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Editorial

Resilience in uncertain times

In the past few years, the global economy has demonstrated remarkable resilience despite being subject to major shocks such as the pandemic and an energy crisis. This year, global growth has remained stable, while inflation continued to decline. Despite some easing in labour markets, unemployment rates are still near historical lows in many countries. Global trade has also been recovering.

We project that this resilience will continue, with global GDP increasing by 3.3% in 2025 and 2026, and inflation falling towards central bank targets. However, this robust overall performance masks significant differences across regions and countries, and is surrounded by important downside risks and uncertainties. More specifically, there are increasing risks related to rising trade tensions and protectionism, a possible escalation of geopolitical conflicts, and challenging fiscal policies in some countries.

Trade has been an important engine of global growth, job creation and declining poverty in the past decades. Not everything worked perfectly, and trade benefits were not always equally shared. Still, rising trade tensions and further moves towards protectionism might disrupt supply chains, raise consumer prices, and negatively impact growth. Similarly, an escalation of geopolitical tensions and conflicts risks disrupting trade and energy markets, potentially fuelling rises in energy prices.

Another source of risk comes from the public finances, as public debt remains at elevated levels. Some emerging market economies and low-income countries are now in debt distress or are at high risk of debt distress. Many other countries face mounting fiscal challenges and high debt. Increasing pressures from rising expenditures on defence, ageing populations, and the green and energy transition amplify these challenges. As a result, fiscal positions are strained and may jeopardise governments' ability to respond to future crises.

Policy has a key role to play at the current juncture to manage risks and to unleash the prospects for stronger, resilient and sustainable growth. This requires concerted action on monetary, fiscal, and structural policies.

As inflation pressures decline further, central banks should continue to ease monetary policy. Still, central banks need to tread carefully, taking note of incoming data and thoroughly assessing policy actions. Failing to durably contain inflation would only increase the risks to growth and real incomes.

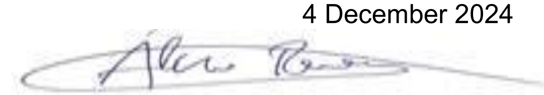
Governments need to establish credible strategies to rein in public finances. Fiscal prudence is pressing due to elevated public debt levels in many countries and rising spending pressures. The needs and means by which fiscal restraint is exercised differ in every country, but it will be key for governments to balance the reduction in fiscal pressures with the need to preserve economic growth.

In addition, efforts on structural reforms can help reinvigorate medium-term economic growth and overcome fiscal challenges. In this edition of the OECD Economic Outlook, our Special Chapter focuses on an important challenge that many economies are facing: pervasive labour shortages. Labour and skill shortages have been on the rise in the past decade and intensified during the pandemic. Although labour markets are now easing, shortages still affect many sectors of our economies, especially health and long-term care and information technology. Such shortages, particularly in technology-intensive activities, hinder business upscaling as well as firms' ability to capitalise on productivity-enhancing innovations, such as artificial intelligence and robotics.

Significant public and private efforts to upskill and reskill workers, as well as reforms to education and lifelong learning systems, are essential to equip the labour force with the skills needed to address present and future challenges. Labour market policies can be used to boost labour supply and improve labour mobility. Fostering labour force participation among women, as well as among younger and older workers, will be essential to reduce labour shortages and boost potential growth. Promoting healthy ageing, improving working conditions, and investing in affordable childcare will be key to this end. Well-designed immigration policies, supported by robust integration measures, can also help ease labour shortages.

In sum, even though the global economy is expected to remain resilient, risks and uncertainties are high. In this challenging environment, decisive policy actions, including through bold structural reforms, and multilateral dialogue are essential to address these risks and to continue fostering a rise in growth and living standards across the globe.

4 December 2024



Álvaro Pereira

OECD Chief Economist

1 General assessment of the macroeconomic situation

Introduction

The global economy remains resilient, with inflation continuing to moderate and global trade starting to revive. Lower inflation is providing a boost to real household income growth and spending, although consumer confidence has yet to recover to pre-pandemic levels in many countries. Labour market pressures continue to ease, though unemployment generally remains at or near historical lows. Real interest rates remain restrictive, but lower nominal yields have generated some early signs of revival in interest-sensitive housing and credit markets. Headline inflation has now returned to target in a rising number of advanced and emerging-market economies despite lingering pressures in service sectors.

Global GDP growth is projected to be 3.2% this year and 3.3% in 2025 and 2026 (Table 1.1). Low inflation, steady employment growth and less restrictive monetary policy will all help to underpin demand, despite some mild headwinds from the necessary tightening of fiscal policy in many countries. Some cross-country differences are likely to persist in the near-term but will fade as solid growth in the United States and Brazil starts to ease and the recovery in Europe gains pace. Buoyant domestic demand in India and Indonesia and the recently announced stimulus measures in China and Japan are expected to support continued strong growth in Asia. Annual consumer price inflation in the G20 countries is expected to moderate to 3.5% and 2.9% in 2025 and 2026 respectively, from 5.4% this year. By the end of 2025 or early 2026, inflation is projected to be back to target in almost all major economies.

There are significant downside risks to the outlook. Elevated geopolitical tensions remain an important near-term adverse risk, particularly if the evolving conflicts in the Middle East were to intensify and pose risks to the security of oil supplies from the region. An unexpected sharp oil price rise would raise global inflation substantially and hit confidence and growth, especially in oil importing countries. Trade policy uncertainty has risen sharply in recent months, adding to the concerns generated by the ongoing increase in the number of import-restrictive measures being implemented by the major economies. Further increases in global trade restrictions would add to import prices, raise production costs for businesses and reduce living standards for consumers. Adverse growth surprises or deviations from the projected smooth disinflation path might also trigger disruptive corrections in financial markets and turbulence in capital flows or exchange rates in emerging-market economies. Financial vulnerabilities also persist from high debt levels, stretched asset valuations and the deteriorating credit quality of some borrowers, including in the commercial property market. The growing scale and interconnectedness of less regulated non-bank financial institutions also raises the potential for adverse shocks to spill over rapidly across different market segments.

There are some uncertain factors that could generate positive surprises. Improvements in consumer confidence as purchasing power recovers more fully might result in lower-than-expected household saving rates, boosting spending though also inflationary pressures. An early resolution to major geopolitical conflicts could also improve sentiment, and lower energy prices, especially with the likelihood of excess supply in oil markets next year. Positive supply shocks, such as stronger-than-expected labour force growth or a more vigorous revival of investment as financing conditions improve, would also support stronger growth.

Against this backdrop, the key policy priorities are to ensure a continued and lasting decline in inflation, enhanced efforts to establish a credible fiscal path that will secure debt sustainability, and ambitious reforms to raise sustainable and inclusive growth in the medium term.

- As inflation moderates towards central bank targets policy rate reductions should continue in advanced economies, but the timing and extent of reductions should be carefully judged to ensure that underlying inflationary pressures are durably contained. If inflation returns to target by 2026, as projected for the majority of countries, interest rates should be at or close to neutral levels by then to ensure that growth stabilises around trend and that inflation does not undershoot. In Japan, a gradual increase in policy interest rates would be appropriate over the next two years provided inflation settles at around 2%, as projected. Rate reductions in the advanced economies help to enhance policy space in the emerging-market economies. Scope exists to lower policy interest rates in most of these countries over the next two years, but the pace should be cautious to maintain anchored inflation expectations and minimise risks of disruptive capital outflows.
- Decisive fiscal actions are needed to ensure debt sustainability, preserve room for governments to react to future shocks and generate resources to help meet large impending spending pressures. Stronger efforts to contain and reallocate spending and enhance revenues, set within credible medium-term adjustment paths tailored to country-specific circumstances, are key to ensuring that debt burdens stabilise. Consolidation efforts should intensify as the monetary policy stance becomes less restrictive provided, as projected, growth is robust enough to withstand additional fiscal headwinds. Policy priorities differ across countries, but careful design of the pace and nature of adjustment is needed everywhere to provide adequate support to those in need and conserve the resources required to address longer term challenges such as the climate transition and ageing.
- Faced with modest growth prospects ahead, ambitious structural policy reforms are needed in all countries to help improve the foundations for stronger and more sustainable growth and help overcome the fiscal challenges that countries face. In the median OECD economy, the annual growth of potential output per capita is estimated to now be 0.7 percentage points lower than before the global financial crisis. Even sharper declines have occurred in some emerging-market economies. Reforms to enhance education and skills development, and reduce constraints in labour and product markets that impede investment and labour mobility, are essential to improve productivity, enhance the spread of new technologies and boost labour force participation. Such reforms, along with steps to enhance job quality in lower-paid sectors, are needed to help overcome structural labour shortages across countries, as discussed in Chapter 2.
- Enhanced international co-operation is needed to support international trade and reduce risks of geopolitical fragmentation by preserving open international markets operating within a rules-based global trading system, to ensure faster and better co-ordinated emissions reduction efforts, and to address debt distress in lower-income countries without causing undue hardship.

Table 1.1. Global GDP growth is projected to remain broadly stable over the next two years

	Average 2013-2019	2023	2024	2025	2026	2024 Q4	2025 Q4	2026 Q4
				Per cent				
Real GDP growth[1]								
World[2]	3.4	3.2	3.2	3.3	3.3	3.3	3.3	3.2
G20[2]	3.5	3.6	3.3	3.3	3.2	3.3	3.2	3.1
OECD[2]	2.3	1.8	1.7	1.9	1.9	1.8	2.0	1.8
United States	2.5	2.9	2.8	2.4	2.1	2.5	2.2	2.0
Euro area	1.9	0.5	0.8	1.3	1.5	1.1	1.4	1.5
Japan	0.8	1.7	-0.3	1.5	0.6	0.6	1.3	0.3
Non-OECD[2]	4.4	4.4	4.4	4.4	4.3	4.5	4.3	4.3
China	6.8	5.2	4.9	4.7	4.4	4.7	4.6	4.3
India[3]	6.8	8.2	6.8	6.9	6.8			
Brazil	-0.4	2.9	3.2	2.3	1.9			
OECD unemployment rate[4]	6.5	4.8	4.9	4.9	4.8	4.9	4.9	4.8
Inflation[1]								
G20[2,5]	3.0	6.1	5.4	3.5	2.9	4.4	3.1	2.8
OECD[6]	1.7	7.1	5.4	3.8	3.0	4.7	3.3	2.7
United States[7]	1.3	3.8	2.5	2.1	2.0	2.5	2.1	2.0
Euro area[8]	0.9	5.4	2.4	2.1	2.0	2.3	2.0	2.0
Japan[9]	0.9	3.3	2.6	1.9	2.1	2.3	1.7	2.1
OECD fiscal balance[10]	-3.1	-4.8	-4.8	-4.6	-4.4			
World real trade growth[1]	3.4	1.0	3.5	3.6	3.5	4.1	3.4	3.5

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 116 database.

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Recent developments

Recovering real incomes have supported global growth

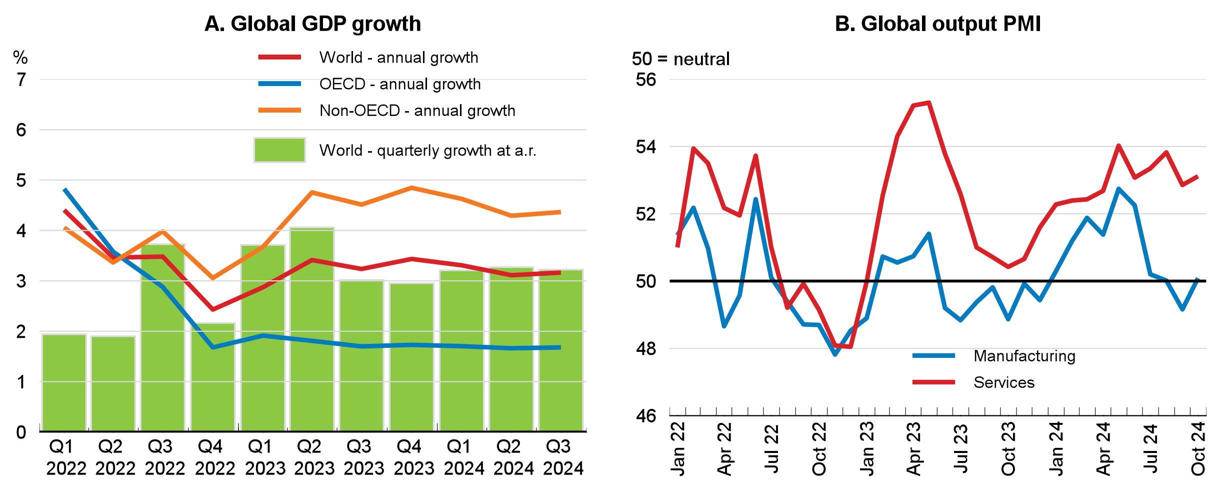
The global economy has remained resilient in 2024 (Figure 1.1, Panel A). Disinflation has supported household spending and enabled monetary policy easing in most major economies, helping offset the uncertainty created by geopolitical and regional tensions and lingering cost-of-living concerns. Nonetheless, there continue to be notable differences in the strength of activity and the recovery in incomes across countries, with real GDP per capita estimated to have declined in around one-fifth of OECD member states in the first three quarters of 2024, as well as in Argentina.

In the advanced economies, growth in the United States remains solid, with private consumption underpinned by real wage gains. On a quarterly basis, GDP growth has also been relatively robust in the Netherlands and Spain. However, there have been weaker economic outcomes elsewhere. Hungary and Latvia were in technical recessions in the third quarter and while quarterly output rose slightly in Germany, weak sentiment continues to weigh on investment activity.

Recent economic developments in emerging-market economies have been mixed. In China, GDP growth held up in the third quarter, with industrial production growth underpinned by strengthening exports, but consumer demand remains soft and the protracted correction in the real estate sector continues. Domestic demand is driving ongoing expansions in India and Indonesia, and growth has remained solid in Brazil amid stronger private consumption and government spending. In Argentina, there are tentative signs of recovery in recent months following a contraction since mid-2022.

Monthly indicators suggest stable near-term growth momentum for most economies. Business surveys point to continued growth but have recently weakened in several large European countries. The pace of activity also remains more modest in manufacturing than in services sectors (Figure 1.1, Panel B). Consumer confidence has risen in Europe, as well as in some emerging-market economies where growth has strengthened, such as Brazil. Industrial production has continued to stagnate in the advanced economies but has risen steadily in China. Retail sales growth has increased over the past few months in both OECD and non-OECD economies. Car sales continue to be broadly flat in the United States and the euro area, but have shown recent signs of picking up in China and Japan.

Figure 1.1. Global growth has been stable with services outperforming manufacturing activity



Note: In Panel A, annual growth denotes the change over the year to the quarter shown. Quarterly growth at a.r. denotes quarter-on-quarter growth at an annualised rate.
Source: OECD Economic Outlook 116 database; S&P Global; and OECD calculations.

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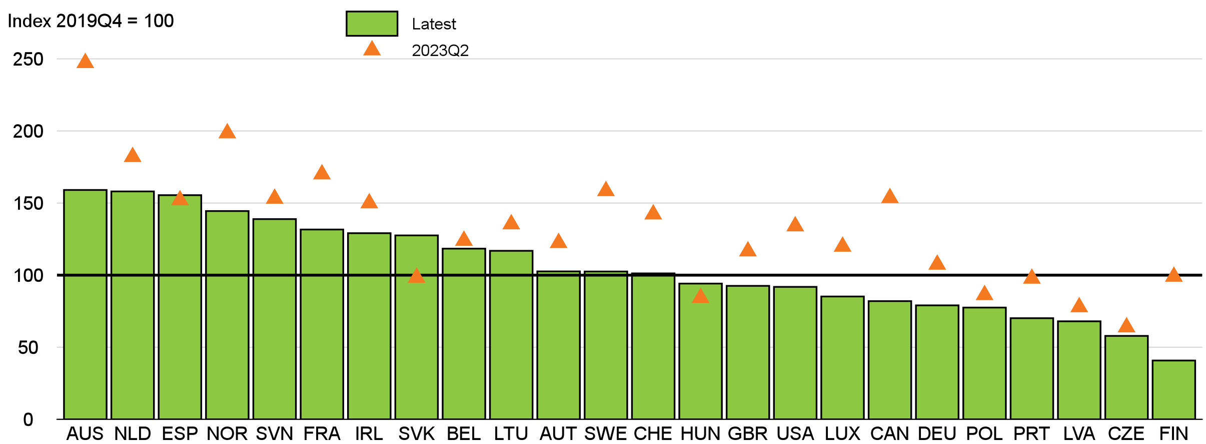
Labour market tightness has gradually eased in many countries. Ratios of job vacancies to the number of unemployed people have continued to decline, including in Australia, Canada, Sweden, Norway and the United States (Figure 1.2), and are now back around or below 2019 levels in the majority of countries. This has coincided with cyclical moderation in the severity of reported labour shortages. Unemployment rates have picked up in some countries, although generally remain low by historical standards, with recent increases often reflecting higher labour force participation rates rather than a slowdown in employment growth. Strong immigration flows have been an important factor behind rising labour supply in a number of countries. There are few signs that reduced labour demand has prompted employers to cut hours worked significantly, with average hours per worker remaining broadly stable in most countries. The public sector has recently been a strong source of labour demand in some countries, with its contribution to total employment growth in 2024 significantly above pre-pandemic norms in Canada, France, the United Kingdom and the United States.

Figure 1.2. Job vacancy rates have declined

Ratio of job vacancies to the number of unemployed



Note: The latest data point is 2024Q3 where possible, and 2024Q2 otherwise.
Source: OECD Economic Outlook 116 database; OECD Infra-annual Registered Unemployment and Job Vacancies database; Eurostat; Office for National Statistics; Statistics Canada; and OECD calculations.

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Nominal wage growth remains strong but has generally moderated since mid-2023, in line with the easing of labour market imbalances and the ongoing decline in headline inflation. The labour share of income (including the labour share of self-employed incomes) has risen and is above levels observed prior to the pandemic in around one-third of OECD countries. Growth in unit labour costs has generally eased as wage gains have moderated, especially in countries where labour productivity growth has picked up, such as Denmark, Spain, the United Kingdom and the United States. In contrast, very weak recent labour productivity growth in Australia, Germany and some smaller European countries, such as Estonia and Romania, has kept unit labour cost growth relatively high.

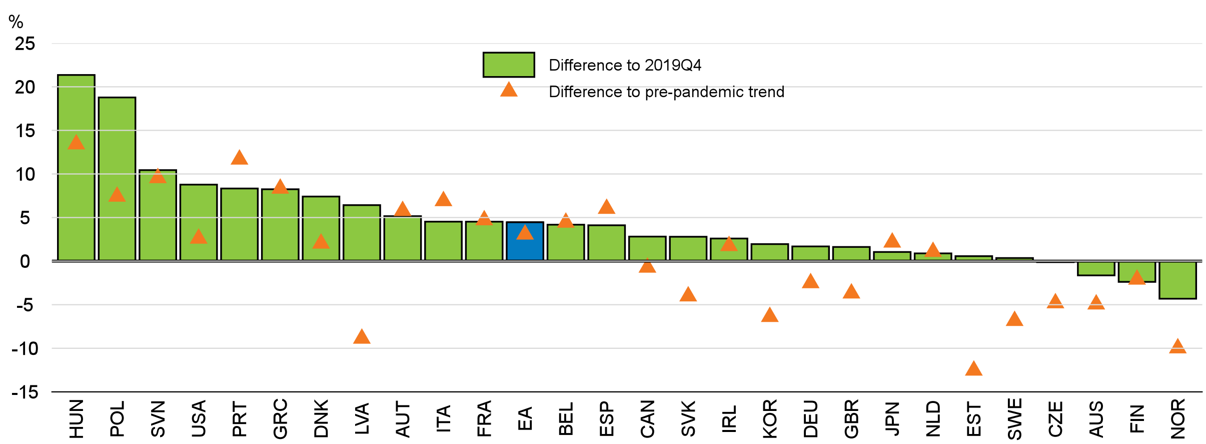
The combination of continued employment growth, strong nominal wage gains and disinflation has supported further improvements in real household incomes. Real household disposable income per person is now above the pre-pandemic level in most OECD countries and in many is also above the level that might have been expected based on the pre-pandemic trend, including in Portugal, Hungary, Slovenia, and Greece (Figure 1.3). However, this is not the case in some economies, such as Estonia, Norway, Latvia, Sweden, Slovak Republic and Korea.

Private consumption growth remains somewhat subdued despite the gradual pick up in household real disposable incomes. There has been strong spending growth in a few economies including the United States, Spain, Brazil, and India, but median private consumption growth across the OECD countries was 1.3% over the year to the second quarter of 2024, compared with an average annual pace of 2.5% between 2015 and 2019. Consumer confidence remains below historical average levels, especially in larger advanced economies and China, and household saving rates are relatively high in many countries (Figure 1.4). Perceptions of lower purchasing power by households in the wake of very high price inflation may be a factor contributing to subdued sentiment, with it taking time for consumers to digest higher price levels. Another factor may be relatively high inflation during the recent inflationary episode in frequently purchased items particularly salient to household budgets, such as food and energy.

Analysis of a group of advanced OECD economies suggests that consumer confidence is more sensitive to food and energy price inflation than other items (Box 1.1). Moreover, combined food and energy price inflation has outstripped growth in nominal household disposable income since the onset of the pandemic in a number of economies (Figure 1.7). In Germany, for instance, food and energy prices rose by around 15 percentage points more than nominal household disposable income between the final quarter of 2019 and the third quarter of 2024.

Figure 1.3. Real household disposable income is above the pre-pandemic trend in some countries

Real household disposable income per head, 2024Q2



Note: Based on gross household disposable income (except Japan which uses the net approach) and deflated by the personal consumption deflator. 2024Q2 corresponds to official data for Australia, Austria, Belgium, Canada, Denmark, France, Hungary, Ireland, Italy, Japan, The Netherlands, Portugal, Spain, Sweden, the United Kingdom. For Germany and the United States, the latest official data correspond to 2024Q3. For other countries, one or two quarters are OECD estimates. The pre-pandemic trend is based on the 2010-19 period.
Source: OECD Economic Outlook 116 database; Japan Cabinet Office; OECD Quarterly Non-Financial Accounts by Institutional Sector; and OECD calculations.

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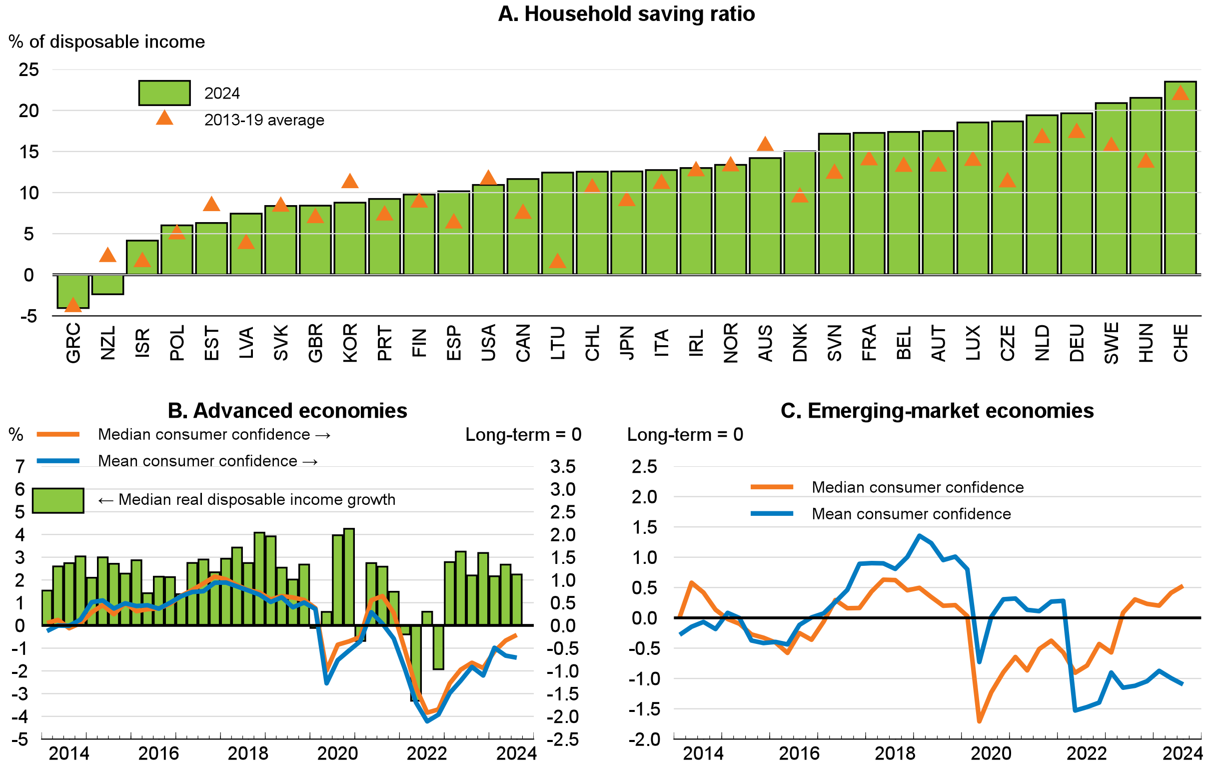
Figure 1.4. Household saving rates have increased further in some countries amid weak confidence



Note: Panel A is based on gross saving. In Panels B and C, consumer confidence data are standardised so that the long-term average and standard deviation are zero and one, respectively. The mean refers to a weighted mean using GDP in PPP as weights. Panel B based on 33 OECD economies plus Croatia. Median real disposable income growth is based on the cross-country annualised quarterly growth rates of household disposable income deflated by the personal consumption deflator. In Panel C, emerging-market economies correspond to Bulgaria, Brazil, Costa Rica, Chile, China, Colombia, India, Indonesia, Mexico, Romania, South Africa and Türkiye.
Source: OECD Economic Outlook 116 database; OECD Quarterly Non-Financial Accounts by Institutional Sector; OECD Consumer Opinion Surveys database; and OECD calculations.

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Box 1.1. The impact of inflation on consumer confidence

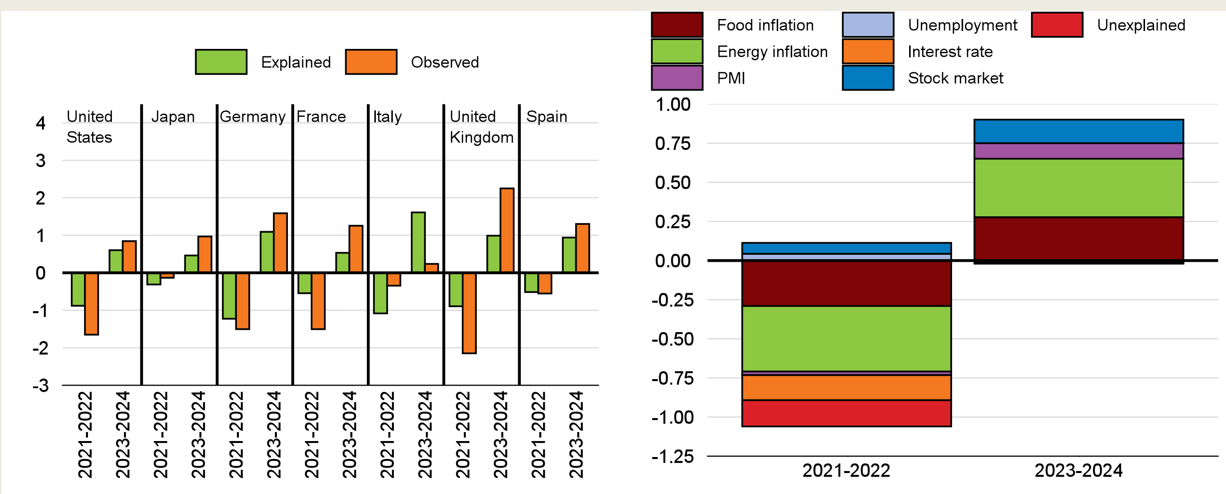
Consumer confidence is recovering but remains weak in many advanced economies relative to historical norms. The higher cost-of-living resulting from the recent bout of inflation is one factor that has been identified as potentially dampening sentiment (OECD, 2024b; ECB, 2024a). In explaining the formation of household inflation expectations, past work has highlighted that households can be more sensitive to frequently purchased items, such as groceries and energy (Anesti et. al. 2024; Binder and Makridis, 2022). It may be that similar items are relatively important in determining consumer confidence.

The factors behind fluctuations in consumer confidence are explored by estimating a panel model covering seven OECD countries (France, Germany, Italy, Japan, Spain, the United Kingdom and the United States) over 2001-2024 (Ollivaud and Westmore, 2025), with monthly changes in standardised measures of consumer confidence regressed on monthly changes in the annual inflation rate of food, energy and core inflation (with variables entering as inflation contributions to control for their weight in household consumption baskets). Other control variables are related to the business cycle (the change in a Sahm-rule-based measure of the unemployment rate and in the composite Purchasing Managers' Index (PMI)) and financial conditions (the change in the yield on 10-year government bonds and the percentage change in stock market values). The Oxford Stringency Index, a summary indicator of the public policy restrictions implemented during the pandemic, is included to capture the influence of the COVID-19 pandemic on consumers. Country fixed effects are included to control for time invariant country-specific influences.

The results suggest food and energy price inflation have had an especially large and statistically significant impact on fluctuations in consumer confidence, whereas core inflation is not found to have a statistically significant impact. This suggests that the finding of a relationship between headline inflation and consumer sentiment in other studies may understate the role of particular price changes. Using headline inflation in the specification instead of its decomposition leads to a statistically weaker estimated influence of inflation on consumer confidence. The measures related to the business cycle, financial conditions and the Oxford Stringency Index are all found to be significantly associated with consumer confidence and are estimated with the expected coefficient signs. In some cases, variables are found to influence confidence with a lag: energy inflation, the composite PMI and the stock market values impact with a one period lag in addition to having a contemporaneous effect. In most of the countries in the sample, the estimated equation explains a significant proportion of changes in consumer confidence over the recent period (Figure 1.5, Panel A), with food and energy prices being a major factor in explaining the fluctuations in consumer confidence since 2021 (Figure 1.5, Panel B).

Figure 1.5. Explaining the recent evolution of consumer confidence

Cumulative change in standardised consumer confidence index



Note: 2024 corresponds to the period up to September. Panel B shows the simple average across the seven countries of the contributions from each variable to the evolution of consumer confidence.
Source: OECD Economic Outlook 116 database; OECD Consumer Opinion Surveys database; S&P Global; and OECD calculations.

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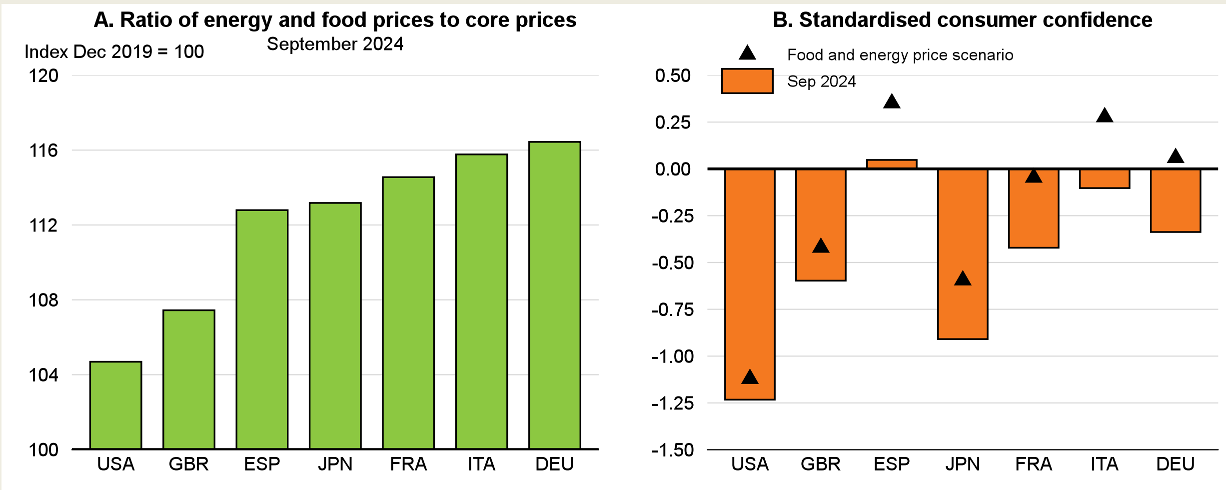
Despite a recent decline in food and energy inflation, the level of food and energy prices relative to core consumer prices (excluding food and energy) remains high compared with the pre-pandemic period in the sampled countries (Figure 1.6, Panel A). For example, the ratio of food and energy prices to core prices in Germany in September 2024 was 16 percentage points above the level in December 2019.

An alternative model that regresses the level of consumer confidence against this ratio, as well as the other important variables from the first specification detailed above, finds increases in this relative price ratio to have a statistically significant negative impact on confidence. This allows a calculation of the estimated increase in consumer confidence if the price of food and energy relative to core consumer prices were to return to the pre-pandemic level, for instance through significant further disinflation of food and energy prices relative to core prices. In Germany, such a decline is estimated to be consistent with standardised consumer confidence being back around its long-run average level (Figure 1.6, Panel B). This illustrates the potential positive impact on consumer confidence from significant further falls in food and energy price inflation.

Figure 1.6. Further declines in the price of energy and food relative to core items would boost consumer confidence



Note: The ratio of (energy and food) to core prices is based on the personal consumption expenditure price index for the United States, the harmonised index of consumer prices for euro area member states and the United Kingdom, and national consumer price indices for Japan. In Panel B, consumer confidence data are standardised so that the long-term average and standard deviation are zero and one, respectively. The "food and energy price scenario" assumes that the ratio of (energy and food) to core prices reverts to its level in December 2019, with the estimates based on coefficient estimates from a model that regresses the level of standardised consumer confidence on a lagged dependent variable, the ratio of food and energy prices to core prices, the composite PMI, long-term interest rates, the unemployment rate and the COVID-19 Stringency Index. All variables are estimated to be statistically significant with the expected sign under this specification.
Source: Bureau of Economic Analysis; Eurostat; Statistics Bureau of Japan; OECD Consumer Opinion Surveys database; and OECD calculations.

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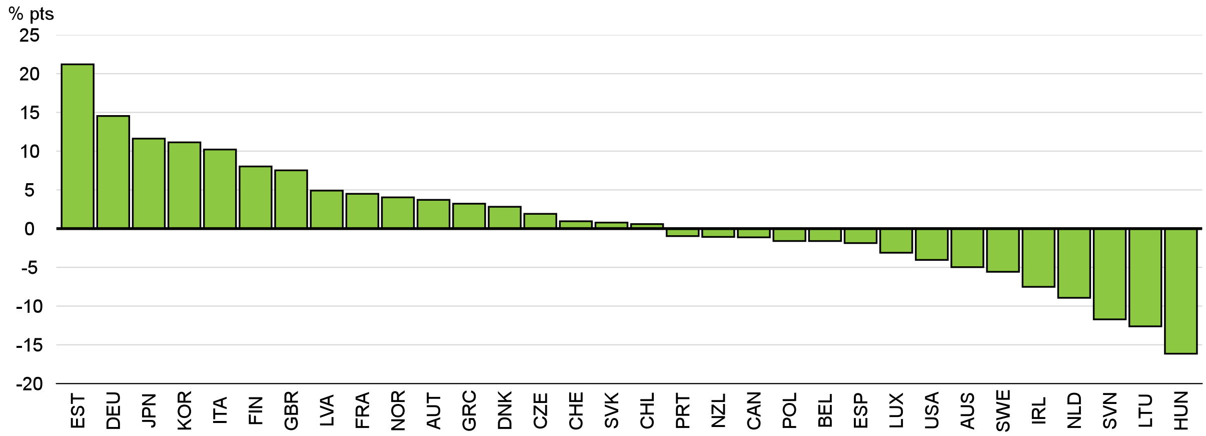
Housing investment is estimated to have fallen by close to 4% in the median OECD economy over the year to the third quarter of 2024, partly in response to high interest rates. Real estate investment also continues to fall in China and is now 40% below the peak in late-2020 in nominal terms. Nonetheless, there are tentative signs of activity picking up in some housing markets, with the number of transactions beginning to recover in France, Korea, Spain and the United Kingdom. Real house prices have continued to stabilise in OECD countries, with valuations having bottomed out in early-2023, and population growth helping to bolster housing demand.

Real business investment has generally remained weak amid still-tight financing conditions, sluggish demand conditions in some countries, and significant policy uncertainty. Over half the OECD economies with available data reported a contraction in business investment in the second quarter of 2024, with several seeing a continued decline in the third quarter, including Denmark, France and Japan. However, investment has continued to grow in some of the major advanced economies. In the United States, there has been particularly rapid growth in private intellectual property and transport investment this year.

Figure 1.7. Food and energy inflation has outstripped household income growth in many countries

Difference between food and energy price inflation and nominal household disposable income, 2019Q4-2024Q3



Note: Economic Outlook 116 estimates of household disposable income are used for recent quarters in those countries in which disposable income data are not available from official sources. Energy is defined as the sum of “Electricity, gas and other fuels” and “Operation of personal transport equipment”.
Source: OECD Economic Outlook 116 database; OECD Consumer Price database; and OECD calculations.

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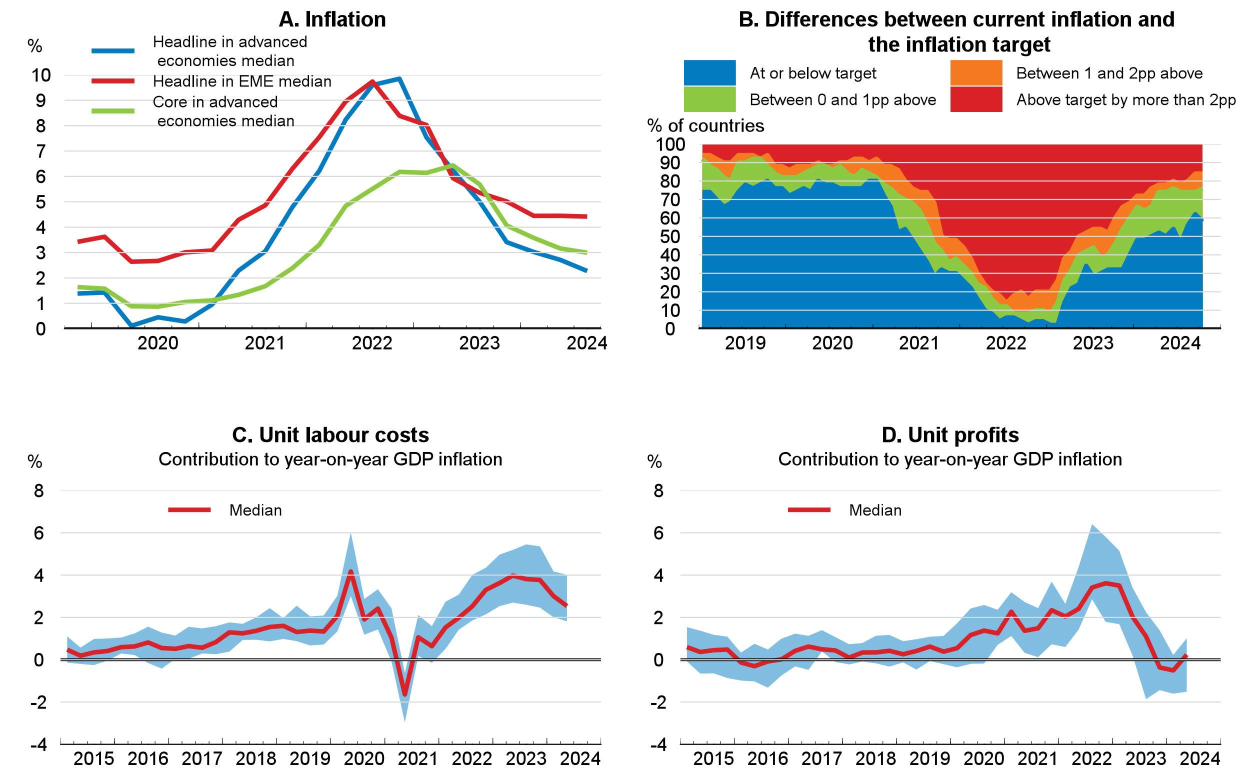
Inflation has fallen further

Headline inflation has continued to ease in most countries through 2024 (Figure 1.8, Panel A), led by further falls in food, energy and goods price inflation. In the median OECD economy, annual inflation fell from 3.8% in October 2023 to 2.3% by October 2024. There was also a material decline in headline inflation in Brazil and India during much of this period, though inflation has recently increased again in both countries. In China, inflation has stayed very low, with subdued food prices dragging on aggregate price growth. Headline inflation in October was back to central bank targets in about two-thirds of advanced economies and three-fifths of the emerging-market economies covered (Figure 1.8, Panel B). However, core inflation is still higher than desirable in many countries, pointing to some lingering price pressures. For instance, the prices of about half the items in the United Kingdom and United States inflation baskets were still growing at an annual rate above 3% in October 2024. A decomposition of GDP deflator growth in nine major economies suggests that unit labour costs account for the majority of recent price growth (Figure 1.8, Panel C). Unit profit growth has moderated, now contributing only a small share to inflation, and helping to offset other cost pressures (Figure 1.8, Panel D).

Figure 1.8. Inflation has continued to decline to be increasingly in line with central bank targets



Note: Panel B covers headline consumer price inflation in 22 OECD economies up to October 2024 (the euro area is included but not individual euro area member countries) and 25 non-OECD countries. For central banks targeting a range, the top of the range was used Based on 27 OECD countries for Panels C and D.

Source: OECD Economic Outlook 116 database; OECD Consumer Price database; Eurostat; various Central Banks; and OECD calculations.

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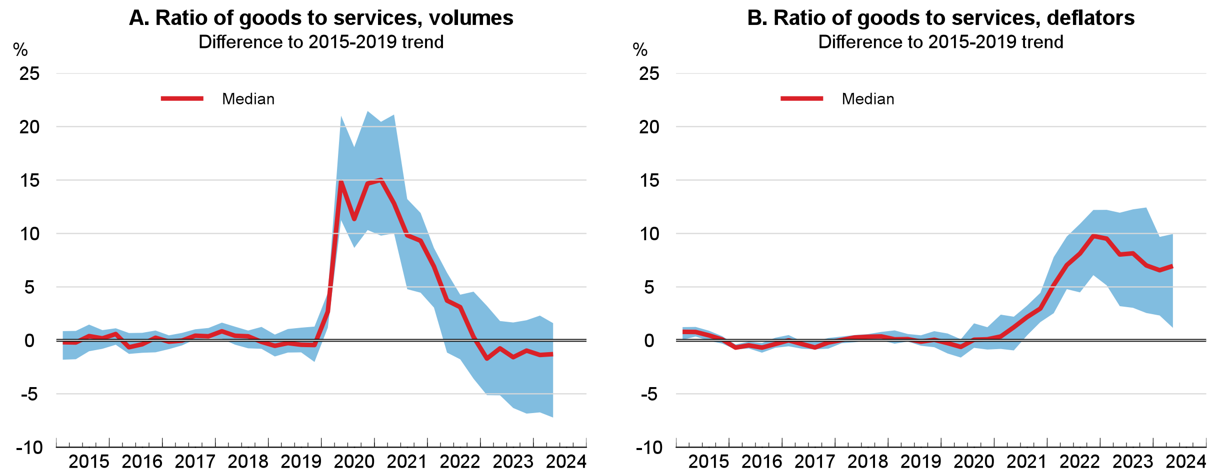
Services price inflation is still proving persistent, and was 4% in the median OECD economy in October. Many countries have experienced a prolonged period of demand rebalancing back towards services activity since most pandemic restrictions were lifted in early 2022. This strong demand for services compared with goods, as well as labour shortages in some services sectors, has contributed to services costs and prices growing relatively rapidly. While the ratio of goods to services consumption volumes in the median OECD country is now back to its pre-pandemic trend (Figure 1.9, Panel A), the ratio of goods to services prices remains comparatively high (Figure 1.9, Panel B). Pre-pandemic trends were associated with goods price growth that was around 0.8 percentage points lower than services price growth in the typical economy. If relative prices are to adjust back to the pre-pandemic trend, this gap will need to be wider for a period, either through higher services inflation than in the pre-pandemic period, lower goods inflation or some combination of the two.

Housing costs, one component of services price inflation, have exerted persistent upward pressure on inflation in many countries, despite differences in their measurement in national price indices. Housing supply has not kept up with population growth in recent years, including that due to immigration. Strong housing demand and the rebound in labour mobility after the pandemic have helped to keep prices high, despite restrictive monetary policy, and have generated strong rises in housing rents in several advanced economies, including the United Kingdom, Canada, Australia, Latvia and Portugal (Figure 1.10). Less affordable housing in the most dynamic regions can constrain the ability of individuals to locate there, contributing to labour shortages (see Chapter 2). As interest rates further ease, there could be continued upward pressure on housing prices unless housing supply expands substantially.

Figure 1.9. The ratio of goods to services prices is still above the pre-pandemic trend

Medians and inter-quartile ranges, private consumption



Note: Based on 26 OECD countries. For Panel B, prices of goods and services are sourced from quarterly national accounts for all countries except Japan where national consumer prices are used. The blue shaded areas show the range between the 1st quartile and the 3rd quartile.
Source: OECD Economic Outlook 116 database; OECD Quarterly National Accounts database; Statistics Bureau of Japan; and OECD calculations.

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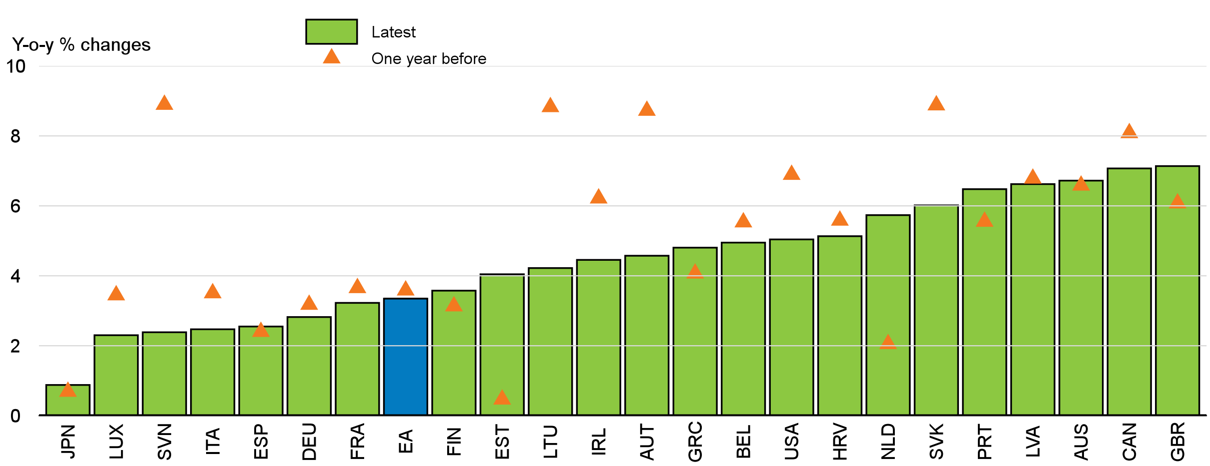
Figure 1.10. Housing cost inflation remains elevated in some advanced economies

Housing costs



Note: Data refer to "rents" from the national consumer price of Australia; "rented accommodation" from the national consumer price of Canada; "services related to housing" from the harmonised index of consumer prices for euro area countries and the United Kingdom; "housing" from the national consumer price of Japan; and "housing" from the personal consumption expenditure price index of the United States. Latest monthly observation is October 2024.
Source: Australian Bureau of Statistics; Bureau of Economic Analysis; Eurostat; Statistics Bureau of Japan; Statistics Canada; and OECD calculations.

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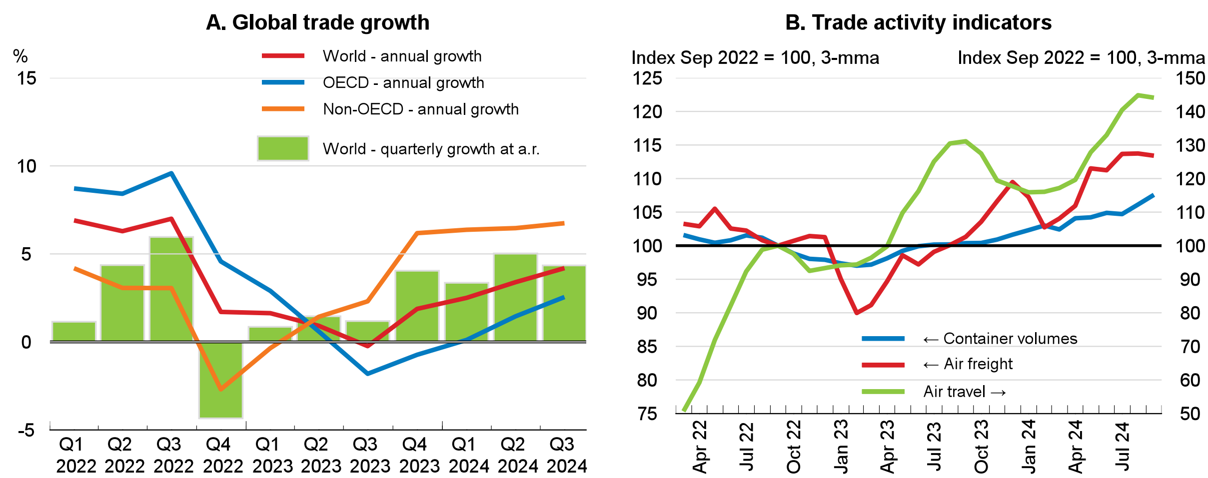
Trade growth has picked up

Global trade volumes continued to recover steadily in 2024, with quarterly growth estimated to have reached 4.3% (at an annualised rate) by the third quarter of 2024 (Figure 1.11, Panel A), helped by the recovery in US goods consumption. Export volume growth also strengthened in China and the Dynamic Asian economies, amidst strong demand for technology-related products. Services trade has remained relatively buoyant in 2024, with solid growth in business services and tourism.

Figure 1.11. Trade has steadily recovered from the weakness in 2023



Note: Panel A: trade based on average exports and imports volumes. Panel B: Air freight represents global volumes for international air freight. Air travel is global air passenger kilometres on international flights. Container volumes are based on world volumes from RWI/ISL.
Source: OECD Economic Outlook 116 database; IATA; RWI/ISL container throughput index; and OECD calculations.

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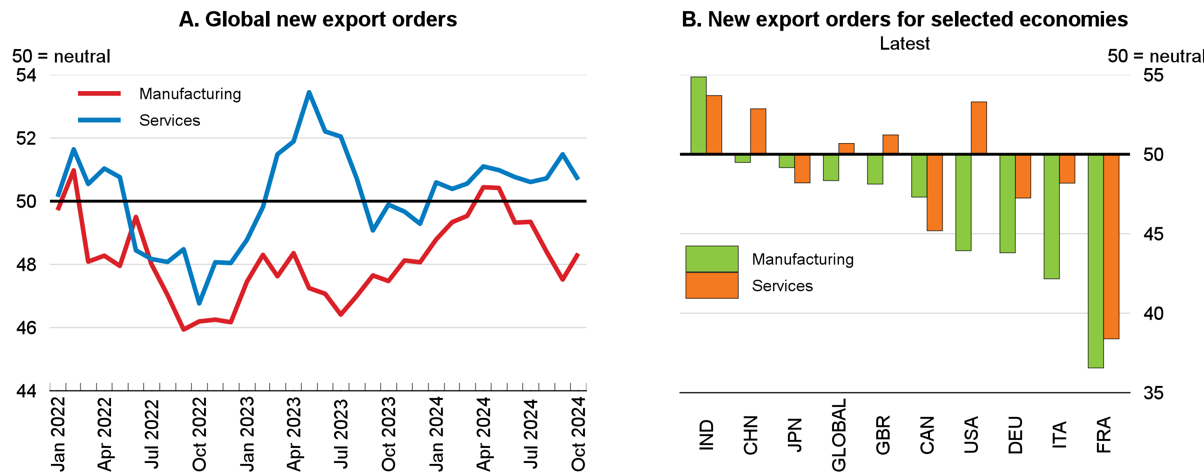
Some recent activity data suggest that positive growth momentum in global trade has been sustained, with container volumes and international passenger volumes continuing to rise (Figure 1.11, Panel B). Other indicators of trade have been mixed. Tech production in Asia – an indicator of the global tech cycle – strengthened in the third quarter, but global car sales have been subdued for most of 2024 and survey indicators of export orders have eased, particularly for manufactured goods (Figure 1.12). The softness is most pronounced in Europe, with a balance of firms currently indicating that export orders are contracting in both services and manufacturing in the three largest economies. This may in part be linked to the region's exposure to trade in cars, which made up 6.9% of extra-EU and 5.9% of intra-EU export values in 2023.

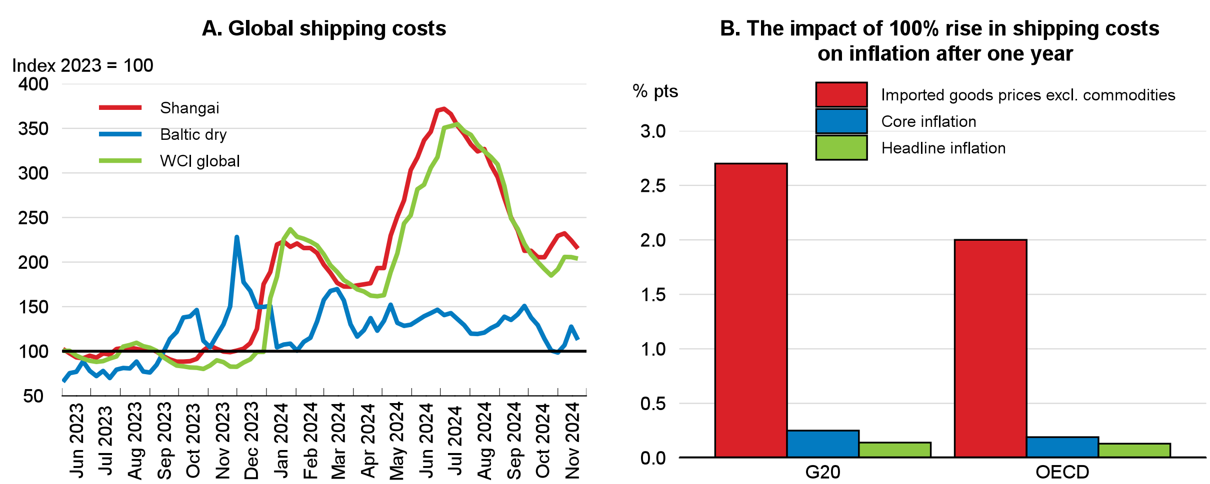
Figure 1.12. Surveys of new export orders suggest slower trade growth



Note: Values below 50 indicate that a balance of firms reports a contraction. In Panel B, the last data point is November 2024 except for Canada, China, Italy and the global aggregate (October 2024).
Source: S&P Global.

Overall supply chains continue to function well, despite an increase in delayed shipments and shipping congestion in some key hubs in Asia due to the longer shipping distances for container ships avoiding the Red Sea. Air freight volumes have also risen this year, benefitting from strong e-commerce as well as efforts to avoid risks of delay linked to the Red Sea and longer maritime journey times. In line with weaker sentiment, shipping prices have moderated from their July peaks (Figure 1.13, Panel A) as the rush to bring forward orders to avoid delays for the end-of-year holiday season dissipated. Nonetheless, container shipping cost rises seen this year, with costs having doubled from 2023, will continue to be gradually passed through into manufacturing import prices (Figure 1.13, Panel B).

Figure 1.13. Still-high shipping costs may only have a modest impact on inflation



Note: Panel B shows the percentage point change in year-on-year core and headline inflation resulting from a container shipping cost shock. Container shipping prices are assumed to rise by 100% in the first quarter and to remain permanently higher throughout the whole simulation horizon.
Source: WCI Drewry; Rusticelli and MacLeod (2024); and OECD calculations.

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Financial market conditions have continued to ease gradually

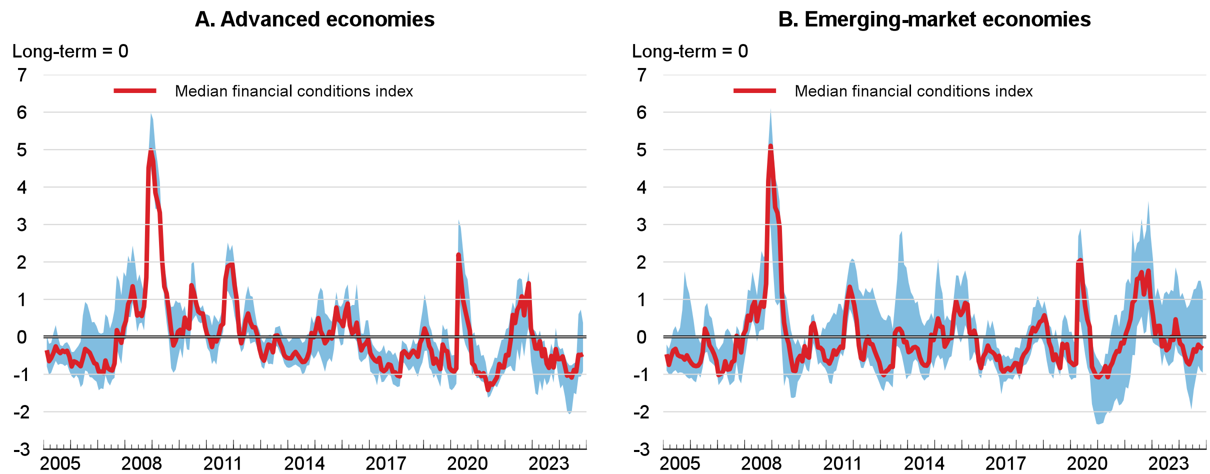
Summary indicators based on a wide range of financial market data continue to indicate that financial conditions have eased materially since 2023 in both advanced economies and emerging markets, despite some fluctuations from the short-lived spike in market volatility in early August and a renewed upward drift in long-term interest rates over the past two months, especially in the United States. Financial conditions remain close to their long-term average on balance, albeit somewhat tighter and more heterogenous across emerging-market economies than in advanced economies (Figure 1.14). Related indicators of systemic market stress have also remained at low levels. Real forward-looking interest rates are still positive and stable at comparatively high levels, but equity prices have strengthened, and credit conditions have begun to improve. The US dollar has also appreciated significantly in recent months.

Market expectations of the future path of policy interest rates have continued to shift, with earlier expectations of sizeable policy easing being partially reversed more recently. Nonetheless, there has been a moderate decline of long-term interest rates in most major advanced and emerging-market economies, helped by the onset of policy rate reductions in a broader number of economies (Figure 1.15, Panel A). Term spreads (between 10 and 2-year bond yields) have turned positive in the United States, the euro area and the United Kingdom for the first time since 2022. Within the euro area, sovereign bonds spreads relative to Germany have stabilised or even fallen slightly in most countries, but have widened since the spring in France, reflecting significant political uncertainty and a need for sizeable fiscal consolidation over the next few years.

Bond yields have declined further in most emerging-market economies, although Brazil is one notable exception, with upside inflation surprises prompting the central bank to raise policy rates again. In contrast, government bond yields have reached a record low in China, reflecting the subdued outlook and further monetary stimulus measures. Spreads to USD-denominated bonds have remained low across most emerging-market economies, despite higher equity price and currency volatility.

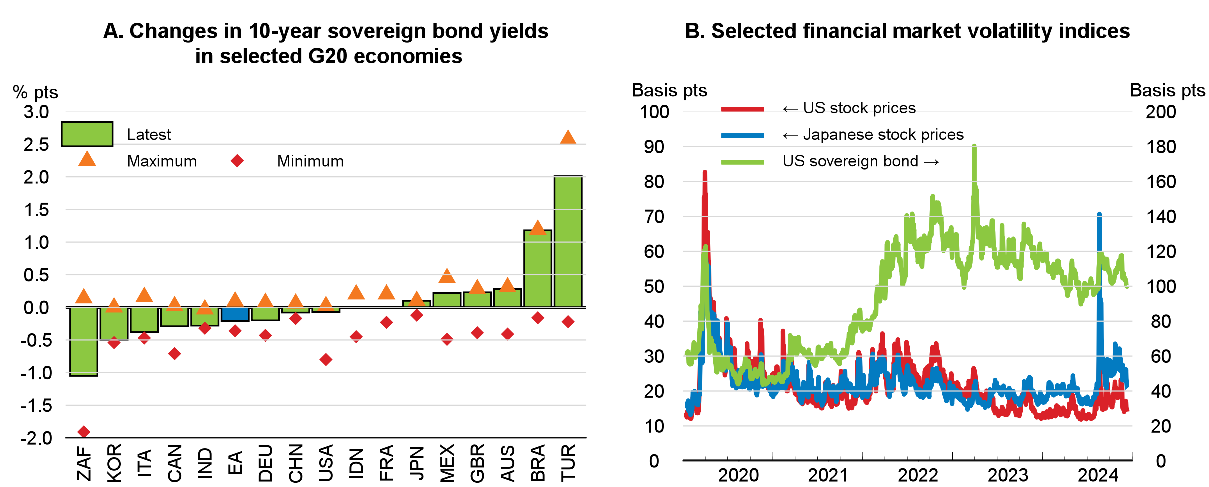
Equity markets have generally continued to strengthen, despite already-stretched valuations in some sectors (see the risks section) and the turbulence seen in early August. The market volatility in August stemmed from changing perceptions about the health of the US economy and a reassessment of expected interest rate differentials between Japan and the United States following an increase in policy interest rates in Japan in late July. This prompted a significant unwinding of the yen carry trade (borrowing at low rates in Japan to finance asset purchases elsewhere) and a sharp appreciation of the yen. Equity market volatility in the United States and Japan spiked, albeit moderately (Figure 1.15, Panel B), and Japanese equities recorded significant losses, with smaller price declines also occurring in other markets. The unwinding affected exchange rate markets more broadly, leading to a depreciation of high-yield investment currencies, especially in Latin America. The stress proved short-lived, with better subsequent economic news helping equity prices to recover. Nonetheless, this episode illustrates the extent to which markets remain sensitive to macroeconomic surprises and vulnerable to sudden repricing that is quickly transmitted across different countries and market segments.

Figure 1.14. Financial conditions remain accommodative



Note: The monthly financial conditions indices (FCIs) are computed as the median of individual country standardised FCIs. The country sample includes: Australia, Canada, France, Germany, Italy, Japan, Spain, United Kingdom and United States for advanced economies and Argentina, Brazil, Chile, China, Colombia, India, Indonesia, Mexico, Peru, Russia, South Africa and Türkiye for emerging-market economies. The country indices are obtained as the first principal component of a wide range of country-specific and global financial data including equities, interest rates, measures of volatility, sovereign and corporate bond spreads and exchange rates. The blue area shows the range of individual country financial conditions. Higher (lower) values of the index point to tighter (easier) financial conditions. The last data point is October 2024.
Source: LSEG; and OECD calculations.

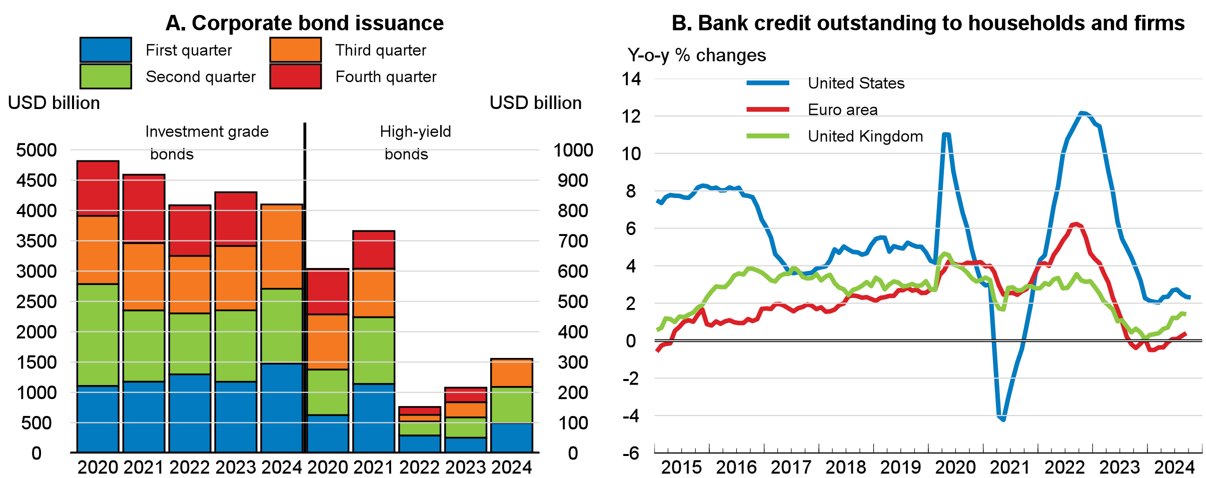
Figure 1.15. Sovereign bond yields have declined in many economies and financial market volatility has eased



Note: Based on data up to 26 November 2024. In Panel A, "Latest" refers to the change between the average of May 2024 and the latest available data. Maximum and Minimum refer to the largest increases and falls from the average of May 2024. Based on a 10-day average of daily observations. In Panel B, the implied volatility of equity prices as measured by the VIX and the NIKKEI volatility indices can be interpreted as the market expectation of risk (future volatility). The MOVE index is a yield curve weighted index of the normalised implied volatility on 3-month US Treasury options (weighted on the 2-, 5-, 10- and 30-year contracts).
Source: Chicago Board of Exchange; LSEG; and OECD calculations.

Corporate credit spreads to risk-free rates have declined to levels below long-term averages, reaching their tightest levels since 2007 in the United States. Improving borrowing conditions and tight credit spreads have supported corporate bond issuance in 2024 (Figure 1.16, Panel A). In parallel, bank credit growth has stabilised in large advanced and emerging-market economies and begun to pick up in a few (Figure 1.16, Panel B). Nonetheless, lending growth remains modest in real terms. Although credit standards remain tight in some economies, credit demand has started to recover for both households and firms. Bank lending and deposit rates have continued to decline in the wake of monetary policy easing, with deposit rates falling at a comparatively faster pace than lending rates. Banks continue to benefit from enhanced profitability helped by higher loan-deposit spreads and limited credit losses. However, delinquency rates have continued to rise in some market segments that are particularly sensitive to high interest rates, such as credit cards, car purchase loans and commercial real estate.

Figure 1.16. Bank credit growth has stabilised and corporate bond issuance has picked up



Note: In Panel A, global issuance is calculated using corporate bonds (including of financial companies) issued in advanced and emerging-market economies. In Panel B, the series of outstanding credit in the United States refers to loans and leases.
Source: Bank of England; Board of Governors of the Federal Reserve System; European Central Bank; LSEG; and OECD calculations.

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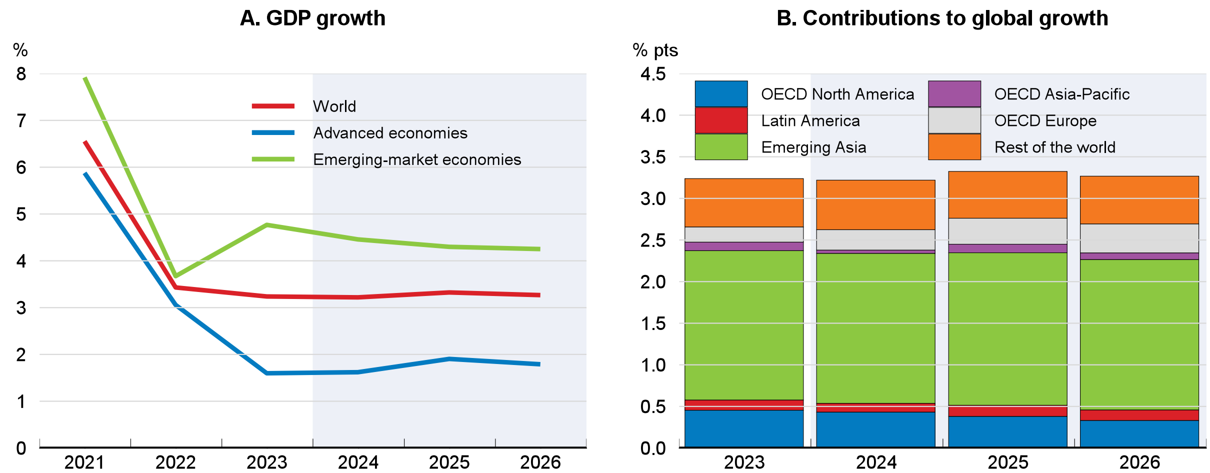
Projections

Global GDP growth is projected to be 3.2% this year and 3.3% in 2025 and 2026 (Figure 1.17, Panel A). The lagged impact of monetary policy tightening on growth is continuing to moderate, and further reductions in policy rates as inflation declines are expected to support interest-rate-sensitive expenditures in 2025-26, notably private investment. Continued disinflation will help to boost real household income growth and there is scope in some countries for a further moderation of household saving ratios, supporting private consumption growth. In OECD economies, GDP growth is projected to be modest relative to the pre-pandemic period, at 1.9% in both 2025 and 2026, but in line with estimated underlying potential output growth. In non-OECD economies, aggregate growth is anticipated to ease slightly with emerging Asia continuing to be the main contributor to global growth (Figure 1.17, Panel B).

Central banks are assumed to further lower monetary policy rates as inflation continues to fall and labour market pressures ease. In most economies, real interest rates could decline to be around estimates of neutral levels in 2026. At the same time, fiscal policy is projected to be tightened in many OECD countries in 2025 and 2026, generating some mild headwinds to growth. Continued fiscal and monetary support is expected in China, but in Brazil, India, and several other large emerging-market economies fiscal policy is projected to be more restrictive in 2025 and 2026, while policy interest rates are projected to decline.

Figure 1.17. Global growth is projected to remain stable



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

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

- In the United States, output growth is expected to continue at a solid pace. This partly reflects recent strong immigration flows that have expanded the productive potential of the economy. As labour force growth slows, the pace of private consumption is expected to moderate. Further monetary policy easing will support investment, although the impact will be partly offset by some borrowers having to refinance at higher rates than when they borrowed before. On an annual basis, GDP growth is projected to be 2.8% in 2024, 2.4% in 2025 and 2.1% in 2026. In Canada, a recovery in business investment is expected, with GDP growth projected to be 1.1% in 2024 before rising to 2% in both 2025 and 2026. Inflation in both economies is anticipated to moderate further, with both headline and core inflation projected to be consistent with central bank targets by 2026.
- The Japanese economy is expected to experience a sharp growth rebound to 1.5% in 2025, as real wage gains, rapid profit growth and fiscal subsidies boost private consumption and investment. In 2026, GDP growth is projected to ease to 0.6%, close to estimated potential growth, amid a move towards a more restrictive macroeconomic policy mix. Strong domestic demand growth will also underpin growth in Korea, with GDP projected to rise by 2.3% in 2024, and 2.1% in 2025 and 2026. In both Japan and Korea, inflation is anticipated to stabilise around 2% in 2025 and 2026.
- Growth in the euro area is projected to pick up from 0.8% this year to 1.3% in 2025 and 1.5% in 2026, with spare capacity eventually being eliminated by the end of 2026. Lower policy interest rates and the ongoing spending of the Recovery and Resilience Facility funds will support investment, and private consumption growth will benefit from tight labour markets and further disinflation. Moves towards a more restrictive fiscal stance will however damp growth in some member states. Core inflation is projected to fall from 2.9% in 2024 to 2.4% in 2025 and 2.0% in 2026. Real income gains and the increase in public expenditure announced at the end of October

will support activity in the United Kingdom, with GDP growth projected to be 0.9% in 2024, 1.7% in 2025 and 1.3% in 2026, despite higher taxation. Core inflation is projected to fall from 3.7% in 2024 to 2.8% in 2025 and 2.3% in 2026.

- In China, economic growth is projected to ease gradually from 4.9% in 2024 to 4.7% in 2025 and 4.4% in 2026. Consumption growth will be stable but dampened by still high precautionary savings and continued weakness in real estate markets, keeping inflation low. Investment growth will benefit from monetary policy easing and stronger government spending, with the local government special bond quota being raised in November and recently announced stimulus measures likely to offer support.

- India and Indonesia are projected to continue to enjoy rapid and broadly stable economic growth in the next two years. Rapid increases in public infrastructure spending and ongoing strong private consumption growth in India are projected to sustain real GDP growth of just under 7% in FY 2025-26 and FY 2026-27. The Indonesian economy is projected to grow by 5.1% in 2024, 5.2% in 2025 and 5.1% in 2026. Private consumption is projected to remain solid and investment to gain momentum, as business confidence improves, low inflation persists, and interest rates fall. In both economies, headline inflation is anticipated to be in line with central bank targets in 2025 and 2026.

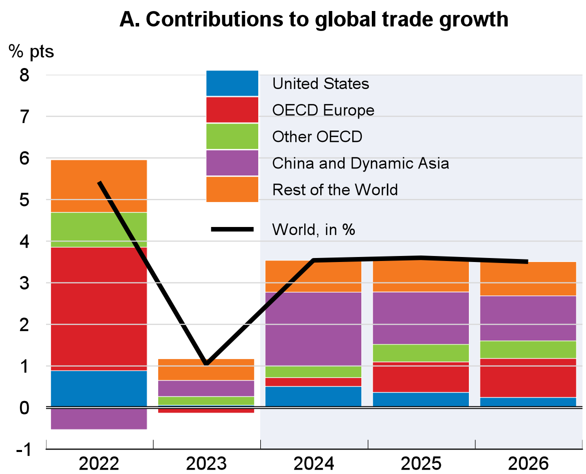
- The Mexican economy is projected to grow moderately, by 1.4% in 2024, 1.2% in 2025 and 1.6% in 2026, with significant fiscal consolidation in 2025 weighing on growth. While consumption will be supported by inflation declining to target in 2025, a slowdown in formal job creation will contribute to household spending restraint. In Brazil, in contrast, strong job creation and wage growth are expected to support robust household consumption gains in 2025, despite higher policy interest rates. GDP growth is projected to remain solid, with the economy expanding by 3.2% in 2024, 2.3% in 2025 and 1.9% in 2026. Inflation is projected to drop below 4% by the latter half of 2025, with monetary policy easing assumed to resume in mid-2025.

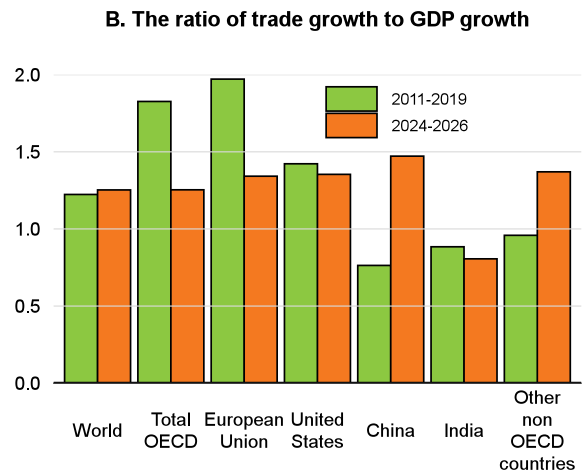
Following the weakness of 2023, annual global trade volume growth is projected to improve to 3.5% in 2024, and 3.6% in 2025, before moderating to 3.5% in 2026. Expanding trade between emerging-market economies, as well as the supportive upturn in investment and consumption growth in large advanced and emerging-market economies, help to underpin the continued expansion. Trade growth is also projected to become more balanced, helped by an upturn in trade in Europe (Figure 1.18, Panel A). The overall trade intensity of global growth over 2024-26 is projected to be marginally stronger than the average over the pre-pandemic decade (Figure 1.18, Panel B). However, this is not the case in all economies, with trade intensity generally lower in the advanced economies, particularly in Europe, but substantially higher in China and a number of other emerging-market economies. As a result, China's share of global trade is projected to rise further over the next two years.

Global current account balances are projected to remain relatively stable in 2025-26 compared to 2024, with the United States continuing to run a large current account deficit, despite past increases in trade policy restrictions, as export growth remains relatively contained and the import intensity of demand stabilises. China's current account surplus is projected to rise further after a sharp increase in the third quarter of 2024.

Employment growth in the OECD is expected to remain resilient, but to soften over the next two years. In the median OECD country, the annual pace of employment gains is projected to average 0.8% over 2025-26 against an average of 1.2% in 2023-24 (Figure 1.19, Panel A). In some emerging-market economies, such as Brazil, recently strong employment growth is also projected to slow. Labour force growth in the median OECD economy is expected to ease from the very rapid recent rate, with migration inflows moderating. With employment growth projected to grow at a similar pace to the labour force, the unemployment rate is projected to stabilise around its currently low level in most economies.

Figure 1.18. Global trade intensity is projected to remain stable





Note: Trade volumes based on an average of import and export volumes. In Panel A, Dynamic Asia includes Hong Kong (China), Malaysia, Chinese Taipei, the Philippines, Singapore, Thailand and Viet Nam. The trade elasticity in Panel B is calculated as the ratio of trade growth to GDP growth, both measured in constant 2021 USD. The European Union (EU) includes the 22 OECD countries who are members of the European Union plus Bulgaria, Croatia and Romania, and includes intra-EU trade. The EU aggregate average 2011-2019 excludes 2013. Other non-OECD countries includes all non-OECD countries except China and India.
Source: OECD Economic Outlook 116 database; and OECD calculations.

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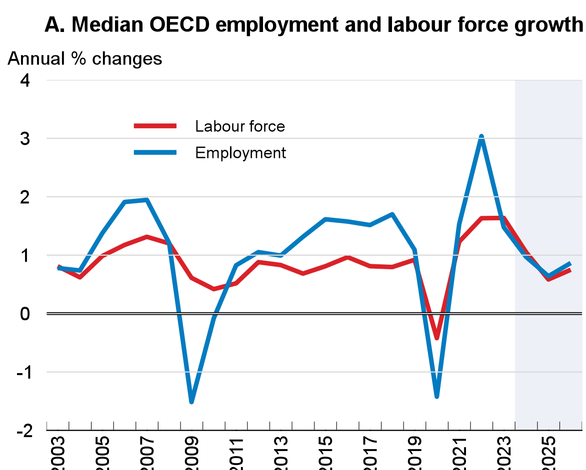
Figure 1.19. Employment growth is projected to ease in line with weaker gains in the labour force



Note: In Panel B, median real wage growth does not include Chile, Colombia, Costa Rica and Türkiye due to a lack of available comparable data.
Source: OECD Economic Outlook 116 database; and OECD calculations.

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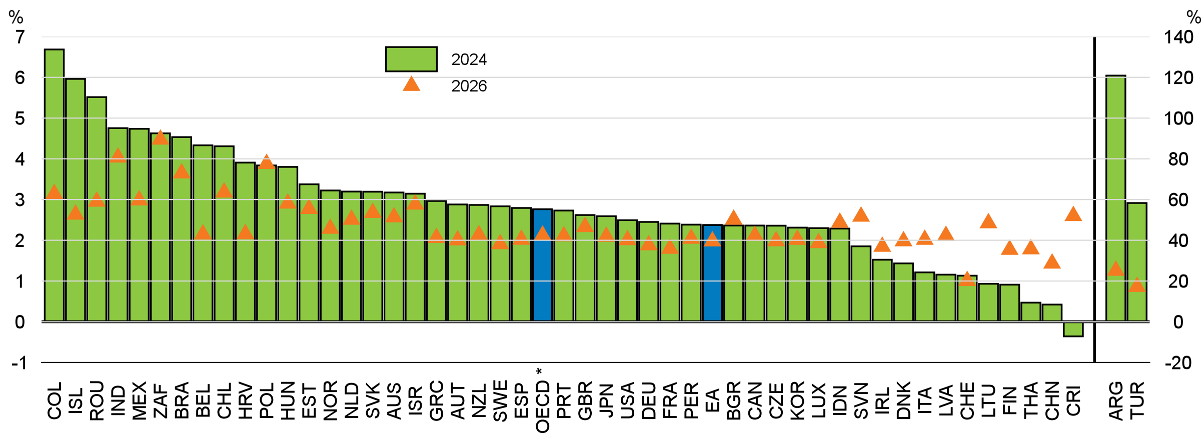
A projected pick-up in labour productivity growth over the next two years, combined with an easing of nominal wage growth as labour market pressures fade, should allow unit labour cost growth to moderate (Figure 1.19, Panel B). In the OECD, unit labour cost growth is projected to soften from 4.1% in 2024 to 2.6% in 2025 and 2.2% in 2026. This should help reduce inflationary pressures, especially in services sectors. A further decline in headline inflation is projected in those advanced and emerging-market economies where inflation is currently exceeding the target (Figure 1.20). Inflation in Argentina and Türkiye is projected to remain in double digits in 2026, but to decline markedly from current rates.

Figure 1.20. Inflation is projected to return to targets

Headline consumer price inflation



Note: Argentina and Türkiye are shown on the right-hand scale, all other countries on the left-hand scale. Personal consumption expenditure price index for the United States, harmonised index of consumer prices for the euro area aggregate, euro area member states and the United Kingdom, and national consumer price indices for all other countries. India projections are based on fiscal years, starting in April. OECD is computed as the median of member countries.
Source: OECD Economic Outlook 116 database; and OECD calculations.

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Risks

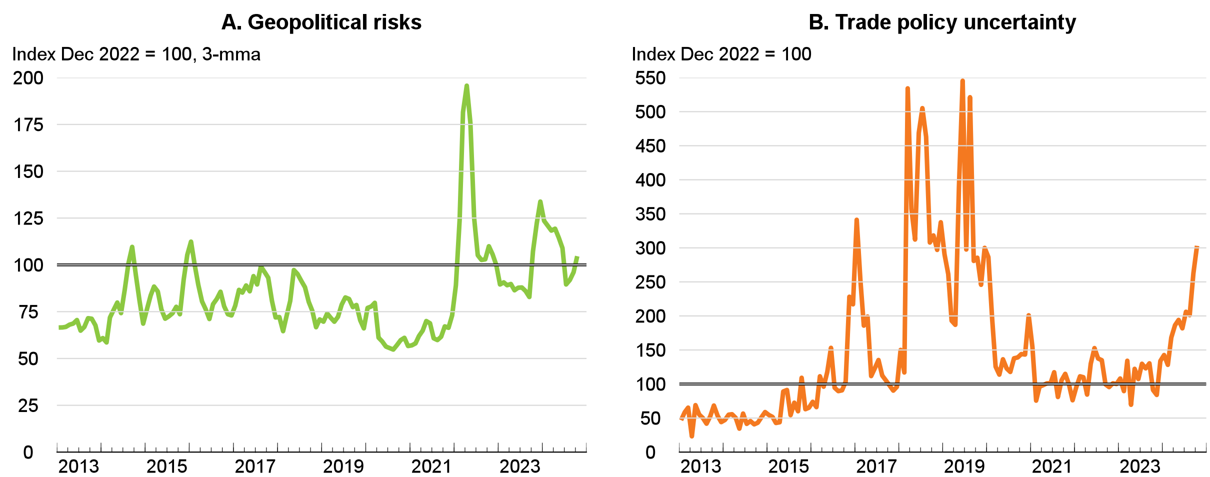
Geopolitical risks and policy uncertainty have intensified

Geopolitical risks remain elevated (Figure 1.21, Panel A). An intensification of the evolving conflicts in the Middle East, or Russia's war of aggression in Ukraine, could lead to market repricing of sovereign risk in the affected regions and disrupt global energy markets. While the global oil market appears adequately supplied at present, damage to energy infrastructure could tighten the market balance and cause investors to reassess global economic prospects.

The baseline economic projections assume steady energy and food commodity prices over the forecast period. However, an unexpected sharp oil price rise would raise global inflation substantially and reduce growth, especially in oil importers, with weaker real incomes and tighter financial conditions hitting consumer spending and investment (OECD, 2024a). The impacts could be even more pronounced if oil supply were to be disrupted or if shipping and other transport infrastructure were damaged. For example, the Strait of Hormuz is used to transport around 30% of the global trade in oil and 20% in liquefied natural gas, with no alternative means to bring these volumes to market. Any damage to tankers travelling through the Strait would also add to the disruptions over the past year in the global tanker market.

Greater trade protectionism, particularly from the largest economies, is another key downside risk. Trade policy uncertainty has risen sharply in recent months, although it is not yet back to the levels seen in 2018-19 (Figure 1.21, Panel B). More broadly, the stock of import-restrictive measures in the G20 economies continues to rise (WTO, 2024). These are estimated to now affect 12.7% of G20 imports, over three times the coverage of such measures in 2015. Recent years have also seen rising numbers of reforms to investment policies to safeguard national security (OECD, 2024d), creating obstacles to cross-border investment. Higher uncertainty and continued increases in trade-restrictive measures could raise costs and prices, deter investment, weaken innovation and ultimately lower growth. An intensification of policy efforts to de-couple economies, including through the use of FDI and ownership restrictions, particularly in key new growth areas, would over time drag on global productivity growth and the pace at which emerging-market economies are able to leverage trade to raise incomes.

Figure 1.21. Geopolitical risks remain elevated and trade policy uncertainty has risen



Note: Geopolitical risks are based on war threats, peace threats, military buildups, nuclear threats, terror threats, beginning of war, escalation of war and terror acts. The trade policy uncertainty index is based on automated text searches of the electronic archives of seven newspapers. Both updated as of 20 November 2024.
Source: Caldara and Iacoviello (2022); Caldara et al. (2020); and OECD calculations.

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Inflation could be more persistent than anticipated

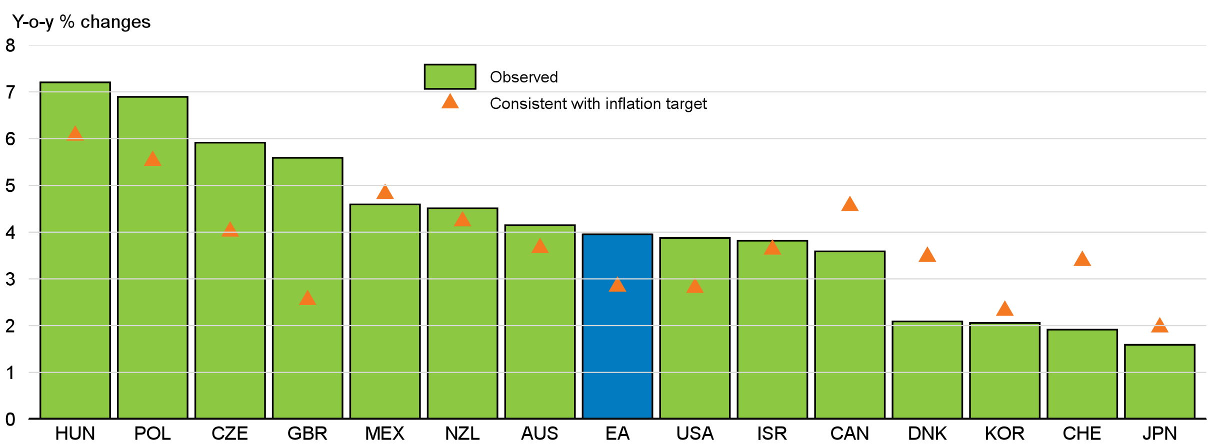
Further disinflation may be slower than currently anticipated, hampering the ability of central banks to ease monetary policy to the extent currently assumed. The baseline projections foreshadow core and headline inflation both continuing to move down over 2025-26 as unit labour cost growth moderates with a pick-up in productivity growth and a moderation in wage gains. This results in a steady projected decline in underlying inflation to levels consistent with those observed prior to the pandemic. However, there are several factors that could result in higher core inflation than expected. Disinflation in services has so far been slower than in past inflation episodes (Amatyakul, Igan and Lombardi, 2024) and this could continue to be the case. For instance, bringing aggregate inflation back to target may require year-on-year services price inflation to decline by 3 percentage points in the United Kingdom and by over 1 percentage point in many other advanced economies, including the euro area, the United States and several economies in Central and Eastern Europe, assuming core goods inflation remains at its current pace (Figure 1.22). Nonetheless, there is significant heterogeneity across countries, with this metric suggesting that current rates of services inflation may be consistent with inflation targets in other countries including Korea, Mexico, New Zealand and Israel.

Services inflation could also stay relatively high if relative prices were to move back in line with the pre-pandemic trends in the ratio of goods to services prices (Figure 1.9). Moreover, given the relatively high labour intensity of many services activities, the re-emergence of further labour shortages if the skill profile of the workforce does not keep pace with changes in employer demand could also put upward pressure on labour costs and inflation. If housing investment does not revive, the continuation of the weak housing supply growth seen in recent years may also mean more persistent housing cost inflation than anticipated.

Goods price inflation could also rise from the current low level if trade restrictions increasingly add to import costs or if there is a renewed revival of global shipping costs. The baseline projection implicitly assumes that shipping prices will remain elevated compared to 2023 levels.[1] A sustained additional rise of 100% could add 0.14 percentage points to OECD inflation in 2025-26 and more to inflation in emerging-market economies.

Figure 1.22. Persistent services inflation may jeopardise the ability to meet inflation targets

Services inflation



Note: The scenario assumes that core goods inflation is maintained at the last observed rate: October 2024 for all countries except Australia and New Zealand (2024Q3). Core goods inflation corresponds to goods inflation excluding food and energy products and differs slightly in exact definition by country. The markers show the pace of annual services price inflation needed to return underlying (core) inflation to the inflation target. In cases where the inflation target is specified as a range (Mexico and Australia), the scenario is based on returning to the top of the target range. Based on the personal consumption expenditure deflator for the United States, harmonised consumer prices for the euro area and the United Kingdom, and national consumer price indices for all other countries.
Source: Australian Bureau of Statistics; Bureau of Economic Analysis; Eurostat; OECD Consumer Price database; and OECD calculations.

