation ²	—	5.4	2.7	2.3	2.1	2.0
Unemployment rate (% of labour force)	—	6.5	6.4	6.1	6.0	5.9
Household saving ratio, net (% of disposable income)	—	0.4	4.6	3.8	3.9	4.0
General government financial balance ³ (% of GDP)	—	1.3	0.5	0.1	-0.6	-0.5
General government gross debt (% of GDP)	—	103.8	99.3	95.9	93.0	90.7
General government debt, Maastricht definition ⁴ (% of GDP)	—	96.9	93.6	90.1	87.2	84.9
Current account balance (% of GDP)	—	0.5	2.1	1.3	1.0	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. 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 118 database.

StatLink  <https://stat.link/4cyl2k>

Credit to businesses and households recovered through 2024 and continued to expand in the first half of 2025 on the back of easing financial conditions. The current account and trade balance have declined from their historically high 2024 levels amidst elevated trade uncertainty. Portuguese exporters are facing a standard 15% tariff on goods by the United States. Though direct exports of goods and services to the United States represent only 2.8% of GDP, Portugal also faces weakening external demand from its main European trading partners. Goods exports have declined slightly by 0.1% in the year to the third quarter of 2025 (in nominal terms) despite a pick-up in September, and strong internal demand has continued to support import growth.

Fiscal policy will remain expansionary in 2026

Fiscal policy is set to remain expansionary in 2026, with an expected fiscal easing of around 0.5% of GDP. Spending from RRP grants is expected to increase from 0.7% of GDP in 2024 to 1.4% in 2025 and 1.4% in 2026, boosting investment without affecting the budget balance, while disbursements of RRP loans are set to increase from 0.2% of GDP in 2025 to 0.6% in 2026. Activity will also be supported by higher public wages, a further reduction in the personal income tax, business tax cuts and increasing defence spending. In 2027, the phase out of RRP grants and loans will lead to a contractionary fiscal stance, despite increasing spending from European cohesion funds. Persistent primary fiscal surpluses and sustained growth will lower the public debt to GDP ratio to 84.9% in 2027 (Maastricht definition). The minimum wage rose by 6.1% in 2025 and is set to rise by 5.7% in 2026 and 5.4% in 2027, stimulating wage and household

income growth. At the same time, the broadly neutral monetary policy stance will help ensure that inflation is durably reduced, despite the tight labour market.

Internal demand will drive growth

GDP is projected to grow by 1.9% in 2025 and 2.2% in 2026, before decelerating to 1.8% in 2027. Spending of European funds will temporarily boost investment, but the slowdown in external demand will weigh on exports. Sustained wage growth and robust employment will raise consumption, especially as inflation and debt servicing costs are set to remain moderate. Tax cuts and higher wages will support household incomes but also slow the decline in inflation. Headline consumer price inflation will moderate to 2.2% in 2026 and 2.0% in 2027 as services price pressures diminish slowly, despite the rise in import prices. 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. By contrast, reduced disbursements of RRP funding and elevated uncertainty could weigh on investment, 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, while keeping public debt on a firmly declining path. Implementing Portugal's medium-term fiscal plan requires rolling out new accounting standards, greater use of spending reviews and shifting the structure of public spending towards investment. Consolidating means-tested benefits and reducing tax expenditures would streamline public support and support efficiency gains. Strengthening environmental taxation and recurrent taxes on property, notably on vacant homes, while protecting vulnerable groups would also help to attain ambitious climate goals and make room to lower labour taxes on low-wage workers. Reducing entry barriers in services, including in the retail sector, and simplifying building permitting procedures would raise investment and productivity. Reducing early retirement options and rebalancing expenditures on labour market policies towards training and counselling would also help to boost employment.

Romania

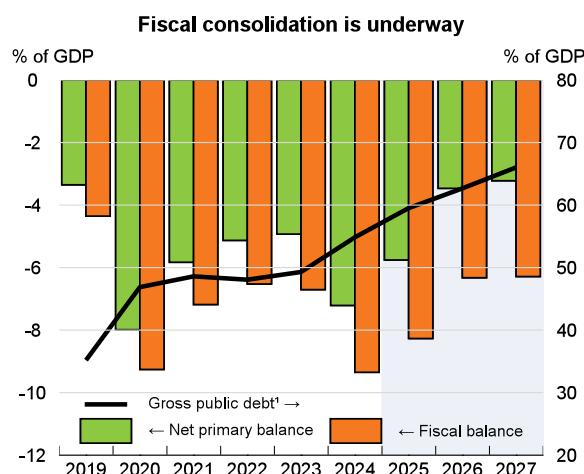
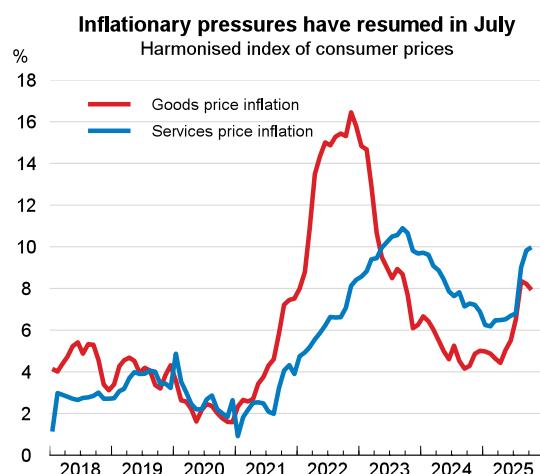
GDP growth is projected to remain moderate in 2025 and 2026, at 1.3% and 1% respectively, before picking up to 2.2% in 2027. Private consumption is expected to remain weak until mid-2026, as slowing wage growth and fiscal consolidation measures - such as the higher VAT rate and pension freezes - weigh on real disposable incomes. Investment, with an acceleration of NGEU-funded projects, is set to drive growth, while exports gradually recover.

Monetary policy is set to remain unchanged until inflation starts slowing markedly in the second half of 2026. Further fiscal consolidation will be necessary beyond 2026 to put the public finances on a sustainable path. Efforts should focus on improving spending efficiency, raising revenue from less growth-distortive sources, strengthening tax collection, and incentivising workforce participation. Effective use of EU funds will be key to support demand and boost growth potential. Structural reforms to simplify administrative procedures, streamline licensing, and strengthen insolvency frameworks would enhance the business environment.

Recent economic developments

Growth remained subdued in the first half of 2025, and GDP contracted by 0.2% in the third quarter (quarter-on-quarter), reflecting broadly weak activity across sectors. Industrial production grew modestly by 0.4% year-on-year in September, while private consumption weakened, with retail sales contracting by 2.3% in the third quarter (quarter-on-quarter). Slower wage growth and fiscal consolidation measures, including pension and public wage freezes, weighed on real incomes, compounded by persistent inflation and renewed price pressures from the removal of energy price caps in July and increases in VAT in August. Conversely, stronger export performance and a rebound in construction have supported growth. Labour market conditions have deteriorated, with unemployment rising to 6.3% in the second quarter of 2025, from 5.3% one year earlier.

Romania



1. Maastricht definition.

Source: Eurostat; and OECD Economic Outlook 118 database.

StatLink <https://stat.link/e13750>

Romania: Demand, output and prices

	2022	2023	2024	2025	2026	2027
	Current prices RON billion		Percentage changes, volume (2020 prices)			
Romania						
GDP at market prices	1 384.6	2.3	0.9	1.3	1.0	2.2
Private consumption	875.1	2.5	5.7	0.1	-0.6	1.2
Government consumption	230.6	4.0	1.2	-1.9	0.3	0.9
Gross fixed capital formation	347.9	12.3	-2.5	3.6	3.1	3.8
Final domestic demand	1 453.6	5.1	3.0	0.5	0.4	1.8
Stockbuilding ¹	26.8	-3.3	0.5	1.3	0.2	0.0
Total domestic demand	1 480.5	2.1	3.4	1.8	0.6	1.8
Exports of goods and services	602.5	-1.3	-2.5	3.9	2.0	2.5
Imports of goods and services	698.3	-1.5	4.0	4.9	0.8	1.4
Net exports ¹	- 95.9	0.2	-2.8	-0.7	0.4	0.3
<i>Memorandum items</i>						
GDP deflator	—	12.4	9.6	6.4	5.2	3.1
Consumer price index	—	10.4	5.6	7.1	6.0	3.0
Core consumer price index ²	—	12.4	6.2	6.2	5.0	2.9
Unemployment rate (% of labour force)	—	5.6	5.4	6.3	6.3	5.9
General government financial balance (% of GDP)	—	-6.7	-9.3	-8.3	-6.3	-6.3
General government gross debt (% of GDP)	—	58.8	63.5	68.2	71.3	74.7
General government debt, Maastricht definition ³ (% of GDP)	—	49.3	54.8	59.5	62.7	66.0
Current account balance (% of GDP)	—	-6.7	-8.2	-8.3	-7.3	-6.7

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 118 database.

StatLink  <https://stat.link/0h4a31>

The direct impact of increased US import tariffs is moderate due to low direct exposure to the United States (2.5% of total goods exports), but Romania is impacted indirectly through reduced external demand from EU trade partners.

A tightening fiscal stance supports a still-restrictive monetary stance

The government adopted fiscal consolidation measures for 2025-2026, including a 2 percentage points increase in the VAT rate, higher excise duties, and a freeze on public wages and pensions until 2026. Taking these into account, the budget deficit is projected to narrow from 9.3% of GDP in 2024 to 8.3% in 2025, and further to 6.3% in both 2026 and 2027. Government debt is expected to rise from 63.5% of GDP in 2024 to 74.7% in 2027. The cyclically adjusted primary balance is set to improve by 2% of GDP in 2025 and 2.8% in 2026, broadly stabilising in 2027 as no further measures are planned. The National Bank of Romania is expected to keep interest rates on hold until the third quarter of 2026 due to renewed inflationary pressures following the tax increases. As inflation eases in the second half of 2026, the benchmark rate is projected to gradually decline thereafter, reaching 4% by 2027, with inflation returning within the tolerance band (2.5% ±1 percentage point) by the first quarter of 2027.

GDP growth will rise moderately in a context of fiscal consolidation

GDP growth is projected to remain moderate over the next two years, at 1.3% in 2025 and 1% in 2026, before edging up to 2.2% in 2027, still below potential. Slowing wage growth and fiscal consolidation measures – including pension freezes and tax increases that temporarily raise inflation – are expected to

weigh on real incomes and dampen private consumption until mid-2026. Investment growth should gradually strengthen, initially supported by faster implementation of NGEU-funded projects and, from 2026 onwards, by a recovery in private investment as financing conditions ease and global prospects improve. Exports are set to recover gradually with improving external demand, while subdued import growth will help to narrow a still-elevated current account deficit. Year-on-year inflation is expected to remain high until mid-2026 before dropping below the upper end of the tolerance band during the first quarter of 2027, driven by base effects and weaker domestic demand. The unemployment rate is projected to rise somewhat in the near term, reaching just under 6.5% by mid-2026, before gradually improving thereafter. Delays in absorbing NGEU funds could weaken domestic demand by dampening investment, and amplifying the slowdown in growth amid fiscal consolidation.

Fiscal consolidation and reform momentum needs to continue

Further consolidation measures will be needed beyond 2026 to stabilise the public debt ratio, through improved spending efficiency, additional revenue measures, and stronger tax collection capacity. Strengthening long-term growth also requires measures to increase labour participation, including reducing the high share of youth not in employment, education, or training (NEET) by addressing school drop-out rates, and expanding access to affordable childcare to support women's employment. To foster entrepreneurship, competition, and firm growth, Romania should continue simplifying administrative procedures for establishing and operating businesses through digitalisation and a more streamlined licensing framework. Improvements in the insolvency mechanisms, particularly restructuring frameworks and court procedures would further support the reallocation of resources from non-viable firms.

Slovak Republic

Economic activity remains subdued, with real GDP projected to grow by 1.1% in 2026 and 1.8% in 2027. Trade will be sluggish as tariffs are lowering foreign demand. Accelerated absorption of EU funds will support investment, but heightened economic uncertainty and fiscal consolidation dampen capital formation. Escalating geopolitical tensions, higher trade barriers, future fiscal consolidation and slower-than-expected growth in the European automotive sector represent clear downside risks to the outlook.

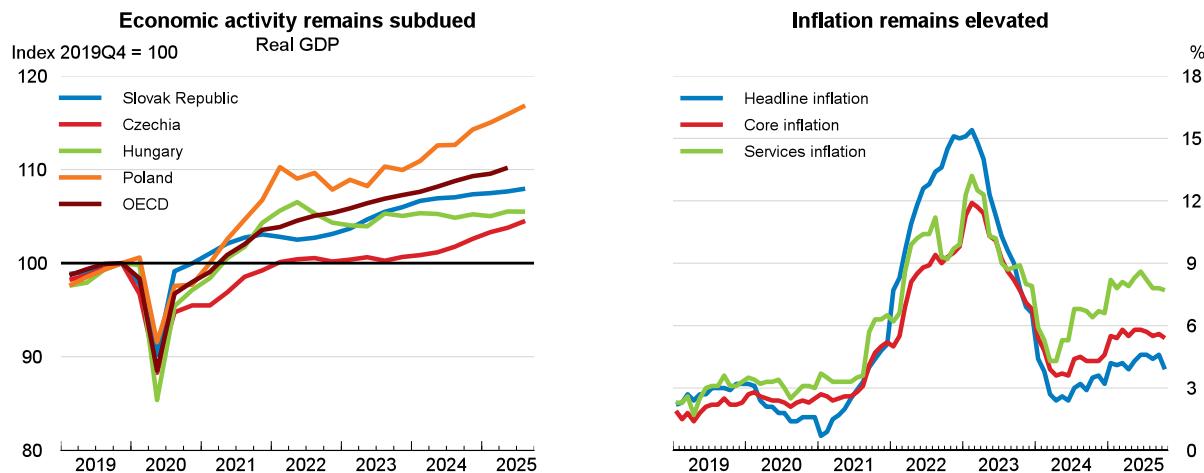
Rebuilding fiscal buffers is necessary through credible multi-year adjustment plans that reduce expenditures and broaden the tax base. Improving the efficiency of public spending, including by strengthening project preparation and implementation capacity can improve the use of EU funds. Strengthening the rule of law, fighting corruption and raising trust in the judiciary system as well as improving the regulatory environment are essential to reduce uncertainty and spur growth. Better tertiary education and stronger incentives to participate in adult learning would help reduce skills shortages and help companies expand their business.