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Downside surprises may result in risk repricing in financial markets

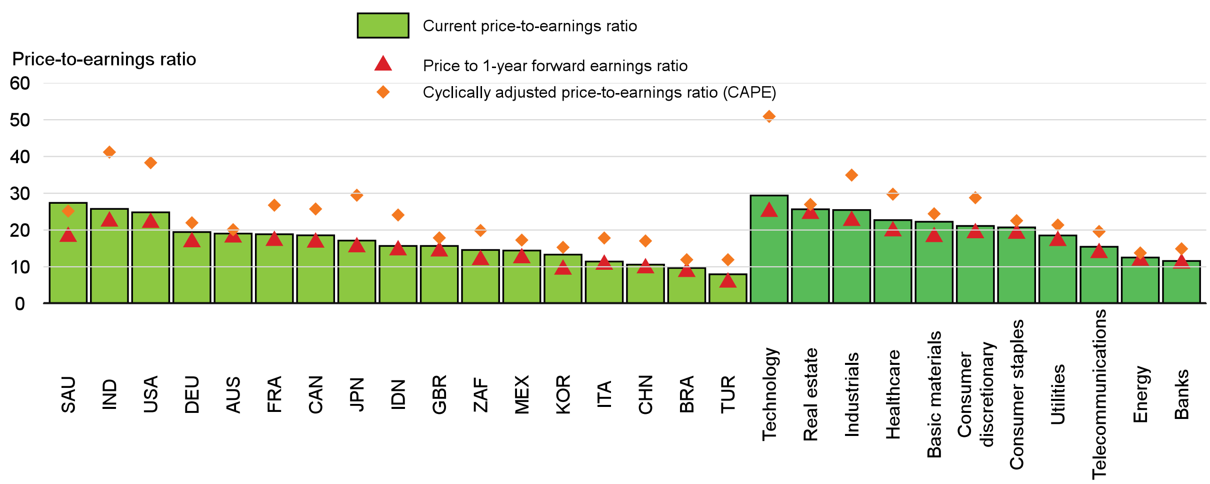
The adjustment to higher interest rates is not yet fully complete, with borrowing rates still being renegotiated and low-yield debt maturing and being replaced by new household and business loans. Asset valuations are stretched in some market segments, with low risk premia, and the credit quality of some borrowers is deteriorating. Downside surprises about growth prospects or deviations from the expected smooth

[1] Even if tensions in the Middle East start to moderate, container vessels may continue to avoid the Suez Canal, given the continued risk of attacks on shipping, particularly in the comparatively narrow Bab-el-Mandeb Strait, which provides access to the Red Sea and Suez Canal.

disinflation path entail risks of rapid repricing in equity and corporate bond markets and an increase in volatility. The episode of market volatility in early August 2024 was one reminder of these repricing risks.

Equity valuations remain stretched in many economies and sectors, such as technology and healthcare (Figure 1.23), and the underlying expectations of future growth in corporate earnings may turn out to be overly optimistic (BIS, 2024). High valuations and the high proportion of equity market valuations concentrated in a small number of individual companies increases the likelihood of idiosyncratic shocks to these companies generating systemic shocks (ECB, 2024c). Corporate debt markets could also come under increasing stress due to a rise in risk premia amid high debt levels and refinancing needs, as approximately 30% of corporate bonds outstanding (USD 12.3 trillion) will mature by 2026 (OECD, 2024c). While defaults have increased, some projections suggest they may have already peaked (S&P Global Ratings, 2024a), though downside concerns remain for the riskiest borrowers.

Figure 1.23. Share prices often remain richly valued by historical standards



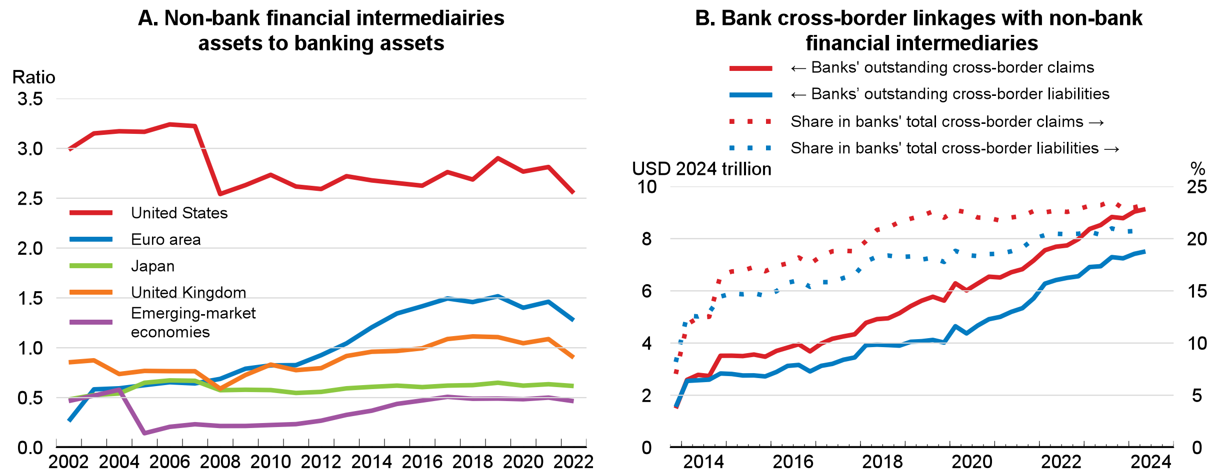
Note: This figure shows price-to-earnings ratios in selected G20 economies and sectors. Data are as of October 2024. The current price-to-earnings ratio is calculated by dividing the share price (in October 2024) by the trailing 12-month earnings per share (November 2023 to October 2024) for each company listed in the respective country or sectoral equity index. The 12-month forward earnings per share (November 2024 to October 2025, derived from the Institutional Brokers' Estimate System) and 10-year average cyclically-adjusted (i.e. brought to October 2024 prices) earnings are used for the 1-year forward and the cyclically adjusted price-to-earnings (CAPE) ratios. The national consumer price index is used to calculate cyclically-adjusted earnings in each country and the US consumer price index is used for sectoral figures. All ratios shown are weighted averages computed using companies' market capitalisation as weights. Companies with negative earnings are excluded. A higher CAPE ratio compared to the current price-to-earnings ratio indicates that stocks are richly valued. Conversely, a lower forward price-to-earnings ratio compared to the current price-to-earnings ratio suggests analysts expect earnings to increase. The sector data are based on a cross-country aggregation of data for companies in that sector expressed in US dollars.
Source: LSEG; and OECD calculations.

Interconnections between different financial intermediaries generate growing spillover risks

The assets of non-bank financial intermediaries (NBFIs) have grown significantly in recent years, especially in the euro area, surpassing bank assets in 2022 in major advanced economies (Figure 1.24, Panel A). There are a large number of different types of financial institutions within NBFIs, many of which are less regulated than banks. This raises their vulnerability to financial distress following periods of volatility. Interconnections between NBFIs, as well as with banks, raise spillover risk, as vulnerabilities in one market segment can spread to others. A particular concern is that significant asset repricing, along with the concentration of exposures and an increase in volatility, could affect the resilience of non-bank financial institutions, especially where leverage has increased and liquidity is low (ECB, 2024c). Some market participants could need to cover leveraged positions through asset sales or liquidity withdrawals from money-market funds to meet margin calls, potentially amplifying volatility, asset price declines and negative feedback loops.[2]

Banks could face rising non-performing loans and unexpected deposit withdrawals by NBFIs if credit quality deteriorates or if volatility surges. NBFIs' deposits held at banks are a liquidity buffer that would likely be used first to meet redemptions and cash needs (ECB, 2023). In 2023, exposure to NBFIs accounted for 17%, 15% and 8% of banks' assets in the United States, Australia and the euro area respectively.[3] Cross-border linkages between banks and NBFIs have also grown significantly over the past decade (Figure 1.24, Panel B). This raises risks that vulnerabilities in foreign NBFIs spill over to domestic banks. The fast-growing private credit market is one example of the linkages between banks and NBFIs and the potential risks that may arise (Box 1.2).

Figure 1.24. Non-banks have become larger and more interconnected to banks



Note: In Panel A, emerging-market economies refer to Argentina, Brazil, Chile, China, India, Indonesia, Mexico, Saudi Arabia, South Africa and Türkiye. Panel B shows bank cross-border claims and liabilities to non-bank financial intermediaries globally over the period 2013-2024. Data are expressed in trillion US dollars adjusted by the 2024Q2 US consumer price index on the left-hand scale and as a share of total bank cross-border claims or liabilities on the right-hand scale.
Source: Bank for International Settlements (BIS); Financial Stability Board; and OECD calculations.

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Growing linkages between different NBFIs could also amplify spillovers in the event of significant market adjustments or sizeable losses. For instance, Australian and US investment funds rely significantly on institutional investors, with 72% and 28% of their respective liabilities sourced from them. This makes investment funds vulnerable to sudden changes in risk sentiment and asset allocation preferences of institutional investors, potentially amplifying liquidity pressures at investment funds. Equally, losses of investment funds and other financial intermediaries may result in losses for institutional investors and money-market funds, which could undermine institutional investors' resilience and increase money-market fund redemption risk.[4]

[2] For example, hedge funds, exposed to derivatives and carry trades, could face mounting pressures to unwind positions, generating spillovers across different asset markets and financial intermediaries. Also, benchmark-linked investment funds have become more sensitive to the performance of a few companies with a large weight in the relevant market indices, with potentially adverse impacts on the performance of the underlying markets.

[3] These shares could be even higher if so-far unused bank credit commitments to NBFIs are called upon.

[4] Australian and US institutional investors' exposure to investment funds accounts for 33% and 19% of their assets. In the euro area, exposure to investment funds and other financial intermediaries represents 22% of institutional

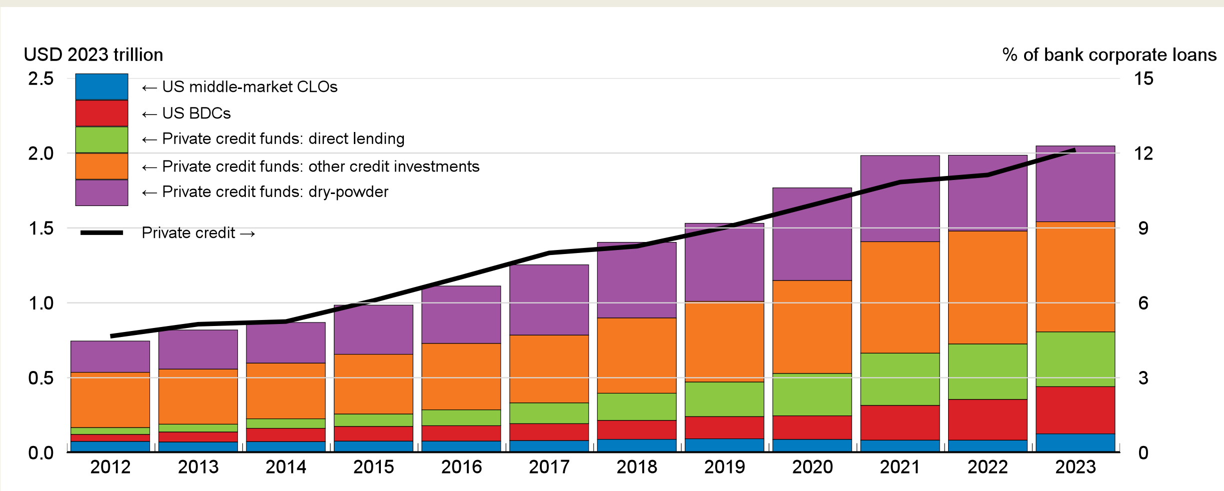
Box 1.2. Financial stability risks from private credit markets

Major trends in private credit

Private credit is a form of non-bank financing to firms, mainly through investment funds that raise long-term capital and offer long-term floating-rate loans to below-investment-grade borrowers (S&P Global Ratings, 2024b; Degerli and Monin, 2024). End-investors, mainly pension funds and insurance companies, value private credit for portfolio diversification, confidentiality, flexible structuring and potentially higher returns.

Private credit markets have expanded rapidly since the Global Financial Crisis, reaching USD 2 trillion globally in 2023 (Figure 1.25). This is equivalent to 12% of bank loans to non-financial corporations, up from 5% in 2012. Private credit is very diverse and primarily US-focused but is now also expanding rapidly in Europe and Asia.

Figure 1.25. Private credit continues to rise in advanced economies



Note: Private credit assets-under-management include private credit funds, business development companies (BDCs), and middle-market collateralised loan obligations (CLOs), with the last two being mostly US focused, from 2012 to 2023. Data are expressed in USD trillion adjusted by the 2023 US consumer price index. Other credit investments from private credit funds include distressed credit, credit special situations, mezzanine credit, bridge financing, real estate debt, infrastructure debt, venture debt, and multi-strategy investments. Private credit assets are also expressed as a share of bank loans to non-financial corporations in advanced economies. Private credit market size may be underestimated due to direct loans from some investors to middle-market firms that are not disclosed publicly.
Source: Houlihan Lokey; International Monetary Fund (IMF) Financial Soundness Indicators database; Pitchbook; and OECD calculations.

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The expansion of private credit markets raises financial stability risks

Rising interest rates have increased the debt service burden for private credit borrowers, leading some to delay repayments by adding interest coupons to the loan principal (Fitch Ratings, 2024). In addition, around 50% of outstanding loans of US private credit funds are to be reimbursed within three years, raising refinancing risk, especially for the most fragile borrowers (Cai and Haque, 2024). With defaults among highly leveraged non-financial corporations rising (OECD, 2024c), there are risks that losses on loans

investors' assets. In addition, US money-market funds' exposure to other financial intermediaries represents 24% of their assets.

could rise sharply. Often, such loans are to firms in economic sectors with low recovery rates due to low collateralisable or tangible assets (IMF, 2024a).

The links between private credit providers and banks and other financial intermediaries could exacerbate spillover risks in the financial system. Private credit funds rely increasingly on secured credit lines from banks collateralised by private loans, and funds have also become major investors in credit risk transfers of loan portfolios issued by banks (Deutsche Bank, 2024). This generates risks for both private capital funds and banks if either credit quality deteriorates or if funds' large end-investors fail to provide the capital they have committed to. Private credit funds are also strongly interconnected to private equity funds and institutional investors. For instance, private credit funds often finance companies wholly or majority-owned by private equity funds, and thus vulnerabilities in one segment of the private financing industry will likely spill over to the other. In the United States, systemic risk warnings are increasing due to insurers' private credit exposures, particularly since they may not be able to dispose of complex private credit assets in the event of redemptions and market stress (Cortes, Diaby and Windsor, 2023; Fournier, Meisenzahl and Polacek, 2024). In Europe, the difficulties of an Italian insurer (Eurovita) illustrate similar risks (AMF, 2024).

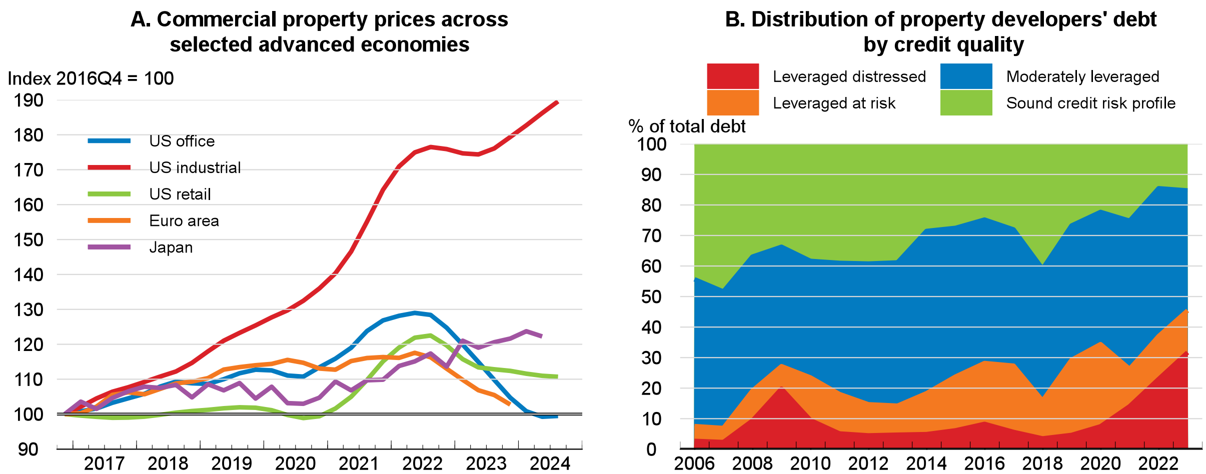
Multiple layers of leverage from borrowers to funds to end-investors can exacerbate liquidity risks, potentially triggering fire sales and simultaneous deleveraging. In the event of a severe shock, rapid loss of confidence could trigger margin calls in derivatives used by private credit funds, adding further to liquidity pressures, and distressed funds could default with losses for end-investors. Liquidity management tools at funds remain untested in severe scenarios. While divestment and fire sale risks seem low at present, close monitoring is needed given the opacity of the sector, compounded by significant data gaps about the magnitude and concentration of exposures, and its often limited prudential or conduct oversight (EBA, EIOPA and ESMA, 2024; IMF, 2024a).

Falling commercial real estate prices pose risks to financial stability

Commercial property prices have been declining since mid-2022 in many countries and some market segments, particularly office buildings (Figure 1.26, Panel A). Although commercial real estate exposures of financial intermediaries have remained broadly steady over the past decade, reaching an estimated USD 21 trillion in 2023, the share of diverse non-bank exposures has risen over time (Roulet, 2024). The overall quality of the debt of commercial property developers is now declining, amidst tighter financing conditions and weak profitability (Figure 1.26, Panel B). Delinquency rates have also risen, including for office mortgages.

Declines in property prices, rents and credit quality could push up bank non-performing loans and generate losses for non-bank financial intermediaries such as real estate investment trusts (REITs). In turn, these losses could spill over to real estate investment funds holding equity in REITs and trigger redemptions from investment funds. Fire sales of REIT shares would amplify downward price spirals in increasingly illiquid markets, transmit stress to other parts of the financial system, and possibly disrupt the availability of finance to the real economy. Institutional investors are also exposed to subsequent losses through their direct commercial real estate loans, bond holdings and their interconnections with real estate investment funds.

Figure 1.26. Commercial real estate prices and debt quality of property developers



Note: In Panel B, corporates with a “sound credit risk profile” have a positive leverage ratio (measured by the ratio of debt to EBITDA) lower than 5 and an interest coverage ratio (ICR) higher than 2. Leveraged corporates are companies with a leverage ratio higher than 5 or with a negative leverage ratio (due to negative EBITDA). Along these, "at risk" corporates have an ICR between 1 and 2, "distressed" corporates an ICR lower than 1, and "moderately leveraged" an ICR higher than 2. Financial statement data have been collected for a sample of 2 146 property developers across 40 advanced and 46 emerging economies.
Source: Bank for International Settlements (BIS); OECD National Accounts Statistics database; National central banks; National office statistics; LSEG; Real Capital Analytics; and OECD calculations.

Downside risks continue to weigh on emerging-market and developing countries

Capital flows into emerging-market economies have picked up this year, supported by solid growth, the improving inflation outlook and enhanced fiscal and monetary policy frameworks (Hardy et al., 2024). Changing investor perceptions about the likely pace of policy rate reductions in the major advanced economies relative to those in many emerging-market economies also helped to support portfolio capital inflows.

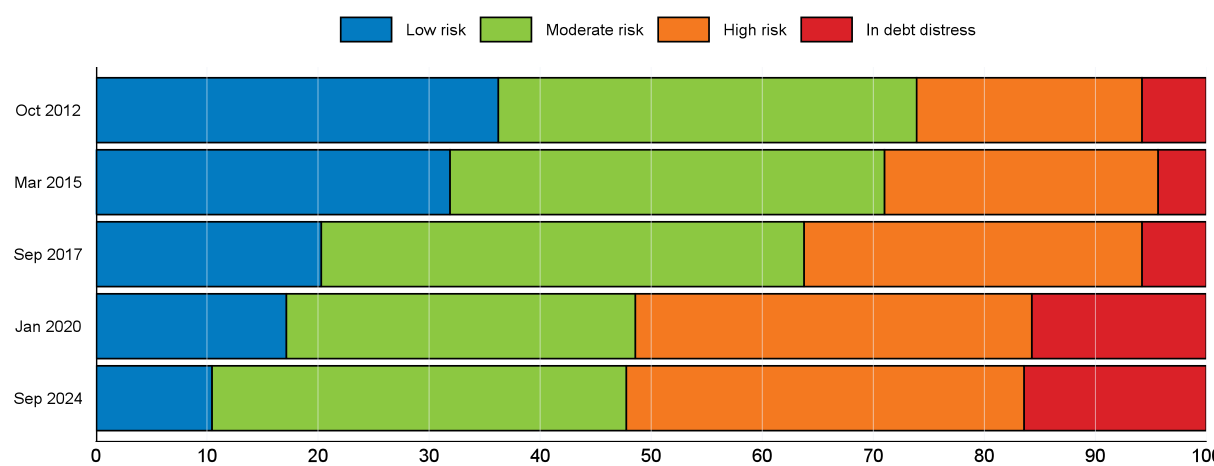
Despite this relatively favourable picture, there continue to be risks of much weaker inflows and potential pressures on exchange rates if there is a rapid narrowing of expected interest rate differentials between the emerging-market and advanced economies, particularly the United States, or if geopolitical risks were to increase further. Countries with high sovereign debt and spreads and a large share of USD-denominated debt are particularly vulnerable to financial volatility in the event of sizeable depreciation or capital outflows.[5] There has already been some downward pressure on the currencies of several countries over the past year, especially the ones with relatively high inflation, below-average credit ratings, or comparatively high sovereign bond spreads with the United States, with the unwinding of carry trade positions in August adding further pressure.

[5] Over half of the marketable emerging-market gross debt in 2023 was issued in foreign currency and in several economies, including Argentina, Romania and Türkiye, foreign-currency debt represented over one-half of total debt outstanding at the end of 2023.

Total government debt increased further in 2023 across emerging-market and developing economies, to 69% of GDP, and is projected to reach 75% of GDP on average by 2026 (IMF, 2024b). Many low-income countries are facing significant debt burdens and difficulties in accessing new finance. Elevated interest rates and the strengthening US dollar both weigh on debt sustainability and reduce the resources available for investment, including in growth-enhancing sectors. In total, the debt of low-income countries is estimated to have risen to 53.5% of GDP by the end of 2023, with interest payments exceeding 10% of government revenue on average (IMF, 2024b and World Bank, 2024). The share of low-income countries assessed to be at high risk of debt distress or already in debt distress has risen to more than 50% in 2024 (Figure 1.27).

Figure 1.27. Sovereign debt distress remains a concern in low-income countries

Share of countries, per cent



Note: The chart shows 68 low-income countries at risk of debt distress based on World Bank-IMF's Debt Sustainability Analysis (DSAs) for PRGT-eligible countries (where PRGT is Poverty Reduction and Growth Trust), as of September 2024. Debt distress is defined according to the assessment of the World Bank-IMF Debt Sustainability Analyses, where DSA ratings are based on a composite indicator that includes assessments on external public debt indicators and ongoing debt restructuring.
Source: World Bank; International Monetary Fund (IMF); and OECD calculations.

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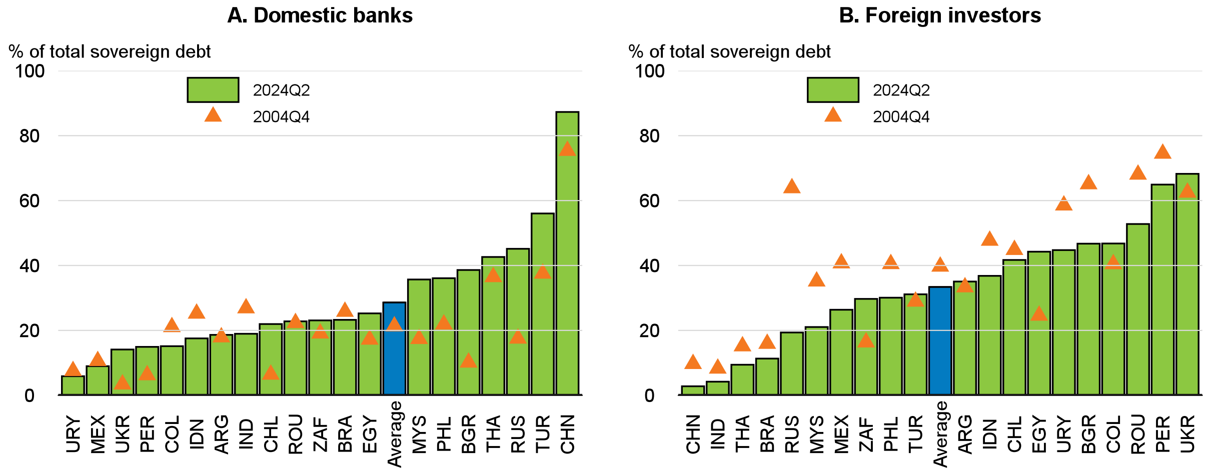
Another potential risk is that the interlinkages between the government and the domestic banking sector have deepened in some emerging-market economies in recent years. On average, the share of sovereign debt held by domestic banks reached almost 30% by mid-2024, up from 20% in 2004 (Figure 1.28). Investor concerns about unsustainable government debt levels could thus generate sovereign stress that spreads increasingly into the banking sector. In the event of a significant deterioration, tighter borrowing constraints could reduce governments' ability to support banks through implicit or explicit guarantees, further increasing stress in banks and hampering credit growth.

Figure 1.28. The sovereign-bank nexus has become a key vulnerability in several emerging-market economies

Sovereign debt holdings



Source: International Monetary Fund Sovereign Debt Investor Base dataset; and OECD calculations.

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The cyclical strength of the Chinese economy remains uncertain

The Chinese economy is estimated to have contributed over one quarter of global economic growth in 2024 and is expected to make a similar contribution in 2025 and 2026 in the baseline projections. Consequently, developments in China are critical for global growth prospects: for every 1 percentage point that China's GDP growth falls short of the projection, the direct effect on global growth is estimated to be around 0.2 percentage points, and there could be additional indirect effects via tighter financial conditions and weaker commodity prices. The risks to the projections for China are currently tilted to the downside. Potential further credit events may disrupt the orderly adjustment process in the real estate sector. In turn, this could exacerbate stress in parts of the financial sector and weaken consumer sentiment. Excessive relaxation of demand-side restrictions in the property sector could temporarily result in stronger growth, but also in a further build-up of imbalances and sharper adjustment in the future. An increase in global trade restrictions would slow export growth and industrial activity. In contrast, planned fiscal expansion coupled with more stringent measures to raise spending efficiency may lift the impact of public spending and result in stronger-than-projected growth. The reduced mortgage interest burden on households, stemming from recent significant monetary policy easing, may also have an unexpectedly positive impact on consumption growth.

There are a number of possible sources of positive surprises

There are several other uncertain factors that could generate positive surprises over the next two years. A swift de-escalation of conflicts in the Middle East could reduce global policy uncertainty and energy prices. Fundamentals in global oil markets currently point to downward pressure on prices, with global oil supply to significantly outpace demand over the forecast period, even if plans by OPEC+ members to unwind curbs in production from the end of 2024 do not materialise (IEA, 2024a). In addition, a resumption of the use of the Suez Canal for global shipping could improve the resilience of global trade to future shocks and would lower shipping costs.

Domestic demand growth could be stronger if household saving rates fall further than expected. Households in many countries still hold excess savings that were initially accumulated at the onset of the pandemic, although much of this will be held by higher-income households with a lower marginal propensity to consume. Nonetheless, household saving rates could fall more sharply than projected if consumer confidence rapidly recovers. Such a scenario could eventuate if consumer food and energy prices decline further or gains in household wealth, stemming from the resumption of real house price increases and the strong growth in equity prices, prompt households to save less of their income. This would strengthen demand growth but might also mean that future inflationary pressures are stronger than would otherwise be the case.

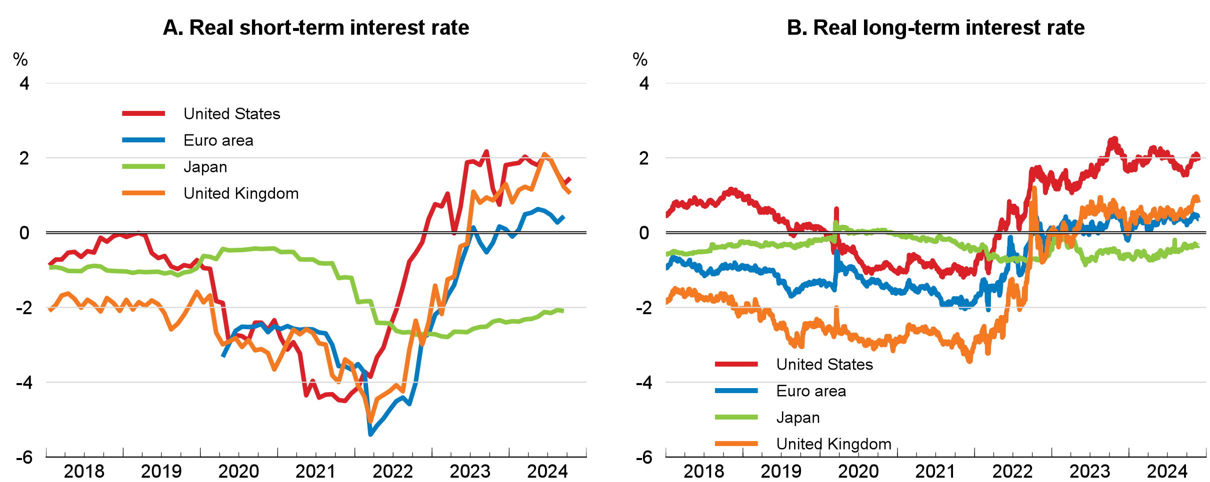
Positive supply shocks could also boost potential output growth, enabling faster expansions than currently projected. For example, private investment growth could respond more vigorously than anticipated to improving financing conditions, especially if corporate hurdle rates for investment ease. There could also be stronger increases in labour force participation rates than projected. Sustained strong inward immigration flows would support such a scenario in many advanced economies, given that immigrants are often more likely to be of working age. As discussed in Chapter 2, there is also capacity in most countries to further increase participation rates among older workers, youth, or women.

Policies

Monetary policy has scope to ease but needs to remain prudent

In recent months, central banks in most advanced economies have started or continued to reduce policy interest rates, with the notable exception of Japan, where policy accommodation is being withdrawn slowly. Central bank balance sheet reductions have also continued, with their pace adjusted in some jurisdictions, or got underway. The monetary policy stance remains restrictive in most countries, although it is gradually easing. Forward-looking real interest rates are still higher than pre-pandemic norms (Figure 1.29). The cumulative effects of past tightening on economic growth are now past their peak, though the ongoing refinancing of debt at higher rates continues to weigh on many households and companies, especially in countries with large-scale renegotiation of mortgage rates previously set before the start of policy rate increases.

Figure 1.29. Forward-looking real interest rates remain above pre-pandemic levels in most advanced economies



Note: Latest available data up to 26 November 2024. In Panel A, the real short-term interest rates are calculated using nominal one-year government bond yields and one year-ahead inflation expectations by consumers in the United States, the euro area and the United Kingdom, and by corporates participating in the Tankan Survey in Japan. In Panel B, the real long-term interest rates show 10-year inflation-linked bond yields.

Source: OECD Economic Outlook 116 database; Bank of England; Board of Governors of the Federal Reserve System; Bank of Japan; European Central Bank; University of Michigan; and OECD calculations.

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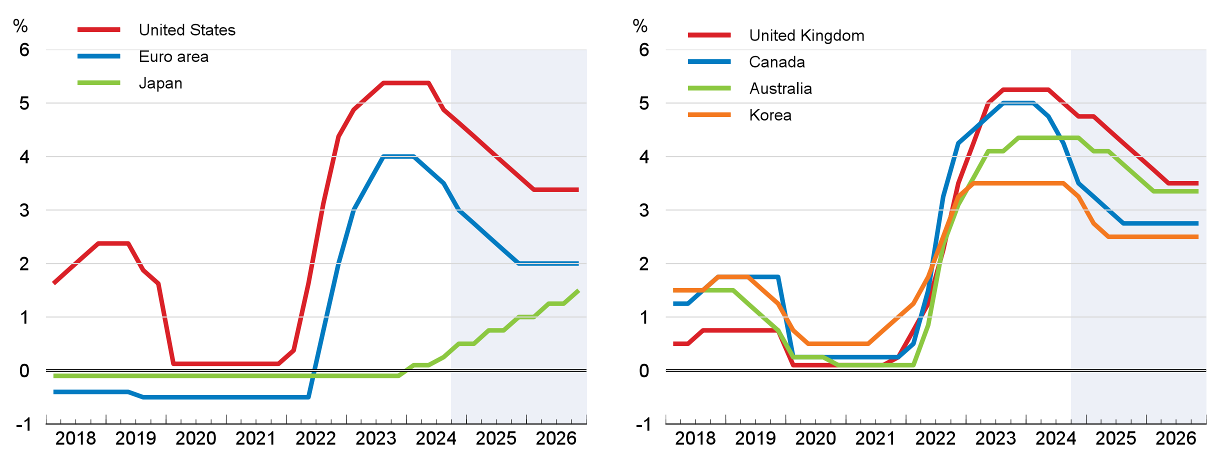
As inflation moderates towards central bank targets, policy rate reductions should continue, but the timing and scope of reductions should be carefully judged to ensure that underlying inflationary pressures are durably contained. Further moderation in nominal wage growth, the absence of a resurgence in unit profits and continued progress in disinflation in services sectors, where cost and price pressures have so far subsided only slowly, will be critical factors that enable monetary policy easing to proceed smoothly.

Under the projected outlook for inflation and GDP growth, policy rate reductions are expected to continue during 2025 and in some cases 2026 in all the major advanced economies other than Japan (Figure 1.30).

- In the United States, reductions in the federal funds rate are projected to continue, with rates being lowered to 3¼-3½ per cent by the first quarter of 2026, when inflation will have largely converged to 2%. Bond holdings are projected to decline further throughout 2025-26, albeit at a slower pace for Treasury securities, as announced in May 2024.
- In the euro area, policy rate reductions are projected to continue this year and the next, lowering the deposit facility rate to 2% towards the end of 2025. The decline in Eurosystem bond holdings is expected to gather speed, with reinvestment of Pandemic Emergency Purchase Programme redemptions being ended as planned from 2025.
- In Japan, the policy rate is projected to increase gradually to 1½ per cent by the end of 2026, as core inflation stabilises around 2% and a negative output gap closes. The government bond holdings of the Bank of Japan are expected to decline, as the bank's monthly purchases are reduced by about JPY 400 billion per quarter.
- Reductions in policy rates are projected to continue until mid-2025 in Canada and Korea, and until the first half of 2026 in Australia and the United Kingdom. Central bank bond holdings are assumed to decline further in all these countries other than Korea.

Figure 1.30. Policy rates are projected to decline gradually



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 116 database; and OECD calculations.

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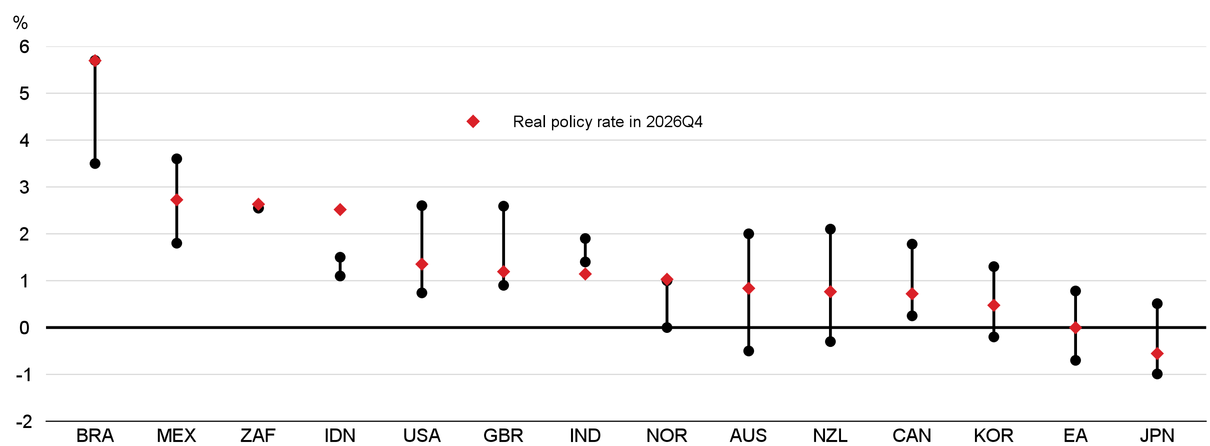
By the end of 2026, real policy rates are generally projected to be within estimated ranges for neutral real rates (Figure 1.31) – the real interest rate at which the policy stance is neither accommodative nor restrictive. Inflation is generally expected to be back to target at this time with output gaps projected to be close to zero in most economies. Nominal policy rates are likely to remain at higher levels than before the pandemic, provided inflation settles at target. This would increase the room for monetary policy manoeuvre through conventional tools in the event of an unanticipated slowdown in the economy. Greater room for manoeuvre could also follow if the future neutral rate was to be higher than currently expected, for instance due to reforms to strengthen productivity and investment, including for climate change mitigation and adaptation (Holzmann, 2024), or a larger supply of public debt.

Quantitative tightening (QT) has so far proceeded smoothly, with only a minor upward impact on long-term bond yields and no significant disruptions in the operation of financial markets (BIS, 2024; Du et al., 2024; ECB, 2024b). In particular, the impact on yields has so far been found to be considerably smaller than that of quantitative easing (QE), probably due to much more muted signalling and surprise effects, as QT has not been announced and implemented at times of market stress.[6] However, the available evidence largely pertains to periods of policy rate increases. As policy rate reductions gather pace, clear communication will be needed to avoid confusion about the pursuit of two policies (concerning policy rates and balance sheets) with potentially opposite impacts on long-term interest rates and financial conditions in general. Determining when QT should slow and then stop, as the optimal level of central bank reserves is attained, is challenging and needs to take account of risks of liquidity stress and money market interest rate volatility (Lopez-Salido and Vissing-Jorgensen, 2023). Finally, as discussed below, the coexistence of QT with sizeable budget deficits implies that private investors will need to absorb larger net amounts of sovereign bonds than implied solely by the budget deficit.

Figure 1.31. Real policy rates are projected to converge to neutral levels



Note: The projected real policy rate in 2026Q4 is calculated using the nominal policy rate deflated by annual core inflation over the year to 2026Q4 (except for India and Indonesia, where headline inflation is used). For each jurisdiction, the figure shows a range (min-max) of estimates for the real neutral rate, understood as a longer-run equilibrium real short-term interest rate. The minimum and maximum values come from the following estimates: the Holston-Laubach-Williams (HLW) model estimate (Federal Reserve Bank of New York, 2024) and the Lubik-Matthes (LM) model estimate (Federal Reserve Bank of Richmond, 2024) for 2024Q2 for the United States; the HLW model estimate for 2024Q2 (Federal Reserve Bank of New York, 2024) and LM model estimate for 2023Q3 (Benigno et al., 2024) for the euro area; the HLW model estimate and the estimate from term structure models for 2023Q1 (Nakano et al., 2024) for Japan; the HLW model estimate for 2021Q4 (IMF, 2023a) and the LM model estimate for 2023Q3 (Lubik et al., 2024) for the United Kingdom; the lower bound of estimates in nominal terms by the Bank of Canada for 2024 deflated with the 2% inflation target (Bank of Canada, 2024) and the LM model estimate for 2023Q3 (Lubik et al., 2024) for Canada; the range of the estimates for 2022 (Ellis, 2022) for Australia; the Laubach-Williams (LW) model estimate and the modified LM model estimate for 2024Q1 (Do et al., 2024) for Korea; the range of the estimates for 2024Q1 (Castaing et al. 2024) for New Zealand; the range of the estimates for 2024 (Norges Bank, 2024) for Norway; the range of the estimates for 2024Q2 (Banco Central do Brasil, 2024) for Brazil; the range of the long-run average estimates (Banco de Mexico, 2024) for Mexico; the range of the modified LW model estimates for 2024Q1 (Reserve Bank of India, 2024) for India; the range of the HLW model estimate for 2022Q2 and the yield curve model of Basdevant, Björksten, and Karagedikli for 2022Q4 (IMF, 2023b) for Indonesia; and the LW model estimate for 2023 (South African Reserve Bank, 2024) for South Africa.
Source: OECD Economic Outlook 116 database; and OECD calculations.

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[6] In contrast, Akkaya et al. (2024), using survey data from December 2022 to December 2023, estimate that the impact of QT on long-term yields could be of broadly similar magnitude to that found in previous studies for QE.

Governments should seize this opportune moment to consolidate public finances

The fiscal projections for 2025-26 are conditional on announced government measures and OECD assessments of current plans (Annex 1.A). Efforts to consolidate budget positions are now underway in many countries. However, in many countries fiscal tightening is expected to be very modest. Among advanced OECD economies, the projected median improvement in the underlying primary balance is only 0.3% of potential GDP from 2024 to 2026, with all of this occurring in 2026.

- In the United States, a large structural shortfall in government revenue relative to spending is projected to persist in 2025. In 2026, mild fiscal tightening is projected, the underlying primary balance improving by just 0.2% of GDP. This assumes that tax reductions in the Tax Cuts and Jobs Act, currently scheduled to expire at the end of 2025, will broadly be extended.
- In the euro area, an estimated underlying primary deficit of 1.7% of potential GDP in 2024 is projected to decline to 1.1% of GDP by 2026. Most of the improvement is expected to occur next year, reflecting the withdrawal of most remaining energy crisis support. Budget repair plans in some of the area's larger economies contribute to the projected fiscal tightening in the next two years (Box 1.3). Continued implementation of national recovery and resilience plans is expected to help shield public investment from budget cuts. Sizeable consolidation is expected in France, Italy and to a lesser extent Spain, with only modest fiscal tightening in Germany.
- Japan's underlying primary deficit is projected to widen slightly in 2025 by 0.3% of potential GDP, partly due to a new economic stimulus package, before narrowing in 2026 to 1.3% of potential GDP. Included in the new stimulus measures are cash handouts to low-income households, renewed energy subsidies, and support for investment in semiconductor production and research and development. On current plans, defence spending is also set to increase, as is support for families with children, partly funded by expenditure reforms.
- Substantial fiscal policy tightening, exceeding 1% of potential GDP, is projected over 2025-26 in Iceland, Israel, Korea, New Zealand, Poland and the United Kingdom. In contrast, a fiscal expansion is expected in Sweden (0.6% of potential GDP). Continued cost-of-living support is expected to contribute to a slight deterioration in Australia's underlying primary balance next year. In Canada, where new federal income support has recently been announced, the overall fiscal stance is projected to change little over 2025-26.

On current plans, governments in many OECD countries are projected to still be running primary deficits two years from now. Slow progress correcting ongoing budget imbalances will make it harder to stabilise or eventually reduce debt burdens. In some countries – including France, Latvia, the Slovak Republic, the United Kingdom and the United States – large budget deficits appear mostly structural, with any remaining spare capacity at moderate levels or estimated to diminish over 2025-26. The projections show gross general government financial liabilities for OECD countries, as a group, reaching 117% of GDP by the end of 2026, 9 percentage points higher than before the pandemic.

Stronger efforts to contain and reallocate spending and enhance revenues are needed to ensure debt sustainability given the looming fiscal pressures countries face from ageing populations, large investment needs to mitigate and adapt to climate change and planned expansion of defence spending. These should be set within credible medium-term plans, with the pace and nature of adjustment tailored to country-specific circumstances. Provided growth remains solid or picks up in many OECD countries, as projected, and output gaps narrow or turn positive, consolidation efforts should intensify as the monetary policy stance becomes less restrictive. In contrast to most of the past decade – when policy rates in major economies were at or near zero – most central banks are projected to have enhanced capacity to support economies through additional policy rate cuts should growth slow.[7]

Fiscal policy priorities vary (OECD, 2024a), but in many countries include reforms aimed at encouraging longer working lives – including, in some countries, by raising retirement ages – to help offset budget pressures linked to demographic change. Social policy reforms in many advanced economies are also required to improve welfare targeting. Adjustments to sick leave and disability-related allowances should ensure support is focused on people that need it most while encouraging work. Health system reforms are needed in some countries and could contribute to improved government spending efficiency. Tight fiscal positions in many countries call for reallocation of spending towards activities that support longer-term growth. Tax reforms should aim at broadening tax bases and eliminating distortive tax expenditures while raising proportionally more revenue from indirect taxes. Many countries have scope to boost revenues from taxes on consumption, immovable property, carbon emissions or energy use. Such taxes tend to have smaller detrimental effects on economic activity than taxing wages and business incomes. Upgrades to tax administration and compliance could improve revenue raising capacity.

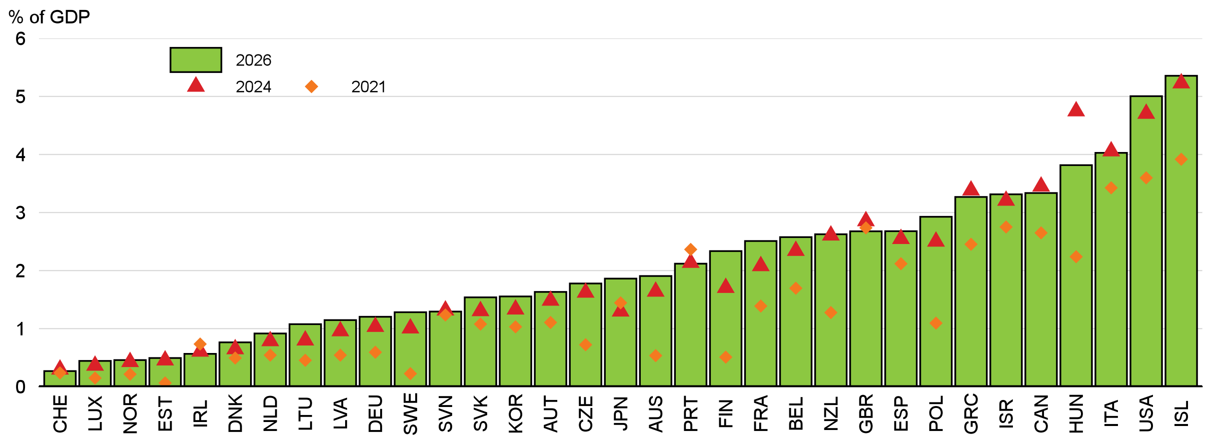
Sound budgetary frameworks are important to keep fiscal consolidations on track, improve the credibility of fiscal plans and thus reduce uncertainty about the conduct of fiscal policy. Numerical rules for budget balances and debt, with monitoring and analysis by independent agencies, can help keep annual budget planning consistent with medium-term objectives. Spending reviews, when integrated in budget processes, can help governments eliminate waste and navigate trade-offs in the use of public resources.

While interest rate declines lower the potential future cost of debt financing, it will take some time before this shows up materially in countries' public finances. Debt service costs have already risen substantially since 2021 and are projected to be even higher over 2025-26 in most economies (Figure 1.32), reflecting higher interest rates now than when the maturing debt was issued. In some major economies, governments will need to finance large deficits while central banks continue to shrink their balance sheets, raising the quantity of public debt to be absorbed by domestic private investors or foreign buyers (Figure 1.33). Higher bond yields might be needed to sustain investor demand, especially if clear consolidation plans to ensure debt sustainability are lacking. This could partially offset the effect of monetary policy easing on the costs of new public debt issuance.

[7] The headwinds from fiscal consolidation might also be reduced if risk premia on government bond yields start to diminish once credible action is taken.

Figure 1.32. Policy rate cuts will take time to lower average public debt service costs

Interest payments on public debt



Source: OECD Economic Outlook 116 database; and OECD calculations.

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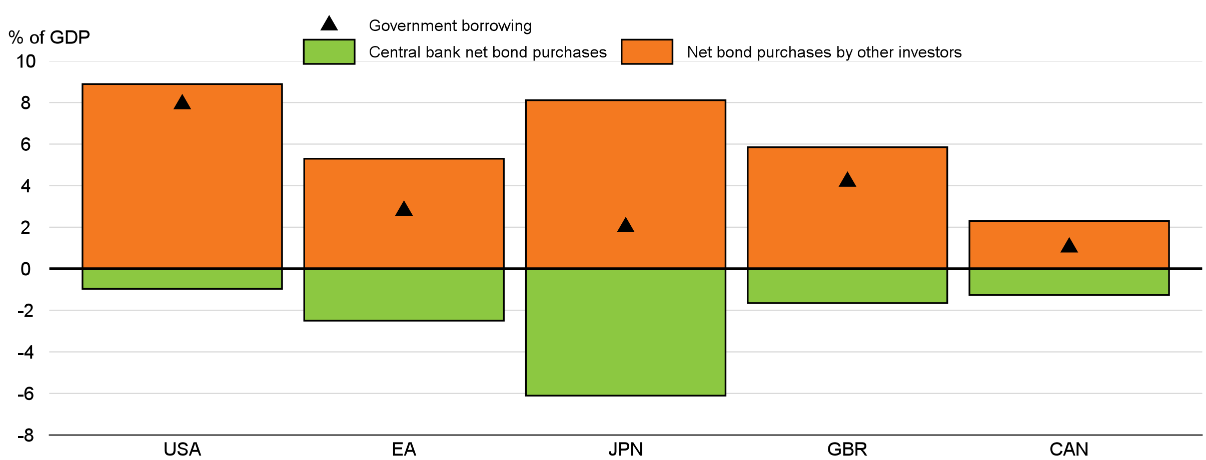
Figure 1.33. Budget deficit projections and quantitative tightening imply sizeable debt absorption by markets

Government borrowing and net purchases of sovereign bonds, annual average 2025-2026



Note: The figure shows an illustrative scenario for net flows of central government debt securities based on the budget deficit projections in this OECD Economic Outlook and current guidance on quantitative tightening. Government borrowing is shown in net terms, computed from projections of general government budget deficits. "Central bank net bond purchases" represents changes in central bank holdings of central government debt securities, simulated based on quantitative tightening guidance. The difference between the two variables is interpreted as additional financing needed to absorb debt maturing on central bank balance sheets (or sold by central banks pursuing active QT) and newly issued sovereign bonds ("Net bond purchases by other investors"). For the United Kingdom, central bank holdings include gilts only. For the euro area, central bank holdings include public sector securities in the asset purchase programme and pandemic emergency purchase programme. The scenario assumes general government deficits are financed entirely through issuance of central government bonds.
Source: OECD Economic Outlook 116 database; Bank of Canada; Board of Governors of the Federal Reserve System; European Central Bank; Eurostat; Office for National Statistics; Bloomberg; and OECD calculations.

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Box 1.3. The European Union's reformed fiscal rule framework

A reformed fiscal rule framework took effect this year in the European Union. Designed to ensure that national fiscal policies put debt on sustainable paths, the new framework also aims to protect growth-enhancing investments while improving national ownership of the plans.

EU member states must submit medium-term plans specifying a trajectory for government spending (net of tax policy changes and with a number of other adjustments) compatible with lowering public debt (where it is above 60% of GDP) or keeping debt at manageable levels (when it is currently low). Where fiscal consolidation is needed, requirements differ by country based on risks assessed in debt sustainability analysis. However, previous requirements to maintain deficits below 3% of GDP remain in place, with numerical safeguards setting minimum limits on the pace of deficit and debt reduction. Medium-term plans should cover a period of 4-5 years, depending on the length of the legislative term, and be maintained for their duration or until a change of government. The rules do not include provisions on the fiscal aggregates of the euro area as a whole, but the European Fiscal Board provides advice on the appropriate area-wide fiscal stance. Annual monitoring will check member states' progress against medium-term plans, which may cover longer adjustment periods (up to 7 years) for high-debt countries committing to agreed investments and reforms.

Large improvements in underlying primary balances are projected to be achieved over 2025 and 2026 by France and Italy, two economies grappling with persistent budget imbalances. The already small underlying primary deficit in Germany is projected to shrink slightly. With public debt high in many EU countries, enforcement could prove an early challenge for the new framework. Among EU OECD countries with public debt above 60% of GDP, the median improvement in underlying primary balances over 2025-26 is 0.3% of potential GDP, compared with a 0.1% improvement for lower debt member states. In addition to France, Belgium is also projected to have public debt exceeding 90% of GDP in 2026 with a substantial primary deficit. Greece's budget deficit is expected to change little in the next two years but remain well below the 3% of GDP threshold that would require fiscal consolidation. Projected declines in Greece's high public debt ratio are projected to remain larger than the minimum average 1 percentage point reduction per year required by EU safeguards.

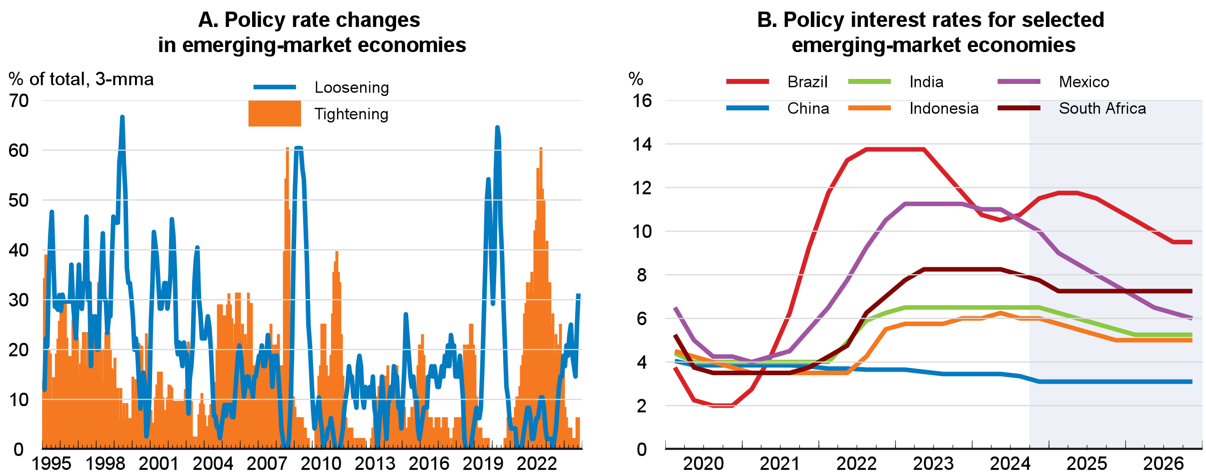
For some high debt countries, compliance with the European fiscal rules is likely to require sustained fiscal consolidation over several years. Political and popular consensus will be needed for potentially significant curbs to spending or higher taxes (or both). It is also essential that fiscal adjustments are as growth-friendly as feasible, minimising adverse short-run impacts on activity and preserving growth potential. Past experience shows that economic growth plays a major role in durably reducing countries' public debt-to-GDP ratios (OECD, 2023c; Pina et al., 2024).

Emerging-market economies should aim to reduce inflation durably and improve public debt sustainability

Monetary policy paths have continued to diverge across emerging-market economies in recent quarters reflecting increasingly heterogeneous inflation and exchange rate developments. Policy rate reductions have continued in Chile, Colombia and Mexico, and started in Indonesia, Saudi Arabia, South Africa and Thailand. In contrast, rates have so far remained unchanged in India, and have been raised twice in Brazil amidst concerns about the potential impact on inflation expectations from an upturn in inflation amidst strong growth. Key policy interest rates and reserve requirements have declined further in China, as part of the large stimulus package to support the property sector and boost the economy.

The recent differences in monetary policy actions across the major emerging-market economies are in contrast to the simultaneous tightening in most economies as inflation rose in 2021-22 and to some past loosening cycles, where the pace of interest rate cuts was highly synchronised (Figure 1.34, Panel A).

Figure 1.34. Monetary policy paths are still diverging across emerging-market economies



Note: Panel A shows the share of countries raising and reducing policy rates in a given month. The sample consists of 16 emerging-market economies. The sample composition changes over time according to data availability.
Source: OECD Economic Outlook 116 database; Bank for International Settlements (BIS); and OECD calculations.

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Scope exists to lower policy interest rates in most economies over the next two years, but policymakers should remain vigilant to developments in inflation and the exchange rate, to ensure that inflation returns to target durably. Careful calibration of monetary policy is essential to keep inflation expectations well anchored and avoid disruptive capital outflows. If necessary, rate reductions may need to be slowed, or even reversed temporarily, to ensure price stability.

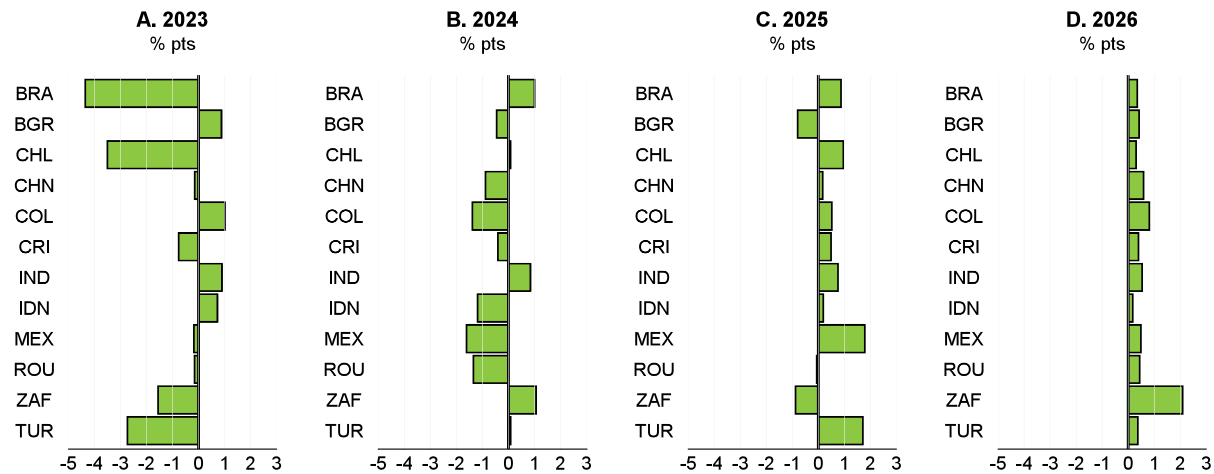
The expected pace of policy rate reductions varies across countries (Figure 1.34, Panel B):

- Nominal policy rates are projected to be raised further in Brazil in the coming months due to higher inflation, with gradual cuts only from mid-2025 onwards.
- In Chile, Colombia and Mexico interest rate cuts are expected to continue at a steady pace until late 2025 or 2026, taking policy rates to 4.25, 5.5 and 6% respectively, close to neutral levels.
- Modest rate cuts are projected in Indonesia and South Africa, with inflation recently declining somewhat faster than previously anticipated. Rates are also projected to decline in India as inflation eases over the next two years.
- In Türkiye, where inflation remains elevated, the policy rate is projected to remain at 50% until the first quarter of 2025 and then decline to 20% by the latter half of 2026 as inflationary pressures recede.

Recent fiscal developments have also varied across emerging markets. In Brazil, Chile, Costa Rica, South Africa and Türkiye fiscal deficits expanded in 2023, reflecting in some cases the extension of pandemic support measures and increases in pensions and public wages, as well as, for Türkiye, substantial earthquake-related expenditure. In contrast, fiscal balances improved in Bulgaria, Colombia, India and Indonesia (Figure 1.35, Panel A). In several countries deficits are expected to increase in 2024. In China, spending shifts towards infrastructure and direct income support measures have been announced, together with significant additional issuance of local government bonds and steps to ease the debt service burden of local governments. In contrast, the fiscal deficit is projected to decline in Brazil in 2024, even though the policy stance remains expansionary, and automatic indexation of pensions and social benefits continue to put pressure on social expenditure (Figure 1.35, Panel B).

Figure 1.35. Fiscal developments are expected to vary across emerging-market economies

Changes in government net lending expressed in percentage of GDP



Note: The chart is based on general government financial balances for Brazil, Bulgaria, China, India, Indonesia, Romania, South Africa and Türkiye, and central government financial balances for Chile, Colombia and Costa Rica. Data for Mexico are for the overall public balance, comprising federal and other public agencies such as the social security system and state-owned enterprises. Positive changes correspond to improved financial balances (for instance, smaller deficits).
Source: OECD Economic Outlook 116 database; and OECD calculations.

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Based on announced fiscal plans, moderate fiscal balance improvements are projected in most countries in 2025-26 (Figure 1.35, Panels C and D). Fiscal deficits are projected to narrow by over 1.5% of GDP in Mexico and Türkiye in 2025, reflecting cuts to public investment (including a reduction in expenditure related to the 2023 earthquake in Türkiye) and in Türkiye increases in tax revenues. Government deficits are also expected to be reduced in Brazil and Colombia next year, although discretionary spending reductions could be required to meet fiscal targets. A consolidation is projected in India in 2025, supported by rising revenues amid a broadening of the tax base. In 2026, further fiscal consolidations are in general expected to be modest, with the exception of South Africa where the government deficit is projected to decline by over 2 percentage points of GDP.

Many emerging-market economies face similar challenges to advanced economies from rising debt and growing debt service pressures. At the same time, emerging-market economies often have larger investment needs in human and physical capital and still insufficient social safety nets. To safeguard the sustainability of the public finances and address new spending pressures, actions are needed to create adequate fiscal space, enhance spending efficiency and improve revenue mobilisation, including reductions in ineffective tax expenditures and steps to broaden the tax base.[8] Reforms to help reduce informality also have an important role to play. The pace and type of consolidation needs to remain

[8] Progress in broadening the tax base has slowed among emerging and developing economies after the global financial crisis, with less than two-thirds of potential tax revenue actually collected between 2011 and 2023 in low-income countries (World Bank, 2024).

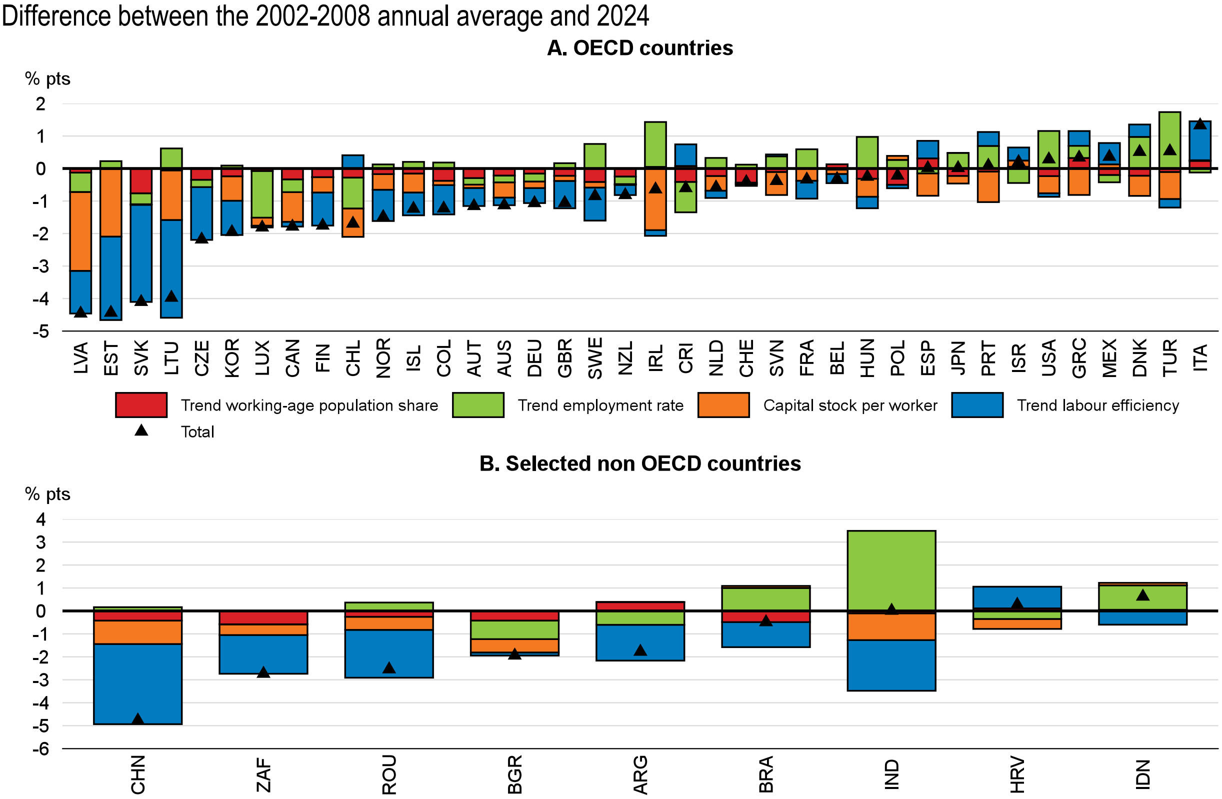
country-specific, although countries facing high sovereign spreads will in general face stronger near-term pressures to enact measures that support fiscal credibility. Measures aimed at introducing or enhancing fiscal institutions, including fiscal rules and fiscal councils, could also help in this respect by lowering financing costs and improving fiscal credibility (Caldera Sánchez et al., 2024). Fiscal transparency can also be enhanced by better disclosing the composition of debt and exposures to risks.

Structural reforms to promote investment and tackle labour shortages will support stronger and more sustainable growth

Potential output growth has generally weakened across both advanced and emerging economies since the global financial crisis. The latest estimates suggest potential output per capita growth fell by 0.7 percentage points in the median OECD country and 1.1 percentage points in the median G20 emerging-market economy between the 2002-2008 period and 2024 (Figure 1.36). This is despite slightly higher employment rates as more women were integrated into the labour force and working lives were lengthened. About one-quarter of the reduction in potential output growth per capita in both OECD and non-OECD economies reflects secular declines in the share of the population that is of working age. However, most of the decline is explained by lower growth in the capital stock per worker and trend labour efficiency (which together add up to labour productivity).

Figure 1.36. Growth in potential GDP per capita has slowed in most countries

Difference between the 2002-2008 annual average and 2024



Note: The change between 2002-2008 and 2024 shown by the triangle is decomposed into four components according to the Cobb-Douglas production function used in estimating potential output. The working-age population share is the share of people aged 15 to 74 in the total population. The employment rate is total employment divided by population aged 15 to 74. Capital stock per worker is the capital stock divided by total employment. Labour efficiency is computed as a residual and measures the efficiency with which the different inputs are combined to produce output. Trend estimates for the different components (except capital stock per worker) are obtained by applying statistical procedures to remove business cycle fluctuations.
Source: OECD Economic Outlook 116 database; and OECD calculations.

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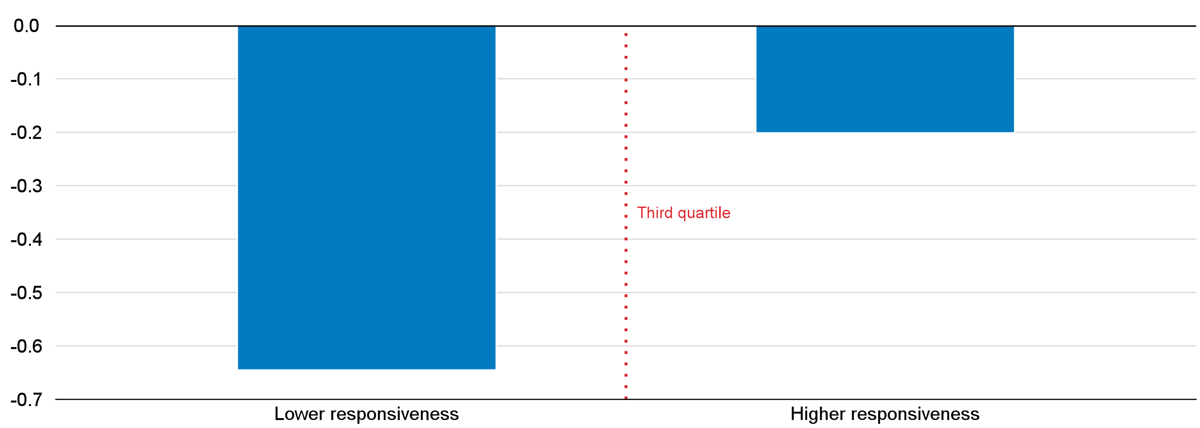
Encouragingly, those countries that have been most active in implementing the structural reforms recommended in OECD *Going for Growth* publications show less of a slowdown in potential GDP per capita growth than other countries (Figure 1.37). The fact that Greece, Portugal and Spain are among the few OECD countries with positive revisions to potential per capita growth (and even larger ones since the post-global financial crisis period) also suggests that structural reforms accrue benefits over time, as these countries are among those that have reformed the most over the past two decades.

Weaker capital investment has been the predominant factor behind the potential output growth slowdown in the OECD area. In the median OECD country, nearly two-thirds of the 0.7 percentage point decline in potential GDP per capita growth is due to weaker growth of capital per worker. Public policies to encourage private sector investment are needed to revive capital investment and the speed and extent to which new ideas and technologies such as AI spread. Public investment also needs to be preserved, or even strengthened, in important areas with significant market failures. A stable macroeconomic environment with predictable fiscal and monetary policy frameworks is an essential precondition for fostering investor confidence. Strong incentives for firms to grow and innovate are also essential. Competition-friendly product market regulations are particularly important in this regard, along with policies that reduce frictions to the movement of resources to high potential firms, such as those that improve access to finance and insolvency regimes that facilitate the rapid exit of low productivity businesses. Openness to trade and limiting barriers to foreign investment also support competitive markets and facilitate the transfer of new technologies from abroad, particularly in emerging-market economies.

Figure 1.37. Undertaking structural reforms is associated with less of a slowdown in potential output growth

Average percentage point change in annual potential output per capita growth between 2002-2008 and 2024 excluding the trend working-age population share component, classified by average responsiveness to Going for Growth recommendations over 2007-2018



Note: The x-axis classifies countries in two groups according to average responsiveness to OECD *Going for Growth* recommendations over the 2007 to 2018 period. For more details on the responsiveness measure, see Box 2.2 and Annex 2.A1 of OECD (2010). Lower responsiveness corresponds to an average score below the third quartile and higher responsiveness to above this third quartile. The y-axis shows the average change to annual potential output per capita growth between 2002-2008 and 2024 for the two groups but excluding the trend working-age population share component (in red on Figure 1.36) as structural reforms would not be expected to impact the age structure of the population.
Source: OECD Economic Outlook 116 database; OECD Going for Growth database; and OECD calculations.

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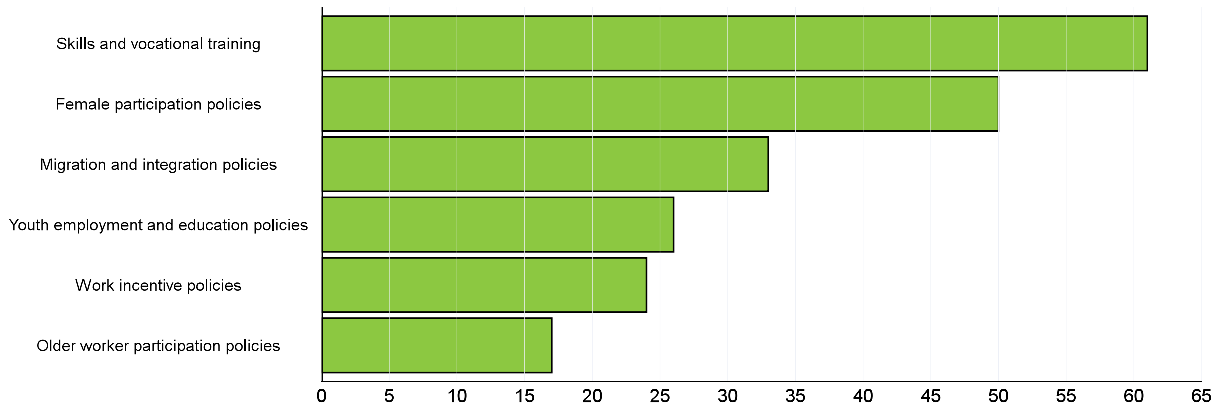
Looking further ahead, demographic trends are expected to become a key factor holding back potential output growth, with the share of the working age population set to further decline in OECD economies (Guillemette and Château, 2023). In the absence of significant policy reforms, this will exacerbate the labour shortages that already exist. The 2024 Employer Survey of Labour Shortages by the Global Forum on Productivity found that 15 to 35% of firms report that all or most of their outstanding vacancies are hard to fill, particularly in Austria, Germany, Norway and Slovenia (Chapter 2). The reasons for such shortages will vary across sectors and countries. In some cases, it may be a lack of available people to meet demand in labour-intensive occupations. Other shortages will stem from skills mismatch, with firms requiring skills in short supply. This points to the need for a broad range of policy reforms to help address structural labour shortages and prevent them persistently weakening economic growth.

Policy measures to tackle labour shortages are set out in detail in Chapter 2, and country-specific recommendations are included in the national country notes of this Outlook in Chapter 3 (summarised in Figure 1.38). Relevant policy considerations include:

- Addressing the evolving skill needs in the economy through education and training policies that ensure strong foundational skills, apprenticeship programmes and vocational education focused on the needs of employers, and participation of adults in high quality life-long training programmes. Encouraging investments in science, technology, engineering, and mathematics education will help economies further adjust to the digital transition in the medium term. At the same time, rising demand in care sectors will further increase the need for training that supports the development of interpersonal and other soft skills.
- Raising participation to bring more people into the labour market, especially women and older workers, at a time when unemployment rates are still close to historical lows in most countries. Adequate childcare support and parental leave, and reforms to improve the incentives to work from the tax/benefit and pension systems, can be important in this respect. In many countries, immigration policies must also be reformed to help attract workers with the required skills and ensure they are successfully integrated into the economy.
- Promoting worker mobility and better labour market matching to reduce structural labour shortages. Ensuring that workers are in the jobs that best match their skills and interests can have substantial productivity payoffs (Adalet McGowan and Andrews, 2015). Regulatory reforms, such as rationalising unnecessary occupational licensing or non-compete clauses, can improve labour mobility. Ensuring that regulations around the housing market and employment protection legislation do not lead to excessive costs of changing jobs or relocating is also important (Causa et. al. 2021). In some high-demand sectors, such as health, elderly care and education, enhancements to job quality by raising wages and improving working conditions will often be required to attract and retain the needed workers.

Figure 1.38. A broad range of policy reforms is needed to reduce labour shortages

Countries with policy recommendations to alleviate labour shortages in each category, percentage of countries



Note: Policy recommendations are taken from the Economic Outlook 116 country notes (see the chapter on developments in individual OECD and selected non-member economies) and cover 54 countries. The figure shows the share of countries with policy recommendations to alleviate labour shortages in each given category.
Source: OECD Economic Outlook 116 database; and OECD calculations.

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

Fiscal policy settings for 2025-26 are based as closely as possible on legislated tax and spending provisions and are consistent with the growth, inflation and wage projections. Where government plans have been announced but not legislated, they are incorporated if it is deemed clear that they will be implemented in a shape close to that announced. In 2026, it is assumed that EU countries adopt fiscal policy adjustments which are consistent with the reformed Stability and Growth Pact.

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

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

The projections assume unchanged exchange rates from those prevailing on 14 November 2024: one US dollar equals JPY 155.8, EUR 0.95 (or equivalently one euro equals USD 1.06) and 7.23 renminbi.

The price of a barrel of Brent crude oil is assumed to remain constant at USD 75 until the end of 2026. The TTF natural gas price is assumed to remain constant at EUR 40 MW/h until the end of 2026. Other commodity prices are assumed to be constant over the projection period at their average levels from October 2024. A technical assumption is made that the current disruptions to shipping in the Red Sea persist through 2025 and 2026.

The cut-off date for information used in the projections is 27 November 2024.

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 Understanding Labour Shortages: The Structural Forces at Play

Introduction

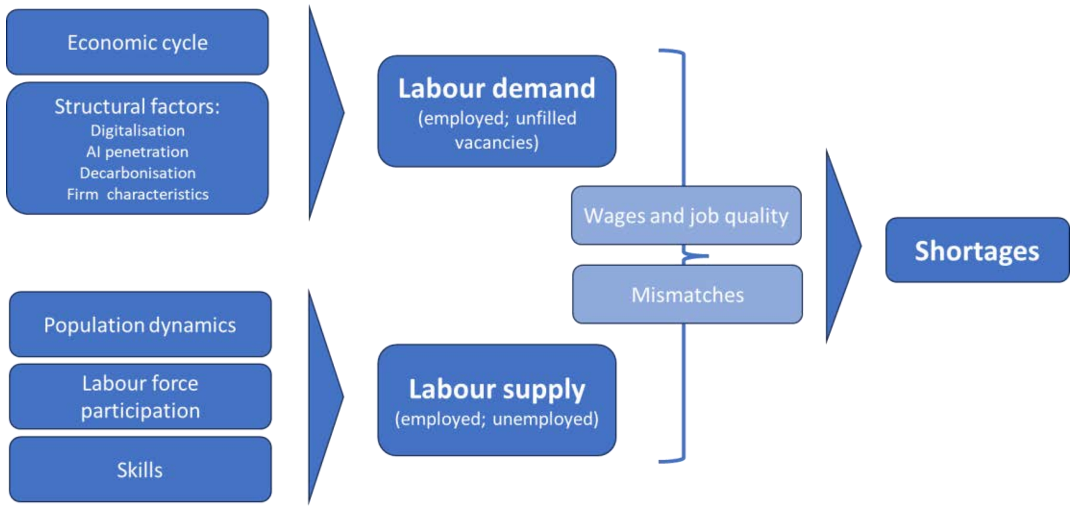
The recovery from the COVID-19 pandemic exacerbated labour shortages, which had been increasing across OECD countries since the 2008 global financial crisis. The rebound in activity, coupled with weakened labour supply due to largely temporary pandemic-related effects, including the withdrawal of older workers from the labour market (Duval et al., 2022), significantly contributed to heightened labour market tightness. Currently, job vacancy rates are falling and unemployment rates are edging up in some OECD countries, suggesting the phase of significant cyclical labour market tightness is mostly over (see Chapter 1). Nevertheless, labour and skill shortages remain at very high levels, particularly in some key sectors such as health care and information and communication. New insights from the OECD's Employer Survey of the Global Forum on Productivity (GFP) reveal the nature and underlying structural causes of persistent labour shortages and how they differ across firms of different age, productivity and working conditions.

Labour shortages are being amplified by structural and technological shifts, including population ageing, the rise of artificial intelligence (AI) and the green and digital transitions. On the demand side, these transitions, along with the increasing adoption of AI, are driving significant changes in skill requirements across sectors (Dorville, Filippucci and Marcolin, 2024; Draghi, 2024). On the supply side, while efforts to increase the participation of underrepresented groups (especially the elderly, migrants and women) to the labour force could help ease shortages, population ageing continues to slow the growth of the working-age population. As the workforce ages and technological progress accelerates, skill mismatches worsen, partly due to faster skill obsolescence. This issue is compounded by a decline in human capital accumulation, reflected in falling educational performance. Additionally, poor job quality, including inadequate pay and unfavourable working conditions, makes jobs in some high-demand sectors less attractive to workers. This challenge is particularly pronounced in sectors such as accommodation and food services, transportation and storage, construction and health and social care (OECD, 2018a; Causa et al., 2022, 2024a).

Different aspects of the labour shortages can be portrayed in a stylised framework where labour demand and supply interact to shape wages and job quality, and lead to labour shortages when there are labour search frictions and associated mismatches (Figure 2.1). The framework is intended to support the interpretation of the findings presented in this chapter and abstracts from the many feedback effects between different aspects. For example, labour shortages can affect the pace of structural developments as the adoption of certain technologies requires specific competencies. Similarly, shortages can enhance workers' bargaining power, driving up wages, especially in markets characterised by firms' monopsony power (Naidu and Dube, 2024).

Although cyclical labour shortages may have faded, structural labour shortages remain high, calling for decisive policy action to better align labour supply with demand and improve the matching of the two. Significant public and private investments in upskilling, reskilling and reforms to education and lifelong learning systems are essential to equip the labour force with the skills needed. Policies need to make sure students and workers acquire the necessary technical and soft skills to adapt to future challenges. Multiple labour market policies can be mobilised to enhance mobility and improve the efficiency of matching. Strengthening synergies with demand-side policies is crucial to ensure that workers with the appropriate skills are available to support technology adoption and advance the digital and green transitions. Labour force participation, particularly among older workers, women and youth, can be further increased through measures such as promoting healthy ageing, improving working conditions, introducing gender-friendly initiatives like affordable childcare, and enhancing school-to-work transitions. Improving job quality remains vital to attract workers to certain occupations. Migration, supported by robust integration policies, can also play a role in easing labour shortages.

Figure 2.1. Stylised conceptual framework



Against this background, this chapter builds on the new GFP Employer Survey findings, complemented by administrative data, to explore the intensity and nature of labour and skill shortages across OECD countries, and outlines policies that can help to alleviate shortages. It is organised as follows. The next section documents recent developments in labour market tightness using macroeconomic and sectoral data. The third section presents the firm-level evidence from the survey on the structural dimension of labour shortages and their link to digitalisation, including AI penetration and the green transition. It also shows that labour shortages vary with firms' age, productivity and working conditions. The last section points to the need for transformative policy action to address labour shortages.

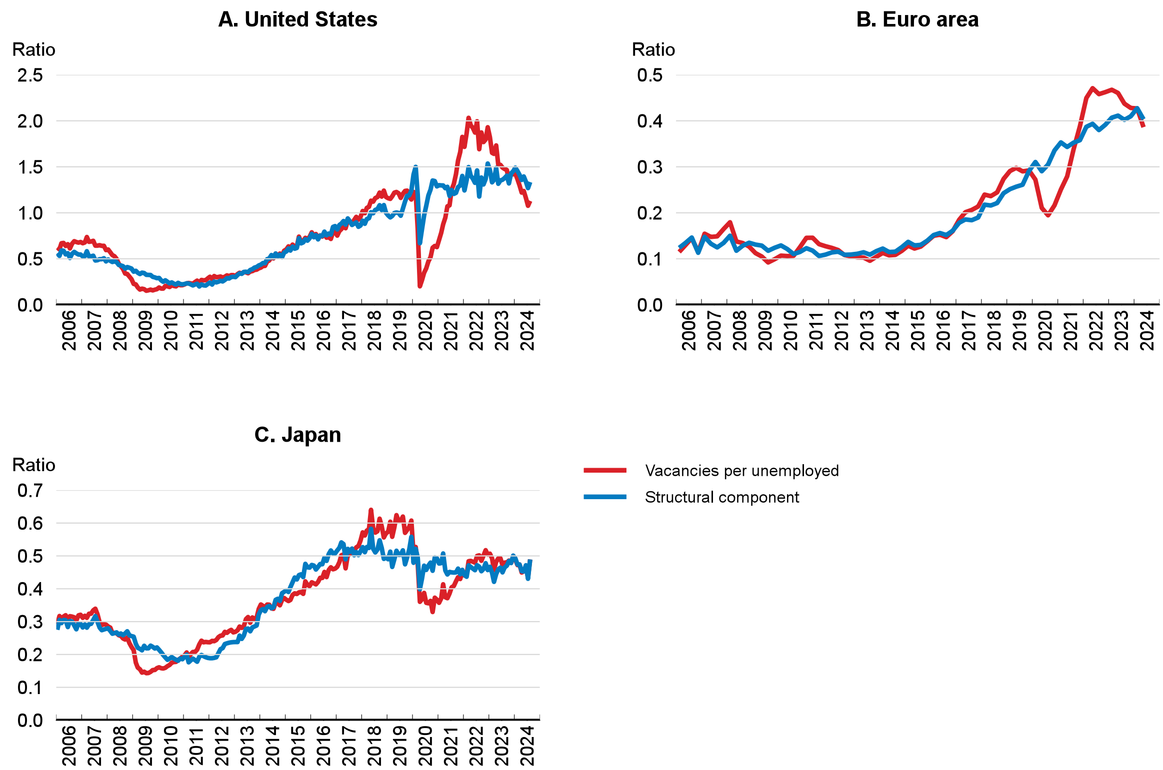
In most OECD countries, labour markets are cooling after severe tightness during the post-pandemic recovery

A common indicator of labour shortages is the ratio of the number of job vacancies to the number of unemployed individuals. Tightness[1] spiked during the recovery from the COVID-19 pandemic, reflecting largely temporary factors such as massive and unprecedented policy support to workers and businesses, labour hoarding by firms, pandemic-related withdrawals from the labour market, reductions in working hours, changes in worker preferences and mismatches generated by shifts in the demand structure, notably between goods and services (Causa et al., 2022, 2024a; Duval et al., 2022; Doornik et al., 2023). By late 2023, vacancies per unemployed had returned to their pre-pandemic trend in the United States, the euro area and Japan, suggesting that much of the cyclical variation in labour shortages may have subsided (Figure 2.2).[2]

[1] Tightness is defined as the number of job vacancies per unemployed person.

[2] The results of the Business at OECD (BIAC) Economic Policy Survey 2024 confirm that labour markets are cooling, even though labour shortages remain concerning. In 2024, 89% of respondents were concerned about labour shortages, as opposed to 95% in 2023. Similarly, 19% of respondents were very concerned in 2024, down from 58% in 2023 (BIAC, 2024).

Figure 2.2. Cyclical pressures in labour shortages have eased



Note: The structural component of the vacancies per unemployed ratio is estimated using the Christiano-Fitzgerald filter with a standard cycle length of 1.5 to 8 years.
Source: Eurostat; Statistics Bureau of Japan; US Bureau of Labor Statistics; and OECD calculations.

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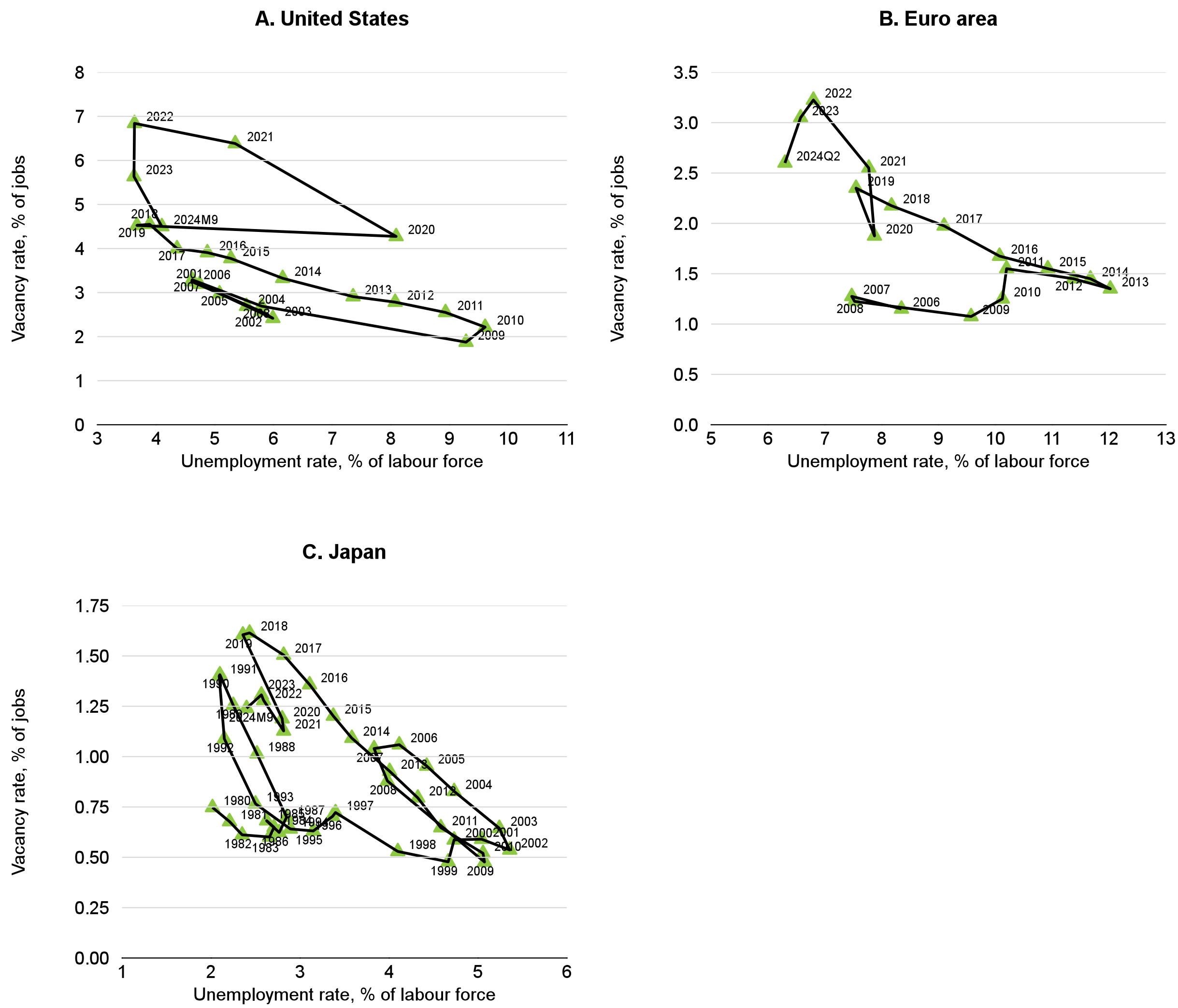
The Beveridge curve is a graphical representation of the relationship between unemployment rates and vacancy rates in an economy over multiple points of time. It confirms the largely structural nature of current labour shortages. The outward shifts in the Beveridge curve in the United States and the euro area after the 2008 global financial crisis imply less efficient matching in the labour market (Figure 2.3).[3] In the United States, the shift has been linked to increasing skill mismatches, reduced intensify of recruitment efforts by employers seeking workers and a rise in the share of long-term unemployed experiencing greater difficulties in exiting unemployment (Barlevy et al., 2024). In the euro area, both skill mismatches and an increase in the geographical dispersion of unemployment, contributed to the shift (Consolo and Dias da Silva, 2019). In Japan, a similar shift occurred in the aftermath of the early 1990s asset bubble with occupational mismatches playing an important role (Shibata, 2013). Although the Beveridge curve shifted in the United States and the euro area during the pandemic and early recovery period, current vacancy and unemployment rates are in line with the pre-pandemic norm. Further analysis underscores the significant role of structural factors in explaining variations in labour market tightness at the country-sector level in the last decade (Box 2.1).

[3] This pattern also broadly holds for most of the individual countries in the euro area for which data are available in this period (Consolo and Dias da Silva, 2019).

Figure 2.3. Beveridge curves shifted outwards after the Global Financial Crisis



Source: Eurostat; Statistics Bureau of Japan; and US Bureau of Labor Statistics.