Economic activity is slowing

The flash estimate of real GDP indicated an increase of 0.3% (quarter-on-quarter) in the third quarter of 2025. Growth was likely supported by household consumption helped by rising real incomes. Investment (excluding housing) rose substantially due to the use of EU funds. Housing investment weakened and foreign trade slowed. Subdued business sentiment and low consumer confidence, alongside muted dynamics in manufacturing production and retail trade point to sluggish growth in the near term. Harmonised consumer price inflation fell to 3.9% in October 2025. The still high inflation rate is driven mainly by persistent services price growth (of 7.7%). Core inflation remained elevated at 5.4% in October. While the labour market has weakened with the unemployment rate rising slightly, real wage growth has continued to rise.

Slovak goods trade fell further in the third quarter and new orders remain relatively weak across industrial sectors. Following the agreement between the EU and the United States, the effective US tariff rate on automotive imports of 15% is lower than when first announced in April (27.5%). Yet, effective tariff rates are still substantially higher than at the beginning of 2025.

Slovak Republic



Source: OECD Economic Outlook 118 database; and OECD Prices Statistics database.

StatLink <https://stat.link/j2ho8l>

Slovak Republic: Demand, output and prices

Slovak Republic	2022	2023	2024	2025	2026	2027	Current prices	Percentage changes, volume
							EUR billion	(2020 prices)
GDP at market prices								
Private consumption	110.0	2.1	1.9	0.8	1.1	1.8	67.5	-2.8
Government consumption	23.4	-2.5	4.0	1.4	-0.6	0.4	23.0	4.0
Gross fixed capital formation	23.0	4.0	1.6	3.0	3.7	0.0	113.9	-1.3
Final domestic demand	116.4	-4.6	4.3	1.2	0.7	1.1	2.6	-3.7
Stockbuilding ¹	108.8	-0.2	-0.5	5.2	0.6	3.1	Total domestic demand	1.0
Exports of goods and services	115.3	-7.1	1.9	5.6	0.2	2.3	Imports of goods and services	-0.6
Imports of goods and services	-6.5	7.2	-2.1	-0.4	0.3	0.7	Net exports ¹	0.0
<i>Memorandum items</i>								
GDP deflator	-	10.0	3.4	3.6	3.1	2.3	Harmonised index of consumer prices	-
Harmonised index of consumer prices	-	11.0	3.2	4.2	3.7	2.5	Harmonised index of core inflation ²	-
Harmonised index of core inflation ²	-	9.5	4.3	5.5	3.7	2.4	Unemployment rate (% of labour force)	-
Unemployment rate (% of labour force)	-	5.8	5.3	5.3	5.6	5.7	Household saving ratio, net (% of disposable income)	-
Household saving ratio, net (% of disposable income)	-	1.2	2.0	3.1	2.5	2.4	General government financial balance (% of GDP)	-
General government financial balance (% of GDP)	-	-5.3	-5.5	-5.0	-4.4	-4.4	General government gross debt (% of GDP)	-
General government gross debt (% of GDP)	-	65.0	68.0	70.6	72.7	74.7	General government debt, Maastricht definition ³ (% of GDP)	-
General government debt, Maastricht definition ³ (% of GDP)	-	55.8	59.7	62.3	64.4	66.4	Current account balance (% of GDP)	-
Current account balance (% of GDP)	-	-3.0	-4.6	-4.9	-4.2	-3.4		

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 118 database.

StatLink <https://stat.link/1we4ut>

Fiscal consolidation is underway

With a large projected fiscal deficit of 5.0% in 2025, the government presented its third consolidation plan in September 2025, passed by Parliament in October. The package aims to reduce the general government deficit to 4.1% of GDP in 2026. No concrete plans have been presented for 2027. About half of the plan consist of spending reductions, including the abolition and merger of government offices, restrictions on new purchases of goods and services and reduced capital expenditure. Salaries of state and local officials will be frozen, apart from teachers, doctors and nurses. The government also plans to reduce the duration and amounts of unemployment benefits. On the revenue side, the plan includes eliminating two national holidays, higher taxes on above-average earners, higher VAT for sugary and fatty foods and drinks, higher taxes on gambling, and an increase in health insurance contributions of employers, employees and the self-employed. The projections foresee a general government deficit of 4.4% in 2026 and 2027. Higher trade barriers and geopolitical tensions slowing growth in the European automotive sector, as well as the size of future fiscal consolidations, represent downside risks to the outlook.

Fiscal consolidation and lower foreign demand will weigh on growth

Real GDP growth is projected to remain subdued, at 1.1% in 2026 before recovering to 1.8% in 2027. Weaker foreign demand for transport equipment in Europe and the rest of the world, as evidenced by lower car registrations, will weigh on the sector's output. At the same time, trade will increase in 2027 as new automotive plants become operational. Higher absorption of EU funds in 2025 and 2026 will support investment growth, whereas this positive impulse on fixed investment will reverse in 2027. Lower interest rates and higher nominal wage growth are supporting real income gains and consumption. The fiscal consolidation is expected to weigh on growth over 2026-27. Gas and electricity price caps are renewed for 2026, covering approximately 90% of households. Still, higher energy prices and robust nominal wage growth are expected to push headline inflation to 3.7% in 2026 before slowing to 2.5% in 2027.

Accelerating structural reforms to raise growth

Preparing a multi-year consolidation plan that credibly reduces expenditures over the medium-term and broadens the tax base is needed to create fiscal space, with a focus on addressing the challenges of rapid population ageing and improving the efficiency of public spending. Strengthening the rule of law, fighting corruption and boosting trust in the judicial system is essential. Tighter regulation of lobbying activities and strengthening legislation on conflicts of interest and asset declarations would reduce uncertainty and raise growth. Measures to improve the business environment, including the simplification of administrative requirements for starting new companies and reducing regulatory barriers for professional activities, especially for architects and civil engineers, could further enhance competition.

Slovenia

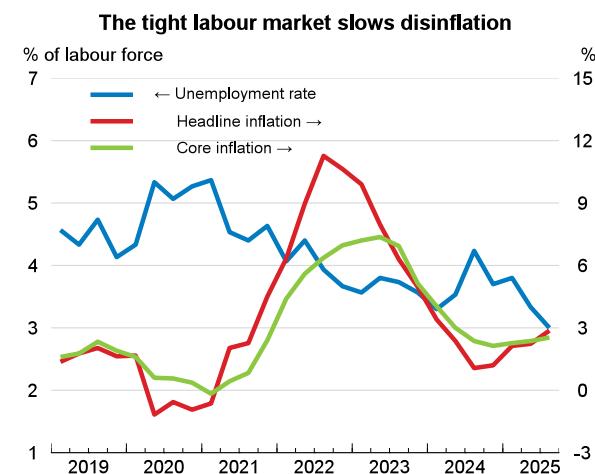
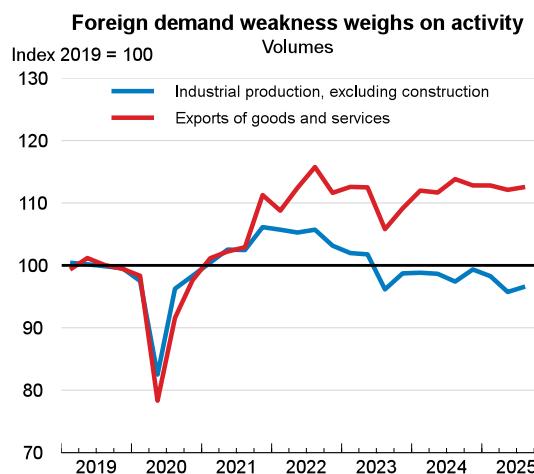
GDP is expected to grow by 2.3% in 2026 and 2027, driven by domestic demand. Private consumption will rise with robust real wage growth from a tight labour market, although this will keep inflation elevated. Investment will strengthen, supported by improving foreign demand, post-flood reconstruction and EU funds. A risk is higher inflation from stronger-than-expected wage growth.

Fiscal policy is likely to remain broadly neutral in 2025-27. Defence outlays will rise from 1.4% of GDP in 2025 to 1.8% in 2026, funded by debt. Financing additional defence spending through spending cuts elsewhere would help ensure fiscal sustainability. Reducing the labour tax burden, financed by higher consumption and immovable property taxation, would support growth. Investment would benefit from regulatory reforms, such as simplifying permitting processes.

The economy is facing headwinds

After weak growth caused by falling exports in the first half of 2025, economic activity expanded by 0.8% quarter-on-quarter in the third quarter due to resilient domestic demand and an improvement in exports. Domestic demand benefitted from strong investment and post-flood reconstruction spending. A tight labour market, with a 3.1% unemployment rate in September, and public pay reform drove 7.2% year-on-year nominal wage growth in the first half of 2025. Strong wage dynamics contributed to annual services inflation of 3.7% in October. Annual headline inflation, at 3.1%, also reflected higher food prices, and higher energy prices due to base effects. Real wage growth has outpaced labour productivity growth and further pressured cost competitiveness. Recent high-frequency data is positive, with industrial production and business sentiment improving in September compared to August.

Slovenia



Source: Statistics Slovenia; OECD Economic Outlook 118 database; OECD Labour Statistics database; OECD Prices Statistics database; and OECD calculations.

StatLink  <https://stat.link/vyes19>

Slovenia: Demand, output and prices

	2022	2023	2024	2025	2026	2027
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
Slovenia						
GDP at market prices	56.9	2.4	1.7	0.9	2.3	2.3
Private consumption	30.7	0.0	3.8	1.2	1.8	2.4
Government consumption	11.1	2.1	7.3	1.3	3.2	2.3
Gross fixed capital formation	12.5	5.5	-0.3	2.9	4.6	2.2
Final domestic demand	54.3	1.7	3.6	1.6	2.7	2.3
Stockbuilding ¹	1.5	-1.6	-0.2	-0.1	-0.4	0.0
Total domestic demand	55.8	0.0	3.3	1.6	2.2	2.3
Exports of goods and services	53.6	-1.9	2.3	0.0	1.3	2.4
Imports of goods and services	52.5	-4.5	4.3	0.7	0.8	2.4
Net exports ¹	1.1	2.4	-1.3	-0.5	0.4	0.1
<i>Memorandum items</i>						
GDP deflator	—	10.0	3.5	3.5	2.4	2.4
Harmonised index of consumer prices	—	7.2	2.0	2.5	2.4	2.4
Harmonised index of core inflation ²	—	6.7	2.9	2.5	2.4	2.4
Unemployment rate (% of labour force)	—	3.7	3.7	3.6	3.7	3.6
Household saving ratio, net (% of disposable income)	—	7.5	6.1	7.4	8.2	8.0
General government financial balance (% of GDP)	—	-2.6	-0.9	-2.0	-2.4	-2.4
General government gross debt (% of GDP)	—	72.1	70.8	70.5	69.6	69.6
General government debt, Maastricht definition ³ (% of GDP)	—	68.3	66.6	66.3	65.4	65.4
Current account balance (% of GDP)	—	4.8	4.5	4.4	4.4	4.4

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 118 database.

StatLink  <https://stat.link/atkux0>

Foreign demand weakness has weighed on activity. Direct US trade exposure is limited, with exports to the US accounting for 1.2% of GDP in 2023. US tariffs affect Slovenia mainly through European value chains. Merchandise and services export volumes rose by 0.4% quarter-on-quarter in the third quarter of 2025, following declines in the first half of 2025, reflecting subdued industrial production in key trading partners such as Austria, Germany, and Italy.

The fiscal stance will be broadly neutral

Fiscal policy has been expansionary in 2025, as weak economic activity slowed revenue growth while spending increased due to higher public wages and social spending. In 2025-2027, fiscal policy is expected to be broadly neutral despite higher spending on defence, public wages, long-term care and post-flood reconstruction. Reconstruction is financed through a temporary rise in the corporate income tax rate and the introduction of a temporary bank levy. Defence spending will increase from 1.4% in 2025 to 1.8% in 2026, financed by debt. Other structural measures include a 0.5% of GDP increase in public wages in both 2025 and 2026 due to public pay reforms, and higher long-term care spending of 0.2% of GDP in 2025 and 1% of GDP in 2026, funded by a 2 percentage point rise in the social security contribution rate. The introduction of a tax and social security contribution-exempt 14th salary (Christmas bonus) for workers and pensioners in 2025 will somewhat ease the effective labour tax burden. However, as the reform is not financed by offsetting measures, it reduces budget revenues and raises fiscal spending. The public debt ratio (according to Maastricht definition) is projected to decline to 65% of GDP by 2027.

Domestic demand will drive growth

Growth is projected to strengthen to 2.3% in 2026 and 2027, driven by domestic demand. Private consumption will rise, as robust wage growth reflects a tight labour market. The resulting wage pressures will keep inflation above 2% in 2026 and 2027. Stronger external demand should support a gradual recovery in the export-oriented sectors, while investment will rebound due to improving foreign demand, favourable financial conditions, post-flood reconstruction, and EU funds. Downside risks include weaker demand from European trading partners and higher inflation from stronger-than-expected wage growth. On the upside, higher participation of older workers in the labour market and immigration could ease wage pressures and help competitiveness.

Balancing fiscal consolidation with growth-friendly regulatory reforms

Faster fiscal consolidation is needed to ease demand pressures and rebuild fiscal buffers. Additional defence spending should be offset by cuts to other government spending. 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. Investment would benefit from regulatory reforms, such as streamlining planning and permitting procedures.

South Africa

GDP is projected to increase by 1.1% in 2025, 1.3% in 2026 and 1.5% in 2027. Declining confidence and fiscal consolidation will weigh on domestic demand, though easing monetary policy and the government's reform programme will provide some support. Progress in reforms supporting electricity and rail availability is set to reduce supply constraints and support investment. Conversely, the increase in tariffs on imports into the United States will weigh on exports. Inflation will increase over 2026, in part due to higher food prices, before easing in 2027.