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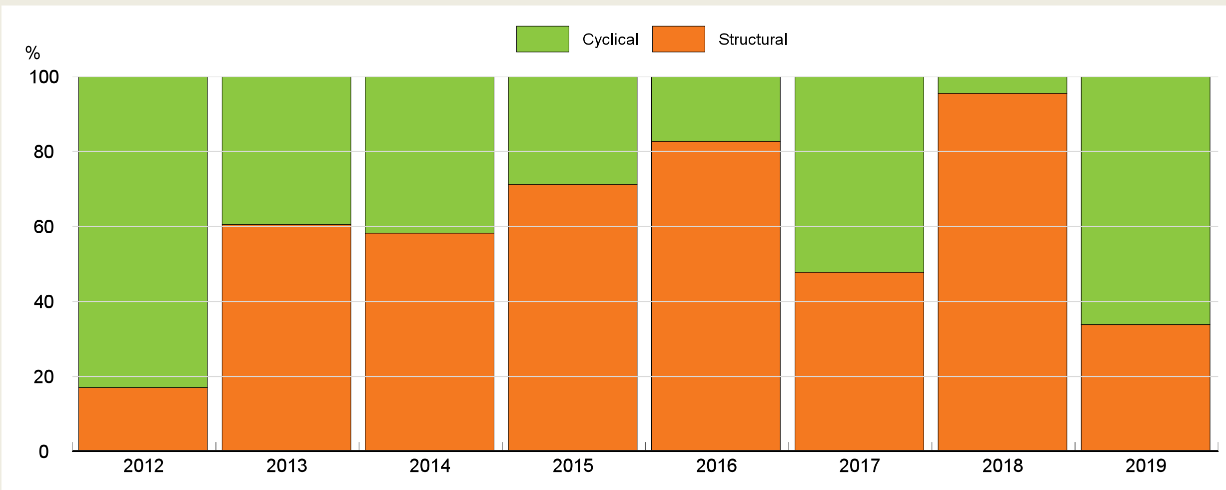
Box 2.1. Structural vs cyclical labour market tightness

Dorville, Filippucci and Marcolin (2024) analyse changes in sectoral patterns of labour market tightness across 28 OECD countries over 2010-2019 to see whether there is a causal link between rising tightness and the progressive unfolding of ageing, digitalisation, decarbonisation, globalisation and AI penetration. These structural factors are jointly analysed and tested against other possible determinants of the increase in tightness, such as a proxy for the economic cycle (the output gap), the changing skill composition of the workforce, plus country and granular sectoral indicators. Findings show that greater efforts to digitalise and decarbonise the economy already result in higher labour market tightness, while ageing adds to these pressures only in the medium term. Jointly considering all mentioned structural factors explains a large part of the country-sector change in labour market tightness, net of common shocks across countries (Figure 2.4).

Figure 2.4. Structural factors explain a large share of the variation in labour market tightness in the last decade



Note: The graph plots the share of the variance in labour market tightness explained by structural and cyclical factors in a regression of the yearly change in labour market tightness by country-sector on the output gap and indicators of exposure to demographic change, digitalisation, AI penetration, decarbonisation and globalisation and time fixed effects. Exposure to structural factors is defined as in Dorville, Filippucci and Marcolin (2024). Data for 28 OECD countries (Australia, Austria, Belgium, Canada, Czechia, Denmark, Estonia, Finland, France, Germany, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, Luxembourg, the Netherlands, Norway, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, United Kingdom and United States). Full coverage of OECD countries is constrained by the availability of job postings and unemployed people at the sectoral level. Lack of recent sectoral data on exposure to selected structural trends prevents an update of the analysis to more recent years.
Source: Australian Bureau of Statistics; Australian HILDA; Statistics Canada - Canada Labour Force Survey; Eurostat - European Labour Force Survey; Lightcast; US Bureau of Labor Statistics; US Current Population Survey; and OECD calculations.

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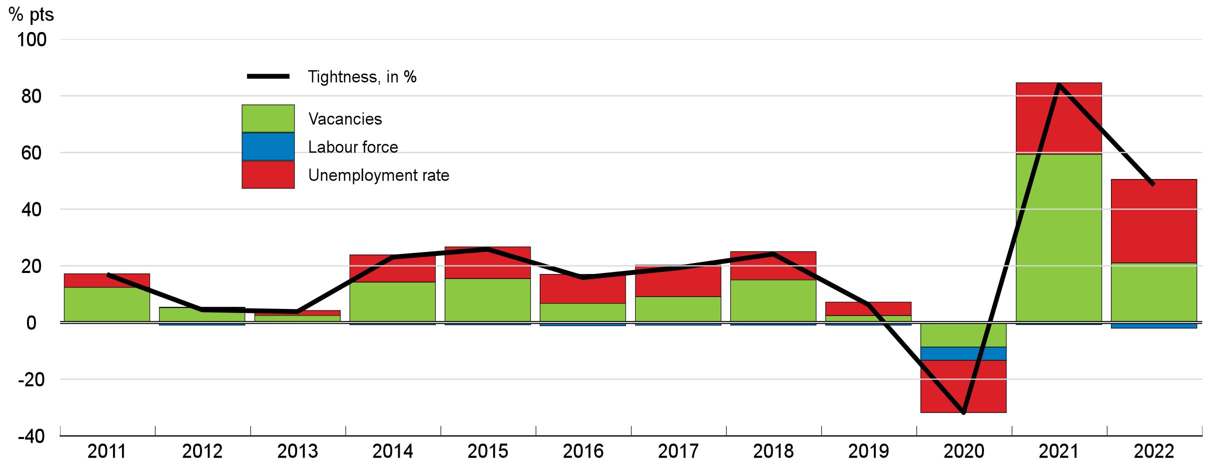
The growth in vacancies (labour demand) was the main driver of the increase in OECD labour market tightness from 2010 to 2022, although a declining trend in the unemployment rate also contributed, with some mitigating effects from increasing labour force participation (labour supply). Labour demand has been strong since the recovery from the 2008 global financial crisis and the post-COVID recovery was marked by an exceptional surge in vacancies. However, by 2022, vacancies had returned to levels close to those seen in the pre-pandemic years (Figure 2.5). Labour force participation, which was initially disrupted by the COVID pandemic, has since recovered to pre-pandemic levels in most OECD countries, exceeding 2010 levels (Figure 2.6). Although ageing has slowed labour supply growth, participation rates among older workers have reached record highs in many OECD countries. Additionally, migratory flows have bolstered labour supply in some countries, helping to mitigate the impact of demographic trends.

Figure 2.5. Increase in vacancies has driven labour market tightness in OECD countries

Increase in labour market tightness, vacancies and unemployed



Note: Annual growth rates, weighted averages across countries (Australia, Austria, Belgium, Canada, Czechia, Denmark, Estonia, Finland, France, Germany, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, Luxembourg, the Netherlands, Norway, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, United Kingdom and United States). The figure decomposes the annual change in tightness into the growth rate of vacancies, labour force participation and the unemployed rate. The contributions enter with the sign of the overall increase in tightness. A *decrease* in the unemployment rate also enters the decomposition with positive sign, insofar as it results in an *increase* in tightness. For more information, see Dorville, Filippucci and Marcolin (2024).

Source: Australian Bureau of Statistics; Australian HILDA; Statistics Canada - Canada Labour Force Survey; Eurostat - European Labour Force Survey; Lightcast; US Bureau of Labor Statistics; US Current Population Survey; and OECD calculations.

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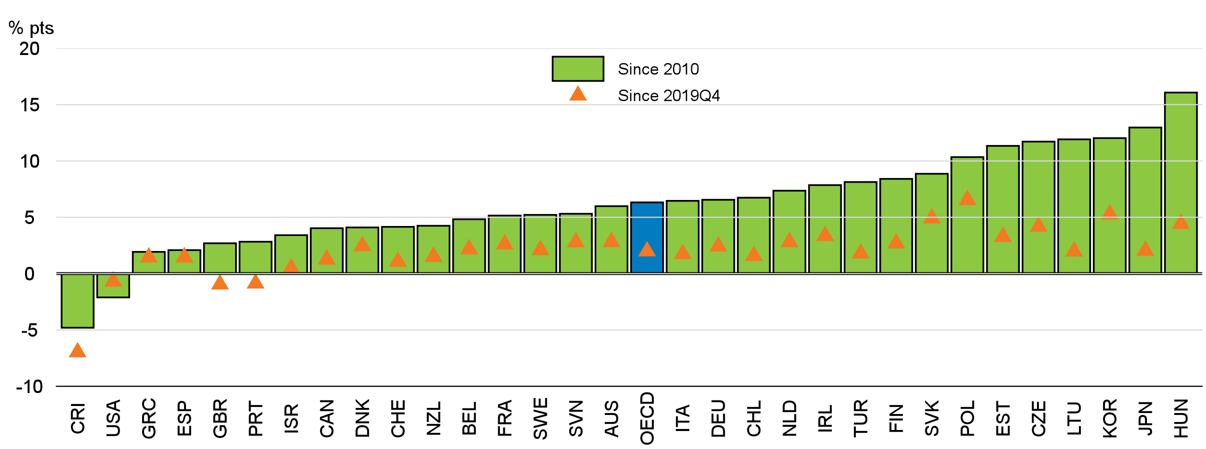
Figure 2.6. Labour participation is well above 2010 levels

Change in labour participation rate



Source: OECD Economic Outlook 116 database.

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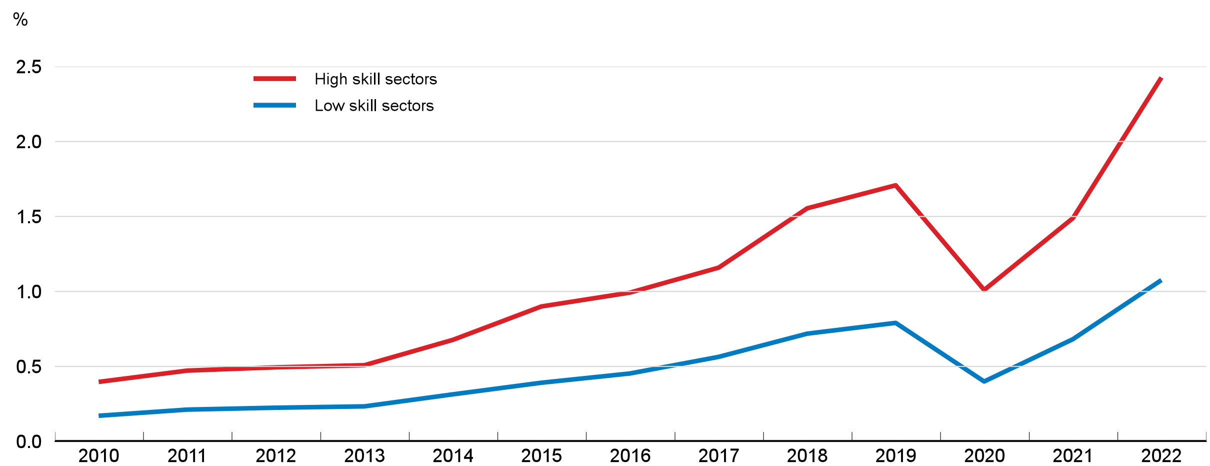
The role of demand side factors is reflected in estimates of the sectoral patterns of changes in tightness. In high skill sectors like finance, ICT and professional services, tightness has increased more than in sectors requiring lower skills (Figure 2.7).[4] Similarly, cross-country evidence on skill shortages at the occupational level shows that shortages are more important in high-skill occupations (OECD, 2022). This is partly because jobs in skill-intensive sectors require greater human capital, which takes time and effort to develop, and is often sector-specific. In contrast, the rise in labour shortages in low-skill sectors after the pandemic reflects the catch-up in labour demand after the shock and constrained output growth (OECD, 2023a; 2024a). This surge was mostly over in 2023, although labour shortages remain in some sectors where working conditions are poor and pay is low.

Figure 2.7. Shortages are more intense in high-wage sectors, particularly for skilled workers

Growth in labour market tightness across high- versus low-skill intensive sectors



Note: Weighted averages across 28 OECD countries (see note to Fig. 5). High skill sectors are defined as those having a share of high-skill workers larger than the mean in the Survey of Adult Skills (PIAAC). The figure excludes the Agriculture, Public Administration and Defence, Households and Extraterritorial Organisations sector.
Source: Dorville, Filippucci and Marcolin (2024).

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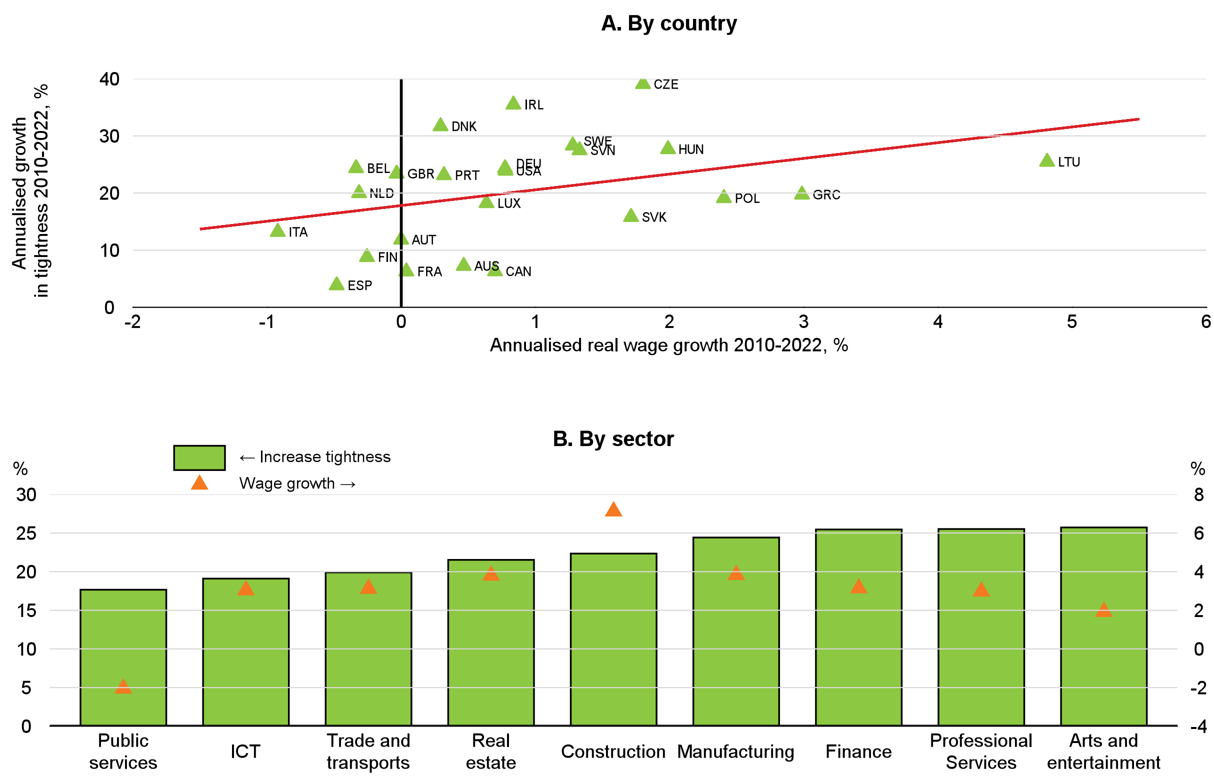
Over the period from 2010 to 2022, changes in labour market tightness and in real labour compensation are positively and significantly correlated across OECD countries and economic sectors, but in most sectors growth in real compensation per worker has not kept up with increases in tightness (Figure 2.8). Despite acute labour shortages in the early phase of the recovery from the pandemic, real wage increases have remained relatively subdued, except in a few smaller economies (Figure 2.9). Several factors may explain the muted wage response to labour shortages, beyond the impact of slow nominal wage adjustments to inflation. Some firms likely viewed the heightened demand for their products or services as temporary. Given the difficulty of reversing wage increases if economic conditions deteriorate, firms tend to hesitate to raise wages in times of uncertainty. Hiring workers at high wages due to current scarcity can also create tensions within the company's wage structure. Lastly, some firms may still exert monopsony power. For example, 16% of business-sector workers in 15 OECD countries are in labour markets that are at least moderately concentrated (Araki et al., 2022; US Bureau of Labor Statistics, 2024). Nevertheless,

[4] The estimates of sectoral tightness assume that the unemployed whose previous job was in sector *j* look again for employment in *j*. There is evidence that cross-sectoral mobility is limited by important fixed costs and wage losses for workers, which are determined by industry differences in the specific knowledge embedded in production (Dix-Carneiro, 2014). Further correcting the series of official statistics on unemployment to include workers on job retention schemes (where this is not typically the case) does not change the long-term picture.

acute labour market tightness has likely weakened firms' monopsony power (Naidu and Dube, 2024). Contrary to past experience, low-skill wages increased faster than the average following the pandemic, reflecting pay rises in low-skill sectors experiencing more acute labour shortages and statutory minimum wages increases (Autor, Dube and McGrew, 2023; OECD, 2023).

Figure 2.8. In the last decade, real wages have been associated with labour market tightness

Annualised growth in labour market tightness and real labour compensation per employee, 2010-2022



Note: Labour compensation per employee deflated by the consumers' expenditure deflator. Country coverage is determined by the availability of data on labour compensation per employee since 2010 from the OECD Economic Outlook database, and of data on labour market tightness from Dorville, Filippucci, and Marcolin (2024). The correlation in panel (a) is significant at the 5% confidence level.

Source: OECD Economic Outlook 116 database; OECD Annual National Accounts; Australian Bureau of Statistics; Australian HILDA; Eurostat - European Labour Force Survey; Lightcast; Statistics Canada - Canada Labour Force Survey; US Current Population Survey (unemployment); US Bureau of Labor Statistics (vacancies); and OECD calculations.

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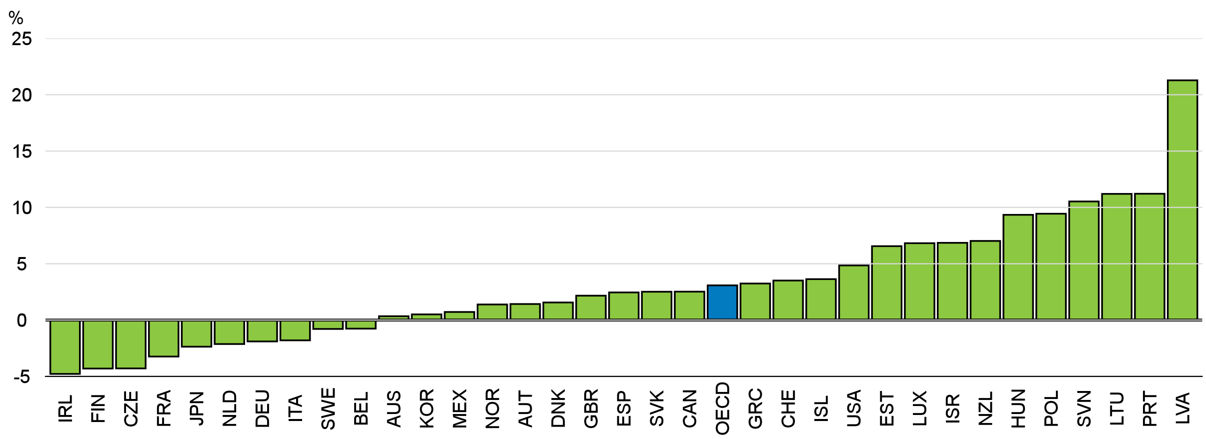
Figure 2.9. Real wage growth has remained subdued in many countries

Change from Q4 2019 to Q2 2024 or latest available



Note: Labour compensation per employee deflated by the consumers' expenditure deflator. OECD is computed as the unweighted average of the member countries shown on this graph.
Source: OECD Economic Outlook 116 database.

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Firm-level evidence: insights from a new Employer Survey

The OECD collected new firm-level labour shortage data in 2024 (Box 2.2), covering 34 OECD countries, Brazil and South Africa in a comparable and representative way. These data provide timely and detailed insights into the areas of the economy facing bottlenecks, enabling policymakers to design targeted interventions. They capture simultaneously the demand pressures that firms are creating on the labour market, the skill composition of their demand and whether the labour market provides the workers with the profiles that meet firms' needs. Contrary to administrative data on unfilled vacancies and unemployment, information about firms' labour shortages sheds light on recruitment difficulties even when job postings are not explicitly opened, or when a vacant position is eventually filled but with a sub-optimal job candidate.[5]

[5] Firm-level difficulties in finding personnel complement the information provided by tightness on the state of the labour market. For a given level of matching efficiency, a larger increase in vacancies than unemployment translates into greater difficulties for firms to recruit, i.e. into greater labour shortages as defined in the GFP Employer Module. However, in theory, difficulties in recruitment can worsen even without a change in tightness, if vacancies and unemployment increase by the exact same amount, corresponding to decline in matching efficiency. On the downside, the survey indicators may provide an inaccurate picture of the real state of the labour market if they capture firms' *perception* of shortages. They may also capture firms' inability or unwillingness to organise recruitment in a professional way.

The Survey reveals that shortages are widespread and severe across countries (Figure 2.10). Firms were asked whether they face recruitment difficulties and, if so, whether these are particularly severe (defined as most or all vacancies being hard to fill). Between 70% and 85% of firms report difficulties in recruiting suitable personnel, with challenges being especially widespread in Costa Rica and Israel. Moreover, 15% to 35% of firms report severe shortages, with at least one-third of firms in Austria, Germany, Norway and Slovenia facing these acute challenges.

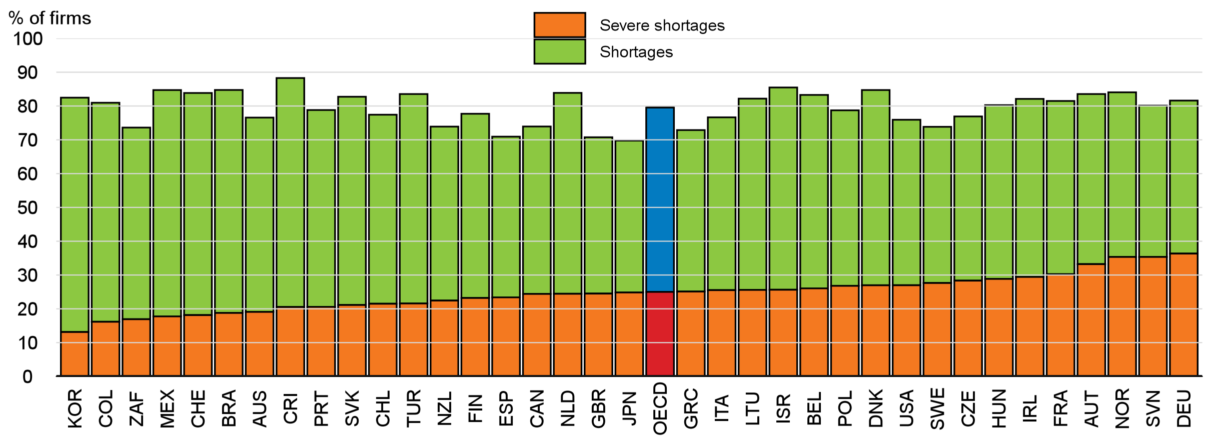
Box 2.2. The Global Forum on Productivity's Employer Survey on labour shortages

The Employer Survey on labour shortages and mismatches designed by the Global Forum on Productivity collects information on those phenomena at the company level, with the aim to assess their prevalence across sectors and countries. The Survey collects data in a timely manner at the company level. It also requested information on (i) the firm-level consequences of experiencing recruitment difficulties, both on firms' performance and internal organisation; (ii) the strategies that firms deploy to cope with such difficulties, and (iii) exposure of individual companies to structural changes, among others. The collection of data at the company level ensures that effects of structural changes, labour market imbalances and firm performance can be linked at the micro-level.

The Survey covers firms with 10 or more employees in all sectors of the economy except agriculture, utilities, financial services, public administration, education, household production and activities of extra-territorial entities, in 34 OECD countries plus Brazil and South Africa. A limited sample size prevented the inclusion of data for Estonia, Iceland, Latvia and Luxembourg. The Survey was administered in March – August 2024 as an online survey of about 500-1000 entities per country, sampled according to strata that account for the sectoral affiliation of the company and its size category. Targeted respondents were human resource employees, managers or executive managers, who received the questionnaire in the language of their country of residence. Questions mostly referred to 2023, with some questions referring to 2022-2023. The cross-country mean and dispersion of shortages are comparable to those recorded by the two existing international data collection exercises on the topic, i.e. Eurobarometer 529 (covering SMEs for European countries) and the Manpower Employment Outlook Survey 2024 (covering 41 countries worldwide but with differing degrees of representativeness by country). The GFP Employer Survey complements another OECD measurement effort that focuses on on-the-job skill mismatch (Marcolin and Quintini, 2023; OECD, 2024b).

Figure 2.10. Firms report severe difficulties finding personnel

Firms reporting difficulties recruiting, 2022-2023



Note: Respondents were asked if their firm encountered any difficulties in recruiting employees in the last 24 months. Severe shortages occur if all or most (as opposed to some, few or none) of the opened vacancies in the firm were hard to fill. OECD is computed the unweighted average of the member countries shown on this graph.
Source: Filippucci, Laengle and Marcolin (forthcoming) based on GFP Employer Survey data.

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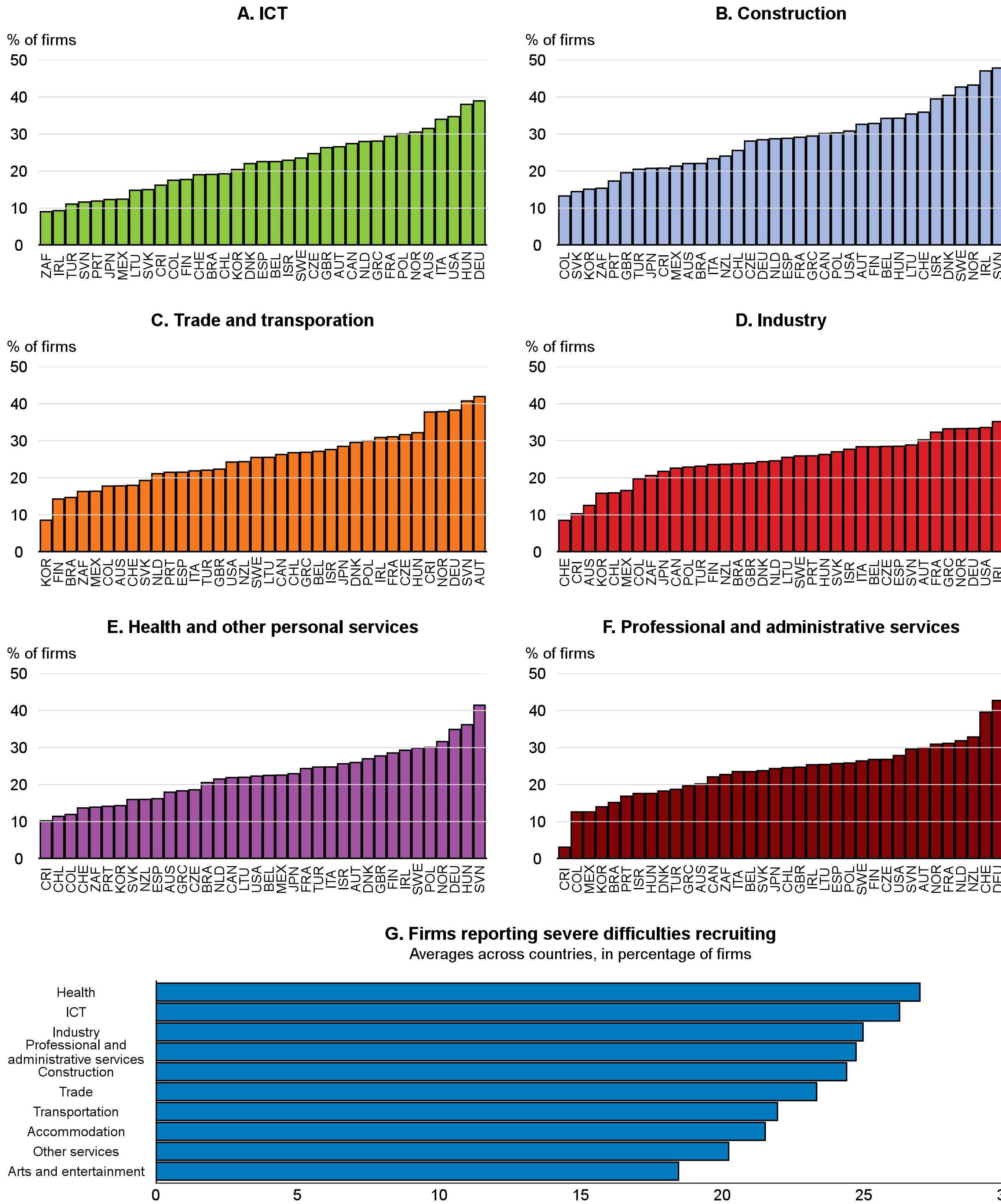
Although the sectors experiencing the most severe shortages vary across countries, healthcare, ICT, industry and professional and administrative services are often among the hardest hit (Figure 2.11). In some countries, such as Germany, severe labour shortages are reported across all sectors, whereas in others, like the United States, they are concentrated in specific areas, such as industry and ICT. These variations reflect differences in sectoral reliance on technologies and their demand for specific skills and occupations. For instance, the ICT service sector, an early adopter of AI (Calvino and Fontanelli, 2023), reports persistent shortages of software professionals (OECD, 2024c). In healthcare, long-term structural shortages stem from population ageing, which drives a surge in demand, as well as from poor working conditions, which constrain supply. Other sectors, such as accommodation and food services or construction face shortages due to strenuous working conditions or low wages.

Figure 2.11. Severe labour market shortages are uneven across sectors

Firms reporting severe difficulties recruiting, 2022-2023



Note: Sectors are, respectively: Industry (ISIC Rev.4 sectors B and C), Construction (F), Trade (G), Transportation and storage (H), Accommodation (I), Trade and transportation (G, H, I), ICT (J), Professional and administrative services (L, M, and N), Health care (Q), Arts and entertainment (R), other services (S), Health and other personal services (Q, R, and S). Data for missing sectors are not collected in the GFP Employer Survey.

Source: Filippucci, Laengle and Marcolin (forthcoming) based on GFP Employer Survey data.

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Structural factors change skill needs and create labour shortages

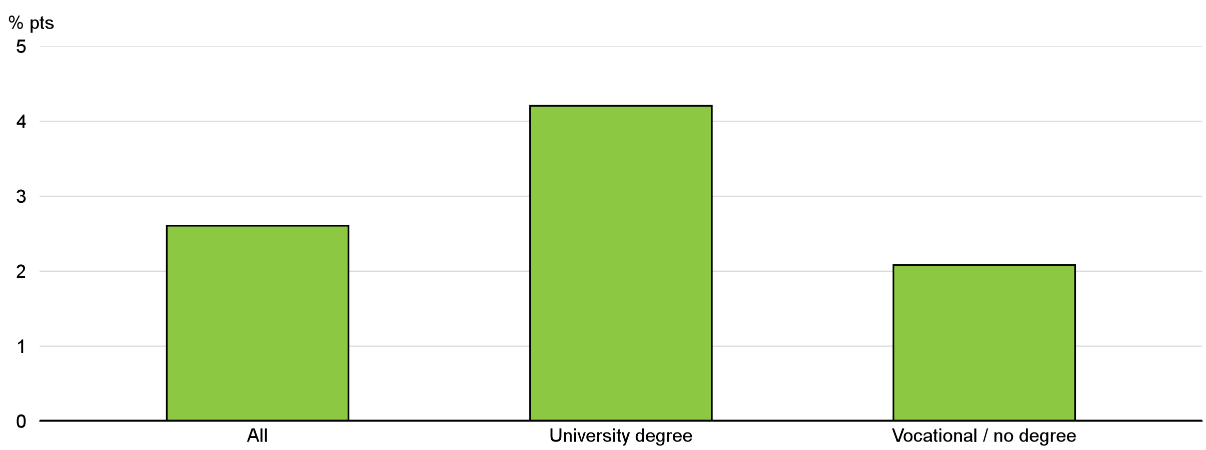
Data from the GFP Employer Survey suggest that shortages are more frequent for firms in high-wage sectors (Figure 2.12) and even more so when firms are seeking to fill positions that require tertiary education.[6] High shortages in high-wage firms likely reflect the sorting of high-skill workers into these firms. Education has historically warranted a salary premium and the share of high-skilled workers in high-wage firms is greater than in firms at the bottom of the firm wage distribution. This is likely either because high-skilled workers increasingly cluster in the same firms as they get more specialised, or because better performing firms pay higher wages to attract better workers (OECD, 2021a).

In most countries at least 40% of firms experiencing labour shortages reported changes in skill needs, a significantly higher proportion than firms without shortages (Figure 2.13). This difference is particularly pronounced in Denmark, Hungary and Sweden. Changes in the products or services sold, inputs used, or new investments in tangible or intangible assets can alter the nature of tasks workers perform (Autor, 2013). These shifts, in turn, drive changes in the knowledge and skills that firms require from their workforce.

Among the firms opening vacancies due to changing skill needs, skills in shortage are predominantly tied to structural trends (Figure 2.14). Digital and green skills are the most in demand, followed by social and communication skills, which are often complementary to digital skills (Grundke et al., 2018). Firms in Brazil, Türkiye and South Africa report particularly frequent difficulties finding both green and digital skills. Green skills are also in significant shortage in the United States and Italy, while Swiss firms report substantial shortages of digital skills.

Figure 2.12. Shortages are more intense in high-wage sectors, particularly for skilled workers

Difference in the conditional probability of reporting a shortage between firms in high and low-wage sectors, by educational attainment of sought personnel



Note: The figure plots the coefficient of a dummy variable that identifies firms operating in high-wage sectors, conditional on the firm's age, growth in size and country of affiliation. Coefficients significant at the 5% confidence level. High-wage sectors are sectors where the average wage is above the median (Mining; Manufacturing; ICT services; Professional services; Healthcare).
Source: Filippucci, Laengle and Marcolin (forthcoming) based on GFP Employer Survey data.

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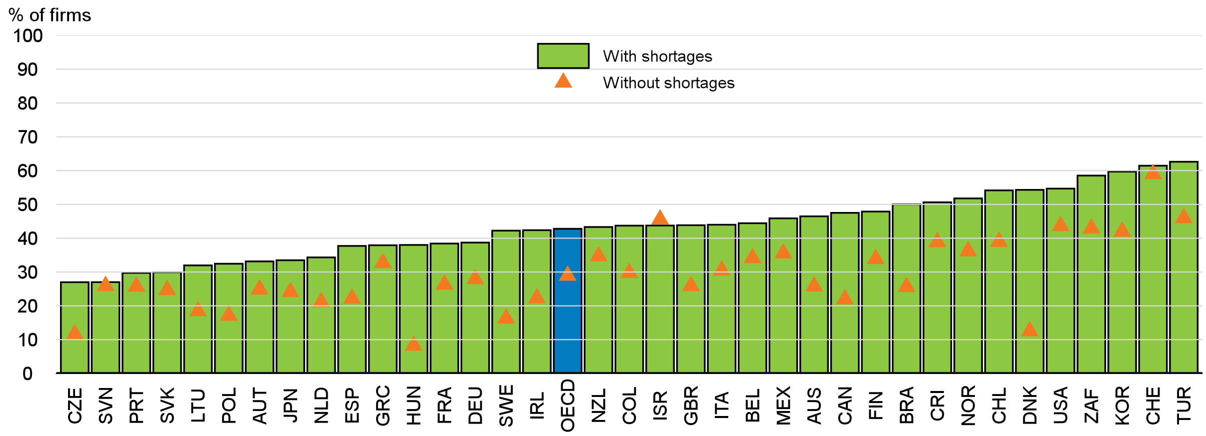
[6] This is in line with the long-standing pattern of more severe shortages in high-skill sectors, highlighting the role of demand-side factors as discussed earlier.

Figure 2.13. Labour shortages are associated with changing skill needs

Firms with and without labour shortages that report opening vacancies due to changing skill needs



Note: OECD is computed the unweighted average of the member countries shown on this graph.
Source: Filippucci, Laengle and Marcolin (forthcoming) based on GFP Employer Survey data.

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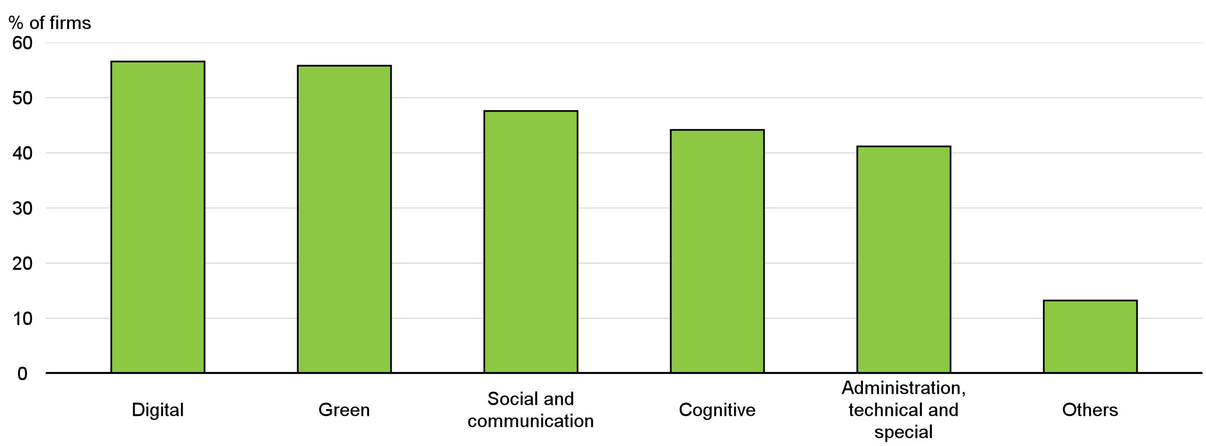
Figure 2.14. Firms with changing skills are especially looking for skills related to structural trends

Firms opening vacancies due to changing skill needs, by specific skills needed



Note: Weighted averages over 36 countries. Green skills are defined as skills needed to improve the carbon footprint of the company. Digital skills are basic and advanced ICT skills and skills needed to develop and/or use AI in the company.
Source: Filippucci, Laengle and Marcolin (forthcoming) based on GFP Employer Survey data.

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The green transition increasingly requires a specific subset of skills and will bring reallocation. Although the impact of the green transition on the total number of jobs is expected to be modest, sizeable labour reallocation from polluting to green sectors will be necessary (Causa et al., 2024b; OECD, 2024a). Workers with higher levels of education are more likely to hold green jobs than those with middle or lower levels of education. The latter face greater risk of displacement in the green transition, as they are over-represented in brown jobs (Causa, Nguyen and Soldani, 2024a,b). Tertiary educated workers in high-emission sectors can transition relatively easily to green-driven jobs due to similar skill requirements, but low- and medium-skilled workers face significant skill gaps, requiring more retraining (OECD, 2024a). Shortages may also emerge because of lower wages and job security in low-skilled green jobs, as science, technology, engineering and mathematics (STEM) graduates opt to work in higher-paying sectors instead, and because of geographic mismatches between declining and expanding industries (Box 2.3).

Box 2.3 The transition to net zero emissions is adding pressure on the labour market

Meeting the targets set to achieve net-zero emissions by 2050 is likely to contribute to increasing pressure on the labour market. While there is broad agreement that the net effect of the climate targets on the total number of jobs will be modest, the OECD Employment Outlook 2024 (OECD, 2024a) shows that major shifts are expected within and between certain sectors and regions as some jobs disappear, new opportunities emerge and many existing occupations are transformed.

Workers in shrinking high-emission sectors are likely to find new employment in green jobs as well as jobs that do not directly contribute to emission reductions but are in demand because they provide goods and services required by green activities (“green-driven” jobs). OECD (2024a) shows that the skill requirements of green-driven and greenhouse gas-intensive occupations with high education are indeed very similar. However, this is not the case for low- and medium-skilled workers, for whom the skills gap is larger and who therefore require significantly more retraining to move into green-driven jobs. In addition, the transition to net zero will increase the overall demand for skilled workers in the labour market, in particular in STEM.

However, skills are not the only bottleneck. Labour shortages in expanding green sectors may also be related to the lower attractiveness of some green-driven jobs compared to other jobs. OECD (2024a) shows that low-skilled green jobs, such as waste disposal and recycling, tend to have significantly lower wages and labour market security than other low-skilled jobs. This suggests that low-skill green-driven occupations may be a relatively unattractive option for low-skilled workers, even if they require little or no training. Moreover, while middle- and high-skill green-driven occupations come with a wage premium, STEM graduates may find more attractive to work in other sectors (e.g. finance or tech) that pay higher wages (Popp et al., 2022).

Finally, while both green-driven and emission-intensive occupations tend to be geographically concentrated, they are not necessarily in the same regions. The geographical mismatch between declining and expanding sectors is a third bottleneck to consider.

Over the past two decades, the digital transition has transformed labour markets and skill requirements.[7] While digitalisation automates some jobs, it creates others in the ICT sector, but also in other industries, through productivity and competitiveness gains, lowering prices and facilitating the creation of new products.

The diffusion of AI may further affect labour and skill demand in different ways. AI may alleviate labour shortages in some sectors and worsen them in others (Dorville, Filippucci and Marcolin, 2024). On one hand, AI may automate a wide range of existing tasks, including cognitive ones, expanding beyond the automation of primarily blue-collar jobs seen so far. As a general-purpose technology, AI is expected to diffuse across many industries, with knowledge-intensive services such as finance, advertising, consulting and ICT likely to be most affected. On the other hand, in many industries AI is expected to complement rather than replace human labour, at least in the medium term, as it will create new tasks and potentially generate new jobs. AI-driven productivity gains could also increase income levels, supporting aggregate demand and, in turn, driving labour demand and heightening shortages in labour-intensive sectors, similar to the effects of digitalisation (Filippucci et al., 2024).

New evidence from the GFP Employer Survey shows that firms that experience changes in their production technology are more likely to face difficulties recruiting (Figure 2.15). In Switzerland, Denmark and Norway, for example, the probability of reporting a shortage when investing in AI, robotics or digital technologies is 40 to 50 percentage points higher than for a firm that does not invest in technology.[8] Econometric analysis further supports the conclusion that the probability of facing a shortage increases with the change in firms' technology regardless of the sector or country, even when other firm characteristics typically associated to recruitment behaviours (size, age, changes in sales) are accounted for (Filippucci, Laengle and Marcolin, forthcoming).

Furthermore, ageing will reduce labour supply growth over the coming decades in most OECD countries. The working-age population is projected to account for a lower share of the total population in 2050 than in 2020 in all OECD countries, except Israel and Mexico (André, Gal and Schief, 2024), with a decline of up to 15% to 20% of the 2021 level in some countries. Moreover, the working-age population is set to shrink in absolute terms in more than half of OECD countries, as well as in some emerging countries, like China. Ageing may also worsen labour shortages through skills obsolescence. Industries exposed to rapid technological change, like ICT, may experience more difficulties in recruiting skilled workers than less tech-intensive sectors, like education, as the working population gets older. Arpaia and Halasz (2023) offer evidence that EU-wide shortages increased alongside the old-age dependency ratio between 2000 and 2022. Relatedly, Dorville, Filippucci and Marcolin (2024) show that labour market tightness is higher in sectors that are most exposed to ageing and the green and digital transitions, and that tightness has increased more in more exposed sectors over 2010-2019.

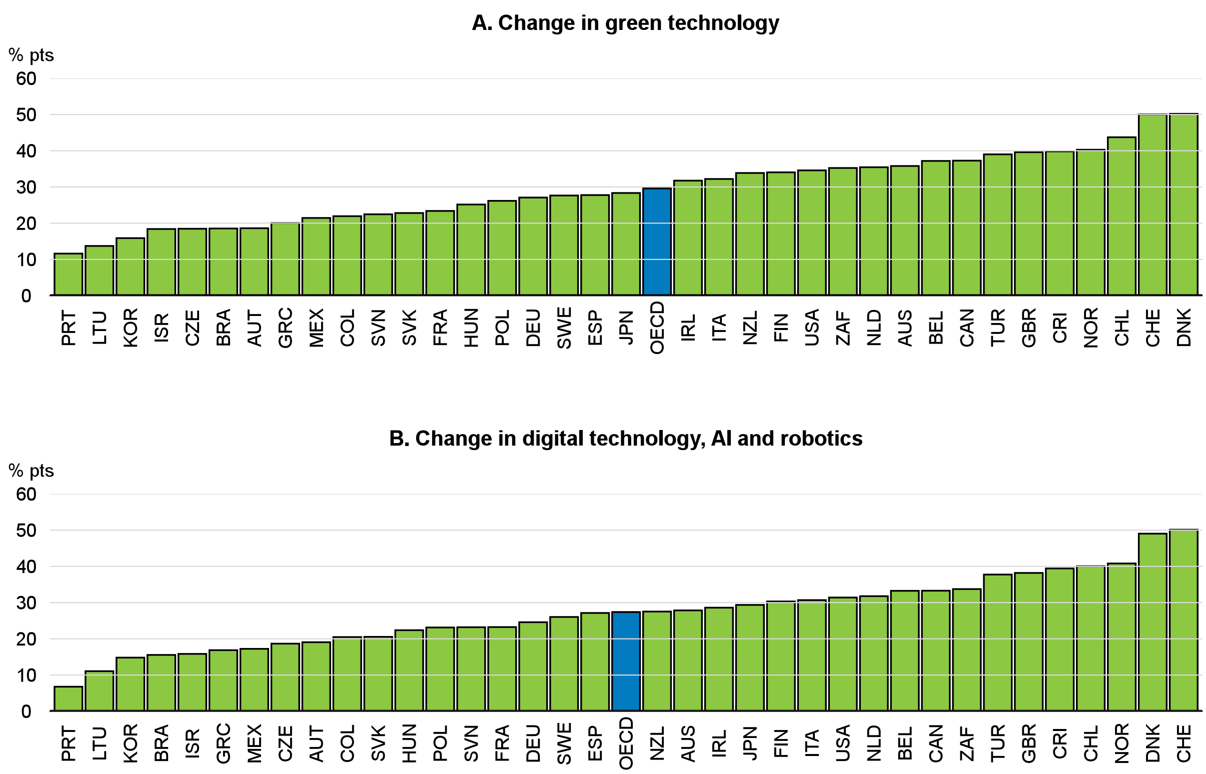
[7] 42% of the net job gains in the OECD between 2006 and 2016 took place in highly digital-intensive sectors (OECD, 2019a).

[8] While the adoption of certain labour-saving technologies may be motivated by shortages themselves, dropping from the sample the firms declaring having done so does not change qualitatively the relationship between changing technology and shortages in Figure 15. A similar concern is less likely to apply for changes in green technologies at the firm level.

Migration could help alleviate labour shortages in some sectors, provided effective integration policies are in place. Foreign-born workers have been the main contributors to labour force growth over the past decade in many countries. Migrants are overrepresented in accommodation and food services and construction, and in some countries also in health care (Causa et al., 2024a). However, addressing labour shortages through migration alone has limitations. Some countries lost workers through emigration, including high-skill professionals. Moreover, very large inflows would be needed to offset the impact of ageing in most countries. The net migration rates required to stabilise the old-age dependency ratio across the OECD would be around 2% of the population per year until 2050, compared to an average of around 0.3% per year over the 2000-2020 period (André, Gal and Schief, 2024).

Figure 2.15. Firms that are more exposed to the green and digital transitions report more shortages

Difference in the probability of facing a shortage between firms experiencing a technological change and firms that experience no technological change



Note: “Green technology” means that in the previous two years the firm has invested in products or technologies that reduce the firm’s energy consumption or improve its environmental footprint. “Digital technology” means that the firm has implemented a change in at least one of the following areas: acquisition and management of data in support of decision-making (Business 4.0), process analysis, high speed internet, Internet of Things, machine-to-machine communication technologies, ICT security. “AI and robotics” means that the firm has implemented a change in at least one of the following areas: text or image generating AI (e.g., ChatGPT; Dall-E), natural language processing including sentiment analysis, computer vision, machine learning algorithms, process optimisation/ automation or monitoring, creative and experimentation activities, augmented and virtual reality, 3D printing, interconnected and programmable collaborative robots.
Source: Filippucci, Laengle and Marcolin (forthcoming) based on GFP Employer Survey data.

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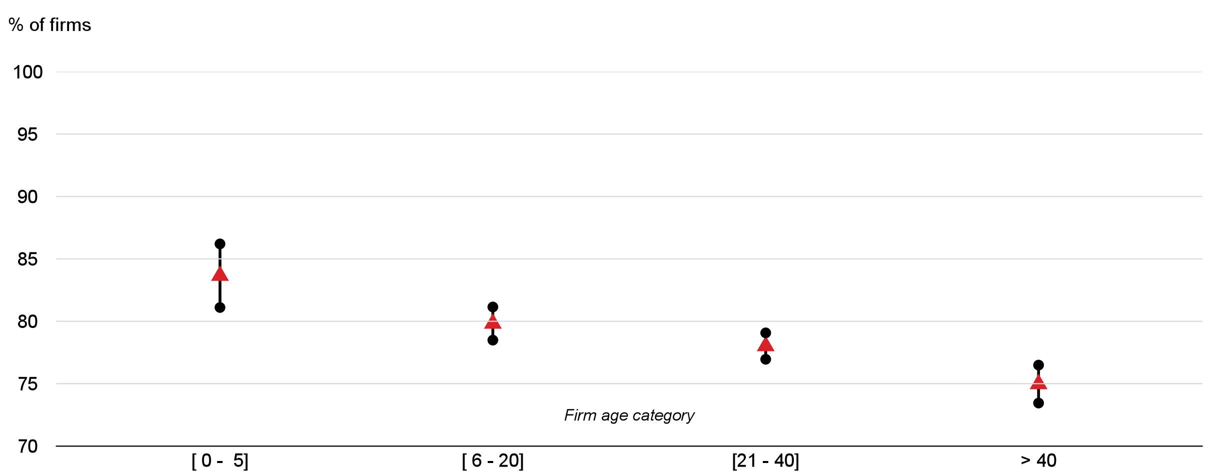
Labour shortages vary with firm characteristics

Labour shortages are also shaped by firms' characteristics. As discussed above, firms in sectors undergoing rapid technological transformations often face acute skill shortages, driven by their investments in technology and the mismatch between the available workforce and new skill requirements. Firm demographics, such as size and age, also matter for firms' hiring patterns, skill requirements and labour demand. For example, small firms face greater challenges in attracting talent compared to larger firms with stronger employer branding and resources (European Commission, 2023). These differences can help policymakers better identify the underlying causes of labour shortages and develop solutions to better align workforce with the needs of businesses and the broader economy.

Young firms tend to experience higher shortages, regardless of their sector and country (Figure 2.16). This is likely due to their more limited brand recognition, networks and benefits packages than more established companies can offer, making it harder for them to compete in the labour market, especially for experienced workers. Filippucci, Laengle and Marcolin (forthcoming) show that young firms are more likely than older firms to adopt a new digital technology, which may further exacerbate their recruitment difficulties. Lastly, young firms typically have limited financial resources to invest in training programs and learning opportunities, making it difficult for them to develop employees' skills in-house. This reliance on hiring already skilled workers can intensify recruitment difficulties. As a result, labour shortages may further act as a barrier to scaling up and discourage further entry of new firms into the market.

Figure 2.16. Labour shortages are more acute for young firms

Firms with shortages, by firm's age category. Predicted probability and 95% confidence interval



Note: Predicted values from a regression of the probability of a firm reporting a shortage given the firm's age (in categories), size, size increase and indicators for the firm's industry and country. Weighted averages over 36 countries. The error bars represent 95% confidence intervals.
Source: Filippucci, Laengle and Marcolin (forthcoming) based on GFP Employer Survey data.

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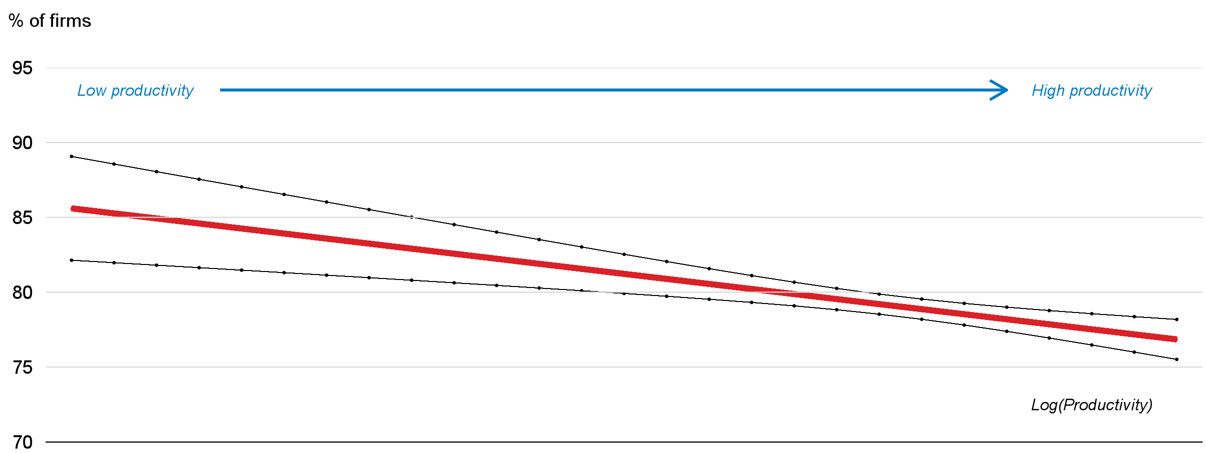
The relationship between labour shortages and productivity (measured as turnover per worker) is negative (Figure 2.17). Less productive firms do not typically offer competitive wages, invest in employee training or provide sound working conditions, making them less attractive to potential hires. Their potentially weaker management practices can also translate in less efficient recruitment strategies, contributing to hiring difficulties. Indeed, low-productivity firms are more likely to experience shortages due to low wages and poor working conditions (Figure 2.18). Moreover, they are more likely to report that shortages lead to production losses, such as reduced innovation.

Figure 2.17. Labour shortages disproportionately impact low-productivity firms

Share of firms reporting shortages, by labour productivity. Predicted probability and 90% confidence interval



Note: Predicted values from a regression of the probability of a firm reporting a shortage on the firm's (log) sales per worker, indicators for the firm's industry and country, size, increase in size and age. Weighted averages over 36 countries.
Source: Filippucci, Laengle and Marcolin (forthcoming) based on GFP Employer Survey data.

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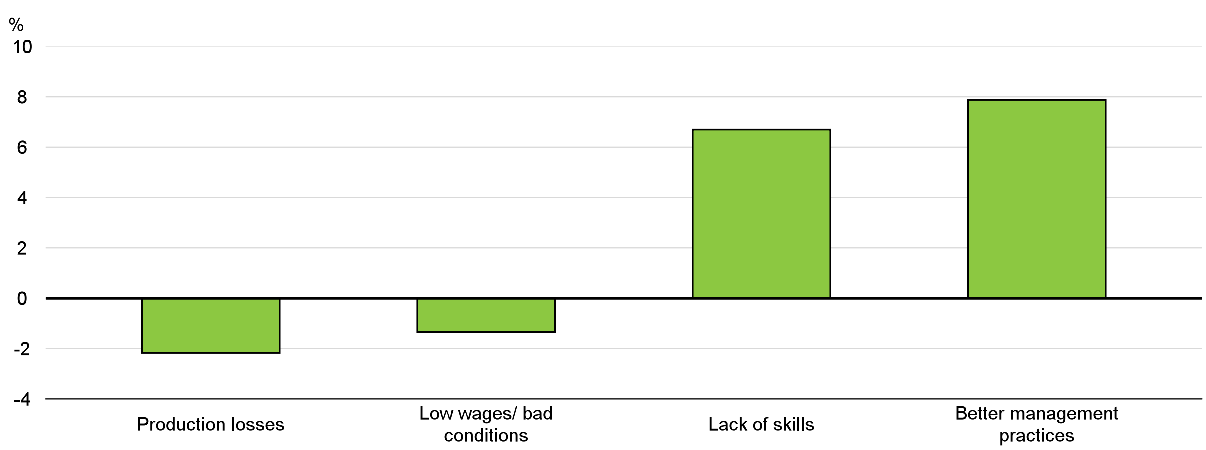
Figure 2.18. The reasons and consequences of shortages differ for high- and low-productivity firms

Percentage increase in the average probability of reporting a certain feature when in shortage, given one standard deviation higher productivity



Note: The graph plots the coefficient on productivity in a regression of the probability of a firm reporting a certain feature (x-axis) on the firm's (log) sales per worker and indicators for the firm's industry and country. The coefficient is then taken as a share of the average probability of that feature in the sample. Weighted averages over 36 countries.
Source: Filippucci, Laengle and Marcolin (forthcoming) based on GFP Employer Survey data.

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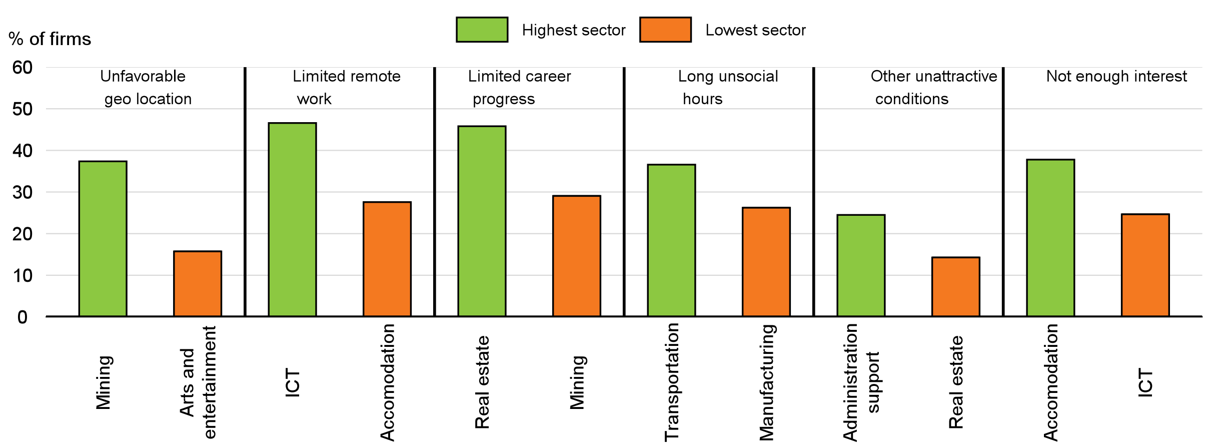
In contrast, high productivity firms are more likely to report shortages due to a lack of workers with appropriate skills (Figure 2.18). Controlling for the sector and country of production, a one standard deviation rise in labour productivity raises the probability of lacking workers with appropriate skills by 7% relative to the average firm in the sample. High productivity firms are also more likely to respond to shortages by investing in automation, training and internal reorganisation ("better management practices") which can help reduce the labour shortages they face in the medium run. As low productivity firms suffer larger costs of shortages, the productivity gap between low- and high-productivity firms may widen, further contributing to the persistence of labour shortages over time.

More broadly, shortages can arise due to the poor working conditions that characterise jobs in some firms and sectors. A significant share of firms across OECD countries report experiencing shortages because they offer poor working conditions (Figure 2.19). On average across countries, approximately 40% of firms in transportation report a shortage because of the long or unsociable hours that the work imposes and the share is even higher when considering severe shortages. Unfavourable geographical conditions are an important reason for shortages for 37% of firms in mining, but only in 17% of firms in arts and entertainment. Accommodation, and also health care, suffer from shortages because the job does not attract interest from potential candidates. This can be related to physical and mental health risks that are not compensated by adequate economic treatment. In these low-quality jobs, women and migrants are typically overrepresented (Box 2.4).

Figure 2.19. Poor working conditions generate shortages, especially in certain sectors

Firms with shortage due to unfavourable conditions, by sector



Note: « Highest » vs « Lowest » sectors are the sectors displaying the highest versus lowest percentage of firms declaring that shortages are due to the mentioned working condition, on average across the 36 considered countries.
Source: Filippucci, Laengle and Marcolin (forthcoming) based on GFP Employer Survey data.

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Box 2.4. Labour shortages and labour market inequalities

Recent OECD work (Causa et al., 2024a) complements the analysis presented in this chapter by focusing on high-demand sectors where job quality is poorer (agriculture, accommodation, construction, health and social care, transportation and storage).

From a distributional perspective, women represent the bulk of healthcare workers and accommodation and food workers across virtually all countries considered. Migrants, too, are overrepresented in accommodation and food in the vast majority of countries and in the construction sector, while older workers are systematically overrepresented in agriculture.

Wage evolutions in these high-demand sectors are conversely much more heterogeneous across countries. If wages in accommodation and food have evolved favourably across many OECD countries since end-2019, both in absolute terms and relative to wages in low-pay industries, little to no gains in real wages took place for workers in construction and in transportation and storage across most countries between 2019-2023. Real wages in health and social work activities have declined in a number of OECD economies (e.g., Italy, Greece, Sweden), but increased as much or more than in high-pay industries in others (e.g., Hungary, Poland).

Turning to the non-pay components of job quality for high-demand jobs, the analysis finds that:

- Across all countries, healthcare, accommodation and food, and transportation and storage tend to exhibit higher incidence of shift work. Women represent the bulk of shift workers in nursing and personal healthcare and among waiters, food preparation assistants and cleaners.
- Difficult work environments and working schedules can translate into mental and physical health risks, reducing workers' productivity, wellbeing and attachment to the job. These risks are pervasive in the EU workforce: half of the employed individuals in the EU is exposed to mental health risks, albeit with marked differences across countries (34% to 77%).
- Workers in the health sector are most likely to face mental health risks, with reported exposure reaching 60% of employment in the vast majority of EU countries. 34% of nurses and midwifery professionals report a work overload, well above the economy-wide average of 22%.
- Beyond the healthcare sector, workers in other contact-intensive activities facing labour shortages also report high exposure to mental health risks, due to e.g. difficult interactions with customers among waiters and bartenders and pressure or work overload among road drivers.
- Job insecurity is another frequent reason to report exposure to mental health risks. Occupations that have been recently in high demand also display high incidence of temporary contracts.
- ILO accidents data reveal that "better known" physical health risks are generally higher in high-demand jobs, too. Healthcare workers face double the risk of a non-fatal accident than other workers, on average across OECD countries. Transportation, storage and construction workers are overwhelmingly more likely to experience work accidents, especially fatal ones. And if a construction worker is approximately five times more likely to experience a fatal accident than in the total economy, an agricultural worker is nine times more likely, although data limitations preclude a more rigorous analysis of this sector.

Transformative policy action is needed to address labour shortages

This section discusses policy approaches aimed at influencing labour and skill supply, focusing on strategies to enhance the availability of qualified workers in the economy. It examines measures that support individuals in acquiring the skills needed to meet market demands. Furthermore, the section highlights policies aimed at improving the efficiency of matching workers with firms, thereby fostering a more adaptable and resilient workforce.

Tackling shortages in the labour market will require transformative policy actions that enable a prompt adjustment of the labour market to the business cycle while ensuring that the challenges of ageing, the green and digital transitions and AI diffusion are met. While the impact of policy actions shaping labour supply may take some time to bear fruit, other actions can affect the composition of the current labour force and its allocation across firms, allowing for greater responsiveness in the labour market in the shorter term.

Table 2.1 summarises the different policies that are discussed hereafter, dividing them between policies that mostly affect labour supply, labour demand or the matching of the two. The table also distinguishes between policies that can be leveraged to *adapt* the labour market as soon as possible to the new reality of pervasive labour shortages and policies that can *anticipate* future needs in the labour market and can minimise future shortages. Throughout the section, persistent shortages are understood as a limitation to growth and the productive allocation of labour in the economy. This does not exclude that tight labour markets can be a source of temporary bargaining power for workers and can contribute to reducing inequality, improving job quality and stimulate the participation of groups with lower labour market attachment, especially in monopsonistic markets (Naidu and Dube, 2024; OECD, 2024a).

Table 2.1. Policy options to reduce persistent labour shortages

	Policies to ADAPT	Policies to ANTICIPATE
Labour supply	• Participation of the elderly: tax incentives to stay in work; reskilling efforts; age-friendly working conditions; anti-discrimination policies • Participation of women: parental leave and post-leave reskilling; anti-discrimination policies; household taxation design • Participation of migrants: integration policies; foreign women childcare • Design of tax and benefit systems for the unemployed • Wage policies for public sector personnel in healthcare and education	• Education and education-industry alignment • Participation of the elderly: healthy ageing policies • Participation of women: access and affordability of childcare; participation of women in STEM • Participation of migrants: management of quotas
Matching and reallocation	• Active labour market policies: appropriate funding and targeting; career guidance for both unemployed and employed workers • Adult learning: skills profiling tools; microcredentials • Employment protection provisions • Licensing and non-compete clauses	• Active labour market policies: digitalisation of employment services • Adult learning: quality evaluation and adjustment; skills anticipation exercises • Housing policies • Other anti-monopsony tools (antitrust)
Labour demand	• Adult learning: policies encouraging firms' investment in training, including of managers	• Participation of women: financial inclusion and support to entrepreneurship • Coordination between supply and demand policies

Note: Policies to "adapt" aim at taking stock of the current context in the labour and skills markets and adjusting to it. Policies to "anticipate" look at the longer-term needs and how the emergence of future shortages can be prevented.

Investment in education and lifelong learning is crucial

As skill shortages are a key dimension of labour shortages, adjusting the labour supply requires a major effort to scale up investment in education and training. Average education (PISA) test scores fell by 15 points between 2009 and 2022 across the OECD, with one-third of the reduction occurring before the COVID-19 pandemic. Recent OECD estimates suggest that education policy reforms could raise PISA scores by 10 points in the average OECD country. Promising areas of action include expanding early childhood education, enhancing teacher quality, implementing structured homework support and regulating digital device use in schools (Andrews, Égert and de la Maisonneuve, forthcoming). Furthermore, the digital transition calls for supporting STEM education. For example, Denmark reinforced cooperation between businesses, educational and research institutions and public sector operators (Klein and Smith, 2024).

Advanced technologies have also raised demand for soft skills, such as teamwork, communication and leadership. Both cognitive and social skills exhibit high labour market returns, especially when they are combined (Grundke et al., 2018; Criscuolo et al., 2021). In the United States, the share of jobs requiring high levels of social interaction grew by nearly 12 percentage points between 1980 and 2012 (Deming, 2017). In France, the share of jobs requiring both high mathematic and social skills increased by more than nine percentage points between 1982 et 2020 (Guadalupe et al., 2022). Changes to the education system can have important consequences for labour supply, but potentially with a longer lag.

Adjustments to the *current* labour force require an overhaul of lifelong learning policies to ensure that training systems are fit for the future and accessible to everyone. This, in turn, will increase the supply of suitably skilled workers in the market and decrease the incidence of skill mismatches within firms. As ongoing structural changes persist, a large share of employees will experience changes in the skills and tasks they need to perform on their job, but only 40% of adults in OECD countries participate in training in any given year, with the high-skilled more likely to train than the low-skilled (OECD, 2019b). The Nordic countries have long developed solid adult learning systems, partly thanks to strong cooperation between the social partners and with government institutions. Reforms in Austria, Estonia, Italy, Hungary and the Netherlands raised participation significantly over the past decades. Although these reforms vary widely, stakeholder engagement, adaptation to changing circumstances, responsiveness to result monitoring, training quality and alignment with labour market needs were common ingredients (OECD, 2020a).

Governments should prioritise long-term funding for lifelong learning systems and ensure that the allocated public resources are commensurate to the size of the transformations ahead. To grant sufficient and equitable access to reskilling and upskilling opportunities, public investment is essential. The design of public financial incentives (such as subsidies, tax incentives and subsidised loans) can encourage individuals and employers to invest to match market needs. However, market failures may result in inefficient investments in skills, leading to a mismatch between the skills employers need and those individuals obtain (OECD, 2017a).

Therefore, it is crucial to invest not just in more skills, but also in the right type of skills. Public investments should prioritise programmes that offer training for jobs in high demand in the labour market, or which target individuals and firms that have the lowest propensity to retrain. Financial barriers can be especially significant for unemployed and low-skilled individuals and for SMEs (OECD, 2019b). In many OECD economies, the rates of funding for courses depend on their relevance to labour market needs, or training is offered free of charge for the unemployed (OECD, 2017a). Several support instruments for SMEs are designed to be scalable and easy to comply with (e.g., subsidies and vouchers), or to grant privileged conditions to SMEs (e.g., training funds) (OECD, 2019b).

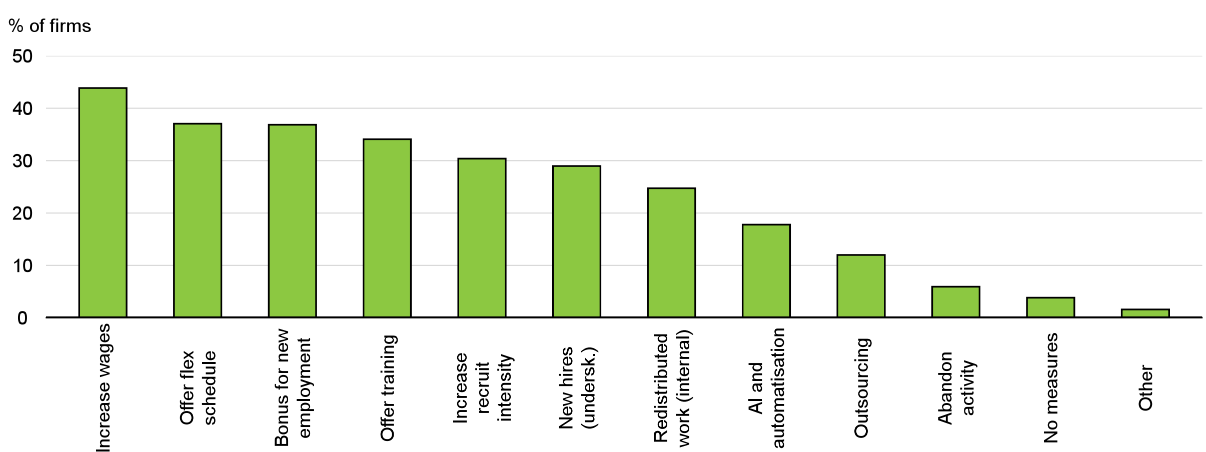
Asymmetry of information hampers investment in training by both workers and employers. Workers do not necessarily know the skills that are in current demand, or the job and training opportunities that employers are offering. Employers may not easily recognise the skills that are available on the market, nor the way job requirements may evolve in the future. Systems to assess and anticipate skills needs exist in most OECD countries, but their effectiveness is so far limited (OECD, 2016; 2023b). The necessary granular labour market information is often lacking or left unused by public employment services or employers seeking to hire. Coordination in the collection and use of such information needs to be strengthened across key stakeholders, including the social partners. Similarly, firm-level diagnostic tools help managers assess current skill gaps and predict future skill needs (OECD, 2021b).

Micro-credentials, i.e. short, focused learning modules that enable individuals to rapidly retrain and upskill, provide a flexible and efficient way for workers to acquire specific, high-demand skills without the time commitment of traditional degree programs. This enables a faster response to emerging skills gaps in the labour market, thus reducing talent shortages (OECD, 2023c; 2024c). It also allows firms to recognise that the prospective worker has invested in training in a given domain.

Enterprises are the primary source of reskilling and upskilling opportunities for adults. Investing in workforce training helps them adapt to technological advancements, integrate new hires and remain competitive. More than one out of three firms reporting recruitment difficulties in 2022/23 offers training opportunities to their existing workforce to ease labour shortages (Figure 2.20). This share is approximately the same as that of firms that offer greater flexibility in the work schedule and slightly lower than the share of firms that consider raising salaries and bonuses.

Figure 2.20. Firms facing severe shortages seek to increase wages and bonuses, work flexibility and training offer to attract workers

Probability of implementing a given remedy against labour shortages, as a percentage of firms reporting severe difficulties recruiting



Source: Filippucci, Laengle and Marcolin (forthcoming) based on GFP Employer Survey data.

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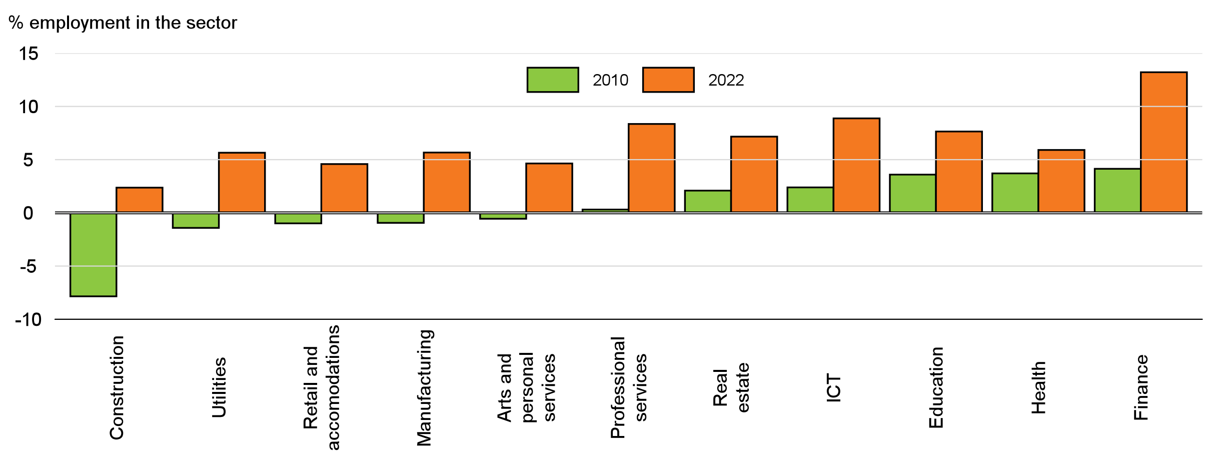
However, not all companies and entrepreneurs realise that they need to invest in skills and many are not proactive about their investment (OECD, 2021c). This is the case for the majority of SMEs (OECD, 2019b). Successful programmes therefore combine financial and non-financial support, where non-financial tools such as awareness raising, tailored contacts with beneficiaries and value chain-based initiatives, help firms recognise whether and how to invest. Lastly, firms' ability to invest in human capital and raise productivity crucially relies on the skills of the company's management and its attitude towards learning (Bender et al., 2018; Metcalfe et al., 2023). Coaching, mentoring and peer learning among managers and entrepreneurs have proved effective in promoting knowledge sharing and increasing the propensity of firms to offer training, in particular in SMEs (OECD, 2021d).

Multiple labour market policies can be mobilised to improve mobility and matching

Limited workers' mobility restricts the movement of workers to areas or industries where their skills are in demand. When geographic, economic, or policy barriers prevent workers from relocating or transitioning to new jobs, businesses struggle to fill vacancies, worsening labour shortages. In 2022, essentially all sectors would have required hiring from the pool of unemployed from another sector to fill outstanding vacancies (Figure 2.21). For example, the share of postings that would remain unfilled if all unemployed in ICT or professional services were to be instantly matched to a job amounts to 8-9% of employment in the sector, on average across countries, a significantly higher number than in 2010. In the construction sector in 2010 the number of unemployed largely exceeded the number of job vacancies in the sector.

Figure 2.21. In 2022, all sectors required sectoral reallocation to fill vacancies

Difference between vacancies and the country's natural rate of unemployment (missing jobs without reallocation)



Note: The chart reports the difference between vacancies and the country's natural rate of unemployment (missing jobs without reallocation) as a share of employment. Weighted averages based on 28 countries (see notes to Fig. 2.4 and Dorville, Filippucci and Marcolin, 2024).
Source: Australian Bureau of Statistics (vacancies); Australian HILDA; Encuesta Continua de Empleo for Costa Rica and PNAD Continua for Brazil (employment by qualification and unemployment); Eurostat - European Labour Force Survey; Lightcast; Statistics Canada - Canada Labour Force Survey; US Current Population Survey; US Bureau of Labor Statistics; OECD Economic Outlook 116 database (NAIRUs); and OECD calculations.

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Active labour market policies (ALMPs), such as job placement services and career guidance, strengthen people's motivation to search actively and accept suitable jobs and to increase their employability. ALMP systems that can respond to labour market challenges in agile and effective ways ensure that employment services are well funded and can scale up support to face both cyclical fluctuations and the demands of structural changes such as the green transition (Keese and Marcolin, 2023). They could be developed further in countries like Chile, Ireland and Spain. Lack of information on job possibilities and a negative attitude towards learning can pose significant barriers to changing career tracks in later life. Career guidance can help workers and the unemployed make meaningful educational, training and occupational choices. Such guidance is quite well developed in many countries for young people still in school, but remains underdeveloped for adults (OECD, 2021e). Profiling tools that take account of individuals' prior learning and experience help to target support and thus decrease the cost of job displacement or job transitions (Meghnagi and Tuccio, 2022). The digitalisation of employment services can help deliver profiling and improve the matching of individuals with firms' skill needs. Sectoral programmes are especially successful in raising the supply of "good jobs", as they are oriented towards the need of particular employers and require much greater cooperation with them, and they offer customised services to job seekers (Rodrik and Stantcheva, 2021).

Effective activation strategies should be supported by unemployment and social-assistance benefit systems that reduce the financial burden of unemployment by offering income support during jobless periods. These benefit systems often serve as the primary mechanism for connecting unemployed individuals with employment services and active labour market programs, where benefit recipients receive job-search assistance and other resources. Additionally, the potential loss of benefits serves as a key incentive for individuals to actively engage in these programs (OECD, 2018a). In-work benefits could further stimulate marginal groups to participate to the labour market more fully, for example in Belgium. However, the design of tax and benefit systems should be free of implicit biases against specific groups and their specific realities, such in the case of women in a household.

Labour market institutions can also support workers' mobility between jobs and from unemployment to employment. Shortages are less likely to emerge if workers can switch jobs without long periods of unemployment or change location if it becomes necessary. Employment protection provisions play a key role in shaping the rate of job reallocation. They can strengthen workers' bargaining power and induce firms to at least partly internalise the social costs of hiring and dismissal decisions, in terms of unemployment benefit costs, psychosocial distress and income shocks (OECD, 2020b). A balanced approach to employment protection legislation ensures that regulations do not excessively raise termination costs, while still protecting workers from being hired on precarious contracts or unfairly fired and preserving viable worker-firm matches. Excessive turnover, or vastly unequal protection between permanent and temporary workers, may discourage investment in firm-specific skills and hinder innovation (OECD, 2018a). Stringent labour market regulations are associated with higher mismatch as they reduce labour market flexibility and the ability of firms to adapt to changing skill needs (Adalet McGowan and Andrews, 2015). For example, there is scope to reform labour market protection in Korea and Japan.

Occupational licenses, by imposing minimum standards of competence to practice for pay, make recruiting processes more costly and can reduce the pool of eligible applicants, generating an entry barrier into certain professions (Bambalaite, Nicoletti and von Rueden, 2020). In Europe and the United States, approximately 20% of workers are licensed (Koumenta and Pagliero, 2019). Reviewing regulations on occupational licenses could extend mutual recognition of entry requirements across jurisdictions, for example, or allow for a public subsidy to cover the cost of occupational licensing for workers in certain in-demand occupations. Other provisions can further enhance labour mobility by reducing the pervasiveness of labour market concentration and monopsony power. Monopsonistic competition is a frequent occurrence in OECD labour markets (Araki et al., 2022), which limits the number of outside options for workers who seek to change jobs. Expanding the scope of action of antitrust authorities to investigate mergers and no-poaching agreements and a renewed effort to legislate over these phenomena can counteract employer power on the labour market (Araki et al., 2022). Non-compete agreements (NCAs) may also need to be reconsidered. There is little evidence that they can effectively promote innovation (Belenzon and Schankerman, 2013) and they can constrain the reallocation of workers across employers in the same sector and region. Promoting collective bargaining could also help contain monopsony power by enabling the negotiating parties to internalise the position of the firm in the product market, resulting in better sharing of rents between companies and workers (Araki et al., 2022).

Reducing firms' monopsony power in the labour market would strengthen workers' bargaining power, leading to higher wages. The negative impact of labour market concentration on wages has been found to be smaller when trade unions are stronger (Araki et al., 2022). Reducing monopsony power can also help improve job quality. During the high-tightness period following the pandemic, workers shunned jobs with low-pay and poor or strenuous working conditions, which could persist (Causa et al., 2022). Stronger workers representation can also mitigate the impact of labour shortages on job quality (Zwysen, 2024). The OECD Job Quality Framework highlights the need for action in three key dimensions to create more and better jobs: earnings quality; labour market security; and the quality of the work environment (OECD, 2018a). Areas for action include policies to enhance equality of economic opportunities, notably for women, older workers and migrants, and to promote social dialogue over pay, access to social protection and working conditions (Causa et al., 2024a). This can translate into higher labour market participation, investment in human capital and firm productivity, as well as higher workers' well-being. A significant number of firms reporting difficulties recruiting contemplate raising wages and offering more work flexibility (Figure 2.20).

Better wages and working conditions would also help alleviate shortages in health, long-term care and education, where needs are growing due to, respectively, ageing and increasing demand for skilled workers, and where an increasing proportion of workers approach retirement. These activities are generally dominated by the government sector, where wages tend to be lower than in the private sector. In 2018, only 39% of teachers in OECD countries where data were available reported satisfaction with their salary, with only two-thirds satisfied with the other terms of their contract. The perception that their profession is undervalued by society and excessive administrative work also reduces the attractiveness of the profession (OECD, 2020c). To attract the brightest graduates into teaching, countries should have a comprehensive strategy for the professional development of teachers, as in Finland (Schleicher, 2019). The pandemic has exacerbated shortages of health professionals across the OECD, and population ageing will push up demand for health and long-term care services. Many OECD countries are taking measures to increase training capacity, strengthen financial incentives and improve working conditions in activities or areas with insufficient supply (such as rural areas) and introduce or expand the role of some health care professions, like nurses. Some countries are actively recruiting foreign doctors and nurses. However, this may exacerbate shortages in origin countries (Lafortune and Levy, 2023).

Better access to housing can improve labour matching by facilitating labour mobility, even though this potential is more limited when labour markets are tight in most places. In the United States, labour market tightness is a national phenomenon but shortages vary markedly across states (Fuller and Jefferson, 2023). Large differences in labour shortages are also observed across regions in France, Italy and Spain (Causa, 2024a). Differences in labour shortages among European Union countries offer opportunities for cross-border matching, especially in the construction sector (EURES, 2023). Difficult access to housing also hampers the integration of immigrants. In many OECD countries, migrant workers are more likely to live in segregated areas with poor housing and, more generally, living conditions (Causa et al., 2024a).

Housing has become increasingly unaffordable in many OECD countries, hampering residential and job mobility and especially moves to the most dynamic and productive agglomerations (Ganong and Shoag, 2017; Cavalleri, Luu and Causa, 2021). Loosening excessively restrictive land-use regulations, while preserving environmental sustainability and social inclusion, could increase the responsiveness of housing supply to demand, mitigating upward pressure on prices and making housing more affordable. This is for example the case in Sweden. In some countries, such as South Africa, reducing urban sprawl would also improve labour mobility.[9] Social housing can facilitate lower-income household mobility, provided eligibility rules are designed in a way that avoids lock-in effects. Housing allowances can also support mobility, but risk being largely capitalised into rents if supply is tight. High transaction costs, excessively strict rent control and tenant-landlord regulations, as well as high costs for obtaining a building permit hamper labour mobility and skill matching (OECD, 2021f).

[9] See country notes in Chapter 3.

The shift towards lower density areas and working from home since the pandemic, part of which is likely to persist, may facilitate job mobility by broadening the range of location choices (Liu and Su, 2021; Ziemann et al., 2023). Policies to promote remote work allow workers to accept a position in the national labour market regardless of where a given employer is located. An effective mobilisation of telework policies to this effect, however, requires existing challenges to be addressed. Access to remote work is currently greater for workers that are highly educated, employed in large firms and in urban areas, and good quality digital connectivity is an essential condition.

Synergies with demand-side policies

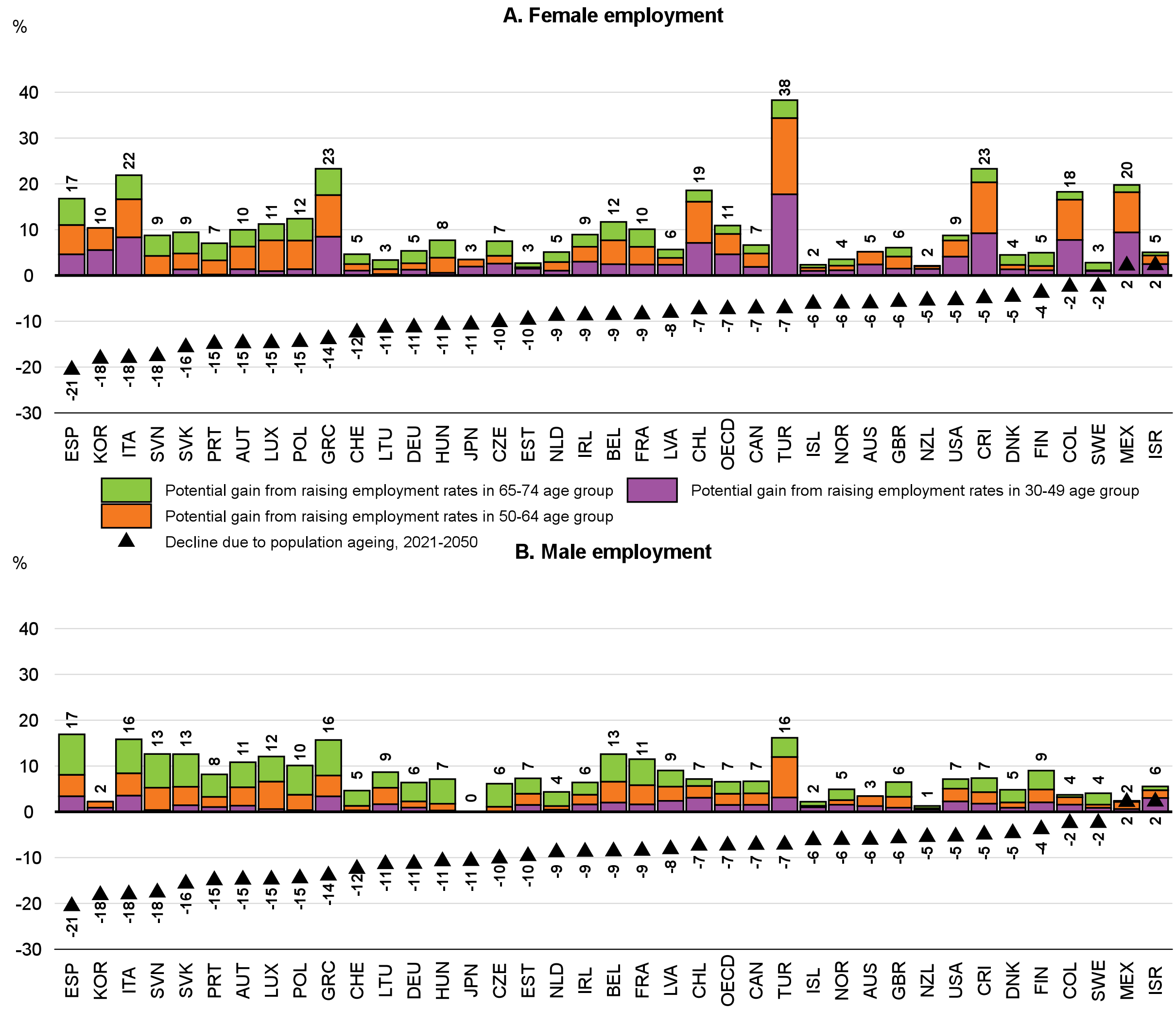
Demand-side policies aimed at strengthening technology adoption, productivity growth, or the transition towards a greener economy can increase tensions in the labour market by raising the demand for labour and for certain skills that are not currently in large supply. Greater labour shortages can be experienced by growing firms and companies that are more likely to invest in technologies that require new or different skills. Policy actions to support productivity growth should also account for the potentially negative spillovers on labour market imbalances and should ensure that complementary policies are activated to minimise supply-side constraints.

Labour market participation should rise further in all age groups

The impact of demographic headwinds can be mitigated by higher participation rates, provided they translate into higher employment. Following the pandemic, labour market participation in OECD countries dropped, including because of poor quality of working conditions, especially in some essential sectors such as health and social care. While bad working conditions are likely to remain a constraint to employment in certain sectors, the decline in labour participation has been progressively reversed and OECD average labour participation rate has subsequently risen to an all-time high in 2024. Most countries are close to peak participation rates, the most notable exceptions being the United States and to a lesser extent the United Kingdom.

Nevertheless, some countries still have low employment among older workers, youth, or women, suggesting there is room to boost labour supply. In most countries, reaching the employment rates of OECD best performers in all age and gender groups could more than offset the drag from ageing on the employment-to-population ratio over the coming decades (Figure 2.22). For men, the potential to raise employment is largely at older ages. The scope to lengthen men's working careers looks particularly high in Southern Europe and Türkiye. On average, there is wider scope to raise female than male employment. Many countries could raise female employment at both prime age and older ages. This is particularly the case in Latin America, Southern Europe and Türkiye.

Figure 2.22. Potential gains in employment from moving to the OECD employment frontier



Note: Potential employment gains refer to the contribution to the change in the employment-to-population ratio from the gains that can be achieved by raising age and gender-specific employment rates to the levels observed in the best performing countries. Specifically, the "employment frontier" at any given age is defined as the average of the employment rates at that age in the five best performing countries. The gains from raising a country's employment rate at each age to the employment frontier is subsequently computed (unless the employment rates are already at or above the frontier). Data on employment rates in the 65-74 age group are missing for Australia.
Source: André, Gal and Schief (2024) calculations using data on age age-specific employment rates from the OECD, and population projections from the 2022 revision of the UN World Population Prospects.

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The increase in labour participation rates over the past decades has largely been driven by older workers, with the average OECD participation rates of the 55-64-year-olds rising by close to 18 percentage points since its 1994 trough and nine percentage points since 2010. This reflects better health conditions, higher education levels, the decline in physically demanding jobs, as well as the strengthening of incentives to continue working at older ages through pension and tax reforms. The continuation of the rising participation trend will hinge on promoting healthy ageing (Oxley, 2009; Kotschy and Bloom, 2023), including through equal access to health care and investment in occupational safety and health (OECD, 2017b), fighting discrimination against older workers (OECD, 2019c), enhancing lifelong learning to avoid skills erosion as technological change accelerates (OECD, 2019b), promoting age-friendly working conditions, including more flexible working-time and telework arrangements (André, Gal and Schief, 2024) and further reinforcing financial incentives to work longer (OECD, 2023d). Complementing pension reforms, governments should encourage older worker participation by promoting flexibility in work-retirement transitions, including through the possibility of combining pensions with work income (OECD, 2023e).

There is also scope in most countries to increase participation in younger age groups, especially among women. Facilitating the integration of women and youth in the labour market can alleviate labour shortages, while reducing inequalities. The OECD average gender employment gap was still nearly 14 percentage points in 2023, with substantial differences across countries. In some countries women still struggle to find jobs matching their qualifications and often suffer from a “child penalty” in their career development (Kleven et al., 2019). A range of policies can support female employment and reduce gender gaps, including improving access to high-quality and affordable childcare, incentivising parents to better share parental leave (for example in Austria and Italy), re-skilling and upskilling on return from parental leave, encouraging gender equality within firms, integration programmes for foreign-born women, promoting female entrepreneurship and financial inclusion and levelling taxation for second earners (for example in Belgium and Germany). Some of these policies can also stimulate fertility and increase labour supply as a consequence (André et al., 2023). Women are generally underrepresented in ICT occupations, which provide good jobs and often suffer from labour and skill shortages. Austria, Belgium, Poland and Slovakia have put in place measures encouraging the participation of women in ICT education and occupations (Eurofound, 2023).