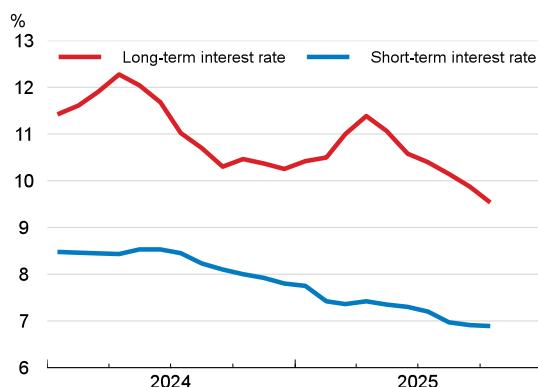
Fiscal consolidation in 2026 and 2027 will help limit further increases in the public debt ratio. Reinforcing spending rules and broadening the narrow tax base would further support debt sustainability. The inflation target has been lowered to 3%. Moderate inflationary pressures are expected to allow monetary policy to continue easing over the projection to around neutral rates. Continued progress in reforms to improve the efficiency and governance of state-owned enterprises, increase the supply of electricity, and ease logistics bottlenecks and highly restrictive regulation would support stronger potential growth and job creation.

Consumer and business confidence has fallen

Business, and consumer confidence fell in the third quarter, continuing their downward trend over 2025, with consumer confidence having fallen more markedly. The labour market improved in the third quarter of 2025, with the unemployment rate decreasing to 32.3%. Headline inflation has increased in recent months, reaching 3.6% in October, alongside accelerating food prices. Core inflation has increased more moderately, reaching 3.1% in October.

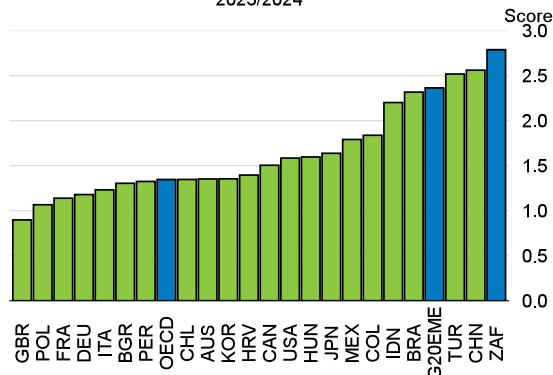
South Africa

Declining interest rates are supporting growth



South Africa's regulatory framework is highly restrictive

Overall economy-wide Product Market Regulation indicator¹
2023/2024



1. A higher indicator value reflects more regulatory barriers. G20EME is the unweighted average of Brazil, China, Indonesia, Mexico, South Africa and Türkiye. The indicator for South Africa reflects the laws and regulations in force on 1 January 2023. For some countries, the indicator reflects those in force on 1 January 2024.

Source: OECD Economic Outlook 118 database; and OECD-WBG Product Market Regulation database.

South Africa: Demand, output and prices

	2022	2023	2024	2025	2026	2027
	Current prices ZAR billion	Percentage changes, volume (2015 prices)				
South Africa						
GDP at market prices	6 666.6	0.8	0.5	1.1	1.3	1.5
Private consumption	4 228.0	0.2	1.0	2.5	1.1	1.4
Government consumption	1 251.7	1.9	-0.1	0.9	2.4	0.0
Gross fixed capital formation	945.5	3.0	-3.9	-2.8	2.7	4.3
Final domestic demand	6 425.2	1.0	0.0	1.4	1.6	1.6
Stockbuilding ¹	99.3	-0.4	-0.7	0.4	0.1	0.0
Total domestic demand	6 524.5	0.5	-0.6	1.9	1.7	1.6
Exports of goods and services	2 235.9	5.1	-2.8	-2.0	1.0	2.4
Imports of goods and services	2 093.8	3.9	-6.4	0.8	2.4	2.7
Net exports ¹	142.1	0.5	1.2	-0.8	-0.4	-0.1
<i>Memorandum items</i>						
GDP deflator	—	4.7	3.9	2.5	4.4	3.2
Consumer price index	—	5.9	4.4	3.3	3.6	3.2
Core inflation index ²	—	5.1	4.2	3.2	3.2	3.1
General government financial balance (% of GDP)	—	-6.1	-5.1	-5.7	-3.8	-4.1
General government gross debt (% of GDP)	—	79.8	84.8	88.4	88.6	89.7
Current account balance (% of GDP)	—	-1.1	-0.7	-1.2	-1.6	-1.7

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 118 database.

StatLink  <https://stat.link/2asbhk>

The United States has increased tariffs on imports from South Africa, though the exclusion of certain critical minerals and bullion lowers the effective rate to below 15%. 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 bonds have declined by around 170 basis points between their peak in April and October, suggesting that the perceived risk of investing in South Africa has fallen. The upgrade to South Africa's credit rating from S&P Global Ratings in November will also likely lower borrowing costs. The exchange rate against the US dollar has continued to appreciate since April, lowering the price of imported goods.

Fiscal policy is consolidating while easing monetary policy will support activity

The primary fiscal balance excluding one-off items is projected to improve by 0.1% of GDP in 2025, 0.6% of GDP in 2026 and 0.3% of GDP in 2027. Revenue measures include no inflationary adjustment to income-tax brackets, adding 0.2% of GDP to revenues in each of the 2025/26-2027/28 fiscal years, and additional tax measures to be announced in the 2026 Budget, representing 0.2% of GDP in each of the 2026/27 and 2027/28 fiscal years. Conversely, expenditure as a share of GDP is expected to rise in the 2025/26 fiscal year, before falling. Exceptional debt relief for the state electricity operator, Eskom, of 1% of GDP will conclude in the 2025/26 fiscal year. Transfers from the central bank to government accounts (via the Gold and Financial Contingency Reserve Account), equivalent to 0.3% of GDP in the 2025/26 fiscal year and 0.6% in the 2026/27 fiscal year, will continue to contribute to debt reduction. The central bank lowered policy rates by 150 basis points between September 2024 and November as inflation eased. The inflation target has been lowered to 3%, with a tolerance band of 1 percentage point. Subdued inflationary pressures are expected to allow for a further 50 basis point reduction in rates by the end of 2026.

Activity will increase moderately

The economy is projected to grow by 1.1% in 2025, 1.3% in 2026 and 1.5% in 2027. Monetary policy easing, progress in reforms supporting electricity availability and reducing logistics bottlenecks are set to support investment and consumption. Exports will increase only gradually, limited by the increase in US tariffs. Fiscal consolidation will result in limited increases in government expenditure from 2026, although the increase in spending in 2025 will provide some support to the level of spending that year. As economic growth remains broadly around potential, the unemployment rate will decrease only slightly. Inflation will rise to 3.6% in 2026, in part boosted by elevated food prices, before easing to 3.2% in 2027. While reforms will help ease supply bottlenecks and boost public investment, there is a risk that businesses increase investment more slowly than assumed.

Swifter reforms and less restrictive regulation would support growth

High government debt-servicing costs 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. Continuing to restructure state-owned enterprises (SOEs) will reduce the risk of further fiscal transfers. Restructuring includes ensuring financial sustainability, enhancing management and establishing a holding company with international governance standards for large SOEs. Reforming highly restrictive regulations could play a key role in boosting growth and creating jobs. Easing burdensome licensing, permits and complex procurement rules would support firm entry and expansion, particularly for smaller firms who have less capacity to deal with complexity. Easing barriers to firm restructuring would boost the efficiency of the insolvency regime and support the efficient reallocation of capital and labour.

Spain

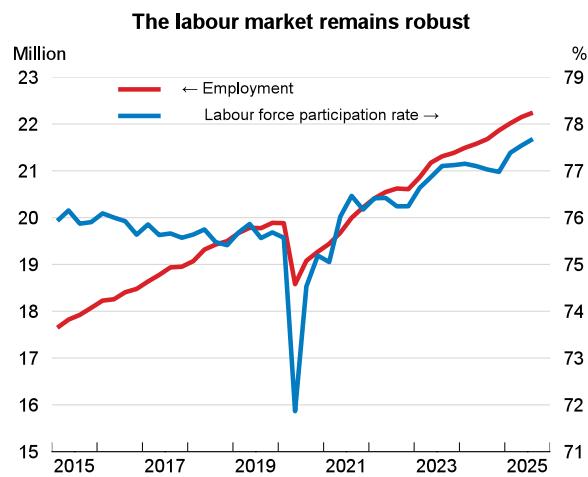
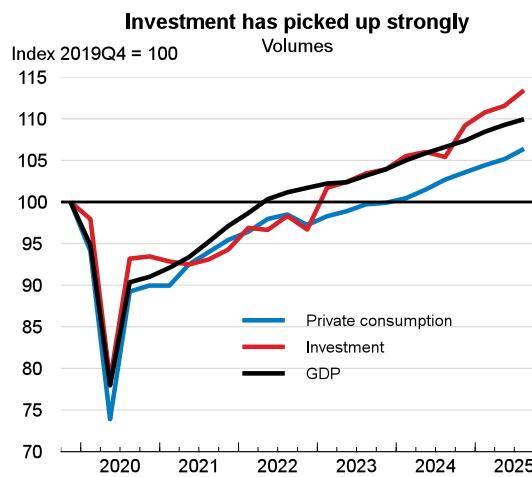
Economic growth is projected to ease from 2.9% in 2025 to 2.2% in 2026 and 1.8% in 2027. Strong job creation and real wage growth will continue to support private consumption. Investment growth will be underpinned by ongoing implementation of the Recovery, Transformation and Resilience Plan (RTRP) and lower financing costs. Export growth will moderate due to softer demand from key trading partners and a gradual normalisation of tourism. Inflation will decline to 2.3% in 2026 and 1.8% in 2027.

The fiscal deficit is projected to narrow to 2.3% in 2026–27, supported by robust economic growth and stronger revenue performance. Given the growth momentum in 2025, an almost closed output gap, support from NGEU grants and monetary policy easing, there is room for Spain to accelerate the pace of deficit reduction to faster rebuild fiscal buffers to respond effectively to future shocks. Streamlining administrative and regulatory burdens, better aligning national, regional, and local regulations, and simplifying procedures for accessing and refunding public R&D support would help improve investment and productivity growth.

Activity remains strong

Real GDP grew by 2.8% year-on-year in the third quarter of 2025, driven by robust gross capital formation and private consumption. Social security affiliations grew at a year-on-year rate of 2.4% in October, while the unemployment rate declined to 10.5% in September. Strong job creation and nominal wage growth supported steady gains in gross disposable incomes. Business expectations continued to improve in the third quarter of 2025. Headline inflation rose to 3.2% in October, largely driven by higher electricity prices while the partial extension of transport subsidies helped offset some of the increase. Core inflation reached 2.9% in October, with persistent services price inflation.

Spain



Source: Instituto Nacional de Estadística; and Eurostat.

StatLink <https://stat.link/1p4bq2>

Spain: Demand, output and prices

	2022	2023	2024	2025	2026	2027
	Current prices EUR billion	Percentage changes, volume (2020 prices)				
Spain						
GDP at market prices	1 375.9	2.5	3.5	2.9	2.2	1.8
Private consumption	775.8	1.8	3.1	3.4	2.7	2.1
Government consumption	275.8	4.5	2.9	1.7	1.3	1.2
Gross fixed capital formation	281.9	5.9	3.6	5.6	4.0	2.2
Final domestic demand	1 333.5	3.2	3.2	3.5	2.7	1.9
Stockbuilding ¹	30.3	-1.5	0.3	0.1	0.1	0.0
Total domestic demand	1 363.8	1.6	3.4	3.6	2.8	1.9
Exports of goods and services	545.8	2.2	3.2	3.6	1.7	2.0
Imports of goods and services	533.8	0.0	2.9	5.7	3.2	2.2
Net exports ¹	12.1	0.9	0.2	-0.6	-0.4	0.0
<i>Memorandum items</i>						
GDP deflator	–	6.2	2.9	2.4	2.0	1.8
Harmonised index of consumer prices	–	3.4	2.9	2.6	2.3	1.8
Harmonised index of core inflation ²	–	4.1	2.8	2.5	2.2	1.8
Unemployment rate (% of labour force)	–	12.2	11.3	10.6	10.1	9.8
Household saving ratio, net (% of disposable income)	–	8.0	9.2	8.8	8.8	9.2
General government financial balance (% of GDP)	–	-3.3	-3.2	-2.5	-2.3	-2.3
General government gross debt (% of GDP)	–	111.2	108.9	106.6	105.2	104.3
General government debt, Maastricht definition ³ (% of GDP)	–	105.2	101.6	99.4	97.9	97.0
Current account balance (% of GDP)	–	2.7	3.2	2.9	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 118 database.

StatLink  <https://stat.link/cap435>

Credit to non-financial private businesses has expanded, following monetary easing. Housing credit to households and credit to firms increased by 2.9% and 2.3% respectively year-on-year in September 2025. Spain's trade deficit widened in the first half of the year, with imports growing faster than exports due to strong domestic demand and elevated trade uncertainty. Tourism exports continue to grow, though at a slower pace. Direct exposure of Spain to US tariffs remains limited, with exports of goods to the United States accounting for only 1.1% of GDP. However, Spain is exposed to any weakening of demand from its main European trading partners.

Fiscal consolidation will continue

The fiscal deficit will narrow to 2.5% of GDP in 2025 due to higher economic growth and stronger-than-expected revenues. Most of the temporary support measures introduced during the inflationary shock have been phased out, while targeted public transportation subsidies were extended to December 2025. The deficit is projected to narrow further in 2026 and 2027 towards 2.3% of GDP, largely reflecting the withdrawal of support following the floods in the Valencia region, higher revenue from strong job creation and solid economic growth. As a result, public debt will gradually decline throughout 2026-2027. There will be a gradual increase in defence spending in 2025 and 2026 to reach 2% of GDP.

Growth will moderate but remain robust

GDP is projected to grow by 2.9% in 2025, 2.2% in 2026 and 1.8% in 2027, supported by strong domestic demand. Private consumption will grow on the back of solid job creation, real wage growth and better financial conditions. Business and household investment will expand thanks to lower interest rates and the continued deployment of RTRP funds before decelerating by 2027, as the funds wind down. Export growth will slow due to weaker demand from key trading partners, and a moderation in the expansion of tourism. Inflation is projected to ease throughout 2026 and 2027 as food and underlying price pressures moderate. Global financial tightening and escalating geopolitical and trade tensions could weigh on private investment, dampening external demand and implying both lower growth and lower inflation. Elevated saving rates pose an upside risk to growth by supporting future spending and investment.

Strengthening fiscal sustainability and unlocking stronger productivity growth

Spain's public debt-to-GDP ratio has decreased since 2021, yet it remains elevated. Accelerating the pace of deficit reduction would help to rebuild fiscal buffers. Solid growth, the almost closed output gap, the expected support from NGEU funds and the monetary policy easing would facilitate this acceleration. Long-term fiscal pressures are projected to rise, driven primarily by population ageing and rising pension costs. Addressing such pressures requires stemming the rise in pension spending, reducing inefficient spending and improving tax revenues. Unlocking stronger investment and productivity growth hinges on creating a more supportive business environment by reducing the high administrative and regulatory burden, which is particularly costly for SMEs, while aligning national, regional and local regulations to enhance coherence and reduce duplication. Simplifying application and refund procedures to public R&D support through a "one-stop-shop" digital platform can help firms to innovate and scale up.

Sweden

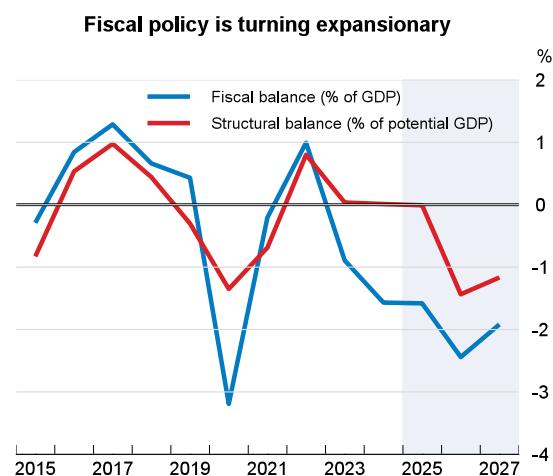
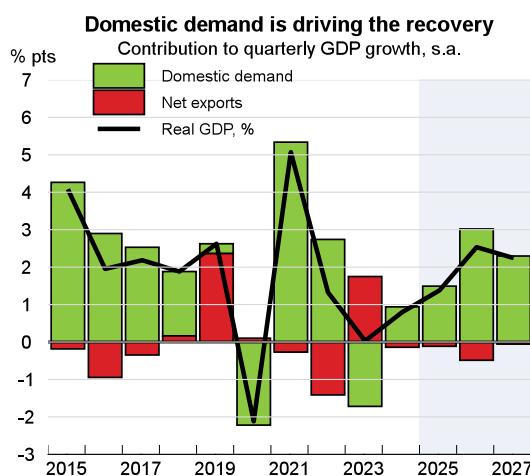
Real GDP growth is projected to increase from 1.6% in 2025 to 2.6% in 2026 and 2.3% in 2027. Fiscal stimulus, stable monetary policy, and buoyant domestic demand will support the recovery, following several years of weak activity. Unemployment is set to fall gradually from 8.7% in 2025 to 8.2% in 2027. Inflation, as measured by the consumer price index with a fixed mortgage rate, peaked at 2.8% in 2025 and is projected to decline to around 1.1% in 2026 amid temporary tax cuts before returning to the 2% target by the end of 2027. External headwinds and higher-than-expected household savings could weigh on growth.

With economic activity strengthening, monetary policy should continue to anchor inflation expectations, while fiscal policy credibility will hinge on the commitment to the new balanced-budget rule. Streamlining regulations, especially in housing and energy, would improve efficiency and speed up the green transition. Further efforts to enhance skills formation would ease labour shortages and help ensure that growth is more inclusive.

Economic recovery is underway

Monthly GDP and industrial output data point to an uptick in economic activity, with real GDP growing about 1% in the third quarter of 2025 and consumer confidence picking up strongly. Private consumption is strengthening, supported by rising real incomes and easing inflation pressures. Inflation is gradually declining from its mid-2025 peak, reflecting soft global commodity prices and the fading impact of changes to the consumer price basket at the beginning of 2025. Wage growth remains robust at slightly above 3%, while productivity gains attenuate unit labour cost pressures. Employment is edging up, job vacancies are modest, and the unemployment rate remains elevated. Business confidence is stabilising, with optimism stronger in trade and manufacturing but weaker in construction and services.

Sweden



Source: OECD Economic Outlook 118 database.

StatLink  <https://stat.link/mu9nye>

Sweden: Demand, output and prices

	2022	2023	2024	2025	2026	2027
	Current prices SEK billion	Percentage changes, volume (2024 prices)				
Sweden						
GDP at market prices	5 802.9	0.0	0.8	1.6	2.6	2.3
Private consumption	2 661.5	-1.5	0.6	1.7	2.8	2.4
Government consumption	1 496.2	1.4	1.1	1.0	2.3	2.0
Gross fixed capital formation	1 483.5	0.2	-0.1	0.1	3.4	2.7
Final domestic demand	5 641.1	-0.3	0.6	1.1	2.9	2.4
Stockbuilding ¹	76.2	-1.4	0.4	0.4	0.3	0.0
Total domestic demand	5 717.3	-1.8	0.9	1.5	3.1	2.4
Exports of goods and services	3 145.4	2.9	1.9	4.7	2.5	2.6
Imports of goods and services	3 059.9	-0.3	2.3	5.1	3.5	2.8
Net exports ¹	85.6	1.7	-0.1	-0.1	-0.5	-0.1
<i>Memorandum items</i>						
GDP deflator	–	5.9	3.0	1.0	1.0	1.6
Consumer price index ²	–	8.5	2.8	0.9	1.0	1.8
Core inflation index ³	–	10.0	4.1	0.3	0.9	1.8
Consumer price index with fixed interest rates	–	6.0	1.9	2.8	1.1	1.8
Unemployment rate (% of labour force)	–	7.7	8.4	8.7	8.6	8.2
Household saving ratio, net (% of disposable income)	–	14.3	15.8	15.0	14.5	14.1
General government financial balance (% of GDP)	–	-0.9	-1.6	-1.6	-2.4	-1.9
General government debt, Maastricht definition ⁴ (% of GDP)	–	32.0	34.0	35.0	36.2	36.8
Current account balance (% of GDP)	–	5.8	5.9	5.5	4.9	4.8

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 118 database.

StatLink  <https://stat.link/gbr3hq>

The highly open economy continues to face global headwinds. Weak demand from the euro area and the United States, along with elevated trade frictions, is weighing on exports, particularly in the automotive and steel industries. A stronger krona and easing global commodity prices have moderated import costs and helped reduce inflationary pressures. European defence and infrastructure programmes should start to gradually support external demand.

Fiscal policy is turning expansionary, while monetary policy is on hold

The 2026 budget introduces measures worth around SEK 80 billion (2% of GDP), including lower labour, VAT and electricity taxes, and higher public consumption and investment, notably for defence. As a result, the budget deficit will widen from 1.6% of GDP in 2025 to 2.4% in 2026, before improving slightly to 1.9% in 2027, while gross debt will rise from 35.0% of GDP in 2025 to 36.8% in 2027. Concomitantly, the fiscal rule will shift from the current 1/3% of GDP surplus target to a balanced-budget objective in 2027. Monetary easing ended in October 2025, after cumulative rate cuts from 4% to 1.75%. The Riksbank is projected to keep the policy rate unchanged throughout 2026 and to begin a gradual tightening to 2% in late 2027, as inflation with a fixed mortgage rate (CPIF, the targeted inflation measure) reaches 2% and the output gap progressively closes.

Robust domestic demand will sustain the recovery

Growth will gain momentum as household consumption accelerates and residential investment rebounds on the back of the fiscal stimulus and improving confidence. Public investment and consumption will boost the recovery amid major defence programmes and increased spending on infrastructure and the green transition. Exports will remain subdued, growing by somewhat more than 2% in 2026-27, and the contribution of net trade to GDP growth is set to remain slightly negative in 2027. Headline CPIF inflation will drop to 1.1% in 2026 amid VAT cuts, before converging to the 2% target in 2027. Underlying price pressures remain muted, with moderate wage and import price growth. Employment will gradually strengthen, reducing the unemployment rate from 8.7% in 2025 to 8.2% by 2027. Persistent precautionary saving, weaker external demand, or more trade disruptions could slow the recovery by more than projected and further strain public finances. Upside risks include faster-than-projected household spending as confidence improves and inflation eases.

Maintaining fiscal credibility and reducing regulatory fragmentation

The new balanced-budget rule from 2027 provides scope for necessary green and defence investments, but should be implemented in a way that does not jeopardise debt sustainability. Streamlining land-use planning, shortening building and environmental permitting times, easing rent control and limiting additional local technical requirements would accelerate housing and infrastructure delivery. Clearer guidance and timelines for grid connections and renewable-energy projects would help reduce investment uncertainty and support decarbonisation. Further strengthening lifelong learning systems, better aligning activation programmes with labour market needs, and improving skills recognition systems would foster labour mobility and ease skill shortages.

Switzerland

Real GDP will grow by 1.1% in 2025 and strengthen to 1.2% in 2026 and 2027. Higher-than-expected import tariffs and the uncertain external environment are weighing on export growth and investment, only partly offset by a boost to private consumption from declining inflation. A cooling labour market will keep inflation low in 2025 before picking up slightly in 2026 and 2027, while remaining well within the central bank's target range of 0-2%.

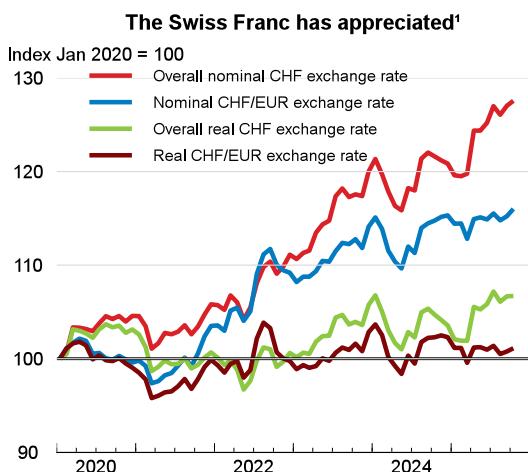
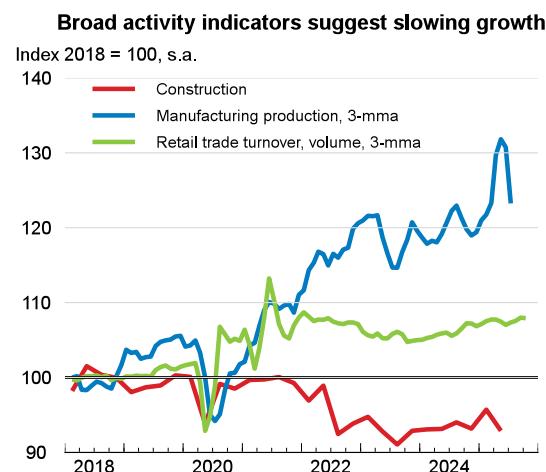
The monetary policy stance will continue to support growth, with the policy rate expected to remain at zero to counter disinflationary pressures. Fiscal policy is becoming slightly more accommodative, driven by higher social spending. Budget consolidation measures under consideration to comply with the debt-brake rule should be carefully assessed to avoid potential adverse side-effects on long-term growth. Swift ratification of the revised agreements with the European Union would reduce uncertainty and help limit trade disruptions.

Uncertainty is weighing on economic activity

After above-average growth in the first quarter of the year, driven by export front-loading in anticipation of higher tariffs, quarterly GDP growth slowed to 0.2% in the second quarter, adjusted for sporting events. The chemical and pharmaceutical industry contracted sharply as exports fell by 3.4% compared to the previous quarter. According to an early estimate, real GDP has contracted 0.5% in the third quarter, adjusted for sporting events, and indicators of labour utilisation and recruitment difficulties are showing signs of a cooling labour market. Consumer prices increased by 0.1% over the year to October, as the Swiss franc continued to strengthen.

Many goods exports from Switzerland to the United States have faced a 39% tariff since August. Pharmaceuticals remain exempted, but the watchmaking, machinery and chocolate industries have been severely affected. Prospects are expected to improve in early 2026 as Switzerland and the United States finalise an agreement that would result in US tariffs declining to 15%. Revised cooperation and trade agreements with the EU were agreed in May 2025 with the aim of stabilising and developing Switzerland's access to the EU Single Market. The package has yet to be ratified.

Switzerland



1. The series represent the movements in the Swiss franc exchange rate against the currencies of Switzerland's most important trading partners (the real indexes are the nominal indexes adjusted for price developments in Switzerland and abroad).

Source: FSO; and SNB.

StatLink <https://stat.link/htemac>

Switzerland: Demand, output and prices

Switzerland	2022	2023	2024	2025	2026	2027	Current prices	Percentage changes, volume
							CHF billion	(2020 prices)
GDP at market prices¹								
Private consumption	819.6	0.9	1.4	1.1	1.2	1.2	395.4	1.4
Government consumption			2.4	1.5	2.4	1.4	93.6	1.4
Gross fixed capital formation			1.3	1.9	2.0	1.1	215.3	2.2
Final domestic demand			-1.2	0.0	0.0	0.5	704.2	1.6
Stockbuilding ^{2 3}	2.5	1.5	-0.7	1.8	1.4	0.0		
Total domestic demand	706.7	3.4	0.8	2.9	3.0	1.0		
Exports of goods and services ³	614.7	-2.7	1.4	4.0	-2.3	2.2		
Imports of goods and services ³	501.8	0.1	0.6	7.1	-0.2	2.0		
Net exports ^{2 3}	112.9	-2.1	0.6	-1.4	-1.6	0.3		
<i>Memorandum items</i>								
GDP deflator	—	0.9	1.0	0.7	1.6	2.0		
Consumer price index	—	2.1	1.1	0.2	0.6	0.7		
Core inflation index ⁴	—	1.8	1.0	0.7	0.6	0.7		
Unemployment rate (% of labour force)	—	4.0	4.3	4.7	4.4	4.1		
Household saving ratio, net (% of disposable income)	—	17.5	17.0	17.2	16.5	16.4		
General government financial balance (% of GDP)	—	0.3	0.5	0.4	0.2	0.4		
General government gross debt (% of GDP)	—	37.9	39.0	38.3	37.7	36.9		
Current account balance (% of GDP)	—	5.6	7.5	5.7	4.3	4.6		

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 118 database.