The OECD average youth unemployment rate was above 11% in July 2024, more than double the overall unemployment rate of 5%, and exceeded 20% in 10 countries. More than 12% of 15-29-year-olds were not in employment, education, or training (NEET) in 2022, even though this share has been trending down over the past decade. Hence, there is potential to increase employment among youth. This is crucial to alleviate short-term labour shortages, and also to build a skilled workforce and reduce inequality and social exclusion (OECD, 2013). As mentioned above, education performance needs to be improved. The transition from school to work should also be facilitated, notably through second-chance programmes for young people who quit school without an upper-secondary degree and quality apprenticeships and internships (OECD, 2018a). For example, France introduced in 2016 a programme to help NEETs access ICT professions (Eurofound, 2023). Channelling support to young people would support school-to-work transitions and alleviate shortages of technical and vocational skills in the United Kingdom. Training and apprenticeships in sectors where labour shortages are high should be prioritised in Ireland.[10]

Immigration can help alleviate labour shortages

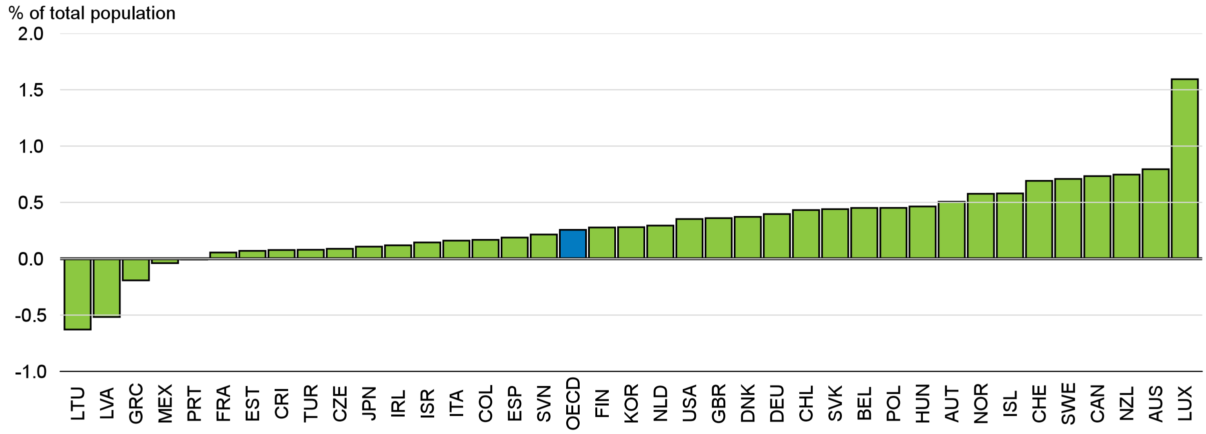
Net migration contributed significantly to population growth in most OECD countries over the past decade. Net migration inflows were particularly large in Luxembourg, Australia, New Zealand, Canada and Sweden. Conversely, Latvia, Greece and Lithuania suffered from net population outflows (Figure 2.23), despite a recent reversal in Lithuania. Permanent-type migration to OECD countries reached an all-time high of 6.5 million in 2023 (excluding Ukrainian refugees), 28% more than in 2019 and 54% more than in 2013 (OECD, 2024d). Although immigration is generally unlikely to fully offset population ageing, it can significantly contribute to alleviating labour shortages in the short to medium term, provided the migrants’ skills can be matched with labour market needs through well designed immigration and integration policies. For example, implementing a targeted migration strategy could alleviate labour shortages in Poland.[11] Work immigration more than doubled since 2014 in OECD countries and accounted for a fifth of permanent-type migration in 2023 (OECD, 2024d). A surge in immigration boosted US economic growth following the pandemic (Dynan, 2024). A potential drawback is that emigration of skilled workers may deprive origin countries from necessary human resources (Jensen et al., 2019).

[10] See country note in Chapter 3.

[11] See country note in Chapter 3.

Figure 2.23. Migration flows contribute to population growth in most OECD countries

Net migration, annual average 2010-2023



Source: World Bank.

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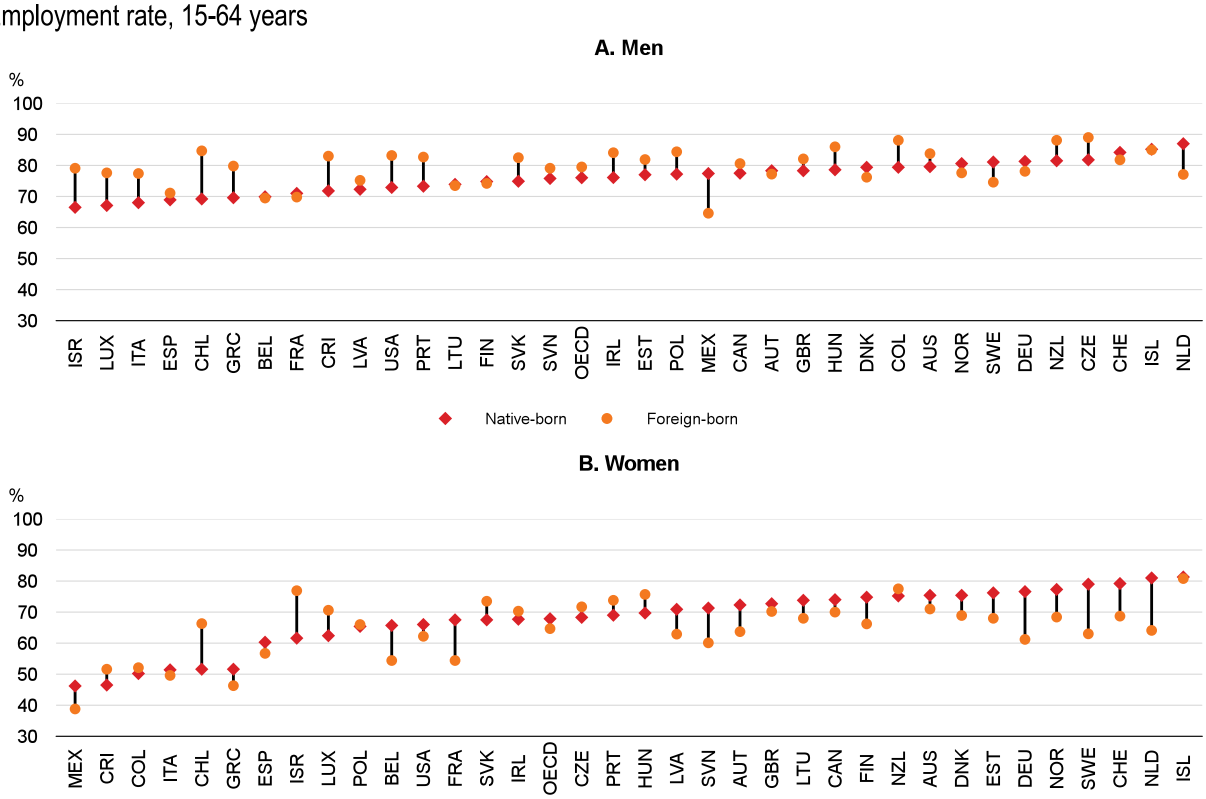
Figure 2.24. Employment is lower among foreign-born women than natives

Employment rate, 15-64 years



Note: The OECD average is unweighted.
Source: OECD Migration database.

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Policies need to effectively support migrants' labour participation. The OECD foreign-born male employment rate is on average higher than that of natives, albeit with large differences across countries.

Foreign-born women, however, have lower employment rates than natives in the majority of OECD countries (Figure 2.24). The child penalty is particularly high for foreign-born women. On average in the OECD, about half of migrant mothers with small children (up to four years old) are employed, 20 percentage points fewer than their native peers. The gap is largest in Belgium, France, Germany and Slovenia (over 30 percentage points) and lowest in Hungary, Czechia, Chile and Costa Rica (10 percentage points or less). Several factors contribute to this outcome, including less time spent in the labour market before childbirth and overrepresentation in elementary occupations that offer little financial incentive or institutional support for a return to work after childbearing. However, a lower use of formal childcare is often the main factor (OECD, 2023f). Improving access to affordable childcare could help raise the employment rate of mothers, with additional benefits for children, as high-quality early childhood education can be decisive for children's development, especially for those from a lower socio-economic background (OECD, 2018b). In addition, programmes to reach out to migrant women, integration courses and participation of migrant women in training and other active labour market policies can enhance economic and social integration (OECD, 2020d).

Competition for talent has increased, even though on average immigrants to OECD countries still have lower educational attainment than natives. Governments are increasingly implementing selective labour migration policies with respect to specific skills, occupations and sectors (OECD, 2023f). For example, the Australian Skilled migration programme aims at filling positions where Australian workers are not available. Over recent years, Austria and the Belgian region of Flanders have expanded their shortage occupation list. Switzerland has relaxed immigration rules for skilled workers. Canada, Spain and Japan have eased immigration rules for people with high ICT skills (OECD, 2023f).

Policies need to help migrants access jobs that match their qualifications. Migrants often perform jobs for which they are overqualified, even after several years in the host country. Governments should address this issue by ensuring better recognition of foreign qualifications (for example in Canada), encouraging and providing support for language learning and fighting discrimination (OECD/European Union, 2014). Specific measures can support the integration of migrants in sectors suffering from labour shortages. Several countries, including Austria, Korea, Spain and Switzerland have established vocational language courses in specific sectors where labour demand is high (OECD, 2023f). Germany also introduced free digital courses for migrants, asylum seekers, refugees and other citizens without access to digital education or a professional network in 2015 (Eurofound, 2023).

Conclusion

Labour markets are cooling after significant tightness during the recovery from the COVID-19 pandemic, yet labour shortages persist and are severe in high-skilled jobs and in occupations characterised by low pay and strenuous working conditions. Young and low-productivity firms face more serious shortages than older and more productive companies. Nevertheless, high-productivity firms tend to report difficulties in hiring high-skill professionals. This is likely related to changing skill needs by the digital and green transitions, which rely critically on the availability of competent workers. At the same time, population ageing and low fertility will increasingly weigh on labour supply in the years to come.

Policies have a key role to play in alleviating labour shortages. Strengthening education and training systems would provide firms with the human resources they need for their development and workers with better job opportunities. In low-pay and strenuous occupations, improving job quality, in terms of wages, working conditions and safety, flexibility and job security, will be necessary to tackle shortages Labour market policies that can facilitate mobility and matching are also essential. There is scope to raise labour participation in all age groups, notably by improving work-life balance. Immigration can further help mitigate labour shortages, provided effective integration policies are in place. In a period of rapid technological progress, better mobilising human resources and skills will remain crucial for economic growth and well-being.

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3 Developments in individual OECD and selected non-member economies

Argentina

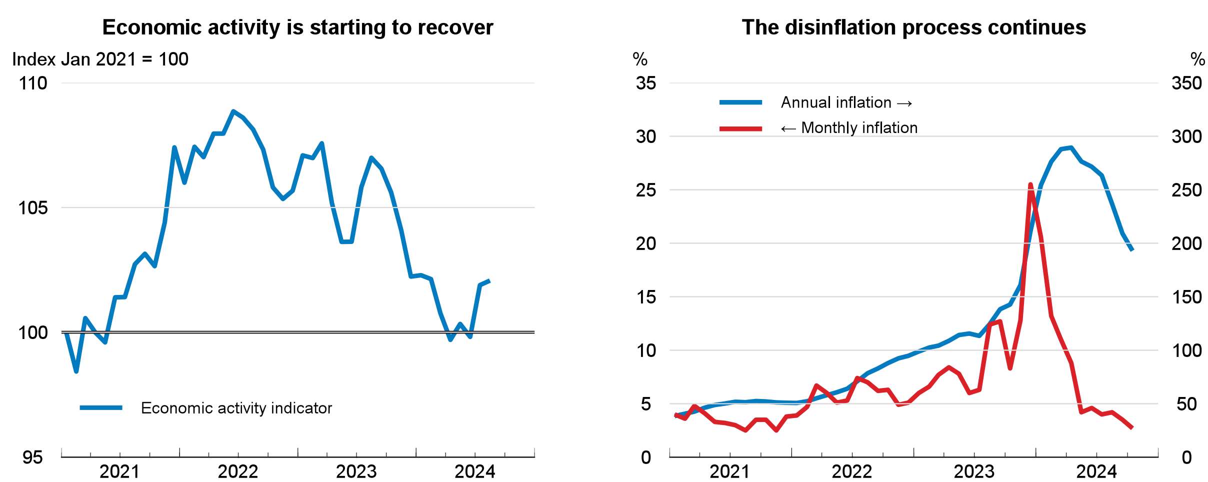
GDP is expected to contract by 3.8% in 2024 and rise by 3.6% in 2025 and 3.8% in 2026. The recovery in private consumption will be sustained by real wage gains amid declining inflation and a strengthening labour market. Investment will benefit from improving confidence as macroeconomic imbalances are gradually reduced, with further support from a new preferential regime for large projects. Imports will recover as domestic demand increases, outpacing export growth. Delays implementing planned reforms are a major downside risk to the projections.

Fiscal consolidation should continue. The central bank has been reducing its quasi-fiscal liabilities and closing several indirect sources of money creation. Easing import restrictions and currency controls would provide an additional boost to growth. Yet, higher domestic real interest rates will be needed to bolster demand for domestic-currency assets as currency controls are relaxed. The continuation of ongoing product and labour market reforms is necessary to improve the business environment, and increase productivity and incomes.

Economic activity may have bottomed out in the second quarter

Short-term indicators are showing signs of improvement. Quarterly growth rebounded to 3.4% in the third quarter, according to sequential readings from a monthly activity indicator. Agriculture and livestock, and mining were the sectors with the most significant growth, and manufacturing, construction, and trade also experienced a strong recovery. Real credit is rising. Consumer confidence increased 8.8% in October. Disinflation continues as monthly inflation reached 2.7% in October, its lowest level since November 2021. Wage increases have started to outpace inflation since April.

Argentina



Source : Banco Central de la República Argentina; Instituto Nacional de Estadística y Censos de la República Argentina.

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Argentina: Demand, output and prices

Argentina	2021	2022	2023	2024	2025	2026
	Current prices ARS billion	Percentage changes, volume (2004 prices)				
GDP at market prices	46 219.1	5.3	-1.6	-3.8	3.6	3.8
Private consumption	29 096.4	9.4	1.0	-7.2	3.3	4.5
Government consumption	7 356.1	3.0	1.5	-4.2	0.2	0.0
Gross fixed capital formation	7 991.6	11.2	-2.0	-23.9	11.8	13.3
Final domestic demand	44 444.1	8.6	0.6	-9.9	4.4	5.6
Stockbuilding[1]	363.1	-0.4	-0.1	-2.5	0.2	0.0
Total domestic demand	44 807.2	8.3	0.4	-12.4	5.4	6.1
Exports of goods and services	8 350.3	4.6	-7.5	25.7	8.1	6.4
Imports of goods and services	6 938.4	17.8	1.7	-16.3	15.4	14.9
Net exports[1]	1 411.9	-1.8	-1.5	5.5	-0.5	-0.9
Memorandum items						
GDP deflator	_	69.9	135.4	223.2	66.6	40.0
Consumer price index	_	72.4	117.2	120.9	29.8	25.1
Current account balance (% of GDP)	_	-0.5	-3.0	1.0	-0.2	-0.6

1. Contributions to changes in real GDP, actual amount in the first column.
Source: OECD Economic Outlook 116 database.

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The current account posted its first surplus since 2022 in the first quarter of 2024, driven by a robust trade balance. The currency devaluation in late 2023 helped to boost exports, although high inflation has subsequently eroded some of the competitiveness gains. Lower import taxes and the gradual, albeit slow, easing of foreign currency restrictions for importers are expected to raise imports in the coming quarters, with the current account slowly deteriorating again. A tax amnesty introduced in July is helping to attract foreign currency inflows.

Fiscal consolidation efforts appear on track

Primary budget surpluses were recorded from January to October 2024, something Argentina had not seen since 2010. These improvements are putting fiscal consolidation on track to reach the primary fiscal surplus target of 1.5% in 2024, consistent with closing the headline fiscal deficit. The 2025 budget targets a balanced headline budget and mandates automatic spending cuts to offset unexpected revenue shortfalls. Nominal base money growth has been contained, and base money and broad money stock measures stand near historic lows. Almost all sources of monetary expansion are being closed, including from central bank reserve purchases, which are now being sterilised. This is helping to curb inflation and limiting the risk of a steep currency devaluation once capital controls are lifted.

Growth will rebound in 2025 and 2026, but risks are tilted to the downside

Positive real wage growth amid lower inflation will provide some support for private consumption. Assuming the release of most capital controls in 2025, private investment is expected to recover in earnest. Private investment will also benefit from the introduction of a new preferential regime for large projects in September 2024, which includes tax breaks. Imports will recover as domestic demand rises and import controls are lifted. Inflation is expected to continue to moderate. The complete withdrawal of extraordinary import taxes, planned for January 2025, will help lower the cost of imports and partly compensate for the expected devaluation of the domestic currency as capital controls are lifted. Downside risks to the projections include delays in lifting currency and capital controls. Reform fatigue could curb business confidence and investment. On the upside, stronger economic growth in major trading partners could boost exports above expectations.

A challenging reform agenda lies ahead to stabilise the economy

Renewed efforts will be necessary to sustain fiscal consolidation. Possible options include improving the governance and targeting of some social protection programmes; rationalising energy, transport, and water subsidies; and increasing the effectiveness of tax collection by simplifying the tax system, removing distortionary taxes, and reducing regressive taxation. Positive real interest rates will be necessary to contain inflation and generate demand for the domestic currency once capital controls are lifted, but this will have fiscal costs, adding to the difficult balancing act faced by macroeconomic policies. Boosting productivity growth will require wide-ranging structural reforms, including further progress in streamlining regulations, lower market entry barriers, stronger competition, lower trade barriers, and training programmes that respond to employers’ demand for technical skills.

Australia

Having slowed this year amid tight monetary conditions and worsening terms of trade, GDP growth is projected to pick up to 1.9% in 2025 and 2.5% in 2026. The unemployment rate, which has risen but remains low, is projected to flatten out just above current levels. While headline inflation has now fallen to within the 2-3% target range, core inflation remains somewhat higher. Unexpectedly stubborn services inflation could delay or forestall the projected easing of monetary policy, while an abrupt slowing of immigration would hinder consumption growth. As a small open economy, Australia is also exposed to the risk of an increase in global trade restrictions.

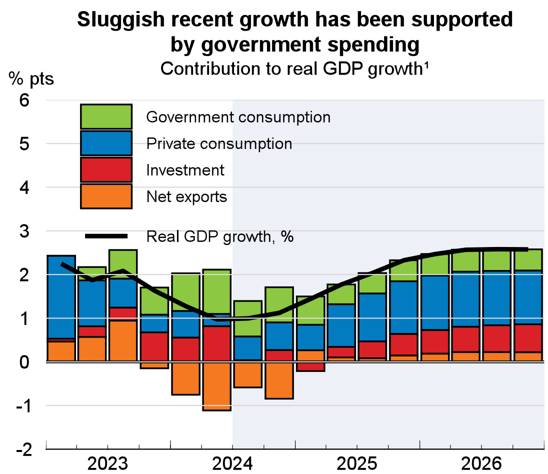
An easing of monetary policy is warranted over the next year given ongoing disinflation and below-potential growth. Strong public spending growth is currently helping to offset weak private consumption, but a degree of budgetary consolidation will be needed in the coming years to ensure that future fiscal pressures can be addressed. Fostering an adaptable labour force will be key to coping with the climate, ageing and digital transitions. Policymakers should beware, in seeking to curb immigration to ease pressures on housing costs, of worsening labour shortages, including in house-building.

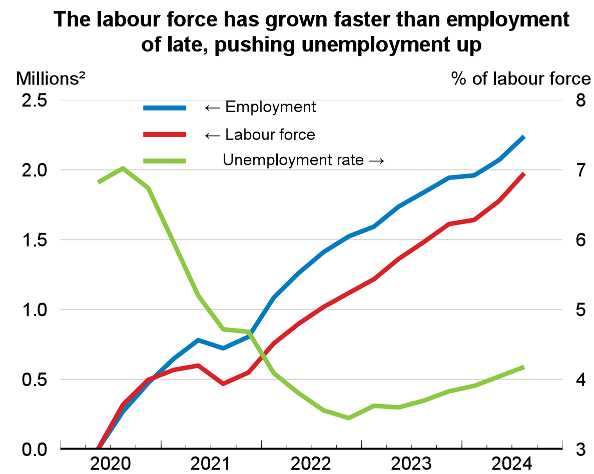
Monetary tightening and lower commodity prices have helped with disinflation but hindered growth

GDP growth was below 1% (annualised rate) from the fourth quarter of 2023 through to the second quarter of 2024 and most high-frequency indicators of activity – including PMIs, leading indicators and business sentiment – point to continued weakness in the second half of 2024. Robust government spending growth has kept GDP growth positive as tight monetary conditions restrained private consumption and investment. Inflation, which peaked in late 2022, has continued to fall – the headline rate in August 2024 was within the central bank's 2-3% target range for the first time in three years, and it fell further to 2.1% in September – although continued upward pressure remains on housing costs in particular. The unemployment rate, which in mid-2023 was at its lowest level in nearly 50 years, has moved back up, and vacancies have fallen, but the ratio of vacancies to unemployed persons remains well above its pre-pandemic level. The government's latest Skills Priority List (for 2023) assessed that 36% of occupations were in shortage, with construction and health among the sectors where shortages were most acute.

Weak external demand for Australia's key commodity exports has resulted in falling export prices and stagnating volumes over the past 18 months, exerting a drag on output and corporate profits. A surge of immigration coming out of the pandemic yielded average annual labour force growth of 3.4% between mid-2020 and the third quarter of 2024. This was initially more than matched by employment growth, boosted by strong commodity prices, buoyant export growth and initially accommodative monetary conditions.

Australia





1. Year-on-year growth rates.
2. Employment and labour force are cumulative growth since the second quarter of 2020.
Source: OECD Economic Outlook 116 database; and OECD calculations.

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Australia: Demand, output and prices

Australia	2021	2022	2023	2024	2025	2026
	Current prices AUD billion	Percentage changes, volume (2021/2022 prices)				
GDP at market prices	2 206.4	3.9	2.0	1.1	1.9	2.5
Private consumption	1 086.8	7.1	2.0	1.0	1.9	2.4
Government consumption	487.9	5.0	1.9	4.0	2.3	2.2
Gross fixed capital formation	506.7	2.3	5.4	1.8	1.2	2.5
Final domestic demand	2 081.4	5.4	2.8	1.9	1.8	2.4
Stockbuilding[1]	5.8	0.5	-0.9	0.0	-0.1	0.0
Total domestic demand	2 087.2	5.9	1.8	1.9	1.7	2.4
Exports of goods and services	518.4	2.6	6.8	1.5	2.7	4.1
Imports of goods and services	399.3	13.6	6.5	5.6	2.2	3.4
Net exports[1]	119.1	-1.9	0.5	-0.8	0.1	0.2
Memorandum items						
GDP deflator	_	8.2	3.6	2.5	1.9	2.2
Consumer price index	_	6.6	5.6	3.2	2.3	2.6
Core inflation index[2]	_	5.9	5.8	3.2	2.3	2.6
Unemployment rate (% of labour force)	_	3.7	3.7	4.1	4.4	4.4
Household saving ratio, net (% of disposable income)	_	7.3	1.9	2.5	5.2	5.7
General government financial balance (% of GDP)	_	-1.4	-0.7	-2.2	-2.8	-2.5
General government gross debt (% of GDP)	_	55.1	55.7	57.9	60.6	62.8
Current account balance (% of GDP)	_	0.8	0.2	-1.7	-2.2	-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 116 database.

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Monetary policy will become less restrictive and fiscal policy less expansionary

Monetary policy remains restrictive – indeed, with inflation falling and nominal policy rates unchanged since November 2023, real interest rates have been rising – but with headline and core inflation projected to be back below target by early 2025, a gradual easing of policy is expected to begin next year and to continue into early 2026, taking the policy rate down to 3.35%. Fiscal policy is currently moderately expansionary, with the federal budget balance projected to worsen by two percentage points of GDP between the 2023/24 and the 2025/26 fiscal years. The loosening of fiscal policy this year largely reflects cost-of-living support from the federal government, mainly via income tax cuts and extended energy payment assistance. Some states are also providing further energy payment support this year. Government plans indicate that fiscal consolidation will begin in the 2026/27 fiscal year. In calendar year terms, the fiscal stance is moderately expansionary in 2024 and 2025, with a small tightening in 2026 – the stance is broadly neutral over 2025-26.

Growth should pick up even as disinflation continues

Growth is expected to improve from the second half of 2024 onward, given strengthening real wage growth, fiscal stimulus, and a projected reduction of interest rates in 2025. One risk is that if inflation declines more slowly than expected, whether because of persistent cost pressures in services or because of new commodity price shocks, interest rates may stay higher for longer than projected, further squeezing demand. Another risk is that an abrupt fall in immigration could both undermine consumption growth and add to labour shortages in some sectors, aggravating bottlenecks. With exports accounting for more than a quarter of GDP, Australia is exposed to a shift to more restrictive trade policies in major trading partners. Australia is particularly vulnerable to weakness in China's economy, although this is a two-sided risk as Chinese policy stimulus could boost Australian exports by more than expected.

Policy should support a recovery and lay the basis for sustainable growth

The widening of the fiscal deficit this year has helped sustain domestic demand in the context of weak private consumption and investment, but a degree of consolidation is warranted in the medium term given the ageing-related fiscal pressures on the horizon and the benefits of maintaining fiscal buffers. An easing of monetary policy should be possible in the coming quarters but may have to be slowed if services inflation remains elevated or if external developments result in further depreciation of the Australian dollar and upward pressure on goods prices. Over the longer term, in the context of population ageing, climate change and digitalisation, it will be increasingly important to promote an adaptable labour force, with skills well suited to emerging needs. Immigration policies have a role to play in this, while also easing labour shortages in key areas such as construction.

Austria

Economic activity is projected to recover slowly from a two-year contraction, with GDP growing by 1.1% in 2025 and 1.4% in 2026. Inflation is set to decline to target in the course of 2025. Rising nominal wages, reflecting the delayed passthrough of past inflation, will support household incomes and are expected to support consumption growth along with some decline in savings. Business investment is projected to be hindered by weak demand and high labour costs. Labour market conditions are expected to slowly deteriorate, in particular in industry, resulting in a small increase in the unemployment rate.

The fiscal stance will be mildly contractionary over the projection period. The economic contraction in 2024 and new discretionary measures should keep the budget deficit above 3% of GDP in 2025. A medium-term plan to reduce the deficit as growth picks up would be welcome. Raising the labour force participation of women and older cohorts, and shifting taxation from labour to other bases, would support inclusive growth.

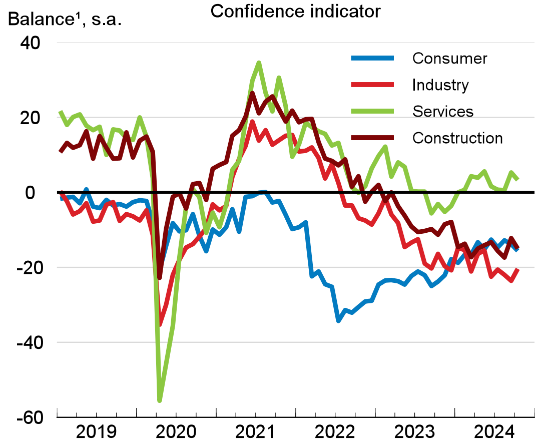
The economy will contract again in 2024

The economy recovered slowly in the first three quarters of 2024 due to subdued investment, slow household consumption and weak external demand. Despite improved consumer confidence and real wages, consumption fell in the second quarter as households built up savings. Exports have been declining since the second quarter of 2023, in particular in intermediate and capital goods. Tight financial conditions and weak demand are slowing investment, which is now constrained by rising labour costs. Inflation fell to 1.8% in October due to lower energy and fuel prices. The unemployment rate remains low, but the labour market, particularly in industry, has started to weaken. Business surveys suggest that labour shortages are now below their pre-pandemic levels in the manufacturing and services sectors.

Austria

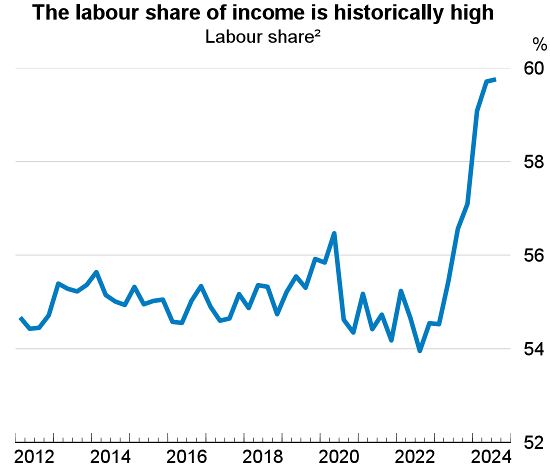
Confidence is increasing except in industry

Confidence indicator



The labour share of income is historically high

Labour share²



1. Answers obtained from the surveys are aggregated in the form of balances, constructed as the difference between the percentages of respondents giving positive and negative replies.
2. It is calculated as the fraction of compensation of employees in GDP net of taxes less subsidies on production and imports.
Source: Eurostat Business and Consumer Survey (BCS) database; and OECD Economic Outlook 116 database.

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Austria: Demand, output and prices

Austria	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices*	406.0	5.4	-0.8	-0.5	1.1	1.4
Private consumption	201.4	5.3	-0.4	-0.1	1.4	1.8
Government consumption	88.7	-0.6	1.2	0.5	1.0	1.0
Gross fixed capital formation	105.5	0.3	-3.0	-3.7	0.1	1.6
Final domestic demand	395.5	2.6	-0.8	-0.9	1.0	1.6
Stockbuilding[1]	6.7	1.3	-3.0	-0.3	0.2	0.0
Total domestic demand	402.2	4.1	-3.7	-1.2	1.2	1.6
Exports of goods and services	227.6	10.2	-0.6	-2.1	2.2	2.5
Imports of goods and services	223.8	7.1	-4.6	-3.1	2.8	2.9
Net exports[1]	3.8	1.8	2.5	0.5	-0.2	-0.1
Memorandum items						
GDP deflator	_	4.8	6.6	2.6	2.4	1.7
Harmonised index of consumer prices	_	8.6	7.7	2.9	2.1	2.0
Harmonised index of core inflation[2]	_	5.1	7.3	3.9	2.4	2.0
Unemployment rate (% of labour force)	_	4.7	5.1	5.1	5.3	5.2
Household saving ratio, net (% of disposable income)	_	8.8	8.7	11.3	11.0	9.8
General government financial balance (% of GDP)	_	-3.3	-2.6	-3.3	-3.4	-2.5
General government gross debt (% of GDP)	_	85.1	87.0	89.3	91.1	92.2
General government debt, Maastricht definition[3] (% of GDP)	_	78.4	78.4	80.8	82.6	83.6
Current account balance (% of GDP)	_	-0.9	1.3	3.8	3.4	3.0

* 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 116 database.

StatLink https://stat.link/ksht25

Germany's weak economy, the destination of over 30% of Austria's exports, has weighed significantly on export growth. The transmission of falling global energy prices to consumer prices has been slower in Austria than in other euro area countries in particular due to long contractual lock-in periods. Recent area-wide monetary loosening will take time to impact investment. Meanwhile, high interest rates will continue to incentivise household savings in the short term.

The primary fiscal balance will remain in deficit

The public deficit is forecast to remain above 3% in 2024 and 2025, despite a slight tightening of the fiscal stance. The phase-out of crises-related support is offset by new discretionary spending. In particular, the new fiscal equalisation scheme with subnational governments supports additional expenditures by local authorities including for childcare, housing renovation, and climate protection; and the housing package supports construction investments via subsidies for housing developers and home improvements. Expenditures will also rise as past inflation passes through to public wages and social benefits. Continued implementation of the eco-social tax reform is increasing revenue from carbon taxation but also reducing income taxation and increasing transfers to households via the climate bonus. Given relatively high deficit and debt levels above the thresholds of the EU rules, a consolidation of 0.5 percentage points of potential GDP is assumed in 2026.

The economy will recover only gradually

Output growth will gradually recover to 1.1% in 2025 and 1.4% in 2026, as both domestic and external demand improve. Private consumption will pick up as real wages increase due to past inflation adjustments, and as high savings start to be drawn down as interest rates fall. Private investment will remain restrained by tight financial conditions and higher labour costs. The labour market will slightly deteriorate, with unemployment rising from 5.1% in 2023 to 5.3% in 2025. GDP growth will exceed potential in 2025 and 2026, driven by an upturn of domestic demand and the recovery in European demand, but the quarterly pace will slow during 2026 due to assumed fiscal consolidation. Risks to the projections are balanced. Low levels of hours worked suggest that labour hoarding is potentially high, while profits are squeezed by rising employee compensation. However, domestic demand can grow even faster as firms could rely on significant past savings, and rising real wages and high savings of households have not passed through yet to consumption. Finally, Austria remains susceptible to an interruption of Russian gas which represents 90% of gas imports, although shortages are unlikely given the high level of reserves and recent diversification measures.

Barriers to the employment of specific groups can be lifted to tackle shortages

The economy needs to improve its capacity to adapt to future shocks and address structural challenges. Easing entry requirements into certain professional services could help revive business dynamism. Activating underrepresented groups in the labour market would strengthen resilience. Labour market tightness remains higher than before the pandemic and will be amplified by long-term trends like population ageing and the green and digital transitions. Expanding high-quality preschool education and further strengthening incentives for more balanced use of parental leave between mothers and fathers would address low full-time employment rates of women. Targeted reductions in the tax wedge, the fourth highest in the OECD, could help increase the employment of low-income workers and reduce the prevalence of part-time work. More generally, labour force participation and sustainable growth would be promoted by shifting taxation from labour to other bases, including carbon and property taxation.

Belgium

Economic growth is projected to weaken to 0.9% in 2024, before reaching 1.2% in 2025 and 1.4% in 2026. Household consumption growth should support the recovery in 2025 and 2026, as job growth increases again and inflation declines. Continued easing of financing conditions and improving global trade prospects should also support housing investment and export growth. Headline inflation is set to rise to 4.3% in 2024 due to rising energy inflation and persistent core inflation. However, as second round effects fade, headline inflation should fall to 2.9% in 2025 and 2.1% in 2026.

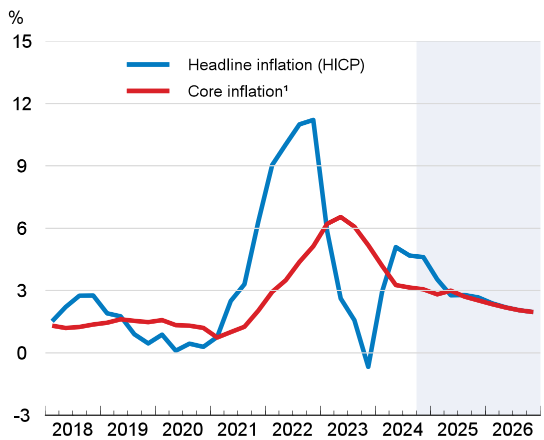
The fiscal deficit is expected to widen in 2024 and only stabilise in 2025 since coalition negotiations following the elections make consolidation unlikely. The fiscal stance is set to turn contractionary in 2026, as the government is expected to put public debt on a downward path as per the new EU fiscal rules. Strengthening in-work benefits for low-paid workers and abolishing the partial tax splitting for couples should encourage greater labour market participation and help address labour shortages.

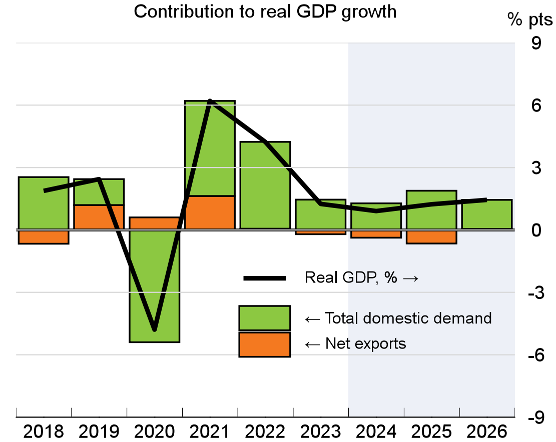
Economic activity has slackened

GDP growth has remained steady, with third quarter growth of 0.2%. Household consumption growth slackened, as the effects of the automatic indexation of wages and transfers faded. Job creation has also weakened, and still high borrowing costs and weak confidence have dampened domestic activity. The unemployment rate declined in the second quarter of 2024 to 5.4%, although 0.7% less vacancies were created than in the first quarter. Housing investment has been held back by high financing costs, but mortgage lending is now rising again, with 4.8% more credit granted in the second quarter of 2024 compared to a year earlier. Industrial production rose 6% (year-on-year) in September for a third consecutive month, and by the most since November 2022. Headline inflation rose to 4.5% in October (up from 4.3% in September), mostly due to higher natural gas, tobacco, and electricity prices. Core inflation, excluding energy, food, alcohol and tobacco, slowed to 2.9% in October.

The global slowdown in trade has continued to affect Belgium exports significantly, which fell by 2% in the second quarter of 2024. Belgium is regaining price competitiveness, but the wage gap between Belgium and its neighbouring countries (the Netherlands, Germany and France) is not falling as fast as expected. Retail energy prices have risen substantially as higher natural gas and electricity prices feed through rapidly in Belgium due to the prevalence of variable rate contracts.

Belgium





1. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 116 database.

StatLink https://stat.link/zh0qg6

Belgium: Demand, output and prices

Belgium	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2020 prices)				
GDP at market prices	506.0	4.2	1.3	0.9	1.2	1.4
Private consumption	252.6	3.6	0.6	1.3	1.3	1.8
Government consumption	120.3	3.3	3.2	4.5	2.2	0.7
Gross fixed capital formation	121.0	1.7	3.5	3.0	2.7	1.3
Final domestic demand	493.9	3.1	1.9	2.5	1.9	1.4
Stockbuilding¹	2.7	1.2	-0.4	-1.2	0.0	0.0
Total domestic demand	496.6	4.3	1.5	1.3	1.9	1.4
Exports of goods and services	453.5	5.8	-7.1	-3.5	0.3	2.7
Imports of goods and services	444.1	5.8	-6.8	-3.0	1.1	2.6
Net exports¹	9.5	0.1	-0.2	-0.4	-0.7	0.0
Memorandum items						
GDP deflator	_	6.8	4.5	2.0	2.6	2.2
Harmonised index of consumer prices	_	10.3	2.3	4.3	2.9	2.1
Harmonised index of core inflation²	_	4.0	6.0	3.4	2.8	2.1
Unemployment rate (% of labour force)	_	5.6	5.5	5.6	5.9	5.8
Household saving ratio, net (% of disposable income)	_	8.5	10.2	11.2	10.3	9.5
General government financial balance (% of GDP)	_	-3.6	-4.2	-4.6	-4.7	-4.5
General government gross debt (% of GDP)	_	101.8	104.8	107.3	109.2	110.8
General government debt, Maastricht definition³ (% of GDP)	_	102.6	103.1	105.6	107.5	109.2
Current account balance (% of GDP)	_	-1.3	-0.7	-0.9	-0.5	0.3

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 116 database.

StatLink https://stat.link/uotk24

Fiscal consolidation should begin in 2026

The fiscal deficit is expected to increase again in 2024. While federal and regional governments recently made efforts to begin consolidation and sovereign bond spreads have remained stable, the debt-to-GDP ratio is still on a rising path and expected to reach 109% in 2026 (Maastricht definition). Significant deficit reduction is unlikely in the near term due to lengthy coalition negotiations. A no policy change scenario is assumed for 2024 and 2025. The fiscal stance is projected to turn contractionary from 2026, as new EU fiscal rules require Belgium to commit to a multi-year downward trajectory for its public debt and deficit.

Economic growth will remain robust

Real GDP is projected to grow by 0.9% in 2024, 1.2% in 2025 and 1.4% in 2026. Household consumption growth is expected to pick up as inflation falls, financing conditions ease and job growth improves. Still high interest rates will hold back housing investment initially, before it recovers as interest rates decline. Fiscal consolidation in 2026 is expected to generate only mild headwinds. Exports will begin to recover from 2025, as demand in key European trade partners strengthens and Belgium regains price competitiveness. Headline inflation is projected to rise to 4.3% in 2024 mostly due to rising energy prices and the phase-out of energy support measures, before declining to 2.9% in 2025 and 2.1% in 2026, amid wage moderation and fading second round effects. Key risks to the outlook include a greater impact from persistent inflation on household consumption growth, and a further drag on exports if neighbouring countries' growth does not catch-up as expected.

Structural labour market reforms and prudent fiscal policy are needed for consolidation

Belgium has one of the largest debt-to-GDP ratios in the European Union, at 103% in 2023. Federal and regional governments continue to run deficits well above 2019 levels despite long-run projections pointing to significant risks of an unsustainable increase in public debt. Renewed efforts are needed to put the public debt burden on the downward path envisaged in the new EU fiscal rules. Belgium must also raise labour participation rates to address widespread labour shortages and complement budgetary consolidation measures. Strengthening in-work benefits for low-paid workers and removing large threshold effects would encourage greater labour market participation. Abolishing the partial tax splitting for couples would also reduce disincentives to participate for low-income second earners, who are mostly women.

Brazil

Real GDP is projected to grow by 3.2% in 2024, 2.3% in 2025 and 1.9% in 2026. Persistent job creation and strong wage growth will drive household consumption through 2025. Following a strong pick-up in 2024, private investment will remain buoyant although slowing gradually. A slowdown in export market growth will limit export expansion. Inflation has picked up in the second half of 2024 but is expected to converge towards the 3.0% target by 2026, although at a slow pace.

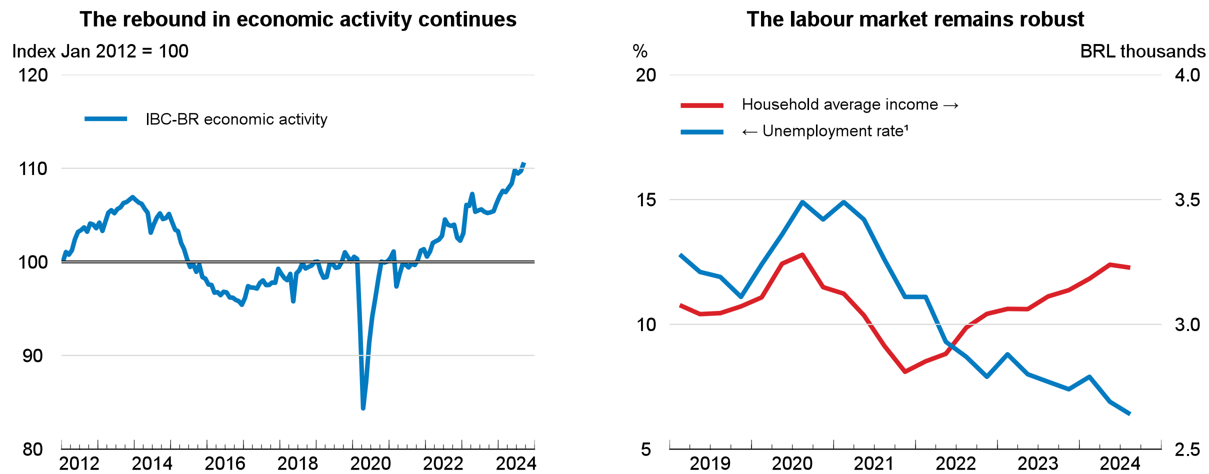
Fiscal policy remains expansionary, and meeting the primary deficit target of at most 0.6% of GDP required by the new fiscal framework will be challenging in 2024 and 2025. Automatic backward-looking price indexation will maintain pressure on social expenditures in the next few years, requiring a further squeeze of discretionary spending in the absence of broader reforms. The outlook for inflation has deteriorated, and the ensuing monetary tightening is projected to continue until mid-2025. Broad-based structural reforms are needed to deliver stronger and sustained growth. As employment expands, developing access to early childhood education would facilitate labour market participation of women and reduce gender disparities.

After a strong start, the economy is slowing

The economy experienced strong growth in the first half of 2024. Leading indicators now point to a gradual moderation in the second half of the year. Services stagnated in July and August, having risen by 2.6% in the first half of the year, but rebounded by 1% in September. Retail trade rose by 5.1% in the first half of 2024 but remained broadly unchanged in July and August before increasing again in September by 0.5%. Industrial production has seen a similar pattern, with a strong expansion in early 2024 and weaker performance in July and August. Agricultural production is expected to decline by 5.5% in 2024 compared to an exceptionally strong 2023 due to excessive rainfall in the South of the country and a long period of drought from the North to the Southeast. The labour market remains robust, with the unemployment rate at 6.4% in September, down from nearly 15% in mid-2021. Labour shortages are appearing in sectors like construction and industry.

After decreasing in until May, inflation rose to over 4% from June to September, when it reached 4.4% and further strengthened in October to 4.8%. During that period, price inflation of food and beverages rose to 5.9% in September and 6.6% in October, reflecting the impacts of the drought on items such as meat, crops and milk. Prices of housing, utilities and transportation services also increased markedly. Core inflation has trended upward since March.

Brazil 1



1.Moving quarterly data.
Source: Banco Central do Brasil; and IBGE.

StatLink https://stat.link/w38jne

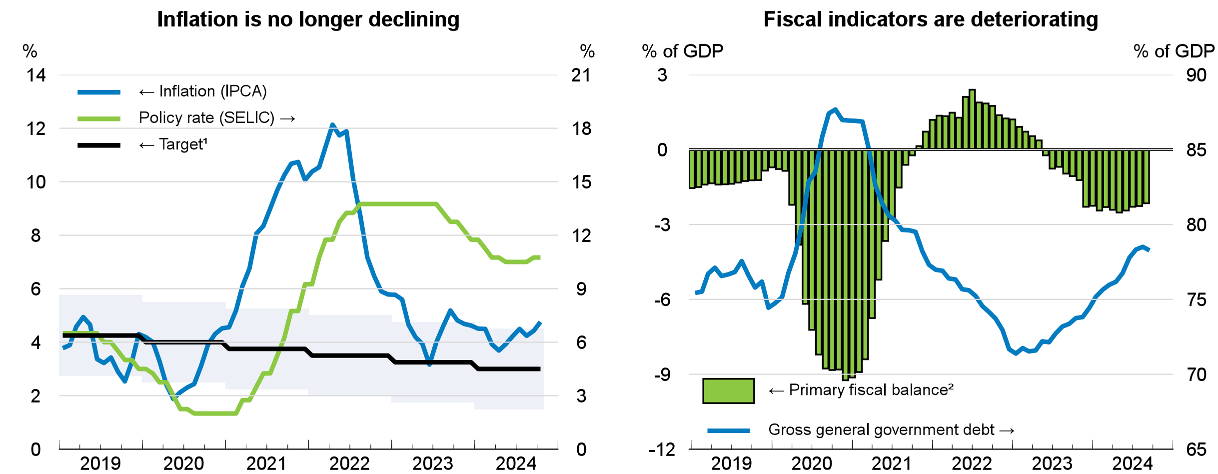
Brazil: Demand, output and prices

Brazil	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
	Current prices BRL billion	Percentage changes, volume (2000 prices)				
GDP at market prices	9 012.1	3.1	2.9	3.2	2.3	1.9
Private consumption	5 530.6	4.1	3.1	4.8	2.8	2.2
Government consumption	1 671.5	2.1	1.7	3.0	2.0	1.2
Gross fixed capital formation	1 614.8	1.0	-2.9	6.5	3.3	2.1
Final domestic demand	8 816.9	3.2	1.8	4.8	2.7	2.0
Stockbuilding[1]	144.6	-0.8	-0.8	-0.1	0.2	0.0
Total domestic demand	8 961.4	2.3	0.9	4.7	3.0	2.0
Exports of goods and services	1 722.2	6.2	9.1	4.6	3.6	3.0
Imports of goods and services	1 671.5	1.5	-1.1	14.6	7.5	3.5
Net exports[1]	50.7	0.9	2.0	-1.5	-0.6	-0.1
Memorandum items						
GDP deflator	_	8.4	4.7	4.0	5.3	4.4
Consumer price index	_	9.3	4.6	4.5	4.2	3.6
Private consumption deflator	_	10.4	4.9	3.6	5.0	4.6
General government financial balance (% of GDP)	_	-4.5	-8.9	-7.9	-7.0	-6.7
Current account balance (% of GDP)	_	-2.5	-1.4	-1.7	-1.9	-2.0

1. Contributions to changes in real GDP, actual amount in the first column.
Source: OECD Economic Outlook 116 database.

StatLink https://stat.link/e8b5id

Brazil 2



1. The shaded area corresponds to the inflation tolerance band.
2. Flows accumulated in 12 months.
Source: OECD Economic Outlook 116 database; and Banco Central do Brasil.

StatLink https://stat.link/io7n1l

Higher inflation calls for monetary and fiscal tightening

Disinflation has come to a halt, leading the Central Bank to increase the key policy rate by 25 percentage points in September and by 50 percentage points to 11.25% in November. The combination of strong GDP growth, a tight labour market, a fiscal expansion and a weaker currency is fuelling inflation expectations. Additional policy rate increases are expected as inflation continues to hover above the central bank's target, bringing the policy rate to 11.75% in the first half of 2025. However, inflation is expected to ease in the second half of 2025, leading the way to monetary easing towards the end of 2025, with the policy rate dropping to 9.5% through 2026.

Fiscal policy expanded in 2024, resulting in a projected primary balance deficit of 0.6% of GDP in 2024. This is the maximum deficit allowed under the new fiscal rule. Planned revenue measures did not deliver the revenues expected, in particular the tax dispute settlements reform facilitated by the Brazilian Federal Tax Administrative Court (CARF). One-off receipts, such as higher dividends from the National Development Bank (BNDES) and royalties, will make up for the revenue shortfall. However, the absence of structural fiscal reform will make it more difficult to meet the fiscal target for 2025. Meanwhile, containing public spending is proving challenging. Pension outlays have risen faster than expected this year, prompting cuts to discretionary expenditures to comply with a spending cap. Indexation of social benefits and minimum spending rules in health care and education will maintain pressure on public finances. Gross public debt is set to continue rising and is projected to exceed 80% of GDP in 2025.

Economic growth will remain above potential

Growth is expected to ease from 3.2% in 2024 to 2.3% in 2025 and 1.9% in 2026. Robust household consumption, boosted by rising incomes and robust employment, will continue to drive domestic demand. Following a strong increase in 2024, investment will progressively slow over 2025 and 2026 as external demand softens. On the supply side, agricultural output is expected to fall short of last year's record harvest amid less favourable weather conditions. Inflation is projected to average 4.5% for the year 2024, before decreasing again in 2025 to 4.2% and 3.6% in 2026. Upticks in inflation are conceivable over the projection period, including from climate shocks that affect food and beverage prices, and external factors impacting energy prices.

Inflation risks are tilted to the upside. Services inflation may prove more persistent than expected given strong growth and currency depreciation could have stronger effects on inflation. Also, unanchored inflation expectations could delay reductions in the policy rate. Risks affecting growth include policy uncertainty about fiscal slippage, which could hold back investment and confidence. Conversely, the successful implementation of the tax reform could enhance confidence and stimulate economic activity.

A structural fiscal reform is needed

As the economy is growing above its potential, containing the current fiscal expansion is crucial for macroeconomic stability. Reforming automatic spending rules, notably in education and health, could provide more flexibility for fiscal policy to pursue policy priorities. Changing the indexation formula of public pensions and social benefits would limit their pressure on public finances. Expanding access to early childhood education, particularly for low-income households and single parents, can promote equal opportunities and facilitate greater female labour force participation and help to reduce labour shortages in certain sectors. Similarly, reallocating active labour market spending from employment subsidies to high-quality training in line with labour market needs would enhance labour matching. Lower non-wage labour costs and better skills could help to reduce labour informality and provide better jobs. Reducing regulatory burdens and licensing requirements, easing entry restrictions in professional services including by abolishing exclusive rights for certain ancillary tasks would improve the cost of doing business, boosting competition and productivity. The implementation of the unified value-added tax system adopted in December can do much to simplify the taxation of goods and services, reduce tax compliance costs for businesses and contribute to stronger confidence. It will also lower the cost of the consumption basket for low-income households.

Bulgaria

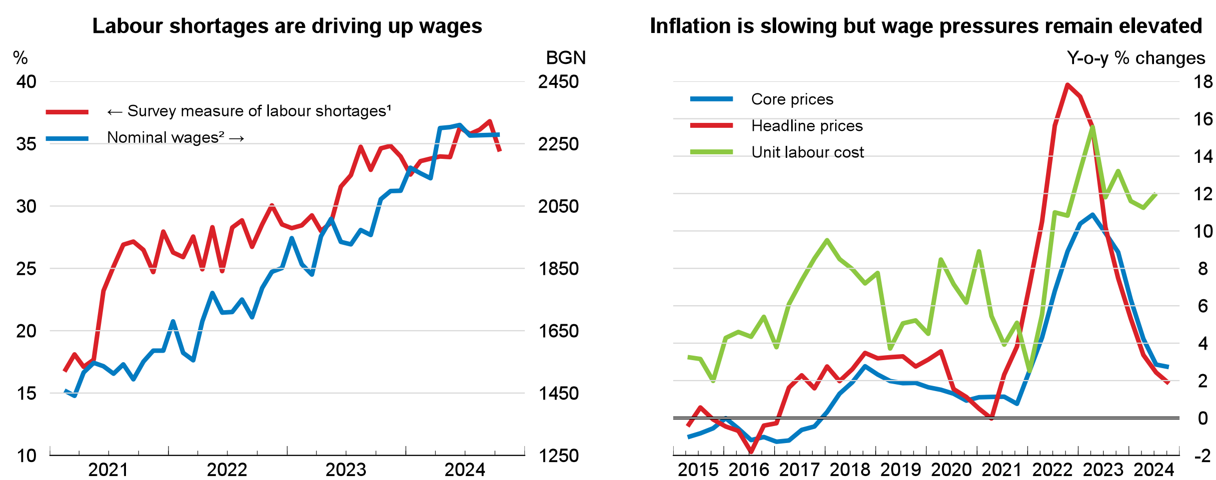
Growth will pick up to 2.3% in 2024 and 2.8% in 2025, before easing to 2.6% in 2026. Activity has been supported by higher wages and government transfers to households. Real growth is expected to pick up, as inflation slows with the diminishing impact from the energy shock. Investment has been subdued but will pick up as the rollout of EU funds resumes. Exports are expected to recover due to improving conditions in the European economy. Inflation has been slowing, but wage pressures remain elevated. A prolongation of political uncertainty would place planned reforms and investments at risk.

Interest rate developments will continue to track those in the euro area, in line with currency board and future euro membership, which is assumed to occur in 2026. Public sector wage rises and increased social spending have widened the fiscal deficit. A modest fiscal consolidation is warranted to reduce demand pressures and maintain prudent public finances. Implementing Recovery and Resilience Facility projects and reforms would unlock EU funds and boost investment. Activation policies, with better support for those returning to Bulgaria, a revamp of the social welfare system and improved skills investments would help to boost labour supply.

Growth has been driven by consumption

GDP increased by 2.2% over the year to the third quarter of 2024 with strong household consumption driven by wage increases, credit growth and government transfers. Both public and private investment have been weak due to political uncertainty and low absorption and delay of EU funds. The headline inflation rate has continued to slow from 5.8% in October 2023 to 1.8% in October 2024, with core inflation at 2.9%. Unemployment has been declining in tandem with the pick-up in economic activity. Business surveys suggest that labour shortages have been the most severe in construction and services since the pandemic.

Bulgaria



1. The labour shortage measure refers to the share of firm respondents to a business survey conducted by the National Statistics Institute that identified shortages of labour as a factor limiting the activity of their enterprise. It is the arithmetic mean of the survey in four sectors: industry, construction, retail trade and services.
2. Nominal average gross monthly wages for all sectors of employees under a labour contract in lev.
Source: National Statistical Institute; and OECD Economic Outlook 116 database.

StatLink https://stat.link/gdnvt9

Bulgaria: Demand, output and prices

Bulgaria	2021	2022	2023	2024	2025	2026
	Current prices BGN billion	Percentage changes, volume (2020 prices)				
GDP at market prices	139.6	4.0	1.9	2.3	2.8	2.6
Private consumption	80.9	3.9	1.4	4.4	3.8	3.3
Government consumption	26.4	8.0	1.1	2.2	2.2	2.0
Gross fixed capital formation	22.7	6.5	10.2	-1.3	3.8	3.7
Final domestic demand	130.0	5.2	2.9	2.8	3.4	3.1
Stockbuilding[1]	6.2	0.8	-4.6	0.6	0.0	0.0
Total domestic demand	136.1	5.9	-1.9	3.3	3.3	3.0
Exports of goods and services	86.3	12.1	0.0	1.1	5.4	4.2
Imports of goods and services	82.8	15.3	-5.5	2.3	6.1	5.0
Net exports[1]	3.5	-1.6	3.8	-0.6	-0.2	-0.3
Memorandum items						
GDP deflator	_	15.9	8.0	7.7	4.6	4.1
Consumer price index	_	15.3	9.5	2.4	2.7	2.5
Core consumer price index[2]	_	7.6	8.9	3.1	3.1	2.5
Unemployment rate (% of labour force)	_	4.1	4.3	4.2	4.1	4.0
Household saving ratio, net (% of disposable income)	_	0.5	3.4	3.3	3.4	3.5
General government financial balance (% of GDP)	_	-2.9	-2.0	-2.5	-3.3	-2.8
General government gross debt (% of GDP)	_	32.0	32.2	33.8	36.5	38.7
General government debt, Maastricht definition[3] (% of GDP)	_	22.5	22.9	24.5	27.2	29.4
Current account balance (% of GDP)	_	-2.6	0.9	0.2	-0.5	-0.6

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 116 database.

StatLink https://stat.link/7mcpld

Weakness in EU demand, particularly in key trading partners, including Germany, is weighing on manufacturing exports. Declining energy prices have damped the value of energy exports, resulting in a widening energy trade deficit, but the current account surplus increased with some recovery in primary income due to higher compensation of employees.

Fiscal policy will remain accommodative in the near term

Interest rate developments will continue to broadly follow euro area monetary policy given the currency board regime. However, transmission of the monetary policy tightening to domestic deposit and lending rates has been slow and incomplete due to high liquidity and stiff competition in the banking sector. Euro adoption is expected to occur in 2026, with technical preparations already progressing. Fiscal policy has been expansionary with increases in public sector salaries, minimum wages, pensions and social benefits, offsetting higher VAT and income tax receipts stemming from the recovery in consumption and higher wages. Government investment has been subdued due to delays in project implementation, and low usage and delay of EU funds. The revival of investment projects will lead to an increase in government spending related to the utilisation of EU funds, somewhat widening the budget deficit. The government has not yet published a medium-term budgetary plan required by the EU.

GDP growth will gain momentum

Growth is set to increase from 2.3% in 2024 to 2.8% in 2025, before easing to 2.6% in 2026. The rollout of unlocked EU funds is expected to spur both public and private sector investment that were held back in

2024. Low unemployment and robust real income growth will continue to support household consumption. Export growth should recover in line with external markets. Inflation is set to remain around current levels, but a further increase in minimum wages in 2025 coupled with persistent labour shortages will keep wage pressures elevated. Slow implementation of projects and delays in the passage of reforms required to release the second payment of Recovery and Resilience Facility risks a reduced level of investment.

More prudent fiscal policy and reforms to tackle labour shortages are needed

A modest fiscal consolidation is warranted to reduce demand pressures and to keep prudent public finances, helping to manage long-term spending pressures from ageing, climate and security needs. Reforming the current minimum wage and pensions indexation mechanism to slow the pace of growth in labour costs and government spending would underpin price stability ahead of adoption of the euro and ease fiscal pressures. Proactive emigration policies, including support for resettlement in Bulgaria, activation reforms that consider the specific needs of Roma and overhauling the social welfare system, are necessary to address labour shortages. Involving the private sector in government-financed vocational training will better align skills with market demand. Implementation of the Recovery and Resilience Facility reforms is becoming increasingly urgent to unlock the EU funds and resume investment projects. Focusing the amendments to the REPowerEU chapter in the national recovery and resilience plan on decarbonisation objectives would help to achieve the green transition.

Canada

GDP growth is expected to strengthen from 1.1% in 2024 to 2.0% in 2025 and 2.0% in 2026. This improvement is supported by a stronger global outlook and lower interest rates, which will boost exports and business investment. Although the labour market has deteriorated in recent months, it is set to recover during 2025. Headline and core inflation have come down and approached the target level. However, the housing market remains weak, and high mortgage costs continue to weigh on consumer spending. Risks around the projections are broadly balanced, but uncertainty about policy developments has increased.

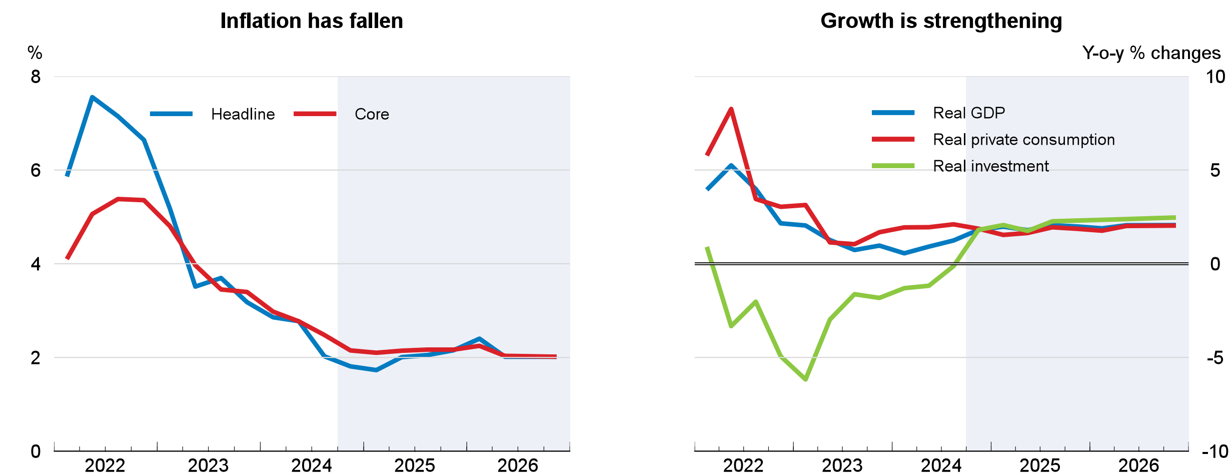
The Bank of Canada began cutting interest rates in June 2024, with further reductions likely. Increased government spending, particularly on housing affordability and new social programmes, has raised the general government deficit, albeit from low levels. A key policy priority remains to strengthen Canada's weak productivity performance by enhancing the growth-friendliness of the tax system, removing internal trade barriers, improving infrastructure and making better use of immigrants' skills.

High population growth has supported economic activity

GDP growth strengthened in the first half of 2024, following a sluggish period in the second half of 2023. It increased by 0.5% in the second quarter, after rising by 0.4% in the first quarter. The flash estimate points to slightly lower growth in the third quarter. Private consumption has continued to benefit from strong population growth, but remains weak on a per capita basis. Business investment has rebounded from the downturn in the second half of 2023, growing by 2.1% in the second quarter. In contrast, housing investment has continued to decline since the beginning of 2022. The unemployment rate has risen in recent months, reaching 6.5% in October. Employment is growing more slowly than the labour force, which is boosted by high population growth. Lay-offs have been limited so far. Meanwhile, vacancy rates have returned to normal levels. Despite the slowdown in the labour market, wage growth remains relatively elevated compared to productivity growth. Consumer price inflation has decreased. Headline inflation stood at 2.0% in October 2024. Core inflation, although still above headline inflation at 2.3%, has also slowed. Service price inflation and shelter inflation remain elevated.

The international environment became more supportive in the first half of 2024, partly due to robust growth in the United States, Canada's largest trading partner. However, exports of goods and services did not fully benefit from this more favourable environment, declining by 0.4% in the second quarter of 2024. In the third quarter, merchandise exports (in real terms) increased slightly by 0.3%. Canada's oil exports are benefiting from enhanced export capacity of the Trans Mountain Expansion pipeline, which began operations in May 2024.

Canada 1



Source: OECD Economic Outlook 116 database.

StatLink https://stat.link/1igp2o

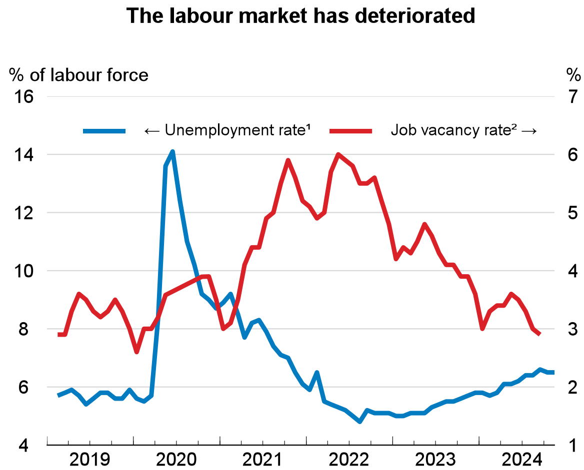
Canada: Demand, output and prices

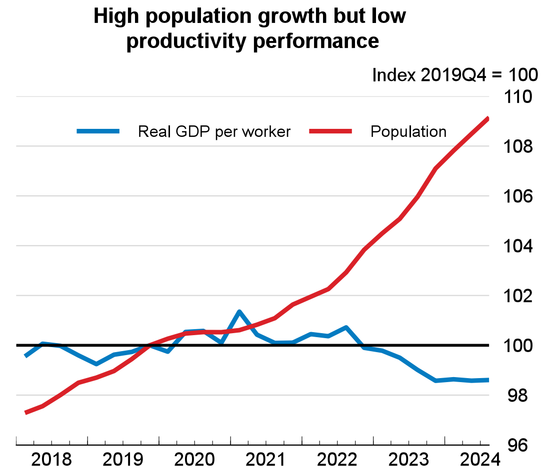
Canada	2021	2022	2023	2024	2025	2026
	Current prices CAD billion	Percentage changes, volume (2017 prices)				
GDP at market prices	2 517.1	3.8	1.2	1.1	2.0	2.0
Private consumption	1 364.7	5.1	1.7	2.0	1.7	2.0
Government consumption	539.7	3.2	1.6	2.4	2.3	1.9
Gross fixed capital formation	608.6	-2.4	-3.2	-0.2	2.1	2.4
Final domestic demand	2 513.0	2.8	0.5	1.6	2.0	2.1
Stockbuilding[1]	3.9	2.3	-0.8	-0.5	0.1	0.0
Total domestic demand	2 516.9	5.2	-0.3	1.1	2.0	2.0
Exports of goods and services	785.8	3.2	5.4	1.2	2.3	2.7
Imports of goods and services	785.5	7.6	0.9	1.2	2.6	2.7
Net exports[1]	0.2	-1.4	1.5	0.0	-0.1	0.0
Memorandum items						
GDP deflator	_	7.7	1.5	2.9	1.8	1.8
Consumer price index	_	6.8	3.9	2.4	2.0	2.1
Core consumer price index[2]	_	5.0	3.9	2.6	2.1	2.1
Unemployment rate (% of labour force)	_	5.3	5.4	6.3	6.5	6.2
Household saving ratio, net (% of disposable income)	_	5.2	5.4	6.8	6.3	4.9
General government financial balance (% of GDP)	_	0.1	-0.6	-2.3	-1.3	-0.7
General government gross debt (% of GDP)	_	102.0	103.7	105.1	106.1	106.5
Current account balance (% of GDP)	_	-0.4	-0.7	-0.9	-1.0	-1.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 116 database.

StatLink https://stat.link/gie6zv

Canada 2





1. Refers to population aged 15 years and over.
2. The job vacancy rate is the number of job vacancies expressed as a percentage of labour demand; that is, all occupied and vacant jobs. Due to missing data, data have been interpolated between April 2020 and September 2020.
Source: Statistics Canada; and OECD Economic Outlook 116 database.

StatLink https://stat.link/bn4vr6

Monetary policy is normalising, while fiscal policy is expansionary

Monetary policy started to ease in June 2024 as inflation approached the 2% target. Further interest rate cuts are likely, with a projected decline in the benchmark policy rate to 2¾ per cent by the second half of 2025, the mid-point of Bank of Canada's estimated range for the neutral rate. Gradual quantitative tightening is expected to continue until next year. The transmission of lower interest rates to lending rates has begun, and its impact on the real economy will become more apparent in 2025. However, many households will continue to face rising debt service costs when their mortgages come up for renewal, as many of these mortgages were taken out when interest rates were very low.

The general government deficit stood at 0.6% of GDP in 2023. The deficit is expected to widen further in 2024 due to lower cyclical receipts, higher interest payments, an exceptional compensation payment and increased discretionary spending. It is then projected to improve gradually over the remainder of the projection period, driven by the pick-up in activity. The federal government has implemented several spending measures in recent budgets, focusing on housing affordability and social spending. Two new fiscal incentives have been announced in November 2024: a temporary GST/HST rebate for qualifying goods and a CAD 250 tax rebate to be issued in early spring 2025. Increased government outlays are only partially offset by spending efficiency gains and higher taxes on capital gains. The overall fiscal stance is assumed to remain broadly unchanged over 2025-26.

Real GDP growth is projected to strengthen

Real GDP growth is projected at 1.1% in 2024. Looking ahead to 2025, real GDP growth is projected to increase further due to strong external demand, which will support exports, and lower policy rates, which will support investment. Private consumption growth is expected to slow in 2025, driven by lower population growth and a weaker labour market, before picking up again in 2026. Labour market conditions are expected to improve gradually from the first half of 2025. Headline inflation is projected to be close to the

2% target, with some month-to-month fluctuations. Core inflation is expected to remain slightly above 2% in 2025 due to high service price inflation.

Risks on the projections are broadly balanced, although uncertainty is high. On one hand, more restrictive global trade policies or a more significant deterioration in the labour market could bear down on economic activity. High household debt service costs could continue to weigh more heavily on consumer spending than currently projected. On the other hand, stronger external demand or a stronger boost to consumer spending from increased household savings could support economic activity. The outlook also depends on future population trends. The projection assumes a slowdown in population growth in line with recently announced lower immigration targets. However, the speed of adjustment in particular for temporary immigration remains uncertain.

Reforms are needed to boost productivity growth

High mortgage debt and elevated debt service costs for households are weighing on economic performance by suppressing consumer spending and should continue to be closely monitored. Increasing the supply of affordable housing remains a broader policy objective, which would also help to address high shelter price inflation. Recent high immigration has significantly boosted labour supply but has also strained the housing market. There is policy space to better utilise the skills of immigrants, for example, through a better and nationwide harmonised recognition of foreign credentials. This could also help to address labour shortages in some sectors, notably in skilled trades. Policies to improve the relatively low productivity performance in recent years remain a priority. The tax system could be made more growth-friendly by shifting the tax burden from direct to indirect and environmental taxes. Preferential taxation for small businesses should be reconsidered. Strengthening investment, especially in physical and digital infrastructure, is also a priority. R&D intensity, a key driver of a country's innovation capacity, could be enhanced by increasing public R&D spending. Reducing regulatory barriers, such as Canada's high internal trade barriers, would help to boost competition.

Chile

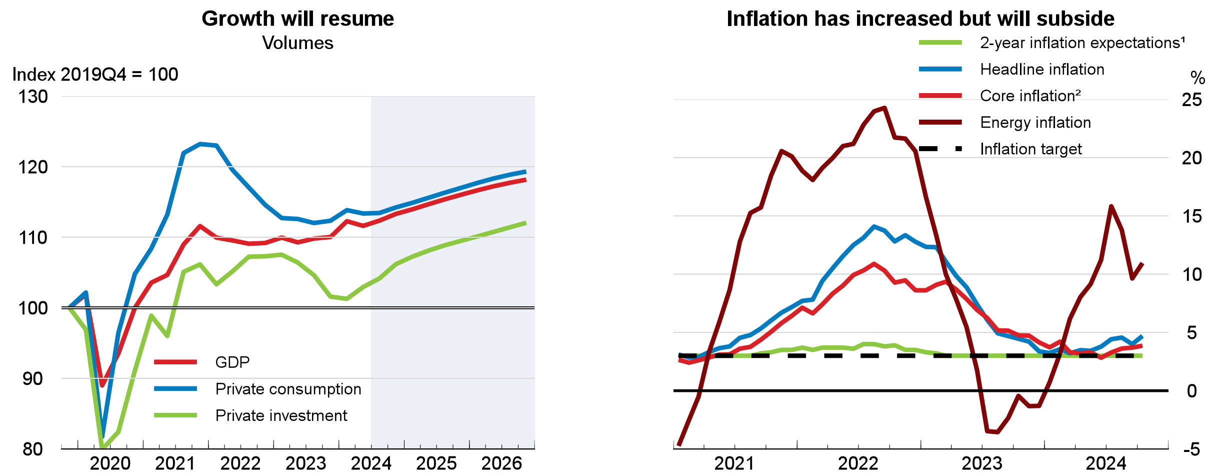
The economy is projected to grow by 2.4% in 2024, slowing slightly to 2.3% in 2025, and 2.1% in 2026. Growth will be driven by a gradual recovery of investment, solid consumption growth supported by increasing real wages and easing financial conditions, and sustained external demand for minerals. Inflation is expected to decrease steadily, converging to the 3% target by early 2026.

Monetary policy will continue its prudent easing. A new mining royalty and a law to improve tax collection will boost revenues, while expenditure will follow the fiscal rule, narrowing the fiscal deficit and keeping debt manageable. However, long-term spending pressures necessitate higher tax revenues and improved spending efficiency. Streamlining regulation remains a priority to foster entrepreneurship, attract investment and bolster low growth potential. Training programmes should be aligned with labour market needs to reduce skill shortages.

Mining is underpinning a recovery in activity

Output grew 0.7% (seasonally adjusted) in the third quarter underpinned by domestic demand, especially investment in machinery and equipment, and government expenditure. Manufacturing, personal services, and transport supported growth in the third quarter, but mining and agriculture grew modestly, and several service activities weakened. Business confidence remains subdued, except in mining. Employment growth has stalled in recent months. Inflation has strengthened since March, largely driven by the unfreezing of electricity prices, reaching 4.7% in October. Real wages have increased throughout 2024.

Chile



1. Economic Expectations Survey, Central Bank of Chile, comprising academics, consultants and executives or advisors of financial institutions.
2. Consumer Price Index excluding energy and food products.
Source: OECD Economic Outlook 116 database; and Central Bank of Chile.

StatLink https://stat.link/o75ngb

Chile: Demand, output and prices

Chile	2021	2022	2023	2024	2025	2026
	Current prices CLP billion	Percentage changes, volume (2018 prices)				
GDP at market prices*	239 396.2	2.1	0.3	2.4	2.3	2.1
Private consumption	148 639.9	1.6	-5.2	1.2	2.0	2.3
Government consumption	35 283.8	7.1	2.2	3.5	2.1	2.0
Gross fixed capital formation	55 567.6	4.2	-0.7	-1.3	4.6	2.5
Final domestic demand	239 491.2	3.0	-3.0	0.9	2.6	2.3
Stockbuilding[1]	1 674.2	-0.6	-1.2	0.0	-0.3	0.0
Total domestic demand	241 165.4	2.4	-4.2	1.0	2.4	2.3
Exports of goods and services	76 395.2	1.0	0.2	5.7	4.0	2.5
Imports of goods and services	78 164.4	2.0	-11.6	1.1	4.3	3.1
Net exports[1]	-1 769.2	-0.3	4.6	1.4	0.1	-0.1
Memorandum items						
GDP deflator	_	7.9	6.7	6.4	4.4	3.4
Consumer price index	_	11.6	7.6	4.3	4.2	3.2
Private consumption deflator	_	11.1	7.4	3.6	4.8	3.6
Unemployment rate (% of labour force)	_	7.9	8.7	8.4	8.3	8.0
Central government financial balance (% of GDP)	_	1.1	-2.4	-2.3	-1.3	-1.0
Central government gross debt (% of GDP)	_	37.8	39.4	41.4	41.4	42.0
Current account balance (% of GDP)	_	-8.5	-3.4	-2.5	-2.4	-2.5

* Based on seasonal and working-day adjusted quarterly data; may differ from official non-working-day adjusted annual data.
1. Contributions to changes in real GDP, actual amount in the first column.
Source: OECD Economic Outlook 116 database.

StatLink https://stat.link/41nwxz

Solid sales of electric vehicles and a new cash incentive in China to upgrade machinery and equipment will boost consumption and investment, aiding exports of minerals. Supply of copper is failing to meet sustained demand, leading to an increase in prices that will persist over 2025-26, but lithium prices are unlikely to return to previous years' highs.

Monetary easing and fiscal consolidation are set to continue

After a temporary pick up of inflation in late 2024 and early 2025 due to the unfreezing of electricity tariffs, inflation is expected to decline due to contained demand pressures and anchored inflation expectations. The central bank is expected to keep cutting its policy rate to reach neutral levels by the end of 2025, with the nominal policy rate settling at 4.3%. The central government fiscal deficit is projected to narrow from 2.3% of GDP in 2024 to 1.3% in 2025 and to 1.0% in 2026, slightly above government targets. Steady minerals demand and rising copper prices, along with the new copper mining royalty and the new law to foster tax compliance, will support revenue in the medium term, though less than the government projects. Expenditure will adhere to the fiscal rule and while central government debt will increase, it will remain under the 45% debt ceiling.

Growth will be solid

The economy is projected to grow by 2.4% in 2024, 2.3% in 2025 and 2.1% in 2026. Higher real wages and further easing of monetary policy will continue to support consumption. Solid demand for minerals needed for electrification will underpin strong export growth and foster a mining-led recovery in investment. Unemployment will decline over 2025-26. Inflation will fall during 2025 on the back of contained demand pressures and anchored expectations, to reach the central bank target of 3% in early 2026. Risks to the outlook are significant. Slower growth in China could hinder demand for minerals, hurting Chile's exports and growth. Political gridlock may delay the implementation of growth-supporting reforms, while new pension fund withdrawals would weaken the financial system. On the upside, a faster global green transition might increase foreign direct investment and exports.

Simplifying regulation and improving training can foster growth

Continued reforms to streamline regulatory processes are crucial to spur entrepreneurship and attract investment, particularly in sectors connected to the green transition. A more progressive tax system and better tax administration can fund growth-enhancing spending. Ensuring basic social protection coverage for all workers while reducing formal employment costs can reduce informality. Companies report a scarcity of professionals in information and communications technology and the mining industry projects a shortage of workers over the coming decade. Collaborating with businesses to align vocational and university curricula with current and forecasted skill needs, while strengthening career guidance, can reduce skill shortages. Facilitating women's access to the workforce, particularly in better-paid jobs, can support gender equality and boost potential growth.

China

Economic growth will slow to 4.9% in 2024 and gradually weaken further in 2025 and 2026. Housing starts will continue falling, but infrastructure and manufacturing investment are growing at a steady pace with public investment strengthening on the back of stronger local government debt issuance. Consumption growth will remain sluggish, dampened by high precautionary savings. Export growth will be relatively strong. Consumer price inflation will remain very low. A tightening of global trade restrictions could curb Chinese industrial activity, but recent policy measures could boost confidence and consumption by more than expected. Credit events could disrupt the orderly adjustment in the property sector, thereby weighing on growth, while too much support would revive investment but could lead to costlier adjustment subsequently.

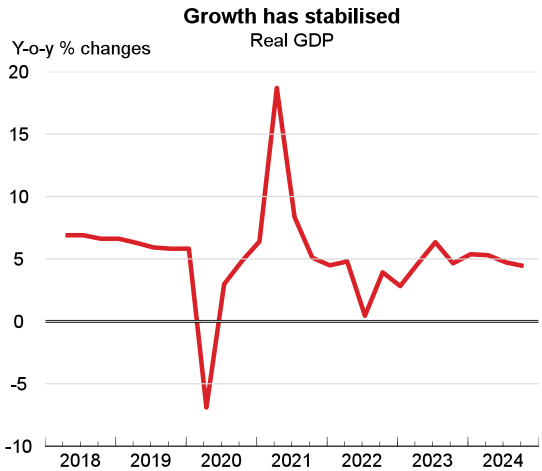
Monetary policy has become significantly supportive with a series of cuts of the reserve requirement ratio, the policy and prime interest rates, and interest rates on existing mortgages. A new swap facility for non-bank financial institutions aims to boost investor confidence, stabilise the capital market and enhance liquidity. Housing support measures have been extended, including easing prudential regulations for second houses. Fiscal policy continues to support infrastructure and now also incomes. Raising the local government special debt quota and debt swaps will boost funds available for projects. Better matching of skills and education to those demanded by the market would help to address skills shortages and reduce youth unemployment, which has been high.

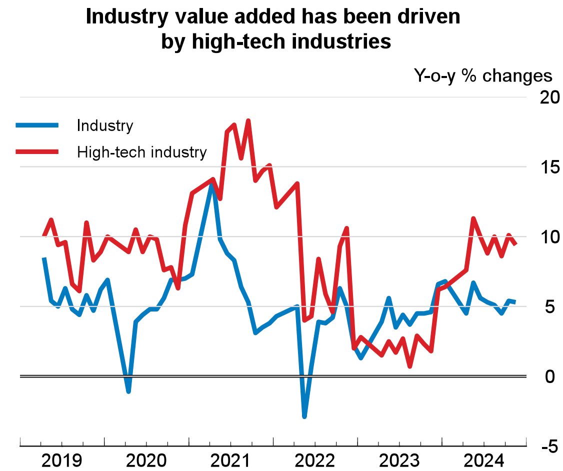
Growth has slowed

Year-on-year growth in the first three quarters of 2024 slowed to 4.8%. Property investment is still declining due to continuing weakness in real estate markets, weighing on growth, but at a slower pace. Infrastructure investment has been growing at a steady but moderate rate, while manufacturing investment has been robust on the back of strong export demand. Industrial production has been robust, driven by high-tech industries. Consumption growth is sluggish due to on-going high precautionary saving. CPI inflation was 0.3% year-on-year in October 2024 with declines in some services prices, such as transportation and telecommunications. Lower input prices have been a key driver of falling producer prices in upstream industries. Productivity improvements, quality upgrades and innovation are helping to keep prices low, alongside a relatively weak consumption recovery. The urban youth unemployment rate has edged down in three successive months, but at 17.1% in September still remains high.

The rebound of external demand has spurred Chinese exports, especially in high-tech industries. Lower input prices keep Chinese exports competitive. Goods imports have also strengthened slightly, but reduced reliance on imported inputs and the low import content of consumption prevent a stronger rebound. A weak recovery of tourism imports has limited total import growth and boosted the current account surplus.

China 1





Source: CEIC.

StatLink https://stat.link/c1qlw5

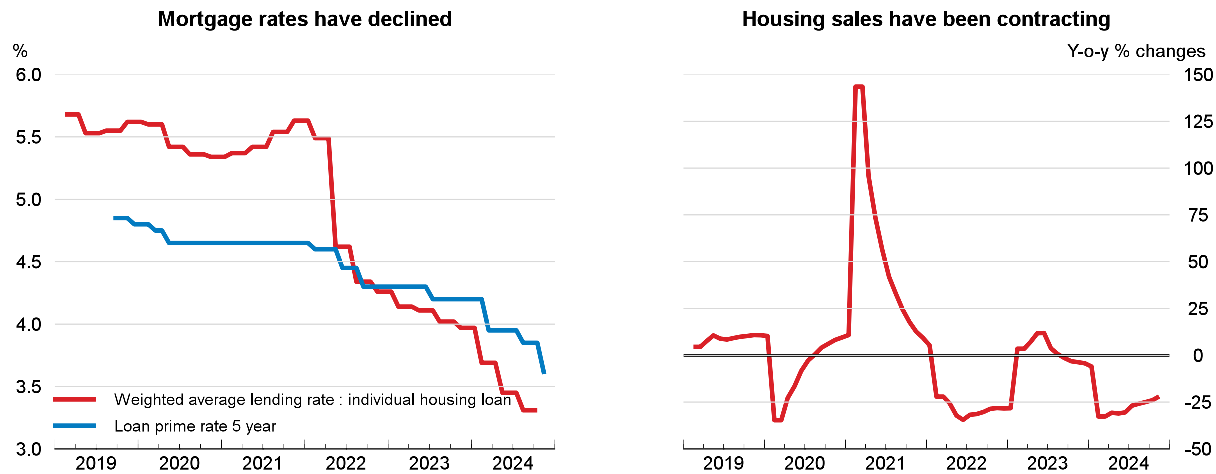
China: Demand, output and prices

China	2021	2022	2023	2024	2025	2026
	Current prices CNY trillion	Percentage changes, volume (2015 prices)				
GDP at market prices	114.9	3.0	5.2	4.9	4.7	4.4
Total domestic demand	111.9	2.8	6.0	2.8	3.8	4.3
Exports of goods and services	22.9	-3.8	4.1	14.9	7.6	5.5
Imports of goods and services	20.0	-6.6	8.8	4.3	3.2	4.8
Net exports[1]	3.0	0.3	-0.5	2.2	1.1	0.5
Memorandum items						
GDP deflator	_	1.8	-0.6	-0.5	0.5	1.2
Consumer price index	_	1.9	0.3	0.4	1.1	1.4
General government financial balance[2] (% of GDP)	_	-6.5	-6.7	-7.6	-7.4	-6.8
Headline government financial balance[3] (% of GDP)	_	-2.8	-3.4	-3.6	-3.3	-3.0
Current account balance (% of GDP)	_	2.5	1.4	2.1	2.9	3.2

1. Contributions to changes in real GDP, actual amount in the first column.
2. Encompasses the balances of all four budget accounts (general account, government managed funds, social security funds and the state-owned capital management account).
3. The headline fiscal balance is the official balance defined as the difference between revenues and outlays. Revenues include: general budget revenue, revenue from the central stabilisation fund and sub-national budget adjustment. Outlays include: general budget spending, replenishment of the central stabilisation fund and repayment of principal on sub-national debt.
Source: OECD Economic Outlook 116 database.

StatLink https://stat.link/q1zwuo

China 2



Source: CEIC.

StatLink https://stat.link/pqutiz

Monetary and fiscal policy continue to support growth

Monetary policy eased significantly in the autumn of 2024 to support the recovery and ensure adequate liquidity. Interest rates and the ratio of reserves to be kept at the central bank have been reduced multiple times, including a 20 bp cut in the primary policy rate in September and a 25 bp cut in both the 1-year and 5-year loan prime rate (LPR) in October. The benchmark mortgage rate has been cut, and a new mortgage rate adjustment mechanism allows lower premia, particularly in cities where property prices are falling. Mortgage contracts with flexible rates can now be adjusted more frequently than annually. Easing prudential regulations, such as less restrictive downpayment requirements for second houses and the possibility to sell an apartment with a mortgage, have started to spur transactions, especially in megacities and first-tier cities as well as resort towns. Relaxation of requirements for the relending quota for state-owned enterprise purchases of unsold but completed housing will also support housing demand.

Fiscal policy has become more expansionary in 2024, as the central government started issuing ultra-long maturity bonds, with a duration of more than ten years, (worth 0.8% of GDP in 2024) to finance priority projects. Moreover, some unused special local government bonds issued in 2023 are supporting projects in 2024, amounting to some 0.4% of GDP. The local government special bond quota was raised in November and bonds worth 1.5% of GDP are planned to be issued in 2025 and 2026, as in 2024. To ease the debt servicing burden of local governments, they can swap implicit debts worth up to 3% of GDP for explicit local government debt by 2028, thereby addressing most of the implicit debt recognised so far. Greater scrutiny of local special bond financing will help to ensure higher efficiency. While resolution plans have alleviated the burden of heavily indebted local governments, the core imbalance between revenue assignments and spending responsibilities at sub-national government levels has yet to be addressed, and local governments continue to face financial pressure from lower real estate prices. The Third Plenum envisages the centralisation of some key spending responsibilities. This is welcome as it will guarantee a minimum level of public services country-wide. Project financing is to be better monitored, and funding will be allocated to approved projects only. The “cash-for-clunkers” programme, aiming at upgrading machinery, equipment and appliances, will support both consumption and investment. Overall, policies will remain supportive in 2025-26.

Growth will continue to slow gradually

The Chinese economy will continue to slow gradually with falling potential growth due to unfavourable demographics and slower productivity growth. Ongoing adjustment in the real estate sector will continue to weigh on residential investment and on related items of consumption, such as furniture sales. However, infrastructure investment will pick up, helped by greater local special bond issuance. There are pressing needs related to the green transition, urban village redevelopment and other environmental and social targets. Consumption growth is expected to remain stable and unlikely to pick up as long as the lack of social security reforms keeps precautionary savings high. Technological upgrading and competition in the domestic markets will likely keep exports competitive, despite faster rising unit labour costs than in other countries. Tourism imports, the largest single component of imports, may not recover to pre-COVID-19 levels. The current account surplus is projected to rise further. Inflation will return to more normal, but still low levels.

Risks to growth are tilted to the downside. Potential further credit events may disrupt the orderly adjustment process in the real estate sector. Excessive relaxation of demand-side restrictions in the property sector could result in stronger growth, but also in a further build-up of imbalances and sharper adjustment in the future. Delaying addressing the funding gap at sub-national government levels may lead to further accumulation of implicit debt and costly resolution later. Postponing social security reforms may keep uncertainty high and also entrench higher precautionary saving behaviour. An increase of global trade restrictions would slow export growth and industrial activity. Fiscal expansion coupled with more stringent measures to raise spending efficiency may lift the impact of the spending and result in higher growth. The reduced mortgage interest burden on households may result in somewhat higher consumption.

There is ample room to lift the growth potential through structural reforms

Supportive monetary, fiscal and financial policies will help to hold up demand in the short run. Allowing borrowers to repay their mortgages early without penalty and move their loans to other banks would lower mortgage costs and increase competition in banking. In the longer term, a stronger social safety net is needed to rebalance the economy towards consumption and reduce savings. 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. Labour shortages in some professions would be overcome by better matching the skills needed by the market to those acquired at school. Some technical and soft skills such as computer coding and sales and marketing are in greatest deficiency. Career guidance needs to start at a young age with sufficient information about the chances of finding a good job and about starting and average salaries. With the sharp increase in tertiary graduates, a more practically-oriented curriculum and more internship opportunities would help to develop the required skills. In addition, the tarnished image of vocational education needs to be changed by improving teacher and curriculum quality, reducing the focus on early tracking and streaming, and popularising vocational professions among children.

Colombia

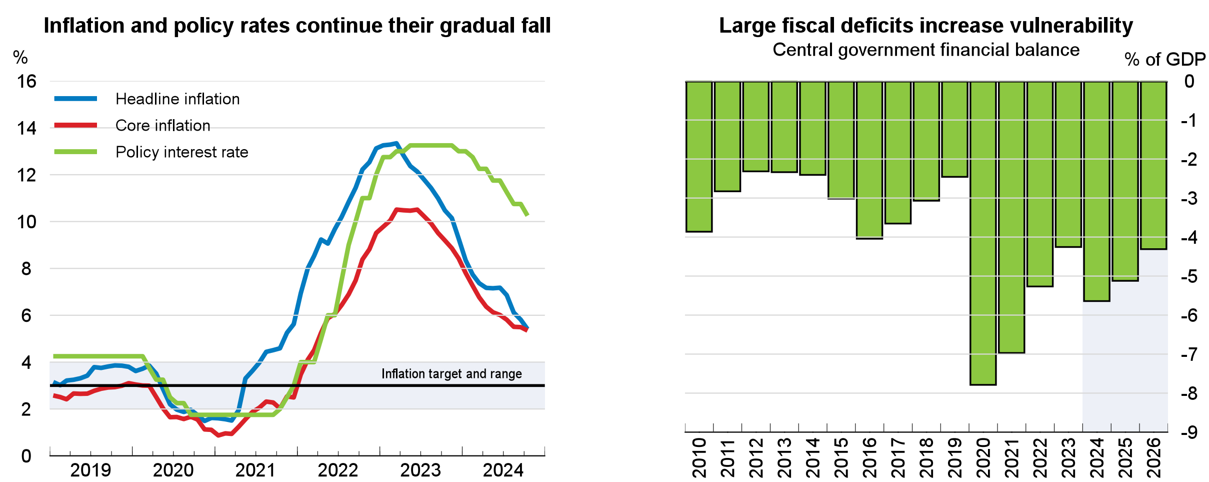
The economy will grow by 1.8% this year, with a gradual recovery to 2.7% in 2025 and 2.9% in 2026. Investment will continue recovering as financial conditions ease, though uncertainty will keep it below pre-pandemic levels. Consumption will grow moderately and export growth will remain solid. Inflation will continue to decline slowly, given high price indexation, returning to the 3% target by end-2026. Vulnerabilities from increasingly large fiscal and current account deficits are the main risks.

Monetary policy easing should continue cautiously. Given high planned fiscal deficits, which do not leave margin for risks, and recent revenue shortfalls, fiscal prudence and compliance with the fiscal rule is required. In the medium term, reducing budget rigidities and a comprehensive tax reform are needed to rebalance the tax burden from corporate to personal income, reduce tax expenditures, simplify the tax system, and tackle tax evasion.

Growth is picking up

Output rose at an annual rate of 1.6% between January and September 2024, after a sluggish 0.6% in 2023, with annual growth rising to 2% in the third quarter. After four quarters of consecutive declines, investment has started growing again, although the investment rate remains low. The labour market has been resilient, with unemployment around 10%, a low for Colombia. The strong labour market has been supporting consumption. Disinflation continues gradually with headline inflation reaching 5.4% in October.

Colombia



Source: Central Bank of Colombia; DANE; and OECD Economic Outlook 116 database.

StatLink https://stat.link/8g30ia

Colombia: Demand, output and prices

Colombia	2021	2022	2023	2024	2025	2026
	Current prices COP trillion	Percentage changes, volume (2015 prices)				
GDP at market prices	1 192.6	7.3	0.6	1.8	2.7	2.9
Private consumption	867.1	10.7	0.8	1.3	1.9	1.9
Government consumption	191.4	0.8	1.6	-0.5	-1.9	1.8
Gross fixed capital formation	226.5	11.5	-9.5	2.2	8.6	7.7
Final domestic demand	1 284.9	9.4	-0.9	1.1	2.5	2.8
Stockbuilding[1]	- 0.9	0.8	-3.3	0.5	0.3	0.0
Total domestic demand	1 284.1	10.2	-4.0	1.8	3.4	3.0
Exports of goods and services	193.2	12.3	3.4	4.1	2.4	2.7
Imports of goods and services	284.6	23.6	-15.0	3.3	5.4	3.2
Net exports[1]	- 91.4	-3.6	4.9	0.0	-0.7	-0.2
Memorandum items						
GDP deflator	_	14.9	6.3	5.4	4.9	3.5
Consumer price index	_	10.2	11.7	6.7	4.3	3.1
Core inflation index[2]	_	6.4	9.8	6.0	4.3	3.1
Unemployment rate (% of labour force)	_	11.2	10.2	10.2	9.6	9.6
Central government financial balance (% of GDP)	_	-5.3	-4.3	-5.6	-5.1	-4.3
Central government gross debt (% of GDP)	_	60.8	56.7	59.0	59.9	60.5
Current account balance (% of GDP)	_	-6.1	-2.6	-2.4	-3.0	-2.7

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 116 database.

StatLink https://stat.link/42g17w

Lower oil prices continue to subdue export and budget revenues, although the latter might see a small boost due to the recent implementation of an extractive resources surtax. Remittances are strong, due to a booming economy in main diaspora destinations, such as Spain and the United States, supporting consumption and the current account. Electricity markets remain tight due to adverse weather conditions.

There is yet another risk of fiscal revenue shortfalls

The headline fiscal deficit will widen from 4.3% in 2023 to 5.6% in 2024 and stay above 4% until 2026, according to government plans. While these plans are in line with the fiscal rule, there is a risk for 2025 that revenue shortfalls will force the government to make ad-hoc spending cuts which would hurt already weak public investment spending. As in recent years, planned revenues are partly based on unlegislated measures or rely on significant improvements in tax administration that so far have not materialised. Monetary policy remains restrictive with the policy rate at 9.75% in November. The central bank is expected to continue its gradual easing cycle. The real neutral rate, estimated around 2.5%, should be reached in late 2026 when inflation returns to its 3% target.

Growth will return to its moderate path

Growth is expected to recover in 2024 and reach its potential of just under 3% in 2025 and 2026. As financial conditions normalise and past temporary shocks to the housing and infrastructure construction sectors dissipate, investment will partially recover from a historical low of 17% of GDP to around 19% in 2026, still below the pre-pandemic average of 21%. Consumption will remain moderate after its post-pandemic surge, held back by high indebtedness and slow credit growth. With growth around its potential, the unemployment rate will stay around its current level. Exports will grow moderately given external demand and low oil prices, while investment goods drive higher import growth, widening the current account deficit. Greater domestic and global uncertainty could exacerbate pressures on the exchange rate and on interest rate spreads, while higher oil prices due to geopolitical tensions would boost export and fiscal earnings. The twin fiscal and current account deficits increase vulnerability to external shocks. A reform in Congress seeks to significantly increase the share of tax revenues that goes to subnational governments, generating a fiscal imbalance and risks unless subnational governments improve their capacity and take responsibility for implementing a higher share of spending. Faster implementation of the reindustrialisation and energy transition policies could boost investment more than anticipated.

Prudent fiscal policy is key to debt sustainability

Fiscal prudence is required to maintain the planned path of fiscal consolidation, ensure debt sustainability, and comply with the fiscal rule. Compliance with the fiscal rule and avoiding cuts in public investment could be achieved by gradually phasing out diesel subsidies, as commendably done with petrol subsidies in 2023, distortive and ill-targeted public utilities subsidies and improving the targeting of social spending. In the medium term, fiscal space needs to be rebuilt. Spending efficiency could improve based on systematic spending reviews. A comprehensive tax reform would reduce tax exemptions, shift the tax burden from corporate income taxes to a broader personal income tax base, tackle tax evasion and reduce budget rigidities. This would increase revenues, stimulate investment, and promote progressivity in the tax system. Expanding access to early childhood education, especially in rural and vulnerable areas, and increasing elderly care services would help increase Colombia’s low female labour force participation rate and thus increase the utilisation of all talents in the labour market.

Costa Rica

GDP will slow from 4% in 2024 to 3.5% in 2025 and 3.6% in 2026. High business confidence, large FDI inflows and increases in household income will support domestic demand. Export growth will remain strong over 2024-2025 but will soften in 2026 as growth in the United States, the main trading partner, moderates. Headline inflation is expected to rise to 1.6% in 2025 and 2.6% in 2026.

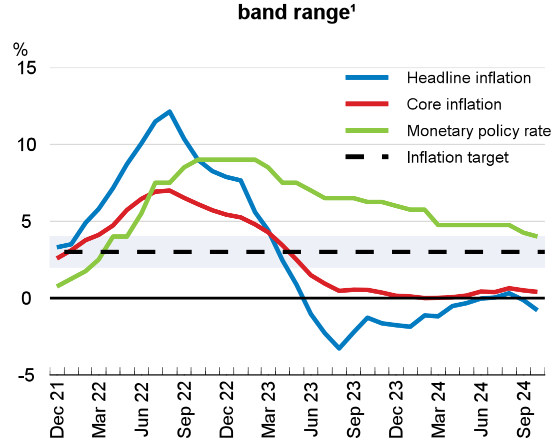
Fiscal policy will appropriately remain restrictive, as the fiscal rule contains public expenditure growth. Monetary policy easing will come to an end, as headline inflation rises towards the tolerance band. Reorientating vocational training towards highly demanded digital and technical skills, expanding STEM programmes and the number of graduates, and broadening the coverage of early education and care for children below four years would help meet labour market demand and support higher female labour participation.

Solid growth continues as inflation remains low

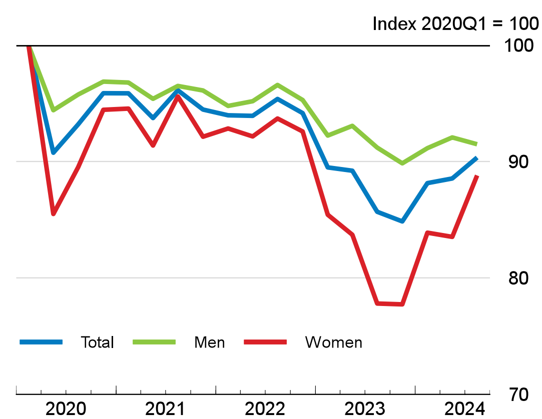
Strong domestic demand boosted GDP growth in the first three quarters of 2024, supported by record high FDI inflows and confidence. The pace of growth of economic activity is slowing but continues to be robust, with the Monthly Index of Economic Activity increasing by 4% (year-on-year) in September 2024. Headline inflation remains negative at -0.8% (year-on-year) in October 2024. Core inflation remains low at 0.5% (year-on-year) in October 2024. The labour market has improved, with the unemployment rate at 6.6% in September, but the labour participation and employment rate, at 57.3% and 53.5% respectively in September, remain below pre-pandemic levels. Foreign direct investment inflows strengthened in the first half of 2024 supporting formal employment. The country risk, measured by the Emerging Market Bond Index spread, is close to its lowest level in the last 10 years.

Costa Rica

Headline inflation remains below the tolerance band range[1]



Labour participation is below the prepandemic level



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/n3xsgj

Costa Rica: Demand, output and prices

Costa Rica	2021 Current prices CRC trillion	2022	2023	2024	2025	2026
		Percentage changes, volume (2017 prices)				
GDP at market prices	40.3	4.6	5.1	4.0	3.5	3.6
Private consumption	25.5	2.6	5.0	3.5	2.9	3.5
Government consumption	6.7	2.4	0.1	0.6	0.5	0.6
Gross fixed capital formation	6.8	1.5	8.6	4.9	6.2	6.6
Final domestic demand	39.0	2.4	4.9	3.3	3.1	3.6
Stockbuilding[1]	0.7	-1.5	-1.6	0.6	-0.1	0.0
Total domestic demand	39.7	0.8	3.1	4.3	2.7	3.6
Exports of goods and services	14.6	18.5	10.0	4.8	6.1	4.9
Imports of goods and services	14.0	8.1	5.2	6.0	4.7	5.2
Net exports[1]	0.6	3.8	2.2	0.0	1.0	0.3
Memorandum items						
GDP deflator	_	6.3	-0.1	-0.1	1.8	2.6
Consumer price index	_	8.3	0.5	-0.4	1.6	2.6
Core inflation index[2]	_	4.2	1.0	0.1	1.9	2.6
Unemployment rate (% of labour force)	_	12.2	8.9	7.4	6.7	6.7
Central government financial balance (% of GDP)	_	-2.5	-3.3	-3.7	-3.2	-2.8
Central government gross debt (% of GDP)	_	63.0	61.1	61.0	60.7	59.8
Current account balance (% of GDP)	_	-3.2	-1.4	-2.0	-1.9	-2.1

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 116 database.

StatLink https://stat.link/x5evzh

Monetary policy will end its easing cycle amid prudent fiscal policy

The monetary policy easing cycle is assumed to come to an end in 2025, with the policy rate projected to reach 3.75%, as inflation starts slowly rising towards the 3% target. The central government primary surplus is set to remain positive (1.6% of GDP in 2025 and 1.8% in 2026), as the fiscal rule constrains current expenditure growth. The central government budget deficit is projected to reach 3.2% of GDP in 2025 and 2.8% in 2026, as debt servicing costs remain large (4.7% of GDP in 2025 and 4.5% in 2026). Public debt is expected to continue reducing and to fall below 60% of GDP by end-2026.

Growth will remain robust

Growth is projected to slow to 3.5% in 2025 and 3.6% in 2026. Private consumption will moderate in 2025 but pick up again in 2026, as real wages gradually strengthen disposable income. Solid economic activity will continue to support job creation, though employment is projected to increase slowly and the labour participation rate is expected to remain below its pre-pandemic level. Private investment will remain strong over the next two years, supported by large foreign direct investment inflows, though public investment will remain muted due to contained spending to meet the fiscal rule. Exports will moderate in 2026 along with economic conditions in the United States, the key trading partner. Recent increases in credit in foreign currency (around 32.6% of the total credit stock), and the intervention of a credit cooperative in May 2024, point to financial vulnerabilities, including to sharp fluctuations of the exchange rate, that call for continued efforts to foster financial supervision. On the upside, renewed efforts to deepen trade integration might strengthen net exports.

Improving the availability of skills is a key priority

Supporting female labour force participation and growth will require expanding the coverage of early education and care for children below four years and extending school hours for children in preschool and primary school. Reorienting vocational training towards skills in demand and increasing STEM programmes and the number of graduates would reduce skill mismatches and shortages and help attract additional foreign direct investment and benefit from trade openness. Providing targeted support to underperforming primary and secondary students, prioritising those from vulnerable groups, would also improve equality of opportunities. To achieve net carbon neutrality by 2050, Costa Rica should reduce emissions in the transport sector by strengthening the public transport network and the electrification of transport, and continue to expand renewable energy sources.

Croatia

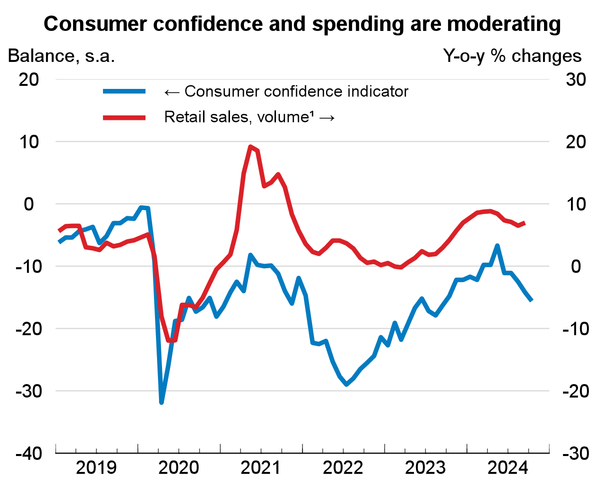
GDP growth is projected to moderate from 3.7% in 2024 to 3.0% in 2025 and 2.8% in 2026. Investment will be supported by the use of EU structural and Recovery and Resilience funds, along with more favourable financing conditions. Private consumption growth will slow as real income growth moderates. Risks are related to geopolitical tensions, global energy price rises and weakening demand from key trading partners.

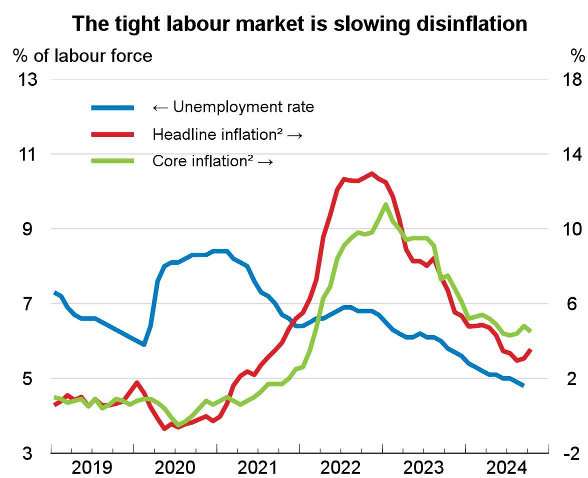
Fiscal prudence is needed to rebuild fiscal buffers, support disinflation and prepare for the challenges of population ageing. Untargeted energy support measures should be phased out as soon as possible. Increasing labour force participation of underutilised groups would help to address chronic labour shortages, and boost growth.

Economic growth is strong but moderating

Short-term indicators point to sustained but slowing growth in the second half of 2024. Retail sales growth remains robust but continued to slow in the second half of the year, and consumer confidence is further weakening. Industrial manufacturing production remains subdued due to weak foreign demand. Harmonised headline consumer price inflation has been falling since 2023 thanks to declining energy price inflation but remains elevated and rose to 3.6% in October, driven by rising food prices. Core inflation, at 4.5% in October, is sticky, reflecting high services inflation due to strong wage growth and robust tourism demand. The labour market is tight, and nominal wage growth remains strong (14% year-on-year in August). The unemployment rate, at 4.8% in September, is historically low. A high number of firms across all sectors, with especially strong increases in manufacturing and services, considers labour shortages as a factor limiting production.

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; Eurostat; and OECD Infra-annual Labour Statistics: Monthly Unemployment Rates (Database).

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Croatia: Demand, output and prices

Croatia	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2021 prices)				
GDP at market prices	58.3	7.3	3.3	3.7	3.0	2.8
Private consumption	33.8	6.9	3.0	5.0	3.3	2.4
Government consumption	13.5	2.2	7.1	2.9	2.8	1.9
Gross fixed capital formation	12.2	10.4	10.1	9.8	4.4	4.3
Final domestic demand	59.5	6.6	5.4	5.6	3.4	2.7
Stockbuilding[1]	0.5	1.1	-3.9	0.1	-0.1	0.0
Total domestic demand	60.0	7.5	1.7	5.7	3.3	2.7
Exports of goods and services	29.0	27.0	-2.9	0.7	2.4	3.4
Imports of goods and services	30.6	26.5	-5.3	5.8	3.4	3.0
Net exports[1]	- 1.6	-0.5	1.7	-2.8	-0.6	0.1
Memorandum items						
GDP deflator	_	8.0	11.7	5.8	3.9	2.6
Harmonised index of consumer prices	_	10.7	8.4	3.9	3.3	2.2
Harmonised index of core inflation[2]	_	7.6	8.8	4.9	4.2	2.4
Unemployment rate (% of labour force)	_	6.8	6.1	5.0	5.1	5.1
Household saving ratio, net (% of disposable income)	_	0.2	2.7	6.5	5.6	5.2
General government financial balance (% of GDP)	_	0.1	-0.9	-2.1	-2.1	-2.0
General government gross debt (% of GDP)	_	89.3	81.5	77.9	77.9	78.2
General government debt, Maastricht definition[3] (% of GDP)	_	68.5	61.8	58.3	58.3	58.6
Current account balance (% of GDP)	_	-3.5	0.4	-1.2	-1.0	-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 116 database.

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Weaker external demand has moderated exports of goods and services. Tourist stays during the peak season increased at a lower rate than a year earlier. Easier financial conditions in the euro area have not yet passed through to borrowing costs in Croatia. Nevertheless, bank lending to households has been rising strongly, by around 11% (year-on-year) in September. On the other hand, growth in lending to firms has been declining in 2024, to around 4.7% in September, down from 12% in 2023.

Fiscal policy has been expansionary

The government deficit is projected to reach 2.1% of GDP in 2024, up from 0.9% of GDP in 2023. The fiscal deterioration in 2024 is due to increased energy support to households and businesses, increases in public wages and social benefits as well as spending on earthquake damage repair. The fiscal stance will become moderately restrictive in 2025 due primarily to the phasing out of energy subsidies by March 2025. Further structural consolidation of 0.25% of GDP is projected for 2026, in line with the medium-term fiscal plans.

Growth is set to moderate but remains robust

Growth will be supported by domestic demand. Private consumption growth will be robust, albeit slower in 2025 and 2026, as slower wage growth and the phasing out of energy subsidies moderate real disposable incomes and labour shortages limit further employment gains. Investment growth will be supported by the absorption of the remaining EU Recovery and Resilience funds in 2025 and 2026 (around 6% of GDP) and the easing of financial conditions in the euro area. Exports will increase in line with the recovery of external demand, and imports will remain strong due to the high import content of investments financed by EU funds. Headline inflation will continue to gradually slow to 2% by the end of 2026. Core inflation will decline more slowly due to persistent services inflation and the effects of nominal wage increases. Risks are skewed to the downside. Strong wage growth, if not matched by productivity gains, would put upward pressure on inflation and weaken trade competitiveness. A lack of fiscal consolidation would slow disinflation.

Fiscal prudence and reforms to expand labour force participation are needed to foster long-term growth

The poorly targeted energy price subsidies should be discontinued as planned, which would help build fiscal buffers and support disinflation. Strengthening incentives for older workers to remain in work, and raising efforts to integrate and attract immigrants and mothers of young children to the labour market would help increase labour force participation and boost long-term growth. Reforms to both the education system and active labour market policies, such as improving vocational education and training and targeted upskilling and reskilling programmes, would help workers adapt to the evolving demand for skills and foster productivity growth.

Czechia

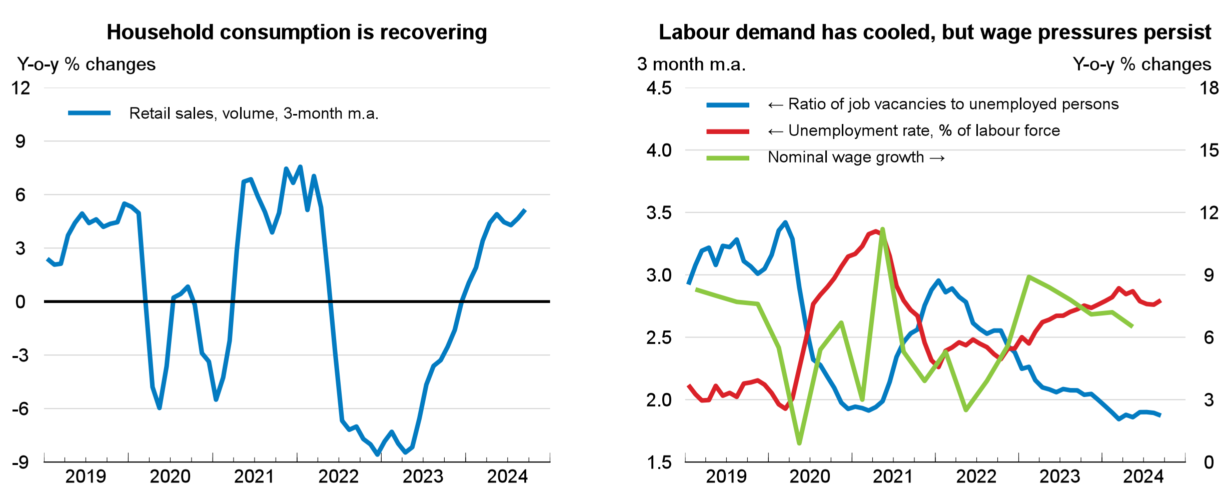
GDP growth is set to pick up from 1% in 2024 to 2.4% in 2025 and 2.6% 2026. The recovery in real disposable incomes will support stronger consumer demand. Investment will be bolstered by easing financial conditions and the stronger use of EU funds. The growth of exports will pick up, as demand from Czechia's main trading partners strengthens. Headline inflation is projected to remain around the 2% target, with core inflation gradually easing. Risks are tilted to the downside, related to geopolitical tensions and a more persistent slowdown of growth in key trading partners, especially Germany.

Monetary policy should remain restrictive until underlying inflation pressures subside. Fiscal consolidation should continue in the medium term to rebuild fiscal buffers and prepare for long-term spending pressures. Reforming the vocational education and training (VET) system and expanding opportunities for reskilling and upskilling are needed to reduce skill shortages and mismatches, and boost productivity.

The economy is growing moderately due to a recovery in private consumption

GDP expanded moderately in the third quarter of 2024, by 0.3% compared to the previous quarter. High frequency indicators suggest continued growth in late 2024 mainly driven by private consumption. Retail sales point to a continuation of the recovery in household consumption. Lower policy interest rates have led to falls in interest rates on new loans, and loan growth to the private sector has stabilised. Consumer price inflation has come down close to the 2% target in 2024, although inflation edged up to 2.8% in October largely due to volatile food prices. Service price inflation has declined more slowly and remains elevated, at above 5% in October 2024. The labour market also remains tight. The unemployment rate has edged up and vacancies have fallen. However, labour shortages are still reported in most sectors, especially in construction. Nominal wage growth remains strong.

Czechia



Source: Ministry of Labour and Social Affairs; and Czech Statistical Office.

StatLink https://stat.link/2chauf

Czechia: Demand, output and prices

Czechia	2021	2022	2023	2024	2025	2026
	Current prices CZK billion	Percentage changes, volume (2020 prices)				
GDP at market prices	6 306.1	2.9	0.0	1.0	2.4	2.6
Private consumption	2 979.5	0.5	-2.7	1.8	3.0	3.0
Government consumption	1 318.7	0.4	3.5	3.5	1.4	1.3
Gross fixed capital formation	1 654.3	6.3	2.7	0.7	2.9	3.5
Final domestic demand	5 952.5	2.1	0.1	1.8	2.6	2.8
Stockbuilding[1]	119.4	1.2	-2.7	-1.7	0.2	0.0
Total domestic demand	6 071.9	3.3	-2.6	0.0	2.8	2.8
Exports of goods and services	4 446.9	5.2	3.0	1.1	2.5	2.9
Imports of goods and services	4 212.7	6.0	-0.6	-0.3	3.2	3.2
Net exports[1]	234.2	-0.3	2.7	1.0	-0.2	0.0
Memorandum items						
GDP deflator	_	8.7	8.2	4.2	2.1	1.8
Consumer price index	_	15.1	10.7	2.4	2.3	2.0
Core inflation index[2]	_	12.2	7.7	3.9	2.5	2.1
Unemployment rate (% of labour force)	_	2.2	2.6	2.6	2.7	2.5
Household saving ratio, net (% of disposable income)	_	11.5	13.1	12.4	10.6	9.4
General government financial balance (% of GDP)	_	-3.1	-3.8	-2.8	-2.5	-1.8
General government gross debt (% of GDP)	_	45.9	48.6	50.2	51.5	51.9
General government debt, Maastricht definition[3] (% of GDP)	_	42.5	42.4	44.0	45.3	45.7
Current account balance (% of GDP)	_	-4.7	0.3	0.8	0.6	0.6

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 116 database.

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Soft external demand in key trading partners, especially Germany, is weighing on industrial production and exports. While supply chain disruptions continue to ease, export-oriented industrial firms perceive insufficient demand from abroad as the main factor limiting production. Import growth (quarter-on-quarter) resumed in 2024, after declining in 2023.

Monetary policy is becoming less restrictive and fiscal policy is consolidating

With inflation slowing, the Czech National Bank (CNB) reduced the main policy rate (the two-week repo rate) from 6.75% to 4% between December 2023 and November 2024. The projections assume a further gradual easing of monetary policy until a broadly neutral stance of around 3% is reached in the second half of 2026. The fiscal stance is moderately contractionary in 2024 due to the phasing-out of almost all energy support measures at the end of 2023, as well as a consolidation package mainly focused on revenue measures totalling around 1.2% of GDP, including increases in social security contributions, corporate income tax rates and real estate taxes. The draft budget for 2025 foresees some further improvement in the headline budget deficit, but this is largely cyclical. The projections assume a broadly neutral fiscal stance in 2025 and a mildly restrictive stance in 2026 in line with medium-term fiscal plans.

Growth is set to pick up but risks are elevated

Stronger private consumption growth will be supported by the recovery in real disposable incomes and the drawdown of the excess savings of households. Easing financial conditions and the stronger use of EU structural and recovery and resilience funds will prop up investment growth. Exports will accelerate as demand in key trading partners strengthens. However, import growth will also pick up on the back of increasing domestic demand, resulting in a declining contribution of net exports to growth. Headline inflation is projected to remain around the 2% target. Core inflation is expected to ease gradually, helped by a pick-up in productivity growth that mitigates labour cost growth. Risks to the projections are skewed to the downside. An escalation of geopolitical tensions would weigh on foreign demand and could lead to increased global energy prices and renewed supply chain disruptions. A more persistent economic slowdown in key trading partners, especially Germany, or an increase in trade barriers would weigh on Czechia's export-oriented economy.

Macroeconomic policy should remain restrictive while education reforms can help address skill shortages

Monetary policy should remain restrictive to ensure that underlying inflationary pressures are durably contained. The tight labour market and brisk wage growth, together with sticky services prices, call for a continued restrictive monetary policy stance. Consolidation should continue in the medium term to comply with the national and EU fiscal rules, support the disinflationary process, rebuild fiscal buffers and prepare for long-term spending pressures. Fiscal measures should be specified to reach the medium-term fiscal targets. Reducing skill shortages and mismatches would boost productivity and requires reforming the VET system to reduce over-specialisation and promoting work-based learning, and expanding opportunities for reskilling and upskilling through flexible, modular high-quality training programmes.

Denmark

GDP growth is projected to moderate from 2.8% in 2024 to 2.5% in 2025 and 1.7% in 2026. Output growth in the pharmaceutical sector will continue to sustain higher activity, albeit at a slower pace. Domestic demand will strengthen, supported by stronger household purchasing power, lower interest rates and a housing market recovery. Inflation will reach 2% in 2025 and 2026, as wage growth slows. Labour market tightness is projected to ease, but persistent skills shortages in key areas remain. Heightened geopolitical tensions and trade restrictions could curb activity in key sectors, including maritime transport and the pharmaceutical industry.

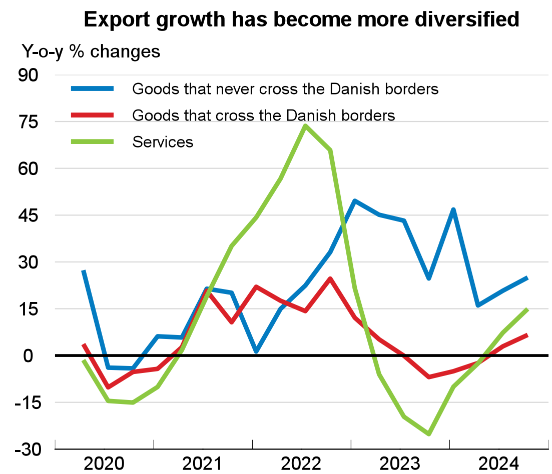
The central bank is expected to gradually reduce policy rates in line with the European Central Bank. The fiscal surplus will narrow in 2025 and 2026. While public debt is low, the government should follow its medium-term plans and avoid creating inflationary pressures in the economy. Any additional spending needs to be targeted at priority areas, including targeted cuts in effective labour income taxation and further education reform to address skills shortages.

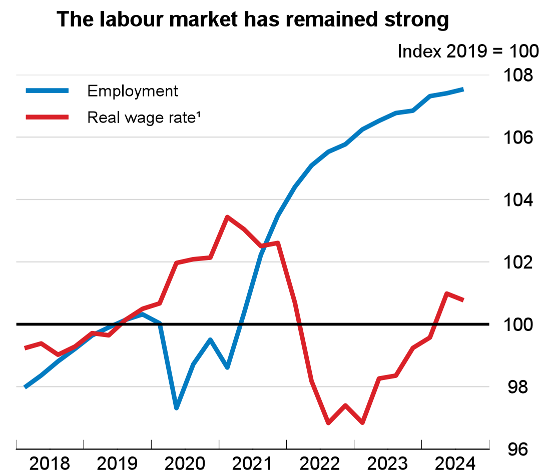
GDP growth has been volatile

Output growth has been mostly driven by the pharmaceutical sector in the first three quarters of 2024. However, improving indicators for business sentiment and industrial production in other export sectors suggest a broader based recovery is underway. Employment has broadly stabilised and, while remaining above pre-pandemic levels, the number of vacancies per unemployed and the share of firms reporting labour shortages as a production constraint have dropped. Wages have continued to catch up with past price increases in line with collective agreements. Inflation has increased to 1.6% in October due to rising electricity prices, while core inflation has reached 1.5% boosted by services inflation, notably rents. Despite recovering real wages and a strong labour market, household spending has remained muted, reflecting higher interest expenses and low confidence.

Geopolitical tensions, including disruptions in the Red Sea, have negatively affected maritime transport and contributed to GDP volatility this year. Output growth in this sector should improve modestly in 2025-26 in line with global trade growth. The pharmaceutical sector's contribution to growth is projected to decline due to limitations in ramping up production capacity in the medium term. Growth in other export sectors should continue to recover as foreign demand improves and gas fields in the North Sea become fully operational.

Denmark





1. Average wage per employee, adjusted for inflation.
Source: Statistics Denmark; and OECD Economic Outlook 116 database.

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Denmark: Demand, output and prices

Denmark	2021	2022	2023	2024	2025	2026
	Current prices DKK billion	Percentage changes, volume (2020 prices)				
GDP at market prices	2 567.5	1.5	2.5	2.8	2.5	1.7
Private consumption	1 187.9	-2.1	1.4	0.2	1.5	1.7
Government consumption	613.5	-2.5	0.2	1.2	2.5	1.0
Gross fixed capital formation	578.3	2.8	-6.6	-1.4	2.2	1.9
Final domestic demand	2 379.7	-1.0	-0.9	0.1	1.9	1.6
Stockbuilding[1]	27.7	0.6	-1.7	-1.1	0.0	0.0
Total domestic demand	2 407.4	-0.3	-2.9	-1.0	2.0	1.6
Exports of goods and services	1 510.4	7.2	10.4	6.4	3.8	3.3
Imports of goods and services	1 350.2	4.4	3.7	1.2	2.8	3.5
Net exports[1]	160.1	1.9	5.1	3.6	0.9	0.3
Memorandum items						
GDP deflator	_	9.1	-3.8	1.5	2.5	2.2
Consumer price index	_	7.7	3.3	1.4	2.0	2.0
Core inflation index[2]	_	4.0	4.3	1.6	2.1	2.0
Unemployment rate (% of labour force)	_	4.5	5.2	6.2	6.1	6.0
Household saving ratio, net (% of disposable income)	_	6.9	7.7	8.9	7.9	7.4
General government financial balance (% of GDP)	_	3.4	3.3	2.8	2.0	1.2
General government gross debt (% of GDP)	_	40.1	39.8	37.9	37.0	36.6
General government debt, Maastricht definition[3] (% of GDP)	_	34.1	33.6	31.7	30.7	30.4
Current account balance (% of GDP)	_	11.7	9.8	13.1	13.1	13.0

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 116 database.

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Low inflation allows for supportive fiscal and monetary policies

The Danish central bank will follow the ECB's decisions in line with the peg to the euro. The central bank policy rate will fall to 1.6% by end-2026. Financing costs are expected to remain relatively high, and the uptake of credit increase only gradually. From 2024 to 2026, the budget surplus will progressively decline due to a weaker labour market, rising spending on defence, green investment and local public services, as well as cuts in the personal income tax from 2025. The fiscal impulse should be mildly expansionary in 2025 and 2026 as additional spending on defence is expected to have a limited impact on the domestic economy.

Growth will be broad based

GDP growth will slow from 2.8% in 2024 to 1.7% in 2026. A slowdown of export growth in the pharmaceutical and maritime transport sectors will only be partly compensated by stronger exports from other sectors. Excess savings accumulated in early 2024, real wage growth and tax cuts will sustain private consumption. Housing and business investment will recover on the back of monetary easing. Inflation will temporarily rebound from 1.4% in 2024 to 2% in 2025, as firms' capacity to absorb rising labour costs has declined. Employment growth will slow, easing recruitment difficulties. Risks to the outlook primarily relate to the performance of key exporters, which is influenced by geopolitical developments. Weaker-than-expected demand from European countries could negatively impact the outlook of industrial sectors, such as machinery, and of business services. Firms may adjust employment or increase prices above projected levels to restore margins, which would dampen growth prospects.

Investing in human capital would foster a strong and sustainable domestic economy

Monetary and fiscal policies have eased, as inflation has reached pre-pandemic levels and inflation expectations remain well anchored. The economy is nearing full capacity and fiscal stimulus should remain limited. Chronic recruitment difficulties in areas exposed to the demographic, digital and green transitions need to be addressed. Reducing labour income taxation of low-paid workers and speeding up youth entry into the labour market by cutting very generous student allowances and targeting the voluntary tenth year in lower secondary education on students with the greatest learning needs can foster labour supply and help overcome labour shortages. Modernising the skills anticipation system would help adapt to a fast-evolving labour market. Expanding international science and technology programmes and encouraging girls' engagement in these fields could also contribute to innovation diffusion and productivity growth.

Estonia

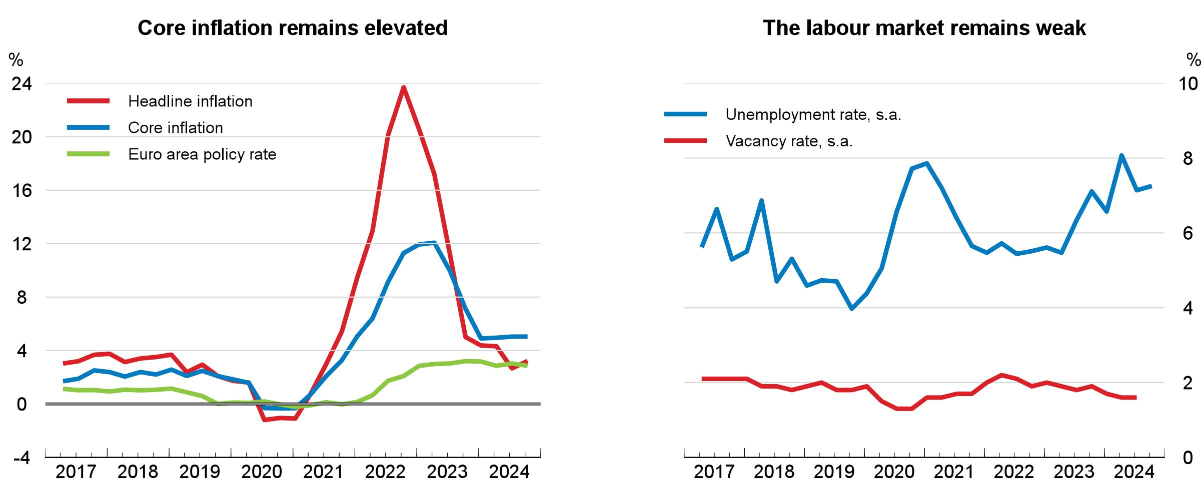
Economic growth will recover to 1.7% next year and 2.7% in 2026, helped by improving financial conditions, stronger external demand and higher public investment. Inflation has fallen but will remain elevated, largely due to tax increases. The unemployment rate will start to fall next year. Exports will pick up gradually in line with recovery in demand in the region. An escalation in regional geopolitical tensions remains a key risk for confidence and trade.

Lower euro area interest rates will support the recovery in domestic demand. Continued fiscal consolidation will help to balance the public finances, but will weigh on growth and contribute to inflation. Sustaining productivity growth will require increased upskilling, enhancing business and academia cooperation in innovation and raising competition in services. Better integration of Ukrainian migrants and more widespread upskilling could help to address labour shortages in specific sectors and professions.

Economic conditions have started to improve

After a decline in the first quarter of this year, output remained unchanged in the second and the third quarters. There are signs of a recovery in investment, trade and consumption. Indicators of business and consumer confidence remain weak, as does the housing market, although expectations have started to improve in some industrial sectors. The unemployment rate has risen slightly, while the vacancy rate remains low. Headline inflation reached 4.5% in October, with core inflation rising to 6.4%. Price increases were largely driven by services, while wage pressures have begun to ease.

Estonia



Source: OECD Economic Outlook 116 database; and Eurostat.

StatLink https://stat.link/wdztra

Estonia: Demand, output and prices

Estonia	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2020 prices)				
GDP at market prices	31.4	0.0	-3.1	-0.9	1.7	2.7
Private consumption	15.8	2.7	-1.6	-0.5	1.3	2.2
Government consumption	6.3	-1.4	0.6	1.2	1.0	1.1
Gross fixed capital formation	9.2	-10.3	8.7	-4.2	3.5	6.1
Final domestic demand	31.2	-2.0	1.8	-1.0	1.9	3.1
Stockbuilding[1]	0.6	1.7	-3.3	-0.6	-0.2	0.0
Total domestic demand	31.8	-0.6	-1.8	-1.9	1.7	3.2
Exports of goods and services	25.0	5.1	-9.0	-0.9	2.5	2.9
Imports of goods and services	25.4	5.1	-6.6	-0.2	2.3	3.5
Net exports[1]	- 0.4	-0.1	-1.9	-0.5	0.2	-0.5
Memorandum items						
GDP deflator	_	15.9	8.3	3.4	4.0	2.9
Harmonised index of consumer prices	_	19.4	9.1	3.4	3.8	2.8
Harmonised index of core inflation[2]	_	10.3	8.7	4.9	2.8	2.0
Unemployment rate (% of labour force)	_	5.6	6.4	7.4	7.3	6.7
Household saving ratio, net (% of disposable income)	_	-1.6	-0.3	1.8	0.6	1.3
General government financial balance (% of GDP)	_	-1.1	-2.9	-3.0	-2.4	-2.1
General government gross debt (% of GDP)	_	26.8	29.7	32.8	34.6	35.8
General government debt, Maastricht definition[3] (% of GDP)	_	19.1	20.2	23.4	25.1	26.3
Current account balance (% of GDP)	_	-4.3	-2.2	-0.5	-0.1	-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 116 database.

StatLink https://stat.link/p3c7mj

Weak demand in Estonia's main trading partners, especially in Finland and Sweden, but also in other Baltic economies, continues to constrain export growth. Russia's war of aggression against Ukraine has driven up import costs, disrupted trade patterns and undermined investor confidence. Electricity interconnection problems with the Nordic energy market contributed to volatile and high energy prices.

Fiscal policy continues to weigh on the recovery

The fiscal consolidation that has started this year with increased excise duties and value added tax (VAT) will continue over the projection period. A further increase in the VAT rate, the introduction of a motor vehicle tax, an increase in the rate of, and a temporary surcharge, on corporate and personal income tax, and expenditure cuts, are planned. These measures will bring new revenues, but in 2026 an increase in the basic tax allowance is expected to more than offset the consolidation. The fiscal stance is assumed to tighten next year and ease slightly in 2026. The government debt ratio is low and the deficit will reach 3% of GDP this year, despite the economic slowdown. Consolidation measures will dampen the recovery, with the strongest impact on growth and inflation next year. However, incoming EU structural funds of up to 1.8% of GDP per year, focused on promoting the green and digital transition of the economy, will support public investment and domestic demand.

A moderate recovery is under way

The Estonian economy is expected to gradually expand on the back of a pick-up in demand in the Nordic countries and an easing of monetary policy in the euro area, although output will still contract by 0.9% in

2024 as a whole. In 2025, economic growth will reach 1.7% with the recovery in private demand partially offset by ongoing fiscal consolidation. Growth is projected to strengthen further to 2.7% in 2026. Labour market conditions will start improving next year. Annual inflation will remain above the euro area target as planned tax increases add to price pressures. Nevertheless, with spare capacity in the economy and wage pressures easing, underlying inflation should fall to 1.8% by the fourth quarter of 2026. Significant uncertainties remain, mainly due to external risks, but also regarding the impact of fiscal consolidation on consumption and business investment. Geopolitical risks in the region as well as lower demand in key export markets pose a risk to the recovery.

Structural reforms would help maintain competitiveness and inclusiveness

The pace of fiscal tightening should balance the need to support the recovery, as well as narrow the deficit over the medium term. In addressing structural weaknesses, the authorities should ensure that distributional concerns are taken into account. Estonia should review the tax system and explore ways to increase revenues in the medium term, such as applying a higher tax rate to higher incomes, maintaining the corporate income tax and raising property taxes further in parallel with the planned spending reviews. To ensure competitiveness of the business sector, upskilling, enhancing co-operation with academia in innovation and increasing competition in the professional services are key. Labour shortages in specific sectors and professions could be eased by better integration of Ukrainian migrants and enhanced upskilling of the unemployed, although upskilling of current employees is also needed as many of the current shortages are in higher-skilled professions.

Euro area

GDP growth is projected to strengthen from 0.8% in 2024 to 1.3% in 2025 and 1.5% in 2026, on the back of recovering domestic demand. Private consumption will be supported by wage increases in buoyant labour markets and sustained growth of real disposable incomes. Private investment will benefit from more favourable credit conditions, and public investment will be supported by the Recovery and Resilient Facility funds. Wage growth is projected to ease gradually, as labour cost pressures moderate, helping core inflation approach 2% in the second half of 2025.

Fiscal policy will tighten in both 2025 and 2026, as energy and inflation support measures are withdrawn and countries adopt consolidation measures under the new fiscal rules. Prudent fiscal policy is needed to rebuild fiscal buffers and support the ongoing relaxation of the monetary policy stance as inflation returns to target. The new European fiscal rules provide a policy framework centred on debt sustainability and multiannual expenditure plans. Monetary policy should not be relaxed prematurely to ensure that inflation is durably reduced.

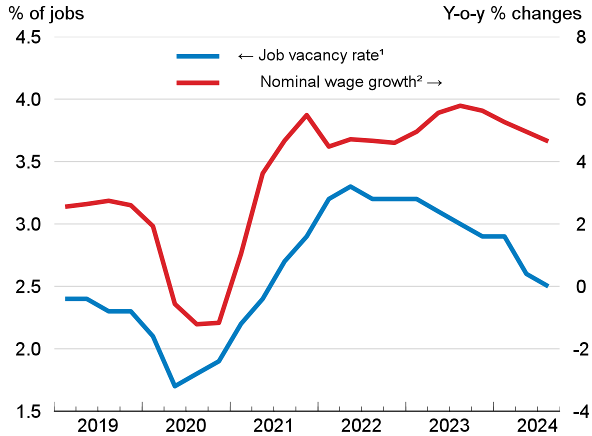
Economic growth is held back by elevated geopolitical uncertainty

GDP growth increased to 0.4% in the third quarter of 2024 from 0.2% in the second quarter. Recent indicators suggest ongoing weakness of the economy, with the composite PMI at a level consistent with mild output declines in November. Headline inflation continued to moderate despite an uptick to 2% in October from 1.7% in September. Core inflation stood at 2.7%, unchanged from September, while market-based inflation expectations remain stable at the 2% target from 2025 onwards. However, underlying inflation pressures remain elevated, with services prices rising by 4% in annual terms. At the same time, the labour market remains tight with labour shortages particularly pressing in administrative and support services as well as construction. Strong growth in negotiated nominal wages is continuing, at 5.4% in the third quarter, up from 3.5% in the second quarter. The euro area seasonally adjusted unemployment rate stood at a post-pandemic low of 6.3% in September. Financial conditions eased further and the demand of firms for loans increased, alongside a strong rebound in housing loans and other lending to households. The number of bankruptcies rose to a new high in the first half of 2024, most significantly in construction and financial activities.

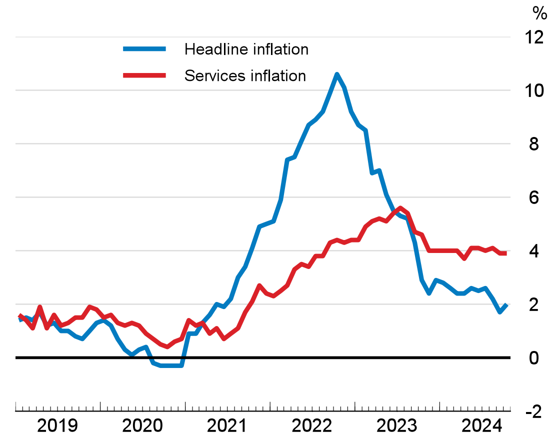
A smaller deficit in energy products and improving economic activity abroad supported a surplus in trade in goods in September. At the same time, merchandise trade continued to be affected by restrictive financial conditions, trade frictions and elevated geopolitical tensions. However, the fallout in the euro area from Russia's war of aggression against Ukraine has moderated. Energy commodity prices have decreased, but the recovery from the recent energy price shock has been uneven, with output and profits of energy-intensive firms decreasing. In support of Ukraine, EU countries have accorded temporary protection to more than 4 million Ukrainian refugees until March 2026. The EU has started to disburse EUR 50 billion (0.5% of euro area GDP) from the Ukraine Facility and approved an additional loan of up to EUR 35 billion (0.4% of euro area GDP), financed by proceeds from frozen Russian assets.

Euro area 1

Labour market pressures are easing gradually



Services inflation remains sticky



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.
Source: Eurostat Job vacancy statistics database; OECD Economic Outlook 116 database; and Eurostat Harmonised index of consumer prices (HICP).

StatLink https://stat.link/17h49x

Euro area: Demand, output and prices

Euro area	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2021 prices)				
GDP at market prices	12 495.3	3.6	0.5	0.8	1.3	1.5
Private consumption	6 393.9	4.9	0.7	0.9	1.3	1.5
Government consumption	2 763.9	1.1	1.5	2.2	1.2	0.7
Gross fixed capital formation	2 707.0	2.1	1.8	-1.8	0.8	2.0
Final domestic demand	11 864.8	3.4	1.1	0.6	1.2	1.4
Stockbuilding¹	130.0	0.5	-0.9	-0.5	0.1	0.0
Total domestic demand	11 994.8	3.9	0.2	0.0	1.2	1.4
Net exports¹	500.5	-0.2	0.3	0.8	0.1	0.1
Memorandum items						
GDP deflator	_	5.1	5.9	2.9	2.1	1.9
Harmonised index of consumer prices	_	8.4	5.4	2.4	2.1	2.0
Harmonised index of core inflation²	_	4.0	4.9	2.9	2.4	2.0
Unemployment rate (% of labour force)	_	6.8	6.6	6.4	6.3	6.2
Household saving ratio, net (% of disposable income)	_	7.5	8.1	9.0	9.2	9.0
General government financial balance (% of GDP)	_	-3.5	-3.6	-3.1	-2.9	-2.7
General government gross debt (% of GDP)	_	94.5	95.0	96.0	97.0	97.6
General government debt, Maastricht definition³ (% of GDP)	_	91.4	89.1	90.1	91.0	91.7
Current account balance (% of GDP)	_	1.2	2.7	3.7	3.7	3.7

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 116 database.

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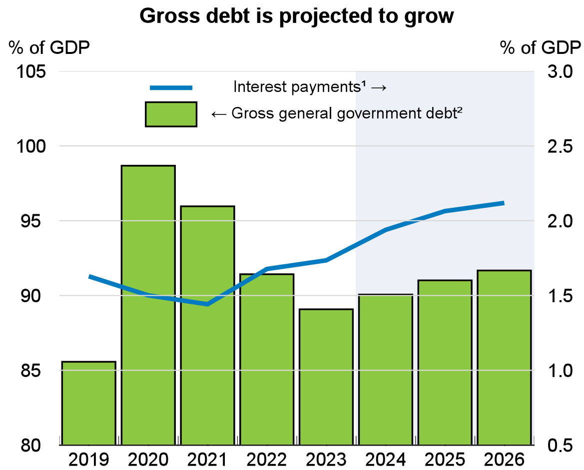
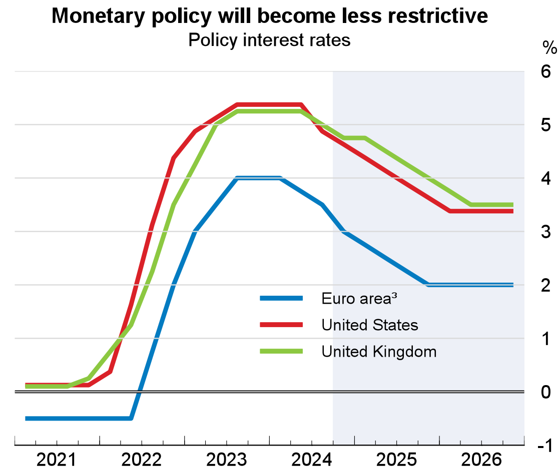
Euro area 2





1. Gross general government interest payments.
2. Maastricht definition.
3. The policy interest rate shown for the euro area is the deposit facility rate (DFR).
Source: OECD Economic Outlook 116 database.

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Macroeconomic policy will become less restrictive

The aggregate euro area fiscal stance is projected to remain restrictive in 2024, and to a lesser extent in 2025 and 2026, with cumulative tightening of less than 1½% of GDP during these three years. The discretionary fiscal measures in response to the energy crisis and high inflation are projected to be gradually withdrawn by 2026. The ECB estimates that this fiscal support will amount to 0.4% of GDP in 2024 and 0.1% of GDP in both 2025 and 2026. The war in Ukraine has triggered additional military spending and the Next Generation EU (NGEU) programme is supporting public investments amounting to about 0.5% of euro area GDP per year. Given labour shortages in many countries, this spending needs to be carefully prioritised to ensure effective delivery.

The ECB has started reducing the restrictiveness of its policy stance, by cutting the deposit facility rate by a cumulative 75 basis points since June 2024. The policy rate is projected to decrease further, reaching 3% by end-2024 and, in consecutive cuts, 2% at the end of 2025. While the interest rate cuts will support aggregate demand, the overall stance of policy is projected to remain restrictive for some time to durably reduce underlying inflation pressures. The short-term inflationary effects stem from labour shortages as well as additional public expenditure associated with the NGEU programme, estimated to reach 2.5% of GDP by end-2026.

Economic growth will strengthen as domestic demand picks up

Growth is projected to improve, supported by easing financial conditions and benign energy and commodity prices. The labour market will remain tight, with labour shortages in many occupations and historically low unemployment slowing down wage growth normalisation. Growing real disposable incomes will support consumption, as disinflation continues. Private investment will be supported by the ongoing relaxation of financing conditions and public investment spending under the NGEU programme. Headline inflation is projected to moderate further, as labour cost pressures gradually dissipate. Core inflation is similarly projected to decline, returning to the level consistent with the ECB inflation target by the end of 2025.

The risks to the projections are tilted to the downside. Worsening geopolitical tensions, such as an escalation of conflict in the Middle East, would weigh on external demand. Higher transport costs resulting from Red Sea shipping disruptions could add to inflationary pressures. Financial stability risks are re-emerging in the euro area, with the number of bankruptcies historically high and remaining financial vulnerabilities in the commercial real estate and non-banking financial sectors. On the upside, a stronger use of accumulated household savings could strengthen private consumption. In addition, a durable reduction of geopolitical uncertainty could hasten disinflation and, together with stronger fiscal support in China, help lift external demand.

Prudent macroeconomic policies and structural reforms are needed

The investment needs associated with energy security and decarbonisation are considerable. At the same time, prudent fiscal policy needs to rebuild fiscal buffers in preparation for future shocks. Effective disbursement of the NGEU funds will help expand medium-term productive capacity but is associated with short-term inflationary risks that need to be monitored at the EU level. The new EU fiscal rules encourage structural reforms and safeguards for medium-term fiscal sustainability but need to be accompanied by effective guidance on how to reduce existing excessive deficits. To ensure a level playing field and effective use of public funds, state-aid rules should not be relaxed further. The monetary policy stance should not be eased prematurely, with macroprudential policies and targeted instruments used to address potential vulnerabilities in the financial sector. Furthermore, labour shortages could be alleviated by attracting high-skilled non-EU workers and by reducing regulatory and administrative burdens on intra-EU labour mobility.

Finland

The Finnish economy is set to grow by 1.6% in 2025 and 1.7% in 2026 after a projected contraction of 0.3% in 2024. Declining interest rates are set to support private consumption and investment. Headline inflation is projected to rise gradually from low levels. Exports and imports will pick up modestly, in line with the gradual recovery in demand from key trading partners. The unemployment rate continued to rise in 2024, mainly reflecting weakness in the construction sector, but is expected to decline as growth strengthens. Escalating geopolitical tensions with Russia remain a key risk to investor confidence and trade.

Fiscal consolidation is crucial to put rising public debt on a downward path, including by increasing the efficiency of spending on health and other well-being services and normalising reduced VAT rates once a robust economic recovery is underway. Strengthening R&D investment, enhancing higher education participation and skills through more effective allocation of study places, and improving the integration of foreign talent will be key to boosting innovation and productivity. Further investment in renewable energy and more proactive forest management will be vital to meet Finland's carbon neutrality target by 2035.

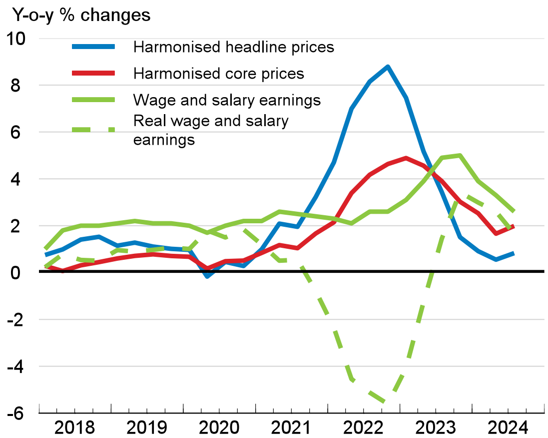
Weak construction is a drag on the economic recovery

Activity has edged up in the course of the year, with a preliminary estimate that GDP rose by a quarterly rate of 0.4% in the third quarter of 2024, but with persistent weakness in areas such as construction. Both headline and core inflation have eased due to falling energy prices and feeble demand. Declining mortgage loan rates, lower inflation and elevated wage growth helped support consumer purchasing power. However, consumer and business confidence, particularly in the construction sector, remained subdued. Nominal house prices were 3.8% lower in the first three quarters of 2024 than a year earlier. The unemployment rate has remained high, climbing to 8.5% in the third quarter, up from 7.5% a year earlier, although labour shortages for high-skilled workers persist in some sectors, including healthcare.

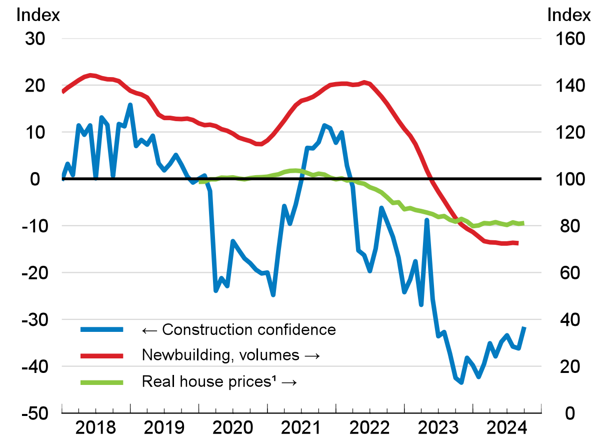
Lower energy prices, particularly for oil, have continued to help stabilise inflation, while subdued external demand, especially from other EU countries, has dampened export growth. Russia's war of aggression against Ukraine continues to strain the economy by driving up import costs and undermining investor confidence. The closure of the border with Russia in November 2023 was extended indefinitely in April 2024.

Finland

Inflation and wages have stabilised



Construction and housing sectors remain weak



1. Real price index of old dwellings in housing companies.
Source: OECD Economic Outlook 116 database; and Statistics Finland.

StatLink https://stat.link/1o09sm

Finland: Demand, output and prices

Finland	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	248.8	1.5	-1.2	-0.3	1.6	1.7
Private consumption	125.3	1.3	0.3	0.5	1.8	1.7
Government consumption	61.7	-1.0	3.4	1.7	0.7	0.3
Gross fixed capital formation	60.7	2.6	-9.0	-6.5	3.4	4.2
Final domestic demand	247.7	1.0	-1.3	-0.8	1.8	1.9
Stockbuilding[1,2]	0.9	2.0	-2.9	0.4	-0.1	0.0
Total domestic demand	248.6	3.2	-4.1	-0.4	1.7	1.9
Exports of goods and services	99.3	4.2	0.2	0.0	4.0	2.8
Imports of goods and services	99.2	8.4	-6.6	-0.6	3.5	3.2
Net exports[1]	0.1	-1.6	3.2	0.3	0.2	-0.2
Memorandum items						
GDP deflator	_	5.4	3.9	2.0	1.8	1.8
Harmonised index of consumer prices	_	7.2	4.3	0.9	1.8	1.8
Harmonised index of core inflation[3]	_	3.6	4.1	2.1	2.1	1.8
Unemployment rate (% of labour force)	_	6.8	7.3	8.2	8.0	7.7
Household saving ratio, net (% of disposable income)	_	1.3	1.1	1.1	-0.1	-0.3
General government financial balance (% of GDP)	_	-0.2	-3.0	-3.9	-3.2	-2.4
General government gross debt (% of GDP)	_	81.2	85.2	90.1	95.1	99.1
General government debt, Maastricht definition[4] (% of GDP)	_	74.0	77.1	82.0	87.0	91.1
Current account balance (% of GDP)	_	-2.2	-0.1	0.4	0.6	0.4

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 116 database.

StatLink https://stat.link/4fwisa

The fiscal stance is set to tighten in 2025

Fiscal policy remained expansionary in 2024, driven by increased defence spending, rising health and pension expenditure, and reduced unemployment insurance contributions. Despite the increase in the standard VAT rate to 25.5% in September 2024, the fiscal deficit is estimated to have widened this year. However, the recent spending cuts in social welfare and tax measures are projected to bring down the structural deficit, with consolidation totalling 0.5% of potential GDP over 2025-26. All emergency energy subsidies were wound down by 2023, except for emergency loans and credit guarantees for utilities, which will be phased out by the end of 2024. The government lowered the biofuel distribution obligation for 2024 to ease fuel prices and announced a moderated statutory increase for 2025-30. Additionally, the government has committed to increasing R&D funding by approximately EUR 280 million annually (around 0.1% of GDP) by 2030, to drive innovation in key sectors, including green technologies, and to boost competitiveness.

A moderate recovery is underway but external risks remain high

Growth is projected to remain subdued in late 2024, with GDP expected to contract by 0.3% in the year as a whole, before gradually recovering to 1.6% in 2025 and 1.7% in 2026. The recovery will be supported by declining interest rates and improvements in household purchasing power. Lower interest rates will ease financial conditions for indebted households, which mostly have variable-mortgage loans, and for businesses, spurring private consumption and investment. However, continued weakness in the construction sector and elevated unemployment are likely to constrain the recovery through early 2025. Inflation is expected to rise moderately in 2025 as the economy strengthens and wages increase. Nevertheless, significant uncertainties remain, particularly due to external risks. The deterioration of international relations with Russia and instability in the Middle East pose risks to economic sentiment, foreign investment and trade.

Enhancing R&D investment and expanding the skilled workforce are key to sustaining the recovery

Continued fiscal consolidation is necessary to curb rising public debt and create fiscal space in the face of population ageing. The government should focus on increasing spending efficiency, especially within the well-being services counties, which took over social welfare and healthcare services from municipalities in 2023 but face significant budget deficits. Additionally, Finland should gradually increase some of the reduced 10 and 14% VAT rates as the recovery strengthens. Enhanced R&D investment, particularly in green sectors, such as renewable energy, forestry and transportation, will be essential for boosting stagnating productivity and meeting Finland’s carbon neutrality goals by 2035. More proactive reforms in higher education, focusing on better study place allocation and improving completion times, as well as attracting and integrating foreign talent through expanded language programmes, are key to addressing high-skilled labour shortages and raising productivity. Furthermore, improvement to forest management strategies will strengthen carbon sinks, contributing to both economic and environmental sustainability.

France

GDP growth is projected to remain subdued at 1.1% in 2024, before easing to 0.9% in 2025 and 1.0% in 2026. For the second consecutive year, external demand is the primary driver of growth in 2024. Domestic demand, which benefited from a temporary boost to private consumption in the third quarter of 2024 from the Olympic Games, is expected to recover from 2025, gaining momentum as disinflation boosts purchasing power. Fiscal consolidation efforts in 2025 and 2026 will weigh on growth, partly counterbalancing the positive impact of monetary policy easing on residential and business investment. Headline inflation is projected to decline, reaching 1.6% in 2025 and 1.8% in 2026.

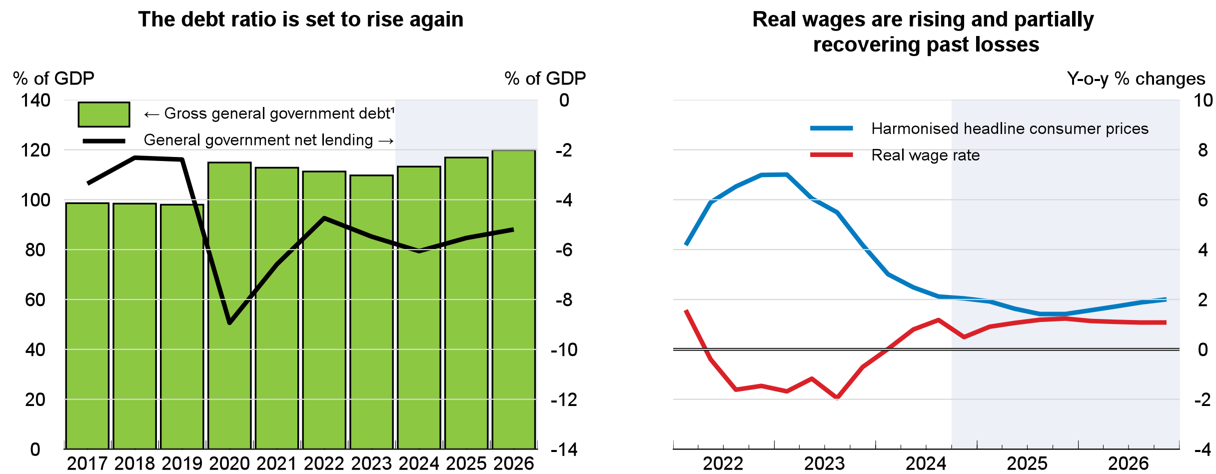
The fiscal deficit is anticipated to rise to 6.1% of GDP in 2024, up from 5.5% in 2023. Announced fiscal consolidation measures are equivalent to 1.4% of GDP in 2025, but a lower consolidation effort is assumed in the projections, with a structural adjustment of the primary balance of 1% of GDP for 2025 and 0.5% of GDP in 2026. Several consolidation measures are not yet known. General government debt is projected to remain elevated at 120% of GDP in 2026. Fostering stronger potential growth through digital technology adoption and reduced regulatory barriers will enhance productivity and help achieve fiscal goals. Reforms in social benefits and pensions are boosting labour participation, but further efforts are needed to integrate workers and reduce the impact of socio-economic background on educational outcomes.

Activity has been stronger than expected in 2024

In early 2024, GDP growth was modest but surpassed expectations, fuelled by strong external demand, and sustained public spending. More recently, private domestic demand is starting to show signs of recovery. Private consumption was weak in the first half of 2024, but spending and output received a third quarter boost from the Olympic Games. Increasing real wages and improving household confidence signal a recovery from 2025. On average, labour shortages have eased and remain lower than in other OECD countries, but tensions remain in specific sectors such as construction, hospitality and agriculture. Demand for housing loans has been rising since the summer with lower interest rates, but investment has yet to follow. Business investment has fallen for three consecutive quarters and confidence has declined. Inflation has stabilised, falling to 1.6% in October on a harmonised basis, the lowest rate since 2021. However, services inflation remains substantially higher.

Solid growth in the United States as well as the continuing easing of supply bottlenecks is supporting a gradual recovery in exports. However, foreign demand has yet to return to its pre-pandemic trend and France has not fully recovered the export market share lost during that period.

France 1



1. Maastricht definition.
Source: OECD Economic Outlook 116 database.

StatLink https://stat.link/qtbshx

France: Demand, output and prices

France	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2020 prices)				
GDP at market prices	2 505.6	2.6	1.1	1.1	0.9	1.0
Private consumption	1 324.8	3.2	0.9	0.8	1.2	1.5
Government consumption	625.0	2.6	0.8	2.1	0.3	-0.3
Gross fixed capital formation	587.6	0.1	0.7	-1.7	-0.4	1.0
Final domestic demand	2 537.4	2.3	0.9	0.6	0.6	1.0
Stockbuilding¹	- 2.0	0.6	-0.4	-0.5	0.0	0.0
Total domestic demand	2 535.4	2.9	0.5	0.1	0.6	1.0
Exports of goods and services	782.7	8.4	2.5	1.6	1.4	2.2
Imports of goods and services	812.5	9.1	0.7	-1.4	0.7	2.0
Net exports¹	- 29.8	-0.3	0.6	1.1	0.2	0.1
Memorandum items						
GDP deflator	_	3.2	5.3	2.5	1.7	1.8
Harmonised index of consumer prices	_	5.9	5.7	2.4	1.6	1.8
Harmonised index of core inflation²	_	3.4	4.0	2.4	2.0	1.8
Unemployment rate³ (% of labour force)	_	7.3	7.3	7.4	7.7	7.6
Household saving ratio, gross (% of disposable income)	_	16.6	16.8	17.3	17.2	16.9
General government financial balance (% of GDP)	_	-4.7	-5.5	-6.1	-5.5	-5.2
General government gross debt (% of GDP)	_	115.5	116.8	120.3	123.9	127.0
General government debt, Maastricht definition⁴ (% of GDP)	_	111.3	109.7	113.3	116.9	119.9
Current account balance (% of GDP)	_	-1.2	-1.0	-0.2	-0.1	-0.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. National unemployment rate, includes overseas departments.
4. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 116 database.

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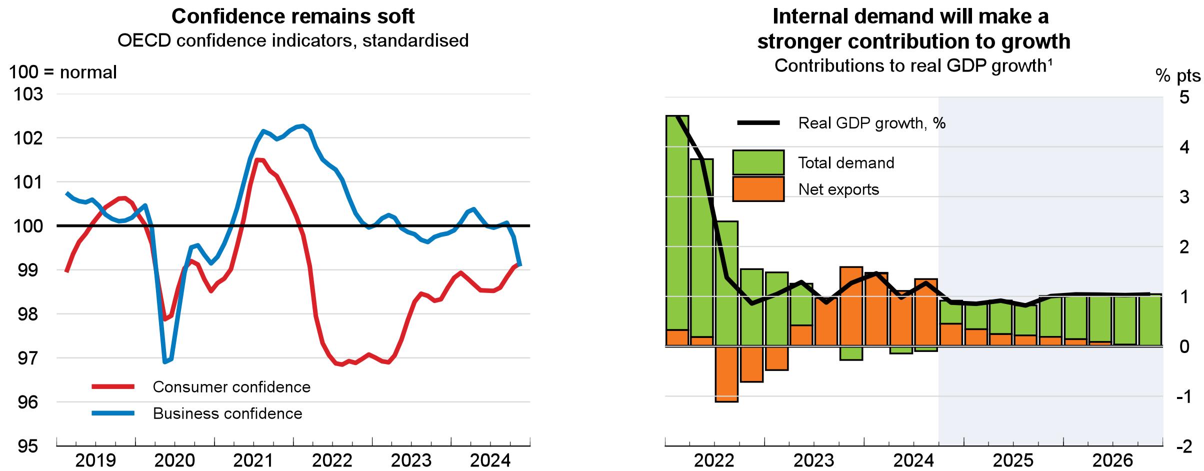
France 2



1. Year-on-year growth rates.
Source: OECD Main Economic Indicators database; OECD Economic Outlook 116 database; and OECD calculations.

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Monetary policy easing is counterbalancing the expected fiscal policy tightening

The fiscal deficit is projected to rise to 6.1% of GDP in 2024, up from 5.5% in 2023, due to lower-than-expected tax revenues, particularly from VAT, and disappointing returns from the exceptional tax on energy producers. The government aims to reduce the budget deficit to 5% by 2025. Two-thirds of the adjustment would come from tax increases, including levies on high-income earners, large companies, air travel, polluting vehicles, and energy producers. The final third would come from spending cuts, especially from central and local governments, and social security. Certain measures are still not fully specified, including the details about the savings from local government. Therefore, the projection assumes a 1% of GDP structural adjustment of the primary balance in 2025, below government projections of a structural adjustment of 1.4% of GDP. In 2026, a structural primary balance improvement of 0.5 percentage points is projected, in line with the government plans and the European Commission requirements.

The decline in housing credit is gradually slowing as monetary policy is easing. The average interest rate on new housing loans fell to 3.6% in August, down about 60 basis points from its January peak. Consequently, the volume of new housing loans increased by 50% between March and September, to EUR 13.1 billion. Despite this, it remains well below its May 2022 peak of EUR 26.6 billion and total outstanding housing loans continue to decline as new loans have yet to offset maturing loans.

Economic growth will slow in 2025 before rebounding at a moderate pace

Growth is set to slow from 1.1% in 2024 to 0.9% in 2025, due to weaker carry-over effects and constraints on public spending. While fiscal tightening will be a headwind to growth, its impact is expected to be partly offset by the effects of disinflation and easing area-wide monetary policy. Private consumption is projected to contribute significantly to growth. Real wages will continue to increase for the second consecutive year as inflation moderates, recovering losses incurred between 2020 and 2023. Residential investment is expected to gradually recover, reflecting the rebound in building permits since 2024 spurred by lower interest rates. Despite favourable interest rates, business investment will likely remain subdued in early 2025 due to policy uncertainty, and pick up only from mid-2025 as policy clarity improves. Public investment will receive modest support through the France Relance and France 2030 programmes. The active population is projected to increase as a result of the social assistance (Revenu de Solidarité Active) reform requiring recipients to register in employment services and the increase of the pensionable age. However, slower output growth is likely to dampen job creation, leading to a slight increase in the unemployment rate in 2025. Inflation is expected to ease further as regulated electricity tariffs decline in February 2025, deducting almost 0.3 percentage points from inflation. In 2026, economic growth is projected to be 1.0%, with further interest rate cuts expected to stimulate both housing and business investment, while increased real wages and a lower saving ratio will fuel private consumption.

Risks are skewed to the downside. The sovereign rate spread between France and Germany, stable at 50 basis points in recent months, spiked to 70-80 basis points following the dissolution of the National Assembly. After France's debt rating was downgraded in the spring, it has remained stable through the autumn. This rise in borrowing costs increases debt servicing expenses and risks crowding out private investment, potentially dampening growth. A government budget agreement that reduces policy uncertainty could quickly reassure markets, narrowing the spread, and alleviating fiscal pressures. However, if the budget is not adopted, political uncertainty would bear down on the recovery. Additionally, weaker-than-expected inflation and economic growth could reduce tax revenues, threatening the government's ability to meet its 5% deficit target.

Heightened fiscal risks must be mitigated while preserving growth

The 2025 government budget, if adopted, represents a positive step forward towards reducing the fiscal deficit, but additional measures are vital to reduce government debt significantly. Consistent adherence to a medium-term fiscal strategy is essential. Fostering stronger potential growth will also help achieve fiscal objectives. A wider adoption of digital technologies and a reduction in regulatory barriers would support productivity gains. The social benefit and pension reforms introduced in 2023 are already boosting labour market participation among older and low-skilled workers. However, further support is needed to support their integration in the labour market, such as encouraging training for people in the middle and end of their careers, particularly in digital skills. Additionally, initiatives aimed at reducing the strong correlation between socio-economic background and educational outcomes are crucial to allow people to reach their full potential in the labour market.

Germany

The economy is projected to stagnate in 2024 and grow by 0.7% in 2025 and 1.2% in 2026. Low inflation and rising wages will support real incomes and private consumption. Private investment will gradually pick up, supported by high corporate savings and slowly declining interest rates, but policy uncertainty will continue to weigh on investor confidence. Exports will slowly recover as demand in key trading partners strengthens.

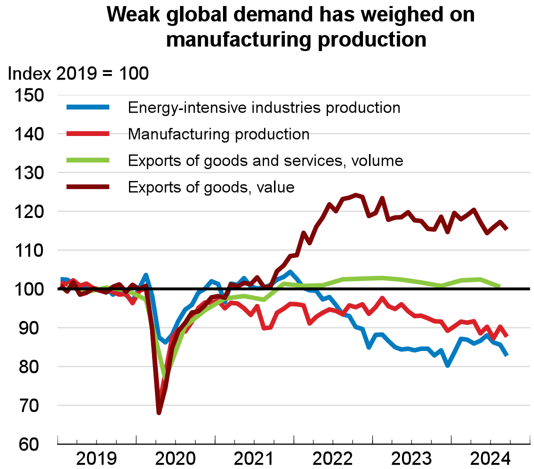
Increasing public spending efficiency, reducing environmentally harmful tax expenditures, and enhancing tax enforcement should be combined with more flexibility in the national fiscal rules to create fiscal space to address a large infrastructure backlog and support green and digital investments. Continuing to reduce the administrative burden, digitalise the public administration and improve infrastructure implementation capacity, particularly at the municipal level, can do much to support a pick-up in public and private investment. Skilled labour shortages can be addressed by strengthening the work incentives of women, older workers and low-income earners, as well as improving education, training and adult learning policies.

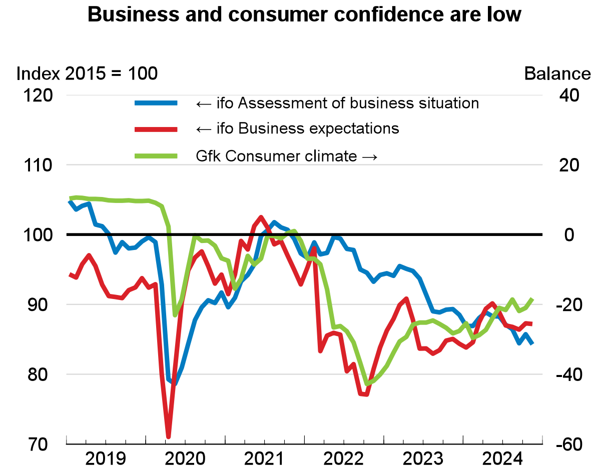
High uncertainty and weak external demand have weighed on economic activity

After GDP had decreased by 1.1% (annualised rate) in the second quarter 2024, it picked up by 0.4% in the third quarter driven by private and public consumption. High uncertainty about the financing and design of measures to support the green transition is weighing on investor and consumer confidence. Industrial production was 4.6% lower in September than a year earlier. Despite falling energy prices, output of energy- intensive industries was 2% lower in September than a year earlier and volatile car production declined after a strong increase in August. However, incoming manufacturing orders have significantly picked up in September (+4.2%). Annual headline inflation increased to 2.4% in October, up from 1.8% in September, mainly driven by increases in food as well as services prices. Core inflation remains sticky at 3.3% in October, up from 3.0% in September, due to strong services price inflation of 4.8% in October. Nominal wages per employee increased by 5.1% in the third quarter of 2024 from a year earlier, pushing up real wages and supporting a recovery in retail sales volumes from July to September. Although labour markets show some signals of cooling, they remain robust with a stable unemployment rate and high vacancies relative to historical norms, still signalling strong labour shortages.

After increasing in both July and August, export values declined in September by 1.7%. Exports to non-EU countries declined further in October and remain 6.5% below the level in October 2023, mainly due to weak exports to China and the United States. However, export orders have rebounded in recent months due to a broader recovery in global demand.

Germany 1





Source: Federal Statistical Office; Bundesbank; OECD Economic Outlook 116 database; ifo business surveys; and GfK.

StatLink https://stat.link/sbrnot

Germany: Demand, output and prices

Germany	2021 Current prices EUR billion	2022	2023	2024	2025	2026
		Percentage changes, volume (2020 prices)				
GDP at market prices	3 667.3	1.4	-0.1	0.0	0.7	1.2
Private consumption	1 837.5	5.6	-0.2	0.4	0.9	1.1
Government consumption	820.2	0.1	-0.1	1.8	0.7	0.6
Gross fixed capital formation	774.6	0.0	-0.7	-2.9	-0.1	1.9
Final domestic demand	3 432.2	3.0	-0.3	0.0	0.6	1.1
Stockbuilding[1]	48.2	-0.1	0.0	-0.5	0.1	0.0
Total domestic demand	3 480.4	3.0	-0.2	-0.5	0.7	1.1
Exports of goods and services	1 558.8	3.2	0.2	0.1	1.0	2.0
Imports of goods and services	1 371.9	7.1	-0.3	-1.1	1.1	2.0
Net exports[1]	186.9	-1.3	0.2	0.5	0.0	0.1
Memorandum items						
GDP without working day adjustments	3676.3	1.4	-0.3	0.0	0.6	1.4
GDP deflator	_	6.1	6.1	3.3	2.0	1.8
Harmonised index of consumer prices	_	8.7	6.0	2.4	2.0	1.9
Harmonised index of core inflation[2]	_	3.9	5.1	3.2	2.4	2.0
Unemployment rate (% of labour force)	_	3.1	3.0	3.5	3.6	3.5
Household saving ratio, net (% of disposable income)	_	10.3	10.4	10.9	11.2	11.1
General government financial balance (% of GDP)	_	-2.2	-2.6	-2.3	-2.0	-1.8
General government gross debt (% of GDP)	_	64.2	64.5	66.0	67.2	68.2
General government debt, Maastricht definition[3] (% of GDP)	_	65.1	62.9	64.3	65.6	66.6
Current account balance (% of GDP)	_	4.4	5.9	6.5	6.6	6.6

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. 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 116 database.

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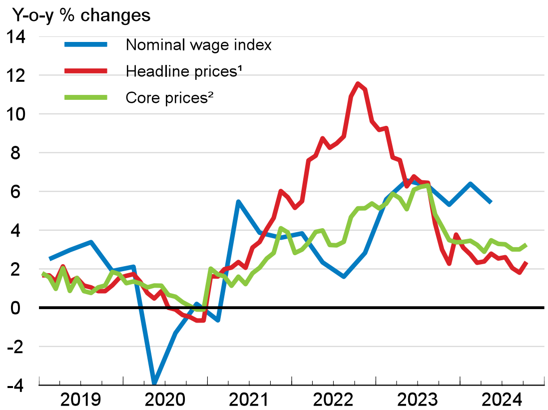
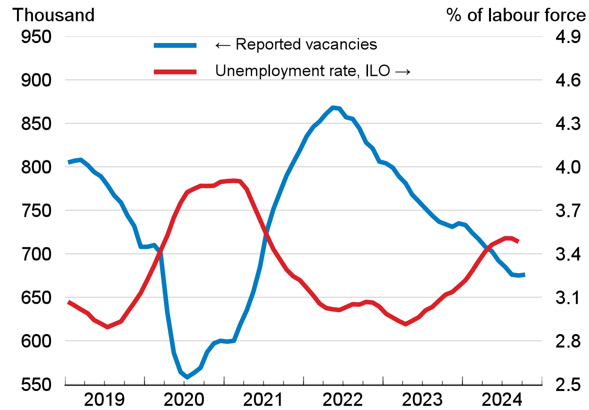
Germany 2

Nominal wages have risen and core inflation remains high



Labour market pressures have started to ease



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/27nqw8

Fiscal policy is being tightened

The fiscal stance will tighten in 2024 and 2025 by 0.6% and 0.4% of GDP, which supports ongoing disinflation, and remain broadly neutral in 2026. The tightening partly reflects the impact of the November 2023 Supreme Court ruling that declared the use of special funds to finance investments in consecutive years as unconstitutional. The ruling has led to a reduction of available funds in the Climate and Transformation Fund (KTF) by EUR 60 billion and the closure of the energy support fund. This has significantly reduced spending on public investments and fiscal incentives for private investments of households and firms for the green transition. Subsidies for electric vehicles (EV) were phased out in January 2024, which contributed to a large drop in sales, and plans to extend subsidies to reduce energy costs of firms until 2030 were cancelled. In total, KTF spending was reduced by a quarter to 1.1% of GDP in 2024 and by half to 0.6% of GDP in 2025. The closure of the energy support fund led to the phasing out of energy price support measures in January 2024 and the cancellation of the planned grid charge reductions.

Medium-term uncertainty remains high after the failure to conclude negotiations on the 2025 budget and the fall of the coalition government. A provisional budget for 2025 will extend spending levels from 2024 to 2025 resulting in tighter fiscal conditions than expected. Several projects related to the Climate and Transformation Fund were put on hold after the 2023 supreme court ruling and the financing of about a third of the remaining projects in 2025 is still to be decided. Planned spending of 1.9% of GDP in 2024-2025 from a special defence fund has not been affected by the ruling. To revive economic growth, the government had planned to implement several measures, including more generous depreciation allowances for investments, fiscal incentives for EV purchases, reductions in administrative burdens, and fiscal incentives to raise labour supply of older workers and migrants. However, most of these measures will likely not be adopted before the early elections planned in February 2025.

The economy will slowly recover due to rising private consumption

After stagnating in 2024, GDP will grow by 0.7% in 2025 and 1.2% in 2026. Rising nominal wages, falling inflation and declining interest rates will support a recovery in private consumption. The gradual easing of financial conditions, large corporate cash buffers and investment needs due to supply-chain realignments, digitalisation and the green transformation will allow investment to pick up slowly, despite the uncertainty about the financing and design of support measures for firms and workers during the green transition. Export growth will strengthen in 2025, as key export markets recover. With restrictive fiscal policy and falling energy prices, headline inflation will converge towards 2% in 2025, but core inflation will be sticky, reflecting the impact of wage gains amidst skilled labour shortages.

A prolonged period of policy uncertainty related to the financing and design of support measures for firms and workers during the green transition could hamper a recovery in consumer and investor confidence and hold back business investment and private consumption growth. Further increases in international trade barriers would particularly affect the German manufacturing industry, which is highly integrated in global value chains. An escalation of tensions in the Middle East could lead to further energy or commodity price rises and result in more supply chain disruptions, reducing industrial production and exports. On the upside, a stronger recovery in China could significantly improve exports of investment and other goods.

More investment is needed to support growth and advance the green and digital transitions

To boost investment, it is crucial to raise administrative capacities for infrastructure planning and continue simplifying planning and approval procedures at subnational levels. Speeding up digitalisation will require more investment in digital infrastructure and a more rapid modernisation of the public sector, including by setting mandatory common IT standards and encouraging the harmonisation of administrative procedures across levels of government. Skilled labour shortages are also a major barrier for investment. Shifting the tax burden away from labour towards capital income and wealth, for example by reducing inheritance tax exemptions for business assets and capital income tax exemptions for investments in existing buildings, would help improve labour supply incentives. This should include reforming the current joint income taxation and health insurance of couples, which lead to very steep marginal income tax rates for second earners and contribute to more than half of all working women working in part-time jobs for which they are over-qualified. Reducing incentives for early retirement would improve labour supply incentives for older higher-skilled workers and help to stabilise pension spending amidst rising fiscal pressures due to ageing. Making the recently introduced centralised and transparent e-procurement platform mandatory for tenders at all levels of government and encouraging joint procurement initiatives of municipalities through financial incentives would raise spending efficiency and help to ensure fiscal sustainability.

Greece

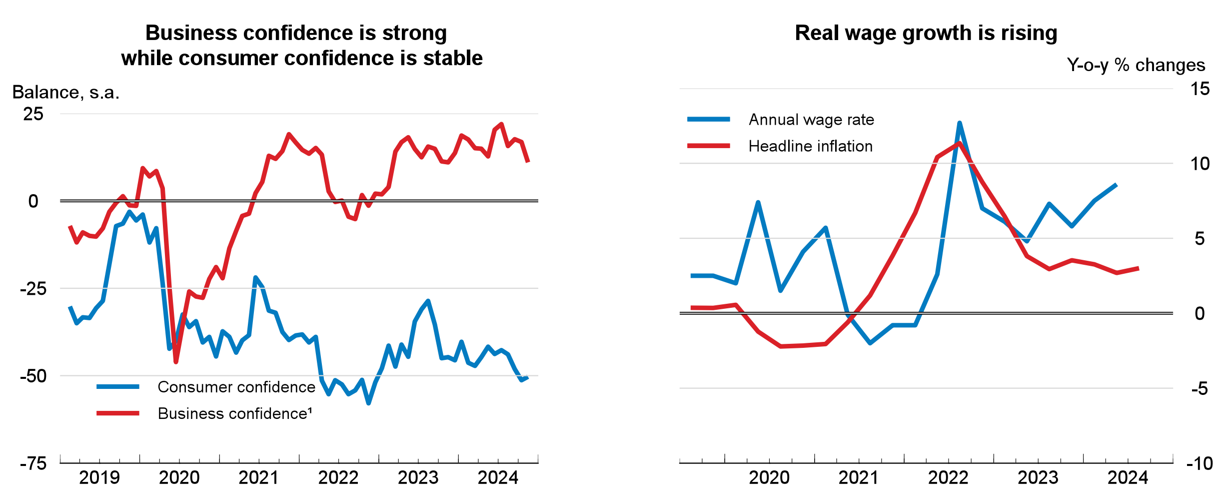
GDP is projected to grow by 2.3% in 2024, 2.2% in 2025 and 2.5% in 2026. Rising disposable income will strengthen consumption, as a tight labour market and minimum wage increases support wages. Employment growth is projected to ease progressively amid rising labour costs. Disbursements of EU Recovery and Resilience funds will support a spike in investment. Inflation is expected to reach 2% in late 2026 amid persistent services and core inflation. Implementation delays in spending EU funds, excessive wage growth or renewed extreme weather events could dampen the outlook.

Keeping public debt on a firmly declining path should remain a priority, as ageing costs and investment needs will add to future spending pressures. Improving further the efficiency of public spending and shifting its structure towards education, health care and investment would support growth and equity, while helping to achieve sustained primary surpluses. Limiting tax expenditures, notably for fossil fuels, and continuing efforts to combat tax evasion would also raise revenues and make room to reduce the labour tax burden for low-wage earners, encouraging further employment gains.

The economy is strong while inflation is persistent

Real GDP grew by 1.6% in the year to the second quarter of 2024, driven by robust gross capital formation and consumption. Business expectations in manufacturing and services continued to point towards expansion in September. Employment rose by 1.6% in the year to September 2024, while nominal wages grew by 8.6% in the year to the second quarter of 2024, as labour shortages remain at historically high levels. Annual headline inflation was persistent at 3.1% in October 2024 and core inflation stood at 4.3%, driven by services inflation.

Greece



1. Business confidence is an unweighted average of confidence indicators in industry, construction, retail trade and services.
Source: Eurostat; OECD Economic Outlook 116 database; and Bank of Greece - Bulletin of Conjunctural Indicators (September-October2024).