StatLink <https://stat.link/m5o7gx>

Fiscal policy is becoming more accommodative amid monetary easing

The central bank lowered the policy rate by 0.25 percentage points to 0% in June to counter disinflationary pressures. This brings the cumulative monetary easing to 175 basis points since March 2024. Yet, the domestic currency has continued to appreciate, partly driven by safe-haven flows. The central bank is expected to hold the policy rate unchanged at zero until economic growth converges to potential in 2027. The general government account is expected to post a small surplus in 2025 that will narrow in 2026 as the 13th monthly pension payment approved in March 2024 comes into effect. Moreover, the government has extended the short-time work compensation scheme from 12 to 18 months as of August 2025 and from 18 to 24 months in November 2025 to cushion the impact of higher U.S. trade tariffs on employment. The fiscal projections assume that the proposed increase in the VAT rate by 0.7 percentage points in 2027 will be approved to finance higher social spending. Gross public debt is projected to decline to about 37% of GDP by 2027.

Growth will remain moderate

Real GDP, not adjusted for sporting events, is projected to grow by 1.1% in 2025 and 1.2% in 2026 and 2027. Growth will be mostly driven by domestic consumption, supported by declining inflation and more favourable financial conditions. The contribution of net exports to growth will turn negative in 2025 amid higher trade tariffs, weaker global growth prospects and a strong domestic currency. Major sporting events will partly offset lower external demand in 2026, and the new agreement with the United States to lower tariffs to 15% is expected to bolster the recovery of exports in 2026. Heightened uncertainty will weigh on investment throughout 2026 and 2027. Currency appreciation, lower energy prices and a cooling labour market will help keep consumer price inflation well within the central bank's 0-2% target range. Prolonged global uncertainty could lead to an even stronger Swiss franc, further damaging export prospects and turning inflation negative.

Strengthening ties with trading partners would enhance economic resilience

Fiscal consolidation will be required at the federal level to ensure compliance with the debt-brake rule but planned expenditure cuts should carefully balance consolidation needs with short- and medium-term growth objectives, based on cost-benefit analysis of public spending. Growth-enhancing spending and efficient programmes should be preserved as much as possible. Swiftly ratifying the EU-Switzerland agreements would ensure continued market access and help reinvigorate exports. Similarly, strengthening ties with other trade partners, by signing new free trade agreements and deepening existing ones, would improve economic resilience. Harmonising regulations across cantons would increase domestic competition and generate additional economies of scale.

Thailand

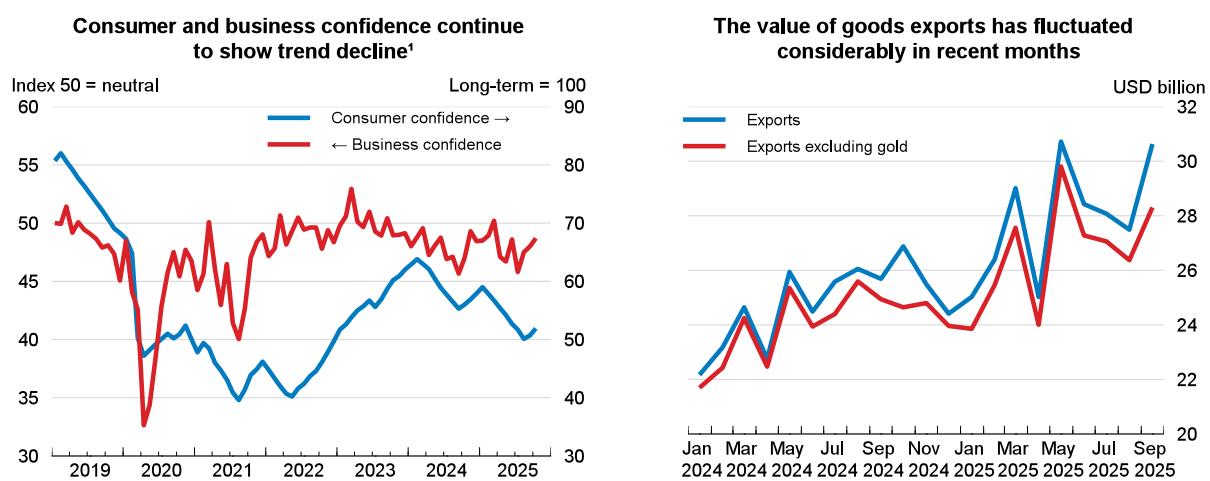
Real GDP growth is projected to decrease to 1.5% in 2026 from 2.0% in 2025 as higher tariffs weigh on exports and investment and as household consumption weakens, before picking up to 2.6% in 2027 as the tariff impacts fade. Inflation will increase gradually but remain below the 2% centre of the inflation target range. Uncertainties around the ongoing impacts of tariffs on goods exports, faltering income from tourism and the evolution and impact of high household debt on consumption are key risks to the outlook.

Given increasing fiscal deficits, consolidation is needed to reduce the public debt burden. Meanwhile, monetary policy could ease further if economic conditions worsen, conditional on inflation remaining low. Quantitative policy indicators point to considerable scope for regulatory reforms, including in trade regulation and competition policy. These would facilitate stronger market competition, thereby boosting productivity.

Growth is weakening further

Thailand's aggregate demand is flagging. The economy shrank by 0.6% in the third quarter of 2025 and indicators point to ongoing weakening. Household and business confidence indices have continued to decline and agricultural and industrial outputs have slowed. The nominal value of merchandise exports has fluctuated considerably, and tourism remains subdued. The weakening economic situation is now starting to thwart employment prospects. The headline consumer price index has been falling, as large harvests have lowered raw food prices, and energy prices are on a downward trend, reflecting government subsidies and global crude oil prices. Meanwhile, core inflation remains stable and close to the lower bound of the Bank of Thailand's 1-3% target range.

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. An index value equal to 100 suggests that consumer confidence is stable.

Source: CEIC; and Bank of Thailand.

StatLink <https://stat.link/aeb83u>

Thailand: Demand, output and prices

	2022	2023	2024	2025	2026	2027
	Current prices THB billion	Percentage changes, volume (2002 prices)				
Thailand						
GDP at market prices	17 388	2.0	2.5	2.0	1.5	2.6
Private consumption	9 465	6.9	4.4	2.5	1.9	2.3
Government consumption	3 086	-4.7	2.4	0.1	2.3	2.7
Gross fixed capital formation	4 059	1.2	-0.1	3.4	4.0	2.6
Exports of goods and services	11 370	2.3	7.8	8.4	2.1	2.6
Imports of goods and services	11 662	-2.6	6.3	5.3	2.9	2.5
<i>Memorandum items</i>						
Consumer price index	–	1.2	0.4	-0.2	0.9	1.9
Government financial balance ^{1,2} (% of GDP)	–	-3.0	-5.6	-6.0	-5.6	-5.5
Government gross debt ² (% of GDP)	–	61.7	63.7	66.5	67.9	68.0
Current account balance (% of GDP)	–	1.7	2.2	4.2	3.7	3.7

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 118 database.

StatLink  <https://stat.link/gd14yo>

Exports from Thailand to the United States are subject to a 19% tariff following the deal in August. Regional competitors Viet Nam, Indonesia and the Philippines have the same tariff, or close to it. 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 supporting economic activity, and the fiscal deficit is widening

The Bank of Thailand lowered its policy rate by 25 basis points to 1.5% in August, the fourth rate cut since 2024. The Bank paused the easing cycle in its October rate decision. A further rate cut is envisaged in 2026 with the rate then remaining at 1.25% until the end of 2027. The Bank's support for economic activity is welcome given the diminished scope for bolstering the economy through fiscal policy. Additional cuts, if needed, should remain firmly data-driven, in line with the Bank's stability mandate. The public debt burden is elevated and continues to increase. Outstanding government debt was 64.8% of GDP as of September, around 25 percentage points above pre-pandemic levels. The fiscal deficit is set to widen partly due to subsidies for household spending on certain service-sector activities, including retail shops and restaurants. The package is valued at THB 44 billion (equivalent to a little under 0.25% of GDP) and aims to primarily boost the economy during the fourth quarter of 2025.

Growth will slow further

Output growth in 2025 is projected at 2.0%. Activity in the first two quarters has been supported by export front-loading, but growth has weakened over the second half of the year. Negative effects from international trade policy are expected to continue to work through the economy affecting trade and investment in particular. Consequently, annual output growth will drop to 1.5% in 2026. A recovery in domestic demand and exports as the tariff impacts taper will lift output growth to 2.6% in 2027, slightly above estimated potential. These developments will be echoed in the labour market. Inflation will increase during 2026 and 2027 as the temporary damping effects from low food and energy prices taper off. A narrowing of the

budget deficit in 2026 and 2027 will reduce growth in the public debt burden. Uncertainties around international trade policies have lessened somewhat, but risks around high levels of household debt continue.

Further regulatory reform is key to stronger productivity growth

Raising growth potential, including via productivity-enhancing investment, requires stronger competition in product and service markets. The OECD Product Market Regulation Indicator for Thailand points to widespread scope for making regulation more conducive to competition. Near-term reform options include lightening foreign-ownership restrictions, particularly in services sectors, and granting the competition authority greater powers as regards state-owned enterprise. Meanwhile, steady progress is needed regarding reducing red tape and tackling corruption. Growth potential would also be enhanced by further shifting away from low-productivity, informal economic activities. A structural increase in fiscal revenue is required to ensure a reduction in the public debt burden while also meeting spending pressures from mounting social demands, population ageing and the green transition.

Türkiye

Output is projected to grow at 3.6% in 2025 and 3.4% in 2026, before increasing by 4.0% in 2027. Higher tariffs will weaken exports, but the effect is expected to be relatively small and short-lived. Improved financial conditions will support private consumption and investment in 2026 and 2027, which in turn will trigger stronger imports. The decline in inflation is projected to continue. Headline inflation is expected to fall to 10% by the end of 2027, but upside risks to this projection remain significant.

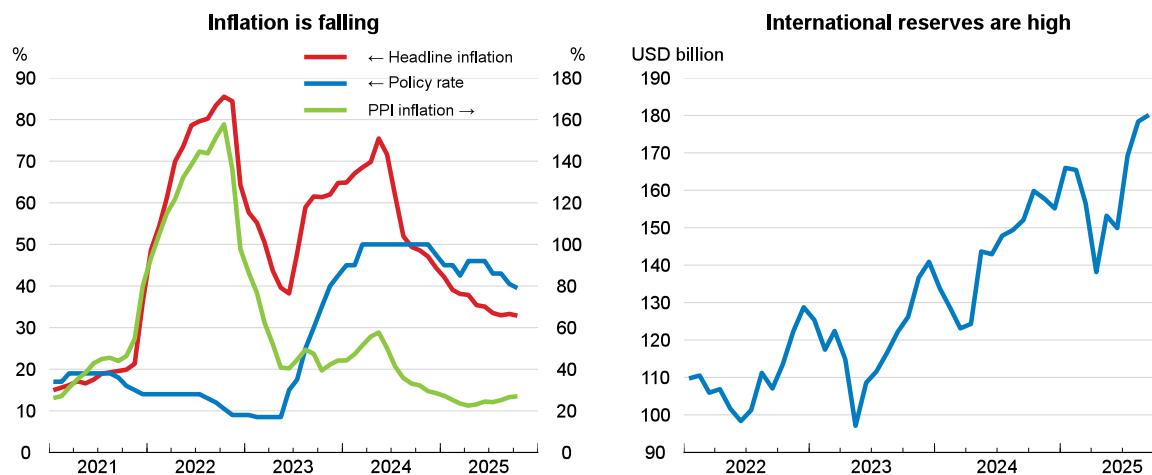
Monetary policy has become more supportive in the third quarter of 2025 as the central bank started to reduce its policy rate. Lower inflation will allow further interest rate reductions in 2026 and 2027, but the tight monetary policy stance should be sustained until inflation has declined durably. The fiscal deficit is expected to narrow. Regulatory reforms to reduce barriers to entry in services sectors will be key to raise long-term growth potential, along with policy efforts to boost labour force participation and improve skills.

Tight financial conditions have weighed on domestic demand

Exports and imports rose by 3.9% and 6.0% year-on-year, respectively, between January and October, while industrial production increased by 3.1% year-on-year between January and August. Consumer spending remains subdued. Tight monetary and fiscal policies have contributed to disinflation over the first half of 2025, but high inflation expectations and inertia remain. Year-on-year inflation has declined to 32.9% in October 2025, from 37.9% in April 2025, while education and housing has pushed service inflation above the headline. Producer price inflation increased from 22.5% in April to 27.0% in October, partly due to higher import prices. Unemployment averaged 8.5% between July and September 2025, continuing the downward trend of the past five years. Moderate real wage increases in the first half of 2025, following a large rise in 2024, supported disinflation but weighed on consumer confidence. Business confidence has declined since March.

The United States has applied a 15% tariff rate on Türkiye's exports since August 2025. The direct impact of this is likely to be limited as exports to the US only account for about 6% of Türkiye's exports and 1% of GDP, but changing trade policies could affect Türkiye through a slowdown in European demand.

Türkiye



Source: Central Bank of Turkey; Bank for International Settlements; and International Monetary Fund.