StatLink https://stat.link/p2r46h

Greece: Demand, output and prices

Greece	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	184.6	5.7	2.3	2.3	2.2	2.5
Private consumption	126.3	8.6	1.8	1.8	1.2	1.4
Government consumption	39.8	0.1	2.6	-2.4	1.0	0.9
Gross fixed capital formation	25.5	16.4	6.6	7.5	8.8	9.5
Final domestic demand	191.6	7.9	2.6	1.8	2.3	2.6
Stockbuilding[1,2]	6.8	0.2	-0.8	1.7	-0.1	0.0
Total domestic demand	198.4	7.8	1.7	3.4	2.1	2.6
Exports of goods and services	74.3	6.6	1.9	0.7	3.3	2.7
Imports of goods and services	88.1	11.0	0.9	6.0	3.3	2.8
Net exports[1]	- 13.8	-2.6	0.4	-2.6	-0.2	-0.2
Memorandum items						
GDP deflator	_	6.5	5.9	3.5	2.6	1.7
Harmonised index of consumer prices	_	9.3	4.2	3.0	2.7	2.1
Harmonised index of core inflation[3]	_	4.6	5.3	3.7	3.3	2.1
Unemployment rate (% of labour force)	_	12.4	11.1	10.1	9.4	8.9
General government financial balance[4] (% of GDP)	_	-2.5	-1.3	-0.8	-0.6	-0.7
General government gross debt (% of GDP)	_	192.5	180.7	174.1	169.0	164.9
General government debt, Maastricht definition[5] (% of GDP)	_	177.0	163.9	157.3	152.2	148.1
Current account balance[6] (% of GDP)	_	-10.1	-6.5	-5.4	-5.2	-5.2

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 116 database.

StatLink https://stat.link/tlmzb1

Business lending has increased, and the decline in housing loans has slowed amid improving but still tight financial conditions. Lending to non-financial corporations from January to September 2024 was 54% higher than a year earlier. Interest rates for new loans to households and firms fell from 6.2% in January 2024 to 5.4% in September. The trade deficit has widened, reflecting growth of imports, particularly of investment goods outpacing that of exports, though tourism receipts remained strong. Travel receipts over the first half of 2024 were 12% higher than a year earlier, while goods exports were 3.9% lower.

Policies will support rising incomes

The fiscal stance will remain supportive, as disbursements of Recovery and Resilience grants and loans are projected to rise from 1.8% of GDP in 2024 to 3.6% in 2026. Growing revenues, reflecting high nominal GDP growth, improved tax collection and the new cruise fee will help to maintain primary surpluses, despite additional expenditures and tax cuts. A primary surplus of 2.4% of GDP in 2025 and 2026 will contribute to a further decline in the debt-to-GDP ratio to 148.1% in 2026 (Maastricht definition). A reduction in social security contributions (0.2% of GDP) and the indexation of pensions (0.2% of GDP) will support incomes in 2025. Public sector wages, previously frozen, will also be raised to align with future minimum wage increases. The minimum wage rose by 42% from 2018 to April 2024 and is set to increase further by around 4.6% in both 2025 and 2026.

Growth will strengthen

GDP growth is projected to improve from 2.3% in 2024 to 2.5% in 2026. Consumption growth will pick up gradually with rising disposable incomes. Growing disbursements of Recovery and Resilience Funds, combined with improving financial conditions, will boost investment. Employment growth will moderate with rising labour shortages. Rising wages will slow the decline in inflation towards 2% in 2026 and could hold back low-wage employment. Possible implementation delays of the Recovery and Resilience Plan “Greece 2.0” could put the planned investment growth at risk. If wage growth were to persistently outpace productivity gains, this could weaken exports. Extreme weather events, such as last year’s floods in Thessaly, could also weigh on domestic demand.

Raising growth prospects would improve debt sustainability

High public debt makes achieving sustained primary surpluses a priority. However, demographic change and climate change will add to domestic spending pressures. Moreover, more public investment will need to be financed through the national budget after the end of the Recovery and Resilience Plan in 2026. Rising labour-market shortages, despite relatively high unemployment, point to increasing skills mismatches that could weigh on growth prospects and could be addressed by strengthening vocational training, rebalancing labour-market policies towards training and counselling for unemployed workers, and ensuring high training quality. More efficient public spending, a broadening of tax bases and further productivity-enhancing reforms are key to boost growth and maintain debt on a firmly declining path. Gradually shifting public spending towards education and health care, building on regular spending and public investment reviews, while containing staff expenditures and maintaining efforts to reduce pension expenditures as a percentage of GDP, would raise growth and equity. Further reducing tax evasion and limiting tax expenditures - notably reduced VAT rates, which mostly benefit more well-off households - would raise revenue, making room for targeted social contribution cuts for lower wage earners.

Hungary

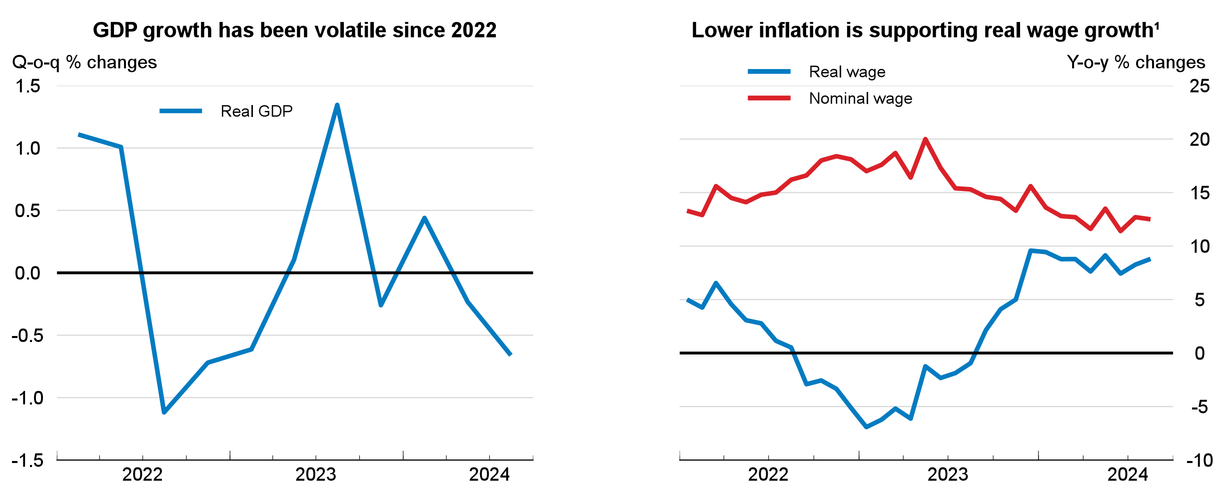
Following a contraction in 2023, GDP growth is projected to increase gradually to 0.6% in 2024, 2.1% in 2025 and 2.9% in 2026. Private consumption, supported by increasing real wages amidst declining inflation, will be the main engine of growth. Private investment is expected to rebound gradually as macroeconomic and financial conditions improve. Exports will be supported by a pick-up in demand from Hungary's main trading partners, but imports will also increase.

The on-going monetary policy easing is expected to continue at a moderate pace to ensure that inflation reverts back to target. Fiscal consolidation is under way and should continue in order to build fiscal space to meet future spending pressures related to ageing and the green transition. Reaching an agreement on the delivery of the EU funds that remain subject to rule-of-law reforms would strengthen investor confidence.

Inflation has declined significantly, but GDP growth and confidence remain low

Recovery from a recession in late 2022 and early 2023 has been sluggish, with alternating quarters of positive and negative readings. GDP contracted again in the second and third quarters of 2024, driven down by the weak performance of agriculture, industry and construction. Business confidence is low in most sectors, but is slowly improving in services, along with consumer confidence. Low confidence and capacity utilisation, along with economic uncertainty, are dragging down private investment. Headline inflation declined significantly from over 25% in early 2023 to 3.2% in October 2024, supporting real wage growth. Nevertheless, core inflation excluding energy and food items remained at 4.6% in October. Despite subdued economic activity, the labour market remains robust. Unemployment rose from 3.3% in the second quarter of 2022 to 4.7% in the third quarter of 2024, but this was mainly due to increasing labour force participation. Job vacancies remain historically high, especially in manufacturing, ICT, financial services, administrative and support services, public administration, education and health.

Hungary



1. Real and nominal wages refer to the private sector.
Source: Statistics Hungary; and OECD calculations.

StatLink https://stat.link/yh2cvg

Hungary: Demand, output and prices

Hungary	2021	2022	2023	2024	2025	2026
	Current prices HUF billion	Percentage changes, volume (2021 prices)				
GDP at market prices	55 557.0	4.3	-0.9	0.6	2.1	2.9
Private consumption	26 762.6	6.5	-1.4	4.1	4.1	3.5
Government consumption	11 538.2	3.1	3.7	-0.9	0.3	0.4
Gross fixed capital formation	15 144.1	0.9	-7.8	-11.2	0.0	4.9
Final domestic demand	53 444.9	4.1	-2.3	-1.2	2.2	3.2
Stockbuilding[1]	2 050.0	0.3	-3.7	0.3	0.2	0.0
Total domestic demand	55 495.0	4.2	-5.2	-0.8	2.5	3.2
Exports of goods and services	44 126.5	10.7	1.5	-1.8	3.7	4.6
Imports of goods and services	44 064.5	10.7	-3.8	-3.7	4.3	5.1
Net exports[1]	62.0	0.0	4.9	1.4	-0.1	-0.1
Memorandum items						
GDP deflator	_	14.2	14.6	7.7	3.4	2.9
Consumer price index	_	14.6	17.1	3.8	3.3	2.9
Core inflation index[2]	_	10.2	13.8	5.8	3.6	2.8
Unemployment rate (% of labour force)	_	3.6	4.1	4.6	4.5	4.0
Household saving ratio, net (% of disposable income)	_	11.8	14.4	17.4	18.0	16.7
General government financial balance (% of GDP)	_	-6.2	-6.7	-4.9	-4.3	-3.8
General government gross debt (% of GDP)	_	77.4	82.4	83.3	84.9	85.7
General government debt, Maastricht definition[3] (% of GDP)	_	73.8	73.4	74.4	75.9	76.8
Current account balance (% of GDP)	_	-8.6	0.7	2.7	2.5	2.4

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 116 database.

StatLink https://stat.link/xyg0hi

The global environment has a mixed impact on the Hungarian economy. Global oil and food prices are expected to remain lower over 2024-26 than in 2022-23, thus supporting ongoing disinflation. At the same time, slow growth in Europe, especially Germany, is holding back exports.

Monetary policy is easing and fiscal consolidation is under way

As inflation declined, the Central Bank significantly lowered its effective policy rate, from 18% in April 2023 to 6.5% in September 2024. It is expected to continue with gradual and small policy rate cuts, taking into account persistent services inflation and developments in major economies. The policy rate is expected to decline to 5% in 2026. The headline fiscal deficit is expected to narrow to 4.9% in 2024, 4.3% in 2025 and 3.8% in 2026, which is still higher than before the pandemic. Abstracting from business cycle effects and interest payments, fiscal consolidation since 2023 is estimated to have continued in 2024, supported by lower energy subsidies among other factors. A broadly neutral fiscal stance is assumed over 2025-26.

Growth is expected to rebound, mainly supported by private consumption

GDP growth is expected to increase gradually to 0.6% in 2024, 2.1% in 2025 and 2.9% in 2026, mainly supported by private consumption. Lower inflation is contributing to a pick-up in household real incomes, and saving rates could decline gradually as household assets return to their long-run level compared to income. After an expected decline of 11% in 2024, investment is projected to rebound progressively over 2025-26, along with improving financial and economic conditions. Given ongoing fiscal consolidation, public consumption and investment will contribute little to growth. After a decline in 2024, exports are projected to pick up over 2025-26 as external demand strengthens, but imports will rise in parallel. Employment growth and a moderate increase in labour force participation over 2025-26 are expected to bring unemployment back to 3.8% by the end of 2026. The 21-Point Action Plan announced in October 2024 to support home renovation and the acquisition of new properties may contribute to higher-than-expected residential investment. Moreover, significant foreign direct investments, mainly in relation to electric mobility, have increased export capacity, and a rebound of the currently subdued electric vehicle market would support exports. On the contrary, a failure to reach an agreement with the EU regarding the release of EU funds that remain blocked due to rule-of-law concerns may negatively affect investor confidence, capital flows, lead to renewed pressures on the exchange rate, and harm GDP growth.

Structural reforms would improve fiscal sustainability and long-term growth

Reforming public pensions would limit the increase in ageing-related spending, which is projected to exceed 5 percentage points of GDP by 2070 under current legislation. Beyond possible options to tighten eligibility conditions and adjust benefit levels, financing future pensions will require additional fiscal space, which calls for consolidation. Productivity growth could be bolstered by strengthening competition in the energy, transport, professional services and telecommunication sectors. Lower telecommunication prices and a wider diffusion of digital skills would accelerate the digitalisation of firms and help Hungarian firms, especially SMEs, to bridge the digital gap with peer countries. There is room to further increase the employment rates of women and low-skilled workers to alleviate labour shortages. This could be done by expanding access to early childhood education and facilities, and further decreasing labour taxes for low-wage workers.

Iceland

The economy will grow by 2.3% in 2025 and 2.8% in 2026. Private consumption will recover as real wages rise. Business investment, which has been held back by high interest rates, will strengthen as confidence increases and financial conditions improve. Housing investment remains strong as pent-up demand is worked off. Exports will pick up, driven by a modest rebound of marine products and foreign tourism. The labour market will remain resilient. Major domestic risks include another unsatisfactory fishing season and more destructive volcanic activity.

In November the central bank cut the policy interest rate to 8.5%. Consumer price inflation remains high, at close to 5% and is projected to approach the 2.5% target only by the end of 2026, warranting continued central bank vigilance. Fiscal policy is contractionary and set to tighten further despite additional disaster-related spending, to help reduce inflationary pressures and expand fiscal space. Strengthening technical skills, easing professional licencing requirements, and accelerating the recognition of foreign diplomas will help relieve labour market pressures.

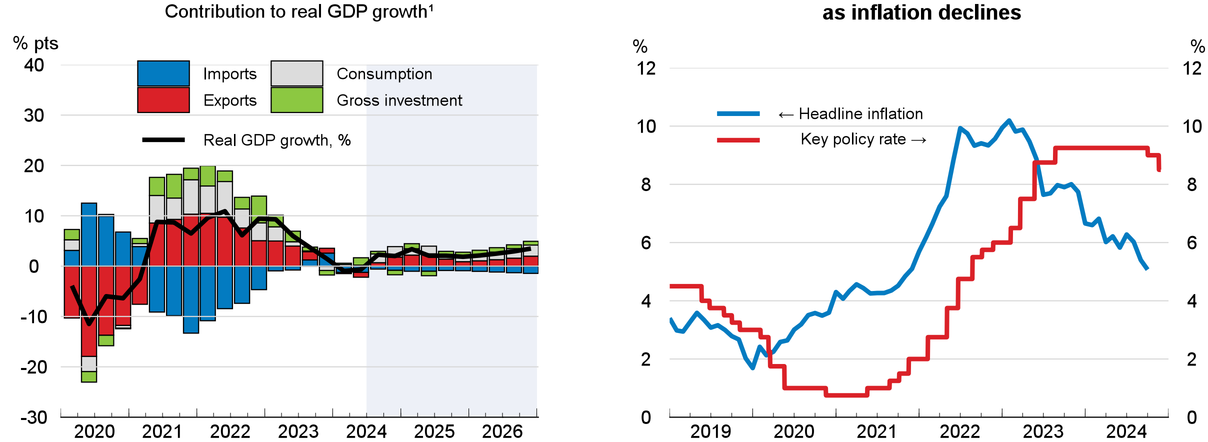
The economy has slowed

The economy has slowed. Consumption is held back by high interest rates and subdued wage growth. Business investment was robust in the first half of 2024 thanks to shipbuilding but is now dropping as financial conditions have tightened. Housing investment remains strong on the back of high population growth and the working-off of pent-up demand. A weak fishing season, notably of capelin, and slowing foreign tourism have triggered a sharp slowdown in exports. The unemployment rate according to the Labour Force Survey rose to around 3.5% in the autumn, but the labour market remains tight with persisting labour shortages notably in the health and technical sectors. The participation rate has reached record levels, at almost 83%. The macroeconomic consequences of volcanic activity on the Reykjanes peninsula have been small so far.

Iceland

The economy is recovering gradually
Contribution to real GDP growth[1]

Cautious monetary policy easing is underway as inflation declines



1. Year-on-year growth rates. The sum of components may deviate from observed GDP growth because of balancing items, chain-linking procedures and direct/indirect seasonal adjustment methods.
Source: OECD Economic Outlook 116 database; Statistics Iceland; and Central Bank of Iceland.

StatLink https://stat.link/ies97a

Iceland: Demand, output and prices

Iceland	2021	2022	2023	2024	2025	2026
	Current prices ISK billion	Percentage changes, volume (2015 prices)				
GDP at market prices	3 279.5	9.0	5.0	0.7	2.3	2.8
Private consumption	1 687.0	8.3	0.5	1.1	1.4	2.3
Government consumption	896.6	2.4	1.8	2.1	1.6	2.1
Gross fixed capital formation	747.9	15.7	1.6	2.8	1.8	3.4
Final domestic demand	3 331.5	8.4	1.1	1.8	1.6	2.5
Stockbuilding[1]	4.7	-0.1	0.7	-0.3	0.0	0.0
Total domestic demand	3 336.2	8.3	2.0	1.5	1.6	2.5
Exports of goods and services	1 222.4	22.1	6.3	0.7	4.0	3.4
Imports of goods and services	1 279.0	20.0	-1.1	2.2	2.2	2.9
Net exports[1]	- 56.7	0.5	3.4	-0.7	0.8	0.2
Memorandum items						
GDP deflator	_	8.9	5.7	4.7	3.2	2.4
Consumer price index	_	8.3	8.7	6.0	4.1	2.6
Core inflation index[2]	_	7.8	8.4	6.2	4.2	2.6
Unemployment rate (% of labour force)	_	3.7	3.3	3.5	3.8	3.9
General government financial balance (% of GDP)	_	-3.9	-1.9	-2.7	-2.1	-1.2
General government gross debt[3]	_	77.4	77.1	78.7	79.6	79.5
Current account balance (% of GDP)	_	-2.2	0.9	-1.2	-0.9	-0.9

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 116 database.

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Following weaker export volumes and the ongoing rise of import prices, the current account balance and net export contribution have turned negative. The 2024-28 wage agreements imply a wage increase of around 4% per year (not considering wage drift), slightly overshooting expected inflation for 2025 and 2026 combined.

Monetary policy has started to ease, while fiscal policy remains contractionary

In November 2024 the central bank lowered the key policy rate by 50 basis points to 8.5%, the second cut since the tightening cycle started in May 2021. It is assumed to decline further in 2025 and, more slowly, in 2026 to under 5.0% by the end of the year. Headline consumer price inflation has gradually declined to just over 5% in October but remains way above the target of 2.5%. Core inflation is also declining and remains driven by house prices and service costs, notably travel-related costs. The trade-weighted exchange rate of the króna remained largely stable over the past six months. Fiscal policy as measured by the underlying primary balance is contractionary and will be tightened further by around 1.1% of GDP in 2025 and 0.9% in 2026 despite additional disaster-related spending. This will help reduce inflationary pressures further and build up fiscal space.

The economy will rebound

The economy is expected to grow by 2.3% in 2025 and 2.8% in 2026. Private consumption will expand, boosted by the pay rises following the 2024 wage agreements. Residential investment will remain strong helped by improving financial conditions, and persisting housing demand will boost new construction. Business investment will expand as confidence increases and financial conditions become less restrictive, notably in 2026. Exports will grow as the fishing sector will recover and the number of foreign tourists will increase modestly. The unemployment rate will edge up in 2025 but remain steady in 2026 at around 4%. Inflation will continue to fall in the wake of still tight macroeconomic policy but is projected to remain above target until late 2026. It could exceed expectations if wages rise faster than agreed in the 2024 wage agreements or if import prices, notably for food and oil, start rising again. An unsatisfactory fishing catch season could weigh on exports. Volcanic activity on the Reykjanes peninsula could resume, damaging more infrastructure and requiring additional public relief spending.

Structural reforms could help ease labour market shortages

Investing in education and relevant skills while fostering a good gender balance across professions could help reduce labour market shortages, notably in technical areas and health care. Easing professional licencing requirements could support employment in the service sector and the crafts. Accelerating the recognition of foreign diplomas could help make greater use of immigrant skills. Lowering barriers to entry and strengthening competitive forces would contribute to higher productivity, notably in tourism, construction, and agriculture. The fiscal rules should be reinstated by 2026 at the latest, to ensure that the debt-to-GDP ratio remains on a declining path.

India

GDP is expected to grow by 6.8% in fiscal year (FY) 2024-25, and this momentum is set to be sustained at similar rates throughout FY 2025-26 and 2026-27. Strong investment is the main driver of this robust performance, with accelerating public infrastructure outlays. Vigorous credit growth is supporting private investment. Farm output is recovering as an above-normal monsoon is lifting rural incomes, and will soon ease food prices and inflation. Export growth is projected to pick up slightly, but could be weaker, given ongoing global tensions.

Eventual disinflation will create space for monetary policy easing. Fiscal policy settings are prudent, with the general government deficit and debt on persistent downtrends, despite higher public investment. Labour supply is becoming a challenge for sustaining rapid GDP growth. Facilitating further structural shifts out of agricultural employment, including through improvements in educational attainment will be key. Also, greater focus is needed on fighting informality, boosting youth employment and raising female labour force participation.

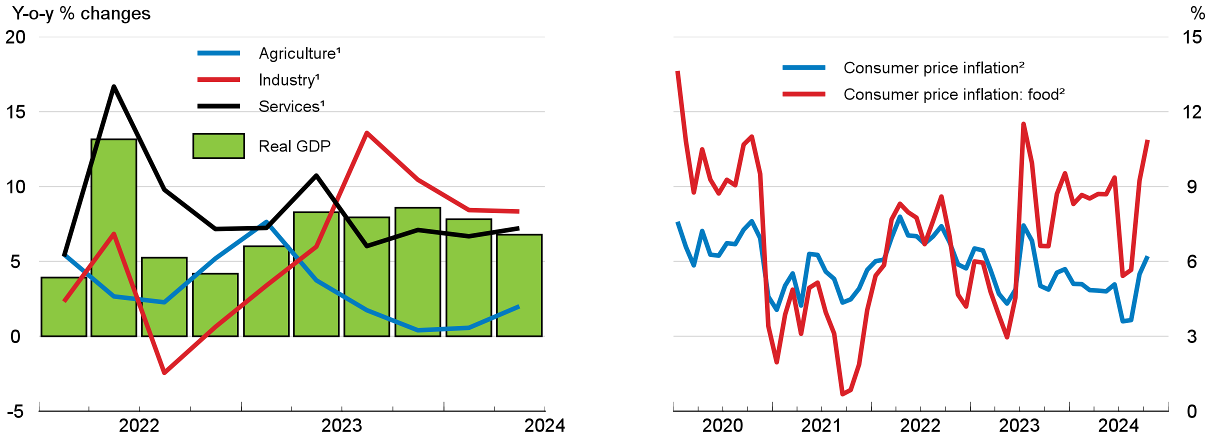
Economic growth has slowed slightly but remains vigorous

Following real GDP growth of 8.2% in the last fiscal year, the expansion moderated somewhat in the first half of the current calendar year, but activity has remained buoyant, led by rising rural demand and incomes, accommodative macroeconomic policy settings and ample credit provision. Private consumption growth has picked up, but consumer confidence has flattened out, albeit with expectations of continued future improvement. While public consumption started the year on a weak note, associated monthly indicators point to a recent rebound. The business sector has experienced vigorous growth, with profits at a 15-year high relative to GDP, improving capacity utilisation and rising investment intentions. Labour markets are strong, after an apparent spike in joblessness earlier in the year quickly reversed, bringing unemployment back to 6.4% in the July-September quarter. Inflation eased to below 4% in the summer but has since jumped back above 6% due to a resurgence of food (especially vegetable) prices. Nevertheless, good sowing and a heavier-than-normal monsoon will eventually attenuate food-price pressures, ensuring that inflation will return to close to the Reserve Bank’s 4% target.

Foreign trade is no longer making the large contribution to demand that it made in FY 2023-24. The recent weakness in non-oil goods exports has been largely offset by falling oil import values. This, along with strength in services exports and remittance receipts, has resulted in a smaller current account deficit of less than 1% of GDP.

India 1

Industry has been leading output growth | **Food prices are pushing up inflation**



1. Sectoral data refer to gross value added at constant prices.
2. Provisional data in October 2024.
Source: OECD Economic Outlook 116 database; RBI; and CEIC.

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India: Demand, output and prices

India	2021	2022	2023	2024	2025	2026
	Current prices INR trillion	Percentage changes, volume (2011/2012 prices)				
GDP at market prices	236.0	7.0	8.2	6.8	6.9	6.8
Private consumption	143.8	6.8	4.0	5.7	6.0	6.2
Government consumption	24.7	9.0	2.5	4.2	6.0	5.4
Gross fixed capital formation	69.8	6.6	9.0	8.1	9.1	9.7
Final domestic demand	238.3	7.0	5.3	6.2	6.9	7.2
Stockbuilding[1,2]	3.8	0.2	0.1	0.0	0.0	0.0
Total domestic demand	242.2	6.4	10.1	7.6	7.0	7.2
Exports of goods and services	50.5	13.4	2.6	3.9	4.6	4.6
Imports of goods and services	56.7	10.6	10.9	7.4	5.3	6.7
Net exports[1]	- 6.2	0.5	-2.0	-1.0	-0.3	-0.7
Memorandum items						
GDP deflator	_	6.7	1.3	3.2	3.3	3.2
Consumer price index	_	6.7	5.4	4.8	4.2	4.0
Wholesale price index[3]	_	9.4	-0.7	2.8	3.9	3.3
General government financial balance[4] (% of GDP)	_	-9.6	-8.8	-8.2	-7.5	-7.0
Current account balance (% of GDP)	_	-2.0	-0.7	-0.5	-0.7	-1.1

Note: Data refer to fiscal years starting in April.
1. Contributions to changes in real GDP, actual amount in the first column.
2. Actual amount in first column includes statistical discrepancies and valuables.
3. WPI, all commodities index.
4. Gross fiscal balance for central and state governments.
Source: OECD Economic Outlook 116 database.

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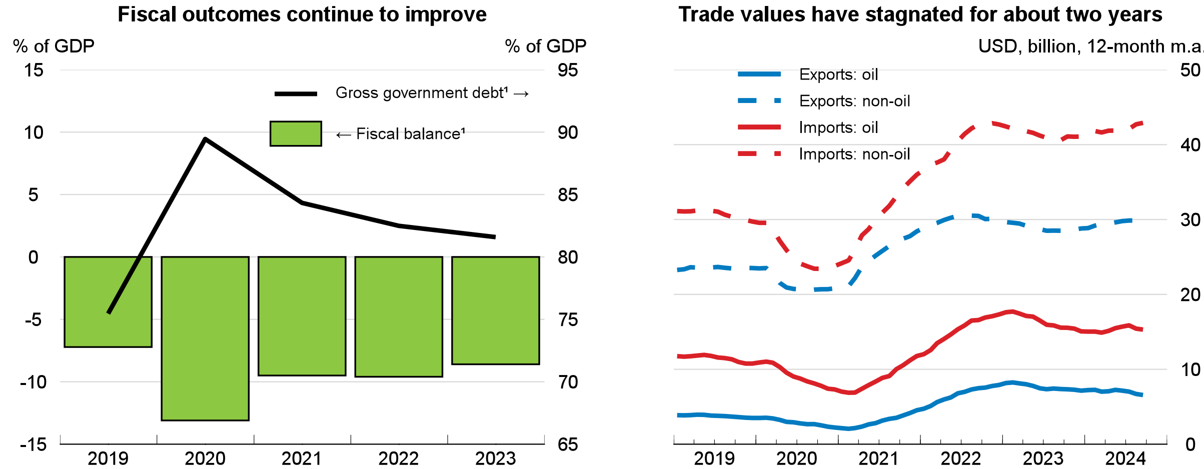
India 2



1. Data refer to fiscal years starting in April. Data covers the central and state governments only.
Source: RBI.

StatLink https://stat.link/e9sin3

The fiscal deficit is set to fall while monetary policy will have scope to ease

July's Union Budget set a deficit target of 4.9% of GDP for FY 2024-25 and 4.5% of GDP for FY 2025-26 following the 5.6% of GDP realised in 2023-24, supported by significant dividend income, notably from the Reserve Bank. Including the States, the general government deficit should soon fall below 8% of GDP, supported by additional revenues from efforts to broaden the tax base. Similarly, government debt is declining relative to GDP, though still at around 80%, with interest payments at 19% of central government expenditure. Central government capital expenditure is set to grow almost 17% in FY 2024-25. The Union Budget underscored priorities in education and skills, employment, the middle class and small-business development. It announced multiple "employment-linked incentives" in the form of employer social-insurance holidays to encourage new hires. Additional public spending will be devoted to supporting youth training and internships, and to offer loans and loan guarantees for post-secondary students. Housing is to benefit from interest subsidies and possible State stamp-duty reductions. A new credit scheme is planned for small manufacturers, in addition to more public R&D funding. By contrast, food and fertilizer subsidies will be reduced substantially. Some tariffs are being adjusted, and a tariff structure review is being undertaken. Finally, personal tax brackets, standard deductions and tax-free amounts of long-term capital gains have been raised, while the short-term capital gains tax rate was increased; the corporate income tax rate for foreign firms was lowered from 40% to 35%; the so-called "angel" tax for investors in start-ups was abolished; and securities transaction taxes were increased.

The Reserve Bank has maintained its policy rate at 6.5%, although it recently revised its description of its stance as neutral, rather than withdrawing stimulus. Market rates have eased slightly. Falling inflation should allow some policy easing over 2025-2026 to sustain activity. According to the Reserve Bank, credit growth is vigorous, with annual increases of 18.0% to agriculture, 14.4% to micro and small firms and 10.2% to industry. Policymakers are trying to enhance public access to banking, credit and insurance, including by improving financial literacy, supporting small business and entrepreneurship more generally, especially by women, and developing digital public infrastructure and innovation, such as a unified payments interface.

The outlook is for steady growth and slightly falling inflation

GDP growth is projected to be steady at just under 7% per year over 2024-2026, led by fixed investment, notably in manufacturing, amid rapid increases in public infrastructure spending. Annual private consumption growth also is projected to remain strong at around 6%, so long as inflation eases. However, external demand will provide less support in the future, as past gains in both export performance and the terms of trade diminish. Inflation is expected to drop back to the 4% official target by 2026. The current account will remain in a small and easily financeable deficit.

The main macroeconomic risks come from abroad, notably a weaker economic environment and higher commodity import prices, associated with a worsening global geopolitical environment or greater protectionism. Competitiveness losses from comparatively less favourable tariff treatment in export markets could also prove more harmful. Domestically, financial risks associated with small retail investor exuberance and booming derivatives trading have increased. On the other hand, India's strong position in technology services or greater utilisation of potential female labour resources could underpin even faster growth than projected.

Structural challenges remain numerous

India aims to reach advanced economy status by 2047, which requires sustaining strong per capita growth. Labour market challenges include the need to create 8 million non-farm jobs each year to accommodate projected demographic trends and the ongoing employment shift out of agriculture, which still occupies about 45% of the labour force. Stronger performance in this area will necessitate efforts to upskill the population, given that a quarter of all adults, including many women, were classified as illiterate in 2022. Labour market regulations including those restricting dismissals and overtime rules will also have to be balanced against their impact on labour costs. A greater focus on youth employment could help to reduce the 23.5% share of the youth population that is neither in employment, education or training. In addition, strong growth will require raising female labour force participation, which is only around 35%, and continuing efforts to reduce labour informality. Moreover, sustained high economic growth will facilitate the large energy investments needed to achieve net zero greenhouse gas emissions. Rising incomes will also enhance other dimensions of well-being, including longer life expectancy at birth, which fell by four years during the pandemic, and lower poverty. Achieving the latter, however, will also need further expansion of the social safety net and pension coverage.

Indonesia

GDP growth is projected at 5.1% in 2024, 5.2% in 2025 and 5.1% in 2026. Domestic demand continues to be driven by private consumption, and investment growth will strengthen over the next two years. Headline inflation is expected to be 2.3% in 2024 and remain around that value in 2025 and 2026, which is inside the central bank's target corridor (1.5-3.5%). The current account deficit is expected to widen, but FDI inflows are strong and international reserves remain high. An additional softening of global demand for commodities could widen the current account deficit and reduce fiscal revenues.

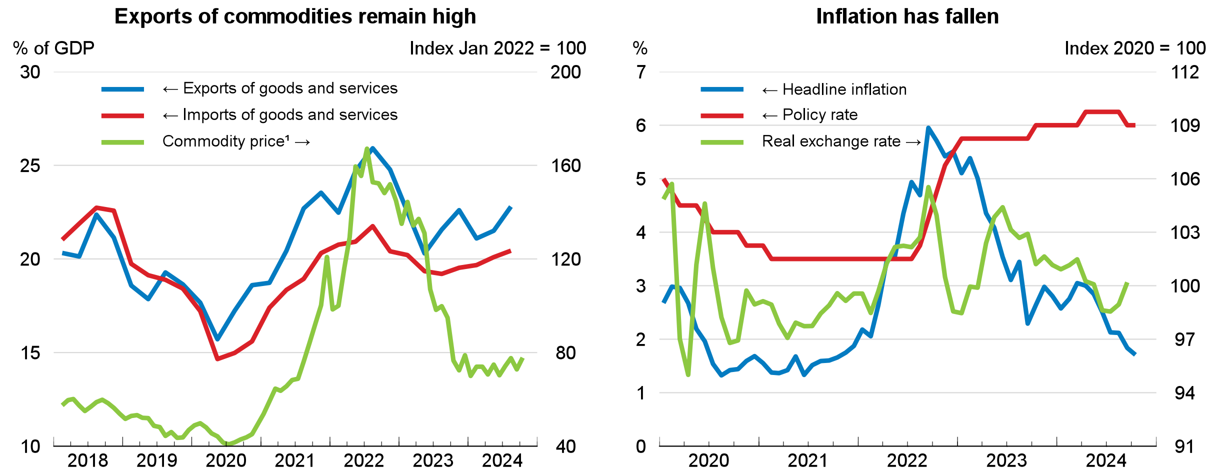
Monetary policy is expected to ease further in 2025. Fiscal policy is projected to remain mildly expansionary, but the deficit will remain below the 3% limit imposed by the fiscal rule. Public spending efficiency is a policy priority, including by improved targeting of social benefits to vulnerable households. Addressing labour market informality would help alleviate labour market imbalances. Supporting the transition to net-zero emissions while also ensuring energy security calls for the expansion of renewable energy sources.

Domestic demand is robust

Government consumption increased strongly in the first half of 2024, with a surge in transfers and subsidies in the run-up to the February election. Investment grew modestly during the same period but seems to have picked up more recently. Exports and imports have grown strongly in the first half of 2024. Indicators of tourist arrivals and spending are near their pre-pandemic record levels. Unemployment fell to 4.8% in the first quarter of 2024, below the pre-pandemic average of 5%. After a small surge in early 2024 caused by high food prices, headline inflation has declined, from 3% in April to 1.7% in October. Business confidence has improved, and consumer spending remains strong. Car sales have declined since 2023, though this partly reflects the end of post-pandemic tax breaks. The Indonesian Rupiah appreciated during the summer after a surprise rate increase in April but has depreciated since the mid-September rate cut, falling by about 5% against the US dollar.

Crop yields and prices have largely normalised since El Niño in 2023 depressed yields and increased prices. Exchange rate appreciation over the summer has further contributed to a decline in headline inflation, though depreciation since mid-September could exert some upward pressure on prices. Despite the price fall of Indonesia's commodity exports (principally comprising coal, palm oil and metals) from their 2022-2023 peaks, the trade balance has remained positive in 2024.

Indonesia 1



1. The price indices for individual commodities (palm oil, coal, iron ore, gold and nickel) are aggregated using weights based on the share of each commodity in total 2021 exports of these commodities.
Source: OECD Economic Outlook 116 database; Ministry of Energy and Mineral Resources; World Bank Commodity Markets Outlook; CEIC; and BIS.

StatLink https://stat.link/n3xpez

Indonesia: Demand, output and prices

Indonesia	2021	2022	2023	2024	2025	2026
	Current prices IDR trillion	Percentage changes, volume (2010 prices)				
GDP at market prices	16 976.8	5.3	5.0	5.1	5.2	5.1
Private consumption	9 444.0	5.0	4.9	5.1	5.1	5.1
Government consumption	1 569.8	-4.5	2.9	7.5	0.1	6.1
Gross fixed capital formation	5 227.9	3.9	4.4	4.8	6.8	6.3
Final domestic demand	16 241.6	3.8	4.6	5.2	5.2	5.6
Stockbuilding¹	288.9	1.0	0.1	0.2	0.4	0.0
Total domestic demand	16 530.5	4.7	4.6	5.2	5.5	5.4
Exports of goods and services	3 635.8	16.2	1.3	5.5	5.1	4.1
Imports of goods and services	3 189.6	15.0	-1.6	6.4	6.3	5.1
Net exports¹	446.2	0.8	0.7	0.1	0.0	-0.1
Memorandum items						
GDP deflator	_	9.6	1.5	0.9	2.3	2.2
Consumer price index	_	4.2	3.7	2.3	2.2	2.4
Private consumption deflator	_	4.8	4.3	1.3	1.5	2.4
General government financial balance (% of GDP)	_	-2.2	-1.5	-2.7	-2.5	-2.3
Current account balance (% of GDP)	_	1.0	-0.1	-0.4	-0.3	-0.6

1. Contributions to changes in real GDP, actual amount in the first column.
Source: OECD Economic Outlook 116 database.

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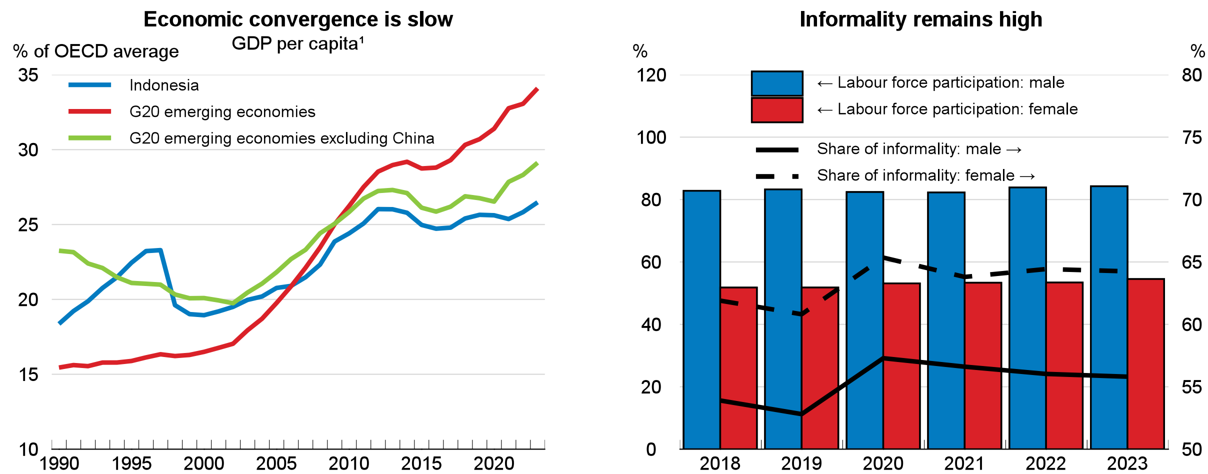
Indonesia 2



1. Data are based on nominal GDP adjusted for purchasing power parity (PPP, current international dollar).
Source: Statistics Indonesia (BPS); and World Bank, World Development Indicators.

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The policy mix is gradually becoming more accommodative

Bank Indonesia's policy rate increased in a series of steps from 3.5% in August 2022 to 6.25% in April 2024, which helped to lower inflation and support the Rupiah. The mid-range of the central bank's CPI inflation target was reduced in January 2024 from 3% to 2.5% (with a ±1% corridor around it). The central bank made its first rate cut in mid-September 2024 and has kept its policy rate unchanged during its November meeting, amid exchange rate pressures. Further monetary easing is expected in 2025. The policy rate is expected to reach 5% at the end of 2025 and remain at this level in 2026.

Following a fiscal deficit of 1.5% of GDP in 2023, the deficit is expected to reach 2.7% in 2024 (above the initial objective of 2.3%). Extending the school lunch programme, as proposed by the new administration, combined with the funding of other electoral proposals, will put pressure on public finances. The 2025 Budget (announced in August 2024) targets a deficit of 2.5% of GDP, and the deficit is likely to remain below the 3% deficit limit in 2026. Debt stands at 44% of GDP, well below the 60% limit, and is expected to decrease from high post-pandemic levels, thanks to robust nominal growth. Fiscal prudence remains warranted, nevertheless. Over the medium and long term, ageing and demands for better public services in the context of rising incomes will add to spending pressures and require a structural increase in government revenues.

Domestic demand remains the main growth engine

Improved business and consumer confidence, higher government spending and lower interest rates will support domestic demand and growth in 2025 and 2026. The trade surplus is expected to shrink, partly due to higher imports. Strong domestic demand and a tight labour market are projected to put some pressure on core and headline inflation, but prices of imported goods should remain moderate, and headline inflation is expected to hover slightly below 2.5% in 2025-26.

The economy remains dependent on international demand for commodities, notably from China, despite diversification efforts and a push to expand downstream manufacturing. Weaker than projected growth in China would hurt exports. Domestic political or financial risks remain limited as the new government is likely to follow broadly the policies of its predecessor, though fiscal slippage could increase.

Reforms are needed to strengthen growth

Indonesia aims to become a high-income country by 2045, but economic convergence with richer economies has slowed. Structural reforms are needed to boost growth, including removing distortions and increasing clarity in business regulations to foster higher productivity and greater competitiveness. Efforts have been undertaken to increase openness to foreign direct investment, but Indonesia could still benefit further from international trade and foreign investment, including by removing unnecessary restrictions on the import and export of commodities, materials and final goods. The digital and green transitions will require sizable investments in infrastructure, as well as efficient market regulation favouring free business entry. Labour market informality remains high, and the coverage of some social security programmes excludes small-firm employees, despite significant steps to improve social safety nets over the past decade. A further shift towards broader formalisation would help broaden the tax base, improve tax compliance and provide revenue to invest in physical infrastructure, including in clean energy, and human capital. Shifting the funding of maternity leave from employers to social insurance, in particular for smaller firms and self-employed women, would help improve female labour force participation and labour market outcomes. Addressing infant malnutrition through the free nutritious meal programme will help to improve education outcomes, along with further improvements in education and vocational training.

Ireland

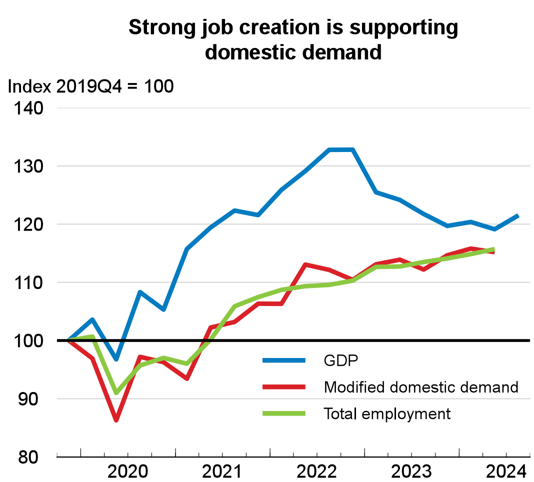
Real GDP growth is set to reach 3.7% in 2025 and 3.5% in 2026, as volatility from the multinational sector subsides, financial conditions improve and goods exports recover. Growth of modified domestic demand, which controls for the major distortions arising from the activity of multinationals, is projected to be around 3% as easing inflationary pressures and a resilient labour market bolster households' real incomes and consumption.

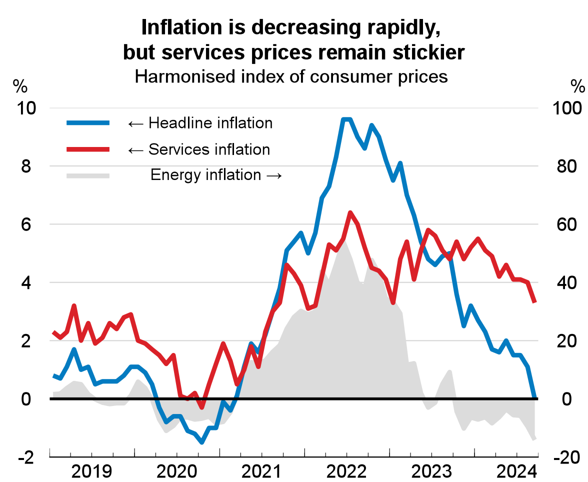
Despite continued revenue buoyancy, with the economy at or close to full employment, there is a need for fiscal prudence, productivity-enhancing reforms and spending efficiency gains. Careful sequencing of investment projects will be key to effectively addressing costly infrastructure deficits in various areas, without adding to inflation. Sustained adherence to the 5% spending rule is needed to ensure the long-term sustainability of public finances. Continuing to support training and apprenticeships in sectors where labour shortages are high should be prioritised.

The strong labour market is driving the domestic economy

Supported by the resilience of the services sector and net inward migration, employment reached a record high in mid-2024. The unemployment rate remained around historical lows in the third quarter. Job vacancy rates have declined since late 2022 but remain above their long-term average, with persistent labour shortages in some sectors, such as health care. Consumer spending has continued to grow, albeit more moderately, driven by higher wages and rapidly declining inflation. Sharp drops in energy prices pushed harmonised headline consumer price inflation down to 0.1% in October. Core inflation slowed to 1.6%, driven by a decline in non-energy goods prices and an easing in services inflation, which nevertheless remains persistent at over 3%.

Ireland





Source: OECD National Accounts database; and Eurostat.

StatLink https://stat.link/rp6jbf

Ireland: Demand, output and prices

Ireland	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2022 prices)				
GDP at market prices	448.2	8.7	-5.7	-0.5	3.7	3.5
Private consumption	105.4	10.9	4.3	3.7	3.6	2.8
Government consumption	52.5	4.1	5.6	2.9	2.5	1.6
Gross fixed capital formation	98.7	4.1	2.8	-20.5	0.0	3.8
Final domestic demand	256.7	7.3	3.9	-5.3	2.3	2.8
Stockbuilding[1]	5.3	0.8	1.3	-2.3	0.3	0.0
Total domestic demand	262.0	7.8	5.7	-7.7	2.6	3.0
Exports of goods and services	597.0	13.6	-6.0	9.1	4.3	3.9
Imports of goods and services	410.8	16.4	1.3	6.0	3.7	3.7
Net exports[1]	186.2	3.1	-9.4	6.2	2.5	1.8
Memorandum items						
Modified final domestic demand[2], volume	_	9.1	2.7	2.7	3.0	2.7
GDP deflator	_	6.9	4.0	1.9	1.6	1.8
Harmonised index of consumer prices	_	8.1	5.2	1.5	1.9	1.8
Harmonised index of core inflation[3]	_	4.6	4.4	2.4	2.1	1.9
Unemployment rate (% of labour force)	_	4.4	4.3	4.3	4.2	4.3
Household saving ratio, net (% of disposable income)	_	10.3	9.1	8.6	8.7	8.9
General government financial balance[4] (% of GDP)	_	1.7	1.5	4.5	1.8	1.7
General government gross debt (% of GDP)	_	45.3	46.2	41.4	38.6	36.0
General government debt, Maastricht definition[5] (% of GDP)	_	43.2	43.2	38.4	35.6	33.0
Current account balance (% of GDP)	_	8.8	8.1	12.8	13.0	13.4

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. Includes the one-off impact of recapitalisations in the banking sector.
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.
Source: OECD Economic Outlook 116 database.

StatLink https://stat.link/1ezji2

Significant swings in investment and exports, mostly driven by the multinational sector, led to volatility in GDP in the first three quarters of 2024. Such volatility, however, masked renewed strength in pharmaceutical exports, following their post-COVID rebalancing.

Revenue buoyancy is accompanied by mounting spending pressures

The overall fiscal stance is projected to be broadly neutral over the projection horizon. Underpinned by continued revenue strength, the budget surplus is projected at 4.5% of GDP (7.5% of GNI*) in 2024, partly due to a one-off increase in revenues related to the September 2024 tax ruling of the Court of Justice of the European Union (EUR 14.1 billion), before stabilising around 1.7% (2.7% of GNI*) over the next two years. Budget 2025 features a EUR 10.5 billion (2.1% of 2023 GDP; 3.6% of GNI*) package, with around two-thirds consisting of permanent spending measures, largely aimed at preserving the existing level of public services, against the backdrop of a larger-than-assumed population, and a need to sustain infrastructure spending. The budget also includes permanent tax measures to offset tax threshold effects and new cost-of-living initiatives (EUR 2.2 billion). The latter includes one-off lump sums paid to welfare recipients, untargeted additional child benefit payments, EUR 250 energy credits, the extension of mortgage interest relief and an additional payment of the rental tax credit. The reduced VAT rates on electricity and gas are also extended until April 2025, despite lower energy inflation. The 5% net spending rule will be breached again, potentially lowering the credibility of the fiscal framework.

Growth is set to be resilient

As volatility from the multinational sector subsides, strong GDP growth is projected at 3.7% in 2025 and 3.5% in 2026. Robust real income growth, combined with a relatively tight labour market, improving financial conditions and the cost-of-living measures included in Budget 2025 will underpin household consumption. Further interest rate reductions and additional public investment, especially in the residential sector, will support aggregate investment. Modified domestic demand growth is projected to be 3% in 2025 and 2.7% in 2026. As Ireland’s export base remains highly concentrated, a downturn in multinational-dominated sectors could reduce net exports. On the upside, higher-than-expected inward migration could boost labour supply, employment and output.

Addressing infrastructure gaps in a context of capacity constraints is a priority

Large investment needs in housing, transport and energy face capacity constraints, especially in terms of labour and skills. Effective prioritisation and sequencing of projects are needed to balance potential short-run inflationary impacts and the long-run benefits of enhanced public investment. Fiscal policy will do well to focus on improving spending efficiency and adherence to the 5% net spending rule. Despite well-established reskilling systems, participation in lifelong learning is relatively low for the low-skilled and unemployed. While apprenticeships have been rising, there is room to strengthen work-based learning in secondary schools and improve the attractiveness of vocational career pathways, particularly in construction to meet ambitious housing and climate targets and ease labour shortages. Further improving access to affordable childcare and enhancing work incentives in the tax and benefit system can further raise female labour market participation.

Israel

The evolving conflicts in the Middle East since October 2023 will continue to shape economic activity. GDP growth is projected to be 2.4% in 2025 and 4.6% in 2026. Military expenditure keeps government demand high. Partial normalisation in the business environment is assumed to allow a pick-up in exports and private consumption from mid-2025. Labour shortages are constraining construction and fuelling price pressures. Risks loom large: an intensification of the conflicts would further weigh on activity and an already large fiscal deficit. On the other hand, a swift de-escalation could unleash pent-up demand.

Fiscal policy should take action to steadily reduce the deficit in coming years. Revenue increases are needed to fund permanently higher defence expenditures while focussing spending on key areas, including research, education, and public investment. Monetary policy needs to remain restrictive to ensure inflation returns to the target range. Large arrivals of foreign workers and the reopening of work permits for Palestinians would reduce labour shortages.

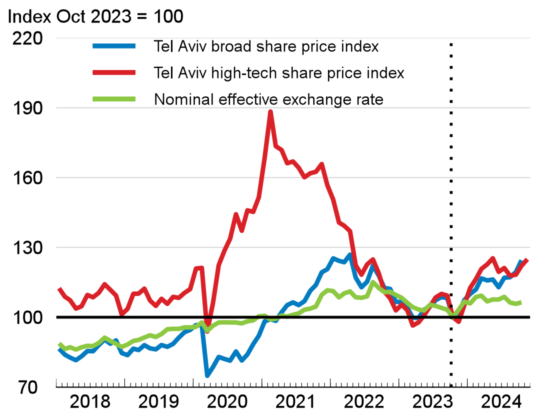
The economy remains under the cloud of the conflicts

Economic conditions are deeply impacted by the conflicts. The sharp increase in military activities has prompted government demand to rise by more than a fifth from its pre-war level in the second half of 2024. After a fast recovery from the slump in the aftermath of 7 October 2023, private consumption has grown sluggishly, with consumer confidence remaining weak in October 2024. Business confidence by contrast has been stronger, with respondents overall moderately optimistic, and local stock markets have recovered fully. Persistent labour shortages in construction have constrained investment. Few new foreign workers (0.4% of employment) have entered Israel since work permits were suspended for Palestinians (4% of employment before the war). Rocket attacks have significantly reduced industrial and farm production in Northern areas. Supply constraints contributed to inflation picking up from 2.5% to 3.5% over February-October 2024.

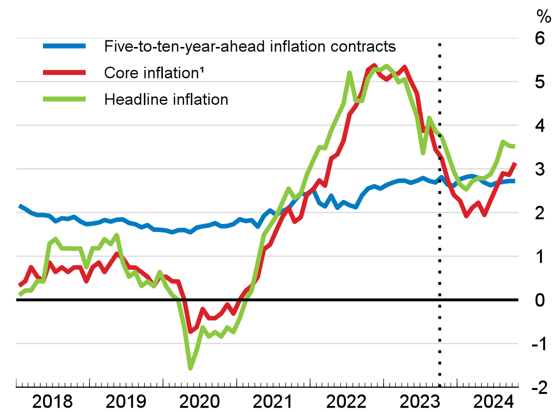
The conflicts have been impacting foreign trade. Ship attacks in the Red Sea have made shipping more expensive, while reduced airline connections complicate services trade. Intensifying tensions since mid-2024 have hurt the high-tech sector, halting the rally in high-tech shares. Inward foreign tourism remains nearly absent.

Israel

Foreign-exchange and stock markets have recovered and stabilised



Inflation is elevated but expectations remain anchored



Note: The dotted lines correspond to October 2023.
1. Excluding food and energy.
Source: Bank of Israel; Tel Aviv Stock Exchange; OECD Price Statistics database; and OECD Financial Markets database.

StatLink https://stat.link/21cj7v

Israel: Demand, output and prices

Israel	2021	2022	2023	2024	2025	2026
	Current prices NIS billion	Percentage changes, volume (2015 prices)				
GDP at market prices	1 591.2	6.2	1.9	0.6	2.4	4.6
Private consumption	775.5	7.4	-0.9	4.0	3.4	5.4
Government consumption	350.5	0.1	8.0	12.5	0.8	-0.1
Gross fixed capital formation	377.6	10.7	-1.3	-8.1	7.1	4.1
Final domestic demand	1 503.6	6.6	1.0	3.2	3.6	3.7
Stockbuilding[1]	30.8	0.7	-0.5	-0.2	0.1	0.0
Total domestic demand	1 534.4	7.2	0.5	2.9	3.6	3.7
Exports of goods and services	463.9	8.3	-0.9	-6.0	1.4	8.5
Imports of goods and services	407.1	12.1	-6.6	-1.4	3.6	4.9
Net exports[1]	56.8	-0.7	1.6	-1.5	-0.5	1.1
Memorandum items						
GDP deflator	_	4.9	4.3	5.2	3.1	2.7
Consumer price index	_	4.4	4.2	3.1	3.6	2.9
Core inflation index[2]	_	4.0	4.2	2.6	3.5	2.9
Unemployment rate (% of labour force)	_	3.8	3.4	3.0	2.5	2.0
General government financial balance (% of GDP)	_	0.4	-4.1	-7.5	-5.7	-4.8
General government gross debt (% of GDP)	_	60.1	61.9	66.3	68.6	68.9
Current account balance (% of GDP)	_	3.9	4.5	3.5	2.8	3.6

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 116 database.

StatLink https://stat.link/tvd4ou

The macroeconomic policy mix is expected to turn restrictive

After a strong impulse as the budget balance moved from surplus in 2022 to an estimated 7.5% of GDP deficit in 2024, fiscal policy is set to tighten in 2025-26 by over 2% of GDP. The deterioration in public accounts led all three major credit rating agencies to downgrade Israel's government credit rating. Despite continued elevated military spending in 2025, the authorities are reducing the deficit by raising taxes and curbing civilian expenditure. Tax increases combine permanent measures, such a one percentage point increase in the main VAT rate, with changes that may be more challenging to maintain, such as freezes in income-tax thresholds. Defence spending is expected to decrease from mid-2025 albeit remaining at a higher share of GDP than before the war. The central bank is projected to keep policy interest rates on hold at 4.5% through the projection period. The fiscal drag and a gradual improvement in supply conditions from mid-2025 are projected to offset the price pressures that have been building since early 2024.

Growth will pick up

Growth is projected to pick up to 2.4% in 2025 and 4.6% in 2026 with the composition of demand changing over time. Export growth is anticipated to gain pace gradually, particularly from the latter half of 2025, including in high-tech services. Private consumption should follow a similar path. Government consumption will turn from supportive to restrictive over time. Investment remains constrained by labour shortages, in particular for construction. Inflation is projected to rise in 2025 to 3.6% including under the effect of the VAT increase before moderating to 2.9% in 2026 as supply constraints ease.

Risks are very large. On the downside, a renewed intensification of the conflicts could substantially degrade public accounts while directly reducing activity. Loss of foreign-investor confidence could result in further increases in government bond yields and test the value of the currency. On the upside, an acceleration of the de-escalation could unleash pent-up foreign and domestic private demand prompting a much-faster-than-projected upturn and improvement in the fiscal accounts.

Fiscal and structural reforms can boost growth

Monetary policy needs to remain prudent. With inflation expectations close to the top of the 1-3% target range, further rate increases would become necessary if delivery of fiscal-consolidation plans is limited or price pressures build up more strongly than projected. The government should favour permanent fiscal reforms, such as removing VAT exemptions, and reducing subsidies that encourage staying outside the labour market, over measures that are more likely to be reversed, such as tax-bracket or allowance-level freezes. Ending the suspension of Palestinians' work permits would tackle labour shortages in construction. Removing subsidies that discourage work among ultra-Orthodox men while ensuring that all pupils learn the core curriculum would broaden employment and improve labour productivity. Higher carbon pricing would accelerate decarbonisation.

Italy

Real GDP growth is projected to grow by 0.5% in 2024, before picking up modestly to 0.9% in 2025 and 1.2% in 2026. The sharp disinflation witnessed in recent quarters, combined with solid wage gains, is expected to underpin consumer spending, while looser financial conditions and the rollout of public investment tied to New Generation EU (NGEU) funds should stimulate capital formation. The risks to the outlook are largely balanced. On the downside, a sharper-than-anticipated contraction in residential investment, driven by the wind-down of building tax credits, and weaker export demand due to slower growth across the euro area could dampen prospects. Conversely, a stronger-than-forecast surge in public investment linked to the National Recovery and Resilience Plan (NRRP) may bolster economic performance.

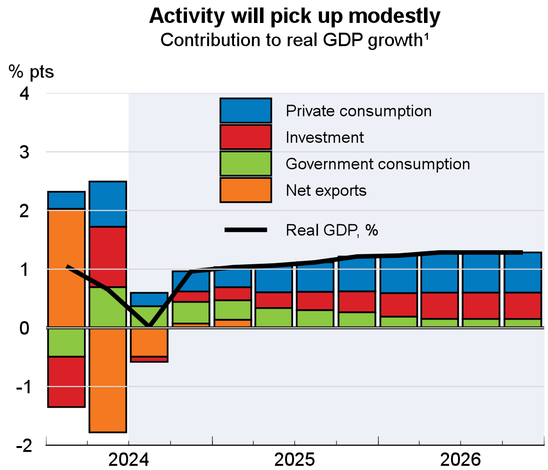
Borrowing costs for households and businesses are set to fall as euro area monetary policy eases. However, the boost to household consumption and investment will be tempered by the moderately restrictive fiscal stance over 2025-26. The planned fiscal consolidation, aimed at putting the public finances on a more sustainable path in the medium term, strikes a balance between fiscal prudence and maintaining growth momentum, but additional measures will be needed in 2026 to meet these goals. The timely implementation of the NRRP, particularly in ramping up public investment, should support economic activity in both the short and medium term. Structural reforms will be essential to address emerging labour shortages amid rapid population ageing, with key areas for reform being the expansion of public early childcare and the enhancement of technical tertiary education to bring more women and young people into the labour market.

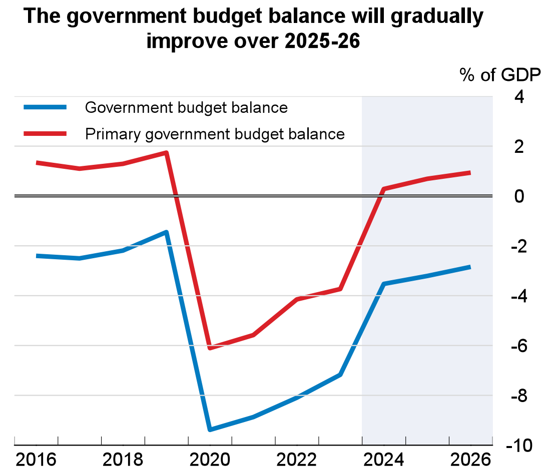
Activity remains weak

Real GDP has grown modestly over first three quarters of 2024. While resilient household consumption and robust business investment supported activity, residential investment continued to contract, reflecting the wind-down of the generous Superbonus building tax credit earlier this year. High-frequency data suggests that near-term growth will pick up only gradually. While the services sector and consumer confidence have been stable, manufacturing output and sentiment are showing signs of softening. Despite sluggish GDP growth over the past year, the unemployment rate has steadily declined and labour shortages remain elevated, especially for specialised construction workers. Collectively bargained wages have grown by about 4%, bolstering household incomes and private consumption.

Falling oil prices on global markets over the past months have kept consumer price inflation in check, bringing it down to 1% in October. However, as energy prices stabilise, this disinflationary force will fade, with inflation increasingly shaped by domestic factors. The easing of global financial conditions, following monetary policy loosening in several key economies, is gradually filtering through to lower borrowing costs for households, businesses, and the government.

Italy 1





1. Quarter-on-quarter annualised rates.
Source: OECD Economic Outlook 116 database; and OECD calculations.

StatLink https://stat.link/ye0uxv

Italy: Demand, output and prices

Italy	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2020 prices)				
GDP at market prices	1 838.9	4.8	0.8	0.5	0.9	1.2
Private consumption	1 037.6	5.0	1.0	-0.1	0.7	1.1
Government consumption	361.8	0.6	1.9	0.9	2.0	1.1
Gross fixed capital formation	381.9	7.9	8.7	1.1	0.8	1.8
Final domestic demand	1 781.3	4.7	2.9	0.3	1.0	1.2
Stockbuilding¹	20.5	1.0	-2.4	-1.1	0.1	0.0
Total domestic demand	1 801.8	5.8	0.4	-0.8	1.1	1.3
Exports of goods and services	571.0	10.5	1.1	-0.1	1.8	2.4
Imports of goods and services	533.9	13.8	0.0	-3.9	2.4	2.6
Net exports¹	37.1	-0.8	0.4	1.2	-0.1	0.0
Memorandum items						
GDP deflator	_	3.6	5.8	2.1	2.5	2.1
Harmonised index of consumer prices	_	8.7	5.9	1.2	2.1	2.0
Harmonised index of core inflation²	_	3.3	4.5	2.3	2.2	2.0
Unemployment rate (% of labour force)	_	8.1	7.7	6.5	6.0	5.8
Household saving ratio, net (% of disposable income)	_	3.4	2.6	5.4	6.3	6.5
General government financial balance (% of GDP)	_	-8.1	-7.2	-3.5	-3.2	-2.8
General government gross debt (% of GDP)	_	145.0	148.1	148.5	147.7	146.5
General government debt, Maastricht definition³ (% of GDP)	_	138.4	134.7	135.2	134.3	133.2
Current account balance (% of GDP)	_	-1.7	0.0	1.2	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 116 database.

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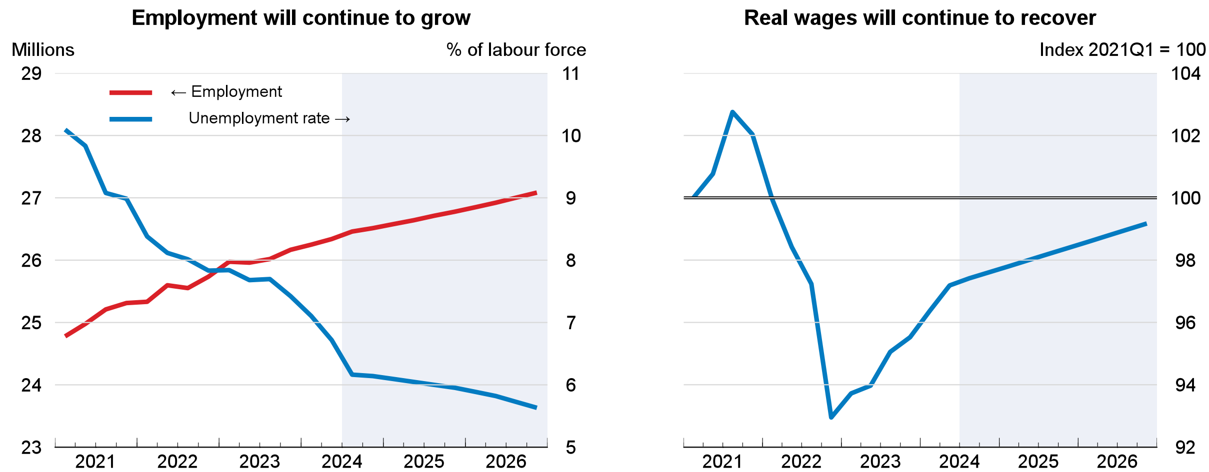
Italy 2



Source: OECD Economic Outlook 116 database.

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Interest rates are falling, but some fiscal tightening is planned

Euro area monetary policy easing is lowering borrowing costs for households and businesses, although interest rates on loans to non-financial corporations remained around 5% in September and lending growth continues to be negative. Lending standards have eased in recent months, but they remain more stringent than before the energy crisis. Debt servicing costs for the government remain elevated, despite recent declines in the risk premium on Italian government securities, with government interest payments expected to remain around 4% of GDP over 2025-26.

The stance of fiscal policy will shift from broadly neutral in 2024 to moderately restrictive over 2025-26 consistent with the government's medium-term fiscal plan. In 2024, the projected phase-out of energy policy support measures – amounting to a fiscal tightening of about 1% of GDP – is broadly offset by lower income taxes due to the merging of the first and second income-tax brackets, the targeted reduction in social security contributions for low- and middle-income households and the expected ramp-up of spending related to Next Generation EU (NGEU) funds. Fiscal consolidation in 2025 will amount to about ½ per cent of GDP, which mainly reflects lower expenditure on building tax credits, the temporary suppression of tax deferrals for banks, as well as spending review-related savings. Compliance with the draft medium-term structural fiscal plan submitted to the European Commission is assumed to require fiscal consolidation of ½ per cent of GDP in 2026.

Growth and inflation will pick up modestly

Real GDP is projected to grow by 0.5% in 2024, 0.9% in 2025 and 1.2% in 2026. In the near term, restrictive financial conditions and the wind-down of the Superbonus building tax credit will continue to weigh on private consumption and investment, especially in the construction sector. As borrowing costs decrease on the back of euro area monetary policy loosening, the labour market will strengthen and real wages will continue to recover, supporting private consumption. Coupled with the ramp-up in public investment related to the National Recovery and Resilience Plan (NRRP) to meet targets by mid-2026, activity is expected to gather pace, despite moderate fiscal tightening. Inflation is expected to gradually pick up to around 2%, as downward pressure from declining energy prices fades and robust wage gains despite weak productivity growth prevent core inflation from declining further.

Risks to growth are broadly balanced. The main downside risk is that the wind-down of the Superbonus building tax credit triggers a larger and more persistent contraction in housing investment, which has been a key source of growth over 2021-23. Slower growth across the euro area could further dampen prospects by tempering export demand. On the upside, the acceleration in public investment related to the National Recovery and Resilience Plan (NRRP) could boost growth in 2025-26 more than expected. The full utilisation of New Generation EU funds implies that NRRP-related spending needs to be ramped up from about 1% of GDP in 2024 to about 2½ per cent of GDP on average over 2025-26.

Structural reforms are needed to deliver stronger and sustained growth

The government deficit is set to narrow under the government's medium-term fiscal plan, dipping below 3% by 2026. However, the public debt ratio will continue to rise from already elevated levels and a large primary surplus will be required over the medium term to put the debt ratio on a more prudent path. At the same time, fiscal pressures are mounting, driven by investment demands and rising pension costs associated with an ageing population. The government's expansion of public investment tied to the National Recovery and Resilience Plan (NRRP) and its move to make tax and social security cuts permanent are positive developments, but they necessitate offsetting measures, either through spending cuts or tax rises elsewhere. While short-term consolidation plans rely primarily on unwinding one-off and temporary measures, achieving medium-term fiscal adjustment will require bold action to curb pension spending growth; raise property taxes, including by aligning the property register with market values; tackle tax evasion; and conduct thorough spending reviews. While notable progress has been made on structural reforms, addressing labour shortages – exacerbated by rapid demographic changes – requires heightened attention. Encouraging higher female workforce participation by continuing to expand public early childcare services would help. Boosting apprenticeships and enhancing technical tertiary education could help tackle the high proportion of young people who are not in education, employment or training.

Japan

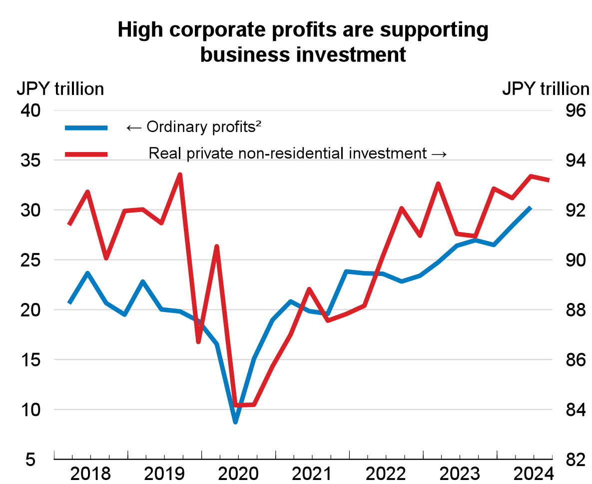
Real GDP is projected to rebound by 1.5% in 2025, driven by domestic demand, with growth reverting towards potential in 2026, at 0.6%. Private consumption will be driven by robust wage growth, moderating headline consumer price inflation, and recent government support measures. Large profit gains, partly due to the weak yen, and government subsidies, especially for green and digital investment, will boost business investment. Headline inflation is projected to settle around the 2% target, supported by wage growth momentum and the pass-through of labour costs to prices.

The fiscal stance is projected to be slightly expansionary in 2025, with the recent economic stimulus package, before tightening in 2026, and the primary balance is set to remain negative. Designing and implementing a medium-term fiscal consolidation path, with concrete revenue and expenditure measures, including social security and tax reforms, is needed to secure medium-term fiscal sustainability. The use of supplementary budgets should be limited to large macroeconomic shocks. Projections of sustained inflation around the 2% target and robust wage growth imply gradual increases in the policy interest rate are warranted. Structural reforms to boost productivity, employment, especially of older and female workers, and the integration of foreign workers, are key to address labour shortages and demographic headwinds.

Robust profits and wage growth are supporting domestic demand

Real GDP grew by 0.2% in the third quarter of 2024, supported by robust private consumption. Reflecting the outcome of the annual wage negotiations for FY2024 and summer bonuses, nominal wages have increased and will be further boosted by the highest minimum wage rise in four decades, at 5.1%. Business investment has been improving gradually, supported by strong corporate profits. The labour market remains tight, with the unemployment rate at 2.4% in September, and labour shortages, especially in information services, construction, transportation, and accommodation. Headline consumer price inflation remains above the 2% target, at 2.3% in October, but core inflation, excluding food and energy, has moderated to 1.6%. Real wages have been trending up over the past year. Monthly indicators suggest that the downward pressure on private consumption from the decline in real wages has started to wane.

Japan 1



1. Wages refer to basic salaries, excluding special earnings.
2. Seasonally adjusted data for non-financial corporations.
Source: Ministry of Health, Labour, and Welfare and OECD calculation; Ministry of Finance; and Cabinet Office.

StatLink https://stat.link/kw0y1f

Japan: Demand, output and prices

Japan	2021	2022	2023	2024	2025	2026
	Current prices YEN trillion	Percentage changes, volume (2015 prices)				
GDP at market prices	553.2	1.2	1.7	-0.3	1.5	0.6
Private consumption	295.8	2.2	0.7	-0.1	1.8	0.6
Government consumption	117.5	1.7	0.0	0.5	0.4	-0.1
Gross fixed capital formation	141.3	-0.5	1.8	0.4	2.6	1.5
Final domestic demand	554.6	1.4	0.8	0.1	1.7	0.7
Stockbuilding[1]	1.4	0.3	-0.2	-0.1	0.0	0.0
Total domestic demand	556.0	1.7	0.6	0.1	1.8	0.7
Exports of goods and services	100.2	5.5	2.9	0.8	2.9	1.7
Imports of goods and services	103.0	8.2	-1.5	2.1	4.1	2.1
Net exports[1]	- 2.9	-0.5	1.0	-0.3	-0.3	-0.1
Memorandum items						
GDP deflator	_	0.4	3.8	2.8	1.8	2.1
Consumer price index	_	2.5	3.3	2.6	1.9	2.1
Core consumer price index[2]	_	0.3	2.7	1.9	1.8	2.0
Unemployment rate (% of labour force)	_	2.6	2.6	2.5	2.4	2.3
Household saving ratio, net (% of disposable income)	_	4.0	3.6	4.8	3.9	3.2
General government financial balance (% of GDP)	_	-4.2	-3.8	-2.3	-2.2	-1.8
General government gross debt (% of GDP)	_	239.6	238.1	237.9	236.5	235.3
Current account balance (% of GDP)	_	1.9	3.8	4.5	4.2	3.9

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 116 database.

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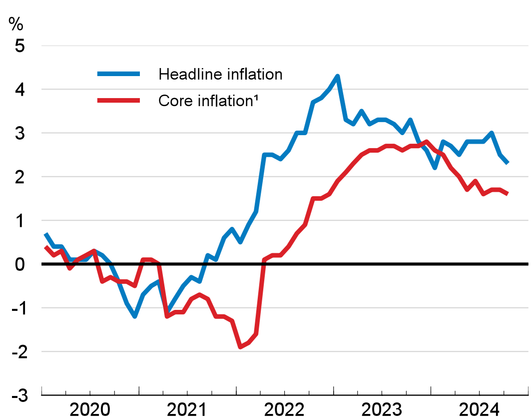
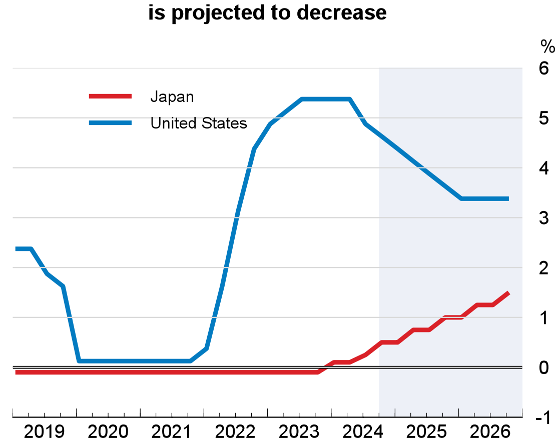
Japan 2

Headline consumer price inflation remains above 2%



The policy rate gap with the United States is projected to decrease



1. Excluding food and energy.
Source: Ministry of Internal Affairs and Communications; and OECD Economic Outlook 116 database.

StatLink https://stat.link/px3ob4

Exports are growing, supported by the recovery in semiconductor-related product markets, and the resumption of automobile shipments, following the certification test issues, which weighed on output in the first half of 2024. Temporary factors have pushed down industrial production, but the outlook remains positive. Business confidence for the manufacturing sector has improved, with manufacturing firms projecting a 13% increase in nominal capital expenditure in FY2024 according to the Bank of Japan's September Tankan Survey. Robust inbound tourism is supporting service exports.

Macroeconomic support is projected to gradually decrease

In July, the Bank of Japan (BoJ) announced a short-term interest rate rise from around 0-0.1% to around 0.25% and a plan to halve Japanese Government Bond (JGB) purchases by the first quarter of 2026. The BoJ will reduce its monthly purchases of JGBs by about JPY 400 billion each quarter, targeting about JPY 3 trillion by the first quarter of 2026, which will lead to roughly a 7-8% decrease in its JGB holdings by March 2026. OECD projections of sustained inflation around 2% and robust wage growth imply further gradual increases in the short-term policy rate are warranted to 1.5% by 2026.

The underlying primary deficit is projected to widen in 2025, partly due to the new economic package, before narrowing to 1.3% of GDP in 2026 from 1.6% of GDP in 2024. The new package resumes the subsidies for gas and electricity and extends measures to curb high fuel prices. It also includes support and debt guarantees for long-term investment in semiconductor production and R&D (JPY 10 trillion, 1.7% of GDP, in the period to FY2030) and cash handouts to low-income households (JPY 30 thousand each). OECD projections assume a further increase of around JPY 1.0 trillion (0.2% of GDP) in defence spending in FY2025 and FY2026. The cost of the rise in the budget for child-related policies of around JPY 3.6 trillion (0.6% of GDP) by FY2028 is to be compensated by expenditure reforms. The gross public debt-to-GDP ratio is projected to remain high at 235% in 2026.

Domestic demand will be the main driver of growth

Real GDP is projected to grow by 1.5% in 2025, with growth reverting towards potential in 2026. Domestic demand will be the main driver of growth, with tight labour markets and high profits supporting wage growth and private consumption. Business investment will remain robust in 2025, reflecting a high order backlog in machinery and construction, and the support from government subsidies. The unemployment rate is set to edge down to 2.3% in 2026. Headline consumer price inflation is projected to converge to the 2% target as wage growth pushes up unit labour costs.

Downside risks include weaker-than-expected demand from trading partners and geopolitical tensions lowering exports. Rapid yen appreciation would reduce corporate profits and low pass-through of costs and wages to prices could disrupt the virtuous price-wage cycle, which could curtail investment. A loss of confidence in Japan's fiscal sustainability and an increase in the sovereign risk premium could adversely affect the financial sector and the real economy. On the upside, continued high wage growth could boost consumption more than projected, while stronger-than-expected external demand could support exports further.

Addressing the challenges of high government debt and population ageing is crucial

Addressing demographic headwinds requires further increasing labour supply and reinvigorating productivity growth. While the employment of female and older workers has been rising, the high prevalence of non-regular jobs in Japan's dualistic labour market discourages female and elderly employment, lowers on-the-job training, and slows productivity growth. Relaxing employment protection for regular workers and expanding social insurance coverage and training for non-regular workers are key. Foreign workers have almost tripled in the last decade, but the share of foreign workers remains among the lowest in the OECD. Implementing a comprehensive strategy to integrate migrants, including by preventing discrimination against them and improving their access to education and housing, would improve Japan's ability to attract foreign workers. Reforms to improve the innovation framework and incentives for start-ups, by redesigning the R&D tax credit and strengthening the links between universities and SMEs, would boost productivity growth. Population ageing will also exacerbate fiscal sustainability challenges. Designing and implementing a medium-term fiscal consolidation path, with concrete revenue and expenditure measures, and limiting the use of supplementary budgets to large macroeconomic shocks would help rebuild fiscal buffers.

Korea

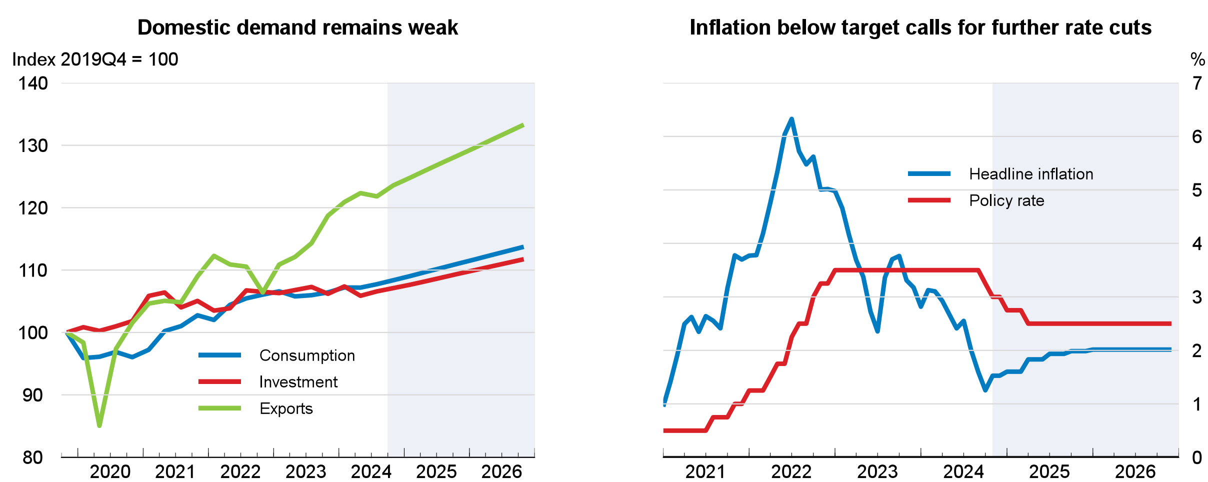
After strengthening to 2.3% in 2024 real GDP growth is projected to settle at 2.1% in 2025 and 2026. Strong global demand will continue to support exports. Private consumption should pick up from late 2024 thanks to lower interest rates and rising real wages. Inflation will continue to undershoot the target in the near term. Increased female and elderly labour market participation will further boost employment, while unemployment will remain low.

The Bank of Korea cut the policy rate from 3.25% to 3.0% in November. Further cuts are expected to lower the policy rate to 2.5% in 2025, bringing inflation back to the 2% target. Fiscal consolidation is likely to commence in 2025, helped by the partial reversal of large revenue shortfalls in 2023 and 2024. The proposed fiscal rule, along with pension reform, would help rebuild fiscal buffers to meet expenditure pressures from rapid ageing. Immigration could help ease labour shortages, while labour market reforms could improve matching, reduce elderly poverty and lessen the high opportunity cost of motherhood.

Exports have driven growth but show signs of weakness

Real GDP grew only marginally in the third quarter of 2024, after a very strong first quarter and a slight contraction in the second quarter. Domestic demand picked up, with positive contributions from private consumption, private non-housing investment and public consumption and investment. Headline inflation weakened to 1.3% in October 2024, well below the 2% inflation target, while inflation excluding food and energy came in at 1.8%. At 2.7%, the unemployment rate remained close to historical lows while the employment rate remained historically high at 62.7% in October 2024. Vacancies have been falling and nominal wage growth remains moderate, while labour shortages remain in sectors such as shipbuilding, health and welfare.

Korea



Source: OECD Economic Outlook 116 database; and Bank of Korea.

StatLink https://stat.link/7yinz3

Korea: Demand, output and prices

Korea	2021	2022	2023	2024	2025	2026
	Current prices KRW trillion	Percentage changes, volume (2020 prices)				
GDP at market prices	2 221.9	2.7	1.4	2.3	2.1	2.1
Private consumption	1 046.8	4.2	1.8	1.2	2.5	2.9
Government consumption	378.3	4.0	1.3	1.7	1.4	1.2
Gross fixed capital formation	699.6	-0.2	1.4	0.1	1.7	2.2
Final domestic demand	2 124.7	2.7	1.6	0.9	2.1	2.4
Stockbuilding[1]	22.3	0.1	-0.2	-0.5	0.2	0.0
Total domestic demand	2 147.0	2.8	1.4	0.4	2.3	2.3
Exports of goods and services	874.1	3.9	3.6	7.2	3.6	3.8
Imports of goods and services	799.2	4.2	3.5	2.6	4.3	4.4
Net exports[1]	74.9	0.0	0.0	1.9	-0.1	-0.1
Memorandum items						
GDP deflator	_	1.8	1.9	4.4	2.2	2.1
Consumer price index	_	5.1	3.6	2.3	1.8	2.0
Core inflation index[2]	_	3.6	3.4	2.2	1.9	2.0
Unemployment rate (% of labour force)	_	2.9	2.7	2.7	2.6	2.7
Household saving ratio, net (% of disposable income)	_	7.4	4.8	2.8	2.2	1.8
General government financial balance (% of GDP)	_	0.0	-0.7	-3.1	-2.8	-2.1
General government gross debt (% of GDP)	_	46.2	53.6	56.6	59.4	61.5
Current account balance (% of GDP)	_	1.3	1.9	4.6	4.5	4.3

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 116 database.

StatLink https://stat.link/1bc6pd

Strong global demand for Korean manufacturing goods, notably semiconductors, has driven growth in the past few quarters, but the contribution of manufacturing exports to growth is weakening. Exports contracted in the third quarter, while imports grew strongly in part related to factory investments. Customs exports are strengthening after a recent weak spot, rising by 5.8% compared to a year earlier in the first 20 days of November.

Monetary policy is easing

The Bank of Korea started its easing cycle by cutting the policy rate from 3.5% to 3.25% in October and lowered the rate further to 3.0% in late November. With inflation undershooting the target, the policy rate is assumed to bottom out at 2.5% in 2025. Continuing business tax revenue shortfalls will widen the deficit from 2023 to 2024. The fiscal balance should strengthen from 2025, as expenditure growth under the government's budget proposal is set to be low and solid corporate earnings in 2024 will boost future tax receipts. A temporary fuel tax relief has been extended a number of times since the energy crisis, but is assumed to end in mid-2025. Some further consolidation is also assumed in 2026, with an accumulated fiscal tightening of around 1% of GDP in the 2025-26 period.

Domestic demand should increasingly drive growth

After strengthening to 2.3% in 2024 output growth is projected to settle at 2.1% in 2025 and 2026. Private consumption and investments are expected to increasingly drive the expansion, as lower interest rates and real income growth boost purchasing power. Inflation is projected to remain below the 2% target in the short term, largely due to lower international energy and commodity prices. However, with firm action to loosen monetary policy, inflation is set to converge to target by the end of 2025. Labour participation should continue to expand, notably among women and older cohorts, while the unemployment rate stabilises at low levels. Growth could turn out lower than forecast should the period of high interest rates and weak disposable income growth have led to persistent increases in precautionary savings. Conversely, faster-than-expected improvement in consumer sentiment could result in stronger growth.

Interconnected challenges call for coherent policies

Unless monetary policy squarely prioritises the price stability objective over the secondary objective of financial stability inflation expectations may be de-anchored, leading to avoidable output and job losses. Tighter macroprudential regulations, reduced fiscal support for home ownership and structural reform to improve housing supply are much preferred instruments to keep financial imbalances in check. Fiscal tightening should continue as planned in light of rapid ageing, and the proposed fiscal rule should be implemented. Environmental taxes, increased auctioning in the emissions trading scheme and streamlining of state support to companies could create fiscal space to fill gaps in social protection and family policies. Korea’s labour shortages in sectors such as shipbuilding, health and welfare are set to intensify with ageing, calling for longer working lives and pension contribution periods, more immigration and better integration of immigrants as well as increased youth employment. Loosening employment protections for regular workers while improving work conditions and social protection of non-regular workers, and moving away from seniority-based wages and a workplace culture where work takes priority over family are key elements to achieve these aims and to allow female employment and fertility to rise in tandem.

Latvia

Real GDP is projected to contract by 0.3% in 2024, before growing by 1.9% in 2025 and 2.5% in 2026. Low headline inflation and rising nominal wages will boost real incomes and consumption. Public investment will gradually strengthen, helped by the absorption of EU funds, while lower interest rates will support business and residential investment. Exports will pick up as key export markets recover. Core inflation will remain high due to strong wage growth related to labour shortages and high public sector salary growth. Rising geopolitical risks could adversely affect risk premiums and derail growth.

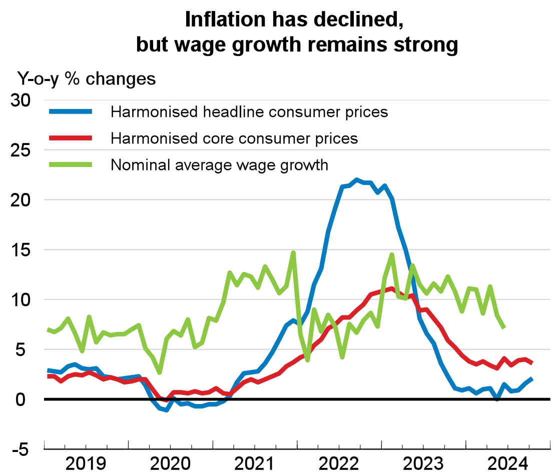
Fiscal policy should be tightened to avoid high deficits and lower inflationary pressures. Listing large state-owned enterprises and strengthening competition in the financial sector could help deepen capital markets and improve access to finance. Reducing the labour tax wedge for low-income earners and shifting the tax burden towards other income, property, and environmental taxes would help lower informality. Bolstering competition enforcement and addressing skills shortages by improving training opportunities and facilitating skilled immigration would support business dynamism and innovation.

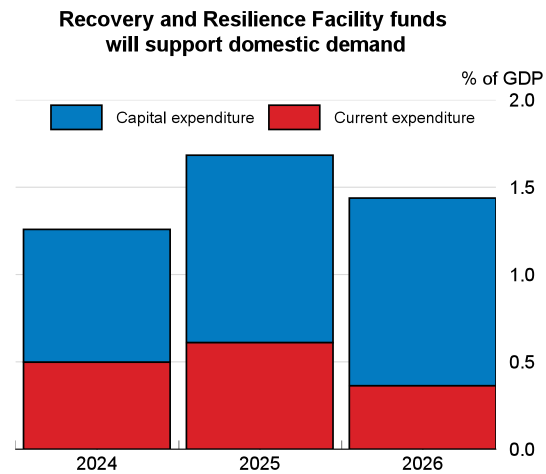
Weak confidence has weighed on economic activity

GDP contracted by 0.4% in the third quarter of 2024. Private consumption fell due to low confidence, despite the 8% annual increase in real average net monthly wages in the second quarter. Tight financing conditions and slow absorption of EU funds have weighed on business and public investment. Industrial production declined by 1.3% in September compared to August and was around 2% lower in than a year earlier. Annual inflation rose from 1.6% in September to 2.1% in October due to rising food prices, and core inflation decreased only slightly to 3.6%, reflecting strong wage growth. The unemployment rate was 6.9% in September and the vacancy rate was 2.6% in the second quarter of 2024, reflecting increased shortages of technicians, professionals, craft workers and tradespeople.

Subdued export market growth contributed to a sharp fall in quarterly export volumes in the second quarter of 2024. The merchandise trade deficit has narrowed in the third quarter of 2024, with export values stagnating and import values falling by 14% year-on-year in September. Despite continued monetary easing in the euro area, average annual mortgage interest rates fell only to 5.7% in September, weighing on credit demand and house price growth.