StatLink  <https://stat.link/v503fr>

Türkiye: Demand, output and prices

	2022	2023	2024	2025	2026	2027
	Current prices TRY billion	Percentage changes, volume (2009 prices)				
Türkiye						
GDP at market prices	15 325.9	5.0	3.3	3.6	3.4	4.0
Private consumption	8 152.8	10.4	4.3	2.8	3.2	4.2
Government consumption	1 811.1	2.2	-0.8	-1.1	2.6	4.1
Gross fixed capital formation	4 681.3	7.3	2.7	4.8	4.2	4.9
Final domestic demand	14 645.2	8.3	3.0	2.9	3.4	4.4
Stockbuilding ¹	1 234.8	2.6	-1.5	2.3	0.4	0.0
Total domestic demand	15 880.0	10.3	1.9	5.3	3.8	4.4
Exports of goods and services	5 845.5	-2.3	0.1	-0.2	1.7	2.7
Imports of goods and services	6 399.6	11.8	-3.8	6.1	3.6	4.8
Net exports ¹	- 554.2	-5.8	1.3	-1.7	-0.5	-0.5
<i>Memorandum items</i>						
GDP deflator	—	68.3	59.3	34.4	21.9	12.1
Potential GDP, volume	—	4.6	4.6	4.4	4.2	3.9
Consumer price index ²	—	53.9	58.5	34.5	20.8	11.7
Core inflation index ³	—	58.5	59.8	34.5	20.5	11.7
Unemployment rate (% of labour force)	—	9.4	8.7	8.4	8.4	8.1
General government financial balance (% of GDP)	—	-4.5	-3.2	-3.1	-3.0	-2.8
Current account balance (% of GDP)	—	-3.5	-0.8	-2.3	-3.3	-3.4

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 118 database.

StatLink  <https://stat.link/4dm5e9>

The policy mix will remain mildly contractionary

The fiscal deficit is assumed to decline from 3.1% of GDP in 2025 to 2.8% in 2027, in line with the Medium-Term Programme. This consolidation will be driven by efforts to broaden the tax base and tackle informality. The central bank's policy rate is projected to decrease from 40.5% in the third quarter of 2025 to 25% at the end of 2026 and 17% at the end of 2027 amid declining inflation. Nevertheless, the real interest rate will remain positive and high, keeping monetary policy restrictive.

Domestic demand will pick up and disinflation will continue

Domestic demand is expected to pick up as real wages continue to recover and confidence improves. In 2025, annual GDP growth benefited from a strong build-up of inventories in the second quarter and is expected to reach 3.6%. Quarterly growth will strengthen steadily over 2026 and 2027, with annual GDP growth reaching 3.4% in 2026 and 4.0% in 2027. Strong domestic demand will lead to a surge in imports, and an increased but moderate current account deficit. Unemployment will continue to decline slowly, reaching 8% at the end of 2027. Disinflation is set to continue, with headline inflation expected to reach 10% by the end of 2027. However, inflation may surprise on the upside, particularly if monetary policy normalisation is premature. Prolonged political uncertainty could bring pressure on the exchange rate and foreign reserves, potentially resulting in higher interest rates and borrowing costs, while business and consumer confidence could also suffer.

Structural reforms can sustain long-term growth

Continuing the stabilisation of the economy will remain the policy priority until inflation is firmly converging towards the target. Current fiscal consolidation efforts will support this, but risks from contingent liabilities should continue to be monitored closely. Ensuring a stable and predictable regulatory policy framework will be key to improve investor sentiment and attract more international investment. Simplifying insolvency regulations for small and medium enterprises could foster capital reallocation towards better-performing businesses. This could be supported by more flexibility in permanent labour contracts and a cautious approach to future minimum wage increases in order to promote formal job creation, which is particularly relevant among smaller firms. Boosting female labour force participation, improving skills and reducing regulatory barriers to entry in services can further support ongoing efforts to raise long-term growth potential.

Ukraine

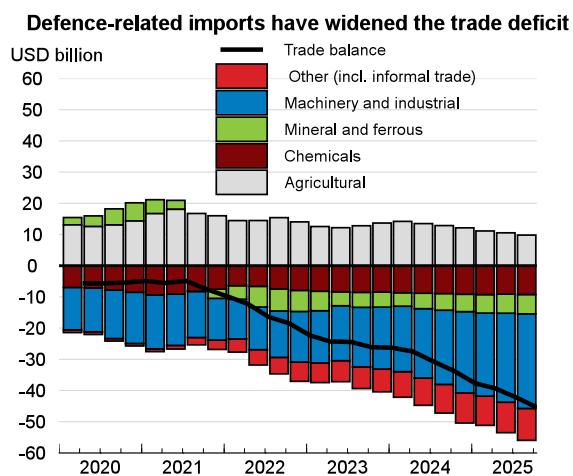
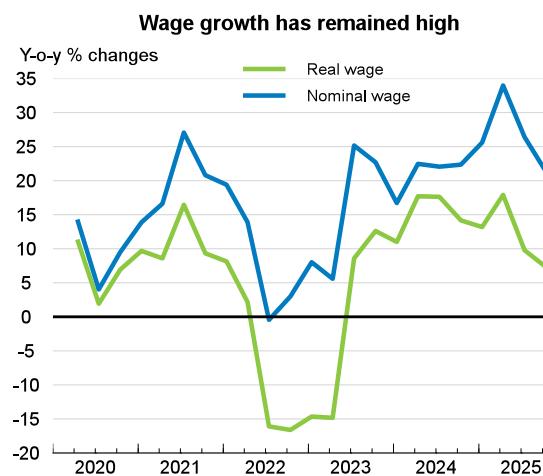
GDP growth is projected to slow from near 2.2% in 2025 to near 1.5% in 2027, assuming Russia continues its war of aggression against Ukraine and current levels of external support are maintained. Government spending, consumer demand, and a rapidly expanding defence sector will support growth. Labour shortages are a key impediment to activity. Inflationary pressure abated following a fall in food prices and stabilising import prices but is expected to remain elevated given labour shortages and high wage growth. The fiscal and current account deficits remain large due to increased defence spending.

Increased revenue mobilisation remains critical and can be bolstered by formalising undeclared activity through an improved rule of law and strengthened anti-corruption institutions. Monetary policy should remain focused on containing inflation. Reducing the burden of regulation can encourage formalisation and reduce operating costs.

While the economy is resilient, inflation remains high

Real GDP expanded by 0.7% in the second quarter of 2025 compared with a year earlier, and picked up in the third quarter supported by a good late harvest. Growth is likely to be dampened in the fourth quarter by intensified Russian attacks on energy and gas infrastructure, and restrictions on electricity use by industry. Capacity constraints, especially to find workers, limit growth. Labour shortages drove nominal wage growth on job advertisements to 25% in October 2025 compared with a year earlier, supporting private consumption. While wage and producer price inflation remain high, they moderated from mid-2025, and consumer price inflation fell to 10.9% in the year to October from the recent peak of 15.9% in May.

Ukraine



Source: State Statistics Service of Ukraine (Derzhstat); and National Bank of Ukraine.

StatLink  <https://stat.link/wzxhur>

Ukraine: Demand, output and prices

	2022	2023	2024	2025	2026	2027
Ukraine	Current prices UAH billion	Percentage changes, volume (2020 prices)				
GDP at market prices	5 239.0	5.5	2.9	2.2	1.8	1.5
Memorandum items						
Consumer price index	–	12.9	6.5	12.8	7.8	7.6
General government financial balance (% of GDP)	–	-19.3	-17.2	-20.0	-20.0	-20.0
Current account balance (% of GDP)	–	-5.4	-8.1	-16.0	-19.0	-19.0

Source: OECD Economic Outlook 118 database.

StatLink  <https://stat.link/2jykbe>

Higher defence-related imports, following reductions of in-kind assistance and fiscal support, have widened the trade deficit in 2025, with total goods and services imports of USD 79.4 billion between January–September 2025, double total exports during the same period. A new trade agreement with the EU in October restored many pre-war trade preferences but may reduce the export of some agricultural products following the reintroduction of tariff rate quotas. The lifting of the ban on the export of some defence products manufactured in Ukraine may create new trade opportunities.

Macroeconomic policy is supporting the war effort and stabilisation

The fiscal deficit for 2025 is projected to be 20% of GDP following a supplementary budget in October 2025, primarily for increased defence spending. EU funding is expected to largely cover this shortfall. The draft 2026 budget envisions a deficit of 18.4% of GDP, to be financed largely by external borrowing. Security and defence expenditure is budgeted at USD 60.7 billion (27% of GDP) or 59% of total public spending, but supplementary budgets frequently raise defence spending relative to budget plans. While the war continues, the fiscal and current account deficits will remain high and require additional financing commitments. Monetary policy will prioritise containing inflation and the central bank has maintained its key policy rate at 15.5% since April 2025. Interventions in the foreign exchange market have averaged USD 2.8 billion a month in 2025, but international reserves of USD 49.5 billion at the end of October are at historic highs (5.1 months of import coverage). The projection assumes a continued focus on inflation targeting and less direct support of the hryvnia, allowing a gradual depreciation of the currency.

A continuing conflict will weigh on activity and disinflation

GDP growth is forecast to be 2.2% in 2025, slowing to 1.8% in 2026 and 1.5% in 2027. Improved security would increase activity while inadequate foreign assistance would reduce it. Other downside risks include tight labour markets exacerbated by net emigration and conscription. Ongoing Russian attacks on energy, transport and other infrastructure are likely to weigh on activity and divert scarce resources into reconstruction efforts. The defence sector is an increasing engine of growth, with sales increasing from USD 1 billion in 2022 to USD 10 billion in 2024. The annual inflation rate is expected to moderate to the 7.5-8.0% range in 2026, following falling food prices in mid-2025 and stable import prices and remain at a similar level in 2027.

Sustaining the reform effort is essential for macroeconomic stability and external support

Revenue mobilisation should focus on raising taxes from the shadow economy. This entails reducing evasion on customs payments, improving tax arrears management, digitalising revenue services, and strengthening anti-corruption institutions. The authorities have funded the fiscal deficit without recourse to monetary financing since August 2022; continuing to do so will avoid additional inflationary pressures and support macroeconomic stability. Reducing regulatory burdens would help lower businesses' operating costs and encourage activity to be declared. Building on recent progress in developing regulatory portals, this can be done by ensuring regulators are accountable and independent, and by engaging with stakeholders in the design and implementation of regulation. Efforts to increase labour force participation, especially by women and veterans, would help improve growth prospects.

United Kingdom

GDP growth is projected to ease to 1.2% in 2026, due to the continued effect of budgetary tightening on consumption and to the drag from global uncertainty, before edging up to 1.3% in 2027, supported by business investment and exports as financial conditions and global trade improve. Renewed price pressures are expected to be transitory, with headline inflation remaining elevated at 2.5% in 2026 and easing to 2.1% in 2027, though staying above target over the entire period. Slack will emerge in the labour market, as employment and vacancies fall, with the unemployment rate projected to reach 5.0% in 2027.

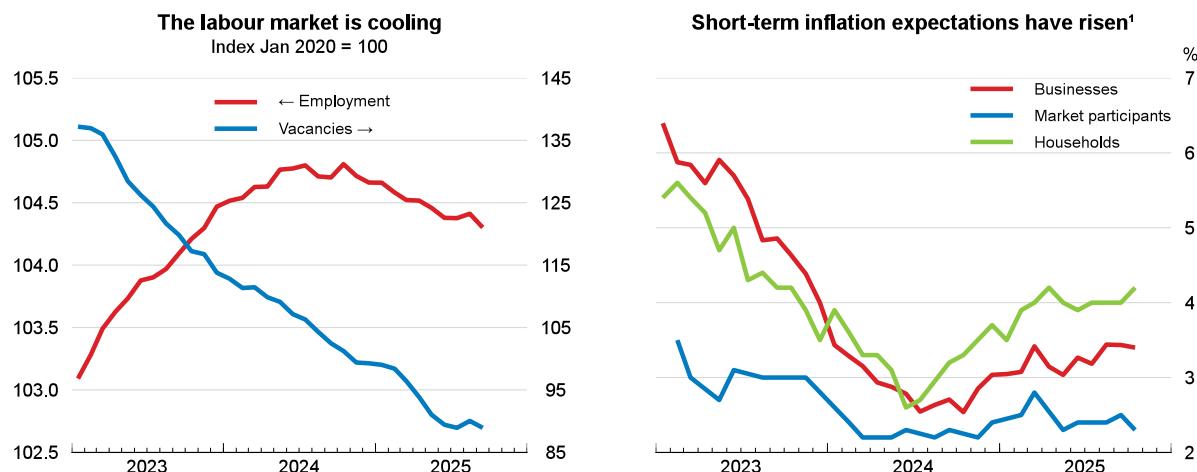
The monetary policy stance is expected to become neutral as the easing cycle ends. At the same time, fiscal policy will remain restrictive given high government borrowing costs, as well as large, albeit declining, budget deficits and rising public debt. Continuing to ensure that consolidation is carefully timed, given substantial downside risks to growth and upside risks to inflation, and well-calibrated, with a combination of revenue-raising measures and spending cuts, is essential. Tax and spending measures should also aim to further support growth potential, complementing ongoing structural reforms such as the overhaul of infrastructure planning and the simplification of financial services regulation.

Momentum is softening

Flash estimates indicate that GDP growth slowed to 0.1% in the third quarter, down from 0.3% in the second quarter, partly reflecting a large fall in output at a major vehicle manufacturer following a cyber incident in September. While business surveys point to improving conditions in both services and manufacturing, momentum is softer than at the beginning of the year. This is despite a robust expansion of credit to businesses, of 6.3% in the year to September, helped by monetary easing. Gilt yields have been volatile and remained relatively high over the past months, at around 4.6%, reflecting both domestic and global factors. The labour market is cooling, with the number of payrolled employees falling by about 0.4% in the year to September, and the number of vacancies declining by almost 14% over the same period. However, the recent rise in payroll taxes and in the minimum wage has slowed labour cost disinflation. Annual pay growth in the private sector reached 4.4% in the three months to September, even though pay settlements have declined more rapidly. CPI inflation remained elevated at 3.6% in October, largely driven by earlier rises in food prices and in a range of administered prices.

Merchandise export volumes continued declining in the year to September, with goods exports to the United States falling in value terms since the second quarter of 2025. Survey measures of new manufacturing export orders are weak. This reflects the 7 percentage point increase in the aggregate effective tariff rate faced by domestic goods exporters in US markets since the beginning of the year, despite the recent bilateral trade agreement. By contrast, services trade has continued to grow steadily. Sterling has appreciated in nominal terms against the US dollar in the year to date but depreciated against the euro, leaving the nominal effective exchange rate mostly stable.

United Kingdom 1



1. Survey measures of one-year ahead CPI inflation expectations.

Source: Bank of England; Office for National Statistics; and YouGov/Citigroup.

StatLink <https://stat.link/cienht>

United Kingdom: Demand, output and prices

United Kingdom	2022	2023	2024	2025	2026	2027	Current prices	Percentage changes, volume	
							GBP billion	(2023 prices)	
GDP at market prices									
Private consumption	2 580.9	0.3	1.1	1.4	1.2	1.3	2 580.9	0.3	1.1
Government consumption	1 604.6	-0.4	-0.2	1.0	1.3	1.2	1 604.6	-0.4	-0.2
Gross fixed capital formation	530.6	2.1	3.4	2.0	1.4	1.1	530.6	2.1	3.4
Final domestic demand	490.4	0.5	1.8	3.6	3.1	2.7	490.4	0.5	1.8
Stockbuilding ¹	2 625.6	0.3	0.9	1.7	1.7	1.5	2 625.6	0.3	0.9
- 16.9	0.3	0.8	0.1	-0.3	0.0	0.0	- 16.9	0.3	0.8
Total domestic demand	2 608.7	0.5	1.7	1.8	1.3	1.5	2 608.7	0.5	1.7
Exports of goods and services	879.1	-2.3	0.6	3.0	1.0	1.4	879.1	-2.3	0.6
Imports of goods and services	906.9	-1.6	2.6	3.9	1.6	1.8	906.9	-1.6	2.6
Net exports ¹	- 27.7	-0.2	-0.7	-0.3	-0.2	-0.2	- 27.7	-0.2	-0.7
<i>Memorandum items</i>									
GDP deflator	—	6.3	3.6	3.8	2.6	2.2	—	6.3	3.6
Harmonised index of consumer prices	—	7.3	2.5	3.5	2.5	2.1	—	7.3	2.5
Harmonised index of core inflation ²	—	6.2	3.7	3.6	2.9	2.2	—	6.2	3.7
Unemployment rate (% of labour force)	—	4.0	4.3	4.7	4.9	5.0	—	4.0	4.3
Household saving ratio, gross (% of disposable income)	—	6.5	10.1	11.2	11.0	10.6	—	6.5	10.1
General government financial balance (% of GDP)	—	-6.0	-6.0	-5.9	-5.8	-5.1	—	-6.0	-6.0
General government gross debt (% of GDP)	—	98.9	100.1	101.6	104.2	106.2	—	98.9	100.1
Current account balance (% of GDP)	—	-3.6	-2.2	-2.1	-2.1	-2.2	—	-3.6	-2.2

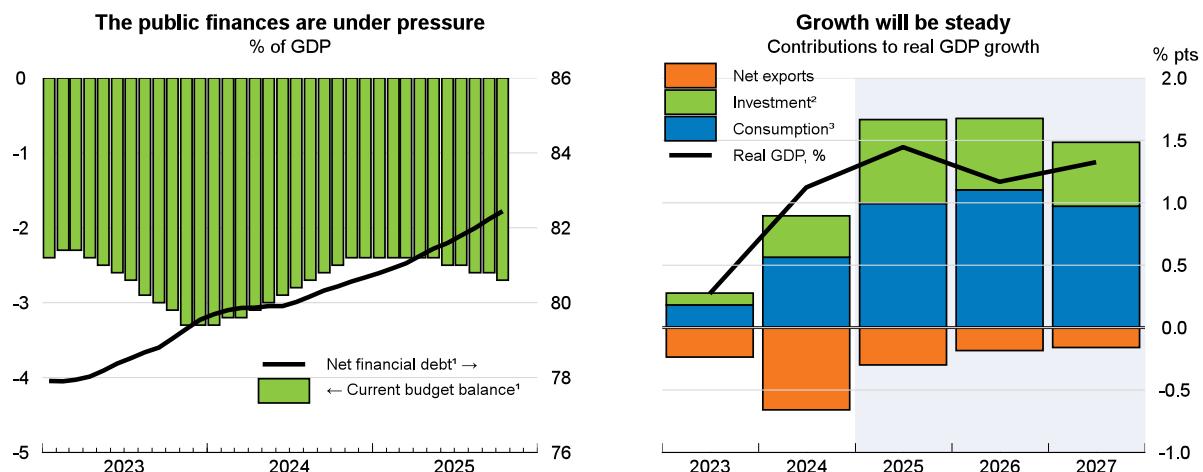
1. Contributions to changes in real GDP, actual amount in the first column.

2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

Source: OECD Economic Outlook 118 database.

StatLink <https://stat.link/r4v9we>

United Kingdom 2



1. Public sector excluding public sector banks; rolling 12-month average.

2. Household, business, and government gross fixed capital investment; net contribution of stockbuilding not shown.

3. Household and government consumption.

Source: OECD Economic Outlook 118 database; Office for National Statistics; and OECD calculations.

StatLink <https://stat.link/9ycauj>

Fiscal policy will remain restrictive as monetary policy becomes neutral

The cycle of monetary easing initiated in August 2024 is set to end in the second quarter of 2026, with Bank Rate settling at a terminal value of 3.5% after two more 25-basis-point cuts. The Bank of England is expected to look through the recent uptick in CPI inflation, largely due to transitory factors, as the loosening of the labour market slows underlying price pressures. The central bank is also assumed to continue unwinding the stock of assets held for monetary purposes in the Asset Purchase Facility, with the GBP 70 billion target for gilt stock reduction over the 12-month period to September 2026 renewed for another year.

Fiscal tightening will continue over 2025-27, albeit at a more moderate pace, as the government implements a frontloaded increase in spending of about 0.3% of GDP and a backloaded rise in taxes of about 0.9% of GDP over 2025-2029 to comply with its fiscal rules. Rising defence and related security and intelligence spending, from 2.3% of GDP in 2024 to 2.6% in 2027, and the steady increase in debt interest will keep adding pressure on public finances. The government deficit will remain large but should improve substantially, from 5.9% of GDP in 2025 to 5.1% in 2027, as total revenue reaches 40% of GDP.

Growth is set to be steady

GDP is projected to expand by 1.2% in 2026 and by 1.3% in 2027. Continued fiscal consolidation will be a headwind to the economy, with past tax and spending adjustments weighing on household disposable income and slowing consumption. Sluggish labour productivity and weak working-age population growth, partly due to slowing inward migration, will continue to act as a drag on the economy. At the same time, lower interest rates and a gradual improvement in global trade growth are expected to start providing moderate tailwinds from the second half of 2026, with investment and exports supporting the economy. CPI inflation will subside to 2.1% in 2027, down from 2.5% in 2026, reflecting recent measures that lower the cost of energy and fuel, as well as the elimination of base effects from past changes in food and

administered prices. The loosening of the labour market will support disinflation, with core inflation slowing from 2.9% in 2026 to 2.2% in 2027. Unemployment is set to rise to 4.9% in 2026 and 5.0% in 2027, as labour demand continues slowing and the extension of childcare support promotes labour force participation.

Elevated inflation expectations and potential second-round effects from increases in payroll taxes and the minimum wage, as well as from high food inflation, constitute an upside risk to prices. This could require the monetary stance to stay tighter for longer, posing a downside risk to output. Downside risks also arise from the limited scope for the government to provide adequate support in the event of adverse shocks, given persistent pressures on the public finances. Relatively high excess savings remain an upside risk to private consumption and housing investment.

Simplifying regulation and implementing planned reforms would boost growth

Ongoing budgetary prudence is required to deliver on the government's Growth Mission while ensuring fiscal sustainability, with a balanced approach combining revenue-raising measures, spending cuts, and productivity-enhancing investments. Continuing to adequately time and calibrate the consolidation is key to limit the adverse effects on near-term growth and inflation. At the same time, tax and spending policies should place more emphasis on expanding supply. Swift implementation of the ongoing overhaul of the National Planning Policy Framework to unlock infrastructure projects and housing development remains essential, as well as continuing to promote labour market participation, in part by delivering health-related welfare reforms, including the abolition of the Work Capability Assessment. Carefully advancing plans to simplify the regulation of financial services, guided by the government's Financial Services Growth and Competitiveness Strategy, could further boost aggregate growth potential given the weight of the financial sector.

United States

Real GDP growth is projected to slow to 2% in 2025 and 1.7% in 2026 before picking up to 1.9% in 2027. This slowing results from continued cooling in employment growth, the sharp slowdown in net immigration, the pass-through of tariff increases to the price level and large cuts to non-defence discretionary spending. As tariff effects dissipate, disinflation resumes and reductions in the federal work force conclude, growth is projected to recover towards potential. A key downside risk to the projection is a correction to equity markets that have been buoyed by the hopes of high returns to investment in AI, although new advances in AI could boost growth in the years ahead.

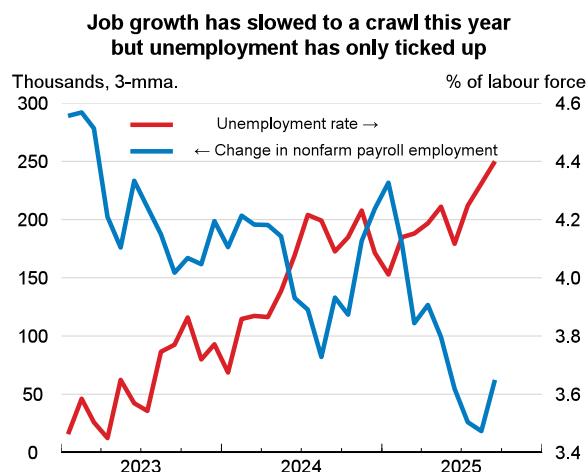
With downside risks to the labour market having increased and underlying inflation pressures appearing manageable, some further monetary policy easing in 2026 appears warranted. Fiscal policy is on an unsustainable trajectory, with large structural deficits and a high and rising debt-to-GDP ratio. A significant adjustment will be required over several years. Regulatory and institutional reforms should focus on boosting housing supply and infrastructure, as well as addressing labour shortages.

Activity has been resilient despite cooling job growth and stubborn inflation

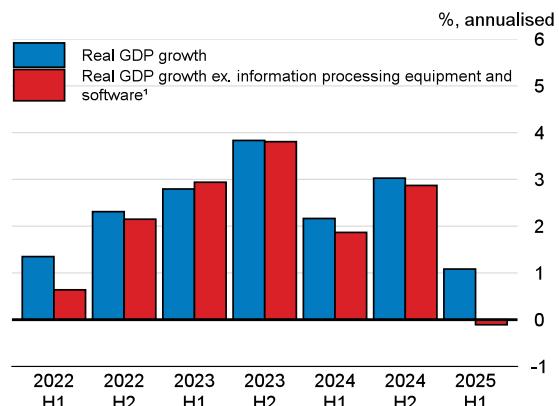
Job growth has cooled considerably this year. However, there has not been an appreciable increase in the unemployment rate, as the sharp reduction in net immigration since 2024 has yielded markedly slower labour force growth. On the demand side, the vacancy rate has continued to edge down and is back to normal levels. Meanwhile, hiring and quit rates are at their lowest levels in over a decade. Despite rapidly cooling job growth and numerous headwinds, real GDP growth through the first half of 2025, at 1.1% (annualised), was fairly resilient, if uneven. Excluding AI-related investments, which continued to boom, GDP contracted by 0.1%. Household consumption growth moderated over the period, while government purchases began to contract after a long period of expansion. Non-AI-related investment weakened. Indicators of economic activity through August, including retail sales and personal income, suggest more robust growth in recent months that has been less reliant on AI investment. Headline inflation, already above the Federal Open Market Committee's (FOMC) 2% target, has edged up since tariff increases began to take effect. A measure of inflation that excludes volatile food and energy prices, as well as housing costs—thus providing a better indicator of underlying inflation pressures—exhibits a similar pattern. However, wage pressures appear muted and longer-term inflation expectations remain well-anchored. The 12-month change in average hourly earnings stood at 3.8% through September, down from 4% at end-2024. The 10-year breakeven inflation rate, at 2.2%, is just a little above its historical average during expansions.

The significant shift in US trade policy since the beginning of 2025 has led to an unprecedented increase, from 2.5% to 14.0%, in the legislated effective tariff rate on imports. But the full impact of the tariff increases on the US economy has likely not yet been felt, as the observed tariff rate, as calculated by customs duties as a share of import values, was 10.1% through August. Nevertheless, the tariff increases are affecting trade. In early 2025, import volumes surged as firms front-loaded shipments ahead of the newly announced tariff increases. Since tariffs went into effect, import values on tariffed goods have fallen significantly relative to non-tariffed goods.

United States 1



GDP growth excluding AI-related investment stepped down markedly in 2025 H1



1. Real GDP growth ex. AI covers real GDP growth excluding information processing equipment and software investment.

Source: Bureau of Labor Statistics; and Bureau of Economic Analysis.

StatLink <https://stat.link/8nladu>

United States: Demand, output and prices

United States	2022	2023	2024	2025	2026	2027
	Current prices USD billion	Percentage changes, volume (2017 prices)				
GDP at market prices	26 054.6	2.9	2.8	2.0	1.7	1.9
Private consumption	17 690.0	2.6	2.9	2.5	1.8	1.9
Government consumption	3 563.5	3.0	3.3	0.6	0.2	1.2
Gross fixed capital formation	5 557.8	3.8	3.5	2.8	1.6	2.4
Final domestic demand	26 811.3	2.9	3.1	2.3	1.6	1.9
Stockbuilding ¹	181.2	-0.5	0.0	-0.1	-0.2	0.0
Total domestic demand	26 992.5	2.4	3.1	2.2	1.4	1.9
Exports of goods and services	3 036.4	2.8	3.6	1.1	2.3	2.7
Imports of goods and services	3 974.3	-0.9	5.8	3.2	-0.8	2.5
Net exports ¹	- 937.9	0.5	-0.4	-0.3	0.3	0.0
<i>Memorandum items</i>						
GDP deflator	—	3.7	2.5	2.7	3.0	2.3
Personal consumption expenditures deflator	—	3.8	2.6	2.7	3.0	2.3
Core personal consumption expenditures deflator ²	—	4.2	2.9	2.9	3.0	2.3
Unemployment rate (% of labour force)	—	3.6	4.0	4.2	4.4	4.4
Household saving ratio, net (% of disposable income)	—	5.8	5.7	5.3	4.7	4.6
General government financial balance (% of GDP)	—	-7.8	-7.9	-7.5	-7.5	-7.7
General government gross debt (% of GDP)	—	121.5	123.1	122.6	125.2	128.4
Current account balance (% of GDP)	—	-3.3	-4.0	-4.1	-3.2	-3.1

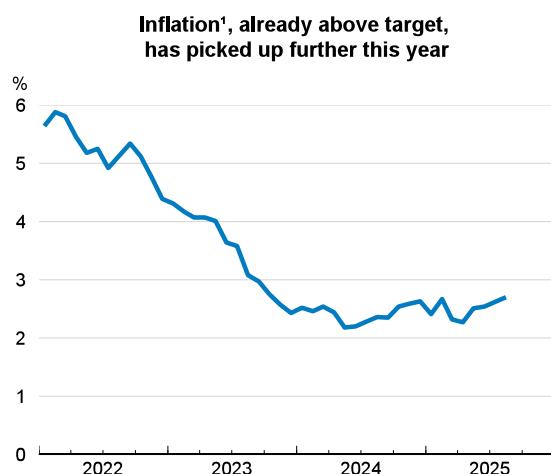
1. Contributions to changes in real GDP, actual amount in the first column.