Latvia





Note. Core inflation refers to the harmonised index of consumer prices excluding food, energy, alcohol and tobacco. Wage refers to average net monthly wages and salaries of employees. The right-hand panel shows the projected allocation of revenue from the Recovery and Resilience Facility funds.
Source: OECD Prices database; Eurostat; Statistical Central Bureau of Latvia; Ministry of Finance of Latvia; OECD Economic Outlook 116 database; and OECD calculations.

StatLink https://stat.link/4s1b69

Latvia: Demand, output and prices

Latvia	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2020 prices)				
GDP at market prices	32.3	1.8	1.7	-0.3	1.9	2.5
Private consumption	18.0	5.1	-1.0	0.1	2.1	2.2
Government consumption	7.0	2.4	7.0	6.6	2.3	2.3
Gross fixed capital formation	7.4	-1.6	9.9	-4.7	1.5	2.6
Final domestic demand	32.4	3.0	3.0	0.2	2.0	2.3
Stockbuilding¹	0.9	-1.7	1.1	-1.0	0.2	0.0
Total domestic demand	33.3	1.1	3.7	-0.8	2.3	2.4
Exports of goods and services	21.6	11.4	-4.7	-2.2	1.1	2.7
Imports of goods and services	22.6	9.9	-2.0	-2.9	1.6	2.5
Net exports¹	- 1.0	0.7	-2.0	0.6	-0.4	0.0
Memorandum items						
GDP deflator	_	9.8	6.4	1.7	1.9	2.1
Harmonised index of consumer prices	_	17.2	9.1	1.2	2.0	2.1
Harmonised index of core inflation²	_	7.6	8.4	3.8	3.2	2.3
Unemployment rate (% of labour force)	_	6.8	6.5	6.9	6.7	6.6
Household saving ratio, net (% of disposable income)	_	-2.0	3.5	6.0	5.7	5.3
General government financial balance (% of GDP)	_	-4.9	-2.4	-3.0	-3.0	-2.8
General government gross debt (% of GDP)	_	54.5	55.1	57.8	60.0	61.7
General government debt, Maastricht definition³ (% of GDP)	_	44.4	45.0	47.7	49.9	51.7
Current account balance (% of GDP)	_	-5.5	-3.9	-1.8	-3.0	-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 116 database.

StatLink https://stat.link/u0f9ne

Fiscal policy will ease next year before tightening in 2026

EU Recovery and Resilience Facility grants will finance investment, training and digital adoption measures for small businesses, with average yearly spending of about 1.5% of GDP in 2025-26. Spending on social protection and public services will increase by 1.5% and 0.4% of GDP, respectively, and internal security and defence spending will be raised by 0.3% of GDP by 2026. An increase of 0.5% of GDP in both government consumption and interest expenses add to spending pressures. According to the 2025 budget, this will be only partly financed by additional revenues from 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, resulting in a projected rise in the public debt-to-GDP ratio. The replacement of the differentiated non-taxable minimum income by a common non-taxable minimum will be financed by higher personal income tax rates.

The recovery will be driven by private and public consumption

Real GDP growth will rebound to 1.9% in 2025 and 2.5% in 2026. Increasing household real incomes will boost private consumption over the next two years but rising unit labour costs will restrain export growth. Delays in the absorption of EU funds due to skilled labour shortages, rising construction costs and weak capacity in infrastructure planning will limit public investment growth. Business and residential investment will pick up as financing conditions ease. Tight labour markets and planned increases in minimum wages will generate strong wage growth and sticky core inflation. Intensified regional geopolitical risks could increase risk premiums and hamper foreign direct investment inflows. On the upside, stronger-than-expected growth in the rest of the euro area would boost exports.

Raising investment and addressing skills shortages would support growth

Listing state-owned enterprises would help improve their governance and attract investors. This could deepen capital markets and raise access to finance for other firms. Improving public procurement and infrastructure planning capacity is key for the successful implementation of EU funds and raising productivity. Reducing social security contributions for low-income earners or raising the progressivity of personal income taxes and stepping up enforcement efforts would help to reduce informality. This also requires raising trust in institutions and continuing the fight against corruption, for example by applying the heavy fines for tax evasion and bribery that current legislation allows, while ensuring that they are proportionate. Lowering occupation-specific restrictions for migrants can help to reduce skilled labour shortages, while investing more in childcare facilities would increase the labour supply of women. Establishing a tri-partite training fund and improving cooperation in training design and implementation among firms and training providers would help address skilled labour shortages. Phasing out tax expenditures for fossil fuels, as used for example in agriculture and heating, would help achieve the planned reduction in GHG emissions.

Lithuania

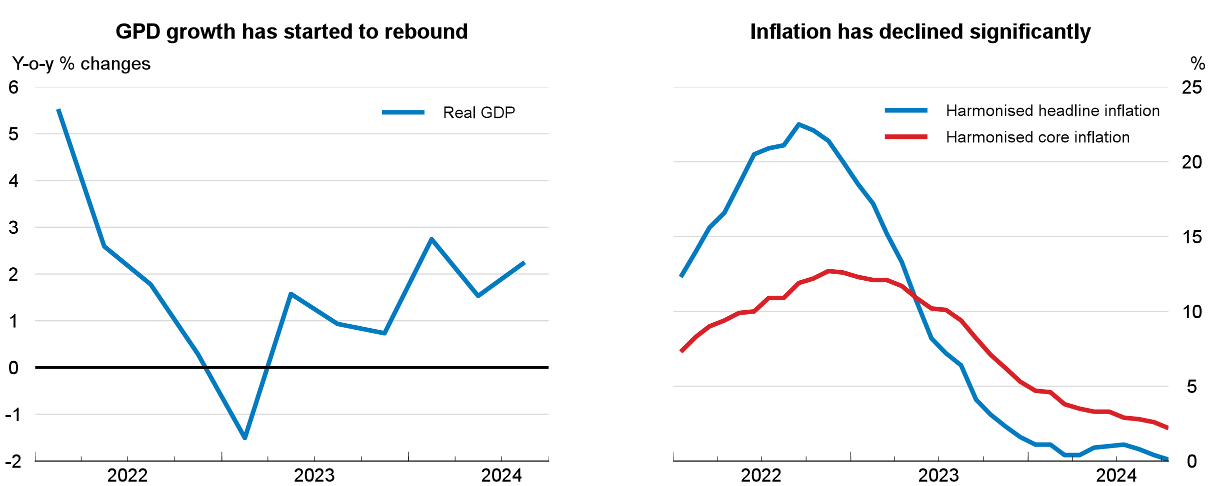
After stagnating in 2023, GDP is projected to increase by 2.4% in 2024, 3.1% in 2025 and 2.8% in 2026. Strong real wage gains, especially until mid-2025, will support a pickup in private consumption, and exports will continue to increase along with demand from Lithuania's main trading partners. The main risks to the outlook are related to economic activity in the euro area, global energy prices and geopolitical tensions.

Fiscal policy is expected to tighten slowly over 2025-26, but more could be done to prepare for emerging spending needs by increasing spending efficiency and property tax revenues, and limiting informal economic activity. Encouraging immigration at all skill levels and increasing the employability of younger and older workers would help alleviate labour shortages. Developing domestic capital markets, increasing R&D spending, and improving digital skills would help support productivity growth and sustain living standards despite population ageing.

Growth has started to rebound

GDP growth has been gaining momentum since mid-2023, supported by declining inflation and stronger exports. While core inflation was 2.2% in October 2024, headline inflation has stayed at or below 1.1% since the beginning of 2024 amid falling energy prices. The labour market is tight, with vacancies at a historically high level, especially in ICT, finance, trade and accommodation, and professional and administrative services. This contributes to strong nominal wage growth, above 10% year-on-year in 2024Q2. In this context, consumer confidence is high, but business confidence remains subdued.

Lithuania



Note: Inflation measure based on the harmonised index of consumer prices (HICP).
Source: Statistics Lithuania.

StatLink https://stat.link/709u8g

Lithuania: Demand, output and prices

Lithuania	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2021 prices)				
GDP at market prices	56.7	2.5	0.3	2.4	3.1	2.8
Private consumption	31.9	2.0	-0.3	3.1	4.5	3.9
Government consumption	9.9	1.2	-0.2	0.8	0.9	0.8
Gross fixed capital formation	12.7	5.2	9.3	-3.3	3.8	4.1
Final domestic demand	54.5	2.6	1.9	1.2	3.7	3.4
Stockbuilding[1]	- 0.4	-0.3	-3.3	-0.7	0.4	0.0
Total domestic demand	54.2	2.9	-0.8	0.6	4.2	3.5
Exports of goods and services	45.1	12.4	-3.4	3.8	4.3	4.3
Imports of goods and services	42.6	12.7	-5.3	2.1	5.5	5.3
Net exports[1]	2.5	0.3	1.8	1.4	-0.6	-0.5
Memorandum items						
GDP deflator	_	16.1	9.0	4.0	3.3	2.7
Harmonised index of consumer prices	_	18.9	8.7	0.9	2.3	2.4
Harmonised index of core inflation[2]	_	10.5	9.6	3.3	2.6	2.4
Unemployment rate (% of labour force)	_	5.9	6.8	7.4	6.9	6.3
Household saving ratio, net (% of disposable income)	_	1.2	4.1	9.2	8.9	8.3
General government financial balance (% of GDP)	_	-0.7	-0.7	-1.8	-1.6	-1.3
General government gross debt (% of GDP)	_	37.7	38.5	39.7	40.7	41.4
General government debt, Maastricht definition[3] (% of GDP)	_	38.1	37.3	38.6	39.5	40.2
Current account balance (% of GDP)	_	-6.1	1.1	3.7	3.0	2.5

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 116 database.

StatLink https://stat.link/yl32dm

Global oil and food prices are expected to remain lower over 2024-26 than over 2022-23, thus allowing disinflation to continue. Export market growth has regained momentum and is expected to continue at the same pace as in mid-2024 over 2025-26.

Financial conditions are improving and fiscal policy is slowly tightening

Financial conditions are improving as interest rate spreads vis-à-vis Germany are expected to stabilise slightly above 1 percentage point (pp) in 2025-26, down from 2.2pp in late 2022. The headline fiscal deficit is expected to increase from 0.7% in 2023 to 1.8% in 2024, 1.6% in 2025 and 1.3% in 2026, mainly related to pension benefit and public wage growth. The significant increase in pensions is due to recent measures to limit old-age poverty amid high inflation. Public wage growth is expected to ease in the future, in line with private wage growth. Adjusting for the cycle and interest payments, the fiscal stance is slowly tightening and will be mildly restrictive in 2026. The inflow of RRP funds is expected to increase in 2025 before slowing in 2026.

Private consumption and exports will continue to support growth

GDP is projected to increase by 2.4% in 2024, 3.1% in 2025 and 2.8% in 2026. Sustained real wage gains and increasing consumer confidence are expected to support a pickup in household consumption. Investment is declining in 2024 after an exceptionally strong 2023, and amid low capacity utilisation and subdued business confidence, but it will gain momentum over 2025-26. Exports will continue to rise along with demand from Lithuania's main trading partners. While Lithuania has been able to stop all imports of oil, gas and electricity from Russia in early 2022 and renewable energy sources are expanding at a rapid pace, the economy is vulnerable to fluctuations in global energy prices. Lower-than-expected growth in the rest of the euro area, which represents over 40% of Lithuania's exports, would also harm domestic growth.

Strengthening potential growth and fiscal sustainability is crucial

Lithuania will face a major demographic shock that will weigh on potential growth and competitiveness. Consolidating the recent reversal in migration by encouraging the return of Lithuanians living abroad and attracting foreign workers of all skill levels will be key to alleviate labour shortages. Extending the standard duration and flexibility of residence permits for non-EU migrants meeting certain qualification, experience and integration criteria would increase the attractiveness of Lithuania. There is also room to support the employability of younger workers by reforming vocational education, and of older workers by improving health conditions. Improving health outcomes in a cost-effective way will require further rationalising the hospital network, addressing healthcare staff shortages, and promoting healthier lifestyles. The expected demographic change will also increase pension-related costs, with high old-age poverty and low life expectancy for men making it difficult to contain them. In this context, building additional fiscal space will be key to ensure fiscal sustainability. This will require increasing the efficiency of public spending and property tax revenues, and encouraging formal economic activity. Strengthening productivity growth will be key to sustain living standards despite population ageing. Possible avenues to do so include developing domestic capital markets, increasing R&D spending, and improving digital skills.

Luxembourg

Real GDP is projected to grow by 1.2% in 2024, 2.3% in 2025 and 2.4% in 2026. Private consumption will remain robust as households' real disposable income will be bolstered by a further round of wage indexation and receding inflation. Lower interest rates will help the financial and construction sectors to gradually recover. A faster than expected recovery in these sectors represents the main upside risk, while lower export demand due to weaker-than-expected economic activity in the euro area in 2025 and 2026 represents the main downside risk.

The fiscal stance will continue to gradually tighten over 2025-26. The headline budget balance will remain slightly negative in 2025 and 2026, but the deficit will gradually narrow. The fiscal stance seems broadly appropriate, but energy price ceilings should be removed as prices have moderated and household incomes have been supported by wage indexation. A comprehensive reform of the pensions system is needed to ensure long-run sustainability of the public finances. Addressing skills shortages by strengthening quality standards for training providers and raising the attractiveness of Luxembourg for foreign workers is key to promote sustainable growth in the long term.

Economic activity is gradually recovering

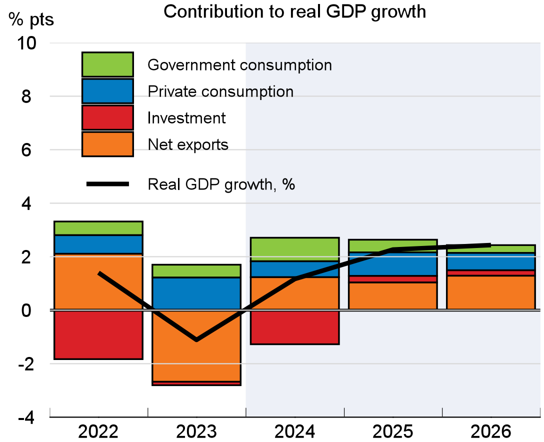
Industrial production and construction activity have remained subdued in the first half of 2024 and business sentiment has struggled to improve. However, both transactions and prices in the housing market seem to have bottomed out. Lower interest rates have spurred the demand for mortgages and have fuelled a modest rebound in the financial sector. The number of unfilled job vacancies has come down from its peak in 2022 but remains higher than before the pandemic despite a relatively high unemployment rate. The wage indexation mechanism has prevented real wages from falling, safeguarding households' purchasing power and supporting private consumption despite weak consumer sentiment. Both headline and core inflation have continued to fall, with annual headline inflation reaching 0.9% in October. Core inflation has been stickier, remaining at 1.9% in October, and this is mainly due to services inflation, which stood at 2.9% in October.

Net exports have grown in the first half of 2024, sustaining the recovery. The current account has improved, mainly due to higher exports of financial services, while goods exports have stabilised. The increase in unit labour costs relative to other EU countries since early 2022 represents a risk for international competitiveness.

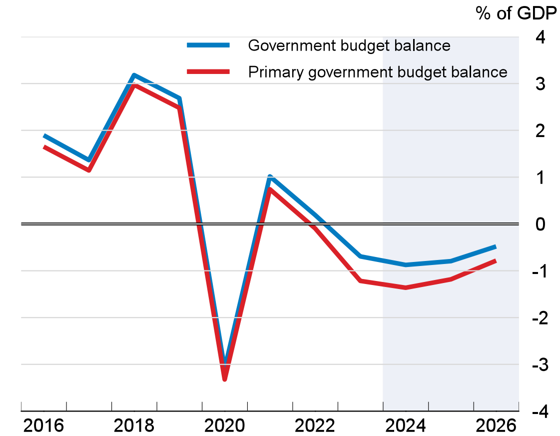
Luxembourg

Economic activity will continue to recover

Contribution to real GDP growth



The government budget balance will remain negative



Source: OECD Economic Outlook 116 database; and OECD calculations.

StatLink https://stat.link/xpi87k

Luxembourg: Demand, output and prices

Luxembourg	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	72.3	1.4	-1.1	1.2	2.3	2.4
Private consumption	22.0	2.3	4.0	1.9	2.8	2.0
Government consumption	12.6	2.9	2.7	4.7	2.4	1.5
Gross fixed capital formation	13.1	-7.3	-0.8	-5.3	1.8	1.2
Final domestic demand	47.7	-0.1	2.4	0.8	2.4	1.7
Stockbuilding[1]	0.5	-0.5	0.0	-0.3	-0.1	0.0
Total domestic demand	48.2	-0.4	2.4	0.3	2.4	1.7
Exports of goods and services	154.2	-0.6	-1.4	0.6	2.8	2.9
Imports of goods and services	130.1	-1.9	-0.1	0.0	2.7	2.8
Net exports[1]	24.1	2.1	-2.7	1.2	1.0	1.3
Memorandum items						
GDP deflator	_	6.1	3.6	3.1	2.6	1.7
Harmonised index of consumer prices	_	8.2	2.9	2.3	2.4	1.9
Harmonised index of core inflation[2]	_	4.2	3.9	2.6	2.3	1.9
Unemployment rate (% of labour force)	_	4.8	5.2	5.8	6.0	5.9
Household saving ratio, net (% of disposable income)	_	11.6	13.0	13.4	11.3	11.3
General government financial balance (% of GDP)	_	0.2	-0.7	-0.9	-0.8	-0.5
General government gross debt (% of GDP)	_	29.5	31.3	31.5	31.3	31.3
General government debt, Maastricht definition[3] (% of GDP)	_	24.5	25.4	25.6	25.5	25.5
Current account balance (% of GDP)	_	6.7	5.9	7.5	3.8	5.7

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 116 database.

StatLink https://stat.link/r8taf9

Fiscal policy will gradually become more restrictive

The fiscal balance has declined in 2024, mainly reflecting lower revenues due to tax relief for businesses to compensate for past rounds of wage indexation and the adjustment of tax brackets to account for past inflation. In 2025, the fiscal stance will be broadly neutral, as the scaling back of energy support will be offset by higher public investment, tax measures for households and a corporate income tax cut. In 2026 the fiscal stance is expected to become slightly restrictive, as energy policy support is completely phased out.

Economic growth will stabilise

Growth is projected to gradually strengthen over 2025 and stabilise in 2026. The easing of financial conditions will sustain the financial sector and help the construction sector to slowly recover. Private consumption will remain robust as disposable real income is going to be bolstered by a further round of wage indexation in 2025. The unemployment rate should peak around 6% in 2025 before gradually starting to decrease as activity picks up. Core and headline inflation are projected to continue to decline and reach 1.9% towards the end of 2026, although headline inflation is expected to pick up modestly in 2025 as energy price support is scaled back. Import growth is projected to strengthen in 2025, mainly due to a projected increase in machinery investment. This will reduce the contribution of net exports to GDP growth, but lower interest rates are projected to continue to foster exports of financial services, bolstering net exports in 2026. Risks are broadly balanced, with a faster than-expected recovery in finance and construction representing the main upside risk, while a slowdown of economic activity in the euro area in 2025 and 2026 may reduce growth by weakening exports.

Reforms are needed to boost innovation and ensure the sustainability of the pension system

The broadly neutral fiscal stance appears appropriate as the economy gradually recovers and the debt-to-GDP ratio remains low. However, energy policy support should be fully unwound as energy prices have moderated and household incomes have been supported by wage indexation. The key fiscal priority is to put the pension system on a sustainable footing, as pension expenditure is expected to sharply increase over the next few decades. Luxembourg further needs to implement structural reforms to transition to a growth model based on innovation and productivity growth. To tackle skills shortages and raise productivity, strengthening quality standards for training providers will be essential. Promoting the use of public transport and alternative sustainable commuting options by increasing capacity and expanding the network will lower emissions and raise the attractiveness of Luxembourg for cross-border workers.

Malaysia

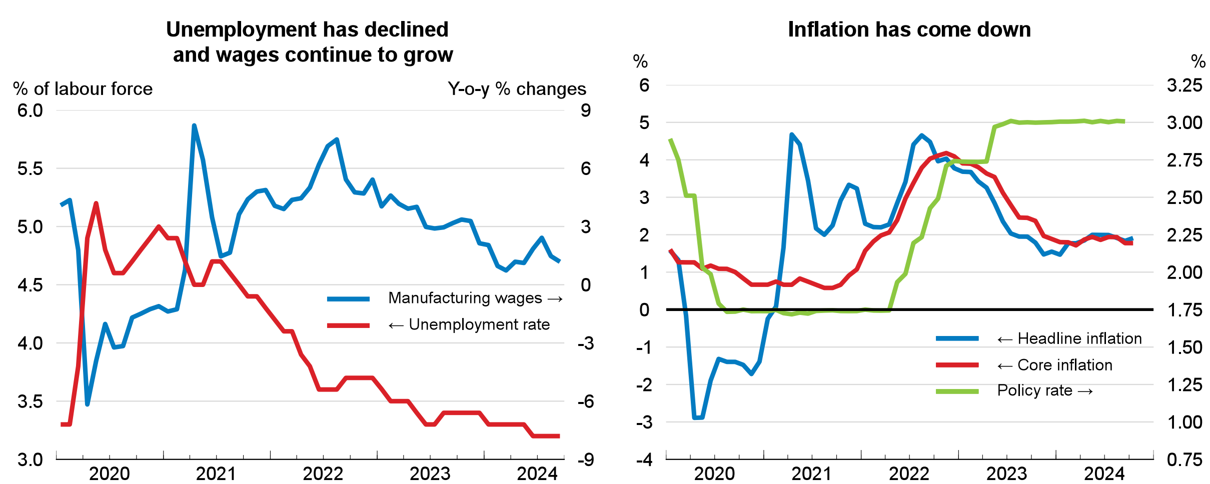
Output is projected to increase by 5.1% in 2025 and 4.8% in 2026. Domestic demand will be the primary driver of growth. Private consumption is likely to remain strong and favourable labour market conditions. Stronger external demand is expected to support steady export growth. Investment is projected to benefit from new opportunities in technology-intensive sectors and the expected rebound in exports. Despite an expected uptick of inflation related to the planned withdrawal of fuel subsidies, and risks around the size of this uptick, inflation is expected to remain below its long-run average.

Government debt has increased rapidly and raising the pace of fiscal consolidation will be required to rebuild fiscal space, including by mobilising more tax revenues and phasing out fuel subsidies, while strengthening support to vulnerable groups. The current neutral monetary policy stance should be maintained given the tight labour market. Substantial gender gaps are holding back economic opportunities for women, which could be addressed by investing more into childcare support and promoting workplace flexibility. Reducing skill mismatches could boost both growth and social inclusion.

Growth is picking up

GDP growth slowed to 1.8% in the third quarter from 2.9% in the previous quarter, largely due to a contraction in private consumption . Both headline and core inflation have been falling and stood at 1.9% and 1.8%, respectively, in October. Unemployment has continued to fall, reaching 3.2% in September, lower than the pre-pandemic level, while the manufacturing wage bill has been improving steadily. Job vacancies are above their 2019 level and particularly high in the services sector. A higher minimum wage and more public spending on social assistance, in combination with higher salaries for civil servants, are likely to support private consumption.

Malaysia



Source: CEIC.

StatLink https://stat.link/3elfvo

Malaysia: Demand, output and prices

Malaysia	2021	2022	2023	2024	2025	2026
	Current prices MYR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	1 548.7	8.9	3.6	5.7	5.1	4.8
Private consumption	898.4	11.3	4.7	5.6	4.5	4.9
Government consumption	195.7	5.1	3.3	5.4	5.9	4.1
Gross fixed capital formation	298.7	6.8	5.5	12.9	7.5	5.2
Final domestic demand	1 392.8	9.4	4.6	7.1	5.4	4.8
Stockbuilding[1]	44.0	0.2	0.1	-1.1	0.0	0.0
Total domestic demand	1 436.7	9.5	4.7	5.9	5.3	4.8
Exports of goods and services	1 093.9	14.5	-8.1	9.9	6.5	5.2
Imports of goods and services	981.9	16.0	-7.4	10.5	6.9	5.2
Net exports[1]	112.0	-0.1	-0.9	0.0	0.0	0.2
Memorandum items						
GDP deflator	_	6.4	-1.9	0.9	1.8	2.2
Consumer price index	_	3.4	2.5	2.2	2.7	2.4
Core inflation index[2]	_	3.0	3.0	2.0	2.5	2.4
Current account balance (% of GDP)	_	3.2	1.5	1.6	1.3	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 116 database.

StatLink https://stat.link/z8ds9m

Exports of goods and services were 8.5% higher in real terms than a year earlier during the first three quarters of 2024. Nominal merchandise exports to the United States, Malaysia's third largest export destination, increased by 19.2%, while exports to China, the country's second largest export market, decreased by 2.4%. Tourist arrivals in the first nine months of 2024 increased by 27% year-on-year, reaching 91% of the same period in 2019. Tourist arrivals from China, including Macau and Hong Kong, almost tripled compared with the same period in 2023.

Monetary policy should remain neutral while fiscal policy is consolidating

The monetary authorities have maintained the policy rate at 3% since May 2023. With inflation below its long-term average of 2%, the current neutral monetary policy stance appears appropriate and provides room to accommodate a temporary increase in inflation as energy subsidies are withdrawn. At the same time, the central bank should stand ready to raise interest rates to counter possible second-round effects from higher energy prices if needed. Fiscal policy is set to continue the ongoing consolidation, which will help to reduce public debt and create fiscal space for upcoming spending pressures from ageing, decarbonisation and rising demand for social protection. The 2025 budget aims to reduce the federal government deficit to 3.8% of GDP in 2025, down from 4.3% in 2024, consistent with the medium-term fiscal framework target of a reduction to 3.0% by 2028. A reduction in petrol subsidies has been announced for mid-2025, which will improve the quality of public spending and support decarbonisation efforts. Revenues are expected to rise due to base broadening in income and consumption taxes, and improvements in tax collection.

The economy will grow steadily

Output is projected to grow by 5.1% in 2025 and 4.8% in 2026. Private consumption is expected to remain robust, with inflation remaining at low levels and favourable labour market conditions. Private investment will be supported by new opportunities in technology-intensive sectors and the expected increases in exports. Infrastructure projects and investments by public corporations will support public investment.

Inflation is projected to rise in 2025 reflecting progress in reducing energy, but the effects should only be temporary. With trade amounting to 147% of GDP, Malaysia faces significant downside risks if global demand is weaker than expected.

Structural reforms can reduce inequalities and make growth more sustainable

Improving the targeting of social protection while raising social assistance coverage and benefit levels would allow stronger reductions of poverty and inequality. Better access to childcare and a better alignment of tertiary education curriculums with labour market needs would allow more workers, including women, to participate in the labour market and find jobs that match their skills. Addressing climate change requires implementing the planned withdrawal of fossil fuel subsidies and a stronger role for carbon pricing, complemented by stricter regulations. The introduction of a carbon tax on the energy, steel and iron sectors, foreseen in the 2025 budget with an implementation by 2026, is a first welcome step towards using price signals to achieve emission reduction targets

Mexico

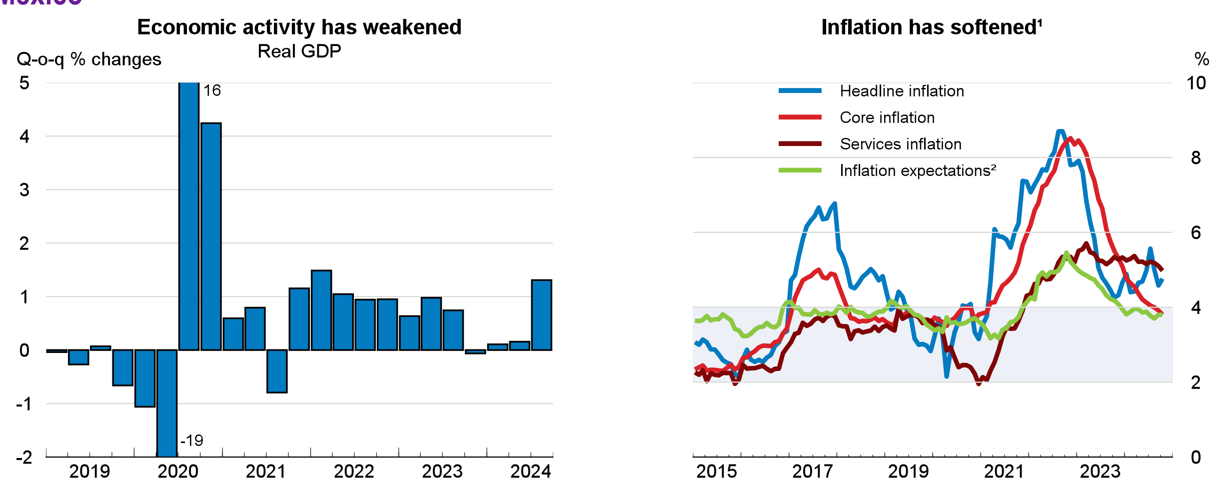
The economy is projected to expand moderately, growing by 1.4% in 2024, 1.2% in 2025 and 1.6% in 2026. This steady growth reflects easing inflationary pressures, which will help support consumption, and a gradual decline in interest rates that will stimulate investment, despite fiscal consolidation efforts in 2025. Export growth is expected to remain strong, driven by favourable economic conditions in the United States. Inflation will keep edging down to 3.3% in 2025 and 3% in 2026.

To ensure that inflation continues to decrease towards target, the central bank should continue its prudent and gradual easing cycle. Implementing a medium-term fiscal plan could help reduce the deficit gradually, creating room for investments that boost productivity, such as education and infrastructure. Additionally, a comprehensive early childhood education and care system could foster the labour market participation of women and expanding dual vocational programmes could boost the availability of technical skills and access to formal jobs.

Domestic demand has weakened

Short-term indicators suggest that the domestic demand weakness, which began at the end of 2023, persists. Slowing private consumption in both goods and services is linked to lower job creation in the industrial sector. Investment has also softened, with public investment stagnating after the completion of major infrastructure projects in the South and private investment weakening as well. Recent judicial reforms have created uncertainties and domestic and international investors' confidence has deteriorated. Exports have remained resilient, supported by robust demand for durable goods from the United States. Headline inflation increased to 4.8% (year-on-year) in October, reflecting volatility in energy and agricultural prices. Core inflation fell to 3.8% in October, though persistent inflationary pressures in the services sector, at 5%, suggests price stabilisation remains uneven across the economy.

Mexico



1. The shaded area represents the central bank's inflation target range.
2. Private sector inflation expectations for the next 12 months.
Source: OECD Economic Outlook 116 database; and Bank of Mexico.

StatLink https://stat.link/3vwyhu

Mexico: Demand, output and prices

Mexico	2021	2022	2023	2024	2025	2026
	Current prices MXN billion	Percentage changes, volume (2018 prices)				
GDP at market prices	26 690.0	3.7	3.2	1.4	1.2	1.6
Private consumption	18 236.2	4.9	5.0	2.8	1.0	1.3
Government consumption	3 043.9	1.7	2.1	1.9	0.8	1.4
Gross fixed capital formation	5 687.6	7.5	18.0	4.5	1.4	1.9
Final domestic demand	26 967.7	5.1	7.4	3.1	1.1	1.4
Stockbuilding[1]	237.7	0.0	0.0	0.0	0.0	0.0
Total domestic demand	27 205.4	5.1	7.1	3.0	1.1	1.4
Exports of goods and services	10 827.9	8.9	-7.4	-1.9	3.9	4.4
Imports of goods and services	11 343.3	7.6	5.0	2.7	2.9	3.8
Net exports[1]	- 515.4	0.3	-5.4	-1.9	0.1	-0.1
Memorandum items						
GDP deflator	_	6.5	4.5	4.3	3.1	2.6
Consumer price index	_	7.9	5.5	4.7	3.3	3.0
Core inflation index[2]	_	7.6	6.7	4.1	3.0	3.0
Unemployment rate[3] (% of labour force)	_	3.3	2.8	2.7	2.8	2.8
Government financial balance[4] (% of GDP)	_	-3.2	-3.4	-5.0	-3.2	-2.7
Government gross debt[4] (% of GDP)	_	49.4	48.5	52.1	52.1	51.6
Current account balance (% of GDP)	_	-1.4	-0.3	-0.6	-0.7	-0.6

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 116 database.

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The labour market remains strong, despite an uptick in unemployment to 2.7% in September, still near historically low levels. Formal job creation has recently lost dynamism, particularly in the industrial sector. The informality rate is at 54.2%, 3.4 percentage points below its historical average. While data on job vacancies in Mexico is unavailable, recent analyses indicate a tight labour market, with firms struggling to find and retain workers, especially ones with technical skills. Female labour force participation has increased recently, but remains significantly lower than in regional peers and other OECD countries. Domestic and caregiving responsibilities disproportionately fall on Mexican women, limiting their opportunities to complete education or fully participate in the labour market.

Monetary policy easing should be gradual and the fiscal deficit is set to be reduced

The central bank has continued its monetary easing, lowering the policy rate to 10.25%. However, with headline inflation still above the target range and persistent price pressures in services, further rate cuts should be gradual and dependent on data. The policy rate is assumed to gradually decline to 7.50% by the end of 2025 and fall further in 2026. Meanwhile, the public deficit has widened to 5% of GDP in 2024, the highest level in 35 years, due to increased spending on flagship infrastructure projects, universal non-contributory pensions and additional support for PEMEX, the state-owned oil company. In line with government plans, the deficit is assumed to be reduced to 3.2% in 2025, primarily by cutting public investment, and to 2.7 in 2026. By the end of 2026, the gross public debt-to-GDP is expected to be just under 52% of GDP.

Growth will remain moderate

The economy is projected to expand by 1.2% in 2025 and by 1.6% in 2026. Private consumption will be supported by low unemployment and declining inflation. Private investment will gradually benefit from lower interest rates, but public investment will remain subdued to reduce the fiscal deficit. Exports will continue to benefit from deep integration in manufacturing value chains. Headline and core inflation will continue to gradually slow and return below the 3% target by the third quarter of 2025. However, the inflation outlook remains uncertain. A risk is that inflation may be more persistent than anticipated, particularly in services. Greater global risk aversion and unforeseen effects from recent institutional reforms in Mexico could weigh on investment and growth. On the upside, nearshoring could boost investment and exports by more than projected.

Boosting productivity and fighting climate change are priorities

Making more systematic use of sound cost-benefit analysis, broadening the personal income tax base, enhancing immovable property tax collection and improving tax administration efficiency would help to finance increased spending on critical areas like education and infrastructure. Expanding dual vocational programmes would enhance the availability of technical skills. Encouraging private investment in renewable energy through supportive regulations could transform Mexico's vast renewable resources into a competitive advantage. Additionally, improving water management would not only mitigate operational risks but would also strengthen Mexico’s appealing for nearshoring by promoting environmental sustainability and resource efficiency.

Netherlands

Growth is projected to strengthen from 0.9% in 2024 to 1.6% in 2025 and 2026, driven by improving private consumption and higher external demand. Headline inflation will remain elevated, decreasing only slowly from 3.2% in 2024 to 2.5% in 2026 as price pressures in labour-intensive services persist on the back of a tight labour market and continuous strong wage growth. Unemployment will rise slightly, from 3.7% in 2024 to 3.9% in 2026.

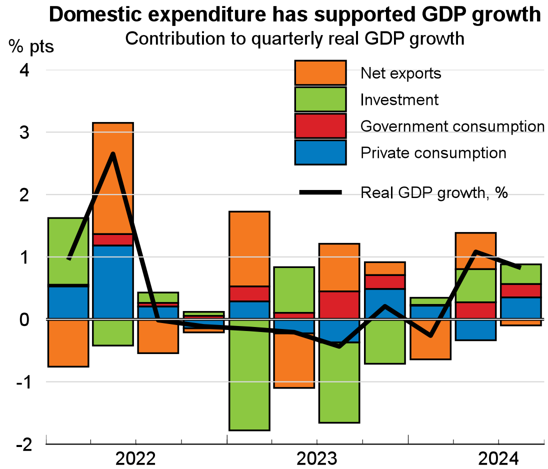
The fiscal stance is expansionary, following underinvestment of budgeted funds in 2023, with government expenditure on debt interest, social and health care, and defence set to increase over the projection period. While a more prudent fiscal stance is required, the fiscal position is healthy and the government should continue to tackle structural challenges, focusing on investments in the green transition and easing labour shortages through productivity enhancing measures while also boosting labour supply through reforms to the tax-benefit system.

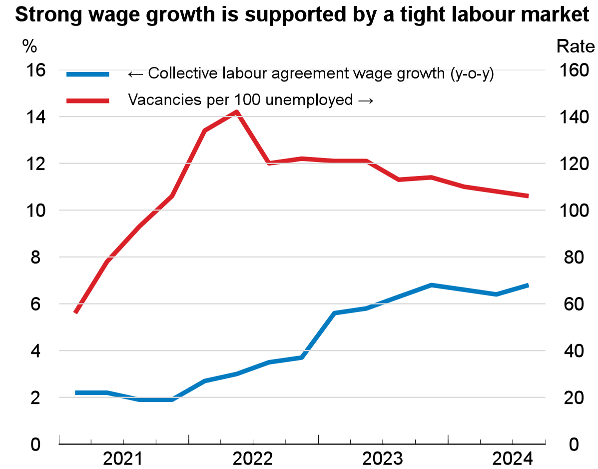
The economy is improving

GDP increased by 0.8% in the third quarter of 2024, following a 1% pick up in the second quarter. Recent improvements were primarily driven by both private and public consumption, as well as investment. Headline and core inflation both stood at 3.3% in October 2024, as a tight labour market continues to exert upward pressure on costs. Job vacancies per unemployed person are still above pre-pandemic levels, even though bankruptcies have been rising since mid-2022 and surpassed pre-pandemic levels in early 2024, freeing up some labour. Wage rates under collective labour agreements continued to increase and were 6.8% higher in the third quarter of 2024 than a year earlier. Real wage growth exceeded its 2019 level in the first quarter of 2024, and while consumer confidence has improved compared to the beginning of 2024, it remained well below its long-term average in November. Business sentiment has picked up over the course of 2024 but remains low amidst persisting and widespread labour shortages across sectors and skill levels.

As a small open economy, the Netherlands is sensitive to global trade developments. While recent improvements in trade positively affected output, the current weakness in key EU trading partners has led to a deterioration in manufacturer’s assessments of near-term export conditions.

Netherlands





Source: OECD Economic Outlook 116 database; Statistics Netherlands (CBS).

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Netherlands: Demand, output and prices

Netherlands	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2021 prices)				
GDP at market prices	891.3	5.0	0.1	0.9	1.6	1.6
Private consumption	380.5	6.9	0.8	0.8	2.0	1.7
Government consumption	226.2	1.3	2.9	3.0	1.1	0.8
Gross fixed capital formation	184.6	3.4	1.2	-1.2	1.0	0.9
Final domestic demand	791.2	4.5	1.5	1.0	1.5	1.3
Stockbuilding[1]	13.6	0.5	-2.3	-0.1	0.2	0.0
Total domestic demand	804.8	5.0	-0.9	0.9	1.7	1.3
Exports of goods and services	769.6	4.5	-0.4	0.0	2.1	2.3
Imports of goods and services	683.1	4.4	-1.7	0.0	2.3	2.1
Net exports[1]	86.6	0.5	1.1	0.0	0.1	0.4
Memorandum items						
GDP deflator	_	6.2	7.3	5.1	2.1	2.1
Harmonised index of consumer prices	_	11.6	4.1	3.2	2.7	2.5
Harmonised index of core inflation[2]	_	4.8	6.4	3.3	3.1	2.5
Unemployment rate (% of labour force)	_	3.5	3.5	3.7	3.8	3.9
Household saving ratio, net[3] (% of disposable income)	_	12.7	12.7	12.8	13.6	13.5
General government financial balance (% of GDP)	_	0.0	-0.4	-1.3	-2.1	-2.4
General government gross debt (% of GDP)	_	52.7	49.8	49.8	51.0	52.6
General government debt, Maastricht definition[4] (% of GDP)	_	48.4	45.1	45.1	46.3	47.9
Current account balance (% of GDP)	_	6.6	9.9	10.1	10.3	10.4

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. 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 116 database.

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Fiscal policy is expansionary

The fiscal deficit is set to widen from 1.3% of GDP in 2024 to 2.4% of GDP in 2026, in line with government plans for higher social security and health care spending. After underinvestment in budgeted resources in 2023, government spending on infrastructure, nitrogen and climate policy, and defence will increase. The government plans to support low- and middle-income household purchasing power through the introduction of a new reduced tax bracket in income taxation, reducing revenues by about 0.4% of GDP. Additional measures include an increase in the rent allowance and the extra payment for low-income families' children. These spending increases are partially offset by spending cuts in education, public services and development aid. Overall, the debt ratio is expected to rise from the historically low level of 45.1% of GDP in 2023 to 47.9% in 2026.

Growth will strengthen

GDP growth is set to be 0.9% in 2024 and rise to 1.6% in 2025 and 2026, supported by improving global trade. Private consumption is expected to strengthen, supported by a boost in real income as wages catch up to past peak inflation. Annual headline inflation will slow from 3.2% in 2024 to 2.7% in 2025 and 2.5% in 2026. Core inflation is expected to remain stickier at above 3% until mid-2025 before slowing to 2.5% in 2026, with strong wage growth continuing to exert upward pressure. Unemployment will increase marginally from 3.7% in 2024 to 3.9% in 2026, as a normalising rate of bankruptcies allows for the reallocation of labour. Investment will recover, supported by gradually declining interest rates. The outlook is surrounded by significant risks. Heightened geopolitical tensions could hit external demand and weigh on export growth. A tighter labour market than in the rest of the European Union could increase domestic inflationary pressures as euro area policy rates are lowered, weighing on price competitiveness, purchasing power and household consumption. On the upside, households could spend a greater share of their excess savings, supporting growth.

Reforms are needed to tackle a tight labour market

The Netherlands' healthy fiscal position allows for a moderately expansionary stance, but spending pressures due to population ageing and significant investment needs for the green transition will arise in the medium term. To increase the share of renewables in the energy mix, the government needs to support investment in the electricity grid. The government should address long-standing structural challenges, focussing on easing labour market pressures and supporting productivity. Simplifying the tax and benefits system and removing distortions towards certain types of investment could ease tensions in the labour market and increase productivity-enhancing investment. A system with fewer allowances and tax credits could offer greater transparency for the net benefits of additional work hours, thereby increasing working hours. Aligning tax rates and social security contributions across contract types for similar jobs could ease transitions into regular employment, improving upskilling opportunities necessary for increased labour productivity. Enhancing digital skills and increasing the adoption of digital technologies could further boost productivity growth.

New Zealand

Economic momentum remained weak in the second half of 2024 and the economy is expected to expand by only 0.6% this year. Growth is projected to pick up to 1.4% in 2025 and 2.1% in 2026 as lower interest rates boost investment and real household income growth lifts private consumption. The difficulty of finding labour has declined, reducing wage pressures. Low and medium skilled labour shortages are not expected to return over the next two years. Feeble economic growth and easing labour market tensions are helping to lower headline inflation, which is expected to remain around 2%. Declining net inward migration, elevated electricity prices and low productivity growth are expected to temper the pace of the recovery.

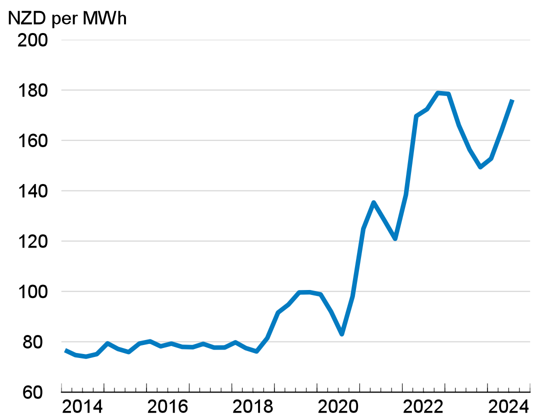
The government should continue its gradual fiscal consolidation to strengthen buffers to cope with future negative shocks. Provided inflation stabilises around 2%, the official cash rate should continue to be gradually reduced in 2025. With migration-fuelled population growth assumed to diminish markedly, a stronger and more sustained recovery requires reforms to improve the functioning of energy markets and lift productivity growth including reinvigorating competition, fostering greater innovation and digitalisation, improving the school achievements of all children, facilitating infrastructure investment, and increasing the local supply of health, teaching, engineering and IT specialists.

Economic growth remains feeble

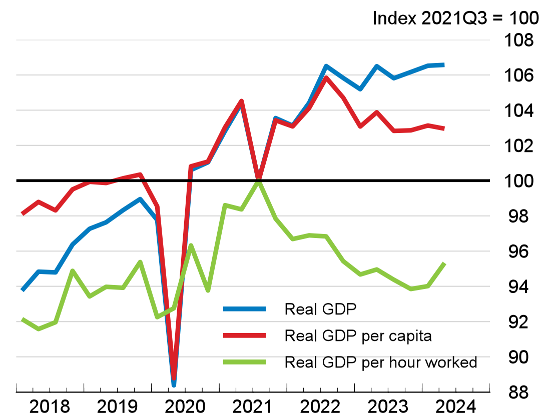
The 525 basis points increase in the monetary policy interest rate through to mid-2023 continues to be felt across the economy. Excluding the effect of strong population growth, which peaked close to 3% per annum due to net inward migration, underlying momentum in the economy is weak. Activity in interest rate sensitive sectors, notably construction, continued to slow and business investment is shrinking. Private consumption would be falling without high population growth. Higher-frequency indicators, including job vacancies, purchasing manager indices and business activity surveys suggest GDP growth remained weak in the second half of 2024. Net inward migration has started to fall, driven by a large exodus of New Zealand citizens. GDP per capita continues to decline and in mid-2024 was 2.5% lower than a year earlier. A sustained upward trend in the futures electricity price is causing firm closures and exerts an additional drag on investment.

New Zealand

Electricity prices for industry have skyrocketed
Wholesale electricity long-dated futures price



Growth is based on increasing labour supply



Source: New Zealand Electricity Authority; and OECD Economic Outlook 116 database.

StatLink https://stat.link/dp4veq

New Zealand: Demand, output and prices

New Zealand	2021	2022	2023	2024	2025	2026
	Current prices NZD billion	Percentage changes, volume (2009/2010 prices)				
GDP at market prices	352.7	2.2	0.9	0.6	1.4	2.1
Private consumption	202.6	3.4	0.4	0.8	1.3	2.1
Government consumption	73.4	5.0	-1.4	0.5	0.4	0.4
Gross fixed capital formation	85.7	3.4	-1.2	-2.5	1.3	2.9
Final domestic demand	361.7	3.7	-0.4	-0.1	1.1	2.0
Stockbuilding[1]	2.6	-0.2	-1.5	0.2	0.0	0.0
Total domestic demand	364.4	3.4	-1.8	0.1	1.2	2.0
Exports of goods and services	77.7	-0.8	11.4	3.4	1.6	1.6
Imports of goods and services	89.4	4.7	-0.6	2.0	0.7	1.2
Net exports[1]	- 11.7	-1.4	2.9	0.3	0.2	0.1
Memorandum items						
GDP deflator	_	5.7	5.3	3.3	2.4	2.0
Consumer price index	_	7.2	5.7	2.9	2.0	2.1
Core inflation index[2]	_	6.0	5.6	3.5	2.1	2.1
Unemployment rate (% of labour force)	_	3.3	3.7	4.7	5.3	4.8
Household saving ratio, net (% of disposable income)	_	-3.0	-6.6	-5.7	-5.6	-6.4
General government financial balance (% of GDP)	_	-2.7	-3.0	-2.9	-2.4	-1.9
General government gross debt (% of GDP)	_	52.9	56.7	60.0	61.8	63.1
Current account balance (% of GDP)	_	-9.1	-7.1	-6.1	-5.1	-5.1

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 116 database.

StatLink https://stat.link/ofhwjc

Looser monetary policy and fiscal consolidation are required

With inflationary pressures waning, the Reserve Bank of New Zealand has appropriately begun to reduce the policy interest rate in August 2024, and monetary policy should ease towards the neutral rate of around 3%. To put public debt on a downwards path, the government should fully implement the fiscal consolidation announced in the 2024 Budget, which is estimated to reduce the structural fiscal deficit by around 1.2 percentage point of GDP between 2024 and 2026. This deficit projection assumes revenue moves broadly in line with the OECD's nominal GDP growth projection of around 4% per annum, while aggregate spending will fall as a share of GDP following the path set out in the 2024 Budget.

Monetary policy easing and tax cuts will underpin a modest recovery

The easing of monetary policy, along with income and other tax cuts (0.5% of GDP) implemented in July 2024, will help underpin a turnaround in the economy, with growth of 1.4% in 2025, rising to 2.1% in 2026. Insufficient supply of high-skilled labour, tapering of the post-pandemic rebound in international tourist arrivals and low productivity growth will temper the recovery. With weak growth, vacancies have declined and generalised labour shortages have faded. Subdued employment growth is expected, resulting in an unemployment rate above 5% in 2025. Rising unemployment may sap consumer confidence, slowing the recovery in private consumption. If electricity futures prices remain high, or rise further, this would cause more firm closures and undermine business investment. However, a high share of mortgages carries a variable rate so lower interest rates, along with planning law reforms may spark a stronger housing market and infrastructure construction recovery than expected.

It is essential to tackle low productivity growth and high electricity futures prices

Despite a recent uptick, labour productivity growth has fallen markedly since 2021. GDP growth has been driven by an expansion of labour supply via migration, 80% of which is low and medium skilled. High bank margins and capital costs reduce demand for credit, and a lack of competition reduces pressure to invest and innovate. As a result, the capital-to-labour ratio and business R&D as a share of GDP are low. The government should foster productivity growth by increasing competition, including by lowering barriers to entry for digital banking platforms. High futures electricity prices for industry will exacerbate productivity problems by weakening business investment, especially in the green and digital transitions, as electricity is a core input for both. The electricity regulators and the government have launched reviews of the electricity market. Despite previous reforms to improve competition, electricity futures prices are high and above the threshold considered sustainable for the economy in the long run. These reviews should re-examine separating the generation and retail operations of large electricity companies to boost competition in the futures market and provide industry with more hedging options Tax credits for R&D should be complemented by increasingly targeted and strictly evaluated grants to industry-research collaborations aimed at productivity enhancing innovations. School education reforms should continue, including increasing the focus on reading, writing, mathematics, and science in initial teacher education. Improvements in school achievement in mathematics and science are needed to build the pre-requisite skills for entering tertiary level studies in health, engineering, and other high-skilled occupations in short supply.

Norway

Mainland GDP is projected to grow by 1.8% in 2025 and 2.0% in 2026, increasingly driven by private sector activity. Higher household disposable income and lower debt servicing costs will push up private consumption. Non-oil investment will recover while interest rates decrease. Petroleum activity will gradually weaken. Inflation has fallen sharply since early 2024 but is now set to decline more slowly, held up by the recent exchange rate depreciation and cost pressures.

The central bank is projected to start cutting the policy rate in early 2025 but to keep a restrictive stance over the projection period as inflation will remain above the 2% target. Fiscal policy is set to be expansionary in 2025 but needs to turn restrictive, while making space for priority spending needs. Policies to reduce skills mismatch would help fill job vacancies more easily, alleviating wage pressures, and boost productivity growth. As the cost of reducing carbon emissions in Norway is very high, the green transition should be accelerated by prioritising lower-cost policies.

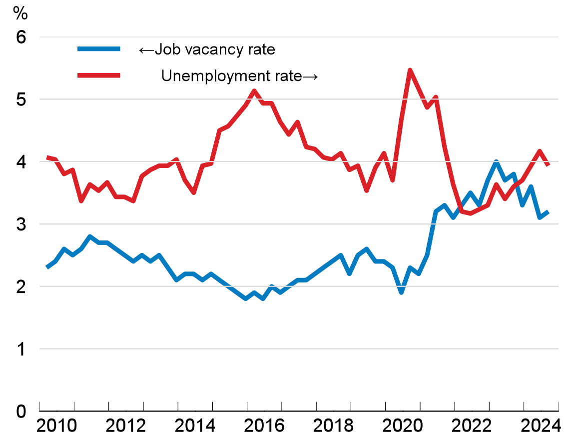
Mainland activity shows signs of recovery

Mainland GDP growth has strengthened somewhat since early 2024, owing in part to government expenditure. Petroleum activity, while volatile, has remained buoyant over the same period. High inflation and large debt servicing costs have weighed on household consumption. Due to high interest rates, housing investment has contracted since early 2023, while business investment growth excluding the offshore sector has remained weak. Headline inflation declined from 4.7% at the beginning of 2024 to 2.6% in October, driven by lower energy prices. Over the same period, core inflation declined from 5.3% to 2.7% as the strong impulse from import prices subsided. With inflation and interest rates having peaked, business confidence and industrial production have improved, and surveys point to higher household demand in the coming months.

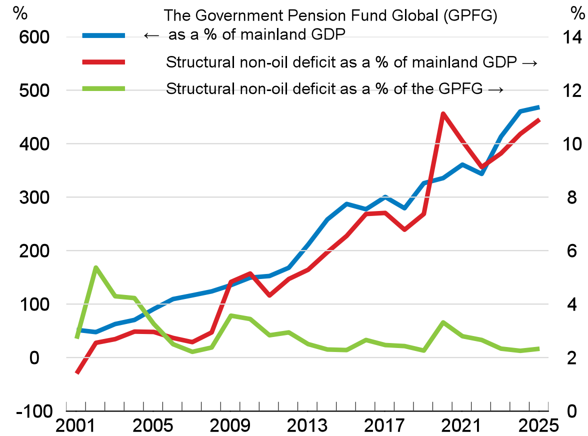
The spring wage negotiation outcome points to a 5.2% increase in nominal wages in 2024, exceeding projected inflation for the first time in three years. Strong wage growth is expected to continue in the coming years, offset only partly by productivity growth. Since the pandemic, labour shortages have become acute. Though declining, the vacancy rate remains high. Services prices, in particular rents, continue to increase strongly. The recent currency depreciation will also push up inflation in the near term.

Norway

Job vacancies remain hard to fill



The structural non-oil deficit is on a rising trend



Source: Statistics Norway; OECD, Labour Statistics; and Ministry of Finance.

StatLink https://stat.link/ai1lfv

Norway: Demand, output and prices

Norway	2021	2022	2023	2024	2025	2026
	Current prices NOK billion	Percentage changes, volume (2022 prices)				
Mainland GDP at market prices[1]	3 315.3	4.3	0.6	0.9	1.8	2.0
Total GDP at market prices	4 323.9	3.2	0.0	1.2	1.7	1.0
Private consumption	1 626.3	7.8	-0.9	1.1	1.8	2.2
Government consumption	970.7	1.8	3.2	2.3	2.1	1.2
Gross fixed capital formation	992.2	0.3	-0.5	-0.8	3.1	2.5
Final domestic demand	3 589.2	4.2	0.3	0.9	2.3	2.0
Stockbuilding[2]	92.6	1.4	-0.8	-1.4	-0.7	0.0
Total domestic demand	3 681.8	5.6	-0.8	-0.7	1.4	2.0
Exports of goods and services	1 860.9	5.2	0.2	3.7	3.2	0.3
Imports of goods and services	1 218.8	13.3	-1.6	1.7	2.5	2.8
Net exports[2]	642.1	-1.5	0.6	1.2	0.6	-0.8
Memorandum items						
GDP deflator	_	28.4	-11.1	-1.2	1.8	2.3
Consumer price index	_	5.8	5.5	3.2	2.6	2.3
Core inflation index[3]	_	3.6	5.8	3.5	2.6	2.3
Unemployment rate (% of labour force)	_	3.2	3.6	4.0	4.1	4.1
Household saving ratio, net (% of disposable income)	_	4.9	5.1	6.4	8.0	8.6
General government financial balance (% of GDP)	_	25.5	16.6	12.6	12.7	12.8
General government gross debt (% of GDP)	_	42.1	50.9	..	..	..
Current account balance (% of GDP)	_	30.1	17.3	15.6	14.9	14.5

1. GDP excluding oil and shipping.
2. Contributions to changes in real GDP, actual amount in the first column.
3. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 116 database.

StatLink https://stat.link/w4t5jr

Fiscal policy will remain expansionary in 2025

The fiscal policy stance will be expansionary in 2025, as the structural non-oil budget deficit will worsen by 0.6 percentage points to 11% of mainland GDP in 2025, according to government estimates. This reflects, among others, an increase in defence spending, which is to reach 2.2% of GDP in 2025. It also reflects an income tax cut targeted at low-income households. The broad energy support to households should have been wound down at the end of 2024 as scheduled, but was extended into 2025 in the new Budget. The rapid rise in the value of the government's oil fund, which determines the threshold of the structural deficit, has considerably expanded fiscal space in recent years. However, transfers from the oil fund are expected to decline in the medium term, calling for fiscal prudence. The OECD projections assume some fiscal consolidation efforts in 2026. As inflationary pressure persists, the central bank is projected to start cutting the policy interest rate only in early 2025. The policy rate is assumed to come down to 3¼ per cent in 2026.

Growth will be less dependent on petroleum activity

Mainland GDP growth will regain momentum. Real wage growth is now positive, which will drive up household consumption. Interest rate declines will sustain non-oil investment. Mainland exports will benefit from the recent currency depreciation. Global oil prices could rise substantially due to geopolitical conflicts, boosting Norway's petroleum revenues. Debt service costs may rise fast if lending requirements are eased, which could lead to a deterioration in loan quality and threaten financial stability. In this respect, the temporary lending regulations introduced to mitigate the build-up of household sector vulnerabilities, which are currently set to expire by the end of 2024, should be extended into 2025.

Increasing the skilled labour force

Labour shortages are acute, particularly in high-tech sectors and health care. This is expected to continue as the digital and green transitions plus population ageing will further push up demand for qualified workers. The rising unemployment of low-skilled youth, many of whom end up in the disability benefit scheme, is of concern. The government should step up reforms to secondary and tertiary education and strengthen vocational education and training and adult learning. The Agreement for a More Inclusive Working Life 2019-24 seeks to prevent transitions to disability benefits via training, but could better reflect labour market needs. In addition, reducing sick-leave compensation and strengthening eligibility conditions would enhance work incentives, while contributing to fiscal consolidation.

Peru

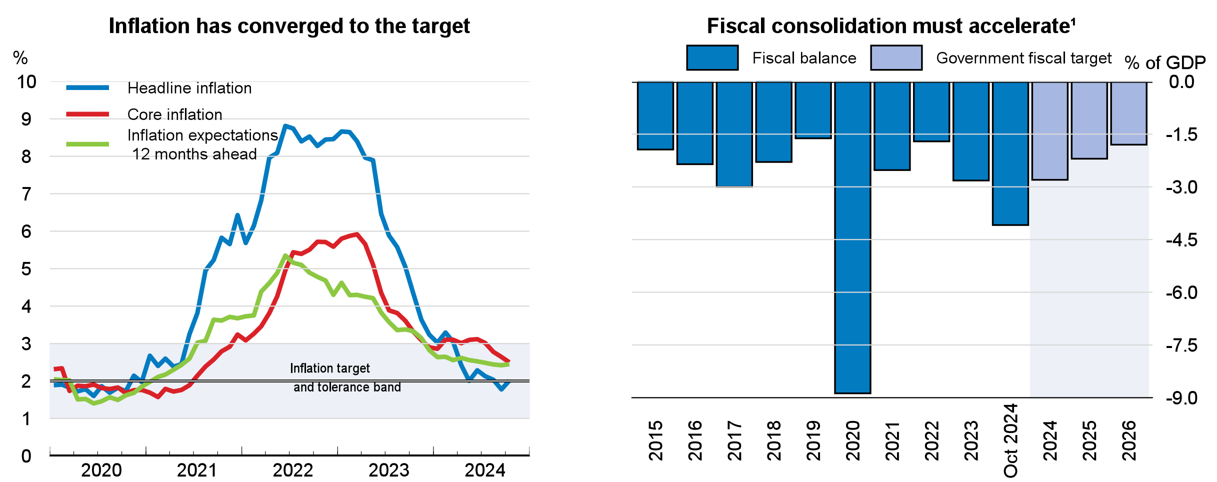
GDP growth is projected to be 3.1% in 2024, before moderating to 2.8% in 2025 and 2.6% in 2026. Growth will be driven by private consumption, supported by lower inflation, pension fund withdrawals, and a recovery in employment. While private investment is projected to recover moderately, ongoing political uncertainty may dampen its pace. Exports will benefit from sustained global demand, and inflation will remain near the central bank target of 2%. However, significant risks persist due to geopolitical and domestic policy uncertainties.

The central bank is expected to continue lowering the policy rate through early 2025 and then hold the rate steady. Fiscal policy has stimulated growth in 2024, with the deficit expected to exceed the fiscal rule target due to revenue shortfalls and increased spending. The government plans to reduce the deficit over 2025-26 to meet fiscal rules, though this will be challenging due to persistent spending pressures. To create the fiscal space needed for infrastructure and social investment, it will be essential to improve public spending efficiency and boost revenue generation.

Economic activity has rebounded strongly

After social unrest and climate-related disruptions in 2023, GDP rose by 3% year-on-year in the first three quarters of 2024, driven by public spending and investment and robust private consumption. Lower inflation and higher employment boosted private consumption. Increased infrastructure investment and a higher public sector wage bill contributed to higher public spending. Improved business confidence and gradual monetary easing supported private investment. The normalisation of weather conditions has benefited agriculture and fisheries, while high global prices for gold and copper have boosted mining.

Peru



1. Data refer to the non-financial public sector. Light blue bars show the government fiscal target to meet the fiscal rule. October 2024 reports the 12-month accumulated balance.
Source: Central Reserve Bank of Peru; CEIC; and OECD calculations.

StatLink https://stat.link/t5pqln

Peru: Demand, output and prices

Peru	2021	2022	2023	2024	2025	2026
	Current prices PEN billion	Percentage changes, volume (2007 prices)				
GDP at market prices	877.3	2.8	-0.4	3.1	2.8	2.6
Private consumption	534.9	3.3	0.2	2.6	3.0	2.7
Government consumption	120.5	0.0	3.3	4.2	1.3	1.0
Gross fixed capital formation	202.9	0.7	-5.6	5.0	2.8	2.5
Final domestic demand	858.2	2.3	-0.8	3.3	2.7	2.4
Stockbuilding[1]	- 8.0	0.3	-1.0	-0.2	0.1	0.0
Total domestic demand	850.2	2.6	-1.8	3.2	2.9	2.5
Exports of goods and services	256.3	4.4	3.7	5.5	4.2	3.1
Imports of goods and services	229.3	3.4	-1.6	5.6	4.6	2.5
Net exports[1]	27.0	0.2	1.5	-0.1	-0.2	0.1
Memorandum items						
GDP deflator	_	4.6	6.3	5.4	3.8	2.5
Consumer price index	_	7.9	6.3	2.4	2.0	2.0
Core inflation index[2]	_	4.7	4.4	2.9	2.1	2.0
Unemployment rate (% of labour force)	_	4.7	5.4	5.6	5.1	4.8
Current account balance (% of GDP)	_	-4.0	0.8	2.4	1.8	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 116 database.

StatLink https://stat.link/wy9soz

Headline inflation declined and has hovered around the central bank's 2% target since May 2024, with one-year ahead inflation expectations remaining within the target range. Core inflation, while more persistent, fell to 2.5% in October, although service inflation remains stickier. Real wages are 5% lower than in 2019, as slack remains in the labour market despite recent improvements. Employment has surpassed 2023 levels, but unemployment has risen slightly due to higher labour force participation. Informality has declined modestly, but still accounts for more than 70% of employment, suggesting limited access to formal job opportunities. Ample currency reserves and low public debt provide resilience against potential shocks.

Fiscal consolidation is needed to achieve 2025-2026 deficit targets

The projections assume an expansionary fiscal stance in 2024, with the government expected to exceed the fiscal target of 2.8% of GDP, due to revenue shortfalls and increased public spending. Fiscal consolidation is planned for 2025-2026, aiming to reduce the fiscal deficit to 2.2% of GDP in 2025 and 1.8% in 2026. However, achieving the 2025 deficit target will be challenging, as it requires significant spending cuts and the realisation of uncertain revenue from litigation recoveries. Additional fiscal pressures stem from an underfunded pension reform and potential financial support for Petroperú, the state-owned oil company. In the short term, reducing unnecessary tax expenditures and controlling recurrent spending ahead of the 2026 elections could strengthen policy credibility, support adherence to the fiscal rule and help stabilize public debt around the 30% target. The central bank has reduced policy rates by 275 basis points since 2023, with further cuts anticipated. Rates are assumed to decline to 4.5% by early 2025, after which they are expected to stabilise.

GDP growth will moderate

After a rebound to 3.1% in 2024, GDP growth will slow to 2.8% in 2025 and 2.6% in 2026. Political uncertainty could prevent the economy from reaching its full capacity while inflation is expected to stay around the 2% target. Private consumption will benefit from low inflation, a recovery in employment, and pension fund withdrawals approved in March. Improved business confidence will support private investment growth, but policy uncertainty will keep it subdued. Fiscal consolidation will constrain government consumption and public investment in 2025 and 2026. There are significant risks to this outlook. Political uncertainty may intensify in the lead-up to the 2026 general election, while rising insecurity and crime could hinder economic growth. Higher oil prices, driven by geopolitical conflicts, could lead to an increase in inflationary pressures. A slower recovery in China, Peru's major trading partner, and weaker copper prices could hurt exports, government revenues, and investment. Additionally, frequent climate-related shocks pose risks of economic disruptions and inflation spikes.

Improving public spending efficiency and tax revenues to create fiscal space

To ensure fiscal sustainability and meet the growing demands for social and infrastructure development, higher efficiency of public spending and tax revenues are needed. Public spending efficiency can be enhanced by improving procurement processes and strengthening project implementation capacity, particularly at the subnational level. Increasing tax revenues will require improvements in tax administration as well as reducing tax evasion and tax exemptions. Reducing fossil fuel subsidies and implementing a carbon tax can encourage a shift to clean energy sources and attract investment in sustainable energy technologies, including low-emission transportation options. Strengthening governance and fostering political stability are also crucial for driving higher economic growth. A comprehensive strategy to promote formalisation - including reducing non-wage labour costs, simplifying tax schemes for small businesses, stronger legal enforcement and improving education and vocational training - would boost productivity and tax collection.

Poland

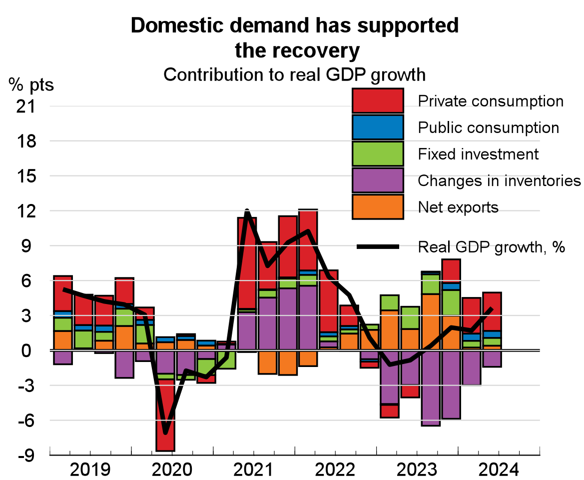
The economy will grow by 2.8% this year as rising real wages and fiscal policy support demand. GDP growth should pick up to 3.4% in 2025 with EU funds boosting investment but decline to 3% in 2026 as the pace of fiscal consolidation increases. Headline inflation has risen, and a withdrawal of energy support measures will slow down its return to target. Inflation will rise to 5% in 2025 and decline to 3.9% in 2026. Continued high wage growth could lead to strong consumption growth and pose an upside risk to inflation while an escalation of the war in Ukraine would negatively impact the economy.

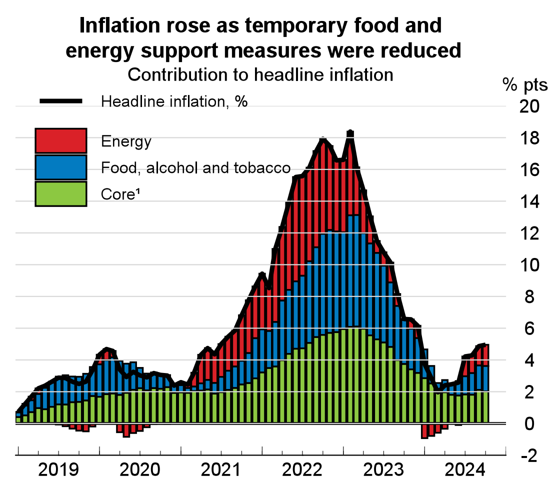
Monetary policy should remain restrictive and, given risks of persistent inflation, ease only slowly as underlying price pressures clearly fade. Given the large fiscal deficit, fiscal policy should tighten at a gradual pace over a number of years to improve the sustainability of public finances and ensure balanced growth. Enhancing adult training, raising the pension age, and implementing a targeted migration strategy could help alleviate labour shortages and strengthen growth.

The economy has continued to recover supported by growing consumption

Consumption rose in the first half of 2024 as inflation fell and nominal wages grew strongly, partly driven by a 18% rise in the national minimum wage in January and higher public sector salaries. Despite higher consumer confidence, households have remained cautious and increased their savings. The unemployment rate stayed around 3% and labour shortages affected most sectors, particularly ICT, construction, and transportation and storage. A temporary decrease in the disbursement of EU funds led to slower investment growth. Surveys suggest continued manufacturing weakness, although total industrial output has risen slightly in 2024. Preliminary estimates indicate that real GDP declined 0.2% in the third quarter relative to the previous quarter. Headline inflation picked up to 5% in October due to higher VAT on food and higher regulated energy prices, while core inflation rose to 4.1%.

Poland





1. Excluding Energy, food, alcohol and tobacco.
Source: OECD Economic Outlook 116 database; and Eurostat.

StatLink https://stat.link/yzqvcl

Poland: Demand, output and prices

Poland	2021	2022	2023	2024	2025	2026
	Current prices PLN billion	Percentage changes, volume (2020 prices)				
GDP at market prices	2 660.6	5.5	0.0	2.8	3.4	3.0
Private consumption	1 504.6	5.1	-0.3	3.7	3.5	3.1
Government consumption	490.1	1.1	4.3	7.0	5.0	2.4
Gross fixed capital formation	455.9	2.1	9.9	4.2	9.5	6.0
Final domestic demand	2 450.6	3.7	2.5	4.5	4.9	3.5
Stockbuilding[1]	122.1	1.7	-5.3	-1.5	0.2	0.0
Total domestic demand	2 572.7	5.5	-3.0	2.9	5.1	3.5
Exports of goods and services	1 518.5	7.4	3.7	1.3	2.3	3.8
Imports of goods and services	1 430.6	6.9	-1.5	4.2	5.9	4.7
Net exports[1]	87.9	0.5	3.2	-1.4	-1.7	-0.4
Memorandum items						
GDP deflator	_	10.3	9.8	3.5	4.8	3.4
Consumer price index	_	14.4	11.5	3.8	5.0	3.9
Core inflation index[2]	_	9.0	9.9	4.5	4.3	3.5
Unemployment rate (% of labour force)	_	2.9	2.8	2.9	3.2	3.3
Household saving ratio, net (% of disposable income)	_	-2.9	0.9	3.9	3.2	2.6
General government financial balance (% of GDP)	_	-3.4	-5.3	-5.8	-5.8	-5.1
General government debt, Maastricht definition[3] (% of GDP)	_	48.9	49.7	53.4	56.1	58.6
Current account balance (% of GDP)	_	-2.2	1.8	0.4	-0.9	-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 116 database.

StatLink https://stat.link/gsaq3t

Net trade dragged on growth over the first half of 2024 and preliminary data suggests it stayed weak in the third quarter. Export volumes declined as demand in the euro area remained subdued, while import volumes rose on the back of higher consumption. Falling producer prices should exert downward pressure on goods price inflation. However, service price inflation remains elevated due to strong wage growth as firms continued to experience labour shortages and immigration from Ukraine slowed.

Monetary policy will ease as fiscal policy becomes more restrictive

The budget deficit will worsen to 5.8% of GDP this year and is expected to be broadly similar in 2025. However, medium-term fiscal plans envisage a consolidation of around 1% of GDP per year during 2026-28 through a combination of higher income tax and excise duty revenues and lower spending in real terms, as well as a withdrawal of energy support measures. The central bank has maintained interest rates at 5.75% this year given the strength in the domestic economy and concerns about the persistence of inflation. Monetary policy is assumed to remain restrictive, but ease slowly from mid-2025 with policy rates lowered towards 4% by the end of 2026 as inflationary pressures dissipate.

Growth should pick up while inflation falls slowly

Headline inflation should eventually return to target, but an expected withdrawal of energy support measures at the end of next year will slow down its decline. Inflation is expected to average around 5% in 2025 and decline to 3.9% over 2026. Significant spare capacity should reduce labour shortages, moderate wage growth and lead to a decrease in core inflation. Private consumption should grow, supported by real wage growth and gradually decreasing interest rates. After a slowdown in investment growth this year, the disbursement of EU funds will boost investment growth in 2025. GDP is projected to grow by 3.4% next year and 3% in 2026. Faster-than-expected absorption of EU funds could increase investment, but short timeframes and labour shortages could also hinder its implementation. Continued high wage growth could further raise consumption and lead to stronger growth and inflation. An escalation of the war in Ukraine or a broadening of the conflict could push inflation up and growth down.

A gradual fiscal consolidation would ensure more balanced growth

Given the uncertainty around the pace of disinflation, monetary policy should remain restrictive and ease as inflation durably returns to target. The planned fiscal consolidation envisages an ambitious pace of fiscal adjustment from 2026 and will narrow the deficit substantially by 2028, but will have a dampening effect on growth. Energy support measures should be fully withdrawn next year and social benefits should become more targeted. Property and environmental taxes should be increased, the latter helping also to accelerate the green transition. Labour market policies addressing skill and worker shortages, such as adult training and lifelong learning programmes, raising the pension age, and implementing a targeted migration strategy, could strengthen growth.

Portugal

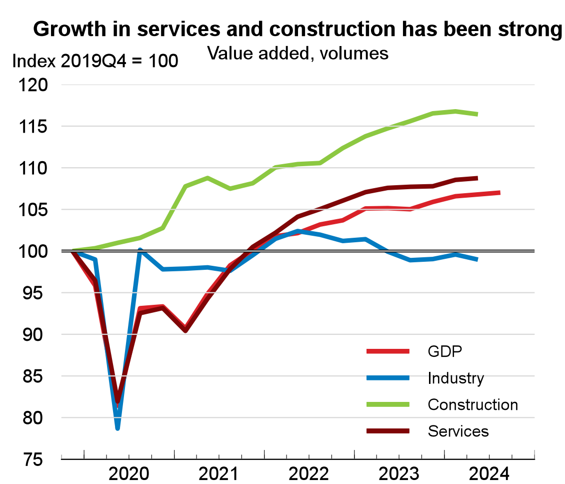
Real GDP growth is projected to ease to 1.7% in 2024 and reach 2.0% in 2025 and 2026. The tight labour market and falling inflation are supporting real wage growth and private consumption. The implementation of the Recovery and Resilience Plan (RRP) is set to further raise investment and public consumption in 2025 and 2026. A progressive strengthening of external demand will raise exports. As labour demand slows, inflation will moderate to 2.1% in 2026.

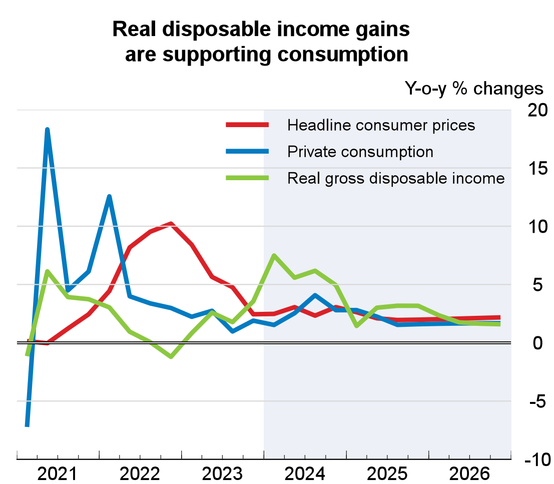
Fiscal policy will remain supportive. The implementation of the RRP, as well as household and corporate tax cuts will raise internal demand, while sustained fiscal surpluses will push public debt down to 89.3% of GDP in 2026 (Maastricht definition). Lowering entry barriers in services, especially the retail sector, further streamlining regulations, improving counselling for students and workers, and enhancing childcare services would boost productivity and curb labour shortages. Over the medium term, regular spending reviews would help to address mounting spending pressures from an ageing population and strong investment needs.

Real disposable income and private consumption have increased

Growth was 1.9% in the year to the third quarter of 2024. Private consumption has accelerated and RRP spending is supporting investment. A strong labour market and tax cuts have supported steady gains in real disposable income and consumer confidence, as headline price inflation eased to 2.6% in October. Services turnover have increased further and retail sales remained strong in September, but tourism revenues have moderated. Employment growth slowed to 1.4% in the year to September 2024, with new vacancies declining. Labour shortages persist, notably in construction, healthcare, and high-tech occupations.

Portugal





Source: Statistics Portugal (INE); and OECD Economic Outlook 116 database.

StatLink https://stat.link/wzocb2

Portugal: Demand, output and prices

Portugal	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2021 prices)				
GDP at market prices	216.5	7.0	2.5	1.7	2.0	2.0
Private consumption	137.1	5.6	2.0	2.7	2.0	1.7
Government consumption	40.1	1.7	0.6	1.2	1.6	1.2
Gross fixed capital formation	44.4	3.3	3.6	1.0	5.2	4.9
Final domestic demand	221.6	4.4	2.1	2.1	2.6	2.2
Stockbuilding[1]	0.9	0.3	-0.3	0.2	0.0	0.0
Total domestic demand	222.5	4.7	1.7	2.3	2.6	2.2
Exports of goods and services	89.9	17.2	3.5	4.2	3.3	3.4
Imports of goods and services	96.0	11.3	1.7	5.6	4.6	4.0
Net exports[1]	- 6.0	2.1	0.8	-0.6	-0.5	-0.2
Memorandum items						
GDP deflator	_	5.3	6.9	4.2	2.4	2.1
Harmonised index of consumer prices	_	8.1	5.3	2.7	2.2	2.1
Harmonised index of core inflation[2]	_	5.0	5.4	2.7	2.2	2.1
Unemployment rate (% of labour force)	_	6.1	6.5	6.4	6.3	6.2
Household saving ratio, net (% of disposable income)	_	-4.9	-5.0	-1.6	-0.6	-0.3
General government financial balance[3] (% of GDP)	_	-0.3	1.2	0.4	0.3	0.2
General government gross debt (% of GDP)	_	114.2	105.0	102.5	99.2	96.3
General government debt, Maastricht definition[4] (% of GDP)	_	111.2	97.9	95.4	92.2	89.3
Current account balance (% of GDP)	_	-1.9	0.5	2.3	1.1	0.9

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. 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 116 database.

StatLink https://stat.link/okph31

Following the sharp increase in borrowing costs for households and firms in 2022-23, monetary policy rate cuts have slowed the decline in business loans and led to a partial recovery in consumption and housing loans. With still high saving incentives and uncertainty, the recent strong real disposable income gains have also translated into a historically high household savings rate. In the first nine months of 2024, the current account improved further with significant term-of-trade gains, though goods and services imports have outpaced exports.

Fiscal policy will remain supportive

Fiscal policy is set to remain supportive. However, persistent fiscal surpluses and high nominal growth will lower public debt to 89.3% of GDP in 2026 (Maastricht definition). Spending from RRP grants is expected to increase from 1.3% of GDP in 2024 to 1.6% in 2025 and 1.7% in 2026, boosting investment and public consumption, without affecting the budget balance. Activity will also be supported by increasing disbursements of RRP loans, higher public wages, the indexation of pension benefits, a further reduction in the personal income tax, and business tax cuts. Increasing environmental taxes and efforts to curb tax evasion will boost public revenues. At the same time, the minimum wage rose by 7.9% in 2024, and further increases expected in 2025 and 2026 will raise household incomes.

Growth will strengthen further

GDP growth is projected to reach 1.7% in 2024 and rise to 2.0% in 2025 and 2026. The spending of European funds and easier monetary policy are boosting investment, and the projected recovery in activity in European trading partners will support exports. Strong wage growth and high employment rates will raise consumption, especially as inflation and debt-servicing costs ease. Tax cuts, increasing social transfers and higher public wages will support household incomes, but also slow the decline in inflation. Headline consumer price inflation will moderate to 2.1% by 2026 as energy and food prices stabilise and services price pressures diminish slowly. A further decrease in the household saving rate and stronger-than-expected wage developments would strengthen consumption but also fuel inflation. By contrast, the implementation of the RRP could materialise more slowly than projected, implying both lower growth and lower inflation.

Policy should support stronger and more sustainable growth

Sustained productivity growth, higher employment and more efficient public spending are needed to face rapid population ageing and significant investment needs, including in human capital. Continuing to roll out new accounting standards, developing performance budgeting and reducing tax expenditures would improve the efficiency of public spending and help to shift its structure towards investment. Strengthening environmental and property taxation while protecting vulnerable groups would help to attain ambitious climate goals and make room to lower taxes on low-wage workers. Reducing entry barriers in services, including in the retail sector, and making further use of regulatory impact assessments would raise investment and productivity. Improved counselling to guide study and reskilling choices and strengthening active labour market policies that focus on smaller firms, would reduce skill and labour shortages. Better childcare services for low-income households could further raise the labour force participation of women, further easing labour shortages.

Romania

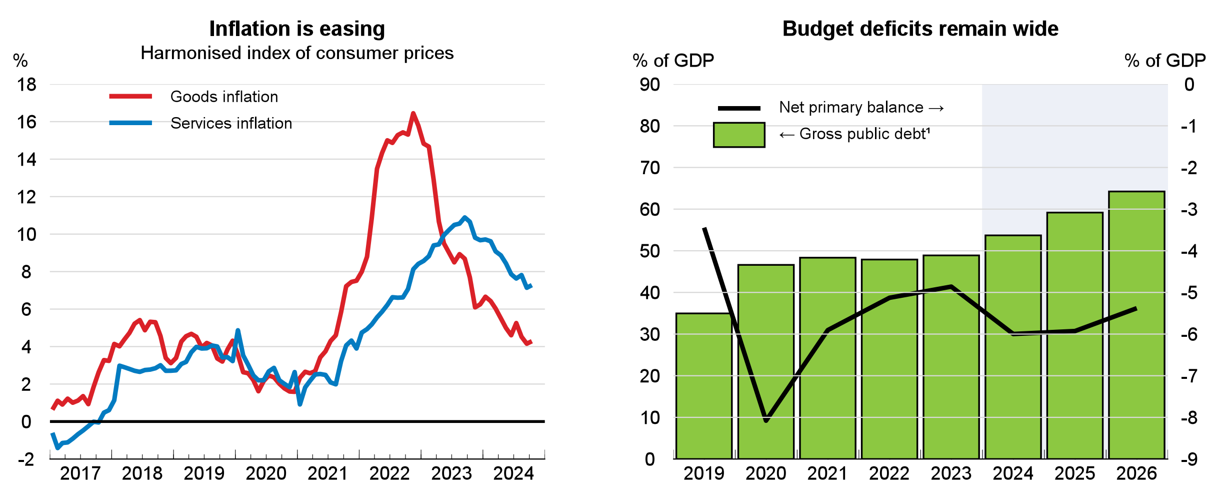
GDP is set to grow by 1.2% in 2024, 2.6% in 2025, and 3.1% in 2026. Higher real incomes, driven by rapid wage growth and easing inflation, will support private consumption. Labour market conditions are expected to remain tight, with shortages of labour expected to persist. Investment growth is projected to remain solid, supported by EU-funded infrastructure projects. Price tensions in the economy are easing and consumer price inflation is expected to return to the target band by the end of 2025.

Monetary policy is set to remain restrictive until 2025 to get inflation back to target. However, if labour cost pressures persist, inflation could remain higher for longer. Fiscal consolidation should be stronger to support restrictive monetary policy in the fight against inflation. Tax revenues must rise to fund new spending priorities while stabilising the public debt burden. Continued governance reforms would encourage business investment.

Inflation is cooling, while growth is picking up gradually

Economic growth has unexpectedly slowed in 2024. GDP grew by 0.1% in the second quarter, after contracting by 0.4% in the first, held back by weak production both in manufacturing and services. According to the flash estimate, GDP stagnated in the third quarter. The drought that affected agriculture production during the summer is expected to weigh on GDP. Boosted by wage and pension increases, and easing price pressures, private consumption has emerged as the main driver of growth. Investment slowed during the first half of the year. Inflation has been easing due to falling energy and food prices, but services inflation remains high, at 7.7% in October. High wage growth has maintained pressures on services prices, and pushed up unit labour costs. The labour market remains solid, with an unemployment rate of 5.5%. Labour shortages remain in some sectors, including construction, where skills shortages were reported to hold back business activities.

Romania



1. Maastricht definition.
Source: Eurostat; and OECD Economic Outlook 116 database.

StatLink https://stat.link/e0h2mz

Romania: Demand, output and prices

Romania	2021	2022	2023	2024	2025	2026
	Current prices RON billion	Percentage changes, volume (2020 prices)				
GDP at market prices	1 192.3	4.0	2.4	1.2	2.6	3.1
Private consumption	733.8	5.1	3.0	6.7	3.9	3.6
Government consumption	212.5	-1.4	6.3	-0.4	1.1	1.0
Gross fixed capital formation	290.6	5.4	14.5	1.6	3.4	4.9
Final domestic demand	1 236.9	4.2	6.2	4.2	3.3	3.5
Stockbuilding[1]	22.8	0.2	-4.5	-0.2	0.0	0.0
Total domestic demand	1 259.7	4.4	2.2	4.1	3.4	3.5
Exports of goods and services	482.6	9.3	-0.8	-0.6	2.6	3.6
Imports of goods and services	550.0	9.3	-1.1	7.0	4.6	4.6
Net exports[1]	- 67.4	-0.5	0.2	-3.3	-1.0	-0.7
Memorandum items						
GDP deflator	_	12.1	12.8	9.5	4.6	3.0
Consumer price index	_	13.8	10.4	5.5	3.9	3.0
Core consumer price index[2]	_	10.1	12.4	6.1	4.1	3.0
Unemployment rate (% of labour force)	_	5.6	5.6	5.5	5.4	5.4
General government financial balance (% of GDP)	_	-6.4	-6.5	-7.9	-7.9	-7.5
General government gross debt (% of GDP)	_	52.2	58.0	62.8	68.3	73.4
General government debt, Maastricht definition[3] (% of GDP)	_	47.9	48.9	53.7	59.2	64.2
Current account balance (% of GDP)	_	-9.2	-7.0	-8.0	-7.7	-7.5

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 116 database.

StatLink https://stat.link/6jvnlt

The recent slowdown in Romania's exports reflects subdued economic demand from key European partners. Strong domestic demand has led to a strong recovery in imports, also contributing to an increase in the current account deficit.

A moderate tightening of the fiscal stance is projected

The National Bank of Romania made two consecutive rate cuts in July and August 2024, lowering its benchmark rate from 7% to 6.5%. These cuts were prompted by a faster-than-expected decline in inflation and signs of slowing economic growth. Monetary policy easing is expected to continue in 2025 and 2026, with the benchmark rate declining to below 5% by the end of 2026 as inflation approaches its target, but the monetary stance will remain restrictive. Prudent fiscal policy is needed to rein in demand and ensure public debt sustainability. Limits on governments spending and tax increases are projected to contribute to a reduction of the budget deficit. Yet defence commitments, and rising outlays on pensions and public wages will increase spending. Overall, the government budget deficit is projected to decline somewhat from 7.9% in 2024 to 7.5% in 2026, with the underlying primary balance improving by 0.7% of GDP over this period.

Output is set to return close to trend

Output growth is expected to pick up gradually over the next two years, from 1.2% in 2024, to 2.6% in 2025 and 3.1% in 2026, with the output gap remaining slightly negative. Wage growth, higher pensions, and easing inflation are set to boost real incomes and support robust private consumption. Labour market performance is expected to remain strong, but shortages of skilled labour, including in construction, are expected to persist. Solid investment growth is projected, supported by EU-funded infrastructure projects and by a gradual recovery in private investment. Exports are expected to gradually pick up from 2025 as external conditions improve, while imports will continue to grow. The current account deficit will remain high throughout the projection period. Price tensions in the economy are easing and consumer price inflation is expected to return to the target band, reaching 3.5% by the end of 2025. A lack of fiscal consolidation or persisting wage pressures could keep inflation elevated for longer.

Tax reform is needed to boost sustainable growth and strengthen fiscal resilience

It remains essential to strengthen revenues to fund new government spending and to ensure sustainable public finances. To limit the impact of a higher tax burden on growth, tax reforms should aim to improve efficiency, by eliminating distortions and loopholes in the system and strengthening tax enforcement. Romania could also make its labour income tax system more progressive, and once inflationary pressures dissipate, resume efforts to broaden the value-added tax base. Increasing labour force participation would help address shortages of labour. This will require policies to incentivise women to work, including expanding access to high-quality and affordable childcare. Ongoing governance reforms would complement efforts to reduce firms’ compliance costs with regulations. Transitioning from fossil fuels will require accelerating renewable energy deployment and upgrading power grids.

Slovak Republic

Real GDP is projected to grow by 2.4% in 2025 and 2.1% in 2026. A tight labour market and strong nominal wage growth will lead to higher real incomes, supporting consumption growth. Easing of financial conditions, higher absorption of EU Recovery and Resilience funds and the expected recovery in foreign demand will increase investment and exports. On the other hand, higher taxes will weigh on growth, in particular through subdued consumption and investment. Headline inflation is expected to rise to 4.4% in 2025, on account of higher gas prices, increased VAT rates and other tax increases. Downside risks mainly relate to increased geopolitical tensions and slower-than-expected growth in Europe.

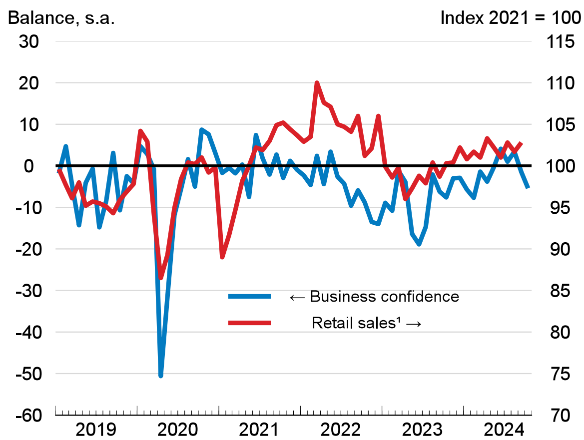
Persistent labour shortages should be addressed by extending working lives and increasing participation of mothers in the labour market, by reconsidering the long parental leave, improving access to affordable high-quality childcare and ensuring flexible working arrangements. A credible strategy is needed to enhance the efficiency of public spending, including further reforms to the pension system and family benefits to improve fiscal sustainability.

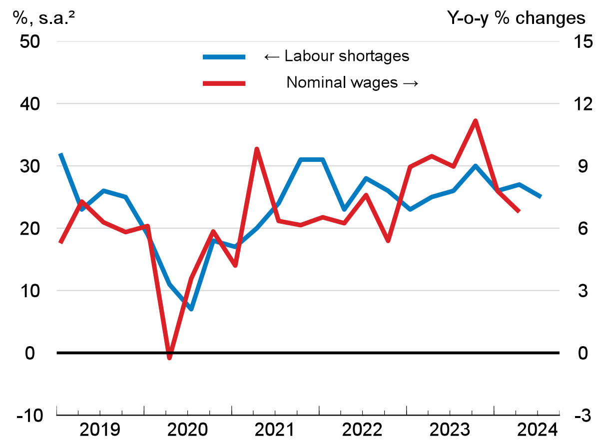
Economic activity is recovering

Real GDP grew by 0.3% quarter-on-quarter in the third quarter of 2024, according to the flash estimate. Growth appears to be driven by strong private consumption on the back of rising real incomes as inflation slowed, while investment weakened. Business sentiment and retail sales have improved a little recently, pointing to moderate growth in the near-term. Harmonised consumer price inflation has risen to 3.5% in October, reflecting higher food prices and persistent service price growth. Harmonised core inflation remained elevated at 4.3% in October. Real wage growth turned positive in the last quarter of 2023 and has continued to strengthen this year. The labour market is tight, with the unemployment rate below pre-pandemic levels and persistent labour shortages across sectors.

New orders of transport equipment have continued to slow, reflecting weaker demand in Europe. Goods exports have declined compared with last year. Lending to the private sector has continued to slow due to still high – albeit decreasing - interest rates. Residential property prices rose in the first half of 2024 yet remain below their peak in the third quarter of 2022.

Slovak Republic





1. Volume of sales.
2. Percentage of firms in industry reporting labour shortages as factor limiting production.
Source: Eurostat Industry, trade and services database; Eurostat Business Tendency Surveys database; Eurostat Business Climate Indicator database; and OECD Economic Outlook 116 database.

StatLink https://stat.link/g5oupv

Slovak Republic: Demand, output and prices

Slovak Republic	2021 Current prices EUR billion	2022	2023	2024	2025	2026
		Percentage changes, volume (2020 prices)				
GDP at market prices	102.0	0.4	1.4	2.3	2.4	2.1
Private consumption	57.6	5.2	-3.1	1.8	0.8	1.5
Government consumption	21.6	-2.9	-3.0	3.5	1.8	1.8
Gross fixed capital formation	20.0	-1.9	16.6	0.9	4.6	2.2
Final domestic demand	99.2	2.0	0.7	1.9	1.8	1.7
Stockbuilding¹	3.2	-0.2	-6.6	2.1	0.1	0.0
Total domestic demand	102.4	1.7	-5.2	4.1	1.9	1.7
Exports of goods and services	92.2	2.9	-0.2	2.3	3.4	3.0
Imports of goods and services	92.7	4.4	-7.0	4.1	2.7	2.6
Net exports¹	- 0.4	-1.4	7.2	-1.6	0.6	0.4
Memorandum items						
GDP deflator	_	7.5	10.1	5.0	3.9	2.3
Harmonised index of consumer prices	_	12.1	11.0	3.2	4.4	2.7
Harmonised index of core inflation²	_	8.2	9.5	4.3	4.4	2.4
Unemployment rate (% of labour force)	_	6.1	5.8	5.4	5.3	5.3
Household saving ratio, net (% of disposable income)	_	-1.7	-0.1	1.7	3.5	4.5
General government financial balance (% of GDP)	_	-1.7	-5.2	-5.7	-4.7	-3.6
General government gross debt (% of GDP)	_	65.1	65.2	67.6	69.7	71.5
General government debt, Maastricht definition³ (% of GDP)	_	57.7	56.1	58.4	60.6	62.4
Current account balance (% of GDP)	_	-9.6	-1.7	-1.4	-0.6	-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. 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 116 database.

StatLink https://stat.link/3mxf5d

Planned fiscal consolidation is needed to reduce the deficit

Parliament adopted a consolidation plan in October 2024, aiming to reduce the general government deficit to below 3% of GDP in 2027. Improvements in the fiscal balance sum to around 2.0% of GDP in 2025 and 2026 and mainly affect the revenue side Special levies are introduced on refineries and mobile operators. For larger companies (above EUR 5 million taxable income), corporate income taxes will increase to 24% from 21%. Social contributions will increase for high-income employees (with salaries 11 times the average wage). A financial transaction tax for companies and self-employed workers is also being introduced from 2025. The tax will be collected on some bank transactions and ATM withdrawals. The basic VAT rate will increase to 23% from 20%. There are also increased fees for motorway stamps, tolls and vehicle taxes for companies. At the same time, the budget includes an increase in spending on childcare, social services and remuneration for the armed forces, as well as subsidies for culture and the Environmental Fund. Electricity support measures to households have also been extended into 2025. The projections assume that the budget deficit will fall from 5.7% in 2024 to 4.7% in 2025 and 3.6% in 2026.

Growth and inflation will pick up

Better financial conditions and increased usage of EU Recovery and Resilience funds will support investment in 2025 and 2026. Exports are projected to grow broadly in line with the expected recovery in foreign demand. Increasing real incomes will drive a recovery in private consumption and enable some rebuilding of households' savings. Meanwhile, higher tax rates will contain growth in consumption and investment. and together with higher gas prices will push headline inflation to 4.4% in 2025, before it falls back to 2.7% in 2026. Underlying inflation will rise, due to wage increases and indexation of benefits to past inflation. Increasing economic uncertainty and weaker foreign demand would negatively affect trade and investment. Lower than assumed fiscal consolidation could add to inflationary pressures and increase public debt.

Addressing labour shortages through structural reforms

Labour shortages are persistent. Prolonging working lives – including by tightening pathways to early retirement can mitigate spending pressures and help alleviate labour shortages. Increasing employment of mothers would mitigate the effects of shrinking labour force. This will require better access to affordable and high-quality childcare, flexible working arrangements, and a shortening of the current long parental leave. A credible strategy is needed to durably improve the efficiency of public spending and address the looming challenges of rapid population ageing. Better project preparation, and implementation capacity can help improve the efficiency of public investment spending and maximise the impact of substantial inflows of EU funds. Expanding work-based learning, improving the quality of tertiary education through targeted funding, strengthening incentives to participate in adult learning and increasing training for the unemployed would help reduce skill imbalances, retain and attract high skilled people, and boost productivity. Tax exemptions for the use of fossil fuels should be phased out and reforms that shift the burden away from labour towards property and environmental taxes could support growth.

Slovenia

GDP growth is projected to strengthen to 2.6% in 2025 and 2026, driven by a recovery in domestic and external demand. Private consumption will be supported by a tight labour market and sustained real wage growth as inflationary pressures slowly recede. Investment growth will gradually strengthen on the back of improved external demand, reconstruction following the devastating floods in 2023, and the inflow of EU funds.

Fiscal policy will be neutral in 2025 reflecting continued reconstruction spending and a rise in public wages, before tightening in 2026. Structural measures include a gradual increase in ageing-related spending on long-term care, reaching 1% of GDP in 2026, funded by an increase in the social security contribution rate. Further reforms are needed to preserve fiscal sustainability and raise potential growth, including measures to improve the labour force participation of older workers and address labour shortages.

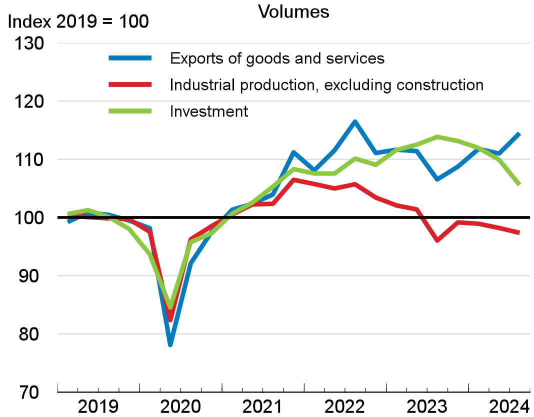
Economic activity has been held back by weak investment

Economic activity has been weaker than expected, with 0.3% quarter-on-quarter growth in the third quarter of 2024, reflecting subdued private investment. Private and government consumption, and exports supported growth. Recent indicators point to improving economic momentum, with industrial production increasing by 1.6% month-on-month in September. The labour market remains tight with the unemployment rate at 3.4% in September and the job vacancy rate at 2.4% in the second quarter, down from its peak in 2022 but still high compared to pre-pandemic levels. Labour shortages are particularly pressing in construction and hospitality. The tight labour market has spurred strong wage growth, with hourly labour costs increasing by 6.4% year-on-year in the second quarter. Wage pressures have contributed to service inflation of 3.9% and core inflation of 2.1% in October (year-on-year). Headline inflation stood at 0% in October, reflecting a fall in energy prices.

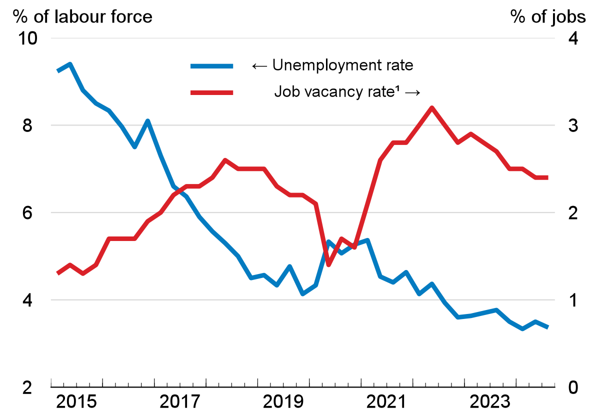
Exports are strengthening on the back of slowly recovering external demand. In the third quarter of 2024, merchandise and service export values grew by 8.4% year-on-year. With easing financial conditions in the euro area, credit growth has improved: year-on-year growth in loans to the non-banking sector was 1.4% in August 2024, up from 1% in July.

Slovenia

Weak external demand has weighed on economic activity



The labour market remains tight



1. The job vacancy rate measures the proportion of total posts that are vacant, expressed as the ratio of the number of job vacancies to the number of occupied posts plus the number of job vacancies.
Source: Statistics Slovenia; and OECD Economic Outlook 116 database.

StatLink https://stat.link/j0bo8c

Slovenia: Demand, output and prices

Slovenia	2021	2022	2023	2024	2025	2026
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	52.0	2.7	2.1	1.1	2.6	2.6
Private consumption	26.8	5.3	0.1	1.8	3.0	2.3
Government consumption	10.8	-0.7	2.4	8.8	1.5	3.0
Gross fixed capital formation	10.5	4.2	3.9	-3.9	0.2	3.1
Final domestic demand	48.1	3.7	1.4	2.0	2.1	2.6
Stockbuilding[1]	0.8	0.8	-1.5	-0.4	-1.0	0.0
Total domestic demand	49.0	4.5	-0.2	1.3	1.0	2.6
Exports of goods and services	43.7	6.8	-2.0	3.1	2.7	2.7
Imports of goods and services	40.6	9.2	-4.5	3.0	0.1	2.7
Net exports[1]	3.1	-1.5	2.3	0.3	2.1	0.2
Memorandum items						
GDP deflator	_	6.5	10.1	2.2	2.4	2.6
Harmonised index of consumer prices	_	9.3	7.2	1.9	2.4	2.6
Harmonised index of core inflation[2]	_	5.9	6.7	3.0	2.4	2.3
Unemployment rate (% of labour force)	_	4.0	3.7	3.7	3.7	3.6
Household saving ratio, net (% of disposable income)	_	6.1	7.2	10.7	11.7	12.2
General government financial balance (% of GDP)	_	-3.0	-2.6	-2.7	-2.6	-1.9
General government gross debt (% of GDP)	_	74.5	72.2	71.6	70.2	69.3
General government debt, Maastricht definition[3] (% of GDP)	_	72.7	68.4	67.8	66.4	65.5
Current account balance (% of GDP)	_	-1.1	4.5	5.5	6.1	6.2

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 116 database.

StatLink https://stat.link/hzr6c2

Fiscal policy will be neutral in 2025 before tightening in 2026

The fiscal policy stance is expected to remain broadly neutral in 2025, before tightening by around 0.4% of GDP in 2026 in part due to lower spending on post-flood reconstruction. Revenue-raising measures will also contribute to fiscal tightening and include a temporary increase in the corporate income tax rate by 3 percentage points, a temporary bank levy, and an increase in the levy on CO_2 emissions. The government announced flood recovery support of 0.7% of GDP in 2025, down from 0.9% of GDP in 2024. In addition, structural measures include an increase in spending on public wages by 0.5% of GDP in both 2025 and 2026 due to public sector wage reforms, and an increase in spending on long-term care by 0.2% of GDP in 2025 and 1% of GDP in 2026, although labour shortages and other implementation issues might lead to lower spending. The additional spending will be funded by a 2 percentage points increase in the social security contribution rate.

Economic growth is set to strengthen

Growth is projected to pick up to 2.6% in 2025 and 2026 on the back of strengthening domestic and external demand. Private consumption will be supported by a tight labour market and sustained real wage growth as inflationary pressures slowly recede. Investment growth will gradually rebound on the back of improved external demand, post-flood reconstruction, and the inflow of EU funds. The labour market will remain tight, with historically low unemployment contributing to strong wage growth. Wage pressures will slow disinflation, with price inflation remaining above 2% in both 2025 and 2026. Downside risks include weaker than expected demand from trading partners, and stronger than expected wage growth that could further reduce competitiveness. Labour shortages could slow the post-flood reconstruction, lowering investment activity. On the upside, stronger immigration could alleviate labour shortages.

Fiscal consolidation should go hand in hand with structural reforms

Implementing fiscal consolidation as announced in the national medium-term fiscal plan will be necessary to restore fiscal buffers and make space for post-flood reconstruction spending without slowing disinflation. Further reforms are needed in the pension system to address ageing-related cost pressures and labour shortages. This entails measures to improve the labour force participation of older workers, including by increasing the contribution period required for a full pension and stronger incentives to remain in the work force after the statutory retirement age. Directing training subsidies to older jobseekers with high assistance needs would help. Such efforts should be complemented with a growth-friendly tax reform to lower the labour tax burden, financed by higher consumption, environmental and recurrent taxation of immovable property. In addition, labour supply would benefit from easing immigration processes for workers from outside the European Union and removing tax disincentives for second earners and single parents, often women, to move from part-time to full-time employment.

South Africa

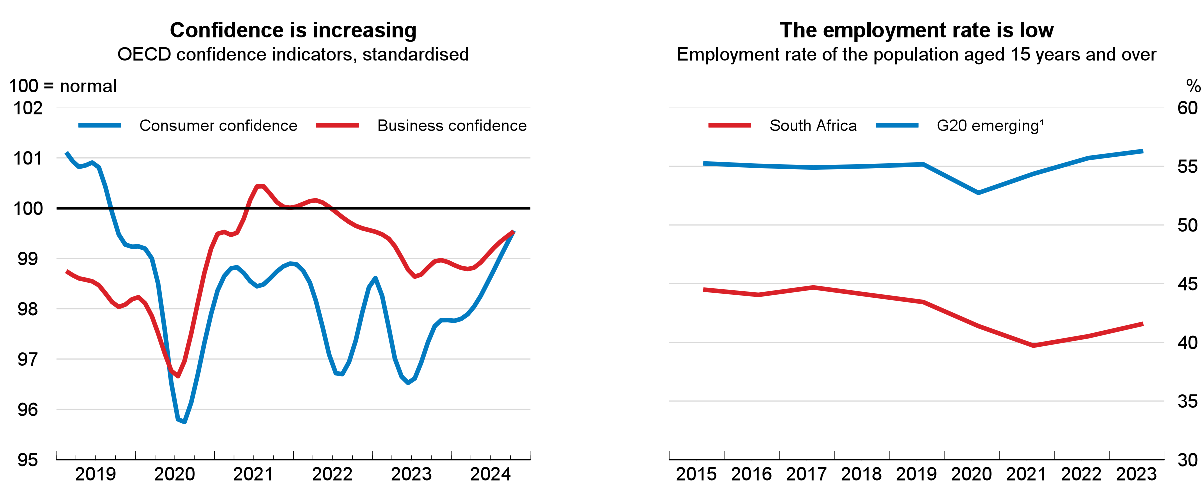
GDP is projected to increase by 1% in 2024, 1.5% in 2025 and 1.7% in 2026. Continued reforms should support a more stable electricity supply and ease logistics bottlenecks, reducing supply constraints and increasing confidence. Lower lending rates will support investment. The pension reform and improved labour market conditions will boost consumption. The main risk for growth is a return of recurrent electricity power cuts. Declines in fuel prices and the appreciation of the effective exchange rate since early-2024 are reducing inflation in the near term. The increase in activity will increase inflation over 2025.

Continued commitment to fiscal consolidation will help limit further increases in public debt. Conditional on consumer price inflation, monetary policy will continue to ease over 2025, supporting growth. Stronger potential growth and fiscal sustainability would benefit from continued progress in reforms to state-owned enterprises, especially regarding energy availability and logistics bottlenecks. Easing highly restrictive regulation would support competition, dynamic firm growth and job creation. Reducing urban sprawl and improving public transport would support inclusion and access to jobs.

Consumer and business confidence is increasing

Following the formation of the national government in July and uninterrupted access to electricity since end-March, confidence has increased. Business confidence has reached two-year highs while consumer confidence has reached 5-year highs in recent months. The manufacturing purchasing managers' index has also signalled an expansion in recent months, although manufacturing output so far remains subdued. Many people are looking for work, with the unemployment rate at 32.5% in the third quarter of 2024. As fuel prices declined, annual headline consumer price inflation reached 2.8% in October, while core inflation eased to 3.9%.

South Africa



1. G20 emerging corresponds to the G20 emerging countries (Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa and Türkiye).
Source: OECD Main Economic Indicators database; and World Bank, World Development Indicators.

StatLink https://stat.link/2ry5zj

South Africa: Demand, output and prices

South Africa	2021 Current prices ZAR billion	2022	2023	2024	2025	2026
		Percentage changes, volume (2015 prices)				
GDP at market prices	6 220.2	1.9	0.7	1.0	1.5	1.7
Private consumption	3 847.3	2.5	0.7	1.2	1.5	1.4
Government consumption	1 192.9	0.6	1.9	1.4	0.9	-0.4
Gross fixed capital formation	811.8	4.8	3.9	-2.7	4.0	4.1
Final domestic demand	5 852.1	2.4	1.4	0.6	1.8	1.5
Stockbuilding[1]	- 15.9	1.5	-0.6	-0.3	0.0	0.0
Total domestic demand	5 836.2	4.0	0.8	0.3	1.8	1.5
Exports of goods and services	1 934.7	6.8	3.7	-1.5	2.8	3.0
Imports of goods and services	1 550.8	15.0	3.9	-3.5	3.7	2.0
Net exports[1]	383.9	-2.1	-0.1	0.6	-0.3	0.2
Memorandum items						
GDP deflator	_	5.0	4.8	4.1	4.1	4.5
Consumer price index	_	6.9	5.9	4.6	3.9	4.5
Core inflation index[2]	_	4.6	5.1	4.3	3.9	4.5
General government financial balance (% of GDP)	_	-5.0	-6.6	-5.5	-6.4	-4.3
Current account balance (% of GDP)	_	-0.5	-1.6	-1.5	-2.1	-2.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 116 database.

StatLink https://stat.link/p01eux

The perceived risk of investing in South Africa appears to have eased, as signalled by the narrowing of spreads between South African and United States long-term bond yields over recent months. Spreads have not been as low since 2018. The appreciation of the effective exchange rate this year is lowering the prices of imported goods, helping to reduce inflation.

Easing monetary policy will support activity as fiscal policy needs to consolidate

As inflation has eased, the central bank has lowered policy rates by 50 basis points to 7.75%. Rates are projected to stabilise slightly above 7% over 2025. The fiscal deficit is projected to reduce further, helped by a reduction in expenditure, and a boost to revenue through freezing income tax thresholds and increasing excise taxes. However, consolidation will be insufficient to prevent further increases in the public debt. This is despite a transfer from the central bank to government accounts (via the Gold and Financial Contingency Reserve Account) worth 1.4% of GDP in the current fiscal year and 0.3% over the coming two fiscal years. Consolidation is being limited by ongoing debt relief for state electricity operator Eskom, estimated at around 0.9% of GDP in the current fiscal year and 1.4% of GDP in the following fiscal year. Further transfers risk compromising debt-reduction efforts.

Economic activity is picking up

Activity is projected to increase over 2025 and 2026. Policy certainty is increasing following the formation of the coalition government in July. Progress in increasing electricity availability and continuing reforms suggest that availability should continue improving, boosting supply. Increased purchasing power as inflation eases and the pension reform, which alters access to retirement funds, will support consumption. Investment will benefit from lower interest rates and increased business confidence. Contractionary fiscal policy will limit government spending. Reforms will continue to ease bottlenecks in rail transport and ports, supporting exports. The increase in activity will help lower the unemployment rate to 31.7% in 2026. Inflation is projected to moderate on an annual basis from 4.6% in 2024 to 3.9% in 2025, even though the quarterly rate will rise during the year, with inflation reaching 4.5% in 2026. Further reform progress on electricity availability and logistics bottlenecks would strengthen the recovery in investment, boosting potential growth. However, a return to significant power cuts poses a downside risk to activity. Households could withdraw more from their pension than projected, boosting growth.

Continuing fiscal consolidation and easing strict regulations are key

Elevated public debt is limiting fiscal space for labour market, social and environmental policies, whilst increasing financial risks. Maintaining a strategy of fiscal consolidation including through improving the efficiency of public services alongside raising government revenues would improve debt sustainability. Improving the performance of SOEs and continuing progress in electricity reforms would boost potential growth while limiting fiscal risks. South Africa’s regulatory framework is highly restrictive, as measured by the OECD’s Product Market Regulation indicators. Reducing regulations and administrative requirements would better support people to start a new business and firms to innovate, grow and employ workers. Many South Africans struggle in the labour market and the employment rate is the lowest across G20 economies. Reducing urban sprawl would improve labour mobility. Improving education, training and vocational education will help increase skill levels and address shortages of some skilled workers over the medium term.

Spain

GDP will grow by 3.0% in 2024, 2.3% in 2025 and 2.0% in 2026. Domestic demand will underpin growth, with private consumption expanding on the back of a resilient labour market, higher household savings and real income gains. Investment will recover supported by lower financing costs and the implementation of the Recovery, Transformation and Resilience Plan (RTRP). Headline inflation is projected to fall to 2.8% in 2024, 2.1% in 2025 and 2% in 2026. The main downside risks are heightened geopolitical tensions that could increase energy prices and worsen demand from Spain's main trading partners, and a slow implementation of the RTRP.

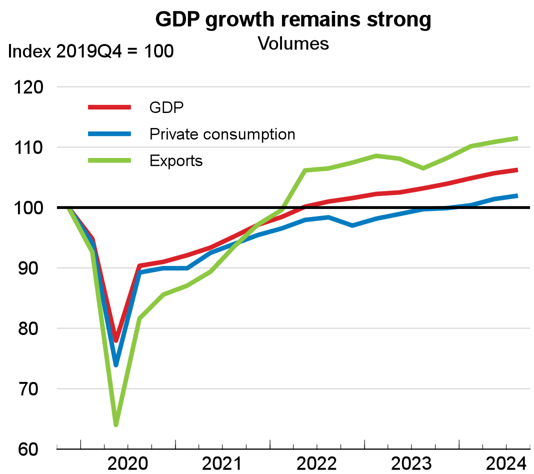
Effective implementation of the fiscal consolidation plan is crucial to adhere to European fiscal rules, place public debt on a downward trajectory and free up resources for future spending priorities. Enhancing labour matching efficiency and addressing skill mismatches would help ease structural unemployment and boost productivity growth.

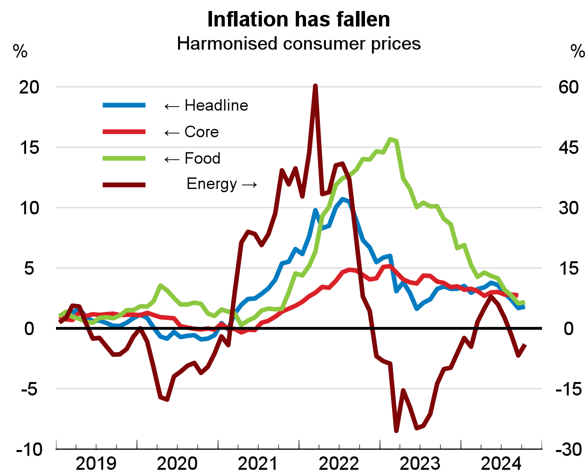
Real GDP growth remains strong while inflation falls

GDP rose by 0.8% (non-annualised) in the third quarter of 2024, exceeding expectations, driven by robust public and private consumption, the latter supported by rising employment and real wages. Although consumer confidence has improved, it remains below pre-pandemic levels. Investment decreased in the third quarter, mostly due to machinery and equipment. Short-term indicators, such as the manufacturing purchasing managers index (PMI) and social security registrations, expanded in October 2024. The floods that took place in October 2024 caused human and physical capital losses, primarily in the Valencia region. Employment increased by 1.7% year-on-year as of the third quarter of 2024, while the unemployment rate dropped to 11.2% in the same quarter, with labour shortages in the public administration, defence, education, and health sectors. Meanwhile, credit to households for housing and credit to firms declined by 0.7% and 0.6%, respectively, year-on-year as of September 2024. Inflation trends have been favourable, with headline inflation falling to 1.8% in October due mainly to lower prices for food, fuel, and electricity, while core inflation declined to 2.5% in October 2024, despite persistent price pressures in services.

Export volumes increased by 2% year-on-year in September 2024, driven by growth in tourism and other service exports. The trade deficit narrowed in September 2024, primarily due to higher energy export revenues and a reduction in energy imports.

Spain





Source: Instituto Nacional de Estadistíca; Eurostat; and OECD Economic Outlook 116 database.

StatLink https://stat.link/z7rdxw

Spain: Demand, output and prices

Spain	2021 Current prices EUR billion	2022	2023	2024	2025	2026
		Percentage changes, volume (2020 prices)				
GDP at market prices	1 235.5	6.2	2.7	3.0	2.3	2.0
Private consumption	693.6	4.8	1.8	2.7	2.4	1.8
Government consumption	259.4	0.6	5.2	4.6	2.8	1.6
Gross fixed capital formation	249.6	3.3	2.1	1.7	2.0	3.3
Final domestic demand	1 202.6	3.6	2.6	2.9	2.4	2.1
Stockbuilding[1]	20.7	0.4	-0.8	-0.3	0.0	0.0
Total domestic demand	1 223.2	3.9	1.7	2.6	2.4	2.0
Exports of goods and services	417.1	14.3	2.8	3.4	3.0	2.7
Imports of goods and services	404.8	7.7	0.3	2.2	3.4	2.8
Net exports[1]	12.2	2.3	1.0	0.5	0.0	0.1
Memorandum items						
GDP deflator	_	4.7	6.2	2.8	2.0	1.9
Harmonised index of consumer prices	_	8.3	3.4	2.8	2.1	2.0
Harmonised index of core inflation[2]	_	3.8	4.1	2.9	2.3	2.0
Unemployment rate (% of labour force)	_	13.0	12.2	11.5	10.9	10.5
Household saving ratio, net (% of disposable income)	_	2.0	5.6	6.0	5.6	5.3
General government financial balance (% of GDP)	_	-4.6	-3.5	-3.0	-2.5	-2.1
General government gross debt (% of GDP)	_	113.7	111.1	109.5	108.8	107.9
General government debt, Maastricht definition[3] (% of GDP)	_	109.4	105.0	103.5	102.8	101.9
Current account balance (% of GDP)	_	0.4	2.7	3.0	2.7	2.5

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 116 database.

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Fiscal consolidation will continue

The budget deficit is expected to decline gradually to 3% of GDP in 2024, 2.5% in 2025 and 2.1% in 2026, with projected cumulative consolidation of 0.7% of GDP over 2025 and 2026, in line with the government's medium-term fiscal plan. To support households, the government has partially extended the VAT rebate on certain essential food items through the end of 2024, while also expanding unemployment support by increasing its coverage and raising the monthly benefit amount. The projections assume that government spending growth will be restrained, affecting current expenditures and capital transfers, while the anti-inflationary measures introduced in 2022 will conclude in 2024. The government announced an aid package for flood-affected areas of around 1.1% of GDP, of which 30% are guarantees. The impact on the fiscal deficit is uncertain as it will depend on the extent of the requested aid and the timing of disbursements.

Economic growth is expected to moderate

GDP growth is projected to be 3.0% in 2024, 2.3% in 2025 and 2.0% in 2026. Growth will be primarily driven by consumption, supported by a resilient labour market, real income gains and accumulated household savings. Investment will strengthen, fuelled by lower financing costs and implementation of the RTRP, although fiscal policy will provide less of a boost to the economy. While exports will benefit from positive trends in tourism, the recovery of imports will limit the contribution of net exports to growth. Inflation is projected to decline steadily through to 2026, aided by lower energy and food prices and limited wage pressures.

Policy should facilitate matching between job seekers and available positions

While the budget deficit and the public debt-to-GDP ratio have declined, fiscal consolidation remains vital for maintaining a downward trajectory in debt, adhering to the new EU fiscal rules and accommodating spending priorities, such as those related to an ageing population. Gradually broadening the value added tax base, increasing environmental taxes and enhancing the efficiency of public spending would support consolidation efforts and create space for growth-enhancing spending. Many employers report difficulties in finding candidates with the necessary skills for available jobs, contributing to unemployment and underemployment, where individuals are employed in positions that do not utilise their skills fully. To further reduce unemployment and strengthen productivity, it is essential to align educational programmes with labour market demands, improve job search assistance and offer career guidance, alongside up-skilling and re-skilling support.

Sweden

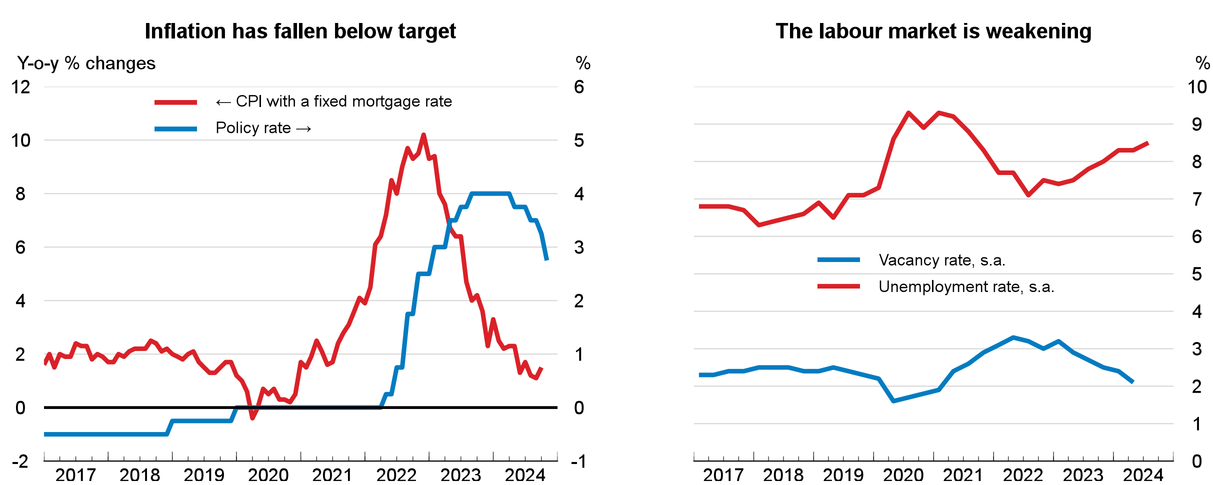
The economy is expected to grow modestly by 0.6% in 2024, followed by stronger growth of 1.8% in 2025 and 2.8% in 2026. Private consumption will recover from late 2024, supported by reduced debt servicing costs, rising real incomes, and improvements in the labour market. Inflation is set to remain below target until mid-2026. Private investments will be bolstered by gradually easing credit conditions and construction costs, and external demand. Unemployment is expected to decline steadily as labour demand rises.

The Riksbank has appropriately accelerated monetary policy easing amid rapidly falling inflation and weak domestic demand. The planned slightly expansionary fiscal stance will provide further support to the economy. Tapping into underutilised labour resources is needed amid an ageing population and high long-term unemployment. Structural reforms, such as relaxing rent controls and streamlining land-use planning to make housing more affordable in high-demand areas, would help improve labour market efficiency and matching.

Growth has remained weak, but signs of recovery emerge

Economic activity remained subdued in the first half of 2024, with contractions in both private consumption and investment. Recent indicators, including monthly GDP, the preliminary third-quarter GDP estimate, and industrial production, suggest this sluggish trend continued into the third quarter. Inflation measured by the consumer price index with a fixed mortgage rate, the key metric for the Riksbank, remains low at 1.5% in October after falling sharply in June 2024, due to declining commodity prices. Despite easing inflation and interest rates, household finances remain tight, prompting them to prioritise saving over spending. The construction sector continues to struggle with elevated borrowing costs and a tepid housing market, even as housing prices ticked up. Labour market conditions have weakened, with rising unemployment and fewer vacancies, although labour shortages persist in some sectors, including education and healthcare. However, forward-looking indicators, such as companies' hiring plans and business confidence, point to a gradual recovery.

Sweden



Source: Sveriges Riksbank; Statistics Sweden; and Eurostat.

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Sweden: Demand, output and prices

Sweden	2021	2022	2023	2024	2025	2026
	Current prices SEK billion	Percentage changes, volume (2023 prices)				
GDP at market prices	5 452.1	1.6	-0.1	0.6	1.8	2.8
Private consumption	2 434.4	2.9	-2.2	-0.1	2.0	3.3
Government consumption	1 408.8	0.8	1.1	1.0	1.7	1.5
Gross fixed capital formation	1 363.9	0.4	-1.1	-2.2	2.0	3.6
Final domestic demand	5 207.0	1.7	-1.0	-0.3	1.9	2.9
Stockbuilding[1]	10.9	1.2	-1.4	0.1	-0.1	0.0
Total domestic demand	5 217.9	2.9	-2.4	-0.2	1.8	2.9
Exports of goods and services	2 573.0	6.2	3.5	1.7	1.9	3.3
Imports of goods and services	2 338.9	9.7	-0.8	0.3	1.8	3.5
Net exports[1]	234.2	-1.2	2.3	0.8	0.2	0.1
Memorandum items						
GDP deflator	_	5.7	6.1	2.5	0.5	1.4
Consumer price index[2]	_	8.4	8.5	2.8	0.8	1.9
Core inflation index[3]	_	5.8	10.0	4.2	1.6	1.9
Consumer price index with fixed interest rates	_	7.7	6.0	1.9	1.4	1.9
Unemployment rate (% of labour force)	_	7.5	7.7	8.4	8.3	8.1
Household saving ratio, net (% of disposable income)	_	11.9	15.3	18.5	17.9	16.5
General government financial balance (% of GDP)	_	1.0	-0.6	-1.1	-1.6	-1.2
General government debt, Maastricht definition[4] (% of GDP)	_	33.8	31.7	32.1	32.4	32.4
Current account balance (% of GDP)	_	5.0	6.5	8.1	8.3	8.1

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 116 database.

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Weak demand from key trading partners, particularly Germany and other euro area countries, together with a weaker Swedish krona, affects Sweden's export growth. Easing global financial conditions, along with lower inflation, have alleviated some near-term financial stability risks.

The macroeconomic policy stance has shifted towards easing

The Riksbank has cut the policy rate in steps from 4% since May 2024 to 2.75% in November. Continued monetary easing is assumed, with policy rates declining by another 50 basis points by early 2025. Fiscal policy in 2025 is expected to be slightly expansionary. The 2025 budget bill includes new measures totalling SEK 60.65 billion (0.9% of GDP), focused on households, healthcare, elderly care and defence, partially offset by structural savings. Some 0.4% of GDP is allocated to household relief, including a reduced employment tax credit, lower taxes for pensioners, marginal tax cuts, reduced taxes on transport fuels and aviation and reduced taxes on investment savings accounts. Military aid to Ukraine amounting to SEK 23.35 billion is held outside of the fiscal framework. The fiscal stance in 2026 is assumed to be slightly expansionary as well, reflecting the government's fiscal space for 2026-28 estimated at around SEK 60 billion under the current domestic framework.

Growth prospects improve amid better financial conditions and real income

The economy is projected to grow modestly by 0.6% in 2024, picking up to 1.8% in 2025 and 2.8% in 2026. Private consumption is projected to gradually recover throughout 2025 and 2026, driven by rising real incomes, decreasing debt servicing costs, and a strengthening labour market. A gradual easing of credit conditions and lower construction costs will support private investments. Inflation is expected to gradually approach the 2% target from its current low levels as monetary easing takes effect and the economy rebounds. Stronger-than-anticipated lagged effects of monetary policy transmission and a more persistent than expected increase in precautionary savings could slow the recovery of household consumption. A prolonged slowdown in key trading partners could also further weigh on the export-oriented Swedish economy. Upside risks include more buoyant private consumption supported by a more substantial than expected lowering of the household saving rate.

Towards more inclusive and sustainable growth

Easing macroeconomic policies are appropriate to support the economy. Given low inflation and weak domestic demand, some further interest rate cuts are likely needed, complemented by clear forward guidance to anchor inflation expectations. As the population ages, Sweden must mobilise underutilised labour resources, especially among the low-skilled, elderly, and foreign-born populations, while addressing skills mismatch. Reforming the education system to incentivise providers of upper secondary and post-secondary education to provide more labour market-relevant skills, and strengthening active labour market policies through tailored training and reskilling programmes, will help alleviate skills mismatches, labour shortages and long-term unemployment. Relaxing strict rental regulations and streamlining land-use planning would stimulate housing supply and improve labour mobility. Finally, plans to reduce taxes on transport fuels and aviation should be reconsidered to support the green transition and help achieve climate goals in a fair and low-cost way.

Switzerland

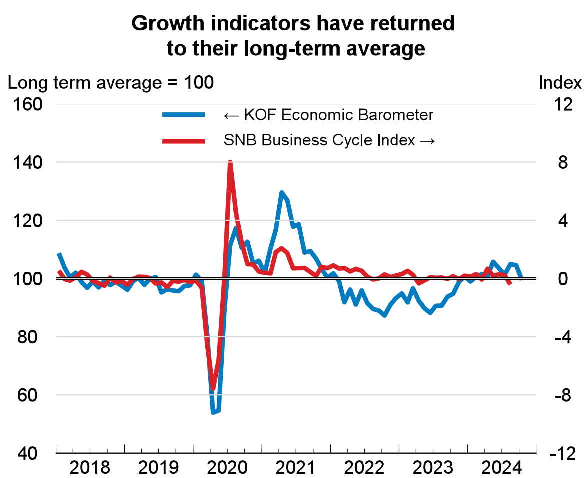
GDP is expected to grow by 1.3% in 2024 and 1.5% in 2025, before strengthening to 1.9% in 2026, based on the measure not adjusted for sports events. Growth will be driven by improving domestic demand, declining inflation, more favourable financing conditions, and rising employment. Heightened uncertainty about external demand, especially in Germany, and the strong domestic currency pose challenges for exports. Inflation has fallen and will remain near 1.0% in 2025 and 2026. Geopolitical tensions might drive up commodity prices, potentially pushing inflation beyond current projections.

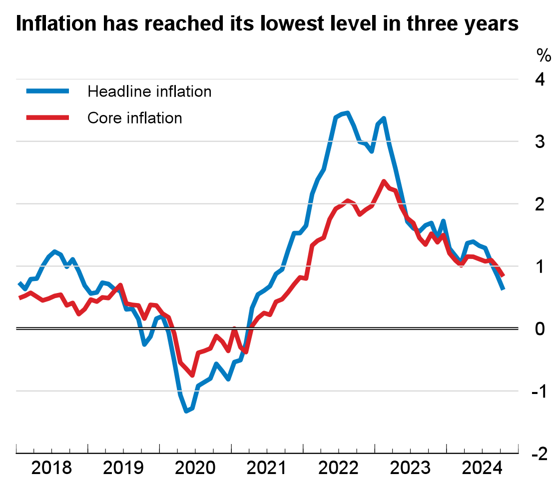
The overall fiscal stance will remain broadly neutral over the next two years, although a small improvement in fiscal outcomes will allow public debt to decline relative to GDP in 2025 and 2026. Monetary easing is expected to continue in 2025, with inflation decreasing at a faster pace. Enhancing the digital transformation across all sectors of the economy would boost productivity growth.

Real GDP growth is starting to pick up

Economic growth is estimated to have increased by 0.2% in the third quarter of 2024. Growth was mostly driven by exports from an expanding chemical-pharmaceutical sector. By contrast, the rest of the manufacturing sector contracted, and the services sector experienced below-average growth. The labour market has been robust despite some recent weakening. In October, the number of jobseekers was 2.5% higher than a year earlier, while the seasonally-adjusted number of reported vacancies rose by 1.6%. Labour shortages are high with respect to historical norms, and particularly prevalent in healthcare, engineering and information technology. Inflation dropped to 0.6% in October, down from 1.1% in August and 0.8% in September.

Switzerland





Note: The KOF Economic Barometer is an index of over 200 economic variables that acts as a leading indicator for GDP growth. The SNB Business Cycle Index is a composite leading indicator that provides an early assessment of GDP growth momentum.
Source: Swiss National Bank; KOF Swiss Economic Institute; and Federal Statistical Office.

StatLink https://stat.link/jq15tf

Switzerland: Demand, output and prices

Switzerland	2021	2022	2023	2024	2025	2026
	Current prices CHF billion	Percentage changes, volume (2015 prices)				
GDP at market prices[1]	744.5	3.1	0.7	1.3	1.5	1.9
Private consumption	370.3	4.3	1.5	1.5	1.5	1.6
Government consumption	88.8	-1.2	1.7	1.5	0.3	0.4
Gross fixed capital formation	195.7	-0.1	0.1	-1.3	1.0	1.3
Final domestic demand	654.8	2.2	1.1	0.7	1.2	1.4
Stockbuilding[2 3]	0.9	-0.1	0.8	-1.6	-0.6	0.0
Total domestic demand	655.7	2.0	2.0	-1.2	0.5	1.4
Exports of goods and services[3]	528.1	6.4	0.9	2.5	3.0	3.8
Imports of goods and services[3]	439.4	5.6	2.8	-0.9	1.8	3.5
Net exports[2 3]	88.8	1.2	-1.0	2.4	1.1	0.7
Memorandum items						
GDP deflator	_	3.0	0.9	1.6	1.0	1.0
Consumer price index	_	2.8	2.1	1.1	0.9	1.0
Core inflation index[4]	_	1.7	1.8	1.1	0.9	1.0
Unemployment rate (% of labour force)	_	4.1	4.0	4.1	4.0	4.0
Household saving ratio, net (% of disposable income)	_	19.3	19.5	19.6	19.0	18.4
General government financial balance (% of GDP)	_	1.2	0.5	0.3	0.4	0.3
General government gross debt (% of GDP)	_	37.2	39.2	39.1	38.8	38.6
Current account balance (% of GDP)	_	9.4	6.5	7.3	7.3	7.4

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 116 database.

StatLink https://stat.link/pe8gqr

The banking sector remains susceptible to international economic downturns, especially in the euro area. Changing global financial market conditions may particularly affect fee-based income streams in wealth management, asset management, and investment banking, where revenues heavily depend on client assets, transaction activity, and market conditions.

Monetary policy will continue easing, while the fiscal stance becomes neutral

The Central Bank reduced the benchmark rate by 25 basis points to 1.0% in September 2024 in response to rapid disinflation. A further reduction to 0.75% is projected to take place before the end of 2024, followed by an additional cut to 0.5% in early 2025. Extraordinary fiscal spending will progressively be phased out. Until 2025, current receipts are set to grow at a significantly faster pace than current expenditure, despite the stronger growth of defence spending. Government net lending is projected to fall to 0.3% of GDP in 2024 and remain broadly unchanged over 2025-26. Public debt is projected at 39.1% of GDP in 2024, slowly falling to 38.6% of GDP by 2026. The overall fiscal stance is assumed to be broadly neutral in the next two years.

The outlook for production is positive and inflation will remain stable

Real GDP is projected to grow by 1.3% in 2024, on the back of a fast recovery of private consumption. Falling inflation and ongoing monetary easing will further boost domestic demand, with GDP projected to rise by 1.5% in 2025 and 1.9% in 2026. Consumer price inflation should reach the 1% midpoint of the Central Bank's target range in the first quarter of 2025 and remain at that level throughout 2025 and 2026.

Slower-than-expected monetary easing in major economies could exacerbate vulnerabilities in financial markets, particularly if domestic pension funds achieve returns below global yields. Meanwhile, a sharper downturn in Germany or a more significant slowdown in the US or China could severely diminish export prospects. On the upside, lower inflation than in main trading partners could strengthen export competitiveness and lift export growth above current projections.

Growing spending pressures call for structural reforms

The economy is facing pressures from an ageing population, the need to adapt to climate change and meet emission reduction commitments. Demographic challenges could be addressed by automatically adjusting retirement ages with increasing life expectancy, while incentives for delayed retirement could be strengthened. Reskilling programmes could be improved further to maintain older workers' labour market attachment, coupled with measures to increase the labour force participation of women, especially migrant women. The transition to zero-emission energy sources could be accelerated, especially in the transportation and construction sectors. Enhancing the digital transformation would lead to higher productivity growth.

Thailand

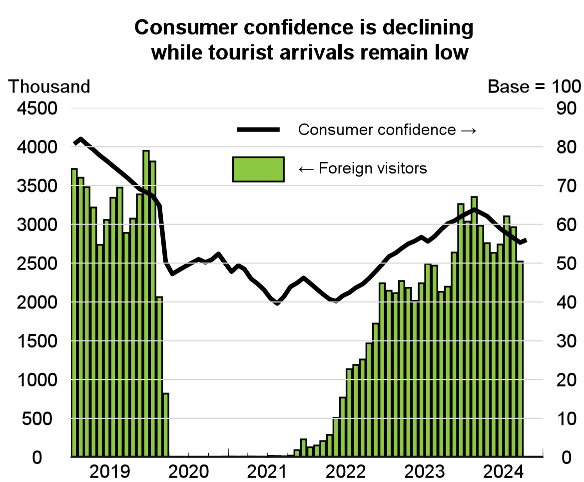
Real GDP growth is projected to strengthen from 2.7% in 2024 to 3.1% in 2025. Private consumption will be a key driver, boosted by cash handouts and low inflation. Investment will recover from its weakness in the first half of 2024. Further revival of international tourism will also support demand. However, external demand is expected to be weaker for some goods categories. As the temporary cash handout scheme is withdrawn, growth is set to ease slightly in 2026.

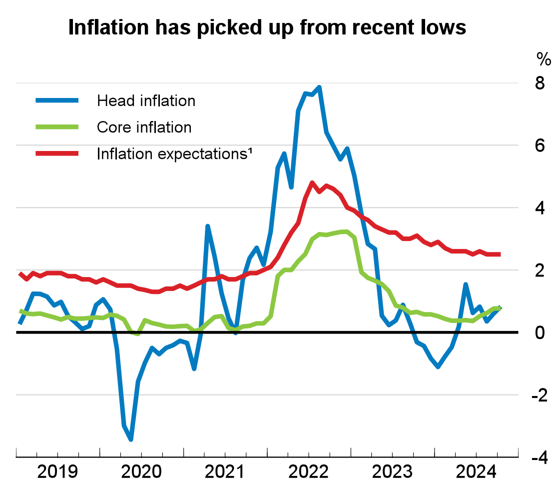
Fiscal consolidation is needed to reduce the public debt burden while also strengthening support for vulnerable groups. The monetary policy stance should remain neutral in the near term, conditional on the projected output growth and a slow rebound in inflation. Labour market imbalances from ongoing structural shifts in the economy can be addressed with training, education and reforms to incentivise business competitiveness.

Consumption spending from cash handouts will boost demand

Output growth weakened somewhat during the first half of 2024, including household consumption and investment. The former in part reflects high levels of household debt and weak demand in the automotive and services sectors. Consumer confidence has been declining since March and this is echoed in business sentiment. In addition, structural downsizing in some export-oriented manufacturing sectors continues. Unemployment has increased somewhat in the first two quarters of 2024 but remains low. Meanwhile, a substantial fiscal boost via government cash transfers to households is underway. This contributed to an upside surprise in third-quarter GDP growth of 4.9% at an annualised rate. Headline inflation, at 0.6% in the third quarter of 2024, has risen from recent lows but remains below the target band of 1-3%.

Thailand





1. One-year-ahead inflation expectations.

Source: CEIC; Bureau of Trade and Economic Indices; and Bank of Thailand.

StatLink https://stat.link/9k71vx

Thailand: Demand, output and prices

Thailand	2021	2022	2023	2024	2025	2026
	Current prices THB billion	Percentage changes, volume (2002 prices)				
GDP at market prices	16 192	2.5	1.9	2.7	3.1	2.8
Private consumption	8 443	6.2	7.1	4.9	3.1	2.0
Government consumption	2 955	0.3	-4.5	2.7	4.8	3.3
Gross fixed capital formation	3 801	2.3	1.2	0.5	8.3	3.6
Exports of goods and services	9 486	6.1	2.1	7.0	6.0	3.4
Imports of goods and services	9 442	3.6	-2.3	5.4	4.3	3.3
Memorandum items						
Consumer price index	_	6.1	1.2	0.5	1.3	1.8
Current account balance (% of GDP)	_	-3.5	1.4	2.8	3.9	4.2

Source: OECD Economic Outlook 116 database.

StatLink https://stat.link/si58xk

Exchange rate appreciation against the dollar between June and September, predominantly due to external developments, helped contain price inflation. However, recent weeks have seen a depreciation. Weak global demand for automobiles continues to damp exports, although electronics exports have seen a recovery.

Monetary policy should remain neutral, while fiscal policy is expansionary

The Bank of Thailand lowered its policy rate to 2.25% in October 2024, after having kept it at 2.5% since September 2023. This rate reduction represents the continuation of a broadly neutral stance. There may be scope for further data-driven rate decreases, especially after the fiscal stimulus terminates and provided that investment, consumption and export outcomes deteriorate, and inflation remains low. Monetary policy has built up significant credibility over the years, based on a stable policy framework and a prudent and independent conduct of monetary policy. Maintaining this stable framework will be key to build on past progress.

The public debt burden has stabilised in recent months but remains elevated. Outstanding government debt amounted to 63.3% of GDP as of end September, around 20 percentage points above pre-pandemic levels. The fiscal deficit is set to widen on account of the government's cash handout scheme. Disbursements of a first tranche of THB 10,000 transfers per household, approximately USD 300, began in October 2024. Two further tranches are planned with a final goal of reaching 45 million people, around 60% of Thailand's population. Aiming for such a broad coverage limits the effectiveness of the transfers in reducing poverty and inequality.

A boost to output growth in 2025

Output growth in 2024 is expected to be 2.7%. The boost to household consumption from cash handouts along with stronger investment will drive growth of 3.1% in 2025. With the temporary effect on consumption fading, growth is expected to decline to 2.8% in 2026. These developments will be echoed in the labour market. Investment is expected to recover following declines in the first half of 2024. Inflation will increase gradually during 2025, with upside risks from the fiscal stimulus. Output growth faces downside risks from structural headwinds in the manufacturing sector.

Encouraging efficient structural transition in the labour market

Unlocking stronger economic growth will require strengthening competition through regulatory reforms across product markets, including in services sectors. Reducing entry barriers and strengthening the competition authority will be important elements of that, in addition to further improvements in public integrity. Reaching emission reduction targets will require a stronger role for carbon pricing, complemented by more stringent environmental regulations. Continued expansion in services alongside the downsizing in some manufacturing sectors requires significant labour-market adjustment. This can be helped by further improvements in education and training to reduce skill mismatch. Over the medium term, Thailand will face significant spending pressures from mounting social demands, population ageing and the green transition, which call for raising public spending-efficiency and achieving a structural increase in tax revenues. Improving the coverage, co-ordination and targeting of social benefits, including basic pensions, and raising benefit levels, would allow further reductions in inequality and poverty, creating better opportunities for all.

Türkiye

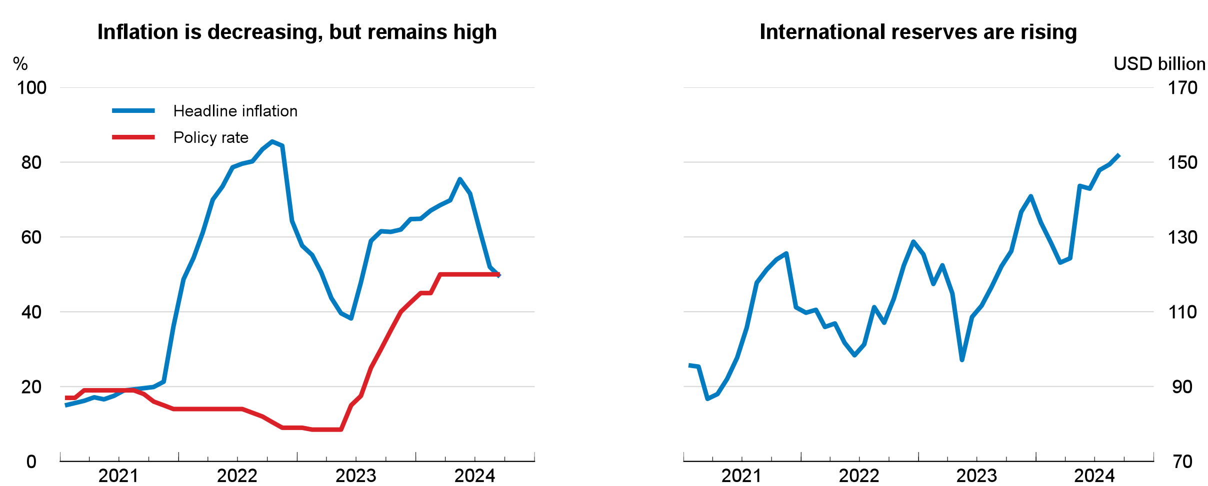
Economic growth will ease to 3.5% in 2024 and 2.6% in 2025 as necessary macroeconomic stabilisation policies will slow domestic demand. Tighter financial conditions and ongoing fiscal consolidation will limit household consumption. Investment and government consumption will also slow as the effects of the post-earthquake reconstruction wear off. However, exports should increase on the back of an improvement in the external environment and a continued revival of international tourism. GDP growth is projected to rebound in 2026, reaching 4% as the effects of the stabilisation policies ease.

The fiscal and monetary policy mix is rightly tight and should remain so until inflation is firmly on a path to target. Despite the ongoing price moderation, high inflation expectations and strong inertia uphold upside risks on the inflation outlook. Structural reforms can further support the current efforts to stabilise the macroeconomic framework and raise the long-term growth potential. In particular, labour market reform would help increase high-quality formal job creation.

Growth has slowed considerably

The economy has slowed in 2024, with year-on-year GDP growth dropping from 5.3% in the first quarter to 2.5% in the second quarter. Tight financial conditions weigh on domestic demand, causing household spending and investment to slow significantly. Leading indicators like manufacturing capacity utilisation, the purchasing managers index, services production, along with an ongoing contraction in commercial loans in real terms, indicate that economic activity could slow further. Both the employment rate and labour force participation remained stable in the first half of 2024. In September, annual consumer inflation fell below 50%, largely due to base effects. However, core inflation remained high, driven by inflation in services and rising goods inflation. Inflation expectations are declining but are still elevated.

Türkiye



Source: CBRT; TurkStat; and Bank for International Settlements (BIS).

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Türkiye: Demand, output and prices

Türkiye	2021	2022	2023	2024	2025	2026
	Current prices TRY billion	Percentage changes, volume (2009 prices)				
GDP at market prices	7 256.1	5.5	5.1	3.5	2.6	4.0
Private consumption	4 008.7	18.5	13.5	3.6	1.3	3.2
Government consumption	939.3	4.3	2.5	2.4	1.1	2.2
Gross fixed capital formation	2 044.2	1.3	8.4	0.7	1.7	5.4
Final domestic demand	6 992.2	11.3	10.6	2.5	1.3	3.6
Stockbuilding¹	234.5	-5.4	0.7	-0.7	0.6	0.0
Total domestic demand	7 226.8	5.0	10.7	1.9	2.0	3.8
Exports of goods and services	2 593.6	9.9	-2.8	-0.1	2.0	4.0
Imports of goods and services	2 564.2	8.6	11.8	-4.7	-0.2	3.3
Net exports¹	29.4	0.5	-6.1	1.6	0.6	0.2
Memorandum items						
GDP deflator	_	96.0	68.2	58.4	30.8	19.1
Potential GDP, volume	_	4.4	4.4	4.1	4.0	4.0
Consumer price index²	_	72.3	53.9	58.3	30.7	17.2
Core inflation index³	_	57.3	58.5	59.3	29.7	17.2
Unemployment rate (% of labour force)	_	10.5	9.4	8.8	9.0	8.6
General government financial balance (% of GDP)	_	-2.1	-4.8	-4.7	-3.0	-2.6
Current account balance (% of GDP)	_	-5.1	-3.8	-1.6	-1.1	-1.1

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 116 database.

StatLink https://stat.link/ua94tb

The current account balance has improved due to the rebalancing of the drivers of economic growth, positive outlook in tourism and natural gas production in the Sakarya field. Foreign exchange reserves have been increasing. Although, exports have been sluggish in recent months due to seasonal factors and escalating regional tensions, they are expected to contribute to further improvements in the current account balance, in line with the government's efforts to shift economic growth towards exports.

Monetary and fiscal policy will remain tight

The monetary and fiscal authorities have both reiterated their commitment to keep policies tight as part of the multipronged effort to put Türkiye’s economy back on a sustainable path. The central bank has recently kept the policy rate at 50% but indicated that it will decisively use all the tools at its disposal in line with its main objective of price stability. It also tightened macroprudential policies by introducing a 2% monthly growth limit for foreign currency loans, that has subsequently been lowered to 1.5%. The government published its Medium Term Programme, confirming the commitment to reduce the public sector general deficit from 5.6% in 2023 to 2.6% in 2026. This effort is partly based on tax revenue increases, including a new minimum corporate tax and the removal of exemptions. Larger deficit cuts will come from the expenditure side through reduced capital and transfer spending as earthquake-related investments will largely decrease in 2025.

The economy will moderate

Economic growth is expected to slow after years of robust but unsustainable growth driven by domestic demand. Tighter financial conditions coupled with restrictive monetary and fiscal policy will hamper household consumption, especially as the effects of post-earthquake reconstruction fade. Unemployment will rise slightly but stay around 9%. The measures to contain inflation will have an impact, but nevertheless inflation will decline only gradually, staying above the 5% target through the forecast period. The main risk to the outlook stems from the potential relaxation of the current macroeconomic stabilisation policies, which could lead to higher inflation and further instability. In contrast, further credible policy improvements in fiscal, financial, and monetary policy might improve investors' sentiment and strengthen growth.

Monetary and fiscal policy should remain on course

Despite its negative impact on domestic demand, the new restrictive setting of monetary and fiscal policies has helped to stabilise the financial market, boosted confidence, and reduced uncertainty. To fully leverage the improving international sentiment, authorities should maintain macroeconomic stabilisation policies until inflation is firmly on track to meet targets. Alongside current consolidation efforts, the government should continue to closely monitor risks from contingent liabilities. A stable and predictable policy framework, along with a stable macroeconomic environment, could significantly attract international investment. Structural reforms can further support these stabilisation efforts and enhance long-term growth. For instance, labour market reforms could promote higher-quality formal job creation by making permanent contracts more flexible and ensuring that minimum wages are affordable for businesses. Improving the skills of both current and new employees can help reduce the negative effects of the skilled labour shortages impacting Turkish companies.

United Kingdom

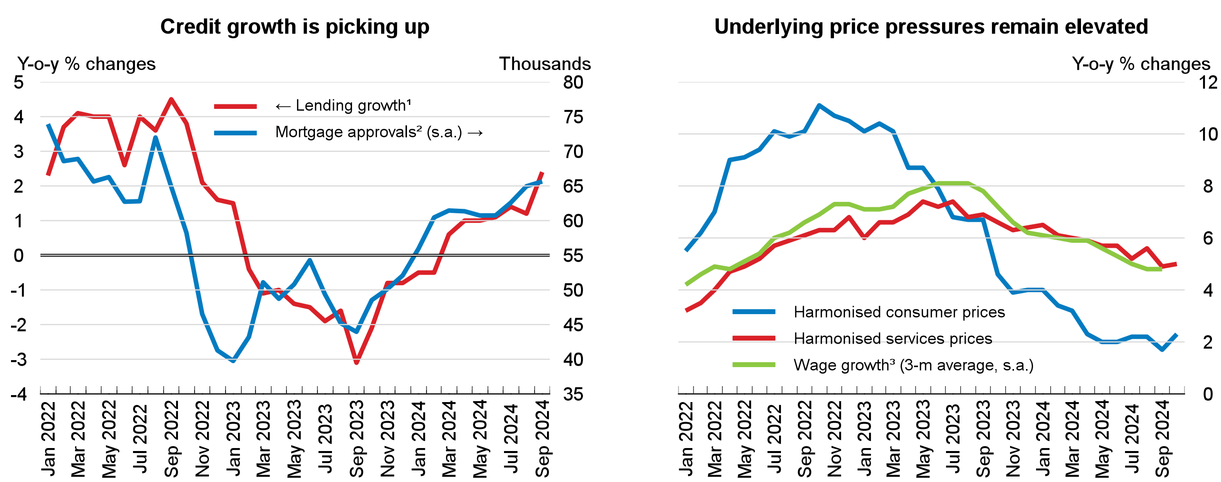
GDP growth is projected to strengthen to 1.7% in 2025, boosted by the large increase in public expenditure set out in the autumn budget, before slowing to 1.3% in 2026, as the effect of fiscal expansion tapers off. Wage-driven pressures on the price of services and the fiscal stimulus will keep underlying price pressures elevated, leaving headline inflation above target over 2025-26. Large government deficits, expected at 4.5% of GDP in 2025 and 3.9% in 2026, will hold public debt above 100% of GDP and rising.

Fiscal policy should be prudent, and buffers rebuilt, as the currently restrictive monetary stance eases gradually. Ensuring that the new fiscal rules are effective in preserving fiscal sustainability and supporting productivity-enhancing public investment is key. Continuing structural reforms is essential to boost labour supply, support female participation, including through the ongoing extension of childcare support, and address skills mismatch, including through the overhaul of the apprenticeship system.

Activity continues expanding at a healthy, albeit slowing pace

Flash estimates indicate that GDP growth slowed to 0.1% in the third quarter after a strong first half of 2024. But momentum is positive nevertheless, with retail sales on an upward trend since early 2024. Credit to the private sector has been growing since January, after 11 consecutive months of contraction, and Bank Rate has been cut twice by 25 basis points since August. Ten-year gilt yields stood below 4% in August and September, about 50 basis points lower than a year earlier, before rising above 4¼ per cent from late October. Monthly mortgage approvals for house purchase have almost returned to pre-pandemic levels, and fixed-term mortgage rates have dropped significantly. House prices have risen further since the summer and construction demand appears robust, supporting business sentiment overall despite some weakening in services.

United Kingdom 1



1. Monetary financial institutions' sterling net lending to private sector companies and households excluding intermediate OFCs.
2. Monthly sterling approvals for house purchase to individuals.
3. Monthly Wages and Salaries Survey (MWSS) estimate of Average Weekly Earnings (AWE) for private sector regular pay in Great Britain.
Source: Bank of England; and Office for National Statistics.

StatLink https://stat.link/cw6rnh

United Kingdom: Demand, output and prices

United Kingdom	2021	2022	2023	2024	2025	2026
	Current prices GBP billion	Percentage changes, volume (2022 prices)				
GDP at market prices	2 285.4	4.8	0.3	0.9	1.7	1.3
Private consumption	1 369.8	7.4	0.7	0.7	1.2	0.7
Government consumption	508.7	0.6	0.6	2.2	3.0	1.6
Gross fixed capital formation	404.9	5.1	-0.1	1.5	2.3	2.8
Final domestic demand	2 283.5	5.5	0.5	1.2	1.7	1.3
Stockbuilding[1]	7.0	-0.6	-0.6	1.0	0.1	0.0
Total domestic demand	2 290.5	5.0	-0.1	2.2	1.8	1.3
Exports of goods and services	666.9	12.6	-2.2	-2.1	0.2	1.3
Imports of goods and services	672.0	13.0	-3.4	2.3	0.7	1.2
Net exports[1]	- 5.1	-0.2	0.5	-1.4	-0.1	0.0
Memorandum items						
GDP deflator	_	5.4	7.3	2.8	2.1	2.0
Harmonised index of consumer prices	_	9.1	7.3	2.6	2.7	2.3
Harmonised index of core inflation[2]	_	5.9	6.2	3.7	2.8	2.3
Unemployment rate (% of labour force)	_	3.9	4.0	4.2	4.0	4.0
Household saving ratio, gross (% of disposable income)	_	6.0	7.3	8.4	8.1	8.2
General government financial balance (% of GDP)	_	-4.6	-5.7	-5.6	-4.5	-3.9
General government gross debt (% of GDP)	_	99.6	100.0	103.0	104.8	106.2
Current account balance (% of GDP)	_	-2.1	-2.0	-2.8	-2.6	-2.6

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.
Source: OECD Economic Outlook 116 database.

StatLink https://stat.link/qwvy4r

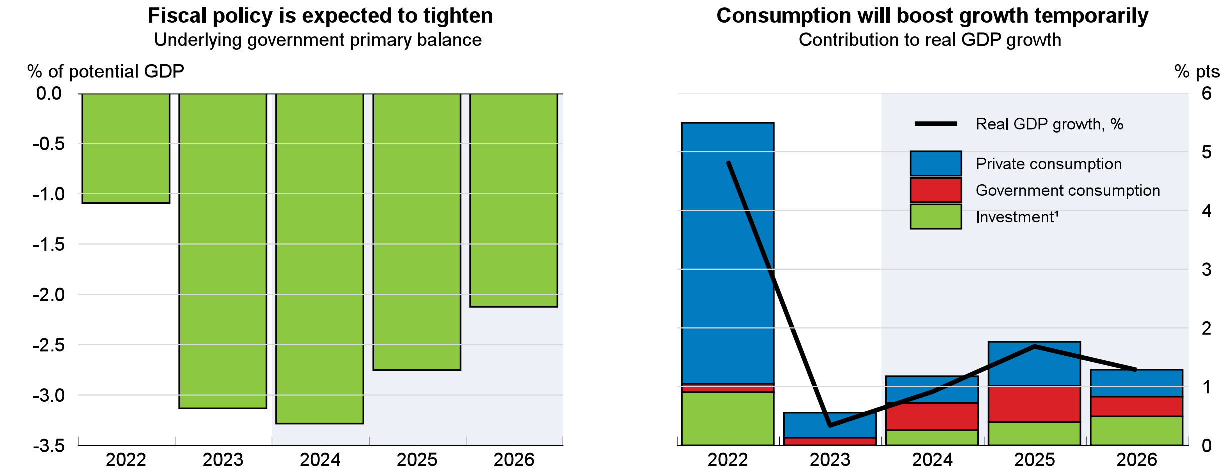
CPI inflation dropped to 1.7% in September, but the 10% increase in the Ofgem energy price cap in October pushed the headline rate back to 2.3%. Domestic price pressures remain, with elevated annual wage growth of 4.8% for regular pay in the private sector in the three months to September maintaining strong services price inflation, at 5% in October. Pockets of skills shortages remain, such as engineers and finance professionals, although overall vacancies are back to pre-pandemic levels. The appreciation of sterling in the year to September, and normalised global energy prices put downward pressure on imported inflation, though this been partially offset by the recent appreciation of the US dollar.

The policy mix is easing but remains restrictive

Monetary policy is assumed to continue easing until early 2026, with Bank Rate gradually coming down to 3.5% from its current level of 4.75%, as inflation continues converging towards target. The Bank of England is also assumed to continue unwinding the stock of assets held for monetary purposes in the Asset Purchase Facility at an unchanged pace, with the GBP 100 billion target for gilt stock reduction over the 12-month period to September 2025 renewed for another year.

Fiscal policy will be tightening over 2024-26, though by less than expected with significant fiscal loosening in the tax, spending, and borrowing package announced at the autumn budget. Both current expenditure and public investment are set to increase. About half of the increase is funded from higher taxes, the largest of which is a rise in the rate of employer social security contributions, while the other half is funded through extra borrowing. New fiscal rules make supplementary room for public investment: the debt measure used as a target now includes financial assets, thereby enabling extra borrowing, while the requirement to balance current budget ensures that borrowing finances investment. As the government complies with the rules, tax receipts will keep rising to historic highs of more than 38% of GDP over the next two years.

United Kingdom 2



1. Household, business, and government gross fixed capital formation; the contribution to real GDP growth is nil in 2023.
Source: OECD Economic Outlook 116 database.

StatLink https://stat.link/35de18

The economy will be growing above potential

Output is projected to expand by 1.7% in 2025 and 1.3% in 2026. Government consumption and investment will boost growth in 2025, owing to front-loaded fiscal loosening, before the increase in taxes starts weighing on private consumption and additional government borrowing needs crowd out business investment. Excess household savings, population growth, and monetary easing should drive strong residential investment, while the contribution of trade to growth is expected to strengthen, as global economic conditions continue to improve. Unemployment is projected to decline to 4.0% in 2026, as public spending supports labour demand, and firms hold on to staff on the back of subdued labour force participation and skills shortages, despite the rise in employer social security contributions. Headline inflation will remain above target throughout 2025-26, as services inflation remains sticky and the boost in demand from the spending package brings the economy above potential. The budget deficit is expected at 4.5% of GDP in 2025 and 3.9% in 2026, while public debt will remain above 100% of GDP over 2025-26.

With limited fiscal buffers, possible external shocks that would require fiscal support are a significant downside risk to the outlook. These include increases in global energy prices, given UK households reliance on natural gas. Moreover, persistent price pressures on the back of the strong increase in government expenditure and uncertainty about the degree of slack in the labour market could require the monetary stance to remain tighter for longer. A smaller-than-expected crowding out of private investment constitutes an upside risk.

Rebuilding fiscal buffers and boosting labour supply are priorities

Rebuilding fiscal buffers and continuing to mobilise additional revenue, including by closing loopholes and reducing distortions in the tax system, is necessary to ensure fiscal sustainability. Ensuring that borrowing under the new fiscal rules finances productivity-enhancing public investment, as planned, would improve growth potential over the long run. Reversing the ongoing decline in labour market participation is key, in part by reforming the Work Capability Assessment, so that income support is not conditioned on being found incapacitated for work. Delivering the ongoing extension of childcare support for working parents, including by prioritising lower-income households if childcare supply falls short of demand, is required to promote female participation. Reducing subsidy rates for current employees under the Apprenticeship Levy scheme, and channelling support to young people would support school-to-work transitions and alleviate shortages of technical and vocational skills.

United States

Despite the sharp rise in interest rates in 2022 and 2023, real GDP is projected to grow by a robust 2.8% in 2024, and slow only gradually to 2.4% in 2025 and 2.1% in 2026. With immigration expected to step down from recent peaks, labour demand cooling somewhat, and less scope for households to further draw down savings, consumption growth should soften, though remain solid. Meanwhile, business investment is projected to expand moderately. Downside risks to the growth forecast include persistent inflationary pressures that delay anticipated cuts in the policy rate, and an increase in trade tensions. Upside risks include a continuation of recent strong productivity growth and deregulation of key sectors of the economy.

With inflation showing signs of settling at a level consistent with the Federal Reserve's target, further easing of monetary policy is likely to be warranted over the next two years. Large budget deficits are expected for the foreseeable future, while fiscal pressures from ageing are rising, underlining the need for a significant fiscal adjustment over the medium term. Reforms of the visa system for skilled workers could help address immediate high-skilled labour shortages in priority areas.

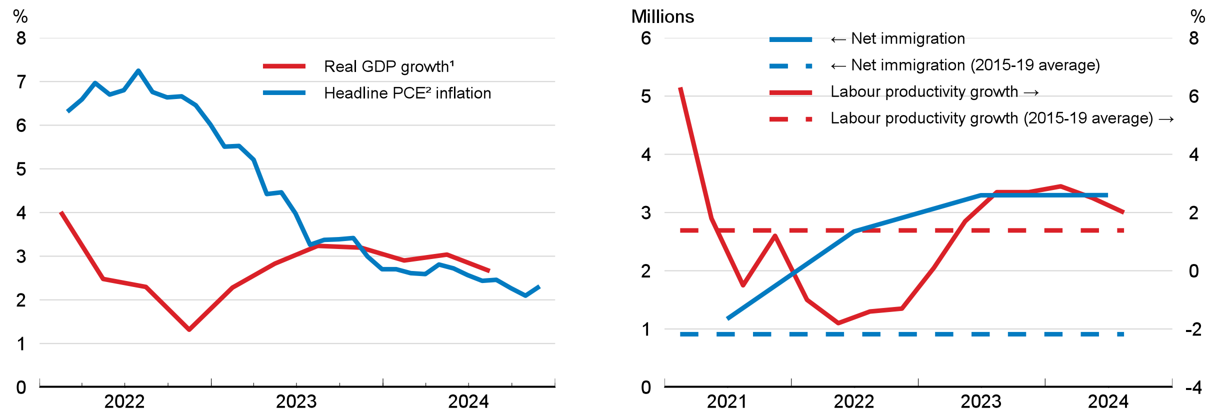
Despite robust GDP growth, inflation has continued to fall

GDP grew at a robust pace of 2.9% in 2023 and growth has remained strong through the first three quarters of this year, despite the sharp rise in borrowing costs in 2022 and 2023. Private consumption growth over this period has been solid, reflecting brisk real wage gains. Public consumption growth has also continued apace, led by subnational governments that find themselves in strong budget positions thanks to resilient tax revenues and historically large amounts of federal aid distributed during the pandemic. Investment growth has been strong in some sectors, possibly reflecting the effects of new industrial policies legislated in recent years, although housing investment, impacted by higher interest rates, has remained subdued. At the same time, headline inflation has continued to fall from its peak of 7.2% in June 2022 to 2.3% in October 2024—approaching the Federal Reserve's 2% target thanks in part to declines in energy prices. Core inflation has also fallen towards the 2% target, albeit less rapidly. This combination of falling inflation amid strong growth is due in part to the continued unwinding of adverse pandemic-era supply factors, a surge in immigration, and an increase in labour productivity. According to the Congressional Budget Office, over the past three years annual net immigration flows have roughly tripled relative to the average flow observed over the five years preceding the pandemic. Meanwhile, labour productivity growth has rebounded from its low in 2022 and has recently been running well above its pre-pandemic average. A range of output, price, and labour market indicators suggest the economy is currently operating near full employment.

Partly reflecting this strong domestic demand, the current account deficit—at well over 3%—is large and remains almost double pre-pandemic levels. After narrowing modestly in 2023, the deficit widened through the first three quarters of 2024 amid a strengthening dollar and declining primary income balance that currently stands at its lowest value since the early 2000s. A labour strike affecting ports primarily along the East and Gulf Coasts of the United States began in October and threatened to significantly disrupt global supply chains. A deal was reached just a few days after the strike began that will keep the ports open until mid-January 2025 as negotiations continue.

United States 1

Inflation has fallen despite robust GDP growth | **The surges in immigration and productivity have supported growth while allowing inflation to ease**



1. Year-on-year percentage changes.
2.Personal Consumption Expenditures price index.
Source: Bureau of Economic Analysis (BEA); OECD Economic Outlook 116 database; and Congressional Budget Office (CBO).

StatLink https://stat.link/zsx67u

United States: Demand, output and prices

United States	2021	2022	2023	2024	2025	2026
	Current prices USD billion	Percentage changes, volume (2017 prices)				
GDP at market prices	23 681.2	2.5	2.9	2.8	2.4	2.1
Private consumption	16 113.9	3.0	2.5	2.7	2.3	1.8
Government consumption	3 375.3	-1.1	2.9	2.4	1.8	1.1
Gross fixed capital formation	5 039.8	2.0	3.2	4.5	3.7	3.9
Final domestic demand	24 529.0	2.3	2.7	3.0	2.5	2.2
Stockbuilding¹	12.2	0.6	-0.4	0.1	0.1	0.0
Total domestic demand	24 541.2	2.8	2.3	3.1	2.6	2.2
Exports of goods and services	2 555.4	7.5	2.8	3.2	2.4	1.6
Imports of goods and services	3 415.5	8.6	-1.2	5.6	3.9	2.6
Net exports¹	- 860.0	-0.4	0.5	-0.4	-0.3	-0.2
Memorandum items						
GDP deflator	_	7.1	3.6	2.4	2.0	1.9
Personal consumption expenditures deflator	_	6.6	3.8	2.5	2.1	2.0
Core personal consumption expenditures deflator²	_	5.4	4.1	2.8	2.3	2.0
Unemployment rate (% of labour force)	_	3.6	3.6	4.0	4.1	4.1
Household saving ratio, net (% of disposable income)	_	3.1	4.9	4.9	4.8	5.4
General government financial balance (% of GDP)	_	-3.7	-7.6	-7.6	-7.9	-7.9
General government gross debt (% of GDP)	_	118.4	120.6	122.0	125.8	129.8
Current account balance (% of GDP)	_	-3.9	-3.3	-3.7	-3.8	-3.7

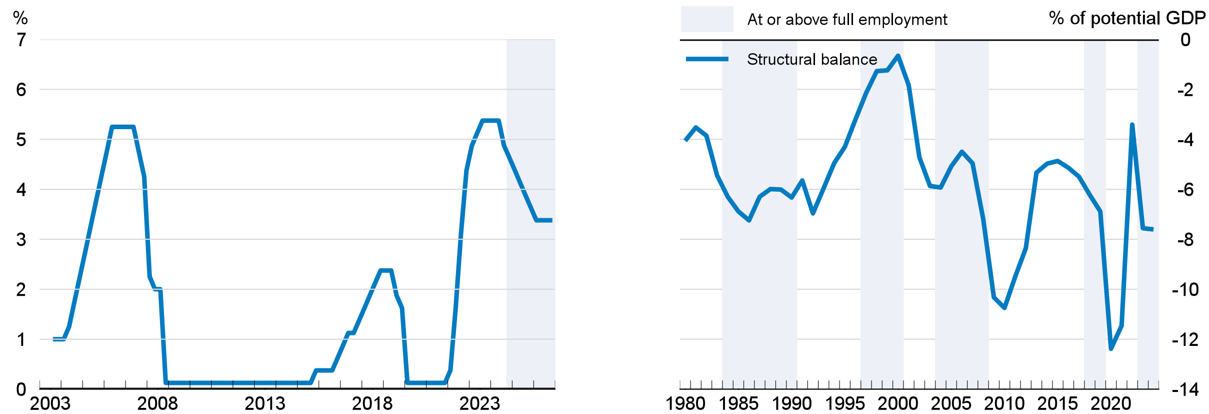
1. Contributions to changes in real GDP, actual amount in the first column.
2. Deflator for private consumption excluding food and energy.
Source: OECD Economic Outlook 116 database.

StatLink https://stat.link/r219wu

United States 2

The policy rate is expected to settle above pre-pandemic levels

The structural budget deficit is very large for an economy operating at or above full employment



Source: OECD Economic Outlook 116 database.

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Budget deficits will remain large, while the policy rate will eventually settle above pre-pandemic levels

With monetary policy easing having begun in the third quarter of 2024, further policy rate cuts are likely to continue until early 2026, with the policy rate settling at around 3¼ to 3½ per cent, a good bit above pre-pandemic levels. The Federal Open Market Committee will continue reducing asset holdings of Treasury securities and agency debt and agency mortgage-backed securities into 2025.

The budget deficit is expected to remain very large at over 7½ per cent of GDP on a general government basis with the debt-to-GDP ratio above 120% and rising. Though pandemic-era support for households, businesses, and subnational governments has largely unwound, there is a structural mismatch between higher spending, including on mandatory social programmes due to population ageing, and a tax base that has narrowed over the past decade. The forecast assumes that the tax reductions in the Tax Cuts and Jobs Act (TCJA), which are scheduled to expire at the end of 2025, will be broadly extended.

Growth is expected to remain solid, but risks are likely skewed to the downside

Real GDP growth is expected to slow gradually in 2025 and 2026. As immigration normalises, labour demand cools, and savings accumulated during the pandemic are fully exhausted, private consumption growth will slow. Private investment growth is expected to be moderate, as the boost from declining interest rates is partly offset by a drag from households and businesses that locked in low rates during the pandemic and must now refinance at higher rates. Meanwhile, public consumption and investment growth, particularly at the subnational level, should continue to normalise from their elevated levels as these governments exhaust federal aid distributed during the pandemic. The unemployment rate will inch up but remain low, while nominal wage growth slows a bit, partly reflecting the decline in inflation. Inflation is projected to return to target by early 2026.

Risks to growth are likely skewed to the downside, although the recent pattern of unexpected resilience could continue. Stickier-than-expected services inflation that delays monetary easing, a surge in oil prices associated with a worsening conflict in the Middle East, a significant increase in trade tensions, or weaker labour force growth could all lead to lower output growth. On the upside, productivity growth, potentially fuelled by new advances in artificial intelligence, may continue to come in stronger than expected. Deregulation of key sectors of the economy could also provide a boost to growth.

A sustained fiscal consolidation is needed

The large budget deficit and rising debt ratio at a time of strong growth add to domestic demand and increase fiscal risks, both in the near-term and further ahead. Population ageing will push future mandatory pension and health outlays higher. A gradual but sustained medium-term fiscal adjustment is required to narrow the budget deficit and put the government debt ratio on a path to more prudent levels. There is scope to broaden the tax base and raise revenue in a more effective way, as well as to increase the efficiency of pension spending and reduce very high health costs. Adopting a solid medium-term framework to improve the sustainability of public finances could help manage these pressures. Reforms of the visa system for skilled workers could help to address relatively low employment-based permanent immigration and could better align the issuance of visas with demand for professionals in priority fields, easing shortages and boosting growth. Policies that re-engage higher education students who recently stopped studying are a priority, as are further measures to accelerate the learning of economically disadvantaged students.

Viet Nam

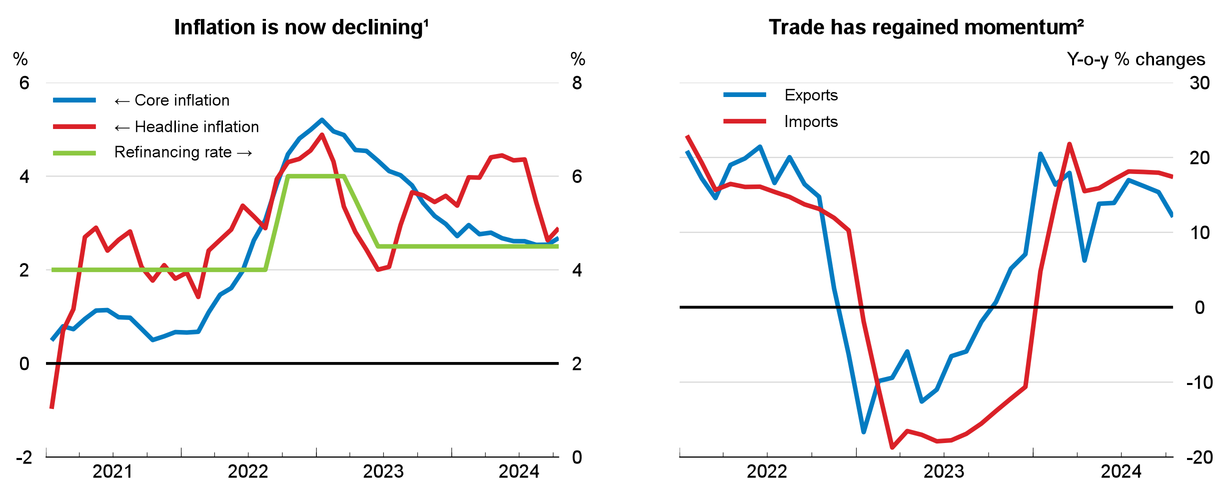
Real GDP growth is projected to remain robust at 6.5% in 2025 and 2026. Private consumption will benefit from steady increases in real wages and employment. Investment will be supported by ongoing inflows of foreign direct investment and planned increases in public investment. Improved global demand and tourist arrivals will bolster export growth, although geopolitical tensions may raise logistics and intermediate input costs, potentially weighing on exports. Headline consumer price inflation will ease to 3.5% in 2026, helped by some easing in growth in 2025.

The monetary policy rate is expected to maintain its current level, but the overall policy stance should be made more restrictive through adjustments in credit targets for individual banks. Fiscal policy is expected to be slightly expansionary, with public investment now accelerating, after having fallen behind expectations earlier in 2024. Productivity could be strengthened by enhancing education and training to address a shortage of skilled workers, and by fostering closer links between multinational enterprises and the domestic economy while improving the efficiency of financial markets in allocating capital to its most productive use.

Growth is strengthening

GDP increased by 6.8% in the first nine months of 2024 compared with the same period in 2023. Final consumption and especially gross capital formation drove this strong growth. Industrial production has been rising steadily since the beginning of 2024. Unemployment reached 2.2% in September, its lowest level since peaking at 4.0% in September 2021. Headline inflation rose from 3.4% in January 2024 to 4.4% each month between April and July, but has since declined to 2.9% in October, while core inflation has been declining since May 2023. However, a rise in non-performing loans and the failure of a major bank raise concerns about the financial system.

Viet Nam



1. Core inflation excludes food and foodstuff; energy and such items managed by the state as healthcare and education.
2. 3 month moving average.
Source: CEIC; General Statistics Office of Vietnam; and OECD calculations.

StatLink https://stat.link/yegb8u

Viet Nam: Demand, output and prices

Viet Nam	2021	2022	2023	2024	2025	2026
	Current prices VND trillion	Percentage changes, volume (2010 prices)				
GDP at market prices	8 479.7	8.0	5.1	6.9	6.5	6.5
Private consumption	4 700.6	7.8	3.3	6.0	7.0	6.5
Government consumption	815.0	3.6	3.5	4.4	5.3	5.3
Gross fixed capital formation	2 686.2	6.0	3.3	6.7	7.2	6.1
Final domestic demand	8 201.8	6.8	3.3	6.1	6.9	6.3
Stockbuilding[1]	268.1	-1.5	0.1	2.1	0.2	0.0
Total domestic demand[2]	8 469.9	5.2	3.4	8.1	6.9	6.1
Exports of goods and services	7 907.5	4.0	-4.0	16.4	16.1	8.2
Imports of goods and services	7 897.7	1.8	-5.4	17.6	16.5	7.8
Net exports[1]	9.8	2.7	1.8	-1.2	-0.5	0.4
Memorandum items						
GDP deflator	_	3.9	2.2	4.0	4.3	3.0
Consumer price index	_	3.2	3.3	3.6	4.2	4.1
Current account balance (% of GDP)	_	-0.3	5.8	2.3	3.0	4.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Data for nominal value includes the statistical discrepancy.
3. Consumer price index excluding food, energy and items managed by the state, including healthcare and education.
Source: OECD Economic Outlook 116 database.

StatLink https://stat.link/i0lsde

Exports of goods and services contributed to the robust real GDP growth in the first nine months of 2024, increasing by 16.9% in real terms, while imports grew by 17.1%. The value of goods exports to the United States, which accounts for about 30% of the total exports, rose by 25.5% during the same period, while those to China, Viet Nam's second biggest export destination, grew only by 2.9%.

Monetary and fiscal policies will support activity

Using both interest rate cuts and direct credit growth targets for banks, the central bank has maintained its accommodative monetary policy stance despite a bout of headline inflation in the first half of 2024. Seeing through these inflationary pressures from volatile items has paid off, but the central bank should nonetheless remain vigilant to potential upside risks from international oil prices and supply chain disruptions. The policy stance should become more restrictive, which would imply more moderate credit growth targets for banks, while shifting to a more price-based monetary policy framework in the medium run. Fiscal policy will continue to support economic activity, as appropriate given strong investment needs. After having fallen short of policy plans, the recent acceleration of public investment is expected to continue in 2025. Public-sector wage increases will provide further support to growth.

Near-term growth will remain robust

Growth is projected to remain solid at 6.5% in 2025 and 2026. Robust real wage growth is projected to boost consumption. Accommodative monetary policy, fiscal support and improvements in banks' loan portfolios will also help consumption and investment to grow steadily. Strong merchandise exports and an increase in tourist arrivals will raise export revenues, and further strengthen consumption and investment. However, risks to these projections are tilted to the downside. Weaker-than-expected external demand could dampen export growth. In addition, deteriorating asset quality in the financial sector could undermine banks' lending capacity, although recent legislative changes following the failure of a major bank, including a new intervention mechanism, should mitigate these risks.

Reforms are needed to promote sustained growth amid demographic and climate challenges

As the population ages and the working age population continues to decline, productivity will be key for maintaining strong growth. Potential reforms include better connecting multinational enterprises with the domestic economy and overcoming skills mismatches through higher public spending on tertiary education, vocational training and research and development, which could also alleviate skilled-labour shortages affecting specific sectors. Stronger competition and a more effective financial sector could improve the allocation of resources to their most productive uses. This could be achieved by further lowering market entry barriers, including in services sectors, and modernising financial sector policies. Broader reforms of bank supervision and insolvency rules could further strengthen financial sector soundness. The planned introduction of a carbon market, which could be accelerated, will help to achieve the emission reductions to which Viet Nam has committed. A high vulnerability to extreme climate events also calls for well-designed climate change adaptation measures.

OECD Economic Outlook

The global economy remains resilient, despite differences in the strength of activity and incomes across countries and sectors. Inflation has continued to fall, supporting real incomes, but consumer confidence is yet to recover to pre-pandemic levels in many countries. Global growth is projected to be 3.2% this year and 3.3% in 2025 and 2026, with inflation easing further. Nonetheless, the outlook is highly uncertain. An intensification of geopolitical tensions or global trade restrictions could hamper further disinflation and weaken the growth outlook. At the same time, future shocks could trigger disruptive corrections in financial markets, magnified by high debt and stretched asset valuations. The key policy priorities are to ensure a continued and lasting decline in inflation, enhanced efforts to establish a credible fiscal path that will secure debt sustainability, and ambitious reforms to raise sustainable and inclusive growth in the medium term.

This issue includes an assessment of the global economic situation, a chapter on developments in labour shortages and associated policy considerations 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.

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