2. Deflator for private consumption excluding food and energy.

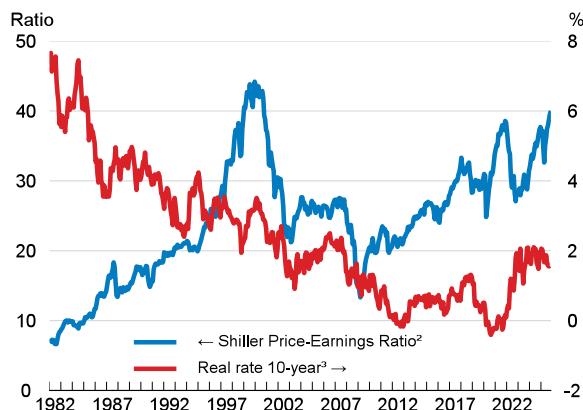
Source: OECD Economic Outlook 118 database.

StatLink <https://stat.link/5xpk6d>

United States 2



The equity market looks overvalued relative to macro fundamentals



1. Personal Consumption Expenditures Excluding Food, Energy, and Housing (Chain-type Price Index).

2. Cyclically Adjusted Price Earnings Ratio (CAPE, P/E10).

3. The Cleveland Fed estimates the real interest rate using a statistical model that jointly extracts signals from Treasury yields, inflation data, inflation expectations, and survey forecasts. This model decomposes observed interest rates into expected inflation, term premiums, and the underlying real rate of interest.

Source: Bureau of Economic Analysis; shillerdata.com; and Federal Reserve Bank of Cleveland.

StatLink  <https://stat.link/useo9p>

Monetary policy easing will support activity, while budget deficits will remain large

With the labour market showing signs of stalling and the pass-through of tariff increases to prices relatively muted to date, the Federal Reserve resumed monetary policy easing at its September and October meetings with 25-basis point cuts to the federal funds rate target range, which now stands at 3.75-4%. A gradual easing to a terminal target range of 3.25-3.5% by end-2026 is anticipated provided the labour market does not weaken further or underlying inflation pressures do not materially worsen.

The budget deficit on a general government basis is set to narrow a little in 2025, though at 7.5% it remains very large—especially for an economy that has been operating at or above potential. The deficit is expected to remain roughly the same size over 2026 and 2027, as new tariff revenues and cuts to non-defence discretionary spending are roughly offset by the net deficit-expanding measures associated with the One Big Beautiful Bill Act (OBBBA) and lower revenues from weaker economic growth. With Congress unable to reach agreement on discretionary appropriations for fiscal year 2026, a partial shutdown of the US federal government began on 1 October, the first day of the fiscal year. As a result, for 43 days roughly one-third of the federal workforce was furloughed, and most federal employees did not receive pay during that period.

Real GDP growth will fall below potential yet progress on disinflation will be slow

Robust GDP growth in recent years has been underpinned by strong household consumption and an above-average contribution from government purchases. Household consumption growth is projected to slow as cooling job growth and the further pass-through of tariff increases to prices dent growth in real disposable personal income. Government purchases are projected to contribute little to growth on average

through 2027 largely because of the Administration's efforts to reduce non-discretionary defence spending. However, business fixed investment is expected to benefit from continued strong AI-related investment and a boost from new and enhanced business investment incentives in the OBBBA. Inflation is expected to rise further through mid-2026 as the direct effects of tariff increases on import prices and spillover effects to domestically produced goods and services boost the price level. As these effects fade, headline inflation is expected to return roughly to target by end-2027.

Risks to the baseline GDP growth projection are tilted to the downside. With the cyclically-adjusted price-earnings ratio for the S&P 500 near an all-time high, the risk of a sharp correction in equity markets is high. A tightening of credit or liquidity stress in the shadow banking sector would constrain credit supply to households and firms. The labour market could be weaker than anticipated. Inflation may be more persistent than assumed, which would lower real incomes and reduce scope for lower interest rates. On the upside, a continued surge in investment in the tech sector, new advances in AI or a boost to on-shored manufacturing could provide further impetus to GDP growth. Household consumption could prove more resilient than projected, especially if the share of tariff increases passed on to the final consumer is lower than expected.

Policy priorities include unlocking supply and maintaining vital services

Monetary policy needs to strike a delicate balance between responding to the softening of labour market conditions and addressing persistent above-target inflation, but further easing is warranted as long as inflation is judged to remain on track to return to target. Reducing the very large fiscal deficit and stabilising the debt ratio should be a priority. Cuts to federal spending and the federal workforce should be well-targeted and not threaten the delivery of vital government services and research programmes. The United States faces a structural economic problem of constrained supply, driven by regulatory and institutional bottlenecks that hinder growth in key sectors such as housing and infrastructure. Labour shortages in critical industries are also a concern. To unlock supply in housing, local zoning laws should be reformed to allow for higher-density, multifamily housing development in urban areas. Streamlining of permitting reviews can boost infrastructure investment. To better align demand with supply for labour in critical industries, the system for temporary and permanent employment-based visas requires a redesign.

Viet Nam

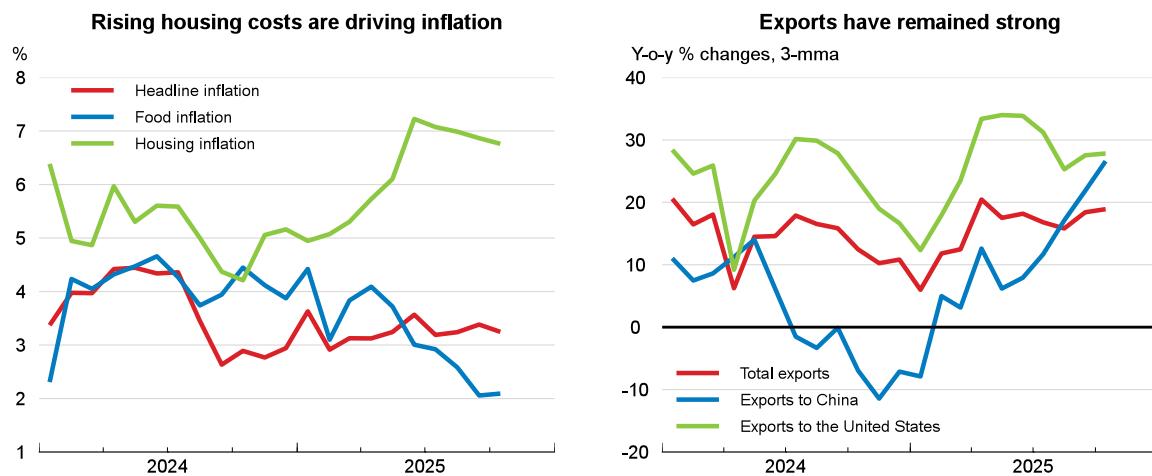
Real GDP growth is projected to moderate to 6.2% in 2026 and 5.8% in 2027 as weaker external demand restrains exports. Private consumption will remain buoyant amid steady increases in real wages and employment, although the planned VAT increase in 2027 is likely to dampen consumption temporarily. Investment growth will be supported by planned increases in public investment and accommodative financial conditions. Inflation is expected to pick up, driven by robust consumption and the one-off VAT rise. As a small trade-dependent economy, Viet Nam remains highly vulnerable to global policy developments.

The monetary policy stance is accommodative but the central bank should monitor inflationary pressures carefully and stand ready to withdraw support. Fiscal policy is expected to be expansionary, with public investment accelerating to achieve the government's ambitious growth target in 2025 but should eventually turn more neutral. Improvements in the monetary framework could improve capital allocation and bolster growth, in addition to regulatory reforms that ease foreign investment restrictions in services and level the playing field between private and state-owned companies.

Activity has been strong

Real GDP increased by 8.2% over the year to the third quarter of 2025. Final consumption, gross capital formation, and exports of goods and services all contributed to this steady expansion. Unemployment has remained at an all-time low of 2.2% since the third quarter of 2024. The tight labour market is also reflected in record-low underemployment, while labour force participation has increased. Headline inflation has been driven primarily by rising housing costs, which have risen markedly during 2025.

Viet Nam



Viet Nam: Demand, output and prices

	2022	2023	2024	2025	2026	2027
Viet Nam	Current prices VND trillion	Percentage changes, volume (2010 prices)				
GDP at market prices	9 621.4	5.1	7.1	8.2	6.2	5.8
Private consumption	5 260.9	3.4	6.7	8.5	7.7	6.7
Government consumption	848.5	4.6	5.8	6.6	5.8	5.3
Gross fixed capital formation	2 940.9	4.6	7.1	6.8	8.1	7.8
Final domestic demand	9 050.3	3.9	6.8	7.8	7.7	7.0
Stockbuilding ¹	216.4	-0.8	0.9	1.0	0.0	0.0
Total domestic demand ²	9 266.7	3.1	7.6	8.7	7.5	6.8
Exports of goods and services	8 988.3	-2.5	15.5	14.9	5.1	2.8
Imports of goods and services	8 633.6	-4.5	16.1	15.4	6.4	3.9
Net exports ¹	354.7	2.0	-0.4	-0.4	-1.3	-1.1
<i>Memorandum items</i>						
GDP deflator	–	2.1	4.2	3.5	3.8	3.9
Consumer price index	–	3.3	3.6	3.3	3.4	3.9
General government financial balance (% of GDP)	–	-3.4	-2.9	-2.5	-2.2	-2.1
General government gross debt ⁴ (% of GDP)	–	33.8	32.3	31.3	30.7	30.0
Current account balance (% of GDP)	–	5.8	5.7	4.2	3.2	2.3

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.

4. Data exclude the government-guaranteed debt.

Source: OECD Economic Outlook 118 database.

StatLink  <https://stat.link/3v0tfc>

Export volumes of goods and services have remained remarkably resilient amid significant global policy uncertainty, increasing by an accumulated 15.5% in the first 9 months of 2025, compared to the same period in 2024, up from 14.2% in the first half of 2025. Exports of goods to the United States account for 30% of Viet Nam's total exports, which makes Viet Nam vulnerable to higher US import tariffs, but so far these exports have increased by 27.7% in the first 9 months of 2025. Foreign direct investment, an important driver of growth, has continued its steady increase since mid-2023.

Macroeconomic policies should 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, will eventually require moving towards a more neutral fiscal stance. A temporary reduction in the VAT rate from 10% to 8% is now set to end in late 2026. The monetary policy stance has been accommodative since June 2023, using both interest rate cuts and direct credit growth targets for banks. The increases in pensions, the minimum wage, administrative prices and the VAT increase will add to price pressures in 2026 and 2027. As domestic demand remains solid, the central bank should closely monitor inflation risks and stand ready to withdraw support.

Growth will moderate

Real GDP growth is projected to moderate to 6.2% in 2026 and 5.8% in 2027 as weaker external demand will eventually affect Viet Nam's exports. Private consumption will continue to benefit from steady increases in real wages and employment, although the planned VAT increase in 2027 is likely to dent it temporarily. Investment will be buoyed by planned increases in public investment and favourable financial conditions.

Inflation is projected to rise amid solid domestic demand, and could 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, including on possible transshipment tariffs, constitute major downside risks to the outlook. If policy changes diminish Viet Nam's attractiveness as an investment destination, growth could weaken substantially.

Reforms could strengthen productivity and social outcomes

Reforms to the macroeconomic and structural policy frameworks could lead to stronger economic performance. Moving towards a more price-based monetary policy would improve macroeconomic resilience and facilitate stronger competition in financial markets, potentially improving the allocation of capital and raising productivity. Informality affects around two-thirds of employees, limiting social protection coverage and holding back productivity growth. Stronger incentives for formal job creation could result from efforts to reduce the lower labour tax wedge while enhancing the role of non-contributory social protection benefits. Regulatory reforms hold significant potential to boost productivity. Opening up services markets to competition and foreign direct investment can facilitate the move into higher-value ladders of global value chains, as competitive service inputs can have significant productivity benefits for downstream manufacturing companies. Reducing the weight of state-owned enterprises and levelling the playing field with private firms could allow additional labour and capital to move to more productive firms.

OECD Economic Outlook

Resilient Growth but with Increasing Fragilities

December 2025

Volume 2025/2, No. 118

The global economy has proved more resilient than expected this year, but underlying fragilities remain. Supportive macroeconomic policies, improved financial conditions and rising AI-enabling investment and trade, have helped underpin demand, cushioning the headwinds from elevated policy uncertainty and rising barriers to trade. Nonetheless, global GDP growth is projected to slow in 2026, as front-loading activity further unwinds and the impacts of higher effective tariff rates are more fully felt, before picking up modestly in 2027. Growth could be weaker if there are additional increases in trade barriers or if there are upside inflation surprises. A repricing of stretched asset valuations could also weaken the outlook, especially if it is amplified by forced asset sales by highly leveraged non-bank financial intermediaries. In contrast, a reversal of the recent increase in trade barriers or a faster emergence of the productivity benefits from new technologies 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, effectively monitor and supervise emerging financial stability risks and implement ambitious reforms to strengthen economic growth prospects.

This issue includes an assessment of the global economic situation, a chapter on the economic impact and priorities for regulatory policy 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 978-92-64-41773-1
PDF ISBN 978-92-64-78880-0



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